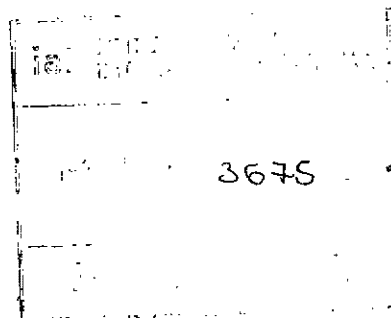


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THE PROBLEMS OF ARAB ECONOMIC
DEVELOPMENT AND INTEGRATION

(Proceedings of a Symposium held at Yarmouk
University, Nov. 4th and 5th 1981)

Edited by :

Dr. A. Guecioueur^{*}
Department of Economics
Yarmouk University

* Currently on the staff of the Research and Statistics
Department of the Arab Monetary Fund, Abu Dhabi (U.A.E.)

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Your Royal Highness Crown Prince Hassan
Participating Members,

Ladies and Gentlemen,

It gives me great pleasure to thank His Royal Highness Crown Prince Hassan for inaugurating this symposium on the development problems and obstacles to Arab Economic integration. Patronising this symposium emphasises your Highness' deep concern and ceaseless follow-up of integrated economic and social planning for augmenting human welfare. Known to all, no doubt, you Highness' major role in establishing the sound foundations for the previous Three and Five-Year Plans as well as holding a series of economic and social seminars as a part of the effort exerted in preparing the current Five-Year Plan (1981 - 1985). Holding this symposium today, is particularly significant for Jordan, as it preceeds the implementation of the latest Five-Year Plan and the 11th Arab summit to be held in Amman. The symposium discusses seven working-topics dealing with development problems and obstacles confronting Arab economic integration. It is hoped, that the symposium will advance some recommendations contributing to the efforts to accelerate Arab economic integration which became a rather urgent issue. Of particular urgency, is the issue of food^sproduction in the light of the problems expected to arise in securing sufficient food-staff for the increasing Arab population.

The symposium also discusses the problems of various sectors such as: Industry, agriculture, finance and technology. In addition the symposium studies the possibilities of strengthening the relations between the Arab World and the European Economic Community which would be potentially beneficial to Arab development.

Ladies and Gentlemen,

Jordan's achievements and development efforts, during the past ten years, are very impressive by any standard. For, despite limited natural and economic resources and security problems with the Israeli enemy, the development process touched on all economic and social aspects of life. During the period of the first Five-Year Plan, actual investment, both in economic and social projects, totalled J.D. 1,240 millions exceeding the planned investment (J.D. 760 millions) by 60 percent. In real terms, actual investment just matched planned investment. Still, this indicates an increase in Gross Domestic Product (GDP) from 25.6 percent in 1975 to 45 percent in 1980. On the sectoral level, agricultural production doubled while the industrial sector showed significant improvement over the plan period.

Nevertheless, Jordan faces serious economic problems owing to his geographical location and the paucity of natural resources. Being in the midst of oil-producing countries, involves economic burdens which lies outside Jordan's control, such as: rising prices and wages, inflation and brain drain. In addition, the energy bill due for 1980 is estimated to rise the J.D. 120 millions as compared with J.D. 68 millions in 1979, it should be noted here that Jordan pays OPEC's international prices for its oil imports. The value of Jordan's total exports was estimated to reach J.D. 150 millions in 1980 or about 125 percent of the value of oil imports. Confronted with this challenging situation, Jordan plans to raise its total exports to the value of J.D. 455 millions in 1980 constant prices. But at the same time the oil bill will inflate for two reasons: the continuous, increase in international oil-prices and the steady increase in consumption level, because Jordan, at the present time, is completely dependent on imported oil for securing energy for its economic projects.

Professor Adnan Badran
President,
Yarmouk University

Opening Speech of
His Royal Highness Crown Prince Hassan .
(summary)

with

Opening Speech of
His Royal Highness Crown Prince Hassan.

Ladies and Gentlemen ,

It gives me great pleasure to welcome you to this symposium on Arab economic integration. Such integration has become an inevitable goal whose realization is necessitated by the interests of the Arab Nation, especially at the present historical period.

Improving the intra-Arab co-operation as regards food production has also become an important issue since this subject will constitute the main preoccupation of the whole World in the coming decades.

Holding this symposium in Amman constitutes a great occasion for the exchange of opinions and ideas with regard to the best methods conducive to the achievement of economic integration among the Arab countries.

Through its deliberations and recommendations, we hope that this symposium will address itself to the economic problems confronting the Arab World especially in the agricultural and industrial sectors in order to identify the obstacles to Arab economic integration.

We hope that this symposium will provide decision-makers in the Arab World with the best ideas for developing the Arab economy.

I would like to emphasize the importance of changing the expenditure patterns in the Arab World in order to produce the best results for the Arabs. It is equally important to develop the existing North-South dialogue which would benefit the Arab Nations. More effort should be exerted to continue and enlarge the dialogue among the "South countries," especially the Asian, African and South American countries to facilitate the exchange of ideas between these countries with regard to finding adequate solutions to the economic problems.

Cooperation and integration among the Arab countries must encompass the exchange of information which serves the interests of all Arab countries.

During the past few years, Jordan kept close links with the Maghreb Arab countries so as to benefit from these countries' experience in the fields of agriculture and fertilizers.

Arab Universities' Officials should have more co-ordination and exert more effort in trying to solve Arab economic problems.

They, also, should be frank and objective in determining the types of research and analysis of the appropriate patterns of the future directions in the Arab World.

We hope that the idea of establishing an Arab institute for scientific and economic research will become a reality. Such institute should be similar to the European institute in Vienna which specializes in analysing the economic systems and situations. The analysis of and the attempts to remedy the Arab economic problems will be among the functions of such an institute.

Arab countries should attempt to utilize the Arab skilled manpower abroad to serve the Arab objectives especially in the fields of economics and sciences.

It is important to encourage positive ideas and comprehensive outlooks of the Arab economy in view of their contribution towards the development of Arab society.

ACKNOWLEDGEMENTS

We should like to express our heartfelt thanks to His Royal Highness Crown Prince Hassan of Jordan for patronizing the symposium on "The Problems of Arab Economic Development and Integration and for delivering a most encouraging and inspiring introductory speech .

Our sincere thanks also go to Professor Dr. A. Badran, President of Yarmouk University (Y.U.) and Dr. V. Billeh, Dean of the Faculty of Science and Arts, for supporting the idea of organizing the symposium and for financing it.

Our deep thanks go to those who presented papers, monitored sessions and contributed to the discussions.

Our special thanks to Dr. F. Kaddouri (General Secretary of the Arab Economic Council AEUC Amman), Professor Dr. A. Badran, Dr. A. Harik (Professor of Finance and Banking, American University of Beirut , Lebanon), Dr. B. Khadher (Directeur du centre d'Etudes sur le Monde Arabe Contemporain, Université de Louvain-La-Neuve, Belgium) and Dr. G. El-Khaldi (Directeur of the Agricultural Production Department, AEUC, Amman) who helped draft the recommendations of the symposium which were submitted to the 11th Arab Summit held in November 1980 , in Amman , Jordan.

Our special thanks to Mr. M. Nasser MPA, (Lecturer, doctoral student at "CUNY", U.S.A. Department of Business Administration Y.U.) , Dr. H. Yahya, Dr. M Share and Dr.S.Haimor (Assistant Professors, Economics Department, Y.U.) and Mr. Dahoud Mustapha Hamdan (B.Sc in Economics) for translating some of the papers and parts of the discussions.

It is a pleasure to thank Mr. Ali Mawaffi (Director of Finance Y.U) for making a personal donation to cover the cost of translating some papers.

The success of the symposium is partly due to the efficient help provided by the Department of Public Relations Y.U. may they, and in particular Mr. Elias Jreisat and Mr. Awad Warkiyat, accept the expression of our sincere thanks.

We should also like to acknowledge the help of the President's Office and in particular Ms Z. Ibdah, Ms. S. Sweedan and Ms. H. Zaghloul for her typing skill.

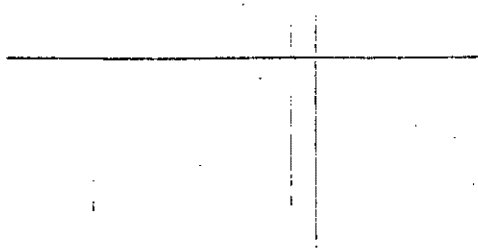
Ms. H. Abu Raje (Secretary, Economics Department, Y. U.) and Ms. H. Haddad (Secretary, Business Administration Department, Y.U.) helped with correspondance and typing , may they find, here, our deep thanks.

Last, but not least, our grateful thanks to Ms. A. Meldrum (M.A. Hons) for being involved in the symposium from its inception to the editing stage through typing and proof-reading most of the work in English.

A B B R E V I A T I O N S

A.A.A.I.D.	: Arab Authority for Agricultural Investment and Development
A.A.D.	: Arab Accounting Dinar.
A.C.	: Arab Countries
A.C.M	: Arab Common Market
A.C.T.S	: Arab Company for Trading Securities
A.D	: Arab Dinar
A.E.U.C	: Arab Economic Unity Council
A.M.F.	: Arab Monetary Fund
A.W.	: Arab World
C.P.C.M.	: Comité Permanent Consultatif Maghrebien
C.A.P.	: Common Agricultural Policy
E.C.A	: Economic Commission for Africa
E.C.W.A	: Economic Commission for West Asia
E.A.D	: Euro-Arab Dialogue
E.E.C	: European Economic Community
E.I.B	: European Investment Bank
E.U.A.	: European Unit of Account
G.S.P	: Generalized System of Preference
G.C.C.	: Gulf Cooperation Council
G.O.I.C	: Gulf Organization of Industrial Consultancy.
G.D.P	: Gross Domestic Product
G.N.P	: Gross National Product
IDCAS	: Industrial Development Centre of Arab States
I.L.O	: International Labour Organization
I.M.F.	: International Monetary Fund
I.M.S.	: International Monetary System
J.F.M.	: Jordanian Financial Market
K.D	: Kuwaiti Dinar
M/T	: Million Tonnes
NIO	: New International Order
ONUDI	: Organisation des Nations Unies Pour le Développement Industriel
OAPEC	: Organization of Arab Petroleum Exporting Countries
OPEC	: Organization of Petroleum Exporting Countries
r	: Production Capital Ratio
U.A.E	: United Arab Emirates
U.N.	: United Nations

UNCTAD	:	United Nations Conference On Trade And Development
UNRWA	:	United Nations Relief and Works Agency
V.A.	:	Value Added
WHO	:	World Health Organization
YAR	:	Yemen Arab Republic
YPDR	:	Yemen's People Democratic Republic



The views expressed herein do not necessarily represent the opinions of the institution (s) for which the authors work.

INTRODUCTION

This study constitutes the proceedings of a symposium entitled . Problems of Arab Economic Development and integration " held on November 4th and 5th 1981 at the Yarmouk University Liaison Office in Amman , Jordan.

It was organised on the occasion of the 11th Arab summit, held in Amman, the same month. This summit was heralded by most as the first Arab Economic summit because, for the first time, Arab Kings and Heads of State tackled economic problems on a regional basis . One of the results of the summit was the adoption of an Arab Economic charter which was drafted by prominent Arab economists such as Dr. Yusif A. Sayigh.

The main corpus of the study is to approach the developmental problems of individual Arab countries on a regional basis and to show that, given existing factors of production both at local (country) and regional (Arab World) levels, economic integration constitutes the only way to a self-maintained and introverted Arab economic and social development.

This study comprises seven chapters . The first chapter deals with the problems of development facing Arab countries in the agricultural sector. The first paper was presented by Dr. A. Guecioueur, Assistant Professor, Economics Department, Yarmouk University. The reply was delivered by Dr. G. Al-Khaldi, Head of the Department of Agricultural Production, Arab Economic Unity Council, Amman, who has written a four volume study on agriculture in the Arab World. The main finding of the discussion which followed is that, in their development strategies, individual Arab countries have neglected the primary sector .

Therefore corrective measures are urgently needed .

The second chapter tackles the problems of industrial development. The first contribution was made by Dr. A. Guecioueur who was a member of a multi-disciplinary team which studied the industrial sector in Algeria. The second paper was presented by ~~Prof.~~ ^{Dr.} R. Aliboni, Head of the Institute of International Affairs in Rome, Italy, and who has edited a book on Arab Industrialization and Economic Integration (Croom Helm, London). Those taking part in the symposium agreed that the potential of the industrial sector, as an engine of economic and social development, has been over-estimated. This has led to dependant, unbalanced and still developing Arab countries. This mistake goes beyond the Arab World as it can safely be generalized to most developing third world countries. The participants remarked that past policies have led to parallel progression - we do not mean development - of the primary and secondary sectors. Therefore it is high time to introduce links or "passerelles " between the two sectors, both at country and Arab levels. The discussion proposed a kind of " agri-business" which has to be carefully studied and implemented, especially in the light of its failure in countries such as Iran and the subsequent upheavals .

The third chapter deals with the problems of financial integration in the Arab World. The first paper entitled "Financial Integration in the Arab East" and which deals primarily with the contribution of the private sector, was delivered by Dr. A. Harik, Professor of Banking and Finance at the A.U.B., Beirut, Lebanon. The second paper, not specifically a reply, dealt with the whole Arab World but from the public sector's angle. In it Dr. A. Guecioueur reviewed existing Arab regional funds and banks and tentatively presented the problems and issues involved in the creation of a common Arab currency: The Arab Dinar. The participants agreed that the financial channels constitute the "blood-system" of any economy. When introverted they contribute to its development and when extroverted they drain it from its resources. The discussion focused mainly on the contribution of the private financial sector because the participants felt that, up to now, its integrative role has been neglected.

The fourth chapter, tackles the crucial problems of transfer of technology. The main paper was presented by Dr. B. Khader, Directeur du centre d'Etudes sur le Monde Arabe contemporain, University of Louvain-La-Neuve, Belgium, who wrote several papers on the topic. The reply was delivered by Dr. A. Haddad Economic Advisor at the Central Bank of Jordan. Both contributions and the discussion showed that the issue of transfer of technology has not been yet properly dealt with at the Arab World level. Up to now it has been perceived as a simple and passive acquisition of stocks of equipment goods, through "Turn key," products en main" , clés devant la porte " formulae, and how to manipulate them. No more. This policy has led to a technological dependance with far reaching social, economic and political consequences caused by the inadequacy of this very technology. It was agreed that technological dependance constitutes a high level of dependance, therefore the solution of the problem should be given priority. The participants stressed the fact that, in this field, the Arab countries have an important asset, namely the similarity in their economic (factor endowment and current level of development), social (high rate of illiteracy), physical (existence of deserts) and geographical conditions. Therefore any home-made technology specifically designed to satisfy these conditions enjoys a large ready market.

It would have been very interesting to analyse the integration attempts undertaken in other parts of the World such as the East African and Latin-American countries (Andean Pact) . This unfortunately, has not been possible for several reasons. On the other hand it was possible to present the contribution of the European Economic Unity (EEC) to the development and integration of the Arab World. This constitutes the substance of the fifth chapter. The first contribution was made by Mr. I. Boag, Administrator at the EEC Commission, Brussels, who has a first hand knowledge of the relations between the two groups. The second paper, by Mr. F. Ghiles, Journalist, Financial Times, London, deals more specifically with the trade and financial relations between the EEC, and the Maghreb (Algeria, Tunisia and Morocco) which constitutes the field of interest of its author.

The discussion focussed on the Euro-Arab Dialogue and , as expected, went beyond the economic field. It was agreed that the Dialogue benefited both groups of countries since both of them learnt how to "speak" and negotiate as a single entity. However the unanimous conclusion was that, in order to develop and integrate, the Arab World must rely solely on itself. In other words "collective self-reliance " is the key to success.

The sixth chapter deals with the obstacles to Arab economic integration. The first paper was presented by Dr. M. Bani Hani, Director, Ministry of Trade, Jordan, whose Ph.D. thesis dealt precisely with the issue. The second contribution come from Dr. A.Guecioueur. It was shown that only recently did the Arab World seriously consider the "economic option" to Arab Unity, since priority has always been given to political action which, unfortunately divides more than unites. A change of emphasis is a must with priority given to Arab collective action or effort. The participants warned of the usual trap in any integration attempts; namely the misdistribution of the costs and benefits, of this very integration, which always occurs at the expense of the poor contries. A system designed to avoid this trap is of paramount importance, otherwise there shall be no integration. The participants agreed that Arab countries did not fail to integrate but, given the resources, they failed to fulfill the expectations of the region as a whole.

The final chapter is a kind of case study since it presents the Agreement on Arab Economic Unity and its role in inter-Arab Economic Co-operation. The main paper was delivered by Dr. F. Kaddouri, General Secretary of the Arab Economic Unity Council, Amman - Jordan, who has a considerable knowledge of the Arab World. The reply came from Dr. H. Yahya Assistant Professor, Economics Department, Y.U.

This chapter , in many ways, summarises the last two decades of Arab economic cooperation and shows that the political will has been

negligible. Although some positive steps have been made there is still large room for improvement. In other words when there is a political will there is a way.... to Arab economic integration.

Dr. A. Guecioueur
Yarmouk University
Irbid

August 5th, 1981

CHAPTER ONE

AGRICULTURE

The Problems of Agricultural Development
and Integration in the Arab World

BY

Dr. A. GUECIOEUR
Assistant Professor

Economics Department
Yarmouk University

INTRODUCTION

According to the Third Report to the Club of Rome, 40% of the children of the developing countries suffer from malnutrition. These countries are already dependant on outside sources, in the fields of technology, finance and security.

According to an FAO report, the world will witness a food shortage by 1985/1990. The Sahel countries have paid the price for the first symptoms of this oncoming crisis: extensive suffering, domestic instability and increased dependance.

The aim of this paper is to study the situation of the Arab countries as a group. It contains four points:

- . The first one deals with the importance of the agricultural sector in the Arab economies, that is place and weakness.
- . In the second part we try to explain the causes of the prevailing situation.
- . We shall show that in terms of food security the Arab World is no better off than other Third World countries. This dependance is not without consequences whose presentation constitutes the substance of the third part of the paper.
- . Finally we propose a strategy based on measures to be taken at local (country) and regional levels.

I- Importance and Weakness of the Agricultural Sector in the Arab Economies.

Three criteria will be used to outline the importance of the agricultural sector in individual Arab countries; namely its share in active population, its contribution to the Gross Domestic Product (GDP) and to export earnings. These criteria are represented by the following table:

see page 4

TABLE No. 1

Share in Active Population, Contributions to the GDP and to Export Earnings of the Agricultural Sector of 16 Arab Countries (%)

Countries	share in active pop. %		contribution to GDP %		contribution to export earning in 1976 %
	1960	mid 1979	1960	mid 1977	
Somalia	88	80.5	45	n.a.	86.2
Mauritania	91	83.3	n.a.	26	15.0
Sudan	86	77.4	58	n.a.	98.1
Egypt	58	50.8	30	28	61.9
Y.P.D.R.	70	59.3	n.a.	24	95.0
Y.A.R.	83	75.4	n.a.	35	95.0
Morocco	62	51.7	29	21	27.0
Jordan	44	26.6	16	12	27.9
Tunisia	56	41.4	24	17	23.4
Syria	54	47.8	27	17	33.0
Algeria	67	50.8	21	8	5.0
Lebanon	38	10.8	12	n.a.	28.2
Iraq	53	40.9	17	8	1.0
S. Arabia	71	60.8	n.a.	1	0.9
Libya	53	16.9	14	3	negligible
Kuwait	1	1.7	n.a.	n.a.	negligible
World Average	17	7	6	4	n.a.

* The countries are arranged by increasing order of GNP per capita

Sources:- World Development Indicators, by the World Bank, June 1979.

- Arab Agriculture: Prospects for self-sufficiency, by Aziz El-Sherbini and Dr. Radha Sinha, in Food Policy May 1978, p.85.
- FAO Production Yearbook, 1979, vol. 33.

From the previous table, the following conclusions can be drawn:

1. Between 1960 and mid-1979 the share of the agricultural sector in the total active population decreased in all countries except Kuwait, in which it increased from 1.0 to 1.7%. Despite this evolution, however, the figures remain very high, especially when compared with western industrialized countries . Even in the oil countries such as Saudi Arabia, 60.8% of the labour force was still engaged in agricultural employment by the end of 1979. It follows that when it comes to employment, the primary sector has a predominant role. Consequently, in every Arab country a large portion of the population lives from agriculture, and its welfare depends upon it. For the Arab World the estimated figure is 55-65% of the total population.
2. The contribution of the agricultural sector to the GDP decreased between 1960 and 1977. For mid-1977 the best case is the Y.A.R. for which the figure is 35% of the total GDP. Such a contribution is not commensurable with its position as the main source of employment. This distortion indicates low productivity in the primary sector as compared to the rest of the economy.
3. When it comes to export earnings there is a clear-cut division between the oil exporting countries (Algeria, Iraq, S. Arabia, Libya and Kuwait), and the other countries. In the former group the contribution is negligible whereas in the second group, for obvious reasons, agriculture constitutes the main source of export earnings. These countries, however, such as Somalia, Sudan and the two Yemens happen to be the poorest members of the Arab World.

Agricultural exports contribute only negligibly to export earnings for one simple reason: the Arab countries cannot even satisfy their own domestic demand for foodstuffs. As a matter of fact, there is a gap between the annual growth rate of population, food production, and demand for food. This situation is outlined in the following table which considers the last ten years.

TABLE No. 2 Percentage of Average Annual Growth

Country	Population	Food Production	Food Demand	Difference Surplus (+) Deficit (-)
Egypt	2.3	3.4	3.8	-0.4
Iraq	3.3	2.8	5.2	-2.4
S.Arabia	2.4	2.9	5.0	-2.1
Syria	3.0	1.8	4.6	-2.8
Morocco	3.0	2.8	3.3	-0.5
Lebanon	2.8	5.0	3.1	+1.9

Source: Sources and Problems of Arab Development, OAPEC, 1980, p. 72.

From the preceding table the following conclusions can be drawn:

1. Just like the rest of the region these 6 Arab countries are characterized by a high population growth rate.

2. Except in Egypt and Lebanon, food production rates are lower than the population growth rates.

In some countries for some items there has been no growth at all. Let us consider the cases of mutton, lamb, beef and veal during the 1969/71 to 1979 period. (cf.

Appendices 1 and 2, P.29/30) The production of mutton has decreased in Morocco (from 470,000 to 400,000M/T), in Iraq (from 39,000 to 37,000 M/T), in Lebanon (from 110,000 to 80,000 M/T) and has stagnated in the case of Oman (10,000 M/T) and Saudi Arabia (140,000M/T) following an increase in 1977.

Beef and veal production decreased in Morocco (from 91,000 to 77,000M/T) and in Lebanon (from 14,000 to 10,000M/T).

It has stagnated in Libya, Bahrain, Jordan the U.A.E., and Y.P.D.R.

Finally, if we consider the other Arab countries, we can notice that they did not register any significant production increase.

3. More importantly, with the exception of Lebanon, demand growth rates outstrip by far food production growth rates. The result is a large gap between demand and supply. This is the situation in terms of quantity which affects the daily intake of calories and proteins, as outlined in the following table.

TABLE No. 3 Food Supply Calories(number) and
 Proteins (grammes) per capita: 1966-77

see page 8

TABLE No. 3 Food Supply Calories (number) and Proteins
(grammes) per capita per day: 1966 - 1977

Countries	1966 - 68		1969 - 71		1972 - 74		1975 - 77	
	Cal.	Prot.	Cal.	Prot.	Cal.	Prot.	Cal.	Prot.
Algeria	1848	49.2	1888	49.5	2126	55.9	2357	63.0
Egypt	2609	72.7	2603	71.2	2586	70.2	2716	74.4
Iraq	2092	56.1	2199	58.5	2280	60.3	2306	60.9
Jordan	2134	53.8	2278	56.7	2183	58.1	2067	55.9
Lebanon	2492	71.6	2473	68.2	2517	68.1	2499	67.4
Libya	2324	58.2	2484	62.2	2928	76.4	2980	75.8
Mauritania	1954	72.2	1913	72.0	1740	61.7	1894	68.0
Morocco	2321	62.2	2479	66.4	1607	69.7	2568	67.7
S. Arabia	2154	55.4	2163	56.4	2253	59.5	2472	65.0
Somalia	2204	80.8	2227	80.1	2229	77.1	2129	73.8
Sudan	1963	62.0	2154	65.0	2102	62.0	2247	66.7
Syria	2357	65.0	2439	66.7	2508	67.5	2616	73.0
Tunisia	2042	55.6	2161	58.9	2558	69.8	2657	72.5
Y.A.R.	2092	64.6	1966	59.8	2101	64.0	2179	67.6
Y.P.D.R.	2241	55.6	2146	52.8	2053	54.2	1897	54.0
World Average	2475	66	2541	67.8	2559	68.2	2590	69.3

Source: FAO Production Yearbook, United Nations, vol. 33, 1979.

During the 1975-77 period in eleven out of fifteen Arab countries, namely Algeria, Mauritania, Morocco, Somalia, Saudi Arabia, Sudan, Iraq, Jordan, Lebanon and the two Yemens, the daily intake of calories was below the world average (2590). These countries represent the majority of the Arab World population.

The situation is no better when it comes to proteins. In ten of those same fifteen countries the daily intake of proteins is below world average (69.3). Such a situation will definitely have a strong impact on the future development of the Arab World, especially when one knows that children and females suffer most from insufficient nutrition.

For the time being this gap, in terms of quantity and quality is filled by imports. The share of food imports as a percentage of total imports is illustrated in the following table:

Table No. 4 All Food Items Imports in some Arab Countries
(1968 - 1977)

see page 10

TABLE No. 4

All Food Items Imports in some Arab Countries
(%)

Years	1968	1970	1972	1973	1974	1975	1976	1977
Countries								
Algeria	18.81	12.75	16.80 ^b	15.69	19.90	21.70	17.64	17.18
Bahrain	n.a.	n.a.	10.94	11.22	6.28	6.43	7.32	10.60 ^b
Egypt	33.69	23.22	n.a.	31.67	44.27	35.92	28.32	23.12
Iraq	n.a.	17.71	n.a.	23.97	28.68	17.51	14.72	19.80
Jordan	n.a.	31.04	n.a.	31.46	29.14	22.40	25.83	18.27
Kuwait	19.81	19.79	n.a.	20.00	17.79	17.07	23.2 ^b	15.70 ^b
Lebanon	27.11	25.07	20.10	18.23	15.20 ^b	15.30 ^b	12.70	10.80
Libya	13.79	22.59		17.87	17.35	17.13	n.a.	n.a.
Mauritania	25.70	23.41	22.63	n.a.	n.a.	n.a.	n.a.	n.a.
Morocco	26.72	20.66	n.a.	27.79	28.19	29.61	19.95	n.a.
Oman	n.a.	39.31 ^a	n.a.	26.41	12.79	13.30	14.52	n.a.
Qatar	n.a.	24.08	19.10 ^b	19.00	21.88	13.92	10.00	8.29
S. Arabia	31.30	30.90	21.90 ^b	22.74	19.86	15.64	11.80	n.a.
Somalia	n.a.	33.68	26.20	22.71	20.37	26.01	n.a.	n.a.
Sudan	21.36	21.27	21.50 ^b	24.29	23.91	18.67	n.a.	n.a.
Syria	21.06	28.59	22.90 ^b	26.45	28.14	21.38	17.16	10.60 ^b
Tunisia	23.69	27.86	19.30 ^b	20.93	20.69	18.72	13.56	11.40 ^b
Y.A.R.	n.a.	43.78 ^a	50.94	51.35	n.a.	45.42	40.93	n.a.

n.a. - not available

a - 1971

b - Food and Beverage

Sources: Yearbook of International Trade Statistics, United Nations, 1978
Handbook of International Trade and Development Statistics,
United Nations, 1977.

Two main remarks can be made :

1. Over the 1968 - 1977 period the share of food imports as a percentage of total imports has decreased. This could lead us, quite wrongly, to conclude that the situation is improving. This is not the case since the total value of imports has drastically increased especially since 1974. This can be easily checked by referring to Appendix No. 3 (p. 31). According to the latter, between 1970 and 1976/77 all imports increased over five fold in Algeria, six fold in Egypt, seven fold in Jordan and twelve fold in Saudi Arabia, etc..
2. Food imports constitute an important item of total imports, and their effects go beyond the Balance of Trade deficit and the acquisition of foreign exchange to finance the latter. Of all food imports, cereals occupy the predominant position - cf. Appendix No.3, last column, p. 31 . For instance, in 1976 cereals accounted for 16.54%, 11.2%, and 11.30% respectively of the total imports of Somalia, Egypt and the Yemen Arab Republic. These are high figures even by Third World standards.

This is the current situation concerning cereals; but it does not represent an isolated case, and when we consider the situation in perspective, the future is grim. Let us take the example of six items which are contained in the following table:

TABLE No. 5	Deficit for 6 Food Items in 1980, 1988 and 2,000. (in million tons)
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see page 12

TABLE No. 5 Deficit for 6 Food Items in 1980, 1985
and 2,000. (in million tons)

Years	1980	1985	2,000
Items			
sugar	2.8	3.8	5.5
fruits	3.8	-	10.0
oil seeds	+10.8	-	-
vegetable oils	0.5	1.1	1.5
meat	2.2	2.6	3.5
grains	100	-	250

Sources: Sources and Problems of Arab Development by OAPEC,
Kuwait, 1980, p. 73.
The Arab Economist , op. cit., p. 15.

It seems that if the present trend continues the gap between demand and supply will keep on widening. By the turn of the century the worst case will be that of cereals on which most of the Arab population rely. Furthermore, by Third World Standards the continuation of the present trend implies doubling present investments and tripling the number of jobs currently offered by the end of the century. The obvious question one has to try to answer is: what are the causes of such a situation?

II Causes that led to the weakening of the Agricultural Sector in the Arab World.

There are several causes, one being the policy pursued by individual Arab countries.

. Policies pursued

When the concept of underdevelopment appeared in the late 50's - early 60's, the developed countries were those with a strong industrial sector. Consequently, underdevelopment was assimilated with the absence of a leading industrial sector. (The fact that it was a leading agricultural sector that financed industry in the western countries was forgotten). The policy prescribed to the Third World countries by the majority of economists was based on the creation of a strong secondary sector. From that moment on, agriculture received only a negligible share of the funds earmarked for development.

This behaviour developed a whole social mentality according to which working in the primary sector became a "downgrading" function. This led to the rural exodus which, in turn, led to the concentration of the social amenities in the main cities if not the capital cities. This is the vicious circle which is common to all developing countries. The above-described policy also led to the non-exploitation of existing resources.

. Non-exploitation of existing resources

One has to be fair and recognize the fact that some Arab countries lacked the financial capacity to undertake any significant development programme.

As a matter of fact, some western economists, such as A.G. MUSREY,¹ attributed the failure of inter Arab cooperation and integration to the absence of financial resources. However some, if not most Arab countries, did have, and still have, the funds necessary to finance the agricultural sector.

The following table gives an idea of the extent of the phenomenon:

TABLE No. 6 Arab Farmland Statistics

see page 15

Alfred G. MUSREY, An Arab Common Market, published by Frederick A. Praeger, London, 1969

TABLE No. 6 Arab Farmland Statistics (million hectares)

Country	Total Area	Cult. ^a Land Area	% Cult. ^a Total Area	Irr. ^b Land	% Irr. Cultivated	Culti. ^c Unused	Index per capita food production 1977 (1969/70 = 100)
Algeria	238.0	6.8	2.8	0.270	4.0	7.0	79
Bahrain	0.062	0.036	5.81	0.036	100.0	0.002	n.a.
Egypt	100	2.85	2.85	0.285	100.0	0.56	94
Iraq	43.5	10.0	23.4	0.368	36.2	6.0	96
Jordan	6.8	1.3	12.3	0.060	4.6	0.3	96
Kuwait	1.7	0.07	0.04	0.057	100.0	1.002	106
Mauritania	-	-	-	0.003	-	-	74
Oman	21.2	0.36	0.17	0.0036	100.0	0.04	n.a.
Qatar	2.2	0.018	0.08	0.018	100.0	1.001	n.a.
S. Arabia	215	0.8	0.4	0.176	16.2	6.0	118
Somalia	63.7	0.96	1.5	0.096	100.0	-	85
Sudan	250	7.1	3.0	0.711	10	38.0	102
Syria	18.5	5.9	31.9	0.485	7.6	2.8	142
Tunisia	16.4	4.5	28.9	0.08	1.8	2.7	124
U.A.E.	8.3	0.012	0.15	0.001	90.0	0.002	n.a.
Y.A.R.	19.5	1.5	7.7	0.100	-	-	n.a.
Y.P.D.R.	28.8	0.25	0.9	0.252	100.0	1.5	92
Morocco	44.6	7.5	17.8	0.265	3.4	8.5	78

a - Cultivated

b - Irrigated

c - Cultivable

Sources: The Arab Economist, vol.XII, No. 125, February 1980, p.13.

World Development Indicators, the World Bank, June 1979

From the preceding table the following conclusions can be drawn:

1. In 6 Arab countries cultivated land area represents less than 1% of the total area. These countries are: Kuwait, Oman, Qatar, Saudi Arabia, the U.A.E., and Y.P.D.R.
2. In not one single Arab country does irrigated land represent 1% of the total area; the best ratio being 0.711 for Sudan. This fact underlines the absence of any infrastructure.
3. In 6 out of 15 countries for which complete data are available, namely Algeria, Kuwait, Qatar, Saudi Arabia, Sudan and Y.P.D.R., the cultivable but unused area is larger than the area currently under cultivation. It is worth noticing that 4 of these 6 countries are oil exporters.
4. If we consider the Arab World as a whole, around 50 million hectares are currently cultivated but there are more than 75 million hectares cultivable but unused. These figures represent the extent of the negligence and, by the same token, the ray of hope for the entire Arab World.

Low productivity

Low productivity in the agricultural sector derives from several factors such as the extent of irrigation, the degree of mechanisation, the use of fertilizers, pesticides, etc.... As has been outlined in the previous table, in most Arab countries irrigated land is negligible as compared to the cultivated area. By their geographical position Arab countries do not receive a heavy rainfall evenly distributed over the country and throughout the year. Consequently, one expects irrigation to be developed. In this respect, Jordan is a case in point. It suffers from a severe shortage of water which was, however, in abundance last year (1979/80).

Consequently King Tallal Dam (capacity 54 million m³) was filled to capacity more than once so that the water had to be released.¹ This is the extent of the loss for one year in a single Arab country. This situation is very common.

If we take the number of agricultural tractors as an indicator of the degree of mechanisation of Arab agriculture, by referring to Appendix No.4 (Total of Agricultural Tractors: 1968-78) p. 32, we can see that the degree of mechanisation is not very high as compared to the U.S.A. As a matter of fact, in 1978 there were 2.06 tractors for every hectare under permanent crop in the U.S.A. For 19 Arab countries the ratio was 0.057 tractors per hectare of land under permanent crop.

Population growth

This is a very controversial issue and it goes beyond the agricultural sector. Some maintain that in order to develop, developing countries should stop their population explosion. For others, the only way to stop population growth is through economic and social development. That is to say the elimination of bad nutrition, disease, illiteracy, etc... It is a vicious circle and the main problem is how it can be broken.

Concerning the Arab World population explosion must be regarded as one of the causes though not the only cause of the increased food deficit. The Arab countries register high population growth rates and for the whole Arab World the average figure is between 2.5 and 2.9%. In our opinion population growth rates partly explain the decrease of per capita food production. According to Table No. 6, p. 15 last column, between 1969/71 and 1976/77 per capita food production decreased in 8 out of 18 countries, namely Algeria,

1. cf. EL-RA'I, Tuesday 14th. October 1980, Amman, p. 23.

Egypt, Iraq, Jordan, Mauritania, Somalia, Y.P.D.R., and Morocco.

. Institutional support

As it was mentioned earlier, agriculture received only a small share of funds earmarked for development. In fact, few Arab countries created development banks specifically designed for the primary sector. For instance, from 1971 onwards Algeria started one of the most comprehensive land reform projects ever undertaken in Third World countries, but there has been no specific bank conceived to support this effort. Such an institution is supposed to be created in 1981.....about ten years late.

The price policies pursued by Arab countries have been detrimental to agriculture in almost every case. Prices were kept low, which meant domestic terms of trade favourable to industry at the expense of agriculture. Such a situation speeded up the rural exodus.

In most Arab countries the importation of food has had a baneful effect on the primary sector which was not competitive in terms of price.

Another cause is that as a result of rural exodus the fertile land surrounding towns and cities became either shanty towns or suburbs. In countries such as Algeria and Iraq with large industrial projects, the "industrial zones" are situated just outside the cities. Both phenomena gave the same result; that is the reducing of the most fertile cultivated land, since, by nature, man settles in the fertile areas first.

All these factors combined to decrease productivity as well as production.

The following table presents the example of cereals.

TABLE No. 7 Total Cereals Production (10,000 metric tons)
and Yields (Kg/Ha) 1969-1979

see page 19.

TABLE No. 7 Total Cereals Production (10,000 Metric Tons),
and Yields (Kg/Ha) 1969 - 1979

Countries	1969 - 71		1977		1978		1979	
	Prod.	Yields	Prod.	Yields	Prod.	Yields	Prod.	Yields
Algeria	1882	614	1143	411	1539	586	1689	649
Egypt	7387	3847	7460	3926	8224	4022	8056	3976
Iraq	2058	1079	1445	962	1800	782	2738	981
Jordan	153	743	75	434	69	369	20	146
Kuwait	n.a.	2000	n.a.	1909	n.a.	2067	n.a.	2067
Lebanon	50	870	61	1123	57	449	49	850
Libya	113	298	262	483	297	428	312	394
Mauritania	86	318	29	413	26	215	44	365
Morocco	4558	985	2888	594	4714	998	4113	922
Oman	4	1210	6	1447	6	1474	6	1525
S. Arabia	430	1205	297	757	272	1188	283	1068
Somalia	242	631	247	531	237	510	187	402
Sudan	2119	773	3068	701	3326	704	2676	631
Syria	1121	611	1638	630	2454	932	1809	695
Tunisia	678	516	699	470	979	577	979	530
U.A.E.	n.a.	12300	n.a.	20071	n.a.	21357	n.a.	22214
Y.A.R.	1075	758	855	890	702	637	950	833
Y.P.D.R.	90	1803	110	1758	102	1603	114	1668
Average Devd. Countries		2278		2472		2777		2620
Average Devg. Countries		1423		1580		1654		1654

Source: FAO Production Yearbook, 1979, vol. 33.

We chose the case of cereals because it is in this field that the deficit is widest.

1. If we compare 1969/71 to 1979 we can notice that the production of cereals has decreased in Algeria, Jordan, Lebanon, Mauritania, Morocco, Saudi Arabia, Somalia and Y.A.R. Such a decrease has to be compared with increased food demand caused by increased population and an increased standard of living.
2. When it comes to yields the situation is not better because for the same decade they have decreased in 7 countries namely: Iraq, Jordan, Lebanon, Morocco, Saudi Arabia, Sudan and the Y.P.D.R.
3. Some countries such as Morocco, Lebanon, and Saudi Arabia witnessed a decrease both in production and in yield.
4. In terms of yields and for 1979, only the U.A.E. scored a figure higher than the average developed countries. Furthermore, in all our sample countries but Egypt, Kuwait, the U.A.E. and the Y.P.D.R., yields were well below the average yield of the developing countries.

In our opinion these are the main causes which led to the food deficit we showed in the first part of this paper. The degree and quality of the deficit are not without consequences for the Arab World. Now we propose to outline some of these effects.

III Consequences of the food gap on the Arab World.

The obvious economic consequence is the food bill which keeps soaring on a yearly basis for two reasons: increased imports and higher prices to be paid as a result of world inflation. The magnitude of the bill hampers the economic and social development of the countries concerned because the funds which go to consumption do not go to investment projects. In most cases the food bill is the main cause of the balance

of trade deficit. For the time being the oil exporting countries can afford to pay the bill which, as in the case of Algeria, amounts to 25% of oil revenues. However, the problem becomes crucial when the oil runs out.

On the other hand there are non-economic consequences that have to be considered. In fact the problem goes beyond the deficit between production and demand and beyond the food bill itself for three main reasons:

Firstly, it is not possible to do without foodstuffs and, more importantly, without cereals, rice and sugar in the Third World countries.

Secondly, there are no substitutes for the above-mentioned items. Thirdly, the Arab World depends on a handful of countries for its supply: the U.S.A., Canada, New Zealand and Australia. At world level, food surpluses are monopolised by these countries. Consequently food can be used as a weapon to achieve political or economic objectives which can be in contradiction with the the interest of specific Arab countries or the whole Arab world.

As a matter of fact, the food weapon has already been used. To illustrate the case we propose to study the policy pursued by the U.S.A. for two reasons:

- a) It is the world's largest cereal exporter and for the Arab World the deficit is more acute when it comes to cereals (cf. Table No. 5, p. 12)
- b) In terms of foreign policy Canada, Australia and New Zealand have always followed in the shadow of the U.S.A.

When it comes to using its food surpluses as a leverage the U.S.A. has a long standing history. As early as 1954 the U.S.A. enacted Act No. 380 called " Food for Peace". At that time a U.S. economist said: " This type of aid shall gradually become

a political instrument in the U.S. foreign policy" ¹

In 1973 a special committee of the U.S. congress stated that:
" we distribute our food surpluses not according to needs but according to our foreign policy." ²

More recently the American Minister of Agriculture stated that:
" It is one of the main elements of our panoply of negotiation." ³
In fact the U.S. went beyond mere declarations and did use food as a weapon. For example, they gave food to Southern Vietnam and Corea, withheld it from the Allende regime in Chile and gave it back to the Pinochet regime.

The food weapon was used against the U.S.S.R. in order to oblige the latter to allow Soviet Jews to emigrate to Israel, and to withdraw from Afghanistan.

During the Ramadhan war when Arab countries imposed the oil boycott the U.S.A. contemplated stopping the export of foodstuffs to Arab countries and to the whole region.

One has to recognize that food has not yet been used as a direct leverage against any Arab country.

All these elements indicate that the last quarter of this century will witness either an artificial or a structural food crisis. It can potentially be used against the Arab World in two ways:

1. by withholding food directly
2. by supplying it to a country unfriendly to or at war with the Arab World during a period of hunger or famine. Such an action would definitely give an edge to the other country concerned.

As can be seen, the food crisis goes beyond the mere issues of prices and availability. It can threaten the security of any

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1. The Problem of Food Production in the Arab World, Dr. M.A. EL-FARA, Published by the National Council for Culture, Arts & Letters, Kuwait, 1979, p. 268. (in Arabic)
 2. Ibid., p. 277.
 3. The Third Report of the Club of Rome, SNED/DUNOD, 1978, p.29

Arab country or the entire region. Compared with the food weapon the oil weapon is useless as was mentioned by former U.S. President Gerald Ford.

This situation makes it a must for the Arab World to try to reverse the current trend. In the last part of this paper we propose the necessary strategy.

IV Arab Strategy to solve the food deficit

The main pillar of this strategy is to give priority to the agricultural sector in order to transform it into a leading sector in every Arab country where the possibilities exist. Such strategy should be based on decisions to be taken at local (country) level and at regional level and being implemented during the short, medium and long term periods.

1. Measures to be taken at country level

To develop a strategy based on careful planning and the basic objectives of which would be to satisfy the supply (whenever possible not through imports from outside the Arab World) of the factors essential to the development of the agricultural sector. Such a strategy should give priority to irrigation projects, especially those at hand.

In order to increase production a horizontal improvement should be made by cultivating the cultivable land which is currently unused and which we already estimated at 75 million hectares. Higher productivity can be reached through vertical improvement which should be based on pest control, a higher degree of mechanisation (i.e. tractors) and more fertilizers. It has been estimated that by controlling plant disease, productivity could be increased by 40 - 50% without considerable production cost increase.

The introduction of new types of seeds and livestock which are adapted to dry areas will tend to increase productivity.

In order to satisfy meat intake requirements, special attention should be given to the fishing industry. Arab waters are known to be rich but there is no fishing industry relatively comparable to that existing in western countries. For example, according to a survey made by Révolution Africaine,¹ the Algerian fishing fleet has hardly improved since 1962. Consequently, Algerian fish " are dying of old age" as it was put by one Algerian fisherman.

The Arab governments should take the appropriate measures to introduce new price policies advantaging the primary sector. In other words this means new domestic terms of trade advantageous to agriculture. All these measures must be backed by institutional support based on:

- better distribution of agricultural products,
- larger loans and better credit facilities, (lower interest rates and longer repayment periods)
- structural changes aimed at reversing the current rural exodus and function of agriculture in the society.

Some of these measures might require Arab regional cooperation.

2. Arab Cooperation in the Agricultural Sector

For the time being there has been only limited cooperation in the primary sector, the reason being the mistake made at the local level, i.e. the neglect of agriculture, has been repeated at the regional level. In our opinion, the only noticeable action has been the creation of the Arab Authority for Agricultural Investment and Development (AAID) whose objective is to spend \$5.7bn. in Sudan between 1976 and 1980; \$3.9bn. for productive projects and \$1.8bn. for infrastructure.

1. Revolution Africaine, Algiers. no. 36, 29-2/ 6.3.80

This approach based on a country package policy should be encouraged, generalized and complemented by an item package policy with priority given to cereals.

However, this Arab cooperation should go beyond mere financing and embrace all the stages including distribution (commercialisation). This type of institution would create a net of inter-Arab interests which, in our opinion, constitutes the foundation of future Arab economic integration as well as political integration at a later stage.

Arab cooperation can be put into practice in several manners and fields. Here follow the main ones:

- . Providing finance to poor countries with agricultural potential such as Sudan. Since 1973/74 several Arab banks and funds have been set up but none of them is specifically designed to finance the agricultural sector at regional level. To fill this gap we are left with two options, either to transform the AAAID into a fully-fledged bank competent enough to undertake financing operations in other Arab countries or to set up a new institution. We choose the first option, in order to avoid duplication.
- . At the regional level there is no common institution to encourage and coordinate Arab cooperation in agriculture. Within the Arab League we have councils dealing with matters such as education, industry, information, labour, defence, housing, economics, but not agriculture. In order to fill this gap we propose the creation of such a council¹ within the Arab League in order to strengthen common institutions. Such a council would contain the following committees:
 - Land and water
 - Arid land (desertification)
 - Vegetable crops
 - Cereals
 - Livestock resources including fishing
 - Inter Arab countries marketing

1. cf. The Problems of Arab Development, op. cit.

- Labour force
- Imports: we believe that the Arab World should import food as a single entity. Such an approach would give a stronger bargaining power
- Agro-industry, etc.

Fight against desertification

The desert occupies a large part of every Arab country except Lebanon. These deserts have been expanding, thus reducing the area which is cultivable or under cultivation. This is a common problem which requires a common solution because no single Arab country has the financial, human and technical capacity to fight back the desert. The best weapon would be the creation of large forests such as the green dam in Algeria (a forest 20 km. wide going from the Moroccan border to the Tunisian border).

Scientific Research

In the Arab countries the social and physical conditions are more or less the same: illiterate population, vast desert land, presence of underground water, pollution in arid zones, etc... The technology needed is different from that supplied by western countries.

A common scientific and research effort must be made in order to come up with a technology adapted to the above-described environment. This new technology must have two other characteristics; capital saving and energy saving. With regard to this point the creation of a regional institution of scientific research specialized in the agricultural sector has to be encouraged.

Supply of fertilizers

As has already been pointed out, it is hard to increase productivity without larger use of fertilizers. However, when

it comes to their supply the Arab World is still dependant on outside sources. In actual fact, in 1976 86% of the world supply of fertilizers was controlled by developed countries. Between June 1972 and September 1973 the price of fertilizers doubled because some plants were closed in the U.S.A. In 1974 the U.S.A., Japan and western Europe decided to cut down their fertilizer exports. The decrease amounted to 2 million tons in the U.S.A. Such a decision alone prevented the production of 20 million tons of cereals in Third World countries. This represented twice the deficit for all the African countries for 1975.

Such a situation might worsen since, as outlined in Appendices 5-7, pp.33-5, Third World countries will record a deficit in fertilizers by 1983/84. However, from this angle the Arab World is better off than the rest of the developing countries. By the year 2,000 Arab nitrogenous fertilizer requirements are estimated at 1.5 and 2.5 million tons for irrigated and rainfed areas respectively. This need can be met by oil countries such as Algeria, Saudi Arabia, Kuwait and Qatar. On the other hand the need for phosphatic fertilizers is estimated at 1.3 million tons. This can be met by Jordan and Morocco provided the funds are available.

At their Algiers Summit in March 1975 the Heads of State of the OPEC countries decided to supply Third World countries having agricultural potential with fertilizers at cost price. Such a decision should be applied by Arab oil countries in favour of non-oil Arab countries such as Sudan.

Creation of food stocks

This is a decision to be taken as soon as possible, although it involves several problems such as: magnitude and management, financing, localisation and the items to be given priority. The creation of these regional food stocks does not exclude the participation of the Arab World in setting up international stocks as was suggested within the framework of the New International Economic Order.

Population control

This is a long-term action. Population control must not be generalised. . In other terms it must be selectively applied. It would be political economic nonsense to expect Bahrain, Qatar, the U.A.E., or Kuwait to control their population. For instance geopolitical importance is based on the size of the population.

CONCLUSIONS

Under present circumstances and present policies the food deficit will keep on increasing both at country and at regional level. Even the measures which we suggested are not likely to achieve food self sufficiency for the entire Arab World by the end of the century. However, if applied they would tend to decrease the dependancy of the Arab World on outside sources.

We propose a common Arab approach for two reasons:

1. Individual efforts have failed so far.
2. At regional level there is complementarity concerning the factors that are essential to the development of the agricultural sector: land, fertilizers (nitrogenous and phosphatic), labour force and funds that can finance the acquisition and the production at a later stage of equipment (such as tractors), the building of desalinization plants drainage, and scientific research.

In the light of what we have seen in the agricultural sector, inter-Arab cooperation does not represent an alternative path of development. In our opinion, for poor and rich Arab countries alike, it does constitute the only viable strategy of economic and social development. Of course, this cooperation is subject to political will. However, this variable is not specific to the Arab World alone, it is a variable that every entity in formation has to live with.

APPENDIX No. 1 Mutton and Lamb Production: 1969 - 1979
(10,000 Metric Tons)

	1969-71	1977	1978	1979
Algeria	40	54	55	56
Bahrain	-	-	-	-
Egypt	29	25	26	27
Iraq	39	37	37	38
Jordan	5	6	6	7
Kuwait	8	15	15	15
Lebanon	11	8	8	8
Libya	19	22	24	26
Mauritania	6	7	7	7
Morocco	47	43	44	40
Oman	1	1	1	1
Qatar	2	3	3	3
S. Arabia	14	17	13	14
Somalia	11	12	12	12
Sudan	53	72	73	77
Syria	40	56	59	59
Tunisia	27	35	33	35
U.A.E.	1	3	3	3
Y.A.R.	10	13	13	13
Y.P.D.R.	5	6	6	6

Source: FAO Production Yearbook, United Nations, vol. 33, 1979.

APPENDIX No. 2 Beef and Veal Production: 1969/71 - 1979
(1,000 Metric Tons)

	1969-1971	1977	1978	1979
Algeria	24	29	32	34
Bahrain	—	1	1	1
Egypt	119	123	123	130
Iraq	42	48	49	51
Jordan	3	2	3	3
Kuwait	1	2	3	3
Lebanon	14	10	10	10
Libya	3	3	3	3
Mauritania	15	13	16	17
Morocco	91	75	76	77
Oman	1	2	2	2
Qatar	—	—	—	—
S. Arabia	7	8	10	11
Somalia	45	46	47	48
Sudan	134	180	188	195
Syria	10	15	17	17
Tunisia	17	40	42	44
U.A.E.	2	1	1	2
Y.A.R.	12	12	12	12
Y.P.D.R.	1	1	2	2

Source: FAO Production Yearbook, vol. 33, 1979.

APPENDIX No. 3 Total Imports (in millions \$) and Cereal
Imports (%) in some Arab Countries: 1970,
1974, and 1976

Countries	Years		1970		1974		1976	
	All		Imports	Cereals %	All		Imports	Cereals %
Algeria	1256.8			2.39	5974.1 ^a	6.95	7101.9 ^b	5.01
Bahrain	n.a.			n.a.	1199.1	1.74	1669.6	1.46
Egypt	785.6			8.93	2350.7	31.38	4815.3 ^b	11.12
Iraq	508.6			1.59	2364.8	11.32	3469.7	6.49
Jordan	184.5			8.75	486.6	8.08	1381.1 ^b	5.63
Kuwait	625.1			3.19	1553.5	2.75	2388.2 ^c	3.51
Lebanon	567.5			7.41	n.a.	n.a.	n.a.	n.a.
Libya	554.4			4.98	2764.3	5.23	3542.5 ^c	4.56
Morocco	684.3			3.96	1900.8	8.92	2592.2	6.41
Oman	33.1 ^d			15.05	392.5	4.14	725.4	3.07
Qatar	67.9			3.42	270.8	4.53	1226.1 ^b	0.63
S. Arabia	692.1			10.19	2847.9	6.18	8416.4	3.50
Somalia	45.1			17.07	142.8	7.96	154.7 ^c	16.54
Sudan	311.1			6.09	655.8	4.26	957.0 ^c	2.56
Syria	350.0			12.65	1229.4	8.23	1978.9	2.86
Tunisia	304.6			12.00	1120.1	4.95	1525.7	3.62
Y.A.R.	37.0			15.71 ^d	122.7 ^e	19.90	410.3	11.30

a - 1975 b - 1977 c - 1975 d - 1971 e - 1973

Source: Yearbook of International Trade Statistics, United Nations, 1978

APPENDIX No. 4

Total of Agricultural Tractors
(number)

	1969-71	1976	1977	1978
Algeria	47172	52000	52000	53000
Egypt	17276	22000	22468	23500
Iraq	13367	21000	21500	21800
Jordan	2759	3914	4074	4223
Kuwait	8	20	25	30
Lebanon	2517	3000	3000	3000
Libya	3867	10000	11000	12000
Mauritania	100	220	240	260
Morocco	12279	21500	22000	23000
Oman	30	75	84	100
S. Arabia	617	830	900	1000
Somalia	910	1400	1500	1550
Sudan	5043	9000	9300	10000
Syria	9131	18567	20672	23329
Tunisia	21000	30000	31000	32000
Y.A.R.	500	1500	1600	1800
U.S.A.	4584000	4402000	4370000	4370000

Source: FAO Production Yearbook, United Nations, vol.33, 1979.

Appendix No. 5 - World nitrogen fertilizer supply capabilities, demand and balances¹
(million metric tons of nutrients)

Region	Actual ²	Preliminary Estimate	Forecast				
	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
North America							
Supply capability	11.28	10.85	13.93	13.93	13.81	13.74	13.65
Consumption	9.69	10.77	11.17	11.56	11.94	12.40	12.70
Surplus (-deficit)	1.59	0.08	2.76	2.37	1.87	1.34	.95
Western Europe							
Supply capability	10.09	9.24	9.66	9.71	9.86	9.99	10.19
Consumption	8.75	8.86	9.14	9.44	9.71	9.99	10.38
Surplus (-deficit)	1.34	0.38	0.52	0.27	0.15	0.00	-0.19
Oceania							
Supply capability	0.22	0.20	0.20	0.20	0.21	0.23	0.23
Consumption	0.23	0.24	0.26	0.27	0.29	0.30	0.31
Surplus (-deficit)	-0.01	-0.04	-0.06	-0.07	-0.08	-0.07	-0.08
Other developed market economies							
Supply capability	1.91	1.97	1.85	1.81	1.76	1.71	1.66
Consumption	1.07	1.11	1.15	1.18	1.22	1.26	1.30
Surplus (-deficit)	0.84	0.86	0.70	0.63	0.54	0.45	0.36
Total developed market economies							
Supply capability	23.50	22.26	25.64	25.65	25.64	25.67	25.73
Consumption	19.74	20.98	21.72	22.45	23.16	23.95	24.69
Surplus (-deficit)	3.76	1.28	3.92	3.20	2.48	1.72	1.04
Africa							
Supply capability	0.15	0.08	0.08	0.13	0.26	0.35	0.43
Consumption	0.47	0.50	0.55	0.60	0.65	0.69	0.74
Surplus (-deficit)	-0.32	-0.42	-0.47	-0.47	-0.39	-0.34	-0.31
Latin America							
Supply capability	1.36	2.35	2.58	2.81	3.20	3.73	4.05
Consumption	2.58	2.69	2.92	3.15	3.39	3.65	3.90
Surplus (-deficit)	-1.22	-0.34	-0.34	-0.34	-0.19	0.08	0.15
Near East							
Supply capability	1.21	1.54	2.05	2.67	3.14	3.44	3.62
Consumption	1.54	1.59	1.78	1.96	2.13	2.29	2.48
Surplus (-deficit)	-0.33	-0.05	0.27	0.71	1.01	1.15	1.14
Far East							
Supply capability	3.62	4.37	4.94	5.65	6.28	6.86	7.34
Consumption	5.10	5.83	6.46	7.04	7.81	8.50	9.27
Surplus (-deficit)	-1.48	-1.46	-1.52	-1.39	-1.53	-1.64	-1.93
Total developing market economies							
Supply capability	6.34	8.34	9.65	11.26	12.88	14.38	15.44
Consumption	9.69	10.61	11.71	12.75	13.98	15.13	16.39
Surplus (-deficit)	-3.35	-2.27	-2.06	-1.49	-1.10	-0.75	-0.95
Communist Asia							
Supply capability	5.07	5.85	6.42	6.80	7.03	7.07	7.07
Consumption	6.63	7.07	7.41	7.80	8.06	8.33	8.54
Surplus (-deficit)	-1.56	-1.22	-0.99	-1.00	-1.03	-1.26	-1.47
Eastern Europe and USSR							
Supply capability	14.71	16.44	18.34	20.57	22.79	24.79	25.73
Consumption	11.69	13.10	14.10	15.10	16.00	16.80	17.60
Surplus (-deficit)	3.02	3.34	4.24	5.47	6.79	7.99	8.13
Total centrally planned economies							
Supply capability	19.78	22.29	24.76	27.37	29.82	31.86	32.80
Consumption	18.32	20.17	21.51	22.90	24.06	25.13	26.14
Surplus (-deficit)	1.46	2.12	3.25	4.47	5.76	6.73	6.66
World Total							
Supply capability	49.62	52.89	60.05	64.28	68.34	71.91	73.97
Available supply	47.88	51.76	57.05	61.07	64.92	68.31	70.27
Consumption	47.75	51.76	54.94	58.10	61.20	64.21	67.22
Surplus (-deficit)	0.13	0.00	2.11	2.97	3.72	4.10	3.05

¹ Forecast supply capability refers to maximum total ammonia supply capability should demand be there, except that some production cuts announced by producers, particularly in Japan (Other Developed) have been taken account of. Forecast supply capabilities are based on existing and announced new ammonia capacity. For new capacities in developing countries, capacity utilization is assumed to be 65% of final average capacity utilization for the country during the first year of operation and 85% the second year, thereafter the country average utilization rate is assumed. For developed countries these same rates are 80% and 90% respectively. Capacity utilization in ammonia units is based on past experience on a country-by-country basis. Furthermore, deductions have been made for nitrogen used for non-fertilizer purposes (forecast country by country) and for nitrogen conversion losses in down-stream fertilizer processing units. ² Actual refers to actual production and consumption as reported to FAO. ³ Available Supply is world supply capability less a 5 percent allowance to account for normal stock changes, transportation and distribution losses and the time lag between production and consumption. ⁴ World Surplus (deficit) does not equal the sum of regional balances due to adjustments described in Footnote 3.

Source: Actual and Preliminary Estimate: FAO Forecast: FAO/UNIDO/World Bank Fertilizer Working Group, June 1979.

Appendix No. 6 - World phosphate fertilizer supply capabilities, demand and balances¹
(million metric tons of nutrients)

Region	Actual ¹	Preliminary Estimate	Forecast				
	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
North America							
Supply capability	8.13	9.13	9.38	9.58	9.64	9.66	9.68
Consumption	5.20	5.58	5.59	5.79	5.89	5.99	6.08
Surplus (-deficit)	2.93	3.55	3.69	3.79	3.75	3.67	3.60
Western Europe							
Supply capability	5.79	6.95	7.01	7.06	7.10	7.11	7.09
Consumption	5.60	5.71	5.88	6.03	6.19	6.35	6.48
Surplus (-deficit)	0.19	1.24	1.13	1.03	0.91	0.76	0.61
Oceania							
Supply capability	1.16	1.22	1.27	1.32	1.34	1.37	1.40
Consumption	1.19	1.26	1.32	1.37	1.40	1.43	1.46
Surplus (-deficit)	-0.03	-0.04	-0.05	-0.05	-0.06	-0.06	-0.06
Other developed market economies							
Supply capability	1.15	1.70	1.69	1.72	1.76	1.84	1.84
Consumption	1.16	1.18	1.20	1.23	1.25	1.27	1.29
Surplus (-deficit)	-0.01	0.52	0.49	0.49	0.51	0.57	0.55
Total developed market economies							
Supply capability	16.23	19.00	19.35	19.68	19.84	19.98	20.01
Consumption	13.15	13.73	14.09	14.42	14.73	15.04	15.31
Surplus (-deficit)	3.08	5.27	5.26	5.26	5.11	4.94	4.70
Africa							
Supply capability	0.57	1.11	1.26	1.42	1.63	2.05	2.32
Consumption	0.41	0.42	0.49	0.53	0.58	0.62	0.66
Surplus (-deficit)	0.16	0.69	0.77	0.89	1.05	1.43	1.66
Latin America							
Supply capability	1.51	1.30	1.33	1.49	1.74	1.88	1.90
Consumption	2.23	2.31	2.53	2.76	3.00	3.23	3.46
Surplus (-deficit)	-0.72	-1.01	-1.20	-1.27	-1.26	-1.35	-1.56
Near East							
Supply capability	0.54	0.63	0.80	1.05	1.39	1.68	1.75
Consumption	0.92	0.89	0.99	1.09	1.19	1.29	1.37
Surplus (-deficit)	-0.38	-0.26	-0.19	-0.04	0.20	0.39	0.38
Far East							
Supply capability	1.04	1.25	1.35	1.47	1.59	1.67	1.67
Consumption	1.68	1.92	2.14	2.33	2.52	2.73	2.94
Surplus (-deficit)	-0.64	-0.67	-0.79	-0.86	-0.93	-1.06	-1.27
Total developing market economies							
Supply capability	3.66	4.29	4.74	5.43	6.35	7.28	7.64
Consumption	5.24	5.54	6.15	6.71	7.29	7.87	8.43
Surplus (-deficit)	-1.58	-1.25	-1.41	-1.28	-0.94	-0.59	-0.79
Communist Asia							
Supply capability	1.64	1.92	2.00	2.14	2.31	2.44	2.56
Consumption	1.77	2.05	2.15	2.32	2.51	2.67	2.82
Surplus (-deficit)	-0.13	-0.13	-0.15	-0.18	-0.20	-0.23	-0.26
Eastern Europe and USSR							
Supply capability	8.43	8.48	8.89	9.41	10.03	10.75	11.40
Consumption	8.13	8.68	9.39	10.11	10.83	11.55	12.20
Surplus (-deficit)	0.30	-0.20	-0.50	-0.70	-0.80	-0.80	-0.80
Total centrally planned economies							
Supply capability	10.07	10.40	10.89	11.55	12.34	13.19	13.96
Consumption	9.90	10.73	11.54	12.43	13.34	14.22	15.02
Surplus (-deficit)	0.17	-0.33	-0.65	-0.88	-1.00	-1.03	-1.06
World total							
Supply capability	29.96	33.69	34.98	36.66	38.53	40.45	41.61
Available supply	28.44	32.68	33.93	35.56	37.37	39.24	40.36
Consumption	28.29	30.00	31.78	33.56	35.36	37.13	38.76
Surplus (deficit) ²	0.15	2.68	2.15	2.00	2.01	2.11	1.60

¹ Forecast Supply capability is made up of wet process phosphoric acid production (100%) and other P₂O₅ production consisting of single superphosphate (100%), basic slag (100%) and the phosphate rock contribution into the manufacturing of concentrated superphosphates (30%) and nitrophosphates (50-100%, depending on region). For new plants capacity utilization is assumed at 40, 80 and 90% in developed countries and at 35, 70 and 80% in developing countries for the first year, third year and thereafter, respectively. Non-fertilizer uses have been forecast on a country-by-country basis and deducted to give the acid available for fertilizers. Losses in the production process are estimated at 6% for all regions. ² Actual refers to actual production and consumption as reported to FAO. ³ Available Supply is 97% of world supply capability reflecting past experience, to account for normal stock changes, transportation and distribution losses and the time lag between production and consumption. In the past 10 years, this ratio has varied between 94% and 98%. ⁴ World Surplus (deficit) does not equal the sum of regional balances due to adjustments described in footnote 3.

Source: Actual and Preliminary Estimate: FAO. Forecast: FAO/UNIDO/World Bank Fertilizer Working Group, June 1979.

Appendix No. 7 -World potash fertilizer supply capabilities, demand and balances¹

(million metric tons of nutrients)

Region	Actual ²	Preliminary Estimate	Forecast				
	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
North America							
Supply capability	8.17	9.06	9.28	9.53	9.80	10.53	11.50
Consumption	5.28	5.69	5.90	6.10	6.28	6.50	6.80
Surplus (-deficit)	2.89	3.37	3.38	3.43	3.52	4.03	4.70
Western Europe							
Supply capability	4.92	6.34	6.54	6.62	6.58	6.54	6.57
Consumption	5.17	5.37	5.64	5.82	6.01	6.16	6.31
Surplus (-deficit)	-0.25	0.97	0.90	0.80	0.57	0.38	0.26
Oceania							
Supply capability	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Consumption	0.24	0.25	0.26	0.27	0.28	0.29	0.30
Surplus (-deficit)	-0.24	-0.25	-0.26	-0.27	-0.28	-0.29	-0.30
Other developed market economies							
Supply capability	0.68	0.71	0.71	0.71	0.71	0.87	1.05
Consumption	0.85	0.86	0.87	0.87	0.88	0.89	0.91
Surplus (-deficit)	-0.17	-0.15	-0.16	-0.16	-0.17	-0.02	0.14
Total developed market economies							
Supply capability	13.77	16.11	16.53	16.86	17.09	17.94	19.12
Consumption	11.54	12.17	12.67	13.06	13.45	13.84	14.32
Surplus (-deficit)	2.23	3.94	3.86	3.80	3.64	4.10	4.80
Africa							
Supply capability	0.08	0.00	0.00	0.00	0.00	0.00	0.00
Consumption	0.24	0.27	0.30	0.33	0.36	0.39	0.42
Surplus (-deficit)	-0.16	-0.27	-0.30	-0.33	-0.36	-0.39	-0.42
Latin America							
Supply capability	0.01	0.02	0.02	0.02	0.02	0.02	0.07
Consumption	1.39	1.52	1.65	1.78	1.91	2.04	2.17
Surplus (-deficit)	-1.38	-1.50	-1.63	-1.76	-1.89	-2.02	-2.10
Near East							
Supply capability	0.00	0.00	0.00	0.00	0.00	0.14	0.43
Consumption	0.04	0.05	0.06	0.07	0.07	0.08	0.09
Surplus (-deficit)	-0.04	-0.05	-0.06	-0.07	-0.07	0.06	0.34
Far East							
Supply capability	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Consumption	0.95	1.05	1.14	1.23	1.34	1.43	1.53
Surplus (-deficit)	-0.95	-1.05	-1.14	-1.23	-1.34	-1.43	-1.53
Total developing market economies							
Supply capability	0.09	0.02	0.02	0.02	0.02	0.16	0.50
Consumption	2.62	1.95	3.15	3.41	3.68	3.94	4.21
Surplus (-deficit)	-2.53	-1.93	-3.13	-3.39	-3.66	-3.78	-3.71
Communist Asia							
Supply capability	0.32	0.32	0.34	0.36	0.41	0.45	0.50
Consumption	0.56	0.60	0.65	0.70	0.75	0.80	0.85
Surplus (-deficit)	-0.25	-0.28	-0.31	-0.34	-0.35	-0.35	-0.35
Eastern Europe and USSR							
Supply capability	11.58	13.03	13.85	14.76	15.30	15.80	16.30
Consumption	8.59	9.52	9.95	10.52	11.10	11.88	12.61
Surplus (-deficit)	3.00	3.51	3.90	4.24	4.20	3.92	3.69
Total centrally planned economies							
Supply capability	11.90	13.35	14.19	15.12	15.71	16.25	16.80
Consumption	9.15	10.12	10.60	11.22	11.85	12.68	13.46
Surplus (-deficit)	2.75	3.24	3.59	3.90	3.86	3.57	3.34
World total							
Supply capability	25.76	29.48	30.74	32.00	32.82	34.35	36.42
Available supply	23.70	27.03	28.18	29.33	30.08	31.49	33.39
Consumption	23.30	25.18	26.42	27.69	28.98	30.46	31.99
Surplus (-deficit) ⁴	0.40	1.85	1.76	1.64	1.10	1.03	1.40

¹ Forecast Supply capability refers to maximum total potash supply capability should demand be there. For existing plants capacity utilization is based on past experience. For new mines capacity utilization is assumed at 30, 75, and 90% for known developed ore bodies and 20, 40, 75 and 90% for unknown ore bodies for the first, second, third and fourth year and thereafter respectively. ² Actual refers to actual production and consumption as reported to FAO. ³ Available supply is world supply capability less 3.5% technical potash, less 5% to account for normal stock increases transportation and distribution losses and the time lag between production and consumption. ⁴ World Surplus (deficit) does not equal the sum of regional balances due to adjustments described in Footnote 3.

Source: Actual and Preliminary Estimate: FAO
Forecasts: FAO/UNIDO/World Bank Fertilizer Working Group, June 1979.

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THE PROBLEMS OF AGRICULTURAL DEVELOPMENT
AND ARAB ECONOMIC INTEGRATION

by

Dr. Ghanem El-Khaldi
Director,
Arab Economic Unity Council,
Amman,
Jordan.

The Problems of Agricultural Development

and

Arab Economic Integration

(Reply)

I have to express my thanks and respect to Dr. Adda Guecioueur for his valuable effort in trying to shed light on one of the basic problems of the Arab World, our food security which requires a quick solution if we want to guarantee our existence and our independence. Dr. A. Guecioueur reviewed the existing situation of Arab agriculture and suggested solutions to solve current problems and at the same time develop the agricultural sector in a regional integrative way. He based his presentation and analysis on three indicators, namely the contribution of the agricultural sector in:

- the labour force.
- the Gross Domestic Product (GDP).
- Export earnings.

I should like to make brief comments on some of these:

1. In 1978 the Arab World's population was around 149.4 million inhabitants and the total labour force was 39.9 millions, that is 26.7% of the total population. The total population living from agricultural activities amounted to 79.5 millions, that is 53.3% of the total population. The labour force engaged in the primary sector was 21.8 millions that is, 54.4% of the total Arab labour force. These figures vary from one country to another:

83.8% in Mauritania, 81% in Somalia and 77.8% in Sudan with the lowest figure of 1.7% in Kuwait. It is also worth mentioning the decrease, although negligible, during the last three years of the percentage of the total labour force engaged in agriculture 55.9%, 55.3% and 54.8% *respectively*.

At World level only 7% of the total labour force is engaged in the primary sector. This implies that 7% is able to satisfy its own food requirements as well as the rests, that is 93%. However, in the Arab World, agriculture as a percentage of the total labour force is 54.7% and it is unable to satisfy the needs of more than 88% of the total population since Arab total food sufficiency was around 80% during the 1974 - 1978 period. This figure differs from one product to another and from one country to another.

The following table gives a general view of the average rate of self-sufficiency in major foodstuffs during the 1974-1978 period.

Table No. 1: Relative Self-Sufficiency and Consumption in
the Arab World: 1974 - 1978.

Items	Rate of Self-Sufficiency	Average Annual Rate of Consumption Per Capital	Arab Worlds' Average Consumption 1974 - 1978	Excess of Average Arab World's Consumption 1974-1980 %
Cereals	64.2%	231.2 kg	32.5.10 ⁶ tons	31.6
Tubercles	96.0	15.3 kg	21 "	14.5
Vegetables	101.1	92.2 kg	14 "	96.7
Fruit	111	42.2 kg	6 "	23.7
Pulses	97.7	8.4 kg	1.2 "	8
Oil Seeds	101.6	17.9 kg	2.5 "	n.a.
Meat	86.8	16.6 kg	2.3 "	22.2
Fish	98	7.5 kg	1.05 "	211.5
Dairy Products	72.2	17.5* kg	16.5 "	93.4
Eggs	84.2	2.4 kg	0.322"	26.8
Refined Sugar	34.5	22.3 kg	3.1 "	13.5

* Only fresh milk and all its by products.

Source Cf. Dr. K. El-Khalidi "Food Crisis and Arab Food Security" ,
AEUC, Amman , 1980.

By self-sufficiency we mean the ratio of domestic production to available (direct and intermediate) consumption and the real demand for such commodities is not enough , especially since the average Arab calorie intake is inadequate according to dieticians.

Dr. A. Guecioueur considered the Arab food situation and the (Average Arab) calorie-intake at regional level. We can add that the nutritional level has important social and economic consequences in the developing countries. In the Arab World, for instance, because of insufficient food 15 to 30% of children die before the age of five. In other Third World countries the figure varies between $\frac{2}{3}$ and $\frac{4}{5}$. This creates baneful social consequences.

On the economic side, low nutrition levels directly decrease labour productivity. This phenomenon has been clearly emphasized by all the studies undertaken by the World Health Organization (W.H.O.). The nutrition level is the result of several economic and social factors. The individual calorie needs differ from one country to another as does the actual intake.

The following table gives an idea:

Table No. 2 : An Arabs average caloric requirements and his food and meat intake : 1975 - 1977 .

Countries	Daily caloric requirements for an Arab	Intake from			Food intake as % of total intake	Intake as % of requirement
		Food	Meat	Total		
Arab African Countries	2286	2096	343	2439	85.9	106.7
Algeria	2400	2128	228	2456	90.3	102.3
Egypt	2510	2542	174	2716	93.6	108.2
Libya	2360	2540	406	2946	86.2	124.8
Mauritania	2310	1381	513	1894	76.9	82.0
Morocco	2420	2420	148	2578	93.2	105.72
Somalia	2310	1358	771	2129	63.8	92.16
Sudan	2350	1993	254	2247	88.7	95.6
Tunisia	2390	2406	251	2657	90.6	111.17
Arab Asian Countries	2440	2047	236	2283	89.7	93.6
Iraq	2410	2114	193	2306	91.7	95.7
Jordan	2460	1867	300	2067	90.3	84.0
Lebanon	2480	2243	251	2495	89.9	100.6
S. Arabia	2420	2161	310	2471	87.4	102.1
Syria	2480	2336	279	2615	89.3	105.5
YAR	2410	1988	191	2179	91.2	90
YPDR	2410	1217	280	1897	85.2	78.7
General Average	2410	2072	290	2362	78.7	98.0

Source : FAO Year Book Production, 1977, pp 247#248 .

It appears that the average daily calorie intake requirements for an Arab are 2410 but his actual daily intake is no more than 2362, 87.7% of which come from vegetable origins . In other words, only 98% of the daily requirements are covered. It is worth mentioning that during the same period the average daily world intake requirements were 2590.

When it comes to protein intake the situation differs from one country to another. During the same period the average daily intake for an Arab individual was 66.7 grammes a day, 27% of which came from meat origins. However, according to dieticians, the basic requirements are 70 grammes of protein a day , 30% of which must come from meat sources.

It follows that an average Arab individual's daily intake is below his requirements, both in terms of quality and quantity.

Dr. A. Guecioueur showed the importance of agriculture as a source of export earnings. I would like to continue his idea by considering the role of the primary sector, and , more specifically, food products in the Arab World's foreign trade of foodstuffs.

During the 1972 - 1977 period the Arab World's real trade balance was marked by a net deficit in those essential food products without which a human being cannot survive.

The following table illustrates the situation:

Table No. 3: Arab World's main food items trade balance ,
average 1974 - 1978 period.

Items	Surplus (+) deficit 1000 tons	Excess over average of 1974-80 period (%)
Total cereals.	13000	83 %
Pulses	43.5	143000 tonnes
Sugar	2400	68 %
Oils (Plant)	562	68 %
Total meat	308	403 %
Fish	91	n.a.
Dairy Products	545	n.a.
Eggs	55.5	143 %
Animal Oil and Fats	179	70 %
Live animals	3.4	110 %
Oil seeds	+44.5	n.a.
Vegetables	+135	n.a.
Fruit	+719	40 % less

Source : Arab World's food crisis and food security , Op. Cit.,
2nd volume.

The balance of trade food deficit was \$ 55.6 bn. and foodstuff exports covered just 21% of foodstuff imports during the 1974 - 1978 period. Furthermore, as is shown by the following table , except in the case of oil seeds, vegetables and fruit, there was a food balance deficit in most other products.

Table No. 4: Arab World's financial and relative deficits in the main foodstuffs, average 1974 - 1978 period.

Items	Average deficit Million dollars	Net deficit %
Cereals	2468.2	44.2
Sugar	1066.8	19.1
Dairy Products	644.5	11.3
Coffee,tea,cocoa	490.3	8.8
Meat	446.7	8.8
Oil Seeds	260.3	6.0
Live animals	166.4	3.0
Raw tobacco	118.9	2.1
Other products	087.6	10.0
Total deficit	6336.4	-
Total surplus	749.7	-
Net deficit	5586.7	-

Source: Ibid, p. 260.

The following table offers a country breakdown of the total deficit and surplus.

Table No. 5: Individual Arab countries' food balance of trade, average 1974 - 1978 period.

Countries	Food balance (1,000 US Dollars)
Algeria	- 826334
Egypt	- 1182958
Libya	- 407429
Mauritania	- 50265
Morocco	- 147701
Somalia	+ 2025
Sudan	+ 29334
Tunisia	- 148667
Bahrain	- 59855
Iraq	- 387867
Jordan	- 223933
Kuwait	- 257381
Lebanon	- 182601
Oman	- 56609
Qatar	- 48891
S. Arabia	- 728000
Syria	- 255979
U.A.E.	- 174417
YAR	- 158038
YPDR	84082

From this table it is clearly evident that all Arab countries except Somalia and Sudan witnessed an average food deficit during the period concerned.

Dr. A. Guecioueur also considered the Arab World's potentialities in the form of cultivable land. From this angle I should like to add that according to the FAO, in 1977 the total amount of cultivable land in the Arab World was 315 million hectares and that only 49.4 million hectares were effectively cultivated. This represents ~~3.6~~ % and ~~15.7~~ % respectively of the total area of cultivable land.

It is worth indicating that during the 1972 - 1977 period the yearly increase of cultivable land was 0.6 % and that the intensive yield increased at a rate of 66%.

In 1977 irrigated land amounted to 8 million hectares, that is 16.4% of total cultivable land and during the 1972-1977 period the annual rate of irrigation expansion was around 0.8%. According to the Arab Agricultural Development Authority's estimations based on every country's potentialities and development plans, 59.8 million hectares will be cultivated by the year 2000. This means an average increase of 0.17% every year. The Authority estimates that yields will increase at a yearly rate of 1.8%, and that irrigated land will reach 15 million hectares, that is 25% of the total cultivable area.

Concerning the year 2000 Tables 6 and 7 illustrate the situation in terms of consumption, deficit and relative self-sufficiency.

Table No. 6 : Food Consumption estimations in the year 2000.

Items	Gross Consumption		Average per capita consumption		
	1000 metric tons	% average growth 1980-2000	Kg/ percapita	% growth rate	relative importance (%)
Cereals	50384	2.84	190.6	0.25	38.04
Wheat	34824	3.11	131.8	0.53	26.30
Barley	784	1.27	2.97	3.48	0.59
Yellow Maize	2718	1.42	10.28	0.16	2.05
Rice	4641	3.16	17.56	0.58	3.50
Others	7414	2.78	28.05	0.20	5.60
Tubercules	5321	3.75	20.10	1.16	4.02
Sugar	7826	3.43	29.65	0.85	5.92
Pulses	2578	3.71	9.75	1.23	1.95
Oil Seeds	516	3.16	1.95	1.02	0.39
Vegetables	20281	3.97	76.70	0.39	15.32
Fruit	14851	3.20	56.20	0.62	11.23
Oil (Plants)	2312	2.85	8.75	0.29	1.75
Animal Products					
Total Meats	7250	4.60	27.5	2.04	5.49
Red Meat	5752	4.51	21.8	1.95	4.33
White Meat	1498	4.97	5.7	2.44	1.14
Dairy Products	19210	3.33	72.7	0.75	14.52
Eggs	762	4.23	2.88	1.64	0.58
Fish	1043	3.64	3.94	1.02	0.79
Total	132334	--	500.5	--	100.00

Source: Arab Organisation for Agricultural Development - The Future of Food
in the Arab Countries, Volume No. 2: Food Consumption, 1979.

The previous table shows the expansion of food consumption in the Arab World. Various factors such as population growth and increased standards of living combine to explain this situation. In the final analysis there is an expanding food gap in the Arab World and if Arab countries do not join efforts it can be solved only through imports. The extent of the deficit is illustrated by the following table.

Table No. 7: Expected Food Surplus and Deficit and rate of self-sufficiency in the Arab World in the year 2000.

Items	Surplus (+), deficit 1000 metric tons	Rate of Self- sufficiency %
Cereals	29089	62.18
Wheat	19181	47.90
Yellow Maize	3469	60.90
Rice	3297	56.20
Barley	259	96.26
Other Cereals	+ 87	100.87
Tubercles	+ 171.08	102.90
Sugar	3495.80	55.70
Pulses	30.70	96.20
Oils	1042.40	66.53
Vegetables	+ 254.50	100.90
Fruit	124.10	99.30
Total Meat	3028.10	58.20
Red Meat	2493	56.70
White Meat	534.95	64.10
Dairy Products	5521.97	71.70
Eggs	49.70	94.00
Fish	371.80	123.50

Source: Ibid, Volume No. 3, pp. 2 and 3

Dr. A. Guecioueur clarified the following points:

- The causes of backwardness of the Arab agricultural sector.
- The effects (results) of the food deficit in the Arab World.
- The Arab strategy, both at country and regional levels , to solve the food deficit.

However, he did not focus enough on the subject of his paper which is the problems of agricultural development and Arab economic integration. He dealt with the problems in a general manner under the title "Arab Strategy to solve the food deficit". He mentioned the non-existence of Arab regional institutions to deal with agricultural problems, and I do not agree with him, the reason is that there are three specialized institutions whose function is to coordinate the development of the agricultural sector both at country and regional levels. These are :

1. The Arab Economic Unity Council, which has a department dealing with agricultural production.
2. The Arab Organization for the Development of Agriculture.
3. The Arab Centre for the study of dry lands and arid zones.

I should like to comment on the causes which led to the backwardness of the agricultural sector in the Arab countries in general and, more specifically, on the subsequent problems and obstacles to development:

1. The backwardness of the agricultural basis is illustrated by:
 - a. The general decrease of the power of the Arab peasant (fellah) in the fields of finance, science, culture, and health which led to the decrease in productivity.

- b. The inefficient use of irrigation.
 - c. The non-application of modern techniques in agriculture.
 - d. The relative decline in technological progress as a result of the decline in the use of machinery, fertilizers, pesticides, etc. in the agricultural process.
 - e. The continuous use of the fallow system.
 - f. The absence of adequate training courses in most Arab countries.
2. The backwardness of the infrastructure which is exemplified by:
- a. Insufficient irrigation, drainage and drain networks.
 - b. Insufficient road systems (primary as well as secondary) in agricultural areas.
 - c. The weakness of the means of storage, both at the private and public level, in most Arab countries.
3. The shortage of skilled labour and instructors in most Arab countries.
4. The weak and inadequate scientific research carried out in most Arab countries.
5. The weakness of agricultural counselling.
6. Land fragmentation as well as its non-redistribution.

7. The absence of clear agricultural policies in most Arab countries.
8. The weakness of marketing facilities .
9. The decline of the income of those working in agriculture relative to other economic activities. This has led to a movement of labour and capital from the primary to other sectors.
10. In most Arab countries priority was given to other activities, and in some instances at the expense of agriculture.
11. There are no agriculture - based transformation industries which would strengthen the primary sector. Possibilities do exist, such as in the case of oil.

However, concerning the abstacles to economic development, they vary from one country to another. Despite this, the following points are more or less comman to all of them.

1. The existing facilities are limited in terms of water, land and funds.
2. Shortage of labour force in countries such as sudan. This has a baneful effect on seasonal agricultural products.
3. Some prevailing social habits and behaviour.
4. The inheritance law and the land fragmentation which it led to:
5. The weakness of the infrastructure.
6. Technological backwardness.

7. The absence of adequately studied projects able to attract developmental investment.
8. The weakness of the marketing network.
9. Some Arab countries, which had agricultural potential , neglected, the primary sector.

Arab Agricultural Integration

There is a general consensus that agricultural integration is a necessary pre-requisite for development in the Arab countries which suffer from a weak system of production. However, despite this consensus there is still no similar agreement on a formula for integration or the way it should be carried out.

Several formula for agricultural integration exist. One such formula is that of a comprehensive integration is an essential step toward comprehensive Arab economic unity. But the shortcoming of such a formula is its step-by-step integration. The first step to be taken is the removal of those obstacles which hinder the movement of agricultural products between the Arab countries and the encouragement of agricultural specialization according to the relative advantage.

Yet another method of agricultural integration in the Arab World is by means of planning. This way production would be planned and each country would be required to produce accordingly.

The final formula, though the least effective, is to coordinate agricultural production in each Arab countries national plan and to coordinate common aims and goals.

Finally, one has to mention that integration in the agricultural sector is one of the most difficult types of integration because of the stagnant technical process in this sector, because of the fear of failure, and because governments bear the responsibility of supplying food to the citizens within their respective countries.

The problems and obstacles to Arab agricultural integration could be summarized as follows:

1. Differences in land ownership and methods of production.
2. The absence of an economic and social infrastructure in all Arab countries.
3. The different governmental systems in the Arab World.
4. The existence of many obstacles which hinder the movement of financial capital.
5. The negative spillover effects of political differences to economic relations.
6. The varied regional and national policies where each state follows a policy of self-sufficiency in the production of farm products to meet the demand.
7. Different price-support policies.
8. The shortage of trained skilled labour especially in the agricultural sector.
9. The weakness of the volume of trade between Arab countries.

10. The lack of investment devoted to agriculture despite the potential of this sector as shown by the fact that only 17.2% of total investment was devoted to the agricultural sector for the first five years of the 1970's .

For all the above reasons it becomes necessary to focus the Arab political effort on a food strategy which takes into consideration the present system of production and the future demand for food. The future growth and success of this strategic need of the Arab countries will be measured by the concerted effort towards integration in this respect, and by the establishment of projects which are based upon relative endowment of resources in the Arab countries.

This requires a unified Arab effort in the food production sector, and as a base the following points should be considered:

- A survey and data bank is needed to ascertain the present natural resources, water supplies, human resources and investment in the agricultural sector.
- Research and studies on environment, climate and the adaptability of certain agricultural produce should be undertaken.
- Coordination is necessary among Arab countries towards creating unified and harmonious agricultural policies.
- Importance should be given to investment plans in the agricultural sector.
- Agricultural technology should be applied and developed, and optimal use should be made of resources with the object of increasing productivity.
- Importance should be given to agricultural research, education and extension services.

- Some of the surplus financial assets of the oil-rich Arab states should be channelled into investment in the agricultural sector.
- Agricultural development projects should be distributed amongst the Arab countries according to natural endowment.
- Concentration should be focused on manpower development and training programmes to enable workers to use modern technology in agriculture.
- Price support policies should be founded with the aim of increasing the level of income of the population engaged in the agricultural sector.
- Policies designed to promote rural development should be pursued to reduce the disparities between rural and urban centres.

Dr. Ghanem Al- Khaldi

DISCUSSION

Dr. Saad Shammout: The two previous papers focus on increased expenditure as a method of improving the agricultural sector, I do not think that expenditure alone can increase productivity and production. One should also consider the total area cultivated which has decreased recently in some Arab countries. Jordan, for instance, used to cultivate two million hectares now less than one million hectares is cultivated.

In my mind we should concentrate on the labour force by guaranteeing a sufficient income to the Arab farmer.

Dr. A. Guecioueur: I quite agree with you, we cannot do anything without man. Rural exodus, an important problem in the AW., is caused by the following factors:

- All the social amenities such as schools, hospitals and universities are concentrated in the capital cities. Therefore the rural areas are neglected.
- In all Arab countries the economic function of a farmer (Fellah) is perceived as a downgrading social function.
- The policies pursued by all AC give priority to the secondary and tertiary sectors at the expense of the agricultural sector.
- The mislocation of the industrial plants. For instance Algeria and Iraq launched their huge industrial projects just outside the main cities, that is in the most fertile lands.

Dr. Ghanem Khalidi: I have some doubts concerning the figures mentioned by Dr. S. Shammout. The gross wheat production increased at Pan. Arab level. However this increase did not match with increase in demand (5% per annum) and the population growth rate (2.9% á year)

That is why we have a persistent food deficit. Another reason is that agricultural projects take a long time to mature. This phenomenon tends to postpone the results.

Dr. A. Badran: I should like to mention a recent phenomenon namely that farmers are producing more and more vegetables and fruit which unlike wheat, give high and quick profits. The best irrigated lands are used for this purpose. Furthermore, for financial reasons, many projects have not been carried out in countries such as Jordan. Finally I ought to mention the recent drought which hit several countries for several years. It magnified our deficit.

Dr. Jawad Anani: I should like to focus on three or four points. What has been said reminds me of the Economic Development Theory put forward a long time ago by Thomas Malthus who concentrated on the agriculture/industry dichotomy. The central theme of this theory is to encourage immigration in order to increase production. We are talking and debating the questions of population growth, rural exodus and food deficit, it seems to me we are gradually going to the World of Malthus. We should differentiate between the lack of manpower and deficit in production.

We should distinguish between economic and political decisions. The economic decision should respond to the citizens' needs at a given time whereas the political decision does not serve the interests of the consumers but it responds to certain political goals and it has to be popular. In this part of the World the economic decision has been politicized in order to satisfy certain groups or "loud voices".

I would like Dr. A. Guecioueur to explain his concept of "domestic terms of trade" between the agricultural and industrial sectors.

Dr. A. Guecioueur: We can apply the analysis dealing with the international terms of trade and more precisely between industrialized and developing countries to the domestic terms of trade that is between the industrial and the agricultural sectors. For political and social reasons the prices of agricultural goods are kept low on the other hand the industrial sector is supplied , both in terms of input and finished goods, through international trade where the prices reflect World markets. In other words the prices of agricultural goods increase at a lower rate than the prices of industrial goods. This phenomenon worked at the disadvantage of the primary sector in the Arab World and Third World countries .

Dr. J. Anani: It seems that I have been misunderstood, what I meant is not the terms of trade between industrialised and developing countries but between the primary and secondary sectors.

Dr. A. Guecioueur: You have been properly understood. There is a link between the two types of terms of trade through the price channels.

Dr. Ghanem El-Khalidi: Dr. A. Guecioueur said that there are four wheat exporting countries. Canada, USA, Australia and Newzealand . I must add that other countries such as India and Argentina constitutes large suppliers in the international wheat market. Many reports, even some of the United Nations, mention a food crisis by 1985, and you suggest food storage. This solution has a limited impact because we cannot store some types of foodstuffs and indefinitely. I would like to hear your comment on this issue.

Dr. A. Guecioueur: First I said that the four countries are major wheat exporters, I never said they are the only exporters. Second let us take the case of Iran which was "blacklisted " by the USA for exports . As you know very well all other countries joined in the boycott.

The World food shortage by 1985, referred to by several official reports could be either an artificial or a structural shortage. The best example of artificial shortage we had in recent years is the so-called 1973/74 oil crisis. Such a shortage can be engineered to achieve specific political or strategical objectives.

I agree with ^{you} food storing is not the ideal solution but it should not be dismissed as totally ineffective. I must add that it raises several problems such as the items to be stocked, the geographical location of the stocks and the financing of the whole operation.

Finally I should like to say that oil stocking does not constitute the ideal remedy to the energy crisis nonetheless it is being applied by the oil importing countries.

Dr. A. Dajani: Dr. G. Khaldi mentioned that there are three institutions in the Arab World which coordinate agricultural production. In fact there are more than that. If one examines carefully the functions of these institutions one can easily notice that they gave to themselves this function of coordination. In fact they are incapable of performing such a responsibility for the following reasons:

- These institutions are attempting to swallow something they cannot digest.
- The regional " climate " does not allow them to carry out such a function.
- Within the framework of our symposium we have already agreed that some Arab countries do not have the political will or desire to shoulder their regional responsibilities.
- In trying to solve our regional developmental problems we always refer to our " textbooks" therefore we always come up with the wrong solutions.

Dr. R. Aliboni: Dr. A. Guecioueur mentioned the causes of food deficits in the AC, I should like to add another element concerning the relations between the EEC and some AC. I believe that the agreement already signed are beneficiary to the AC to some extent. They open new markets for Arab agricultural products . This operation increases foreign exchange for the exporting countries, this is very important. On the other hand we can say that Arab resources are used to satisfy non-Arab food demand because the Euro-Arab links tend to encourage food exports not domestic (Arab) food consumption. This processes constitutes a secondary factor, a secondary cause of Arab food deficit.

M. F. Ghiles: I should like to support the opinion just expressed by Dr. R. Aliboni. This switching of resources or waste of resources is very pronounced in the case of Morocco where agricultors produce foodstuffs not consumed locally.

I noticed the absence of politics in our debate. In the three Maghreb countries, political factors constitute one of the many causes of the food deficit . For instance in Tunisia for political reasons most of the investment is concentrated in the North. For irrigation purpose water is brought from the in-land to the coast. This misallocation of investment has two baneful effects: it increases the production cost hence making domestic output less competitive and it decreases the productivity and therefore the production.

In Morocco the feudal system of land tenure is one of the basic obstacle to increased production. According to Moroccans officials, this system has not changed for the last two centuries around Fez. As long as such a situation prevails Moroccans would go to France to work in coal mines rather than stay and work their piece of land.

Morocco is very dependent on the EEC market for produces such as tomatoes. If the EEC decides to delay the imports of tomatoes, say from October 15th to November 15th as it did in 1973, the whole crop is lost because there is no storage facilities.

In Algeria we have a different story. After the independance (1962) much of the land which was owned by French " colons " was transformed into cooperatives . After 1965 these cooperatives were run on political grownds. The ultimate aim behind this system was to prove that socialism was the answer for everything. Fifteen years later around 50% of the land is abandoned or uncultivated. Obviously the system has not worked.

In Algeria the high degree of centralization coupled with rural exodus has emptied the countryside of its labour force. In this part of the World we seem to forget easily that the industrial revolution was financed with agricultural surpluses.

Dr. H. Yahaya: When we discuss the problems of economic integration we should differentiate between two things, first the role of Arab governments and second the role of Arab private capital which is, in turn, controlled by the government. Therefore Arab integration requires at least the coordination of the roles of Arab governments.

When it comes to agricultural sector rural exodus constitutes an important issue. We should try to calculate the minimum labour force necessary to manage the primary sector and which has to stay in the country-side. In the industrialized countries the figure varies between 3.9% to 6% of the labour force. It is obvious that our objective is to achieve food self-sufficiency; but we are going to do it through increased output or through increased productivity.

Dr. Ghanem Khaldi: I agree with Dr. H. Yahya these are important issues. In my opinion we should try to solve our food deficit through increased production and increased productivity that is through vertical and horizontal improvements.

Concerning the minimum labour force able to "work" the agricultural sector I must confess that the AEUC has not yet dealt with the issue.

I also agree with Dr. J. Anani when he said that economic decisions have been politicized. I believe that integration is the only guaranty to meet both the producer and consumer's need because integration means specialization means lower production cost on the producers' side and lower selling price on the consumers' side.

I support Dr. A. Guecioueur's recommendation concerning the storage system because we have an average total food deficit of 35% . However it is not the ideal solution.

Finally I should like to mention the lack of inter penetration of Arab agricultural markets. For instance Tunisia has a 36% surplus in olive oil but this surplus is not exported to other Arab countries. In 1980, for the first time, we saw Tunisian olive oil in the Jordanian market.

Dr. A. Guecioueur: I agree with Dr. A. Dajani as long as there is no political will nothing can be achieved . The best example one could cite is the Arab Common Market (ACM).

I would like to thanks both Dr. R. Aliboni and Mr. Francis Ghils for raising an important issue namely that in many Arab countries agricultural output is not meant to satisfy domestic demand.

CHAPTER TWO
INDUSTRY

*The Problems of Industrial Development
and Integration in the Arab World*

BY

*DR. A. GUECIOUEUR
Assistant Professor
Economics Department
Yarmouk University
Irbid, Jordan.*

INTRODUCTION

This paper contains two parts: industrialisation in individual Arab countries, and the problems and conditions of Arab industrial integration.

In the first part we consider the political and economic motivations behind the industrial drive in the Arab countries. We then assess the results achieved so far in terms of job creation and the secondary sector's contribution to the Gross Domestic Product (GDP). Finally, we consider the consequences of current individual or " go - alone " industrial policies.

In the second part of this paper we present, firstly, previous attempts at Arab industrial integration, including those at sub-regional levels, that is to say the Maghreb and the Mashrek. Finally, we propose a set of principles and conditions which constitutes a pre-requisite to any Arab industrial integration.

I. Industrialisation in Individual Arab Countries.

In this first part we shall consider the motivations behind industrialisation, evaluate the results achieved so far, and present the consequences.

Motivations Behind Industrialisation

As a matter of fact, there are different motivations for different countries, but one can distinguish between economic and political motivations.

The industrial sector is perceived as the main source of development because, in the past, its growth has been larger than that of any other sector. Agriculture has not been able to cope with mounting unemployment as a result of population explosion and economic inefficiency. The fact that agriculture has been neglected is forgotten. For the oil countries there is an extra motivation. Given the exhaustibility of oil and the quasi-inexistence of any agricultural potential, the exportation of goods and services appears to be the only future source of foreign exchange earnings. Of course, only industry can provide these goods and services.

The political motivations are common to all Third World countries. It is assumed that there is no political sovereignty without industrialisation. In our case, industrialisation has become an important element of Arab nationalism because it is thought that if a state is rapidly increasing its industrial power to a level comparable to those prevailing in western countries, it can demand equal treatment, is better able to strike a fair economic bargain, and claim a larger voice in international councils.⁽¹⁾ Unfortunately, the whole important concept of a New International Order has been based on such a philosophy. Furthermore, Arab countries saw industrialisation

(1) Keith McLachlan "Development Strategy - The Need to industrialise", Middle East Annual Review, World of Information, London, 1980, p.44.

as a choice between dilemmas and, more precisely, between the following options:

- Industrial versus agricultural development.
- Capital intensive versus labour intensive techniques.
- Import substitution versus export oriented policies.
- Large scale versus small scale plants.

They opted for a capital intensive, import substitution industrial strategy which, by definition, leads to large scale plants. This strategy was translated into investment policy, as shown by the following table.

Table no. 1 : Details of 9 Arab Countries' Development Plans.

Country	Period	Total Investment	Investment in Industry	Expected Annual Growth Rates		
				Ind.	Agr.	GDP
Egypt	1978-82	\$17.5bn.	\$4.43bn. ^a	6.7%	3.3%	8%
Iraq *	1976-80	\$33.8bn.	n.a.	32.9%	7.1%	16.8% ^d
Jordan	1981-85	\$9.240bn.	\$1.993bn.	17.0%	7.0%	10.4%
Oman	1976-80	\$9.14bn.	\$0.114bn. ^a	to double	n.a.	12.6% ^e
S. Arabia	76-80	\$142.0bn.	n.a.	14.0%	4.0%	10.2% ^e
Syria	1976-80	\$13.8bn.	\$4.57bn. ^b	15.4%	8.0%	12.0% ^f
Tunisia	1977-81	\$10.0bn.	\$2.26bn. ^c	4.4%	n.a.	7.5% ^f
YAR	1977-82	\$3.6bn.	\$0.940bn. ^c	11.0%	5.5%	8.2%
YPDR	1974-79	\$0.215bn.	\$0.07bn.	32.8%	10.8%	n.a.

- a = Industry & mining
b = Industry, mining & energy
c = Industry, mining & power
d = National income
e = GDP at market price
f = GDP in real terms

Source: Compiled from
Middle East Annual Review, op. cit., 1979, pp. 37-40
* Jordan Times, Amman, March 19-20, 1981, pp. 1-2

According to this table, in almost every case industry took the lion's share of total investment during the periods considered. Further development was based on industry, since the expected growth rate of the latter is well above those of agriculture and Gross Domestic Product (GDP). In Oman, for instance, the industrial growth rate was expected to double within four years.

The objectives of this marked industrial drive are manifold: structural change and diversification of production, diversification and increased employment, accumulative value added in order to achieve rapidly a higher per capita income, improvement of the balance of payments situation through import substitution, and, finally, improvement of the factors of production through modernisation, skill and efficiency.

Results achieved.

By now most of the above-mentioned development plans have been (time-wise) completed; therefore, one could try to assess the results achieved. This assessment could be made through the contribution of industry to the economies of Arab countries, as contained in the following table.

Table no.2 : Contribution of Industry to the Economies of 11 Arab Countries.

Items Countries	Average Annual Growth Rate (%) 1960-70	Contribution to GDP (%) 1977	% of Labour Force employed in Industry
Algeria	5.9	57	18
Egypt	5.2	30	26
Iraq	12.2	69	25
Jordan	9.9	23	39
Mauritania	2.1	37	5
Morocco	7.8	31	19
S. Arabia	13.9	83	14
Somalia	3.3	17	7
Syria	11.1	14	23
Tunisia	9.5	32	23
YAR	9.2	14	11

Source: World Development Indicators, The World Bank, June 1979.

Although tables (1) and (2) do not cover the same countries, and the same lapse of time, one can draw some conclusions. It appears that the contribution of the secondary sector to the GDP is high in Algeria (57%), Iraq (69%), and Saudi Arabia (83%). The reason is that the oil activity is counted as part of industry. From this angle the three figures are misleading. If this fact is considered one can safely conclude that, although since the 1960's Arab countries opted for an industry-based strategy, by the end of the 1970's the contribution of the industrial sector to the GDP is still modest.

Industrial drive does not seem to have solved the unemployment problem either, both in oil and non-oil countries. In Somalia no more than 7% of the labour force was employed in industry in 1977. The best case is Jordan where industry provided 39% of total job opportunities.

However, in most of the Arab countries there is a discrepancy between the secondary sector's share of total investment (Table no.1) and its contribution to GDP and employment opportunities. On the other hand one has to recognize that, if in the early 1960's only Egypt could boast of a relatively significant industrial sector, in the early 1980's Algeria, Iraq and Syria could be placed in this category. This, by no way, means that they have reached the long sought status of industrial powers or that the long-term development of their respective industrial sectors is assured. This statement applies to all Arab countries be they industrially oriented or not; since none of them fills the set of criteria posed by R.B. STRUCLIFFE⁽¹⁾ or the United Nations.

According to the former at least 25% of the national product should be derived from industrial output, 60% of which should be produced by factories (excluding primary mineral production and handicrafts) with no less than 10% of manpower in the so-defined industrial sector. The set of criteria used by the United Nations is as artificial as the former and more complex. The U.N. uses

R.B. STRUCLIFFE "Industry and Underdevelopment", published by Addison-Welsey, London, 1971, pp. 17-18.

complementary indicators such as energy consumption per capita, steel output per capita, cotton consumption by industry per capita, and transportation of goods per capita moved by railway. According to these indicators, Arab countries with "strong" industrial sectors (Egypt, Algeria, Iraq, Syria and even to a lesser extent Tunisia and Morocco) could, at best, be compared to leading industrial countries at the beginning of the 19th.⁽¹⁾ century. There is no doubt that the strong industrial emphasis on industry as an engine of development has produced few results so far.

However, what is interesting is to see how Arab countries view their limited industrial achievement. They present external and domestic causes. The roles of former colonial powers and MNC are always brought in. This gives another dimension to the problem, namely that industrialisation within individual countries cannot be separated from the wider issue of a New International Order. One is worried to see the Third World countries focus too much on this external cause, a behaviour which could become a pretext for avoiding local problems. As a matter of fact, the main internal cause is seen, by Arab countries, as the deficit in technicians and managers. This narrow evaluation prompted them to remedy the problem through massive importations of foreign skills, a phenomenon not without far-reaching economic and political side-effects. This somewhat unrealistic assessment has overshadowed more objective domestic causes such as factor endowment, which are summarized in the following table.

see following page

(1) cf. Appendix No. 1, p. 45.

Table no 3 : Resource Endowments in 20 Arab Countries

Country	Skilled Manpower	Steel	Capital	Market	Water ^a	Energy	Techn- ology	Infra- structure ^b
Algeria	0	X	X	X	0	X	0	0
Bahrain	0	0	X	0	0	X	0	X
Egypt	X	X	0	X	0	X	0	0
Iraq	0	X	X	X	X	X	0	0
Jordan	0	0	0	0	0	0	0	0
Kuwait	0	0	X	0	0	X	0	X
Lebanon	0	0	0	0	0	0	0	X
Libya	0	0	X	0	0	X	0	0
Mauritania	0	0	0	0	0	0	0	0
Morocco	X	X	0	X	X	X	0	0
Oman	0	0	X	0	0	X	0	0
Qatar	0	0	X	0	0	X	0	0
S. Arabia	0	0	X	0	0	X	0	0
Somalia	0	0	0	0	0	0	0	0
Sudan	X	0	0	X	X	X	0	0
Syria	0	X	0	0	0	X	0	0
Tunisia	0	X	0	0	0	X	0	0
U.A.E.	0	0	X	0	0	X	0	X
Y.A.R.	0	0	0	0	0	0	0	0
Y.P.D.R.	0	0	0	0	0	0	0	0

X = adequate
O = inadequate

a - for the water resources of 10 Arab countries cf. Appendix no. 3 p.97

b - Infrastructure: roads, railways projects, port & airport development, electric power projects & telecommunications, desalination plants.

We shall consider successively the 8 factors.

Manpower

This covers both skilled and unskilled labour. There is a deficit of skilled labour in every Arab country, but some record a surplus of unskilled manpower. This is the case of the North African countries. All in all one can say that Egypt, Algeria and Morocco have potential manpower enough to opt for an industry-based development. When it comes to the quality of manpower one hesitates to include any of them.

Another variable which depends on labour, usually called residual production factor, is productivity represented by R in the following growth function, $\Delta Y = f\Delta(K, L, R)$ and where K and L stand for capital and labour respectively.

The development of industry does not depend solely on the quantitative inputs K and L. The productivity of K and particularly L represents an important parameter. The contribution of residual R could be negligible, and therefore the economic development limited, as a result of factors such as: malinvestment, under-utilisation of production capacity (no more than 40% in some cases), large administration (bureaucracy), and inadequate education and training systems which lead to unemployment and brain-drain. As a matter of fact, " during the 1960's the increase in productivity contributed only 0.5 to 2% to average annual per capita growth of 4 to 5% in non-oil Arab countries. ^{2.1%}

Steel

According to the U.N., steel output and per capita consumption constitute an important indicator of industrialisation. Only 5 countries - Algeria, Egypt, Morocco, Syria and Tunisia - could be classified as having a relative steel industry. However, when it comes to per capita output and consumption, even these 5 countries lag far behind industrialised countries.

Capital

At regional level it is the second most readily available factor, but for those countries which are short of it, it does

(1) Arab Industrialisation and Economic Integration, edited by R. Aliboni, Croom Helm, London, 1979.

constitute a serious hindrance. The reason is that, as it can be seen later, most of the industrial supplies are imported. This, unfortunately applies to Egypt, Morocco, Tunisia and Syria which enjoy industrial potentials.

Market

As an important element of development, market was not considered when industrial strategies were drawn up. The utmost objective was to industrialise, i.e. to set up industrial plants. According to the Secretary General of OPEC, in a situation of world glut the subject for negotiations will not be whether to industrialise or not, but it will centre on the proper division of markets.⁽¹⁾ Some suggested that crude oil sales could be linked to industrial goods sales. This solution is workable provided that there is a structural or an artificial crude oil shortage. It becomes null and void when oil runs out. As a matter of fact, the export of industrial goods is seen as a replacement to the crude oil exports.

By world standards, only Egypt, with its 40m. inhabitants has a market large enough to permit the establishment of an industrial sector by absorbing industrial goods. However, by regional standards, Algeria, Morocco, Sudan and possibly Iraq, could be classified as having populations large enough to constitute an adequate market for domestic industrial output.... in the medium term only. However, if one focuses on effective rather than potential demand, different conclusions could be drawn.

Water

It is the second scarcest factor in the Arab World and, furthermore, is unevenly distributed. Sudan with its 281bn. m³ enjoys more than 49% of total water resources.⁽²⁾ By regional standards, Egypt, Algeria, Iraq and Morocco are well endowed. These countries

(1) Middle East Annual Review, op. cit. p.78.

(2) cf. Appendix no. 2 , p. 96.

along with Sudan, account for 81.35% of total Arab water resources.

This limited water supply is divided between industry, agriculture and daily use and, hence, has created several bottlenecks. In the industrial sector the water variable was ignored in more than one instance, and in some cases industrial plants were shut down. In Libya, Saudi Arabia, the U.A.E., Jordan, Lebanon and Kuwait, water resources have already been totally committed. Most of the other countries are on the verge of doing so. Only Sudan has large and uncommitted water resources.

Energy

This is the most readily available factor since all Arab countries, except Jordan, Lebanon, Somalia, Mauritania and the two Yemens, have either crude oil and natural gas or, in some cases, both. For some⁽¹⁾ Arab countries "missed" the industrial revolution because, amongst other factors, they did not have coal which represented the main source of energy in the early 19th. century. The current cheap and more importantly available source of energy does constitute an important asset which can, a priori, boost industrial development in the Arab World. Unfortunately in some cases it has been at the origin of waste as a result of project duplication particularly in the Gulf countries.

Technology

Not a single Arab country has, nor is it able to develop in the foreseeable future, domestic industrial technological capacities. Of course, not a single country in the world can produce all its stock of technology. One has to distinguish between technological interdependence, in the case of industrialised countries, and pure and simple dependence, in the case of the Third World which covers the Arab region. Hence the imports of industrial goods have been increasing both at local and industrial levels.

(1) La Communauté Européenne et le Monde Arabe, Europe Information Development, Commission of the E.E.C., 169/78, p. 5.

Infrastructure

The term covers transportation, telecommunications and communications, ports and airports. Another reason why Arab countries (or what is the Arab World now) did not materialise at the same time as western countries was the absence of an adequate transportation system (especially railways) coupled with limited demand and the scattering of markets.⁽¹⁾

In the early 1980's only Bahrain, Kuwait, the U.A.E. and Lebanon could be classified as having an adequate infrastructure. Unfortunately, these countries are the least endowed to create a leading industrial sector. However, a tremendous effort is being made in the field by every Arab country,⁽²⁾ but a regional approach seems to evolve. In the Maghreb one ought to mention the Transmaghreb which links Tunis with Rabat via Algiers. In the Mashrek the Hijazi railway project is underway. It will link Syria, Jordan and Saudi Arabia. One must mention that the project is not being affected by the Jordanian-Syrian political relations which are currently at their lowest ebb.

It appears clearly that purely on the ground of endowment factors, not a single Arab country could legitimately and logically claim to set up, on its own, an industry-based development. Individual Arab countries sacrificed agriculture in order to create leading industrial sectors. Over and above the already-mentioned objective domestic causes, their limited success is also partly due to the absence of competition, wage rates, harsh environment conditions and the policies of the non-Arab countries.

Industrial output is not competitive at local, regional and world levels. In Saudi Arabia a petrochemical project cost 30% more than in the industrialised countries. According to the Saudi Minister for Industry, the reasons are the shortage of manpower, the narrowness of the markets, the limited experience in the field of industry and inflation pressures. High wage rates contribute to pushing production costs even further. The only

(1) La Communauté Européenne et le Monde Arabe, op. cit., Ibid.

(2) For major projects in individual Arab countries (roads, railways, ports, airports, telecommunications, electric power, oil refineries, desalination plants, gas processing plants, chemical projects, fertilisers, metal projects) cf. Appendix No. 3, p 28.

offsetting factor is cheap energy and the question is how much and for how long?

The high labour turnover or "nomadism of manpower", tends to decrease quality and increase costs. Environment represents another limitation on domestic effort to industrialise. In the Gulf countries as well as in the south of the North African countries, an air-conditioning system is required in most plants. Industrial efforts are hindered because, in most cases, e.g. in Gulf countries, there is no tariff to protect the "infant industry". On the other hand, industrialised countries are protecting their own markets through quotas and tariffs.

Individual Arab countries are left with three options. The first is to go on joint ventures with Multinational Companies (MNC) which would shoulder the responsibility of finding markets or closing some of their own plants. One of the drawbacks of such an option is that it will impose limitations on technical choices by the country concerned. The second option is to search and develop markets in developing countries such as India and African countries. Finally, the last and best option is to have a regional approach, that is at the level of the Arab World. This is the only viable approach and before presenting it we shall consider some of the consequences of current industrial policies.

Consequences of Current Industrial Policies

Firstly, the industry-based development plans could not have been carried out without heavy imports of industrial goods, as shown in the following table.

see following page

Table no. 4 : Imports of Industrial Goods 1972-77
(% of total value)

Country	Industrial Supplies				Equipment			
	Primary Goods		Processed Goods		Capital Equipment		Parts	
	1972	1977	1972	1977	1972	1977	1972	1977
Algeria	2.4	2.2	33.3	29.1	24.6	29.5	3.6	3.4
Bahrain	0.6	0.7	17.8	29.5	9.4	18.0	4.1	2.4
Egypt	0.6	0.7	17.8	29.5	9.4	18.0	4.1	2.4
Iraq	7.9	5.4	35.8	31.1	10.5	17.7	1.9	2.6
Jordan ^a	2.1	1.5	38.7	36.1	19.8	17.2	1.5	1.4
Kuwait	3.7	2.2	22.6	26.1	8.2	11.8	0.9	1.7
Lebanon	1.0	0.8	23.0	21.8	11.8	17.1	1.8	1.0
Lybia	1.6	1.9	26.8	28.9	13.7	16.6	4.8	4.1
S. Arabia	1.8	1.4	20.7	29.8	16.8	23.1	2.6	3.4
Somalia ^a	3.8	10.7	28.5	25.1	12.2	10.7	1.1	4.8
Sudan ^a	0.3	0.4	36.0	37.4	10.4	14.7	1.4	0.9
Syria	2.5	1.9	36.4	29.0	14.0	22.4	0.9	2.9
Tunisia	5.2	4.8	27.3	30.6	17.2	20.7	2.7	2.5

Source: Yearbook of International Statistics, United Nations, 1978.

We distinguish between primary and processed goods, capital equipment and industrial parts.

In all 13 countries except Egypt, Libya and Sudan, and especially Somalia (from 3.8% to 10.7%), there is a slight decrease in the imports of primary industrial goods. The value of imported processed goods increased in Bahrain, Egypt, Kuwait, Libya, Saudi Arabia, Sudan and Tunisia.

The value of capital equipment as a percentage of total imports increased in all countries but Jordan, (for which the second figure is for 1975) and Somalia.

The evolution has been mixed concerning industrial parts with the largest increase recorded by Saudi Arabia: from 1.1% in 1977 to 4.8% in 1977.

This is the evolution percentage-wise but in absolute terms imports have increased in every single Arab country. This situation has worsened individual Arab countries' dependence on technology exporting countries such as the U.S.A., Canada, Japan and major western european countries. Unfortunately this handful of countries constitutes the main source of foodstuffs for individual Arab countries. This heavy reliance on foreign markets is not without political implications.

At country level, industrial drive has led to inequal development within individual countries. This unbalanced development is also noticeable at regional level because "industrialisation", that is the importation of industrial goods and stocks of technology, has been pronounced in countries which can afford it; that is, the oil countries. The best example is that, for the same period of time, \$142bn. were being spent in Saudi Arabia whose population is around 8 millions, and only \$17.5bn. in Egypt which has around 40 million inhabitants. This behaviour will lead to unequal growth between the various countries of the region and it will make it more difficult for them to integrate at a later stage.

At the beginning of the 1980's two factors seem to dampen the "industry phobia" of Arab countries, namely the side effects of industrialisation itself and the Iranian experience.

Concerning the first point, the case of Algeria, which has to be labelled as the "Japan of the Arab World" and the "Brazil of the Mediterranean", is typical. Révolution Africaine⁽¹⁾ recently wrote that: " the most elementary norms of social life have been upset. . Supply and distribution are disorganized, health structures cannot cope, transportation, schooling, housing, etc.....are interconnected puzzles which those responsible have to solve. All this has resulted from industrial policy, job creation and also miscalculations."^{k)} As a result of these difficulties the Algerian Authorities took one year to reflect (called une annee de pause) in order to evaluate their policy. Hence the current plan has been delayed for one year and focuses on light rather than heavy industry, with more attention being given to the basic needs of the population. Due to its deep industrial drive these problems could be more marked in Algeria than in other Arab countries. However, the difference is a matter of intensity not direction.

The second factor is that the Iranian experience is in the mind of every Arab policy maker. For most observers, industrialisation led to urbanisation which created a large proletariat which led to economic and social as well as political problems which were difficult to control and which combined to overthrow the Shah. If these " chain reactions " reproduce themselves in a country where the work force is mainly of foreign origins and where the local population is a minority, the results will be worse. This explanation of the Iranian experience is partly true.

The other more objective side of the explanation is that "the industrial base in Iran was shattered by shortages of physical and human resources created as the economy switched

(1) Revolution Africaine, cf. article " Un toit et quatre murs", 13/19 February 1981, pp. 14-15. Revolution Africaine is the official mouthpiece of the FLN. (Front de la Liberation Nationale)

from being one dedicated to production, to one maniacally concerned with consumption....the Iranian experience suggests clearly that few regional states can afford to overstretch their limited absorptive capacity for very long without inducing economic paralysis." (1)

In recent years Arab countries have come to realize that, for all the above-mentioned reasons, it is not within their capabilities to develop successfully a leading industrial sector solely within their own borders. Hence the "go-alone" approach has been slowly replaced by a regional one. They concluded that, "greater and more effective co-ordination, and, preferably, integration..... are a condition of a fully-fledged successful industrialisation." (2)

We propose to present the terms and conditions, as well as problems of such an integration in the following part of this article.

(1) Keith McLachlan, op. cit., pp. 46-47.

(2) Roberto Aliboni, op. cit., p.62.

II Problems and Conditions of Arab Industrial Integration

Since its inception (March 22, 1945), the League of Arab States' aim has been Arab economic unity. One has to assess what has been achieved so far in the industrial sector.

I - Previous Efforts at Global Arab Industrialisation

In 1964 the Council of Arab Economic Unity was established with the task of laying down the foundations of an Arab Economic Unity similar to that of the European Community as contained in the Treaty of Rome.

1964 also saw the creation of an Arab Common Market (A.C.M.) whose members are Jordan, Egypt, (whose membership was frozen as a result of the Camp David Accord) Syria, Sudan, the Yemen Arab Republic and Mauritania. Kuwait is a member of the Arab Economic Unity Council (A.E.U.C.) but it is not a member of the A.C.M., whose agreement was signed but never ratified by Morocco.

The Industrial Development Centre for Arab States (I.D.C.A.S.) was established in 1965 in Baghdad. Its purpose is to help implement Arab joint industrial ventures. In 1966 the A.C.M. organized in Kuwait a conference on Pan-Arab Industrial Growth. As a result of the concept of a New International Order (N.I.O.), that is from 1974/75 onwards, several seminars, conferences, etc. were held. They recognized that " obstacles and difficulties have to be overcome to bring about rapid Arab industrial integration which is essential to the future success of economic development in the Arab World."⁽¹⁾

It appears clearly that these attempts were prior to the so-called energy crisis. One can distinguish two experiences, in the Maghreb and in the Mashreq.

In 1964 the Comité Permanent Consultatif Maghrébin (CPCM)

(1) R. Aliboni, op. cit., p. 68.

was created. One of its agencies is the Centre d'Etudes Industrielles Maghrébin (Maghreb Centre for Industrial Studies). Its objective is to undertake studies, at project, sector, and sub-regional levels on industrial development. The CPCM cooperates with the Economic Commission for Africa (E.C.A.), the ONUDI and the PNUD. There was also another body called the Commission Maghrébine pour l'Industrie (Maghreb Commission for Industry). Maghreb cooperation in the industrial field had a good start, but unfortunately it is being frozen as a result of the Western Sahara issue.

On the other hand the Mashreq and, more precisely, the Gulf countries, started organizing itself at the sub-regional level from 1975/6 onwards. With its headquarters in Doha, the Gulf Organisation for Industrial Consultancy (GOIC) was established in February 1976. By the early 1980's it has created a computerized industrial data bank with a Socio-Economic Data Bank (SEDB), a Gulf Industries Data Bank (GIDB) and a Technological Data Bank (TDB).

The GOIC has exceeded its consultancy function and has already set up a 40,000 tonne per year aluminium rolling mill. Projects underway include a sheet-glass plant in Iraq, a petroleum coke plant in Abu Dhabi, and a study on standards and measures in the Arab World.

1981 saw the creation of the Cooperation Council for the Arab States of the Gulf known as the Gulf Cooperation Council (GCC). Its objective is to draw up "regulations covering the economy, finance, education, culture, social affairs, health, communications, information, passports and nationality, travel, transport, trade, customs, haulage, and legal and legislative affairs."⁽¹⁾

The GCC has a supreme Council (Heads of State), a body for resolving current and potential disputes, a Ministerial

(1) The Middle East, published by Magazines Ltd., London, no. 78, April 1981, p. 10.

Council (Foreign Affairs Ministers), and a Supreme Secretariat whose budget is equally shared by the member countries.

One of the positive aspects of the GCC is that the decisions, when endorsed by the Ministerial Council, become binding.

Some suggested that the exclusion (non-participation) of the two Yemens and Iraq will tend to limit the developmental scope of the GCC because current member countries do not enjoy any comparative advantage.

Another criticism raised is that the operation has been carried out outside the framework of the Arab League. As it has been shown in the first part of this study, truly regional attempts have more chance of success. In the following part we shall present the conditions and principles of such an integration.

2 - Conditions and Principles of Global Arab Industrial Integration.

Arab countries can opt for either of the two following possibilities.

Firstly, a global industrial approach which aims at cooperation not integration. Such an approach is limited in scope and does not make full use of existing regional potentials.

Secondly, a global industrial approach whose final purpose is a comprehensive Arab integration which goes beyond the industrial sector. We shall focus our opinion on the latter option.

Any such integration requires three sine qua non conditions. Individual Arab countries must integrate, first their own economies; a balanced social and economic development must be sought.

Second, integration requires the availability of data concerning individual economies. Therefore the establishment of an all-Arab data bank is a must before any serious attempt can be made. The GOIC has acquired valuable experience in the

field. As a matter of fact the Arab Economic Unity Council (Amman) and the Arab League Documentation Centre (Tunis) have already got in touch with the GOIC in order to establish similar data banks. Another option could be to expand the scope of the Industrial Data Bank of the GOIC in order to include all Arab countries.

The third prerequisite condition is that Arab countries should refrain from "nationalist" country level industrial strategies. Against this background the Arab World has two potential assets. Some suggest that an established industrial sector constitutes a pre-condition for any industrial integration; others maintain that its existence represents a hindrance. This difference of opinion could have far-reaching effects on industrialised countries (such as the E.E.C. members), but it is a non-issue in the Arab World where no single Arab country enjoys an industrial sector comparable to that of a "developed" country.

In every Arab country the public sector, i.e. the government, constitutes the driving force behind economic and social development. The structural similarity makes it, at first sight, easier to coordinate individual policies provided that there is identity in long term industrial philosophies. These philosophies must see industrial integration as part of a wider strategy aimed at comprehensive economic and social development. Such an objective cannot be attained without structural changes in the fields of agriculture, technology, finance and even culture.

Industrialisation itself must not be perceived as a set of dilemmas between light/heavy industry, import substitution/export oriented policies, labour/capital intensive techniques, and small/large plants. In our opinion the recommended option is a balanced, local as well as regional development. Such a strategy must be based on the following five principles.

- Coordination of investment policies.
- Priority must be given to joint industrial projects
- Equitable distribution of costs as well as advantages as a result of this integration

- Existence of regional institutions able to undertake, promote and supervise industrial restructuring and integration.
- Adequate timing of the projects

We propose to elaborate on these five basic principles.

1. Coordination of Arab Investment Policies.

First a common regional investment policy must be devised. This policy implies common investment choices both at inter-sectoral and intra-sectoral levels. The first must not only be limited to light/heavy industry. Intermediate industry, such as cement and fertilisers, must not be neglected.

At the second level several gains can be attained. Saving of capital and hard currencies which represents an important parameter in any long term policy, efficient use of labour. Both savings will increase the competitiveness of industrial goods by decreasing their production costs.

The harmonization of investment policies inevitably leads to the harmonization of choices of techniques. This could promote " technological exchanges" within the Arab World and the Third World countries. This harmonization process would be incomplete without harmonizing individual development plans. This implies that planning, as loose as it might be, must be introduced in countries where it does not yet exist. It is clear that there can be no integration without some constraints imposed upon some countries.

A common investment policy also leads to regional specialization. Given present levels of industrial development, specialization does not mean the writing off of some plants. On the other hand it is known that in some Arab countries some plants are running at low capacity, therefore any specialization on existing industries means a better use of current capacities. Its biggest advantage is that it avoids duplication and wastage. The new industries have to fit in to the broad specialization agreed upon by Arab countries, and which could be strengthened through the creation of joint ventures.

2 - Joint Industrial Projects.

The setting up of joint industrial plants must be prompted by the narrowness of individual markets. Up to now the tendency has been to establish competitive rather than complementary industries, a policy that obstructs further the already limited inter-Arab trade. The objective is the creation of a self-centred regional market based on a division of labour not imposed by outside. For this purpose joint projects must have an integrative effect. Steel, energy, car and mechanical construction are best suited for this function. The list is not limitative and due consideration must be given to intermediate industries. The Arab World must have a dynamic and a futuristic approach. It is not enough to set up only the industries which are lacking now. A long term perception is necessary. The Arab World should dare to engage in new industries (micro-processors, biotechnology, etc..) where there is no clear cut leadership at world level. Only under this condition can the Arab World break the vicious circle of dependence.

The advantages derived from industrial concentration depend on the type of industries. They are know as the scale-up factors represented by the following formula:

$$\left(\frac{I_i}{I_o} = \frac{C_i}{C_o} \right)^\gamma \quad \text{where}$$

I_i and I_o represent respectively the cost of installing the production capacities C_i and C_o .

γ is called the scale-up factor and it is always less than one. It is inversely proportional to the size of the industrial plants. The lower is the lower the unit production cost. In the car industry we have the following relation

Table no. 5 : Relation between annual output and unit production cost in the car industry

Annual output of cars	unit production cost index
300,000	100
100,000	120
50,000	148
25,000	188
12,500	280

Source: A. Brahimi, *Dimensions et Perspectives du Monde Arabe Economica, Paris, 1977.*

If we assume that the unit production cost index is 100 when 300,000 cars are produced yearly, this index increases to 280 when only 12,500 cars are produced every year. This means that industrial concentration increases the value added of every unit of investment; this, in turn, tends to increase economic growth.

Suppose,

$$\begin{aligned} r &= \text{production/capital ratio} = \frac{V A}{I} \\ c &= \text{coefficient of capital} \\ c &= \frac{1}{r} = \frac{I}{V A} \end{aligned}$$

I represents the annual investment required to produce V A (value added) in the same year.

In the absence of any regional integration, a higher I is required to produce the same V A; therefore the capital coefficient ($c = \frac{I}{V A}$) will be higher. This situation tends to affect economic growth.

Suppose that G stands for economic growth,

$$G = \frac{S (1 - M)}{c} \quad \text{where}$$

c = capital coefficient

S = rate of saving

M = coefficient of import

Therefore if S and M are constant, any increase in c will decrease the economic growth represented by G.

It is obvious that in some industries the economy of scale is beneficial. However, the benefits so derived, as well as the costs, must be equally distributed between the countries of the whole region.

3. Distribution of Costs and Advantages.

This is one of the most important issues which, if properly considered could cement further the integration. If not it will divide further already divided countries.

Several types of costs can be incurred as a result of an industrial integration. The first is the lost opportunities, by

some countries, to create some industrial plants. This means lost jobs and lost earnings.

The free circulation of goods between the member countries means less tax for some governments because some goods are less taxed and others are not taxed at all. As a result of these losses, local governments are inclined to impose heavier taxes on their citizens and their domestic activities.

Unfortunately these losses are felt in the short term and benefits require longer time horizons to materialize. For these reasons the advantages must not only be equally distributed, but the well-off countries must be prepared to make concessions to the poor countries. This situation has been properly understood by the E.E.C. countries which instituted a compensatory system. This is an important issue because small countries have felt sacrificed in regional institutions such as the Arab League. The latter is currently reviewing its status, and one hopes that such a grievance will be taken into consideration.

In the Arab World a simple and simple system must be devised, and here again the best remedy remains prevention. Member countries must be prevented from backing out of the integration by means of advantage-distributing instruments.

The first problem which arises is on which basis should the advantages be distributed? In this context the Arab World has to study carefully the set of criteria used by regional groupings such as the Comecon, the E.E.C., the Latin American and African countries, without forgetting its own specific conditions, means and objectives.

Usually the main criteria used are the national income, the distribution of industrial activities as a result of the integration itself, the lost fiscal revenues, the inter-regional trade, and the level of economic development in the member countries. The set to be used must not be rigid and should be able to take into consideration sudden and temporary changes. In our case clauses such as "the most favoured Arab countries" should be thought of.

The advantages can be distributed through regional financial institutions, trade preferences, and, more importantly, through an equitable distribution of industrial activities. This is very important with regard to the present concentration of the production of industrial goods in a handful of countries. As a matter of fact, 70% of industry is located in Egypt, Lebanon, Morocco and Algeria whose combined populations are just over 50% of the total Arab population. The distribution of costs and advantages implies the setting up of adequate regional institutions.

4. Adequate Regional Institutions.

Regional institutions represent not only the channels through which the benefits of integration are distributed but also the decision-making and taking bodies. Therefore a fair representation of small countries is of paramount importance. These institutions must be fairly geographically distributed. This will increase the sense of commitment on the part of the host countries.

Had the Arab League completed the current review of its status as well as of its affiliates, one could have elaborated more. However, whatever the findings of the study are, the Arab World should make use of its existing regional institutions in the industrial field - as well as in other fields, - and establish permanent coordination and consultation between them. Duplication has to be avoided by all means.

5. Timing of the Projects

Before launching any project, put forward either by an individual country or by a common institution, the local and regional conditions must be well studied. An ill-timed project has less chance of success. This is not specific to the Arab World. As a matter of fact, Professor Raymond BARRE (French Prime Minister) attributes current E.E.C. difficulties to outside interferences and powers.⁽¹⁾

(1) cf. Jordan Television, Channel Six, News in French, March 18, 1981, 7.00p.m.

CONCLUSIONS

During the last two decades or so, individual Arab countries based their economic and social development on their industrial sector at the expense of their primary sector. This, in itself, constitutes a strategic mistake.

For objective domestic reasons, that is to say factor endowments such as manpower, steel, market, water, energy, technology and existing infrastructure, and because of external causes such as the protectionist trade policies pursued by the industrialised countries, individual Arab countries cannot logically and legitimately hope to achieve an industry-based development on their own.

Several options remain open to them, the best being that of a global Arab integration, which goes beyond the industrial sector and embraces agriculture, finance, technology and planning. In order to achieve such a comprehensive integration, several principles and conditions must be respected and fulfilled. Beyond the political will, one ought to mention the coordination of investment policies with priority given to joint ventures, an equitable distribution of costs and benefits, the existence of adequate regional institutions, and the proper timing of each operation.

APPENDIX No. 1 - Energy Consumption and Gross Manufacturing
per capita in 16 Arab Countries.

Countries	Items	Energy consumption per capita* 1976	Gross manufacturing output per capita** 1976
Somalia		47	n.a.
Mauritania		102	n.a.
Sudan		143	n.a.
Egypt		437	n.a.
YPDR		324	n.a.
YAR		41	n.a.
Morocco		273	n.a.
Jordan		527	n.a.
Tunisia		456	n.a.
Syria		744	157
Algeria		729	100
Lebanon		533	n.a.
Iraq		727	n.a.
S. Arabia		1901	n.a.
Libya		1589	n.a.
Kuwait		9198	142
<hr/>			
W. Germany		5922	2430
Canada		9950	2366
U.S.A.		11557	n.a.
Average Ind. Countries		7079	n.a.

* Kilograms of coal equivalent

** In 1970 US dollars

Source: World Development Indicators, The World Bank, June 1979.

APPENDIX No. 2 - Water Resources for 16 Arab Countries

Country	basin milliard m ³	river milliard m ³	total milliard m ³	degree committed
Morocco	31	-	31	3
Algeria	45	-	45	3
Tunisia	7	-	7	3
Libya	21	-	21	4
Egypt	8	+65	73	3
Sudan	274	+7	281	1
S. Arabia	25	-	25	4
N. Yemen	7	-	7	2
S. Yemen	6	-	6	3
Oman	6	-	6	2
UAE	2	-	2	4
Jordan	3	-	3	4
Lebanon	2	-	2	4
Syria	9	+8	17	2
Iraq	15	+22	37	2
Kuwait	1	-	1	4
Total	462	102	574	

Degrees committed: 4 = very largely; 3 = largely; 2 = partially;
1 = considerable spare.

Source: MIDDLE EAST ANNUAL REVIEW 1979, World of Information,
Essex, U.K. , p 101.

APPENDIX No. 3 - Some Major Infrastructural Projects in some Arab Countries.

Country	Roads	Railway	Ports	Airports	Telecommunications	Electric Power	Desalination Plants	Oil*	Fert- ilisers**	Metals	Total
Algeria	1	3	3	1	4	4	4	10	5	5	40
Bahrain	3	-	2	2	1	3	2	1	-	3	17
Egypt	2	2	5	2	3	6	2	6	7	5	40
Iraq	5	6	4	3	2	7	1	11	5	5	49
Jordan	5	2	1	1	3	3	-	1	3	-	19
Kuwait	3	1	2	1	4	3	8	2	3	-	27
Libya	11	3	7	6	5	3	22	2	8	3	70
Morocco	1	1	3	2	1	3	-	1	3	1	16
Oman	5	-	1	1	1	3	2	2	-	1	16
S. Arabia	9	2	8	11	7	6	19	11	8	3	84
Sudan	7	2	2	3	3	4	1	-	2	2	26
Syria	5	2	3	-	5	2	-	3	2	1	23
Tunisia	1	3	3	-	-	3	-	2	3	2	17
UAE	3	1	8	5	6	5	16	11	2	4	61
YAR	2	-	2	4	3	2	-	-	-	-	13
YPDR	1	-	-	1	-	1	-	-	-	-	3
Total	64	28	54	43	48	58	77	63	51	35	521

* = Oil refineries and gas processing plants ** = Fertilisers and chemical projects

Source: compiled from the MIDDLE EAST ANNUAL REVIEW, op. cit., 1980, pp. 67-98.

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The Problems Of Industrial Development And Arab Economic
Integration

by
Professor Robert Aliboni,
Director
Institute of International Affairs
Rome
Italy.

THE PROBLEMS OF INDUSTRIAL DEVELOPMENT
AND
ARAB ECONOMIC INTEGRATION

I would like to make some remarks on the issue of industrial integration in the Arab Countries.

First of all, what is meant by industrial integration ?

There are 3 possible definitions:

1. The more traditional definition according to which industrial integration could be an increase in the relative share of industrial trade as compared with the share of other sectors. In other words the rate of industrial growth could be much more rapid than that of other sectors.

2. The increase in the relative specialisation of the countries concerned.

To a certain extent the first and second may overlap but if you consider that the rate of growth of the relative share remains constant as time passes then what may change is the relative specialisation. You can develop a sector following a customs union or an other form of integration. You can stop producing cars but you can produce more efficiently other manufactured goods, for instance , ships

In fact this is an important meaning of industrial integration.

3. A third proposition is that industrial integration is a way of developing the industrial sector in a country where this sector is underdeveloped or undeveloped. In other words this amounts to the increase in the relative share of the output in the GDP.

The first and second propositions are relevant as far as industrial integration is concerned among the industrialised or semi-industrialised countries. The third proposition is relevant to the countries which are trying to develop their industrial sectors, that is the developing countries.

At the beginning of the 1950's when the Europeans began the experience of integration within the European community it was thought that the relevant meaning of an economic integration was the increasing of trade and the relevant increase in the flow of trade. However, at a later stage it has become evident that the third proposition I mentioned is more relevant to the Third World countries.

In other words, it is important to use integration as a tool to create an industrial sector. This is the issue we have to tackle . As far as I know the Arab countries have entered into many forms, sometimes elaborate, of integration. It would be sufficient to refer to the Arab Common Market and to the C.A.E.U.. If we look at these treaties they are very elaborate and, on some occasions, they have been implemented as far as the dismantling of commercial trade duties are concerned. But as far as I know there is a sense of deception towards this Arab Common Market and the C.A.E.U. and the

integration in the Arab countries in general terms. I think it will be important, independent of whether we are talking of agricultural or industrial integration in general, it is important to say a couple of words about the factors to which this deception can be ascribed. In general we can identify three sets of factors which are very relevant to any flow of integration.

Firstly, we must consider the disparity in levels of economic development. The existence of this disparity is a very relevant factor, a very relevant obstacle to integration. Actually a group of countries with a very different set of indicators are very different in the degree to which they are trying to integrate themselves. The first factor is the factor of polarisation. By polarisation I mean that the economic activity and particularly the industrial activity will develop unevenly in the area concerned. I am mentioning this factor because Italy has gone through exactly the same experience, twice. First on the occasion of our independence when the northern developed part was merged with the southern undeveloped part of the country, and recently on the occasion of Italy's joining the E.E.C. which has created, and still is creating problems for Italy. This is very important and this is an obstacle not only from the general point of view, not because polarisation will become an economic issue, but because polarisation will create effects within the integrated area and for a long period. The governments which have the responsibility for the welfare of their people do not easily accept polarisation. This will create a tremendous obstacle to integration. As a consequence of polarisation, because of the disparity in the level of development the "infant industry" argument will be recalled and an inappropriate distribution of

costs and benefits will take place. This has been less evident in the E.E.C. But I think it has a very important effect and it was very evident in the case of the integration experience of the East African countries. In this case polarisation occurred as well as an unequal distribution of costs and benefits and has disrupted that experience of integration.

A second factor to consider is the structure of the Arab economies which are very uneven. We can identify very roughly four groupings. Firstly, the group of countries which are at the early stage of development such as Sudan.

Secondly, we have countries with a certain degree of industrialisation, but still relying on primary products, such as Morocco, Egypt.

Thirdly, the petroleum exporting countries relying on a specific primary product, and fourthly the countries with relatively diversified economies such as Lebanon and Tunisia. If we look at these groupings we discover that there are some cases of competitiveness. As for complementarity the groups of countries with diversified economies is complementary to all the other groups. As for competitiveness the group of countries with a diversified economy may compete with those which are developing industrial sectors and, in this case, it will be difficult to reach an agreement on integration because normally the sectors involved are very competitive. A case of competitiveness which is less clear but very important is the case of the petroleum exporting countries which are trying to develop the oil chain, refining, fertilisers, chemicals, and so on.

All this capacity which is being installed in these countries will become competitive. This is proved by the fact that

problems are arising with Europe regarding exports as a consequence of this capacity.

A third factor is diversity in economic policies .

Here again we have a very uneven picture with countries running very liberal monetary and foreign exchange policies and other countries having very heavy number of restrictions and restrictive attitudes. Jordan, for instance, is relatively liberal.

The presence of large public sectors in many Arab countries may be another obstacle in this framework. So I think that, as a conclusion to this first examination of the existing level of economic development, I should agree that this is not very appropriate to start an economic integration process because what is at stake in an integration process is the fact that you are not yet able to decide about what is to be produced and what it is to be produced for. A country like Algeria is a country where the ruling class is exactly deciding what is to be produced and what it is produced for or what are the ends of the production. But I think that Algeria is case in point to state that integration will become more and more difficult.

The decision to become integrated with another group of countries is a decision necessarily linked to the fact that you must leave some decisions to the market. You cannot agree with the decisions of the market but in an integration process undertaken in a free environment you must leave some decisions to the market.

The problem is; *can* an industrial integration be useful from the point of view of development? *Because* what is *underlying* your question is that what we are producing and why we are producing it constitute the heart of the problems of economic and social development.

My question is, can an industrial integration process constitute a strategy of economic development. We can give either a positive or a negative answer because it depends on the general conditions of the integration itself. In the Arab countries I think that the enlargement of the market is not indifferent vis-à-vis the problems of development.

There are some complementary factors which can work only in an enlarged market. Let us take the case of oil which constitutes an important complementary factor. But for the time being it works only in the sense of an international integration. Saudi Arabia is internationally integrated. Can Saudi Arabia become a factor of Arab regional integration. I think so, provided that an agreement is made, whereby oil is processed into fertilizers for Sudan, into Semi-finished fertilizers for Syria or Egypt. This is the sense of industrial integration in the Arab World, and in this sense it is true that the Arab World has some factors which are missing in the European integration process. I would say that some natural endowment factors of integration are present in the case of the Arab World.

There is a set of roughly complementary factors like manpower, oil and agriculture and these may be crucial. These factors, if properly utilised, are crucial for industrial integration in particular, and for the economic and social integration of the Arab countries in general.

Dr. R. Aliboni

D I S C U S S I O N

Dr. A. Al-Maliki

I should like to congratulate the organizer of the Symposium for linking the problem of industrial development in individual Arab Countries to the issue of industrial integration at the Arab World level. In recent years so many light and heavy industries were established in almost every AC of especially the oil exporting ones therefore the success of any industrial policy in a given AC seems to be based on the failure of the neighbouring countries. Therefore in order to avoid further duplication a coordination is a must. This coordination has to be seen as the first step towards Arab industrial integration. At this higher stage political play an important role because contrary to other regions of the world, in the Arab World(AW) economic decisions are based on political decisions. I must add that political differences between AC are not as deep as those of the European countries. Despite this, the success of all Arab bilateral and multilateral attempts to integrate, has been limited please note, I did not say they failed because some Arab companies in the industrial sector as well as in other sectors, have been created but unfortunately they have not been mentioned by neither of the speakers.

Dr. A. Guecioueur

I agree with you many multilateral companies have been set up. I did not want to cite them because another speaker, Dr. F. Kaddouri General Secretary of the Arab Economic Unity Council, will be doing it when he presents his paper. Up to now the effort of the AEUC has led to the creation of the following companies:

- Arab Mining Company located in Amman Jordan and with KD.120/- Millions. Fifteen Arab Countries are members, since its creation in 1974.
- Arab Company for Natural Resources, created by 12 Arab Countries in 1974, with headquarters in Damascus. Its capital amounts to

.../...

KD. 60 Millions..

- Arab Company for Pharmaceutical Products and Medical Requirements located in Amman and has a capital of KD. 60 Millions divided between its (15) members It was created in 1976.
- Arab Company for Industrial Investments. It is located in Baghdad (Iraq), has 7 members and a capital of Iraqi Dinars 150, Millions. It was established in 1976.

On top of these Companies I should add that the AEUC created several Arab Unions which I shall briefly mention:

- The Iron and Steel Arab Union.
- Arab Union of Textile Industries .
- Arab Union of Chemical Fertilizers Producers.
- Arab Union of Engineering Industries.
- Arab Union of Fish Industries.
- Arab Ports Union.
- Arab Union of Food Industries.
- Arab Union of Cement and Construction materials.
- Arab Union of Paper Industries.
- Arab Union of Sugar Industries.
- Arab Union of Road Transport.
- and finally Arab Railways Union.

In my mind the sectors involved and the geographical distribution of these companies and Unions Constitute a serious starting point or foundation for future Arab integration .

Dr. Siva Ram Vemuri

The problem of development and integration is a structural problem. In terms of disparities in the structural sense , every country of the AW as well as all Countries of the world are at a specific level of development in the time process of development. My question which is directed to Prof. Roberto Aliboni is the following. If any integration is possible either industrial level or at the global level then the mix of industrialization or the mix of integration will face a normative or a normalization problem in terms of saying

.../...

whether all the AC should agree towards a normalization not only in the political field but also in terms economic, social and time process of development. I see strong linkage effects between the AC. These linkage effects are not just constrained to the spacial dimension but they are also constrained to the time dimension of growth and development. I ask you whether structural differences in terms of both space and time would hinder the integration process of the Arab World ?

Prof- Roberto Aliboni.

We cannot consider the issues of economic integration in the AW if we avoid to consider to dynamic aspects of integration and this is the point you are making.

In the first part of my paper I considered the static aspects of an integration process and I try to show the obstades in terms of polarization, income disparities etc.... of course what is important in an integration process is to foresee and to accept the dynamic aspects which will come out of this integration process. The process of integration, especially when there is uneven industrial "non-development" or underdevelopment, means pushing outward the production possibilities frontier. This is an important element in the process of integration from the industrial point of view in the AW. Pushing the production possibilities were outwards does not mean we avoid obstades such as polarization effect and political disortion of the process itself or that we can do without harmonization policies. I can even add that if at the beginning of an integration process the parties are convinced of the long term gains in dynamic terms, this acceptance is crucial to the launching and success of the process itself. This consideration, this perspective has been very important in the case of the E.E.C.. Consequently France was able to gain in agricultural terms while the Federal Republic of Germany gained in industrial terms. This is very simple but also sensible kind of bases for starting an integration process. I do not know if this kind of dealing will be possible amongst the Arab countries. When I mentioned the complementary issue between AC, I was trying to set first basis for this type of analysis. In my mind what is important is that the countries concerned are

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convinced of long term specific gains, and this is the dynamic aspect of integration. This could happen through the enlargement of the market which will make it possible for the economies concerned to use more efficiently their resources.

I am convinced that, in general terms, this is feasible in the AW and particularly as far as the industrial sector is concerned. The most important obstacle to industrial integration is the risk of polarization. In political terms it means that a persistent polarization will disrupt any agreement between the A.C. this risk can be avoided or at least minimized by taking the following three precautionary steps.

FIRST:

One can identify those areas of economic activity which are likely to be most promising in terms of the ultimate goal of integration. The agreement and the capacity to identify those areas constitute a major step forward. The enlargement of the market will allow Arab Countries to move from traditional industries to non-traditional industries, from textiles to chemicals.

At first it was not very clear in the case of the E.E.C. which focused on technologies and innovation to find out that the industrial degree or the industrialization of the European Countries was already achieved. We were wrong. In the case of the A.W. the enlargement of the market constitutes a crucial factor in the industrial integration process. I would like to say that an analysis of the trade figures shows that A.C. made a progress as far as the relative share of industrial sector is concerned. In other words the A.W. is more industrially integrated than 10 years ago. However in absolute terms this share is still negligible since the bulk of industrial requirements is still imported.

Traditional industries may combine to be large but this is meaningless in terms of industrial development and integration. What is meaningful is the process of shifting from traditional to non-traditional industries and this could be achieved only through integration.

.../...

SECOND:

Traditional industrial activities should not be hindered as a result of industrial integration which, we said, means modernization. In order to avoid the disappearance of those activities as in the case of the EEC appropriate policies must be devised and implemented.

THIRD:

The structure and capacity of the existing industrial sector should be used as a foundation of industrial development and integration. One of the feature of this sector is that it is, Currently, largely under-utilized. The enlargement of the market will allow full utilization of existing capacity.

Prof. A. Harik.

The first topic dealt with the agricultural sector and the second one deals with the industrial sector. I think now we reached the point where we can consider the problem of economic development in an integrated way. The two sectors can be linked through the agri-business activities. In most Arab Countries agricultural activities are non-mechanized, non-institutionalized, non-service oriented and to a large extent self-financing. In other words the fellah(Arab Farmer) is basically an independant operating unit with no interaction with the rest of the economy including the Industrial sector.

In both papers Dr. A. Guecioueur suggests to emphasize agriculture and de-emphasize industry. I think it is not possible unless you stress a certain type of industry directed towards the services of agriculture or the productivity of the agricultural sector in an integrated way. Only under this condition can we solve the problems of deficiency of the primary sector.

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Dr. Ghanem Al-Khaldi.

In my paper on the agricultural sector I called for an agricultural specialization in terms of crops and between the AC. At regional level we can link Agricultural and industry as follows:

Sudan has land and water but lacks capital, skilled and unskilled manpower. Some Oil Countries have the necessary funds but lack water and cultivable land. Finally a third group of countries such as Egypt, Morocco and even Algeria have manpower. Therefore I can only but agree with Prof. A. Harik when he suggests to link the primary and Secondary sectors. For instance the industrial sector can produce natural fertilizers (in Jordan and Morocco), chemical fertilizers (in Oil Countries) and equipment (Algeria, Syria and Egypt) for the agricultural sectors of Sudan, Jordan, Tunisia, Morocco etc.... This linkage will allow both a horizontal and a vertical expansion of the primary sector.

Prof. Umar Kazi.

I would like to comment on the enlargement of the market suggested by Prof. R. Aliboni. He is reasoning within the Classical School which assumes that supply creates its own demand. This is not valid even in developed countries where supply did not create its own demand, and I do not see how it could be applied to developing countries. If you remove the supply constraint, produce more goods and services but a few people are becoming rich and if there is no equity in distribution it follows that the demand is constrained and the size of the market remains limited. In this scenario growth is disproportional and therefore the next supply will not come. Unless you establish certain links between supply and demand you cannot create growth or development. On the other hand economists have already established an inverse relationship between growth and equity: the higher the growth, the lower the equity and vice-versa. One has to establish a certain proportion in equity, and here comes the participation of people in growth. They are participating in the sense that their income is rising, their demand for goods is rising therefore growth is taking place at the same time. This is a very difficult issue to tackle unless you establish proportionality between the agricultural and industrial sectors. I would like also to comment on the issue of capital mobility you raised. Your analysis is superstructural, it does

not deal with the inside structure of the production mechanism. For instance capital can move like electricity but it may decrease in size. It may not reproduce or reproduce enough to have more investment. In my mind capital must grow not only to reproduce itself but also in order to guaranty the profitability of investment. This mobility is a necessary condition but not a sufficient one. Participation might not be taking place that is the interaction between technology (imported) and people. This means that development is not endogenous but exogenous and if this the case we have integration problems. How could we integrate two extroverted industrial sectors? Finally I would like to comment on the issue that agriculture must be a leading sector. It is an important point with some relevance to the integration of the industrial sector. If you can extract enough surplus to be invested in the secondary sector you could have a proportional development. If on the other hand you give priority to the industrial sector in which capital does not regenerate itself you ultimately end up with economic, social and political problems. In my mind the size of the market, equity and growth are inter-related crucial factors which condition economic integration. The fundamental question is not how we should produce but we are producing for what, and unless we answer this question we will get nowhere.

DR. A. Guecioueur

I do agree with both comments when it comes to linking agriculture to industry. This is the basis of the concept of balanced development which I advocated in both papers. I can even add it increases the equity mentioned by Prof. U. Kazi. The question is whether such a policy has been applied by the so-called relatively more industrial Arab Countries such as Iraq and Algeria. I will take the example of Algeria which I know best. In Algeria industrialization has meant the creation of small industrial spots, areas or zones. This is the result of the concept of "Industries industrialisantes" put forward by Prof. G. De Bernis, one of the architects of the first and second Algerian four-year plans. These spots are Arzew, Annaba and Skikda all situated on the coast. According to G. De Bernis these zones will constitute the engine of industrialization of Algeria since small complementary industries will be aggregated to them. Ten years have elapsed not such a processus

occured. These zones remain "foreign enclaves" dependant on outside both in terms of inputs and outputs. There is no "passerelles " or bridges between the primary and secondary sectors. In my mind the large effort we have to make in order to decrease the Arab World's food dependency, requires a back-up from the industrial sector. These links between the two sectors have to be made not only at country level but also at the Arab world level. These links could materialize through agribusiness but here again one has to be careful. The experience of Iran is very telling since the agri-business applied occured at the expense of a large part of the population. It was not followed by equity therefore it led to the well publicized social, political and economic upheavals.

Prof. A. Badran.

Dr. A. Guecioueur is right concerning the danger of an exogenous industrial development. The solution is to endogenously integrate a " technological agriculture" to industry, this means opting for a vertical development of the primary sector. It is what Jordan is trying to achieve in the Jordan Valley with the use of drip irrigation and other sophisticated equipments which, in the future, should be provided by Arab industry.

Dr. Adib Haddad.

I would like to go back to Prof. R. Aliboni who suggested that the public sector is an obstacle to Arab economic integration. I would like him to elaborate on this issue.

Prof. A. Harik.

I have not intention of stealing the show but, with the permission of Prof. R. Aliboni I would like to answer Dr. A. Haddad who seems to assume that the only Arab economic development is taking place both at country and regional levels is through government activity. This is not true. The bulk of the effort has come from the private sector which has been able to do it in an integrated way. If you cross borders within the economic structure, you will find out that every successful joint venture operation is basically a private initiative. Most of the economic activity that has taken place in the Arab East during the last

ten years is not the result of government programme but it is the result of small businessman. Let us not ~~over~~-emphasize government policies and the political issue. The common song has been politically speaking , we are different therefore we will not develop. This is not true we are developing in spite of the political problems we are facing. Such a behaviour has led us to explain the issue rather than confront it. Inconsciously we use the political stick against ourselves by saying politically speaking we cannot do it and that is why it is not being done.

Dr. Bichara Khadher.

I would like to present some issues and I am not expecting automatic answers I just hope that one the symposium ends some of us will try to tackle them. These issues are:

- What are the social forces that have interest in accelerating industrialization in the A.W.?
- What are the industrialization priorities and what are the technological choices available for each industry?
- What are our present and future markets of our outputs, in terms of absorption capacity and expected competition?

One can be more precise and, for instance, take the example of petrochemical industries. In this case we should study the following issues.

- What is the nature of the deciding authority that took the decision to develop this industry?
- What are the main contributing companies to the expansion of the sub-sector? Government companies? Domestic companies? Mixed companies? Or foreign companies?
- What type of technology is being used? Capital intensive or labour-intensive?
- What are the consuming markets and their characteristics?

In my mind we should tackle all these issues, and many more, in the framework of the international division of labour.

.../...

- Finally we should try to see if the industrial sector is trying to satisfy the needs of the agricultural sector.

Prof. Roberto Aliboni.

I do not have the pretention to answer all the issues that have been raised by previous speakers. I will do my best to answer only some of them.

I start with the issue of what we are producing and what we are producing for. I agree with the proposition itself but I am afraid this is not very appropriate to start an integration process with. The reason is that in any integration process we are not in a position to decide in advance what we are producing and what we are producing for. A country like Algeria is a country where the policy-makers are deciding what to produce and what are the ends of production. I think integration is more difficult in this case. The decision to be integrated to another group of country is necessarily linked with the fact that you must leave some decisions to the market, although if you do not agree totally with a market mechanism. Another issue raised is whether integration constitutes a strategy of economic and social development. We cannot always give a positive or a negative answer since all depends on the general conditions of the countries concerned and of the integration process itself. In the case of the Arab countries the enlargement of the market, which results from integration, is not indifferent vis-à-vis the problems of economic and social development. There are some complementary factor which can work only in a larger market.

Let us take the case of oil which is an important complementary factor which, for the time being work only in the sense of an international integration. For instance Saudi Arabia is internationally integrated. Can Saudi Arabia become a factor of Arab integration? I do think she can provided an agreement is made whereby oil is processed into fertilizers for Sudan and into semi-finished products for the textile industry in Egypt and Syria. This is the sense of industrial integration in the Arab World. And in this sense the Arab Countries have some factors which are missing in the European integration process. The Arab World enjoys some natural complementary in terms of factors of production which have been highlighted by Dr. A. Guecioueur's paper. These factors are manpower, labour, water, finance and markets. These factors are very crucial for the industrial and global integration of the Arab World.

CHAPTER THREE

FINANCE

FINANCIAL INTEGRATION IN THE ARAB
EAST: PROBLEMS AND PROSPECTS

By

Antun F. Harik, Ph.D

Professor of Finance and Banking
The American University of Beirut

Professor of Business Studies
Beirut University College

Introduction

The establishment of financial structures institutions through which actual regional financial transactions are conducted provides the catalyst for the development of regional financial markets. Consequently it is our opinion that development of national financial institutions in the countries of the Arab East is an essential prerequisite to the creation of regional financial institutions which may some day, through successful operations over time, lead to regional financial integration. This process can be defined as the evolution of financial institutions whose competence transcends national boundaries and whose services include a search for cooperative solutions to certain common financial problems which face countries of the Arab East. Such institutions would eventually provide increased opportunities for the sharing of research and technical advances and enhance planning for the optimum use of existing national and regional capital resources and the development of others. Regional financial integration is therefore viewed not as an end in itself, but as a means of achieving a more satisfactory level and rate of development within member states and on a regional basis through increasing cooperation.

As noted above, the necessary first step to regional integration begins with development of financial institutions at the national level. These institutions would function in environments conducive to the application of their intermediary role whether within the country of operation or across the national borders of the Arab East.

The problem considered by this study is how existing Arab financial institutions can be encouraged to expand their national financial intermediary role to a role at the regional level.

It will be useful to ascertain what the experience of Arab financial institutions has been in this regard, and also to consider what is and should be the role of Arab governments in support of a regional financial market in the Arab East.

A. The Institutional Framework

From the outset it should be understood that financial markets spring from practical aspects and developments of the financial environment rather than from the abstract designs and programs of governments or international organizations. More specifically for the Arab East, financial integration in our view, requires first and foremost, the association of existing financial markets at whatever level of development they may be, to serve the purposes of improved financial services irrespective of political contradictions that may exist in the region. Promoting financial integration therefore means finding formulas that are practical and acceptable to the participants in financial markets. In simple economic terms, it is the suppliers and users of capital funds that will have to assess the practicability of the financial services provided by emerging regional financial markets.

for only by providing efficient and competitive financial services can the present financial centers in the Arab East evolve into a regional financial environment.

What are the features of a regional financial market? ¹ In our view, a regional financial market for the Arab East transcends political boundaries, physical locations and legal limitations. This market allows unofficial participation and association in its functioning individual and institutional economic units. Such behavior is motivated by the financial efficiency of services rendered and the economic advantages of the financial instruments offered compared to others available in competing financial centers. Consequently, it is not necessary to integrate the organized markets of the Arab East legally or formally to enhance regional financial integration for strengthening the legal and formal ties between the various financial centers does not necessarily improve the quality of the financial services in these centers. The experience of formalized cooperative efforts on the part of the Arab League indicates that such official attempts whether in the economic, political or military sectors were not as encouraging as had been hoped, whereas informal association between nationals of various Arab countries in all sectors have met with considerable success. This has been especially true in the economic realm as evidenced by the strong ties that have emerged between business communities of the various Arab countries.

These links have enabled a miraculous economic growth in the Gulf region during the last ten years, and encouraged substantial successes in Jordan, Iraq and Syria as well as the continued existence of Lebanon as one of the major financial centers in the Arab East.

In this "functional" approach to the promotion of regional integration it is felt that the strength and capabilities of the Arab businessman and investor provide the impetus to development. Thus, focusing financial services on a regional level to respond to the financial requirements of this dynamic individual generates a need for and the development of regional financial markets.

To date, the services of the various financial centers in the Arab East have limited their scope to answering local demands for funds and financial services.² This has been the experience of the financial markets of Jordan, Saudi Arabia and Kuwait. On the other hand, financial centers such as Lebanon's and Bahrain's have acted as a conduit of funds for the international financial markets more than servicing either regional or local financial needs.

The local activity of financial institutions and individuals allows for a limited efficient use of the investment capital available. From an intermediation standpoint, limited participation in capital accumulation and limited availability of financial instruments for investment purposes result in reduced efficiency of capital available in the market, which reduces capital mobility and flexibility. On the other hand, the mainly

the mainly international role of Lebanese financial institutions and those of Bahrain drains the local and regional environment of the investment capital necessary for funding the expanding economic base of the region.

B. Recent Developments

Developments in the financial markets of the Arab East during the last ten years indicate a strong trend towards the creation of new financial services and programs directed at meeting the economic demands of the region . But in general, these services were to a large extent created by the public sector with minimal coordination with privately-owned financial institutions. In this regards, funds, banks and development organizations were organized and capitalized by various countries in the region with little if any participation by the private sector in the organizations or administrations of these newly created units.

This trend towards the setting up of new funding organizations became much more pronounced after the oil price increase of 1973¹, which, as we all know, resulted in the accumulation of financial resources on a tremendous scale (by previous Arab standards) by the Arab petroleum exporting countries. Their good fortune seemed to bring about a change in thinking regarding the priorities of regional cooperation and a moral commitment to the reduction of disparities between the countries of the region. The establishment of development finance institutions, the formation of supporting institutions and legislation aimed at promoting the investment of Arab capital within the region soon followed² and the systematic identification and preparation of regional projects as well as the providing

of technical assistance for identifying investment opportunities at the national level began. Today it can justly be said that cooperation in the field of finance is a major area of regional interest and concern that has translated itself into the establishment of several types of institutions. For convenience sake, these can be placed under three main headings -- multi-national, national and private financial institutions.³

1. Multi-national Institutions:

The institutions created by the Arab League and the Council of Arab Economic Unity to operate on a regional basis, such as the Arab Fund for Economic and Social Development and the Organization of Arab Petroleum Exporting Countries "Special Account to Ease the Financial Burdens of the Arab Petroleum Importing Countries" are important examples of multi-national institutions which make available development aid in impressive amounts. The Arab Fund encourages private investments as well as emphasizing the development of joint ventures. The Arab Authority for Agricultural Investment and Development was a result of the Arab Fund's equity financing and its first project, the Basic Program for Agricultural Development in the Sudan is under the financial supervision of the Fund. OAPEC's "Special Account" was begun as emergency aid to the poorest countries of the region and offered interest-free loans with a 20-year maturity and 10-year grace period. The OPEC "Special Fund" established in 1976 functions in a similar manner but on a larger scale.

Another important institution is the Arab Monetary Fund created in 1977 whose goals are expanding intra-regional trade and furthering the economic development of member countries. The Islamic Development Bank (1974) should also be mentioned as it provides a host of services such as equity financing, lending to private and public sector development projects and providing technical assistance and feasibility studies to all Islamic countries.

Multi-national investment companies ⁴ such as the Arab Investment Company, the Arab Bank for Investment and Foreign Trade and the Arab Petroleum Investment Company, were established to promote the investment of Arab Capital in the economic development of countries in the region by carrying out projects in the agricultural, industrial, commercial and services sectors. Other institutions of multi-national ownership are the Bahrain-Kuwaiti Bank, the Omani-Bahraini Bank and the Arab Company for Investment and Growth. These institutions provide services similar to those of the other multinational investment companies mentioned above.

2. National Financial Institutions:

The Kuwait Fund for Arab Economic Development established in 1961, is the oldest institution in the Arab East providing development finance. It was followed in the seventies by a rash of similar initiatives by other petroleum exporting countries who set up the Abu Dhabi Fund for Arab Economic Development,

The Iraqi fund for External Development and the Saudi Fund for Development. The goals of these organizations are , as their names imply, to promote development and economic cooperation through the extension of long and medium-term loans.

An innovative instrument for facilitating intra- regional capital flows is the Inter-Arab Investment Guarantee Corporation. It was established in 1975 as an off-shoot of the Kuwait Fund to fill the need felt by petroleum exporting countries for protection against a variety of non-commercial risks in capital deficit countries of the region.

3. Private Institutions;

The initiatives emanating from the private sector of the countries of the region are numerous and vary in size and significance. One characteristic common to all of them is that they emerge from the bottom of the economic superstructure of the countries in the region in contrast to the other institutions referred to above which were organized at the top of the political structure of the countries concerned . The leading role in this area was played by the various local and regional commercial banks which are either Arab-owned or have a majority or minority Arab ownership.

These financial institutions had to respond to the increased demand for financial services which resulted from the economic expansion witnessed by the region. While we can ascertain that their commercial banking operations and services did rise to the challenge of the occasion, it is not certain whether they also were able to promote and / or encourage a regional role for these financial services .

Only a few institutions operate actively on a regional basis in the Arab East, and only one of them, the Arab Bank, with headquarters in Jordan , has truly taken on a leadership role in providing regional financial services. The role of the Arab Bank at present is evidenced by the asset portfolio management of the Bank on a regional basis rather on the classic national basis common to all other Arab Financial institutions. This was made possible by the strong competitive position of the "off-shore unit" of the Arab Bank in Bahrain in terms of size, maturity and nationality of the deposits it is able to attract.⁵ This coupled with the expertise of the management of the Bahrain unit enabled the Arab Bank to assume a regional assets management policy that is balanced by a portfolio mix of its liabilities. Simply stated, the bank attempts to lend funds on a regional basis in the currencies of the countries of the region in a manner that balances the deposits in currencies of the region channelled to its "off-shore Unit" in Bahrain.

Another financial institution that has played and continues to play a leading role in regional financial development is the Arab Company for Trading Securities (ACTS). ACTS is a Kuwait-based privately-owned finance house that provides the type of financial services needed by all financial centers of the Arab East region. ACTS is basically a market-making financial institution with a present capacity for spot transactions and ^{*}Tranch Accounts. This institution also provides brokerage and investment services to many private customers and institutions within and outside of Kuwait.

ACTS' experience as the only market-making institution in the Arab East region should be studied in depth.⁶ From such a study a clearer picture of the problems facing the regional financial operations of the many institutions that have emerged during the last decade will be forthcoming. But for purposes of our discussion, one such experience is revealing. In an attempt to provide greater depth for and breadth in the financial services offered, ACTS management in consultation with officials of the Jordan Financial Market (JFM) arranged to provide over-the-counter listing and trading services for interested securities that are presently listed on the JFM. This kind of an association with JFM securities was found to be workable within Jordanian and Kuwaiti law⁷ and within the rules and regulations of JFM and ACTS.

* In KD bonds and KD certificates of Deposits

While all arrangements in principle were finalized, to date not one transaction has taken place. A review of this experience with ACTS management reveals that many practical factors worked against the start of such an association between ACTS and JFM of which list a few of the more important ones;

1. Investors in JFM-listed stocks are hesitant to trade through ACTS because of limitations and delays on the transfer of stock certificates in Jordanian companies.
2. The number of interested investors in Jordan-based companies is very small, and very little information is available to the public about these companies that would generate broader public interest outside Jordan.
3. There exists a substantial communication problem between Jordan and Kuwait. While ACTS is capable of quoting Up-to-the-minute-prices for securities traded in Hong Kong, Tokyo and New York, etc., it has to wait one or two days at the least for information on stock transactions from the JFM.

Reflecting on the above factors which limit more efficient intermediation of financial services in the private sector, one finds similar cases that can be cited for the Beirut Stock Market, the Kuwait Stock Exchange and the over-the-counter securities market that has developed in Bahrain in the last three years.

Of major consequence in such a state of affairs, and especially in markets for long-term funds, is the limited flexibility available to Arab investors in raising investment capital on a regional basis. While the international borrower (Swedish utility company, Brazilian industrial enterprise, Finnish transport firm, etc.) can arrange for the floating of KD Bonds in the Kuwait Capital Market and assure the marketability of these bonds by the market-making activity of ACTS, Arab enterprises in Jordan, Lebanon or Saudi Arabia find it difficult if not impossible to have their debt or equity securities listed, traded or demanded in financial markets other than those of their region. Moreover, non-Kuwaiti companies can be listed on the Kuwait Exchange. While non-Kuwaiti nationals cannot trade in Kuwaiti securities, this kind of limitation, common to other financial institutions of the region, is clear evidence of the level of disintermediation that exists in the operations of the local financial institutions.

C. The Role of Arab Governments

Although many more examples of private sector regional financial operations have evolved and are evolving, all of them seem to suffer from the same ills -- limited financial services, inflexibility, concentration on the management of short-term funds and securities.

and continued hesitancy to shoulder the risk inherent in funding capital needs on a regional basis which are long-term in nature. On the other hand, despite these problems, one would expect that the many institutions and programs mentioned above would have somewhat eased the difficulties faced by the Arab businessman and investor. This does not seem to have happened however. One interesting feature of the funding of medium and large Arab enterprises operating in the Arab East is that their main source source of long-term capital is that which is internally generated, with little reliance on broad public participation in any equity or debt funding when the need arises. Moreover, the debt financing of these enterprises is mainly secured through local financial institutions by short-term credit arrangements which are always most expensive and least flexible.

If we are to assess the chances of economic growth within such a financial structure we are bound to observe that the growth potential, while present and strong, is considerably more expensive and risky when compared to the economic growth potential in more financially mature economic environments. Also, such growth will proceed only with continued strong infusions of new capital by government agencies and organizations. While this new capital does generate considerable investment activity on its own,

the lack of adequate regional intermediation mechanisms prohibits the multiple recycling of such capital infusion in refinancing non-government supported and/or government instituted projects.

Presently, the financial cycle in the Arab East is largely limited to government capital expenditures generating financial liquidity in the local financial institutions. This liquidity is expended on land speculation and consumption, two attributes that are major indicators of inflationary pressures. The balance of the remaining liquidity is either provided to local business enterprises on short-term line of credit arrangements or is channeled into the international financial markets of Europe and the United States for investment purposes .

Consequently the capital infusions through governmental expenditures pass through the economic cycle only once rather than the four or five times experienced by financially developed economies. This is the result of the absence of organized intermediary mechanisms for the individual and business savings that constitute the excess liquidity in the economies of the region. Unless such intermediation functions are created there is little hope for the stimulation of locally or regionally financed economic programs that are not supported by government expenditures. Thus, the regional nature of many economic programs will suffer greatly if they do not find the needed regional financing to support them. And unless securities and instruments of a regional standing and

acceptability are provided, such regional economic programs and projects will have to depend mainly on government support", a prospect that ushers in the many political stumbling blocks so common to this region.

Despite all the efforts of the various regional institutions and organizations and the blessings and support of many well-meaning government officials, the flow of investment funds towards regional investment opportunities has been very small compared to the funds invested outside the region, by both government and privately accumulated funds. Moreover, compared to the financial needs of the region what has materialized can only be considered as minimal. Several factors have inhibited regional financial growth besides shaky political relationships between the countries of the region. Among these factors are the lack of adequate information on investment opportunities, inadequately studied or badly conceived business ventures, lack of proper communication between financial institutions of the region, restrictions on capital transfers and cumbersome procedures and regulations regarding financial transactions.⁷ But most important of all these factors is the absence of financial instruments that can attract the abundant liquidity in the various financial institutions of the region.

D. Conclusions

Based on the above discussion of regional financial integration in the Arab East, it can be seen that this process has made substantial strides. One should bear in mind that integration is a gradual and time-consuming process. Thus if the financial operations of institutions in the region are not at the level of sophistication of those in Europe and the United States, this does not imply that the quest for regional integration has failed, but rather that the level of efficiency of financial operations on the regional level still needs improvement.

In summary, we conclude the following points of strength and weakness in this region's quest for financial integration, that is, the search for a functional market capable of providing the financial services necessary for funding the investment requirements of the region. In our view the points of strength are:

1. There are numerous public and private financial institutions in the region with adequate capitalization as well as capacity for raising new capital when the need arises.

2. In four countries of the region (Jordan, Lebanon, Kuwait, and Bahrain) there are organized and active financial services.
3. In each country of the region the central bank authorities are cognizant of the need for flexible policy in dealing with regional considerations of local financial policy.
4. In each of the four financial centers of the region a tradition of skill and accomplishment in the area of financial intermediation has been established. Beirut and Kuwait are centers of international finance with the expertise that necessarily goes with such a standing.
5. The aggregate size of the economies of the region is large by all international standards, and the size of many individual business units and investment requirements are substantially sufficient for proper economy-of-scale operations for low cost financial intermediation. In other words, the magnitude of the demand for investment services and vehicles is large and frequent, justifying the creation of specialized financial intermediaries on a regional level, while this may not be case on an individual country level.

6. Many multi-national and regional enterprises have established regional offices in the financial centers of the region in order to benefit from a closer financial relationship with the financial institutions of the region.
7. One aspect of considerable advantage to the regional integration drive is that common culture and norms of the region provide an important catalyst for easier formulation of common goals and objectives for the newly created financial services and instruments.
8. The existence of different currencies in the region has not hindered the mobility of capital due to flexible exchange rate policy on the parts of individual central banks. Most of these currencies are strong and are readily convertible to other currencies on the open market.

In considering the points of weakness, we will focus our attention on the practical aspects of financial integration and the role of intermediation in such a process. The main points that emerge are as follows:

1. Very few investment instruments directed to the general public are available in the region. Where public issues of securities are available they are usually restricted to nationals of the country of issue, or are small in denomination and aggregate size rendering scale economies of mass marketing on a regional basis impractical.
2. The linkages between organized institutions of the established financial centers are nonexistent. For example, the equity securities traded in Beirut or Kuwait do not have access to the Jordan, Bahrain or any other equity markets of the region. Also on the debt side, syndication of loans in Beirut and Bahrain for medium of long-term needs are basically a local operation although many of the same financial institutions are operating in both locations.
3. A major point of weakness is the lack of proper communication (fast, efficient, reliable) between the financial centers of the region. It is easier to communicate with London, New York and Tokyo from any of these financial centers, than it is to communicate with each other..

4. The legal aspect of financial transactions is still not well understood by the officials and administrators of countries of the region. Proper financial intermediation stipulates the need for secure financial services. There is great doubt in the minds of issuers of financial instruments and investors in these financial assets as to whether the transfer of title, ownership rights inheritance rights, taxability and mobility, all in a regional context, maintain the original legal contractual arrangements of the securities in question.
5. Arab financial executives regard financial assets of the region with a considerable degree of caution. Very little venture capital is allocated to the regional market. Consequently the risky nature of this market is considered to be much higher than that which is acceptable to many of the individual financial institutions.

E. Recommendations

We should not expect blueprint solutions to the issues raised in this paper. As mentioned earlier, the process of financial integration is a result of the functional behavior of the intermediary role of the many financial institutions on a regional level. Therefore if any recommendation is to be worthy of consideration it should first and foremost attempt to expand and strengthen this role as well as to provide for the practical aspects of adequate and efficient financial services which can be made

available by financial institutions of the region.

In this regard, we would like to present two recommendations that in our view will contribute to the integration of the financial centers of the region. The first is the creation of marketmaking financial institution for regional risk-taking similar to the marketmaking function of ACTS in the Kuwait market. The role of this regional marketmaker will be to assume primary risk-taking on the marketing of securities issued for the financing of regional economic programs, or securities issued by business enterprises that are operating on a regional basis. These securities should be made available to public and private funds, development banks and organizations on a subscription basis. The syndication by the regional marketmaker should also provide for immediate liquidity of all portfolio securities marketed by this organization thus illuminating the liquidity nature of the securities being subscribed.

The second recommendation is really possible only if the goals and objectives of the first one are acceptable to the financial institutions of the region. The organization of a regional marketmaker requires substantial commitments of capital and expertise. The capitalization of a regional marketmaker can be made possible through the association of the many funds and development banks as well as Arab commercial banks on the local or regional level.

This capitalization should not be too difficult to accomplish. However, the expertise needed to operate such an enterprise will be more difficult to mobilize given the severe shortage of trained and experienced manpower in the area of financial services of the region.

If such a regional marketmaking organization can be operated in the Arab East, financial intermediation by the numerous well-established financial institutions of the region will change from the traditional liquidity oriented investment and asset management framework to a financial services orientation where financial asset creation and syndication will be encouraged as is the case with the Arab Bank in Bahrain. The ability of these financial institutions to secure a marketmaking environment for the portfolio of their financial assets will release substantial funds to the regional equity market which presently is either held in liquid form or is placed on international financial markets.

In conclusion, much remains to be done before a workable regional marketmaking framework can take place. More specifically, the question of how issuers of securities on the local level can benefit from regional marketing and distribution by the marketmaker must be answered. Another area of concern is the ability of the marketmaker to enter the local financial markets in search of interested individual investors. In other words, much of the details of day-to-day operations of the marketmaker may conflict with the present

legal and financial structure of the local financial environment. We hope that others on the local level in the countries of the region will find it worthwhile to consider how their respective financial environments might be adjusted in order to accomodate the operations of a regional marketmaker and how such a competitive challenge can be made acceptable to the local financial community.

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Footnotes

¹ See the work of Charles P. Kindleberger, *The Formation of Financial Centers* (Princeton: Princeton University Press, 1974), for a comprehensive consideration of the concept of regional financial markets.

² In an article entitled "Financial Resources for Development Which appeared in the October issue of the OAPEC bulletin (Vol.6, No. 10), Hikmat Nashashibi focuses attention on the limited effectiveness of available capital funds if they are constrained to satisfying local demand only.

³ For a detailed survey of institutions that were organized for purposes of regional and pan-Arab economic cooperation, see the study entitled "Evolution of Economic cooperation and Integration in Western Asia" by the United Nations Economic Commission for Western Asia (Beirut; Dec. 1979.)

⁴ In a draft report studying the role of joint-venture companies in regional economic development, considerable importance is attributed to the role of this type of business organization in furthering regional integration. It is felt to be an effective substitute for the official regional planning programs of the governments involved. See J. Nugent's draft report "Toward a Feasible Path to Economic Co-operation and Integration in Western Asia" United Nations Economic commission for Western Asia (Beirut, August 1980).

⁵ For details on the operations of other off-shore banking units in Bahrain, See "Law and Regulations Pertaining to Foreign Business Operations with Specific Reference to Those in the ECWA Region" by the United Nations Economic Commission for Western Asia (Beirut : July 1979).

⁶ For more detailed consideration of ACTS refer to the article by Nashashibi mentioned above.

⁷ See "Main Obstacles to and Benefits From Closer Economic Co-operation in Western Asia", by Dr. Samir Makdisi, United Nations Economic Commission for Western Asia (Beirut July 1979).

NECESSITY AND ISSUES INVOLVED IN
THE CREATION OF A COMMON ARAB
CURRENCY : THE ARAB DINAR

by

*Dr. A. GUECIOEUR
Assistant Professor
Economics Department
Yarmouk University
Irbid, JORDAN*

INTRODUCTION

From the outset we should like to inform the reader that if this paper has any ambition it is certainly not to come up with ready-made solutions to the very many issues it deals with but which, in fact, constitute only the tip of the iceberg. The objective of the author is only to contribute and promote a debate on the Arab World's monetary and financial problems, the solution of which will condition the future of the Arab region.

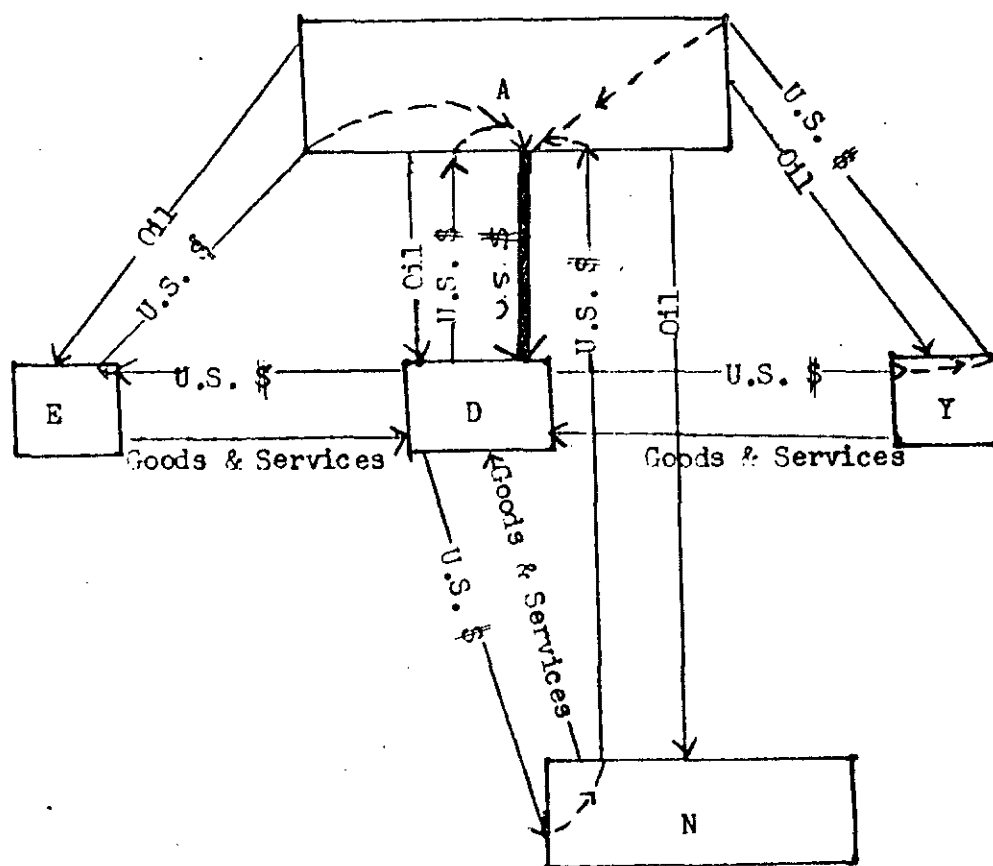
This article is twofold. In the first part, by taking the case study of the so-called recycling process which only magnified existing phenomena and behaviour, we try to show the necessity for the Arab World (A.W.) to create a common currency : the Arab Dinar (A.D.). We do so by showing the baneful economic as well as political consequences of the inexistence of such a currency. The creation of the Arab Dinar does entail economic and political advantages for the Arab World. Such a currency requires an inward-looking Arab financial centre(s). From this angle, too, we try to outline some elements at play.

The second part of this article deals with basic issues involved in the creation of a fully-fledged Arab Dinar whose characteristics are stability, availability and attractiveness. We also briefly consider the conversion of the Arab Dinar into other Arab currencies and vice versa and its circulation.

I -- NECESSITY OF A COMMON ARAB CURRENCY: THE ARAB DINAR

In order to show the necessity of a common Arab Dinar (AD), we shall consider the Arab World's position in the current international financial setting, as it has been highlighted by the so-called " petrodollars recycling " operation. Such a recycling is illustrated in the following chart.

CHART No 1 : Recycling process in the absence of a common Arab currency (The Arab Dinar)



A = Arab World E = European countries
D = USA (from Dollar) Y = Japan (from Yen)
N = Non-Arab developing countries

Source: A. Guecioueur - An Arab Bank for Development: Arguments for the Establishment of an Arab Bank for Development, unpublished Ph.D. thesis, I.E.S. Dept. University of Glasgow, U.K., August 1978, p. 103.

In this chart we distinguish between trade in crude oil and trade in other goods and services. We do not include East European countries because of their limited role both in international finance and in the so-called " energy crisis ".⁽¹⁾ We assume that trade between the five groups of countries is carried out in the US dollar. This assumption is very close to reality, since oil prices are calculated in this currency and oil bills are mostly paid in \$ US (80 - 85%) and marginally in pounds sterling (15 - 20%).

According to this chart, if E, Y and N were certain that A would indefinitely hold its extra proceeds in liquid reserves and specifically in the US dollar, they would, with the help of D, keep on borrowing from D with the latter printing paper money. This would put in D's hand a strong means of pressure on Y, E and N, because lending has always been a discretionary operation. Apart from this fact nothing would happen: D, E, Y and N's oil bill would become a matter of money printing and book-keeping exercises. However, such a situation is unlikely to continue indefinitely because E, Y and N cannot be expected to accumulate indefinitely foreign debts. Therefore they must earn US dollars by experiencing a positive trade balance with the USA.

As shown by the previous chart, " world trade " implies a flow of financial transfer from E, D, Y and N to A, but the real flow (goods and services) goes from E, Y, N and A to D. Furthermore, in a second stage a financial flow, equivalent to the extra oil proceeds or so-called financial surpluses, goes from the Arab World (A) to the USA (D). This scenario means:

- the oil induced trade deficit is automatically financed because according to H.G. AUBREY " a reserve currency country has the ability to run deficits for some time because the credit standing of a banking centre is such that it can, in

(1) For the sake of simplification the East European countries could be considered as self-sufficient in oil.

effect, borrow to meet its needs in almost an imperceptible fashion without the necessity of arranging and negotiating loans as other borrowers must do." (1)

- D receives the whole increased cost of E, Y and N's oil imports in the form of goods and services.
- The financial resources, which can be assimilated to the saving of Arab countries, are held in non-Arab currencies (\$ US) and outside the Arab World, that is in the USA.

Such a situation is not without consequences.

1. Consequences of the Inexistence of an Arab Dinar.

Arab deposits in western banks are of sizeable amounts: from \$ 8bn. in 1971 they reached \$ 40bn. in 1975, and by the end of 1980 they were estimated at \$ 300bn. These assets are held mainly in US dollars and marginally in other currencies such as the pound sterling. These financial resources are kept with western banks and, more specifically, with a group of forty banks, mostly American, called the " Golden Circle ".

From this angle Arab countries can be labelled as " passive investors ", in the sense that they do not manage directly their own funds. From this a consequence of secondary importance follows: Arab countries do not gain any financial expertise. These funds have been recycled to the benefit of the developed countries. According to the Annual Report of the Bank of International Settlements, for 1975 the net group borrowers were western countries (\$ 29.5bn.) and East European countries (\$ 10.5bn.) - the exact figure of the Arab countries' financial surpluses for the same year. Furthermore, it is very well known that the privilege of lending has always been rewarded in financial, trade and political terms. These gains are forgone in the case of the Arab World.

(1) H.G. AUBREY Behind the Veil of International Money, International Finance Section, Dept. of Economics, Princeton University, Princeton, N.J., USA, No.7., January 1969, pp. 10 - 11.

effect, borrow to meet its needs in almost an imperceptible fashion without the necessity of arranging and negotiating loans as other borrowers must do." (1)

- D receives the whole increased cost of E, Y and N's oil imports in the form of goods and services.
- The financial resources, which can be assimilated to the saving of Arab countries, are held in non-Arab currencies (\$ US) and outside the Arab World, that is in the USA.

Such a situation is not without consequences.

1. Consequences of the Inexistence of an Arab Dinar.

Arab deposits in western banks are of sizeable amounts: from \$ 8bn. in 1971 they reached \$ 40bn. in 1975, and by the end of 1980 they were estimated at \$ 300bn. These assets are held mainly in US dollars and marginally in other currencies such as the pound sterling. These financial resources are kept with western banks and, more specifically, with a group of forty banks, mostly American, called the " Golden Circle ".

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The above-mentioned series of losses is real and sizeable but it seems negligible when compared to the danger of freezing these Arab assets held outside the Arab World. This real threat has materialised at the expense of India, Egypt, Algeria, Libya, Uganda and, more recently, Iran. We shall present briefly each case.

- The Indian/Egyptian Case

During the Second World War India and Egypt supplied the British Army with food and raw materials. By the end of the war Britain owed a sizeable amount of funds to both countries. In the case of India the sum was estimated at £1,600 million. In 1948 the Bank of England froze the debt of the two countries. The British debt to India and Egypt became " forced " deposits with the Bank of England. Furthermore, the two countries were allowed to withdraw annually only a given percentage of their deposit, unilaterally fixed by the Bank of England, to buy British goods. However, Britain was just emerging from a long war and she had " nothing to sell ".

- The Algerian Case

During the Algerian war of independence, the Front de la Liberation Nationale (F.L.N.) used to deposit its funds with a Swiss bank. This practice was continued by the Gouvernement Provisoire de la Republique Algerienne (G.P.R.A.). Later on the Algerian government reclaimed the funds. The Swiss bank refused to put them at the Algerian government's disposal. In the early 1970's a Swiss tribunal rejected the Algerian claim on the grounds that only the physical or moral person who made the deposits had the right to withdraw them. In this case it was the treasurer of the F.L.N. and the Finance Minister of the G.P.R.A., and both were dead!

- The Libyan Case

In the early 1970's Libya ordered several US planes and paid cash before delivery. For political reasons the US government

decided not to deliver the goods and refused to reimburse the Libyan government.

- The Case of Uganda

Under the regime of President Idi Amin the Ugandan government used to deposit its funds with British banks. As we all know, the relations between the two countries were at their lowest ebb during the spring of 1978. For unknown reasons problems arose between Uganda and a British firm. The latter took the former to court and it ruled that Ugandan funds (£100 - £200m.) held with British banks should be frozen.

- The Iranian Case

This is the most recent case which can be summarized as follows: for political reasons the US Administration decided to freeze about \$ 8bn. held by Iran in American banks. From the previous examples we can draw the following conclusions:

1. Western countries freezing Third World countries' funds deposited with them is a long practice since it started as early as 1948.
2. Several western countries have had recourse to this malpractice: USA, Britain and Switzerland.
3. Only developing countries' funds were frozen - we do not know of any case involving two western countries.

This situation and, therefore, the threat that follows, is not specific to Arab oil countries, since all Third World countries including non-oil Arab countries keep most of their international reserves in foreign banks and in foreign currencies. It is for this reason that, in chart No 1, p. 2 we consider the Arab countries as a group under the heading Arab World.

As long as such a situation persists the Arab World could suffer from any Arab/western conflict. As a matter of fact, as early as 1973, the French Newspaper " Le Monde" suggested that Arab assets should be nationalized (that is more than freezing them) in the case of a conflict.

Our position is corroborated even by some western commentators such as Mr. P. Streeten and Mrs F. Stewart who feel that by investing the bulk of their surpluses in developed countries, the OPEC, and therefore the Arab countries, face the " threat of expropriation and the weakening of their subsequent economic and political bargaining power ". (1)

These disadvantages could almost be avoided given the existence of a common Arab currency or the currency of an Arab country fulfilling a regional role. In this context one has to mention the growing use of some individual Arab currencies such as the U.A.E. Dirham and the Kuwaiti Dinar. The importance of the Lebanese Pound has decreased as a result of the civil war. Arab currencies are also being used as a basket of currencies such as the Arab Currency Related Unit or ACRU which was based on 12 Arab currencies.

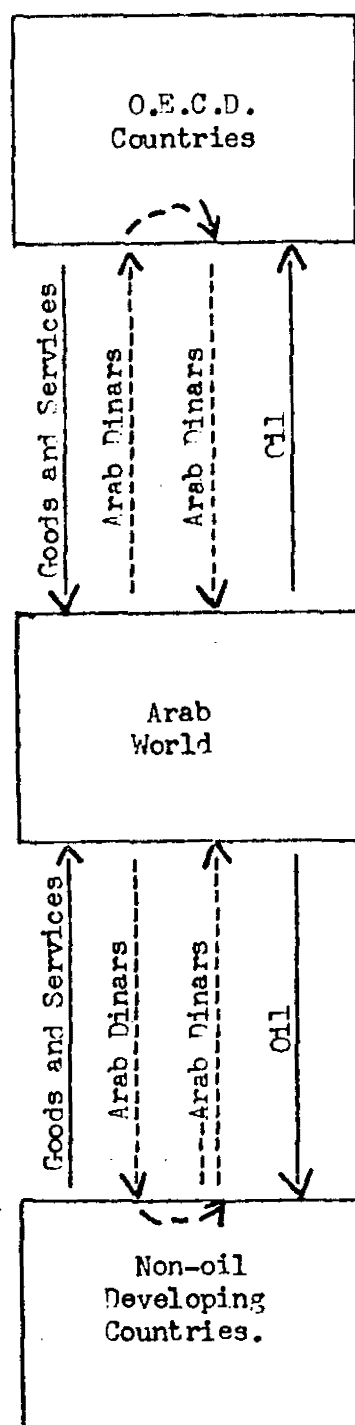
However, given the present level of individual Arab countries' economic development, banking systems, banking and financial expertise, the second option is indeed a very remot one. Therefore we shall focus on the first option beginning with the likely advantages to be derived from it.

2. Advantages to be derived from the creation of a common Arab currency (Arab Dinar)

Firstly, the Arab Dinar will facilitate inter-Arab trade if it is used as a unit of payment between the various Arab countries. All the advantages which accrued to the USA during the recycling operation will accrue to the Arab World. This situation is illustrated by the following chart.

(1) Mrs. F. STEWART and Mr. P. STREETEN, Oil and Development: a steady tripod, Report of Select Committee on Overseas Development session 1974. The Oil Crisis and Third World Development: Implications for United Kingdom Policy, HMSO, London, July 24, 1974.

CHART No. 2 : Recycling process in the case of the existence of the Arab Dinar



Source: A. GUECIOEUR, op. cit., p. 240

In this scenario the following assumptions are made:

- The Arab World is seen as a single economic entity. The subdivision of the other two groups into individual countries would not affect our analysis.
- We distinguish between oil and non-oil trade.
- The Arab World experiences a surplus current account; this has been a fact from 1973 onwards.
- The oil bills are settled in Arab Dinars. It does not matter if oil prices are calculated in any other currency or basket of currencies. This implies that the AD is on an equal footing with the so-called " hard currencies " in which world trade is currently undertaken.

What then are the main implications of such a situation?

If one makes abstractions of the current behaviour of the World banking centres or if one assumes that the Arab World has its own inward-looking banking centre(s), the main implication is that Arab financial surpluses are accumulated in Arab Dinars. It follows that on factual (practical) grounds no outside power has the means to freeze or "nationalize" Arab assets. The Iranian assets were frozen because they were held in non-Iranian currencies and with non-Iranian banks. The creation of the Arab Dinar will eliminate such a threat.

The creation of the Arab Dinar also constitutes the first step towards the creation of a regional market, whose characteristics have to be defined, especially after the limited success achieved by the Arab Common Market (A.C.M.).⁽¹⁾

For Jacques Riboud the creation of a common European currency which he called the Eurostable,⁽²⁾ constitutes proof of the European Economic Community's will to unite and be politically and economically independent. The same argument applies to the Arab Dinar and the Arab World.

(1) Alfred G. MUSREY, An Arab Common Market, Frederick A. Prayer, N.Y. 1965.

(2) Jacques Riboud, Une Monnaie pour l'Europe: l'Eurostable, Edition, Revue Politique et Parlementaire, Paris, 1975 p. 231.

Given the present chaotic situation of the International Monetary System (I.M.S.), a stable regional currency will constitute the Arab World's best contribution to stabilize this system. Such an Arab Dinar could be more efficient if complemented by other regional currencies of groups of developing countries.⁽¹⁾

The Arab Dinar could also constitute a way for poor Arab countries to avoid the necessity of acquiring hard currencies which are necessary to import capital goods which are the prerequisite to any economic development. This advantage can materialise only if the Arab Dinar is accepted by capital goods exporting firms which in turn can use the Arab Dinar, so acquired, to buy Arab crude oil. This mechanism could be strengthened if rich Arab countries were to give aid and loans to other Arab countries in the Arab Dinar.

Before considering the creation of an Arab Dinar we have to recognise that such a currency, though necessary, is not sufficient in itself. Just as blood requires veins through which to circulate, money requires a banking network that only Arab banks can provide for security reasons. In other words the creation of an Arab Dinar necessitates the creation of an Arab financial centre or centres which must be truly inward looking. Arab private, semi-public and public banks have a complementary role to play in this crucial undertaking.

Arab private banks are becoming more and more active in domestic, regional and international financial markets. As a matter of fact during the 1976/79 period, 26 private or semi-public Arab financial institutions were either leaders or co-managers of almost \$ 13bn. worth of Eurobond issues.⁽²⁾ Furthermore, during the same period 46 Arab (or jointly owned) banks were very actively engaged in the Eurocredit market. Between January and May 1979 they were lead managers and co-managers in 53 and

(1) cf. A. GUECIOEUR How Can the Arab World contribute to the Establishment of a New International Monetary System, paper presented to the 1st. Congress of Third World Economists, Algiers, February 1976. (published as part of the proceeding

(2) cf. Appendix No. 1, p. 161.

98 operations respectively. The total sum involved was \$56.77bn. (1)
This newly acquired experience constitutes an asset when it comes to the creation of an Arab financial market or markets. However the geographical location of a financial market in a specific country/region does, by no way, mean that it is working for that country/region. Just like any other sector of the economy a banking sector could be either introverted or extroverted. From this angle the former role of Beirut is worth presenting by mentioning the conclusions reached by the Arab Economist in one of its studies. According to the journal, " the structure of the utilisation (of the deposits) reflects clearly the role of the commercial banks in Lebanon. Although these are mostly foreign or under foreign control, they participate on a small scale in financing economic activity. Their main concern is to get the largest amount of funds and invest them abroad at their head offices. The economic liberty they enjoy gives them the opportunity to do so." (2)

Beirut represented a typical regional financial centre or what has come to be known as the Offshore Banking Units (OBUs) such as Hong Kong, the Bahamas and Manama (Bahrain). The importance of Manama is constantly growing and by 1979 more than 53 banks were given permission to operate. For some, these OBU represent an expansion or " tentacles " of the world banking centres (New York, Paris, London, Zurich, etc..) which according to Professor M. Lipton are not " geared to flow in the direction of the developing countries." (3) In our opinion any Arab financial centre(s) must be inward looking. These centres could be strengthened by the bilateral and multilateral funds and banks created by the Arab countries especially from the early 1970's onwards. Amongst these institutions one should mention

(1) cf. Appendix No. 2, p. 168.

(2) The Arab Economist cf. article Lebanon: Growing Assets and Unrestricted Expansion, Beirut, Lebanon, August 1973, No. 55, p. 53.

(3) Professor M. LIPTON, Implications of Oil Price Changes for Less-developed Countries, Report of the Select Committee, op. cit.; p. 53.

the Arab Monetary Fund (AMF), the Arab Fund for Economic and Social Development (AFESD), the Kuwait Fund for Arab Economic Development (KFAED), the Abu Dhabi Fund for Arab Economic Development (ADFAED), the Saudi Development Fund (SDF) and the Iraqi Fund for External Development (IFED). Although its field of competence goes beyond the Arab World (just like the KFAED). the Islamic Development Bank could be added to the list. Their combined authorized capitals amount to \$ 24 bn. and which gives them tremendous strength when it comes to borrowing in Arab and non-Arab markets and issuing securities denominated in Arab or non-Arab currencies. Amongst all these institutions the Arab World has pinned its hope on the AMF which is seen as the backbone of Arab financial integration. Its purpose is not limited to providing loans to countries in balance of payments deficits. According to its charter (adopted in November 1975), its prime goals are:

- contribution to Arab economic integration
 - development of Arab money markets
 - protecting the value of the foreign monetary investments of its members
- and, which is of paramount importance to us,
- working for suitable circumstances leading to the establishment of a unified Arab currency.

This means that the 21 countries of the Arab League which signed the AMF's charter agree on the necessity of such a currency. By creating the Arab Accounting Dinar (AAD), which equals 3 SDR or \$ 3.9 , the AMF has already taken the first step towards such a goal. However, the AAD is no more than a unit of account. It is not a fully-fledged currency since it lacks the two other basic qualities - namely a means of payment and a store of value.

In the next part of this article we discuss the creation of a fully-fledged unified Arab currency.

II -- CREATION OF THE ARAB DINAR

What follows is not meant to be the panacea for the financial, monetary, technical and political problems which such a currency inevitably causes to arise. It has to be seen as an "Ijtihad"⁽¹⁾ if one is permitted to use the expression.

We shall consider the definition (or calculation), availability, stability and attractiveness, and, finally, the conversion of the Arab Dinar.

1. Definition of the Arab Dinar

A thought commonly advanced is that any Arab Dinar should be based on Arab energy resources (crude oil and natural gas). Such a suggestion is not suitable for two reasons. Regional groups (the E.E.C and its European Currency Unit, as well as the proposals for the creation of the Europa and the Eurostable) and world community with the creation of the Special Drawing Rights (SDRs) are moving away from such an approach. Secondly, it is not wise to base a regional currency, supposed to be permanent, on exhaustible commodities such as crude oil and natural gas. Furthermore, the international community, by phasing gold out of the International Monetary System, has irremediably broken the link between currencies and gold which is no more than a mere commodity.

In our opinion the Arab Dinar should be based on a composite basket comprising all 21 Arab currencies. The ultimate value of the Arab Dinar could be calculated by using either market rates or official rates. However, given the diverse strength and role of individual Arab currencies, we opt for the official rate when

(1.) Personal opinion expressed by someone doing his best

calculating the Arab Dinar. In defining the Arab Dinar we could use the following formula:

$$AD1 = \sum_{j=1}^n a_j \cdot S_{ji} \quad \text{for } j = 1, \dots, n$$

where AD is the price of the Arab Dinar in terms of currency j
 a_j is the amount of currency j in the Arab Dinar basket
 S_{ji} is the price of currency j in terms of currency i

In this formula one is faced with two problems; namely the value of the Arab Dinar and the respective weight given to the 21 Arab countries.

It is entirely up to the Arab countries, that is finance ministers, governors of the central banks or monetary agency and their experts, to decide on the ultimate value of the Arab Dinar. For instance, one Arab Dinar could equal SDR 3, because the Islamic Dinar, (Unit of account of the Islamic Development Bank) and the Arab Accounting Dinar (the unit of account of the AMF) are equal to SDR 3. The suggested value introduces uniformity at regional level.

The second problem is more difficult to tackle; to be more precise, what is difficult is the operation of devising the set of criteria according to which the respective weight of the 21 currencies (the 21 a_j) must be calculated. The set of criteria could include more or less stable variables such as Gross National Product (GNP) and trade. In our opinion the individual countries' contribution to regional trade must be included as a criterion, because this could constitute an incentive for more inter-Arab trade.

The devised system must be supple enough to include changes, and just like the SDR it should be reviewed on a regular basis (every 3 or 5 years). The system must be able to incorporate newcomers such as the currency of the future Palestinian state.

These technical problems are, in a way, magnified by the current diversity prevailing when it comes to individual currencies. This diversity is illustrated by the following table.

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TABLE No. 1 : Arab currencies: pegging system, exchange rates and intervention currencies.

Country	Currency	Currency/ies pegged to	Exchange Rates	Intervention currencies
Algeria	Dinar	a composite of currencies*	daily calculated	US \$
Bahrain	Dinar	SDR	BD 0,476190=SDR1	US \$
Djibouti	Franc	US \$	DF 177.721= US\$1	US \$
Egypt	Pound	US \$	LE1=US\$ 1.422857	US \$
Iraq	Dinar	US \$	ID1= US\$3.3778	US \$
Jordan	Dinar	SDR	JDO.388=SDR1	US \$
Kuwait	Dinar	a basket of currs*		US \$
Lebanon	Pound	exchange rates are function of supply/demand conditions		
Libya	Dinar	US \$	US\$1=LD).296053	US \$
Mauritania	Orguiya	a basket of currs.**		US \$
Morocco	Dirham	a basket of currencies based on the French		Franc
Oman	Riyal	US \$	RO1=US\$2.89524	US \$
Qatar	Riyal	SDR	QR4.7619=SDR1	US \$
S. Arabia	Riyal	SDR	SR1 4.28255=SDR1	US \$
Somalia	Shilling	US \$	SoSh 6.2327=US\$1	US \$
Sudan	Pound	US \$	LSd1=US \$	US \$
Syria	Pound	US \$	LS 3.925=US\$1	US \$
Tunisia	Dinar	a basket of currs.*		US \$ & FF
U.A.E.	Dirham	SDR	Dh4.76190=SDR	US \$
YAR	Rial	US \$	YR 4.15=US\$1	US \$
YPDR	Dinar	US \$	YD1=US\$2.89524	US \$

* the basket of currencies usually represent the major trading partner of the currency concerned

** US\$, DM, FF, Italian Lire, Guilder(Netherlands), Peseta(Spain), Pound Sterling

Source: compiled from Annual Report : Exchange Arrangements and Exchange Restrictions, 1979. (IMF)

If one disregards the intervention currency which is exclusively the US \$, there are four types of Arab currencies when it comes to the pegging system.

- Five currencies (the Algerian , Kuwaiti and Tunisian Dinars, the Moroccan Dirham and the Mauritanian Ouguiyá) are pegged to a basket of currencies of the major trading partner of the countries concerned.
- Five currencies (the Bahraini and Jordanian Dinars, the Qatari and Saudi Riyals and the Dirham of the U.A.E.) are pegged to the SDR.
- The value of the Lebanese Pound depends on market conditions
- Finally, the rest are pegged to the US \$..

This diversity could be explained by the Arab countries belonging to different monetary zones; a situation reflecting their past political dependence. However, the fact that some Arab currencies are linked to the SDR shows that Arab countries are moving towards more monetary realism.

This diversity does raise some technical problems which are not insoluble. In other words a pre-existing uniformity vis-à-vis a common monetary instrument does not constitute a pre-requisite to the creation of the Arab Dinar. One can argue the other way round that the creation of the Arab Dinar would constitute a unifying link in this diversity.

2. Availability

Every currency must be sufficiently available. However, this problem has to be seen in the light of the currency itself. If by the creation of an Arab Dinar we mean "physical creation", such a currency must be physically sufficiently available, otherwise it will impede the volume of trade between member countries individually⁽¹⁾ and as a group, and non-member countries. If, on

(1) This can slow down the volume of trade within individual countries if the currency is used by all the nationals of the member countries in their daily dealing with each other.

the other hand, by creation we mean abstract currency, the problem of availability is solved because all becomes a matter of book-keeping exercises. This problem falls on the shoulders of the issuing institutions which could be the AMF. Availability is closely linked to stability.

3. Stability and attractiveness

Given the situation of the main convertible currencies and the politico-economic power behind them, the stability in value of the Arab Dinar has to be considered as a sine qua non condition to its creation. Constant value means attractiveness and therefore the Arab Dinar can "compete" with other currencies at least within the region and as far as the Arab countries are concerned. However, if the currency proves to be stable over a long period, non-member countries will show confidence in it, and this will be translated into an inflow of funds to the Arab region, funds which will be used for development purposes. It is the least dangerous way to have the non-Arab countries participating in the economic development of the Arab World. The flow of funds from unstable to stable currencies is not a new phenomenon in history. For instance, J. RIBOUD claims that a constant Eurostable will attract the petrodollars. In our opinion, a strong and stable Arab Dinar will keep at least Arab funds within the Arab World; and given past and present trends, this result can be rightly heralded as a success. However, the main problem is how to conceive and achieve this stability.

Recently, confidence in any currency was function of its own convertibility; however, with the breakdown of the International Monetary System, currencies' convertibility (US \$ mainly) into gold disappeared. J. RIBOUD suggests that it is time to move to a wholly " abstract " currency. In such a case a currency is not convertible into gold and is not backed by any natural resources. Here we are hinting at the proposal that any Arab Dinar has to be backed by the region's natural resources, i.e, oil and natural gas. As we have already said, this is not wise because confidence must be permanent and, therefore, it must not be based on exhaustible

resources.

We claim, along with J. RIBOUD, that stability and, therefore, confidence in any currency must be function of its purchasing power. With respect to this point, we think that J. RIBOUD's technical solution to the problem can be applied to our case. For this author:

" at any time one might assert that one Eurostable can buy a constant general basket made up of a constant national basket, each national basket being defined in each country by its own cost of living formula." (1)

One can easily imagine a regional Arab basket composed of 21 individual baskets. The stability of the purchasing power of one Arab Dinar can be reached by having the quantity of any one Arab currency originally incorporated in one Arab Dinar increase or decrease, according to the value of that currency. The level of the quantity of the domestic currency is function of the domestic cost of living or, in other words, of the domestic basket.

Suppose three countries are A, B, and N.

Qa, Qb, Qn are the quantity of their respective currencies included in one Arab Dinar.

at base date, one Arab Dinar = Qa + Qb + Qn.

at T. date their respective national costs of living are:

Ia, Ib, In.

at T. date one Arab Dinar = Qa.Ia + Qb.Ib + Qn.In (1)

With the example being expanded to 21 countries,

one Arab Dinar = $\sum_{i=1}^{21} Q_i \times I_i$; This means that the purchasing

power is maintained through time.

The choice of the products composing a domestic basket are part of individual states' prerogatives. It means that the domestic baskets

(1) J. RIBOUD , A New International Money, the Eurostable, Eurocurrency, May, 1975, p. 31.

are dissimilar, but this does not complicate the problem.

4. Conversion of Arab Dinars into national currencies and vice-versa.

According to J. Riboud, the rate of conversion must take into account:

the Eurostable purchasing power

the cross rates of national currencies which are posted daily as they come out of the exchange market. These rates are given against a vehicular currency, usually the US dollar.

Suppose US dollar = (v)

Consider these rates being r_a , r_b , r_n

as one A = $r_a.v$

one B = $r_b.v$

one N = $r_n.v$

For the author, since according to equation 1 on the previous page,

$$\text{one Eurostable} = Q_a I_a + Q_b I_b + Q_n I_n,$$

" in order to determine the relation between one Eurostable and any national currency, N for instance, it suffices to replace $I_a Q_a$ and $I_b Q_b$ by their equivalent in N money at the prevailing rates of exchange....."

in the previous formula, then, it becomes:

$$\begin{aligned} \text{" } X_n &= \frac{r_n}{\sum_A^N q_{ir}} \quad \text{" (1)} \end{aligned}$$

However, such methods might not be applicable to our Arab Dinar which is conceptually different from the Eurostable.

(1) Jacques RIBOUD, op. cit., p. 32.

Unlike the Eurostable, the Arab Dinar should not compete with other European currencies.⁽¹⁾ A role similar to the Transferable Rouble could be reasonable in the early stage. Given the present banking systems of individual Arab countries, the Arab Dinar should not be issued by the big private banks because they are foreign and, therefore, difficult to control.

Individual Arab currencies do not enjoy the importance and audience of west european currencies. However, if the previous method were to be used, it would be wise to choose the SDR as a vehicular currency because of its lesser instability. In spite of that the conversion between the Arab Dinar and Arab national currencies must exist. This problem must be solved without altering the constant purchasing power of the Arab Dinar.

5. The Arab Dinar as a circulating currency

In our opinion the circulation of the Arab Dinar must be limited and controlled, especially in the early stages. The Arab Dinar must be used only between Arab countries and not be used by nationals within member countries. Otherwise it will pose inextricable technical problems which will danger its success. The Arab Dinar must be a regional currency only, in the sense that non-member countries and other financial institutions will not be allowed to use it. The Arab Dinar might lose its stability if it is used by the free market, for it will be sold and bought and, therefore, its availability will be subject to forces uncontrollable by the issuing institution.

It will be worthwhile for the architect of any Arab unified currency to study carefully the case of the Transferable Rouble (TR) which has been introduced in stages. The TR constitutes the basis of "regional international payments" involving the East European countries party to the 1963 agreement which led to the creation of the International Bnk for Economic Cooperation.

The Transferable Rouble is becoming convertible step by step. However, what is more significant for us is that 1977 traders in non communist countries were permitted "to choose between stockpiling the proceeds of their exports to the East in the

(1) At least in its early stages.

Transferable Rouble Account, and using them to buy goods from other countries of the region."⁽¹⁾

Applied to our case-study, this system will bring some advantages if Arab countries receiving Arab Dinars so accumulated would use them to buy goods and services from any other Arab countries. This is a way of circumventing the necessity of trading in "hard" or "convertible" currencies which, in fact; are no longer convertible.

If at a later stage the Arab Dinars accumulated in this way are used to acquire goods and services from outside the Arab region, such freedom will bring incommensurate benefits both to the Arab World and to individual Arab countries.

(1) The Observer, cf. article, Russia's Capital Idea, London, March 20th. 1977.

CONCLUSIONS

What is the use of taking control of natural resources (be they oil, natural gas, iron ore, phosphate or mere waterways), increasing their prices, collecting the funds to put them in foreign currencies and foreign banks. This situation is not specific to the Arab World since it constitutes a common characteristic of all developing countries.

Without financial, monetary and credit independence there can be no economic independence. As a matter of fact, can a developing country ever dream of "blackmailing" an industrialized country which it depends on for its food, technology and armaments by putting its "savings" in the safe of the former? History has shown that these deposits have been frozen on several occasions.

It is true that the current international, financial and banking setting does not offer any alternative. This is the challenge facing the Arab World (and beyond it the so-called South). In this context a uniform Arab Dinar - not only a unit of account and a means of payment but also and especially a store of value - involving inward-looking Arab financial centres mainly based on Arab banks, constitutes the only solution. If achieved such a goal would not only constitute a tremendous step and symbol towards Arab economic integration, but it would also constitute the best contribution that the Arab World can make towards the setting up of a New International Order.

In this article we have outlined only some issues; the debate remains open.

APPENDIX No. 1 : Arab Banks' activity in the Eurobond
Issues 1976-1979 (US\$ m.)

	Lead	Co-managed
Kuwait International Investment Co	488.9	629.4
Kuwait Investment Co.	420.3	1,225.5
Kuwait Foreign Trade Contracting and Investment Company	336.4	608.6
BAII	269.8	1,770.2
National Bank of Kuwait	82.0	136.0
National Commercial Bank SA	65.0	651.7
UBAF	50.0	1,044.1
Arab Finance Corp.	49.9	170.7
Abu Dhabi Investment Co.	45.0	1,350.4
National Bank of Abu Dhabi	40.0	531.4
Arab Financial Consultants	23.9	93.0
Kuwait Financial Centre	23.9	141.9
Gulf International Bank	20.6	234.0
Libyan Arab Foreign Bank	-	540.9
Arab Investment Co.	-	400.4
Arab African International Bank	-	306.5
Riyad Bank	-	276.8
Arab and Morgan Grenfell	-	238.9
Arab Petroleum Investment Co.	-	125.8
Arab Malaysian Development Bank	-	114.1
National Bank of Bahrain	-	82.5
UBAF Financial Services	-	80.0
Arab Bank for Investment and Foreign Trade	-	68.6
European Arab Bank	-	59.1
Al Saudi Banque	-	55.5
Banque intercontinentale Arabe	-	50.9

Source: The Middle East Annual Review, op. cit., p.151.

APPENDIX No. 2 : Bahrain OBU's Assets and Liabilities
1975 - 1979. (US \$m.)

End of period	Assets						Liabilities					
	Interbank funds						Interbank funds					
	Loans to non-banks	Commercial banks in Bahrain	Other OBUs	Outside Bahrain	Other Assets	Assets equal liabilities	Deposits of non-banks	Commercial banks in Bahrain	Other OBUs	Outside Bahrain	Other liabilities	
1975	—	—	—	—	—	1,687	—	—	—	—	—	—
1976	1,734	136	510	3,780	54	6,214	598	87	510	4,939	8	
1977	3,706	162	2,012	9,303	518	15,701	3,513	128	2,012	9,629	419	
1978	6,166	204	2,792	13,409	870	23,441	4,786	209	2,792	14,946	708	
1978												
First quarter	4,426	140	2,305	10,072	631	17,574	4,321	92	2,305	10,363	493	
Second quarter	5,085	164	2,628	11,614	734	20,225	5,063	221	2,628	11,525	788	
Third quarter	5,428	168	3,083	12,717	775	22,171	5,443	195	3,082	12,858	59	
Fourth quarter	6,166	204	2,792	13,409	870	23,441	4,786	209	2,792	14,946	70	
1979												
January	6,279	136	3,053	13,042	922	23,432	5,151	191	3,053	14,350	68	
February	5,971	102	2,982	12,461	935	22,451	5,041	200	2,982	13,525	70	
March	6,063	121	2,911	12,200	973	22,268	4,667	203	2,911	13,752	73	
April	5,838	119	2,905	12,385	998	22,245	5,018	295	2,905	13,256	771	
May	5,688	162	3,336	12,580	991	22,757	4,912	167	3,336	13,694	64	
June	5,878	158	3,478	12,997	962	23,473	4,638	186	3,478	14,148	1,02	

Source: The Middle East Annual Review 1980, op. cit. p. 25.

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DISCUSSION

Dr. Ali Dajani.

One of the prerequisites of Arab Financial integration would probably be the guaranties of investment and by investment I mean all types of monetary claims. There has been some attempts to set up an institution to guaranty Arab investment. However one cannot help stating that the institutions created are ineffective and expensive.

On the other hand one finds that a country like Jordan has, in recent years, concluded agreements aimed at protecting investments from non-commercial and political risks. Dr. A Harik cited the successful experience of the Arab Bank, I must add that this institutions has its share of losses as a result of expropriations and nationalization in several Arab Countries. The Arab investor would welcome any efficient umbrella that would cover him against such risks.

Under current circumstances it is easier for Jordan to reach investment guarantee agreements with EEC or even East European Countries rather than conclude such agreements on a reciprocal basis with other Arab Countries.

Prof. Antun Harik.

The issue of investment guarantee constitutes the core of any type of financial market, be it national, regional or international. An investor, whether private or public, wants to make sure that whatever he buys, there is some kind of substantial guarantee that the terms of the contract will be respected when times comes for delivery. Within the Arab context a legal system is some how questionable not in terms of the final outcome of the process of payment and settlement performance in legal terms but in terms of the time and delay involved. When we are talking about regional integration, we should keep in mind that the process of transforming, intermediating funds that are in surplus into funds that are needed in security exchange, the day-to-day execution for such an operation, the details that transform the security into a marketable security is still in need of reflexion and study in the Arab World.

Dr. Ali Dajani suggests government-to-government guarantee of certain types of transactions. The market - making organization that I propose

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goes beyond this problem. The market-making institution is privately owned; it is owned by the whole market. The market is constituted by 200 commercial banks, insurance companies and other government owned institutions. The proportion of ownership is so small and the ownership is so broadly distributed that the basic function of the institution becomes a profits and losses account rather than a regional political worry. I do not think that we should solely depend on the Arab Investment Guarantee corporation (AIGC) in order to protect Arab Investment within AC, however we should not totally exclude the AIGC because it is not yet properly functioning. Let us take the concept of the AIGC and mix it with the concept of market - maker and for example give the AIGC a 10% interest in the market - maker. In Kuwait The Arab Company for Trading Securities (ACTS) was able to make a market of KD 1.5bn with KD 35M. The same experience can be repeated some where else in the A.W.

Dr. D. Kane.

In my opinion "There are no free lunches, there are always costs involved. If you want to guaranty investments in the broadest sense of the term someone somewhere must pay the cost. We cannot escape the fact that in any financial or physical transaction there are always costs involved. Any system of guarantee must be prepared to finance the cost either directly at the point of consumption by the borrower who has to pay a premium to compensate the lender for the increased political and financial risk or indirectly at the point of general consumption through general taxation. The economic answer to the problem of guarantee is that the cost should be borne by the consumer. The politicians' answer could be to solve it through general taxation.

Dr. Antun Harik.

I should like to mention that the structure of the AW itself adds a new dimension to the concept of risk taking. We know that the risk in the financial market is not visible as such. There are no positive or negative risk structures in any security that the market - maker will take. In other words, what might be the gain from intermediating a security in Syria which generates a profit might satisfy the loss

.../...

resulting from intermediating a security coming in Saudi Arabia. Therefore the company that is intermediating the security and diversifying the risk, will shuttle the risk from one point of profit (its own profit) to another point of loss (its own loss). In this situation market - making becomes a service to the capital markets at a very efficient cost - as compared to presently.

The AW does not have to depend permanently on the international markets. Presently, while Arab investment in the western world is running at the level of not less than \$ 60 bn every year, Arab governments, institutions and individuals are borrowing from the same institution around \$15 bn every year. There is a cost to this situation that we do not have to bear.

Dr. A. Malky.

Let us make it clear that there is a difference between commercial and non-commercial risks. As far as commercial risks are concerned, there is no absolute guarantee except the prudence of the investor himself and, eventually, this is the business of the market itself.

Dr. A. Dajani referred to non-commercial risks. In order to counter these risks the AIGC was established eight years ago. It is not properly functioning because of its limited resources and because of some legal constraints. Therefore there is a scope of action by reforming and updating the by-laws of the AIGC. In doing so we fill a vacuum in our conception of the emergence of an Arab Financial Market. May I go back to the question of financial integration which is a very sensitive interesting topic. In my mind both speakers were sensible to avoid giving a specific definition to the concept of Arab financial integration. But now, after the discussion has progressed, it is time to propose a general conception.

In my mind talking about financial integration is different from talking about financial development. If it is the case, what do we mean by financial integration in the Arab World Context? As a matter of fact there is a technical approach and a functional approach. From a technical angle financial integration means the avoidance of duplication between the respective financial markets, when they exist, for the sake of efficiency and lower cost. From the functional point of view we can

.../...

define this integration in terms of the basic elements of financial intermediation: we merely have sellers and buyers or lending markets and borrowing markets. In the Arab context this, essentially, means that we want to promote the process of financing Arab investments by resorting to Arab Private savings. I would have liked to see the speakers proposing ways and means to approach this integration. This topic has been discussed in several fora such as the meetings of the governors of the Islamic and Arab Central Banks, certain suggestions were made but never materialized because of regional reticences. The first suggestion concerned the creation of a Pan-Arab commercial bank that would link several Arab financial markets. The second one concerned the finding of securities which are worldwide negotiable both suggestions are complementary since the first deals with financial institutions and the second with financial instruments. Two factors tend to hinder the creation of an integration Arab financial market namely foreign exchange and the legal restrictions imposed by individual Arab countries. Furthermore AC have been advised not to compete with the existing international financial system said to be efficient. However, as it has been shown by Dr. A. Guecioueur This system is not geared to the interest of the Third World Countries. Arab financial surpluses constitute another incentive for A.C. to compete with it, the question of financial expertise can be solved through this very international market.

Dr. A. Guecioueur.

We cannot talk about banking and finance without mentioning risks which are inherent to any investment operation. In others words the risk is common to all investors by they Arabs, Japanese, Americans Europeans, etc.. Concerning the security of investment the AW is left with two options: either to review the Agreements on the Arab Investment Guarantee corporation in order to include private investment since the AIGC was meant to deal with public investment, or to come up with a new agreement specifically designed to protect Arab private investment. It seems to me that A.C. are leaning to wards the second option.¹⁾

On september 3rd, 81, within the framework of the Arab league, six AC signed an agreement on inter-Arab investment.

.../...

Prof. A. Harik and myself refrained from proposing a precise definition of the concept of financial integration, particularly a restrictive one, in order to avoid a theoretical polemic that would lead us nowhere.

Dr. Siva Ram Vemuri.

Prof. A. Harik sees financial integration as tool of development in the A.W. and he leaves this integration to the market system. According to this system investment occurs in the project expected to give the highest return. I wonder how his theory could help reducing regional disparities between and within AC. In my mind, by definition, the market system could create pockets of under development and overdevelopment in the A.W.

Prof. A. Harik.

I think it is an excellent question. Before answering it I must confess that there is a certain amount of exclusivity in my recommendation. I should like to stress that at the centre of the market mechanism there is the market-maker which must guarantee the marketability of the securities. My answer, to your question is that those units of production and investors that are not technically competitive will not be able to secure credit, they will be rejected out of the economic cycle.

Dr. Ali Dajan.

My question is directed to Prof. A. Harik. We all know the merits of agricultural and industrial integration. We all know that there is a proliferation of Arab funds and banks and comparatively to other Third world countries the AW, as a whole, has substantial sum of funds why then there has been no transmission of funds from capital surplus to capital-needy Arab countries? In other words why no actual investment has taken place?

Prof. A. Harik.

I agree with you there is a lot of Arab wealth all over the world. Every major financial institution in the world has substantial Arab private and public deposits. Do not underestimate private deposits

.../...

they probably exceed public deposits. These deposits have been shipped out of the AW from Beirut, Kuwait, Manama, Amman and Saudi-Arabia. Why this process happened? Capital cannot be transferred into another environment or another land because it has an owner. Therefore it has to be transferred at a cost and cost is return which cannot be secured from thin air. In order to become actual investment capital must be exchanged for securities. In the A.W. no long-term securities are issued. There are not issued because Arab investor that is the owner of capital, be it private sector or public sector, is prudent. The funds are placed at a return given a specific level of risk they can identify. In the A.W. some securities are available in the Kuwaiti, Lebanese, Tunisian and Jordanian stock or financial markets. All these securities cannot satisfy the surplus deposits of two or three Arab financial institutions. So I mentioned in my paper no substantial funds go to regional financial institutions because the Arab investor is not sure of the information on the securities. He is not sure that the information is accurate, adequate and current. The Kuwaiti investor does not know if the price of the share of the Jordan patash Company is JD 10 or JD 10.1% per share. The difference between JD 10 and JD 10.1 is substantial for any investor. On the other hand the same investor has, minute by minute, information on securities in Paris, London or Hong-Kong. Prudence oblige.

In my mind there is no nationalist and non-nationalist investor, there is no "traitor investor". On the other hand there is good and bad investors and only the black and the red distinguishes between them respectively. That is all as far as I am concerned and as far as the markets is concerned. Funds transcend nationalism, politics, religion etc... Funds have a soapy concept and the only thing that makes them stick is return. This is the score of the problem. If Arab private and public institutions can manage to create liquid, marketable and quotable securities we shall, then, have transmission of funds from one A.C. to another. There are some legal, political and administrative restrictions both on funds and investors but these restrictions can be easily overcome. For instance as a result of my discussions with the management of A.C.T.S I know that the latter is willing to be active in any Arab financial markets provided there is a market and provided there is a flow, forth and back, of information on security prices. As a matter of fact ACTS tried to establish a working relationship with the Amman financial market. Not one single transaction took place. The reason is that the Jordanian

financial market is able to absorb domestic financial surpluses. Step by step with market - makers such as ACTS we can built an integrated Arab financial market.

We have to bear in mind that no market-maker buys all the securities it trades. For instance ACTS will sell securities to its customers which are looking for them, and to which it can recommend a certain risk level. Without proper information neither ACTS nor any other institution can assess the risk involved. Financial institutions can swallow only carefully calculated risks. Capital ventures have to be measured on a risk/return structure. Unless we allow Arab financial institutions to do it scientifically there is no way you can create securities and without securities there can be no substantial self-maintained flow of funds within the Arab world.

Prof. Umar Kazi.

I would like to raise the issue of income velocity of money, since, in my mind, this parameter can summarize most of what has been said by both speakers. We know that income velocity is high in developed countries and lower in developing countries. I want to ask the speakers whether economic development depends on income velocity or income velocity depends on economic development. Prof. A. Harik talks about the facilities available to Arab businessman. He seems to be moving in the world of J.M. Keynes where consumption is determined within the system but investment is autonomous. For keynes himself the whole system is determined by the "animal spirit of the businessman". Prof A. Harik did not analyse the characteristics of the Arab businessman. Both speakers said that financial integration is not an end in itself but just a tool. However they did not specify if it is a tool to create economic development or just to facilitate, to speed up an already existing economic development. For instance in the neo-classical school labour is the only productive factor of production on the other hand according to the Chicago school or mercantilist school it is money or capital that creates goods and services. The question is are we going to integrate the Arab world on the basis of financial sector or on the basis of real sector?

Finally I would like to ask Dr. A. Guecioueur how the creation of an Arab Dinar could be implemented?

Dr. A. Guecioueur.

I, for one, did not link Arab economic development to the income velocity of money. Therefore I have no ready-made answer for you. From a historical point of view the creation of money did contribute to increase the economic activity. However, it depends on what type of money you have in mind since as you know very well you have five ways to measure money in a complex economy: M_1 , M_2 , M_3 , M_4 and M_5 . I can also cautiously add that increasing the income velocity of money means increasing economic activity but it does not mean necessarily increasing domestic productive economic activity. An increased economic activity could be caused by a higher level of consumption satisfied through importations from non-Arab countries. In this situation the increased income velocity of money has contributed to link to integrate the Arab country concerned to another economy outside the Arab world.

Concerning your second question I can say that as far as I am concerned that Arab economic integration should be based on the real sector, but one should not underestimate or neglect the role, either stimulating or distimulating, of the financial sector. The financial network constitute the blood-vessels of the economy and capital constitute the flow of blood, and as you know very well in order to fulfil its function blood must not be idle, it has to circulate.

Finally concerning the Arab Dinar I am not idealistic. If I look at other group of countries I can see that the E.E.C is introducing The European currency unit (ECU) and the Comecon countries have the Convertible Rouble. Of course it does not necessarily follow that the Arab countries should have an Arab Dinar. However, in my mind, we need such a currency for two reasons. First no single Arab currency is able and willing to play a regional role. Second the use of non Arab currencies between individual AC has contributed to integrate the Arab world to the world economy and the way this world economy's "Working" does not serve the interest of the developing countries including the A.W. The Arab Dinar has to be introduced gradually and one of the ways to do it is through a regional payment system that would stimulate inter Arab trade and at the same time by-pass the so-called convertible currencies.

CHAPTER FOUR

TRANSFER OF TECHNOLOGY

The Role of Technology
in
The Development and Integration of the Arab World

Prepared by:

Dr. Bichara Khader
Directeur
Centre d'Etudes sur le Monde
Arabe contemporain
Louvain La Neuve,
BELGIUM.

The Role of Technology in the Arab Development

There is no doubt that the future of the Arab World depends on its capability to change the structural set-up of its economy. In its present state, the Arab economy primarily suffers from structural imbalance between the productive sectors. The dominance of the primary and tertiary sectors is evident. Moreover, the contribution of the secondary sector to the Gross Domestic product is meager when compared to the contribution of consumption-oriented industries.⁽¹⁾

There is a growing recognition that Arab countries are not likely to be able to restructure their economies, break away from chronic backwardness and achieve high growth rates unless they obtain the most appropriate type of technology so as to improve their conditions and enable them to grasp the imported technology and utilize it in accordance with their needs.

Therefore, the importance attached to technology in accelerating socio-economic progress is readily recognized. The ever-increasing interest in technology, however, has not been accompanied by serious discussions

(1) For more details about this subject see:

Dr. F.S. Jaber, Science, Technology and National Development, Oil and Development, Baghdad, 1980, p. 16; and Samir Amin, L'economie Arabe Contemporaine, minuit, Paris, 1980.

of the related issues which remain ambiguous owing to disconcern among Arab politicians and intellectuals which amounts to a real catastrophe.

1. Technology: An Elusive Concept:

The word "technology" is one of the most elusive jargons⁽¹⁾. It has been explained by various ambiguous ways to the extent that it has become almost impossible to accurately determine its real meaning. Technology may be defined as follows:

- a. The combination of knowledge, experience and skills necessary for manufacturing a certain product and constructing the appropriate machinery for the manufacturing process, or
- b. The methods invented by man according to scientific methods depending on his knowledge, experience and skill which put for his service.

In simple conceptualization, technology comprises the tools, production methods, science and knowledge. The concept of technology therefore, includes the machinery (material side) and utilization

(1) Dr. D.S. Radwan and Dr. M.A. Jaber, "About the Concept of Technology, the historical background for its development and the difficulty in the transfer of technology into the developing countries", Arab Thought, No. 7, January, 1979, Page 67.

method (functional side). This shows the difference between technology and pure sciences, for the former not only depends on knowledge, it " extends from scientific laboratories into application to realize the scientific objectives as well "(1).

We therefore propose the following:

First: The interlocking and integration of the material side and functional side of the machine, for the absence of one cancels the performance or existence of the other.

Second: Importing technology is confined to buying machines and their functional methods, while the knowledge used to invent these machines is still monopolized by some states and thus nontransferable.

2. Technology is not a Magic Prescription:

The developing countries firmly believe in the existence of a relationship between technological progress and economic growth. Some observers claim that 90% of the rise in productivity in the U.S.A. over the long-run and, the 88% productivity improvement in manufacturing in Italy between 1951-1966, can be attributed to factors relating to technological progress and the rest caused by increases in capital and Labor. (2)

(1) Muneer Allah & Yardey, The practical role of technology in developing states, Baghdad, Ministry of Culture and Arts, 1978, p. 24.

(2) Dr. M.M. Ismael, "Problems of Technology Transfer from developed to developing countries", Social Sciences Magazine, Oct., 1976, p. 26.

Technological progress contributes to economic growth by:

- a. Increasing natural resources through new discoveries.
- b. Discovering new uses for the existing resources.
- c. Improving the productivity of existing resources, (by using fertilizers for instance).
- d. Discovering new production methods.

At first glance, it seems that the developmental process is dependent on technological progress or the import of technology . But this is wrong. It is also wrong to believe that the transfer of technology alone is sufficient to accelerate growth and end backwardness and dependency on the outside world. For development means a change from conventional into modern technical methods in all sectors and not only the increase in employment and the use of capital. However, this does ~~not~~ mean that technology works like magic and that its acquisition should necessarily produce positive results.

Technology depends first and foremost on man and his ability . The lack of absorption capacity and innovation renders the imported technology an enclave in the economy which opens the door to new colonialism and dependency. On the other hand, technology should be viewed within a comprehensive developmental strategy framework in order to utilize it effectively. Therefore the availability of capable human element and comprehensive developmental strategy are two necessary conditions to overcome the technological barrier.

3. Technology and Monopoly:

The developing countries suffer from a widening technological gap between them and the advanced countries. The developing countries'

population constitutes 70% of the world population while their income reaches only 30% of the world's income. On the other hand, 95% of the technological progress is monopolized by the advanced countries while the developing countries share is only 5% which indicates that the benefit of technological progress is not distributed equally between nations. (1)

There are many factors leading to the existence of the ever-widening gap between advanced and developing countries. The most important factors are : (2)

- a. The existing cultural backwardness.
- b. The insufficient importance attached to education in developing countries.
- c. Insufficiency of governmental contribution towards scientific and technological research.
- d. The deterioration of the economies of developing countries owing to the mounting external debts, shrinking aids and inflation.
- e. The brain drain from developing countries.
- f. The ever-increasing costs of importing technology.
- g. The unappropriateness of the technology in the advanced countries to the prevailing economic and social conditions in the developing countries.

(1) Maurice Goldsmith (ed.): Technological innovation and the economy, Wiley Inter science, London, 1970.

(2) Dr. M. Ismail; Op. Cit., pp. 28-29.

4. Technology Between Imitation and Rejection:

Most developing countries and particularly Arab countries, concentrate their development policies on Western imported technology. This was called "~~westernization~~" in the past and known as "Modernisation " at present ⁽¹⁾.

In the Arab World for example, Mohammad Ali and Tal'at Harb followed the European style in the Egyptian renaissance ⁽²⁾.

Although Westernization is being condensed now and then, most of the Arab policy decisions are still affected by an emulatory style of modernization. Some extremists, however, call for a complete rejection of Western style modernization because of the potential dangers of "technological colonialism". Thus, the optimal solution, ~~in the 80's~~, is called: "The strategy of self-sufficiency". Self-sufficiency does not mean complete isolation from the outside world. Japan and Russia during their isolatory period used to send their experts to be trained abroad and utilize the help of foreign experts for a number of years ⁽³⁾.

Unfortunately, the self-sufficiency strategy has not received the due concern. ⁽⁴⁾

(1) Bernard Lewis, The emergency of modern Turkey, Oxford University Press, 1966.

(2) G. Qadam, "Arab Countries: Breaking-out of Technological Backwardness", in his book; Arab Economy facing The Challenge, Dar Al-Taleeah, Beirut 1977, pp. 240-41.

(3) Ibid; pp. 242-243.

(4) Ibid, p. 245.

1. The Concept of the transfer of Technology:

Inventions and their applications are difficult, require a long period and involve astronomical costs. The availability of the appropriate environment as well as a large number of scientists, researchers, technicians and skilled manpower are essential prerequisites for inventions and their applications. While these prerequisites are sufficiently abundant in the advanced countries, their scarcity in the developing countries force these countries to rely on imported technology.

In fact, some developing countries, managed, by importing technology, to accelerate development and affect a change in their economic structures. They failed, however, to achieve the required goal and hoped of qualitative change and hence, their position as exporters of raw materials and, importers of intermediate and manufactured goods remained unchanged. The failure of the imported technology to bring about the expected changes indicates the difficulty of importing technology for development owing to the monopolistic power being exercised over its sale and distribution. The point may become clearer if we replace "technology transfer" by "Marketing technology"¹⁾.

For the transfer of technology is basically a commercial transaction between buyers and sellers agreement upon a certain price for the transfer and operation of technology based on arranged contracts.

1) Bichara Khader: Du transfert technologique à la maîtrise de la technologie, DVLP, Université de Louvain, 1980, p. 15. and:

Mustafa-Kamel Bouguerra: le commerce technologique entre pays d'inégal développement, Presse Universitaires d'Aix Marseille, 1977.

2. Difficulties in Buying Technology:

There are obvious difficulties in the commercial transactions concerning technology. In many cases, we find that the aims of the buyers and sellers are contradictory. For the developing countries seek the inflow of technology according to certain conditions determined by their developmental aspirations, whereas the advanced countries and their multinational corporations aim at maximizing profit by monopolising the export of technology.

Under present circumstances, the developing countries cannot ~~do without~~ buying machinery and technology, but there are certain principles that must be observed in technology transfer.⁽¹⁾

- a. The imported technology must be appropriate both quantitatively and qualitatively so as to meet the basic needs of the developing country. The objectives must be clearly defined to cover the technological shortages in the country's manufacturing programmes in a determined period.
- b. The imported technology must be easily and quickly absorbed.
- c. Scientific and objective criteria must be established for comparing and choosing the imported technology in accordance with the developmental priorities.
- d. ~~Providing~~ the basic structure is an essential requirement for the introduction and adoption of the imported technology.

For reasons that will be explained later, we rarely find that these conditions are strictly observed.

(1) D.S. Radwan and M.A. Jaber, Op. Cit., P. 75.

3. The Problem of Choosing Technology:

Technology is not neutral , in the sense that it is determined by the conditions, the objectives and the needs of the production units dealing with it. There exists various schools of thought about the most appropriate technology to employ the available resources for the best and quickest achievements so as to narrow the gap between advanced and developing countries.

The requirement of the development plan itself determines the dynamic concept for the process of technological choice in line with the conditions of each developing country. In this respect, there is no ready-made technology which can be called "appropriate technology" that can be imported as if it were a magic tool which will achieve miracles.

There are several internal elements which are essential for the rationalization of the choice of technology for development. ⁽¹⁾

- a. The existence of a political leadership which believes in the masses and strives for their welfare.
- b. There must be a central economic development plan which includes a program for technological and educational development.
- c. The development of human resources.
- d. Attending the educational policies with the due consideration.
- e. Improving the research and development centres.

(1) This is a summary of F.S. Jaber's study, Op. Cit., PP. 45-48.

- f. Encouraging the active role played by the universities and higher institutes.
- g. The procurement of the scientific and technical information.
- h. Adopting continuous training and informal education policies in the various activities.
- i. The establishment of national engineering consultancy bureauX.
- j. Rationalizing the use of the manpower and curtailing the brain-drain.

The availability of these elements helps to avoid serious mistakes in choosing technology. But we cannot ignore the exporting country whose objectives and conditions may not necessarily coincide with those of the importing country.

There are only few outlets in the international market which are dominated by the seller who, in many cases, impose his commodity. For the market of technology is being monopolised by a limited number of countries and multinational corporations which offer for sale only the technology that they plan to sell. Moreover, the sold technology is often not advanced thus the dependency is not removed.

This means that the choices open to the developing countries are limited by considerations determined by the monopolistic sources ⁽¹⁾. The problem gets more complicated due to the fact that the information available to the developing countries about alternative technologies is very limited because of the above-mentioned monopolistic situation. This situation forces the developing countries to use technology designed to suit the social and economic conditions of the advanced countries which assumes the following conditions:-

(1) S. Jaber : Op. Cit., P. 77.

- a. High per-capita income.
- b. Large size of the market.
- c. Abundance of capital.
- d. Scarcity of labor.
- e. Advanced industrial base.

Obviously these conditions are not prevalent in the developing countries conditions and since changing these conditions is very difficult the alternative is to modify the imported technology.

4. Intermediate Technology⁽¹⁾:

From the foregoing we can assume that technological progress for developing countries may achieve better results if it were independent from the pressure imposed by the contemporary technology which is developed and evaluated in the industrial countries. Therefore, the call for "intermediate technology" has emerged⁽²⁾.

There are many idioms used to mean the same concept such as: the "appropriate" technology, the "soft" technology and the "inexpensive" technology. There is no need to indulge in a fruitless debate

(1) Nicolas Jequier: La technologie appropriée: problèmes et promesses, O.C.D.E., Paris, 1975.

(2) Ernest Schumacher: Small is Beautiful: une Société à la mesure de l'homme, Seuil, Paris, 1978.

(1)
about these concepts, but suffice it to say that the aims of the intermediate technology-irrespective of its label - should not contradict the following objectives:

- a. Limiting as far as possible the usage of the natural resources only to renewable resources.
- b. Preserve these resources.
- c. Self-sufficiency for the various regions within the country.
- d. Direct control of the producers over their production and consumption affairs.
- e. Putting an end to exploitation.
- f. Environmental balance.

These objectives are difficult to achieve and constitute a call for a social system. Naturally, many developing countries are sceptical about the intermediate technology and consider it as a cynical method for the establishment of a final barrier between the rich and the poor countries.

(1) For more details about this subject see:

Bichara Khader: "Reflexions sur les transferts des techniques"
in Technologie et Tiers-monde, F.I.U.C., Louvain. La Neuve, 1980,
11.19.30.

5. Methods of Technology Transfer:

Technology can be transferred in three forms:

- a. People, b. Machinery, c. Engineering.

The developing countries may obtain technology from the advanced countries through several ways - within the limits mentioned above.⁽¹⁾ They can, for example, import technology in the shape of machinery and capital goods, or through investing directly in multinational corporations. Technology may also be obtained through franchising or licences. However, the differences between these methods are related to the degree of dominance over the usage of technology. This dominance is inversely related to the stage of development of the developing countries. The more developed the country the stronger is its bargaining position and ability to break away from the limitations and direct control of the source of technology. These limitations are:-

- a. Changing the bought machinery.
- b. Changing the exports.
- c. The imposition of certain guarantees.
- d. Changing competition.
- e. The confinement of technological impact.

(1) UNCTAD: The Channels and mechanisms for the transfer of technology from developed to developing countries. New York, 1975, p. 13.

The developing countries do not only have to face these limitations but also the costs of transferring technology.⁽¹⁾

Conclusion:

In the first part of this study we tried to shed some light on the dimensions of the process of importing technology. We deliberately avoided complex and fruitless theorising. The process of importing technology is by no means an easy task, but there are certain principles involved. These can be summarized as follows:

1. A direct relationship exists between scientific research and economic development.
2. Science is not only discoveries and knowledge. Neither it is machinery, goods and methods. For all these conceal a certain style of thinking and working methodology.⁽²⁾
3. The most serious problem in the developing societies consists in their inability to integrate their scientists into the National framework.
4. Developing countries may benefit from the advanced countries through the media, patents and the import of technology.

(1) Dr. I. Najar quotes some astronomical cost figures for the direct and indirect costs of importing technology: see his paper "The developing countries and the technological challenge", Social Services Magazine", August, 1978, p. 39.

(2) Technology is often-wrongly-considered as a neutral element, Pierre Gonod; " Nonvelles representations des transferts technologiques", in *Revue Mondes en Developpement* Paris, J.S.E.A. 1977.

5. Technology is imported by contractual agreements, *but* the cost incurred in the process is very high in addition to limiting the importers' freedom. This means that the companies often refuse to sell certain technologies. Moreover, in many occasions the sold technologies would not be appropriate for the developing country's conditions, and it would rarely provide for larger employment opportunities.

Sound scientific and productive structures are essential for the importing countries to benefit from the imported technology.⁽¹⁾ In conclusion, we cannot consider any society as being technological or moving towards technological progress if:

1. The imported machinery is not appropriate.
2. The people cannot gain the required skill or develop it locally.
3. The beneficiaries constitute only a small *segment* in the society, then there will be no incentive for innovation.
4. This leads to the drain of the factors of production (Human and natural resources) to meet the increasing costs of importing technology.⁽²⁾ "

(1) I.S. Shalash, " The Technological Issue and its use in the Arab World," Arab Thought (Al-Feker Al-Arabi) No. 7, 1978, p. 89.

(2) Dr. G. Qaram; Arab Economy and the Challenge, Dar Al-Taleeah, Beirut, 1977, p. 235.

TECHNOLOGY AND DEVELOPMENT IN THE ARAB WORLD

Introduction:

Political independence is bound to lose its real value and meaning if it is separated from its economic sense. There is no exaggeration in adding that technological independence is just as important as economic independence. Economic dependency results in losing the sense of independence in the country while technological dependency leads to a loss of identity.⁽¹⁾

If we ask ourselves in the Arab World; where do we stand in this respect? We must frankly admit that we are technologically backward and suffer from dependency in this field. Our role is mainly confined to following the news of scientific inventions, admiring them and then attempt to acquire technology despite the astronomical costs involved, forgetting at the same time that technology is not only the erection of a plant or a machine which could be operated at the touch of a button yielding the benefits of development to the society at large.⁽²⁾

This is briefly the Arab condition at present. To say the least; it is a hopeless condition which implies two dangerous matters:

(1) Dr. A. Issa: "Scientific - Technical Cooperation between Arab Countries" Oil and Development, March, 1979, p. 34.

(2) M. Nasif and M. Shaker, "Technology and Arab World", Arab Economy, No. 33, March, 1979, p. 36.

1. Confining the concept of development (which is a comprehensive process by necessity; social, economic, educational, political,... ect .) issue to an economic - technological issue unrelated to other aspects.
2. Transferring the developmental process into a mere emulation of the Western model which is viewed as the panacea for chronic backwardness.⁽¹⁾ This view rests on bringing back to life the old evolution theory. In his book, " The stages of Economic Growth - Non-Communist manifesto", Rostow mentioned such developmental view .⁽²⁾ President Nasser was very impressed by the book to such an extent that he ordered it to be translated into Arabic.⁽³⁾

There is no need for more details, but we mentioned the two issues above to draw the attention to the result that the Arab technological progress must not be confined to emulation but must be innovative. Innovation in this field is the only guarantee against the dangers of waste in development. Dr. H. Sa'ab mentioned some of these wastages:⁽⁴⁾

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- (1) D.M.A. Al-Suaby, "About the sociological concepts of development", Oil and Development, April, 1978, p. 43.
 - (2) W.W. Rostow, Les étapes de la croissance économique, Seuil, Paris 1963.
 - (3) M.H. Heykal, les documents du caire, Flammarion, Parise, 1972, p. 174.
 - (4) Dr. H. Sa'ab, "Futuristic Comparison of Arab Development", Dar Al-Elm LL-Malayeen, Beirut, 1979, pp. 258 - 260.

- a. Wastage of Wealth: Oil represents the most important single item in the Arab World. Oil is an exhaustible resource and must be transferred into productive and developmental wealth .
- b. Dependency: Oil revenue is yet to be put into productive processes. If this revenue is not wisely used we only accentuate our dependency.
- c. Emulation: Arab capital must be used for the realization of an Arab Developmental Model which is based on innovation rather than emulation.
- d. Individualism: despite lip-service, there is no unified Arab policy or plan to invest the Arabs capital productively.
- e. Imbalance: some Arab countries are capital-rich while others are capital-poor.

The success in avoiding there wastages consists in adopting an Arab comprehensive development plan based on the following:

- 1. The adaptation of science and technology in the advanced countries innovatively.
- 2. Gradual movement from adaptation to complete innovation.
- 3. Optimal implementation of new technologies in development sectors.

1. The History of Science and Technology and the Arabs:

Since we are talking about innovation, we must remember that the Arabs reached a high level in the past. This fact is referred to by the great American Historian Sarten. In the Middle Ages, the Arabs had built a fine culture and applied technology to various

Arts and Sciences of which the Europeans used a great deal.⁽¹⁾

The examples are plentiful.⁽²⁾ Paper manufacturing - which spread gradually through the Islamic World in the eighth century - was introduced into France only in the thirteenth century. In the same century sugar industry came to be known in Europe while the Arabs had been planting sugar cane in Palestine, Egypt, Sicily and Spain for a long time. The same goes for metals, copper and iron industries. Europe had to wait until the end of the fifteenth century before they could start their chemical industries whereas the Arabs were well advanced in this field.

The examples of transferred technology in the middle ages from the Arabs to the West are ample. This indicates the dominance and refinement of the Arab Technology up to the fifteenth century. This means that Arabs must seek the missing ring which could bring back the innovative spirit which made the Arabs of the Middle ages a model to be followed.

(1) Ibid., p. 257.

(2) These examples are quoted from a study prepared by the Department for integrated Sciences studies in the Arab development institute Beirut , Al-Feker Al-Arabi, No. 7, 1979, pp. 151 - 165.

2. Arbitrariness in Transferring Technology to the Arab World:

Technology in the Arab World is tied to the manufacturing policies which are based on joint ventures with multinational corporations. The share of these companies is between 20-49% of the capital . There is a noticable development here, especially after the rise in Oil prices. This development is the adoption of manufacturing - for - export strategy which started in Tunisia and spread to the Gulf-States, Saudi Arabia, Egypt and Syria.

Looking at the manufacturing strategies in the Arab World we can see that:

- a. Foreign companies have a vested interest in transferring certain types of technology.
- b. The import of technology into the Arab World was not subjected to constructive economic planning.

The joint industrial projects or the sale of ready plants and factories by the multinational corporations yield to them the following gains :⁽¹⁾

1. In the light of the new international division of labour, the transfer of some technologies which are neither complex nor advanced became a strategic objective for the corporations.

(1) This is a summary of Dr. S. Al-Hafed study, " Manufacturing - for - export strategy: Its contents and results," Al-Faker Al-Arabi , No. 7, 1978, pp. 166 - 184 .

2. Since chemical, primary and intermediate industries require abundance of capital, the multinationals tend to establish such industries in the Arab States because of the availability of resources and capital. In this way, the financial burden is shouldered by the oil-producing countries.
3. The multinationals avoid the risks of marketing the final products.
4. Guaranteeing the flow of oil to the new factory from the Arab partner
5. In the light of the inflationary pressure in the oil-producing states, the multinationals realized that it is more profitable to sell them ready plants instead of entering into a partnership
6. There types of projects may not produce competitive products because of the fast changes in the cycle of production.
7. The multinationals attempt to internationalize production by establishing manufacturing units within a unified comprehensive policy comprises its interests all over the world.

This comprehensiveness and its market-dominating and profit-maximizing behaviour implies that:

- a. Production must be carried out at the location which yields maximum profit.
- b. Production is preferred as a part of the technical chain.

From this we can deduce that the choice and transfer of technology was not up to now - with the exception of few cases - in the interest of the Arab economies. The transfer was costly and the choice wrongful. This wrongful choice lead to the erection

of industries which provides only few job opportunities and of low efficiency.

These industries constitute a heavy burden on the financial resources of the Arab countries. Such industries, depend on technologies operated by foreign experts, undermine the potential of Arab exports.

All this is caused by the inability of the Arab states to evaluate economically the new technologies which should take into account the following factors:

1. Financial investment.
2. Industrial structures.
3. Production framework.
4. Production period.
5. Specifications and criteria.
6. Competitive alternatives and patents.
7. Present and expected demand.
8. Costs of production from the standpoint of the new technology.... etc.⁽¹⁾

(1) See the study prepared by the Department of economic studies of the Arab development Institute - Beirut Branch, issued in Al-Feker Al-Arabi, No. 7, 1978, pp. 23 - 46.

All these factors need detailed studies which can only be carried out by an advanced planning unit.

Feasibility studies for industrial projects in the Arab countries are often undertaken by professional consultants abroad. In many cases, these studies are never implemented, because the Arab countries lack the specialized experience in the international market conditions as regards technical patterns, manufacturing methods and production tools and machinery. In planning technology transfer they depend on foreign expertise.

This dependency leads to two negative results:

1. The experience gained by foreign experts under certain conditions and within the economic set-up of their environment may not necessarily be the type of experience sought by Arab countries.
2. Foreign experts often reflect their countries' interests when undertaking feasibility studies for developing countries.

The lack of technical control ability in the Arab countries makes matters worse. Feasibility studies reports are submitted by foreign experts to their Arab counterparts on the assumption of equal technical ability. This, is being untrue, results only in wastage of funds and efforts. ⁽¹⁾

Therefore, the Arab countries are facing a vicious circle which hampers its technological progress and hence its manufacturing strategy.

(1) Dr. D.S. Radwan and Dr. M.A. Jeber, Op. Cit., p. 85 .

What is the solution? The solution consists in the recommendations of Aden's conference (Feb. 1979). These recommendations are listed below without comments; but they evidently pinpoint the difficulties encountered in the path towards technological freedom:

1. Setting up national establishments specializing in the organization, transfer and adaptation of technology so as to perform the following activities:
 - Planning certain strategies to regulate the process of technology transfer and determining its priorities.
 - The establishment of choice criteria of technology in accordance with comprehensive development plans.
 - Establishing unified and appropriate specifications and measures for the industrial products.
 - Establishing national criteria to serve as guidelines when signing technology transfer agreements and evaluating existing agreements.
 - Registering existing industries as well as contractual agreements signed with technology exporters.

Documenting and circulating the latest technological information.

- Choosing suitable industrial zones and providing them with the essential infrastructure.
2. The development of national knowledge, expertise and skills so as to play the role of:

- Matching the output of educational institutions with the manpower needs of the industrial development plans.
 - Restructuring educational systems, expanding vocational training programmes and developing the national human resources especially in the technical and modern management fields.
 - Establishing research and development institutes and determining their basic fields and priorities to conform with the suggested national plan for science and technology.
3. Furnishing a national technological environment which must be suitable from the economic, political, educational and social standpoints. Adopting an integrated comprehensive development planning with science and technology as a basic principle.
 4. The unification and coordination of the Arabic effort in technology transfer negotiations.
 5. Working out a suitable formula to organize the work of artisans and skilled workers with the engineers.
 6. Ending all deals with ready projects and replacing them with licensing agreements.
 7. Ascertaining that the process of technology transfer is in accordance with:
 - General Arab. economic, social and educational planning.
 - Balanced geographical distribution of the transferred technology.

- Population distribution.
 - The balance between the various productive sectors.
 - The balance and economic coordination between heavy, intermediate and light industries.
8. Dealing with tested technologies which may be appropriate for our conditions.
 9. Seeking the elimination of illiteracy.
 10. Encouraging women's participation in industrial activities.
 11. Setting up national engineering consultancy offices .
 12. Simplifying and spreading scientific knowledge.
 13. Rationalizing the use of manpower and limiting the brain drain.
 14. Developing sound and reliable information systems between the Arab countries and between them and the rest of the world.
 15. Calling upon the Arab scientific research councils to form specialized research units in all the science and technology fields. (1)

(1) Symposium on: Technology transfer and industrialization problems in the Arab World, Aden, Yemen Democratic Republic, Feb., 1979, final communique.

These *brief recommendations* are only a duplicate of the recommendations prepared by the Baghdad symposium (May 1978) for the U.N. conference for science and technology which was held by the Union of the Arab Scientific Research Councils. These recommendations are a repetition - though in a new form - of recommendation No. 4 dealing with technology transfer which was adopted by the conference of Arab Ministers responsible for the application of science and technology in development. This conference was held in Rabaat between 16 - 25 August 1976 and called for by the Arab League Educational, Cultural and Scientific Organization (ALECSO) and the Economic Committee for Western Asia (ECWA).⁽¹⁾

The implementation of these recommendations is blocked by various problems and *obstacles* which emphasize the importance of the subject we are dealing with. Therefore, we start from these recommendations to show the difficulties encountered in their implementation.

(1) UNESCO , Science and Technology in the development of the Arab States, No. 41 , from : Studies in the Scientific policies documents, Paris, 1977 .

3. The Scarcity of Establishments Capable of Evaluating and Appraising Technology:

The aforementioned recommendation indicate the dire need for the creation of a technical body both qualified to and capable of planning and appraising technology. Such a medium is missing and if existent it would be old or inefficient.

In the absence of local appraising institutions, Arab countries will remain completely dependent on foreign firms.⁽¹⁾ As regards existing institutions, they are often inefficient owing to ineffective management.

4. The Division of Technological Service:⁽²⁾

As mentioned before, Arab countries especially oil producing countries - tend to buy ready plants for their industrialization projects. This procedure raises certain problems such as :

- (i) the difficulty of adapting the imported technology to local conditions, (ii) the exclusion of local participation and (iii) the high costs involved .⁽³⁾

(1) The study of the Economic Studies Dept., Op. Cit., pp. 28-29.

(2) Dr. B. Khader, Op. Cit., pp. 18 - 19 .

(3) G. Qaram ; "Multinational corporations and the Third World Path into Modern Technology", Al-Feker Al-Arabi, No. 7, December, 1978, p. 15.

The solution is to examine the component of the required technology and appraise the technical, social and economic cost so as to eliminate the components that could be developed locally. In this way local talents and resources are given the opportunity to participate thus reducing total costs.⁽¹⁾

5. Financing the Transfer of Technology:

Financing industrialization in the Arab World raises certain questions. For some projects cost double or more than double the cost of similar projects in industrial or semi-industrial countries such as India.⁽²⁾ Unfortunately, there is no complete study which uncovers the exaggerated costs.⁽³⁾ Trade marks, license, the cost of technical expertise and transferred profits are but only a part of the real cost of the transferred technology.⁽⁴⁾

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- (1) A.H. Younis, "Technology transfer between dependency and self-sufficiency", Oil and Development, November, 1979, pp. 71 - 72.
- (2) The cost of a Tractor Factory built in Algeria was \$ 87 million, while a similar factory in India cost only \$ 23 million.
- (3) Dr. I. Al-Zaeem: "An attempt in appraising present and future technological relations between advanced and developing countries", Arab Preliminary Symposium for the U.N. Conference on Science and Technology for development, Baghdad, May, 1978.
- (4) Dr. G. Qaram, "Financing technology transfer in the Arab World: Historical view, " a study presented to the symposium on "Technology transfer in the Middle Eastern Arab countries, organized by ECWA, Beirut, Oct., 1979.

The situation is more complicated in the oil-producing countries than in other Arab countries. In Kuwait for example, foreign workers constitute 70% of the work force. The percentage is also high in Saudi Arabia and the Gulf which constitute a financial drain.

6. The Reverse Transfer of Technology (Brain Drain):

The incentives and inducements for emmigration of high caliber Arab workers to the industrial countries are numerous. Some of them are: high living standards, "cultural advancement",⁽¹⁾ and the availability of research and scientific facilities. But the most important reason for emigration consists in the inability of the Arab States to absorb the specialists either because of the lack of scientific facilities or the lack of economic and political stability.⁽²⁾

However, this does not mean that absorption capacity would eliminate emigration, but it would reduce it.⁽³⁾

(1) A. Baha Al-Dean: "The Educated and the Authority in the Arab Countries", Al-Arabi, No. 217, Kuwait, Dec. 1976, p. 60.

(2) Dr. K. Hamdoon, "The failure of scholarship students to return to Iraq after graduation 1958 - 1970", Baghdad, April, 1973, p. 28.

(3) Dr. I. Al-Najar "Developing countries and Achnological Challenge", Social services magazine, August 1978, p. 33.

What are the effects of the drain of specialists from the Arab World? There are certain positive aspects of emigration of specialists from the Arab World such as:⁽¹⁾

1. Emigration of specialists is considered as a safety valve for those countries experiencing a surplus in University graduates. The remittances of the emigrants are also a positive contribution to their home economies.
2. The emigration of graduates surplus eliminates the problem of finding employment opportunities.

The negative aspects of brain drain are:

1. The emigration of specialists represents human and financial loss, manifested by the opportunity cost of their potential contribution to the cultural, social and economic advancement to the home country.⁽²⁾
2. Training expenditure of emigrants are considered as social investment. Thus emigration represents a wastage of national wealth⁽³⁾, since the returns to such investment accrue to the receiving countries instead of the sending countries.

(1) M.Z. Al-Nadar "The Pros and Cons of Brain Drain", Kuwait's Chamber of Commerce and Industry Magazine, No. 120., Kuwait 1970, p. 3, quoted from W.Y. Hadad "Emigration from the Arab World: Economic Aspects, causes and emigrants conditions", Oil and development, March 1979, p. 105.

(2) Dr. O. Zaid: "Developing countries and reverse transfer of technology", Oil and development, May, 1976, p. 56.

(3) W.Y.Hadad, Op. Cit., p. 106.

3. The emigrants play a positive role in the progress of the advanced countries. A United Nations study for commerce and development note that the 230,000 immigrants from developing countries in the period 1961 - 1972 contributed \$ 6000 million to the national income of the advanced countries .⁽¹⁾ An American study reveals that the contribution of emigrant Scientists, Doctors and engineers to the U.S. National Income reached \$ 3662 million in 1970.⁽²⁾

It is interesting here to note that although the Arab oil-producing countries import foreign expertise, they do not reap benefits by the same proportions. The reason is that they are mainly employed on temporary basis and they remit large part of their earnings.

4. The process of replacing the emigrants is much slower in the case of the Arab Countries if compared with the advanced countries. The replacement of one hundred emigrant specialist doctors may take up to 15 or 20 years in an Arab country while the replacement could be completed within two years in the case of a country such as Germany .⁽³⁾

(1) UNCTAD, The reverse transfer of technology: its dimensions, economic effects and policy implications, UNCTAD SECRETARIAT, TD/B/C/6/7.

(2) National Science Foundation, Dentists, Engineers and physicians from abroad: trends through fiscal year 1970, National Science Foundation, Washington, D.C., June 1971, and N.S.F., emigrant scientists and engineers in the U.S.. A study of characteristics and attitudes (Washington , D.C.,)1973.

(3) W.Y. Hadad, Op. Cit., p.106.

How can Arab countries deal with the problem of the reverse transfer of technology. Some Arab countries - as is the case with various other developing countries try to *regain* part of their investment in emigrant specialists through the medium of international aids. This however, remains a temporary measure and does not solve the problem.

Arab countries may revert to the imposition of taxes on emigrants' earnings which would make the potential emigrant think hard before emigrating. Such taxes may reduce the rate of emigration but would not stop it completely. On the other hand, such taxes may force the emigrant to obtain the nationality of the country of residence so as to avoid paying the sur-tax imposed by the sending country. Sur-tax is not the best solution. There are other methods some of which are mentioned below:

1. The establishment of well-equipped research centers for scientists.
2. Determining the needs and potentialities of the various sectors and distributing the specialists to these sectors according to a sound pre-determined plan.
3. Encouraging the specialists through the enactment of laws designed to organize scholarships, fellowships and studies abroad.
4. The stipulation of the employment of a certain percentage of Arab specialists abroad by the foreign companies when signing contracts with these companies. This would gradually reinforce the relations between the emigrant specialists.
5. The establishment of national organizations to organize the returning process so as to help returning migrants *re-dimatize* and eliminate any source of *alienation* or despair.

These solutions remain ineffective unless suitable social and political conditions prevail. However, migration is being restricted in the advanced countries owing to the economic conditions, which may help towards solving the problem of the reverse transfer of technology. ⁽¹⁾

7. The Role of Research and Development:

Research and development play an important role in the educational and economic development. United Nations Statistics reveal that the developing countries devote only 0.2% of their GNP for R & D compared to 1 - 3 % in the advanced countries. :

We know that in the developing countries there are two researchers for every 10,000 people while in the U.S.A. there are 27 researchers for every 10,000 people, 10 in France and 8 in Denmark. ⁽²⁾

The situation in the Arab countries is no different from that of the developing countries in general as shown in the following table: ⁽³⁾

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- (1) Hussein G. Akari, and John T. Cummings: The Middle East and The United States: a pattern of Brain-Drain", International Journal.
- (2) Schiller THEBAUD " les systemes de recherche scientifique et technique des pays en voie de developpement" in TIERS-MONDE, Janvier-mars, 1977// 7L9 - 130.
- (3) K. Al-Halabi, "Arab Brain Drain in a blocked path", Al-Watan Al-Arabi, No. 4., March 1977 p. 80.

Percentage of GNP devoted to R & D for Selected Arab
Countries

<u>Year</u>	<u>Country</u>	<u>%</u>
1974	Algeria	0.13
1973	Egypt	0.83
1974	Iraq	0.25
1973	Jordan	0.31
1973	Kuwait	0.01
1973	Lebanon	0.40
1974	Sudan	0.33
1972	Tunisia	0.30
1975	North Yemen	0.25

The rise in the oil prices and consequently oil revenues contributed to the promotion of R & D activities particularly in the oil-producing states. However, R & D still occupies a low position in the Arab countries. To change this unusual situation, 1-2% of the GNP must be earmarked for R & D or about one to one and a half billion dollars in 1981.

The fact that brain drain hinders the promotion of R & D centers does not justify the sluggishness in developing these centers.

The following tables show the percentage of Arab scientists and engineers in various Arab countries:

<u>Country</u>	<u>% of Scientists and Engineers (for every 100,000 inhabitants)</u>
Egypt	1657
Qatar	1573
Lebanon	1163
Kuwait	1139
Iraq	432
Bahrain	395
Libya	352
Saudi Arabia	395
Sudan	84
Tunisia	61
South Yemen	22

Arab Scientists and Technicians Working in Government Sector
Only. ⁽¹⁾

<u>Country</u>	<u>Year</u>	<u>Scientists & Engineers</u>	<u>Technicians</u>
Egypt	1973	593259	-
Palestine	1977	143750	-
Iraq	1974	43645	24689
Saudi Arabia	1974	33376	-
Syria	1970	27369	21297
Sudan	1972	13792	2739
Jordan	1975	9787	5498
Libya	1973	8319	10603
Kuwait	1973	12151	586
North Yemen	1975	1394	680
Qatar	1975	1352	577
Bahrain	1971	829	8145
Tunisia	1974	3421	7714
Lebanon	1973	37000	8000

(1) This table is based on statistics provided by the UNESCO, 1976.

To put these figures in their real prospective they must be compared with those of other countries. In the advanced countries we find 29 engineers for every 1000 people and in Latin America 10 engineers for every 1000 people. As far as the Arab countries are concerned we find differences. For Palestinians, for example, there are 18-20 engineers and scientists for every 1000 of the population while there are only 1 -2 in Yemen. ⁽¹⁾

Despite the availability of a number of scientists and engineers, most of the Arab countries experience manpower shortages in the fields of R&D . This may be attributed to brain.drain and to the fact that a number of the scientists are not involved in R&D.

The aforementioned UNESCO study estimates of those working in R&D appear in the following table:

Percentage of Scientists Working in R & D out of Total Number of Scientists in Selected Countries (Estimates):

<u>Country</u>	<u>%</u>
Egypt	0.2
Iraq	3.6
Jordan	3.5
Kuwait	1.5
Lebanon	1.0
Libya	0.6
Sudan	1.8
Advanced Countries	10 - 50
Average for Arab Countries	1.0

(1) D.B. Khader and N. Khader, Palestinian People: Human, economic and scientific capabilities, Arab Research Centre, Louvain University, Oct. , 1980.

The important tasks of the R&D Centres in the Arab countries include the following:⁽¹⁾

1. Regular surveying of the various resources and the possibilities of their development and utilization.
2. The improvement of the production methods.
3. The preparation of feasibility studies for the national development projects.
4. Training technical and scientific cadres.
5. Development of science and technology information and documentation centers.
6. The provision of supportive services to the economic projects such as the choice of the appropriate technology, testing products, standardization and so forth.

While these tasks were recommended by Aden's symposium (Feb. 1979), Amman's conference added the following:⁽²⁾

1. The encouragement of co-ordinated national or regional scientific research.
2. Guaranteeing the free movement of Arab scientists.

(1) A.H. Younis, Op. Cit., p. 73.

(2) Symposium held in cooperation between the Union of Arab Scientific Research Councils and the Royal Scientific Society in Jordan, cf. the final report.

3. Co-ordinating the activities of the research centres, the university, technical institutes and planning centres.
4. The provision of sufficient funds.
5. Dealing with the low demand ^{of} the results of the national scientific research.

CONCLUSION:

The outcome of this study is that technology is an elastic or flexible concept, and that the concept of transfer is elusive.

Technological knowledge, machinery and skills are different but related combinations. Machinery and skills are often available in the market for sale but under certain conditions imposed on buyer.

The main feature of technological knowledge is that it cannot be bought ⁽¹⁾ but it can be learned, and learning requirements differ from commercial transaction requirements. Learning and education is a relatively slow process. Usually, Arab countries seek instantaneous results. Therefore, Arab countries policies aim at obtaining the machinery and services rather than absorbing technology.

Buying machinery is also restricted by various internal as well as external constraints with negative consequences for Arab countries. This indicates the necessity for adopting a new scientific view of the process of technology transfer. ⁽²⁾

(1) Dr. A. Radwan, "Technology Transfer into the Arab World", in "Studies in Economics, politics, and law", Fifth Diplomatic Seminar lectures, organized by the Foreign Ministry of the U.A.E. in Abu Dahi, 1977, p. 190.

(2) A.H. Younis, Op. Cit., p. 74 .

Arabs can determine their own destiny, but this calls for an integrated scientific planning based on :⁽¹⁾

Firstly: quoting innovatively from the advanced nations and organizing the scientific centres and institutes.

Secondly: the movement from quotation into technological innovation.

Thirdly: optimal implementation of technology benefiting from the mistakes of others.

Success in this respect, requires understanding of the differences between development and advancement. Also obtaining technology must reflect the needs, conditions and environment of Arab countries and not for conspicuous reasons.

(1) Dr. H. Sa'ab: " Futuristic Comparison for Arab Development", Dar A -Elm Beirut, 1979, pp. 255-56.

The Role Of Technology In The Comprehensive
Arab Development

by

Dr. Adib Haddad,
Economic Advisor,
Central Bank of Jordan,
Amman,
Jordan.

THE ROLE OF TECHNOLOGY IN THE
COMPREHENSIVE ARAB DEVELOPMENT

Technology plays an important role in the economic and social development in the developing countries and particularly the Arab Countries. Technological progress-whether achieved through continuous research , use of machinery, importing expertise, engineering or economic consultancy or any other technical method- would accelerate economic and social development in the Third World. For any nation, the higher the ability of creation and innovation, the faster it would realize economic growth and social welfare. Technology, therefore, is the main source of raising National Product since it increases the natural resources, helps discover new uses of the existing resources and new methods of production. Moreover, technology leads to the development of industries, mechanising agriculture and developing the society at large. Needless to say that the decisive factor is the human element whose ability to develop, transfer and master technology is essential.

The new concept of technology has been enlarged to encompass innovation and creation in addition to transfer and absorption. Technology consists of all the inventions and innovations necessary for the process of economic and social development at the various stages of development.

The innovative transfer of Western technology may suit our economic and social requirements but must be done within a comprehensive Arab plan. Such a plan must be based on building a special technological environment through the development of the institutions and basic structures which constitute a pre-requisite for the process of self-development in the field of technology.

The question now is: how can we develop the imported technology and tailor it to suit our economic and social conditions?

Before answering this question, allow me to mention some important problems facing the developmental effort in the Arab World. No doubt,

most developing countries-including Arab countries- suffer from a basic weakness. This weakness is their dire need for the necessary technology to build economic structures capable of keeping pace with continuous development. Therefore, improving the methods of production in agriculture and industry, improving communications and transport facilities, modernizing scientific and educational institutes are all considered to be of paramount importance to the development of the developing countries, particularly the Arab countries.

The process of transferring and developing technology cannot be completed overnight. It took the advanced countries a long time to reach the present level of technological progress. In addition, developing countries do not possess sufficient funds to buy all their technological requirements. Even if finance was no obstacle there remains the basic problem of absorbing the transferred technology. There are basic conditions which must prevail for the transfer process to be successful. It requires a high level of aptitude to deal with scientific progress or machinery, or with the industrial or economic consultancy because technology - in reality - is a revolution against many conventional concepts. In this respect developing countries and Arab countries must be careful not to take in more technology than they need and can absorb.

Past experience proved that advanced countries allow only the transfer of simple technologies. More advanced patterns of technology are only transferred if they accord with the vital interests of the advanced countries and within a number of restrictions to their usage. The monopolistic feature of the technology market and the imbalanced power of the transactors "lead to contractual agreements whereby the economic surplus is transferred abroad in return for the concepts and patterns of the Western social behaviour only".

The development of the imported technology must be built on a scientific base which requires organizing and enlarging the information base and the institutional frame from both the organizational and the legal

standpoint . This may seem easy to start, but it requires time and effort. The lack of such a scientific base in technology is perhaps the most important obstacle to the movement of Arab funds to affect real internal development or build a modern economic or social structure.

It seems to me that the first "Corner Stone" in the process of developing and mastering technology in the Arab World is our educational system. The universities, their laboratories and field studies produce the ideas which constitute the nucleus for innovation. In the universities, the social conditions and needs are studied in order to treat them scientifically. Scientific treatment is the application of science, and the application of science is technology itself. Therefore, the Arab Nation must encourage universities' studies and research into the problems, obstacles and real interests confronting the economic and social activities as is the case in Japan. This of course calls for financial support for the universities, the provision of sufficient financial incentive for the researchers, promoting an effective Arab system for the protection of patents and copyrights and establishing an Arab fund to finance the process of technologizing - as it were - the Arab World.

The "second corner stone" is that existing industrial firms should extend financial support for field and laboratory research into production problems in the industry. The results of the research must be adopted and applied. This is one of the important sources of developing technology in the industrialized countries.

Finally the technology conference held in Amman in 1978 and the Union of Arab Scientific Research Councils held in Aden in 1979, both recommended certain procedures and methods necessary for acquiring technological ability and establishing technology for the comprehensive Arab development such as:

Programs and activities related to the acquisition of productive capability, the collection of the available technological information

and analysing and publishing it; the unification and coordination of the specifications, measurements and criteria in the Arab World; utilizing the available Arab experience and establishing Arab Centres for research and studies.

Dr. Adib Haddad

DISCUSSION

TRANSFER OF TECHNOLOGY
AND
ARAB ECONOMIC INTEGRATION

(Discussion)

Prof. Dr. A. Badran: Actually the transformation of any consumer, society, such as ours, which depends economically on imports from all sources, to a producer society, requires science and technology in order to build up a national basis and a self-creative power and in order to carry-out scientific research and technological transfer adaptable to its own environment. In other words the supply of scientific knowledge through teaching, training and scholarships is necessary to increase the society's capacity to absorb modern technology or environmental technology. In fact two problems prevent this phenomenon from taking place.

1st; the ignorance crisis amongst the decision markers about the importance of scientific research, science, technology and education in the Arab World. The existence of funds of crude oil price increases made it much easier to import technological packages without knowing the content of these very packages. So we became a consumer society, the higher the oil revenues, the higher our consumption of ready-made technology imports. Even if we started a refrigeration factory it would be an assembly plant, we just assemble parts made outside the Arab World. Most of our industries are conversion industries. This crisis must be overcome in one way or another; the process is going on through teaching and training. In this field every Arab country witnessed a rapid progress. Our development is very recent although we live on the most ancient spot of the earth. However if one considers the independence period of the Arab World one finds reconforting signs. For instance in Jordan around 99% of the children of the 6 to 12 year age-group are at school. This is a good sign for future generations.

2nd, the industrial world has a monopoly over technology. This phenomenon has been the subject of study for several years. I attended the first conference in the early 1970s in New York in the Socio-Economic Council. Its main idea was to create a scientific-technological policy.

The last conference- The science and Technology Conference- I attended was in Vienna where the developing countries called upon the industrial ones to give them 0.5% of the GNP on the basis that developing countries would start building up their own power and national technology. This series of conferences showed that the industrial countries need the developing countries as technology consuming countries therefore they were not ready to help much. So the Vienna conference achieved a small contribution from the industrial to the developing countries, around \$ 100 millions.

I would like to add another point, we always consider the industrial countries as the major problem; it seems to me that we are looking for a scape-goat. I believe that the time is right to start the South-South dialogue, a solid inter-action between the developing countries. There are many beneficial lessons to be learnt from the experiences of Korea, the Philippines, Singapore and that of Japan which started from scratch after World War II, and which witnessed a great technological jump. These experiences adapted to our technological need will benefit us as a developing Arab World much more than taking the non-environmental technology which may be very sophisticated but which we cannot cope with.

The South-South dialogue will give us the opportunity to consider the experiences of the developing world. We should consider every experience of the developing countries which face the same difficulties and they could have achieved something worth considering, adapting and applying.

I think the time has come for the Arab Oil countries to earmark 1% of their GNP (the figure suggested by the United Nations Science and Technology Council) for Science and Technology by which I mean scientific research, universities, sciences, training and technology transfer adjusted to serve education.

Dr. A. Haddad: You raised the ignorance issue is that a question?

Prof. Dr. A. Badran: It is a fact.

Dr. A. Haddad : A fact ! Then I return the issue to you as one of the responsables and the President of Yarmouk University. How could the ignorance issue amongst the decision makers be solved? I , for one, do not have an answer.

Prof. Dr. A. Badran: I think that the Arab Countries are rapidly growing and I believe the time has come to eliminate this crisis... gradually.

Dr. A. Dajani: I have a comment that leads to a question. Dr. B. Khader mentioned that 95% of the technological stock is owned by the developed industrial countries and that a higher percentage of that is owned by the five major industrial countries. There are developing countries, including Jordan, which apply strict rules and laws concerning licences and patents. These trade marks and registrating procedures are applied to protect the countries, institutions and individuals having technology. On the other hand it has been mentioned that these institutions etc. are monopolists exploiters and other various descriptions. My question is : When the developing countries, including the Arab World and Jordan, apply these laws and regulations concerning the licences and patents do they, actually, work against their own interest? If that is so, we should reconsider the subject. It is known that Japan has violated or disregarded these laws and regulations, should we follow its example?

Dr. B. Khader: Concerning the ignorance crisis raised by Dr. A. Badran there is a point connected to this subject, the lack of communication between politicians and scientists in the Arab World. With regard to the South-South Dialogue, it is true that this subject has not been given the deserved importance. I would like to add that even if it is better for the Arab countries to import modern technology from the European countries at reasonable prices, the Arab countries do not have a technological data bank through which they can rapidly check the latest innovations. We receive information and data about innovations through the brokers of the industrial countries and through the foreign

experts with whom we are in contact .

So the suggestions is good and it could be raised in the framework of the recommendations (conclusions). We should also concentrate on the importance of creating a technological data Bank.

Concerning Dr. A. Dajani's question, it is right that the licences and patents are registered in the countries of origin . Further more there is a gap between the scientific invention and its practical application, a gap that varies between 2 to 20 years. Usually the industrialized countries benefit from the registration procedures more than the developing countries. There is no system in the Arab countries to protect or guarantee the security of the licence and patents of the industrial countries.

Dr. S.R. Vemuri: I apologise to the speakers if I speak out of tune because I gather, from the little English spoken ^{*}, that we are talking about appropriating education to appropriate technology. One of the condition which His Royal Highness Crown Prince Hassan mentioned , at the beginning of the conference, is that we should move from imitation to innovation.

Now I wonder if it is the right place to discuss actual problems of creating a data Bank or technolgy information bank based on the structure of the Arab Economies rather than from the textbook of classical, neoclassical, keynesian neo-keynesian schools . The real question is whether we are actually appropriating in terms of understanding the basic indigenous technology and then appropriating that to the developmental patterns or are we talking about appropriating superstructure technology and appropriating that to the development and integration of the Arab World?

* The previous discussion has been carried out in Arabic.

Dr. A. Gueciouel^{Dr}: I just want to make a brief comment concerning the concept of transfer of technology. The operation of technology transfer consists of three stages:

1. The import of machinery and equipment .
2. How to use this stock of machinery and equipment.
3. How to produce locally machinery and equipment adaptable to the economic, social and physical conditions of the country.

May I take the examples of Algeria and Iraq which are said to be the most " industrialized" countries in the Arab World. Both countries stopped at the second stage that is how to use technology. They never started the final stage that is how to produce ~~and~~ adapt this technology to local conditions. These two experiences can be safely generalized to the entire Arab World. Related to this issue there are two interlinked questions. First do the existing educational systems in the Arab countries encourage scientific activities and scientific research and second, do these very scientific activities and research encourage the acquisition of technology, properly understood, from the technologically advanced countries? In my mind, here again the South-South link could be one of the possibilities to cope with the problem.

Dr. B. Khader: I start from the proverb " if I have nothing better than silence, I keep silent". However, I want to clarify that when we consider the problem of transfer of technology we treat the concept know-what (the equipment we need to import), know-how (how to use the equipment imported but we almost forgot, ~~intentionally or~~ unintentionally the concept of know-why that is why we import the imported stock of equipment, in other words for which mode of production. The connection between technology and developmental pattern is a very important process. Therefore we must treat all these three concepts (know-what , know-how and know-why) and their coherence as a whole. Concerning what Dr. A. Guecioueur said, I have nothing to add.

Dr. J. Anani: I would like to talk about two types of transfer of technology: the direct transfer and the reflexive transfer. Actually you talked about the reflexive transfer but with less concentration than the direct transfer.

This issue of reflexive transfer of technology was raised by this Royal Highness Crown Prince Hassan when he addressed the International Labour Conference by proposing the creation of an International Compensation Fund for the export of skilled labour. This proposal led to several studies by the ILO and UNCTAD.

His Royal Highness also proposed the creation of an institution or a center for technological transfer between the European and Arab countries, on the occasion of the 2nd EURO-Arab Trade Conference held in Switzerland.

I should like to add that the Economic Commission for West Asia (ECWA) has proposed the creation of a bank or a center for technology transfer.

The Arab Technological needs are common and they are satisfied through imports from the same group of countries. Each Arab country buys technology on an individual basis therefore they face a very hard bargain besides the pain of "absorbing" or "digesting" technology and other consequences such as economic distortions.

In fact, there is a center whose aim is not only to deliver and trade technological processes amongst Arab Countries but also to organize the purchases of technology from outside the Arab World.

Another point worth mentioning is the Turn-Key Contract. Most of the time we remove the letter "n" and it becomes "Turkey contract" because we do not benefit from this type of technology. For example the Korean construction enterprises are less costly, quickly executed and give less "pain" to the host country, but they do not help in training

local labour force. Sometimes they give subcontracts to local subcontractors and discount a given percentage of the total cost for using Jordanian workers. (This implies that Jordanian workers are less paid for doing the same job.) *

Actually training process was mentioned but indirectly. Some colleagues mentioned scholarships, university teaching and funds creation etc.. but we did not mention training on the spot or on the position as a way of transfer of technology. When we, as elites, say that the politicians do not sympathize with us, it is partly true. However, not all the technology must be of a very high level, some processes are so simple that we could develop and promote according to our industry. There is also the application of technology at the consumer level. For instance the usage of the car in the Arab countries was only for private transportors, transport companies and the rich-class. Now the availability of the car led to its misuse. There is no education for a proper use of technology even at the consumer level. The misuse of technology at the producer level has already been highly lighted. My final question is to Dr. A. Haddad, it deals with the difference between transfer of technology and modernization. You were talking about the functions of technology, about modernization, innovation and new innovation aspects etc... Do you consider modernization and technology the same thing? Please clarify your position.

Dr. A. Haddad: Actually it depends on which stage of transfer of technology you are considering the problem. Let us take the example of Japan at the beginning of its entrance to the "technology era". The mechanic use to disjoint the vehicle's engine, then study carefully the possibility of producing similar parts which would increase the driving process. Transfer of technology is the first step of the modernization process. We purchase technology as long as we do not produce it. I would say that the indigenous modernization process follows the transfer of technology process.

* The editor.

CHAPTER FIVE

THE EXPERIENCE OF THE EUROPEAN ECONOMIC COMMUNITY (E.E.C.)

THE CONTRIBUTION OF THE EUROPEAN ECONOMIC
COMMUNITY TO THE DEVELOPMENT AND INTEGRATION
OF THE ARAB WORLD

By

Mr. Ian Boag
Administrator

E.E.C.
Brussels
Belgium

THE CONTRIBUTION OF THE EUROPEAN ECONOMIC
COMMUNITY TO THE DEVELOPMENT AND INTEGRATION
OF THE ARAB WORLD

The European Economic Community (EEC)'s relations with the Arab World are conducted in four basic frameworks, the so-called Maghreb Mashreq agreements, the Euro-Arab Dialogue, the Lomé Convention and various miscellaneous non-reciprocal relations. I shall try to describe, briefly, the way these various activities have functioned and then examine, again briefly, how these have contributed to Arab development and integration or how they may do so in the future.

As we are in Jordan, Let us take the Maghreb/Mashreq agreements first. These bilateral agreements with seven Arab countries Algeria, Tunisia, Morocco, Egypt, Syria, Jordan and Lebanon. They form part of what is known as the EEC's "global approach" to the Mediterranean area and it would perhaps be useful to describe, in a little more detail, the background and content of this Mediterranean policy.

When the EEC was formed in 1958, the Community of six turned its attention to solving certain problems caused by virtue of the special trade links that had traditionally existed between certain of its Member States and certain Mediterranean countries.

In particular one has to mention the cases of Tunisia and Morocco which depended on France for some 80% of all their trade when the EEC was formed, and Algeria which was part of France until 1962 and whose production was geared to the French market. Certainly the creation of European Economic Community with a common agricultural policy and a common external tariff was a major and potentially disruptive new factor in the efforts of these countries to add economic independence to their political independence. It is in these conditions that the Community's overall Mediterranean policy has its origins. The creation of a trading bloc as powerful as the EEC provided a focus of economic attraction and in order that the economic unification of Europe was not exclusively an inward-looking phenomenon the six expressed their willingness to entertain special relations with other partners. This willingness was taken up by Greece and Turkey who sought some measure of integration into the community, just as it led others such as Morocco and Tunisia to ask for some other form of association.

The next major step forward in the Community's Mediterranean policy came in 1972 with the impending enlargement of the Six to the Nine. It was then obvious that there would have to be significant changes to the trading patterns of several Mediterranean countries notably Spain, Cyprus and Israel all of

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which were traditional exporters of agricultural products to the United Kingdom.

It was at this point that the "overall approach" started to take shape. It became clear that arrangements with Mediterranean countries in respect of particular problems could not be satisfactorily dealt with unless some attempt was made to achieve a balance between the Community's capacity to import and its partners' capacity to produce and export. This process obviously required an overall approach to these problems. Additionally in the interests of political balance in a highly sensitive region it was felt that a similar willingness to enter into close relations with those Arab countries that bordered on Israel was called for.

So it was that in October 1972 - before the UK, Ireland and Denmark formally joined the Community but when they were already participating in the decision making process - the European heads of Government meeting at the Paris summit declared - " That they attach essential importance to

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the implementation of agreements that should be the subject of a balanced and overall approach."

What does this "overall Mediterranean approach " mean in practice ? First, the basis of the whole structure is a commercial regime which, if not common to the whole area, varied as it is " at least makes the Mediterranean area in some way different from other parts of the world with which the Community entertains close relations. The object, clearly, is to increase economic relations to the maximum profit of both sides.

The second significant aspect of this approach is financial and technical assistance. The European side is pledged to do what it can to help resolve the problems of development faced by some of the countries of the region. To this end many of the Agreements have Financial Protocols attached to them providing money for development aid projects

Thirdly, there is the concept of economic co-operation. The Mediterranean countries want to develop rapidly, and the European side should be prepared to help them industrialise and modernise their agricultural sector.

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If they are to benefit from a preferential commercial regime it is necessary to introduce new systems of production which can compete on the European and World level. At the same time it is necessary to introduce new marketing techniques. Industrialisation furthermore is the major instrument at hand to help the countries of the area absorb the surplus manpower which at present exists in abundance in many of them. And the modernisation of their agriculture is essential to provide sufficient food for a population which is often growing fast. The increase of agricultural self-sufficiency is clearly a most important aim in itself in the context of the world-wide shortage of food. But in addition it generates funds for the import of equipment and "know-how" to speed up economic development more generally.

Such a process requires that both sides, the Community and her Mediterranean partners, proceed on a basis of equality and genuine co-operation. It is not the intention of the Mediterranean policy to institute some system of neo-colonialism whereby the industrialised nations can substitute economic domination for political control. It is not even in the interests of the Community to try to do so.

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So long as there is no peace in the Mediterranean region; then the peace of the European Community is at risk. And the peace itself will be jeopardised by vast economic imbalances. For if we in Europe continue to live in relatively great - and increasing - affluence while the developing countries who are our neighbours do not considerably improve their standard of living at the same time, this will be an ever-present cause of tension which will threaten the peace of the region. So Europe has a vocation-which is not entirely altruistic but also one of reasonable self-interest - to be an active partner in the development of the Mediterranean area generally.

This, then, is the philosophy behind the Mediterranean policy - what has it meant in practice, in particular for the Arab countries involved? The Co-operation Agreements which were signed in 1976 (Maghreb) and 1977 (Mashreq) and which came into full effect on 1 November 1978 (although the trade provisions came into effect on 1 July 1976 and 1 July 1977 respectively) each contain a Financial Protocol which provides funds for the financing of development projects in each of the seven countries. The total amount available under these Protocols, which expire on 31 October 1981, is ;

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- Loans from the European Investment Bank (EIB)
At ordinary commercial rates 298 million
European Units of Account (EUA) ; approximately US\$ 415 million

- Loans from the Commission of the European
Communities on special terms 136 million EUA

approximately US \$ 190 million.

- grants from the Commission 145 million EUA

aproximately US \$ 200 million .

This gives a total of 579 million EUA or approximately US \$ 805 million during the life of the present Protocols.

The purpose of these funds has been twofold, firstly to provide money to help in the payment for major projects which will assist the beneficiary countries to develop their economies. In this particular context emphasis has been placed on the development of the various countries' infrastructure .

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Projects such as the building of an electricity generating plant in Egypt, the Aleppo-Tall Kojak road in Syria, the industrial zone in Amman , the Gafsa-Gabés railway project in Tunisia clearly play a significant part in producing circumstances more favourable to the overall development of the beneficiary countries' economies .

However this financial aid is not aimed exclusively at operations where the Community's activity is effectively limited to signing cheques. The agreements we are talking about are, after all, called Co-operation Agreements and the opening Articles of them place stress on the co-operation element. This means that the Community seeks to become involved in co-operating in the joint realisation of projects which will involve the transfer not merely of funds but also of experience, knowledge and technology. This transfer is not always one way since we in the Community can also learn from the experiences of our partners. As examples of such co-operation projects I would just mention ; the co-operation with the Royal Scientific Society here in Jordan and with the Centre d'Etudes et de Recherches Scientifiques de Syrie and the possibility of establishing a renewable energy development organisation in Egypt.

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Now, what I have described so far is the development aid aspect of our relationship. In some cases the projects have a specific social purpose which is an end in itself (e.g. sewage project in Egypt, the Rocate-Sidi Idriss canal to bring water to Marrakesh, sewage treatment for 17 towns in Tunisia). However the majority of these projects have as their aim the furthering of that process of economic development whereby our partners are able to compete, either in terms of import substitution or by increasing exports, on a basis of greater equality with other countries, notably the industrialised countries. Indeed the Agreements state quite clearly that " the object of (the) Agreement is to promote trade between the Contracting parties, taking account of their respective levels of development and of the need to ensure a better balance in their trade, with a view to increasing the rate of growth of (the partner's) trade and improving the conditions of access for its products to the community market".

The commercial provisions of the treaties are of great important in the realisation of these aims. They state that our partners can export industrial products to the Community duty-free. When the Agreements were signed they provided for quantitative ceilings in respect of certain products (e.g. refined oil, fertilisers, certain textiles" aluminium and cork),

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above which customs duties could have been re-imposed. In the event no such duties ever were re-imposed and these provisions were abolished on 1 January 1980.

As regards agricultural products, the problem is made more complex by the need to respect the EEC's common agricultural policy (CAP). Whatever one may think of this policy (and it has been the subject of both spirited criticism and equally spirited defence in recent years) it is clearly impossible to grant imported agricultural products concessions which will completely negate the common pricing policy, which is one of the essential elements of the CAP. However within this limitation the Agreements provide for concessions on some 80% of our partners' agricultural exports - tariff concessions which normally reduce the third-country tariff by between 40% and 80%. All of these tariff concessions - in both the industrial and agricultural sectors - are unilateral; our partners are not required to grant any reciprocity to EEC exports.

Now if one looks at the trade statistics between the EEC and her Arab Mediterranean partners the results are somewhat mixed. In 1979 the Community still had a substantial favorable trade balance with each of the seven Arab Mediterranean partner countries (although figures for the first quarter of 1980 show that Algeria has

a surplus). However, given the relative populations of the Community and each of its partners this state of affairs is scarcely surprising.

Breaking down the figures more, there are some reasons for optimism. The countries that have benefited most in both the agricultural and industrial sectors are Tunisia and to a lesser extent Egypt. Morocco has in addition achieved substantial real increases of exports of industrial products but has not been able to sustain and develop the level of her agricultural exports. Algeria, being a major oil exporter, is in a somewhat different category but Syria, Lebanon and Jordan have reaped few benefits from the agreements as they have, as yet, few industrial or agricultural products for export.

However, and despite problems in certain sectors - the Community remains committed to the spirit of the article of the Agreement dealing with trade and which I have just quoted. It is for this reason that with the funds for the financial Protocol, we carry out in conjunction with our partners,

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export promotion activities designed to improve quality control, packaging, advertising" storage and marketing. It will take a long time for the effects of all these measures to work through but the fact that some countries are managing substantial increases in their exports to the EEC at a time of European recession is a sign of what can be done.

So far I have spoken about the Community's relations with the Arab World in terms of the Co-operation Agreements which concern only certain Arab countries. It is now perhaps time to consider that forum within which the Community has relations with the Arab world as a whole : The Euro-Arab Dialogue.

As you well known the Dialogue originated in the aftermath of the October 1973 war and the subsequent oil crisis in the Western World.

At the first meeting at expert level in Cairo on 14 June 1975 it was stated that "The Euro-Arab Dialogue is the product of a joint political will that emerged at the highest level with a view to establishing a special relationship between the two groups". Now, for the purposes of the subject of this paper the interesting aspect of the Dialogue is that it is a dialogue

between the two regions - representatives of the various European and Arab countries attend meetings not in their national capacity but as members either of the European or of the Arab delegation. This is, as far as I am aware, the first time that this has happened and the contribution of this process to the integration of both sides should not be underestimated. In this form, at least, each side has to reach joint positions on the topics - both economic and political - under discussion. Now I do not wish to make extravagant claims for this process - the EAD represents only a small part of both Arabs' and Europeans' relationships with the wider world. Nonetheless I would submit that the willingness of the community to deal, within the EAD, with the Arab world in its entirety represents a significant step in the Arab search for unity and integration.

Furthermore in the technical and economic discussions the principle of seeking to resolve problems in a manner which is acceptable to the totality of Arab and European countries cannot but improve the process of Arab integration.

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The working groups in the Dialogue cover such subjects as basic infrastructure, trade, finance, agriculture, cultural, social and labour affairs, science and technology, industrialisation and transfer of technology. There are sectors which have an extreme importance for the Arab world in its economic development. The fact of discussing them in the Dialogue gives to the Arab world the real possibility of reaching common points of view on these subjects and presenting them, in an international forum, to their most important trading partners.

In my opening remarks I mentioned the Lomé Convention. This might be regarded as the flagship of the Community's development policy, involving the Community in legally-binding contractual arrangements with some 60 African, Caribbean and Pacific countries in the fields of development aid, trade concessions and a whole range of co-operation. Arab involvement in this is small but four members of the Arab League (Sudan, Mauritania, Somalia and Djibouti) are signatories.

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Under Lome I they received apporximetely 190 million EUA (US \$ 265 million) of concessionary aid and under Lome II they will receive between 200 and 250 million EUA (US \$ 280-350 million). Additionally, Lomé provides for the stabilisation of export earnings (STABEX) - all four countries benefit from this emergency aid and the establishment of regional projects and provision for EIB Loans. This means that signatories of the Lomé Convention receive considerably more than the amount indicated in the figures of the indicative programme.

Finally, in addition to the three major institutionalised forums in which Europe's relations with the Arab world are conducted there are a number of other things Europe does which provide benefit to the Arab World

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Provides basic food products (cereals, butteroil and skimmed milk) to some Arab countries and via United Nations Relief and Works Agency (UNRAW) to Palestinian refugees.

In 1979 this amounted to millions and is expected to increase in 1981. The conditions under which this food aid is given are designed to obviate damaging effects to local agriculture

Another element of great potential interest to the Arab World, particularly those Arab countries that do not have preferential trade agreements with the EEC, is the Generalised System of Preferences (GSP) .

Agreement, in principle on the introduction of such a system , was reached at the second session of UNCTAD in New Delhi in 1968.

The EEC was the first to implement such a system on 1 July 1971.

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The main features of the system are as follows:

The tariff preferences are ,

- generalised ; they are normally granted by the majority of industrialised countries;
- non-discriminatory; they are accorded to all developing countries without distinction=
- unilateral. they are not the outcome of negotiations with the beneficiary countries.

These preferences are not reciprocal ; the beneficiary countries are not required to grant corresponding duty exemption in return .

Industrial products imported under the generalised preferences system enter the European Community duty free, within the limits of certain quantities (ceilings or quotas).

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Once the limit is reached , the customs duties laid down in the community's Common Customs Tariff may again be applied.

It is estimated that the volume of the offer in respect of industrialised goods in 1980 will be about US \$ 8,750 million excluding textiles.

In the agricultural sector the preferential arrangements apply to a list of processed agricultural products (currently 310 tariff headings). The preference takes the form of a partial suspension of customs duties. With the exception of four products (soluble coffee, cocoa butter, preserved pineapples and tobacco)", which are subject to tariff quota arrangements", the preferential imports are not subject to quantitative limits. Since 1977 the 25 poorest developing countries, as defined by the United Nations , enjoy total suspension of customs duties.

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A major review of the GSP is under way for 1981. At present I cannot anticipate what the results of this review might be. However indications are that in the future the GSP should be even more flexible and more Liberal than at present .

In giving this rather bald recital of facts and figures I am conscious of the fact that I have left very little time for actually addressing the subject matter of this talk.

From what I have said I hope you will be convinced that the Community is making serious efforts to assist the development of Arab countries. These efforts are in many cases enshrined in international treaties which are binding on the Member States. This, in turn, means that the tap of development aid cannot simply be turned off when a country acquires a government whose political complexion or economic philosophy is less congenial to the Community.

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Additionally we seek to contribute to the development of our partners in accordance with the objectives and priorities of their own development plans and programmes. There is no question of the Community seeking to impose its own interpretation of the social and economic needs of other countries.

As regards Arab integration the question is more complex. The encouragement of regional co-operation is a major element of the Community's development policy. However here again we cannot seek to take the lead in promoting regional groupings either within the Arab World or of the Arab World as a whole. The initiative and impetus must come from the independent Arab countries themselves.

Our co-operation Agreements with the seven Arab Mediterranean countries refer explicitly to the importance of promoting regional co-operation between our partners and other States.

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In the same spirit the Lomé Convention sets aside a certain sum of money specifically for the financing of regional projects . Similarly the last meeting of the General Committee of the Euro-Arab Dialogue specifically invited the Working Committees to concentrate their efforts on projects of a regional character or of global interest for the Arab countries.

Thus it can be seen that the Community acknowledges the Arab aspiration towards greater economic integration and is willing to play its part in bringing this about. The right conditions for such integration, however, must be created in the first place, here in the Arab world itself.

Trade And Financial Relations Between
The E.E.C And The Maghreb Countries

by

Mr. F. Ghiles,
Journalist,
The Financial Times,
London.
U.K.

TRADE AND FINANCIAL RELATIONS BETWEEN THE E.E.C. AND THE MAGHREB COUNTRIES

The Strains on unity which the Arab countries are now undergoing contrast sharply with the confidence, euphoria and sense of co-ordinated purpose generated by the October war of 1973 with Israel and the huge increase in oil prices that followed. To those strains which were the inevitable consequence of Egypt signing a peace treaty with Israel, have been added new ones engendered by the war between Iraq and Iran. Though in both cases they involve countries which are not Arab - and one hesitates say which of the Persian or the Israeli the Arab holds in lower esteem - both crises directly affect economic relations between individual Arab countries and those between Arab and E.E.C. member countries.

At many times during the recent decade an observer of the middle east political and economic scene could fairly argue that despite the many tensions in the Arab World, underlying factors working towards unity were stronger and being expressed in many forms of co-operation.

Inter regional investment has grown considerably over the years and surpluses from oil producers to the deficit countries have not just been in the form of aid but also strictly commercial investments. The Sudan - Kuwait investment Co. sponsored by the regionally oriented Kuwait Foreign Trading Contracting and Investment Co. is one of the older such institutions, but a host of others specializing notably in mining and shipping or ship building, have been set up.

While there has been considerable Government activity, the response from the Private Arab Sector has been more muted, despite the spectacular forays of such promoters as Adnan Khashoggi or Ghaith Pharaon. They appear to have invested more outside the Arab World than inside but one can understand their fears: they have often been put off simply by remembering the losses many of them incurred in Egypt in the early 1960's. The patronising view an Egyptian civil servant might make of his nouveaux riches brothers is also partly to blame, to which must be added the fear of being fleeced by a wily levantine of North Africa which one detects in many an Arab from the peninsula.

Investment in trade ventures and real estate has always been popular, which is not surprising: real interest in equity and buying industrial shares cannot be expected to come immediately to people who have little real knowledge or practice of such areas of investment, added to which the Arab World offers little opportunity in this direction, whereas the London, New York and Asian stock exchanges do.

Where there has been much co-operation is in setting up new banks and making them work. Three immediately spring to mind and, as a journalist specializing in such matters I can only say that the Union de Banques Arabes et Françaises, BAU and GIB have become very well respected institutions in the international capital markets. The Leading Kuwaiti houses must be added to the list as well as the odd private group such as the Sharijah Group. Other banks are seeing their star rise fast - such is the case of the Arab Bank Corporation. The emergence of these banks has the further advantage of helping to recycle the petrodollars - a subject which, rightly or wrongly, still arouses considerable unease in the West. These banks have, however, failed to stimulate any real growth in trade between the different Arab Countries. This failure goes back to well before the price of oil rose in 1973 - 4.

Old timers and historians may remember that the Economic Council of the Arab League which was set up in 1950 failed to convene until December 1953 and was not really active for the first fifteen years of its existence. The Arab League was largely without an authoritative or consistent economic co-ordinating agency. The Arab Common Market whose activity started in 1965 but which still has few members, has fallen far short of its hopes of breaking down tariff barriers and opening the way to a free market. The overall picture today however is one of a region of essentially developing countries with long term economic ties to the west for the most part. The chances of a market increase in inter Arab trade remain distant.

The difficulties standing in the way of a coherent regional economic policy for the Arab States have always been as much political as economic. After the Second World War, the inherited colonial administrative frontiers hardened under the impact of nationalism into political frontiers. These, in turn, were protected by tariff barriers, and political rivalries encouraged. For example, many countries began to concentrate wastefully on their own programmes of developing import substitution instead of co-ordinating the production of such goods. A good example of this lies in the Maghreb where, because of the different ideologies, Algeria and Morocco have failed to build anything in common, and where Algeria, for all its spearheading efforts in the North/ South Dialogue, has never seen fit to invest a few hundred million dollars in neighbouring Tunisia which could perfectly well have manufactured more cheaply some goods its eastern neighbour buys in the west. This could have been done despite rather cold political relations if only because Tunisia never posed a threat to Algeria. Turning to Morocco, the question is more difficult as one could argue that the Moroccan political system has little of the economic/education dynamism that characterizes Algeria. Co-operation might have been impossible in the first place. But, here as elsewhere in the Arab

World, much time and energy is squandered on acquiring the latest military technology, and the only redeeming factor in North Africa is that neither of the two largest countries has effectively tried to bash the other to pieces.

I believe that the differences, between countries are factors which will hinder co-operation for a long time, and the rise in oil prices has only aggravated them. Some Arab countries possess mineral and agricultural resources, others little of either. In addition some have pressing population problems, while others suffer from manpower shortages until recently, the inadequate level of regional transport and development hampered the development of regional and internal markets. When the crucial point is added that all Arab countries have been in the process of developing their economies, it is inevitable that regional trade should have been of considerably less importance than trade with the world outside.

Recent history has, if anything, aggravated the differences: large oil producers have fallen into two categories, those which have small populations and those which have since become known as the large absorbers, i.e. the ones who could - or so it seemed until the change of regime in Iran - spend freely because the needs of their large population were insatiable some countries - Saudi Arabia, Kuwait and Libya - stand out in this group very fast accumulated considerable surpluses of cash. Finding suitable outlets was not easy and, as the chairman of the Arab Banking Company, Mr. Abdullah Saudi, recently and rather wryly commented:

" If I invest in short term deposits, I am criticized for keeping my investments in hot money, and if I go long, I am accused of trying to take over the world".

Recent articles - not least in the Financial Times - suggest that Arab investors, be they state or private in nature, have come a long way since 1974, with a little help from the US whose decision to freeze Iranian assets last November sent a tremor round the Middle East, even among American's finest allies.

In 1974 the channels open for surplus funds were narrow: short term deposits were the most acceptable means for the depositors and the most flexible to absorb such a vast influx of funds quickly.

Since then countries such as Switzerland and Germany have broken down the barriers which they had initially erected to stop a possible influx of Arab money, while many Arab depositors come to the conclusion that some of their money could only be deposited in less liquid form than deposits: bonds, real estate, participation in company, equity and, in recent weeks, a massive buying spree on the Tokyo Stock Exchange.

Various questions apertaining to these assets have been discussed in the context of the dialogue between the E.E.C. and the Arab countries they include the diversification of investment opportunity, the risk of erosion by inflation and large fluctuations in exchange rates, tax treatment, and - last but not least - assurance of protection against arbitrary coercive measures by host countries. On this specific issue the E.E.C. party is understood to have accepted for reaching measures to ensure against such measures as last year's freeze. And it is worth noting that most European bankers differed from their U.S. colleagues in their appreciation of the timing of the U.S. move and the factors which prompted, a leading us bank to declare an Iranian State Loan in default.

This difference in reaction underlines, better than other examples, the fact that Europe, and in particular the E.E.C., does have a different attitude to the Arab World than the US does. However, as Claude Cheysson, the E.E.C. Commissioner in charge of development has pointed out, the paradox in the Euro-Arab dialogue lies in that in what is a political dialogue, Europeans have not, until recently been very keen to discuss political matters: another way of saying that Europe is powerless to influence the outcome of the Israel-Arab conflict.

The whole framework of the Euro-Arab dialogue is rather grand if only economic and financial matters are to be discussed but the initial paradox remains.

When looking at the economic relations between the E.E.C. and the Arab World, I do not propose to go into too much detail. E.E.C. aid first of all comes in three forms: disbursement is through three separate schemes of which the Lomé Convention and the Maghreb and Mashreq agreements are by far the most important. Third is the nonassociated countries programme. Aid is split into grants and soft loans on the one hand, and loans on quasi commercial terms from the EIB or the other. More important are the commercial agreements signed between the E.E.C. and seven mediterranean countries, three in the Maghreb, four in the Mashreq (Egypt, Lebanon, Syria, Jordan). Aid to these countries from the E.E.C. is not great and most of it flows from the EIB. Trade concessions however are crucial and threatened today by Spain's anticipated entry some time in the 1980's. Whereas Algeria can look on without undue worry - the country learned a long time ago when France cut its imports of Algerian wine - how quickly such concessions can disappear because of the comfortable income it derives from oil and gas. Tunisia and Morocco cannot. They are finding access rather limited, both for their textiles and their fruit and vegetables, and likely to be further reduced, not only by Spain but also by the deepening recession in Europe. Yet, despite their endeavours, they have not been able to find substitute markets. Solving the problem

is important and the distinction between Maghreb and Mashreq is crucial, the former being far more dependant than the latter on the E.E.C.

Here however is a perfect example of why just moaning and groaning about the restrictive policies of the E.E.C - or for that matter, the rich industrial countries - is unconvincing.

Domestic attitudes in the Arab World are as much to blame as outside factors: What does Algeria import over \$2bn. worth of food produce from abroad and hardly ever, if at all, think of going shopping in Tunisia? Libya buys from her northern neighbour but spends far more money trying to subvert what is arguably one of the few regimes in the Arab World which has consistently spent virtually all its income on economic development and education. It boasts the fourth highest income in Africa - a mixed economy and a tolerant regime. Who could boast of such virtues among the large oil producers?.

Europe learnt the hard way, through centuries of war and continental imperialism that spending most of one's efforts on economic development was quite as challenging a task as ruling by terror and seeking a few more square miles of land: that lesson has not, for historical reasons been learnt in the Arab World. It will have to, but the road will be long there is hardly one country in the Arab World - outside the Gulf - which is on really friendly terms with its neighbours. Those which own large surpluses want a good return on their investments and thus deploy them in the West. The aid they provide their brothers with is minimal; those who have large populations and money are building up their industrial base too quickly for it to be a sound one (Vide Iran under the Shah), while poorer members go a begging. This fragmentation inevitably leads to fragmented relations with the E.E.C. As for the E.E.C., it does represent the collective egoism of the western countries, however generous some of its concepts and senior civil servants may be. It too is going through a very difficult period where more time is spent haggling over surpluses of food - some of which the farmers are paid to destroy - than arguing about longer term issues. For all these weaknesses the two sides are condemned to talk, talk and talk again. The Arabs have oil and large markets, the Europeans skills to teach and products to export.

Geography has always been important and in the past there have been periods when working together in matters of trade, and cut, allowing minorities when state boundaries led to brilliant periods of civilisation. One can understand why, after a long period when western european countries - two in particular - dominated much of the Arab World, there should still be strong resentment. But may be Arabs should take to reading more seriously one of the World's greatest historians - Ibn Khaldoun: his analysis of underdevelopment remains crucial to the understanding of part of the Muslim World. Such an examination is all the more necessary as the speed at which the

population is growing in many Muslim States will outweigh any economic advantage economic growth might have brought. The Arab E.E.C. dialogue has its place here but the outcome will depend essentially on how the Arabs rule their respective countries. When observing the convulsion of recent years, one is inclined to pessimism yet - as Andre Malraux put it : intellectually I am enclined to pessimism but I will always act - build things, argue points what he called " optimisme de l'action That is why we are here today and why I hope we will meet again.

Mr.F. Ghiles

DISCUSSION

Dr. A. Guecioueur: As you may have noticed the two previous papers have many elements in introduction. Before giving the floor I would to say that, as an Algerian, I do not remember having seen spanish oranges in Algeria because this country does export oranges to western Europe.

Dr. A. Badran: I am optimistic and Mr. F. Ghiles is pessimistic. According to him integration between Arab countries is almost impossible now. On the other hand he is optimistic in developing the North South Dialogue and particularly the Euro-Arab Dialogue (EAD). I agree with Mr. F. Ghiles that political and social issues constitute obstacles to economic integration in the Arab World. There is no doubt about it. As it has been mentioned in another paper we "gear" economics to politics whereas it should be the other way round. In the Western World, for instance, economics comes first and politics is supposed to serve economic growth and integration.

The EAD should be based on individual cases. In the Arab World we have socialist and capitalist systems and each group containning several variations. In order to circumvent these differences we should have dialogues between the EEC and individual Arab countries.

This policy is already being applied to Cyprus and Spain. Each mini-dialogue should be based on a set of criteria to be developed. For instance, what should be developed between Jordan and the EEC? Let us take the Jordan valley.

In Europe agricultural items require glass houses in winter therefore vegetables are very expensive to produce. We can develop the Jordan valley with the EEC in terms of production , processing, grading , packaging and marketing . A direct flight could be set up between the Jordan valley and the EEC in order to provide the latter with fresh commodities in winter time. For this purpose the funding could come from the EEC. Jordan can enter the European community and we

do not have to look for Arab Economic integration. Tunisia has potentialities in this field too.

Mr. Ian Boag: I am optimistic but this does not mean that I am unrealistic nor is the community unrealistic. Having endeavoured to integrate, the nine European countries found out how difficult it was. If we look at the number of the countries of the Arab league (21), the difficulties of Arab integration are very real. If you are in the business of promoting the community's relationship with the Arab World clearly you have to be optimistic because if you do not believe in what you are doing you might as well not start.

The second point is that on regards to a particular issue outlined by Dr. A. Badran that the AW should do with the EEC on bilateral basis, clearly we do we have a number of bilateral cooperation agreements between the community and individual Arab countries. That is natural at the present stage of Arab integration because we, at the community, do not choose or select amongst the Arab countries and say we will talk to you only if you come to us in that combination or that combination of countries. If a country wants to deal with us on an individual basis we will deal with it on the set of criteria I mentioned in my paper. We are ready to do with the entirety of the Arab World if the entirety of the AW is willing and able to do with us.

Mr. F. Ghiles mentioned the question of integration in the Maghreb. It is no secret that, informally, when we were negotiating the Maghreb Agreements we suggested that if the three countries were willing to reach a sort of "Mini-Lome" whereby Algeria, Morocco and Tunisia would negotiate jointly the joint signature of our agreement we would be very willing to do this. In the political circumstances which prevailed then and which are prevailing now, it is perhaps hardly surprising that nothing came out of this.

So I say Arab integration is something for which the essential cards have to be created here in the AW., and the Community can only follow on, support and develop but the basic plant seed must be planted in the AW itself.

Dr. M. Saqqf: I would like to make the point Mr. I. Boag has just mentioned. As far as Arab economic integration is concerned this is a very endogenous variable and there is not much to do on the part of others. If we want to integrate we should start at home, no body outside can help us to any considerable extent . The contribution the EEC made to the cause of Arab economic integration is very clear. It is the creation of the EEC itself, it is the performance and the success of this community which inspired the idea of Arab economic integration and integration seeds at large in the World. So there is not much to do about this subject exogenously since everything has to be done endogenously.

The EEC's contribution to Arab economic development is very clear after the 1973 war. It has been said that the EEC policy revolves around two pillars or has two poles Atlantisism on the one hand and Arab oil supplies on the other hand. So the European policy is to a certain extent a means of coordinating or mixing up these two dimensions. Therefore as far as oil is the second part of the European policy I think that the prospects of economic cooperation are very vivid. This what should be explored in symposia

Dr. S.R. Vemuri: I am afraid I stand outside the dialogue of saying that this Euro-Arab cooperation has led to division because the Arab countries have been divided or regrouped into Maghreb , Mashrek and a Mediterranean countries. The problem is that the various levels of development of the Arab countries and their relations with the EEC could have led to more regional distortions rather than regional cooperations.

The second question I have in mind is that I thought the best contribution of the EEC to the Arab region is the existence of something like an Arab Regional Development Fund and the establishment of a machinery for developmental purposes.

Mr. F. Ghiles: I entirely agree with this very valid point. There is a risk of growing distortions because the levels of development of these countries is very different, their historical background is different and the risk of increasing existing distortions is very real. If you take Tunisia you could argue that its relations with the EEC are 100 percent beneficial because it has reached a level of sophistication, education etc... which means that it can benefit from most of what is happening. Some years it suffers from quotas systems (textile) but Tunisia is still in a position to benefit from its relations with the EEC.

If you take Morocco where illiteracy rate is 90 percent land tenure is essential feudal, central government has not really in 24 years produced a coherent economic plan, you could argue that its relations with the EEC or any other group of countries can be more detrimental than positive because the problem is of a domestic nature. The country is just in no position to benefit from outside.

You could argue that Algeria and Morocco are complementary in many respects, but you land with the real social-socio-economic or political problems. Algeria has a certain history, a certain dynamism, a certain hardness and a certain conviction about what it is doing. Morocco is in a completely different system which has the advantage of stability since it has not changed over 3 to 4 centuries, but it also has all the disadvantages of stability. The two countries have been growing apart and it is a very very big problem to get them to cooperate.

.. If you take the relations with the EEC, Morocco is not in a position to benefit from them half as much as Tunisia.

Dr A. HARIK : The contribution of the EEC is probably the most important thing that we can benefit from in this session. How can the experience of the EEC benefit integration in the AW? I present the following brief history of the development of the EEC and how they arrived at their current situation

As early as the 60's European countries realised that in order to move towards economic integration they had to do something about their tariff barriers, comparatively speaking Arab countries, through the Arab League and on a bilateral basis, have done the same. From 1958 onwards they keep trying to create systems whereby tariffs are either eliminated, reduced, adjusted or made more comparative within the AW and vis-a-vis the Rest of the World . So there is a similarity but this similarity stops here. I would like ourselves to address this issue. Then the EEC made a quantum jump. They realised that in order for them to go beyond tariff barriers they had to do something about their financial systems. They had well developed systems all over Europe. Paris, Zurich , London , Luxemburg, Rome and Frankfurt have been efficient financial centers for a very long time. They needed systems that settle the accounts between them and that had to account for the realisation on the economic level. They created the European Monetary System (EMS). The EMS operated for a long time in an environment whereby international currency problems, national currency problems between the EEC were mixed with trade relations, planning for future reduction in tariff the establishment of joint ventures etc... As a result of this coordination what emerged was some kind of a specialisation in productive capacity and to a limited extent more mobility in industrial development within the EEC.

If you compare this development to the experience of the AC nothing of this sort has happened. Although as early as 1948 there were long dissertations, very descriptive in nature, as to the creation of the Arab Dinar (AD) and that where we still are. We are discussing whether the AD should be named this or named that, whether it should be supported by gold or silver. We have not gone beyond the description of our Arab Dinar. Should be an establishment of a monetary system there is no comparative thing to talk about within the Arab experience. Then the EEC escalated further its integrative capacity and it realised that economic units are now straddling borders because of the facilities offered to them in other countries. It was not unusual to see the economies of scale operating in one country and destroying an industrial sector in another country, without any resistance from the national government. Actually ways and means were found to encourage this processus.

In no European currency all other currencies of Europe are tied to in terms of adjustment fluctuations, pricing so on and so forth . Now you have basically an account settlement that is fixed of what the financial markets will accept as risk and cost. They have a tool that will allow them to relate to the international environment as a group. In the Arab World there is no such a similarity. The problem is how can we learn from this European experience.

Dr. A.Guecioueur: I should like to the participants to focus on the main issue, namely how can the Arab World benefit from the experience of the EEC. Because up to now everyone is asking questions and making comments on the causes of the failure of AC to integrate. This issue constitutes the substance of the next two papers.

Let us try to focus on how can the AW learn from the experience of the European countries to integrate.

Dr. A. DASANI

I hope you will forgive me if I speak a little bit on other aspects but I will be basically addressing myself to the main issues. I have the advantage of knowing little bit more about the EEC and its relations with the AC than probably most of the participants since I was accredited to the EEC for many years. I negotiated Jordan's cooperation agreement with the EEC. As a matter of fact I negotiated on the behalf of the so-called Mashrek countries, and then I presided over the EAD, from the Arab side, during its first two meetings. So somehow I am a little bit more familiar with the subject having this first hand knowledge of it.

First let me say that the EEC is a very strange animal which works in a very strange way, particularly for the people who happen to be directly involved in negotiations. Anything to do with the EEC is a very frustrating experience for someone who is not familiar with it, that is why many of the AC, sometimes, get frustrated because of their lack of familiarity about the mechanism and the operational system that apply within this organization.

There have been several issues raised with regard to the role of the EEC in Arab economic integration. Let us put it this way: The EEC is an outside organism which is not directly interested in Arab integration. It is interested of this integration results in better political and economic relations with the EEC. Therefore to that extent the Europeans are not going to take any action to promote integration in the AW and this integration can be achieved only by the Arabs themselves.

An issue was raised whether the EEC has tried to promote closer working relations between the AC or whether it has contributed towards their fragmentation. This is a very controversial issue. I must say that such nomenclatures, as are currently being used, Maghreb countries, Mashrek countries, Nediterranean countries have been discovered and applied by the EEC. We, in the Arab League, never use such terms. It was a matter of convenience that Syria, Jordan,

Lebanon and Egypt were called the Mashrek countries by the EEC which thought it to be convenient because in contrast of the Maghreb . As I said the EEC is a very difficult organisation to work with. Jordan tried to negotiate a cooperation agreement with the EEC as early as 1970#71; but there was great opposition for this idea from the EEC. The EEC was only concerned with the so-called Mediterranean countries - we could negotiate an agreement only by qualifying as a mediterranean country. It took us two years of negotiate in order to have Jordan called a Mediterranean country and without this "quality" we could not have reached a cooperation agreement. They were afraid that by allowing us to be called a Mediterranean country Kuwait, Iraq etc... would seek a similar arrangement and the EEC was not interested in entering into agreements with those countries, at that time at least.

Then came the EAD. Why was it initiated. The basic motivation of the EAD is the 1973 was which led to the oil embargo . The Arab Ministers went to Copenhagen , almost busted the doors, spoke to the European Ministers who were meeting. This is how the EAD started. The EEC's idea was to create a dialogue which will assure Europe of a continuous oil supply and at the same time promote same technological assistance to Arab countries.. at a price . The EAD had a good start because the two sides had an interest in getting it to a successful conclusion. The Arabs wanted to get Europe to recognize the political problems and aspirations of the Palestinians and to cooperate in finding a solution to the Middle East problem. The Europeans wanted to be assured of a continuous oil supply and a larger share of the financial surpluses that Arab countries controlled. There were good reasons for both groups to reach an understanding. There were some sensitivities about the representation of the PLO and other matters and we found the so-called dublin formula which overcame there difficulties. When

ther is a will there is a way and we did find a way to get round the problem. However what happened later? The first problem was financing agricultural, industrial and infrastructural projects. This financing must come either from oil rich Arab countries, from European countries or from both. Unfortunately we got problem with both groups. From this situation started our first problem namely the actual financial contribution which was clear during the Luxemburg meeting which dealt with the issue.

In the meantime the Europeans were working very hard to develop bilateral relations with individual Arab countries. These attempts were successful with the main oil producers. Britain concluded an agreement with Saudi Arabia, so did Belgium, France and Denmark. Therefore, the basic motivation to find assured sources of oil supplies (at that time the potentialities of the North Sea oil were not known) has been satisfied. In the meantime European countries worked on energy conservation programmes and pooling oil resources in times of crisis, moreover the actual crisis which can fronted them in 1973/74 was no longer there. Therefore there was no reason to continue this Dialogue particularly if the political price that the EEC had to pay for it was "very high"

We tried in the EAD to find a way of working together as a group of Arab countries. We had several discussions on this issue . There were the trade agreement side. As you know both the Mashrek and the Maghreb countries got their agreements but other AC do not have such agreement. Therefore they wanted to get some preferential treatment in the same way as many other countries. The European countries were afraid if they started negotiating agreements with countries such as Qatar and Saudi Arabia they cannot stop negotiating similar agreements with Iran and other Third World countries such as India. So on the trade side we said we will continue to deal through this Maghreb and Mashrek agreement . So what happened to poor countries such as the two Yemens and which are classified as the least Developed countries by the UN organisations? They were not able to obtain any benefit except under the general system of preferences which every

country can enjoy as long as it is a developing country. On the trade side the success was completely out of question, therefore we started talking about social and labour problems. There are, literally, millions of Arabs working in Europe some of them from this part of the World but the majority comes from North Africa . These Arabs are not getting the same kind of privileges enjoyed by workers from the EEC countries . We tried to develop an agreement whereby some kind of agreement with regard to the conditions of labour, its training and the education of the children in the same manner as those afforded to the workers of the EEC. This idea was, again, completely blocked. So what remained?

The EEC countries said we would like to cooperate with you in the field of infrastructure that is building harbours, communications systems and airports . However we can buy these services on the international market at the best price from Canada, the U.S.A., Japan , Eastern Europe , or even the EEC countries if the price and type of technology is the most suitable . This, of course, was a straight commercial deal.

All what remained were the technical and financial cooperation and , here again, the EEC countries thought that the agreement with the Maghreb and Mashrek countries were adequate.

Mr. Ian Boag mentioned that there were an attempt to have the Maghreb countries sign a collective agreement. As far as the Mashrek is concerned I can assure you that we had authority at the highest level to sign such an agreement but the EEC decided it was better to negotiate one standard agreement for all the Mashrek countries but sign it individually whereas the AC were ready and willing to sign one agreement. Ultimately all the Mashrek countries signed their agreement the same day, during the same ceremony, the same text applicable to all countries with minor

modifications depending on the type of product such as phosphate for Jordan, cotton for Syria and Egypt. These variations introduced different quotas , ceilings and tariff dismantling .

Now we are in the eve of completing the five-year cycle of the cooperation agreement and we should be negotiating another one soon. The EAD is at its stand still and the meetings that have taken place during the last two years (1979 - 80) have been more or less ceremonial. We meet, the European chairman makes a prepared speech which has been analysed and carefully audited by each member country. Of course the Arab side prepares a similar speech. If you examine the speeches you will find that they have the same content rehearsed for the last three or four years. The Arab side wants the EEC to play a greater role in the political problems of the area and the European side wants to concentrate on the economic issues and more specifically on selling more goods and industrial plants. How do we get out of this impasse? The only way is to have the EEC playing a more direct and a more important role as far as the political problems are concerned.

In the field of Arab economic integration, I think there is very little that the EEC can do: we have to do it ourselves. In the political sphere we have left the Europeans, for the last five years, upon the advice of Dr. H. Kissinger (former us Secretary of State) during which they have been sitting on the fence and watching the two super powers deciding what to do about the Middle East issue. They were told the lesser is their intervention the better the process of negotiation and peace would proceed. This is wrong because the Europeans have a direct interest in this area. Actually their interest are more or less closely linked with this part of the World than with any group of countries. This passive role is neither in the interest of the EEC nor of the AW.

Dr. Daniel Kane: I should like to follow the last speaker with a question which is extremely simple, possible even *naive* but it is upper most in my mind and perhaps uppermost in the minds of the audience and that what have been the fangible benefits of the EEC agreements or to put it more speciafically, how, have the EEC agreements contributed to the economic growth of the Arab countries collectively in the last decade?

Mr. Ian Boag: I will come to the last question last if I may . First of all there was some discussion about what the example of the establishment of the EEC could offer the AW in the way of inspiration. This is a very difficult question to answer in five hours, never mind five minutes.

I would simply say, and this is a personal interpretation which my colleagues at the EEC Delegation here in Amman might not even agree with, that Prof. A. Harik in his intervention discussed the community almost exclusively in terms of financial trading and technical aspects. I think this is a mistake . This is the way the community has been sold to the British public, which is why in my view the British public is still not particularly convinced of the benefit of the EEC. First, the inspiration first and foremost to the European Community is political and it is political because the EEC springs almost directly out of the situation Europe found itself in after the Second World War. The European countries were finally sufficiently horrified at what they had been doing to one another for God knows how many previous centuries, that they actually decided that there must be another way to order your relations. Having reached that political will you have to build this edifice stone by stone, brick by brick , very slowly. The sort of things we are striving for in the community we have not even reached the first base or almost any of them.

There are very few fully-built edifices of the Community where you can say that is we have done. I suppose the most obvious one is the common agricultural policy which is the one which causes more heartache. I think if I were to permit myself to give a lesson it is that if you wish Arab integration, you have to start at the bottom and build upwards. You cannot start at the top and work downward. But that is the view of a European viewing situations from far and perhaps I am not entitled to give this view, but that is what I would give as a brief answer. Sovereignty is given up very reluctantly in the case of the community and there has to be a very good reason for giving it up and it has to be carefully prepared.

Now to come on to the long and very interesting intervention of our distinguished guest Dr. A. Dajani, there is obviously a lot of good sense and correct fact, in what he said. Clearly, as he said, dealing with the EEC is a very frustrating business; it is very frustrating business being in the EEC too. I would like to correct one point. Occasionally in the EEC we apply names to things such as the Maghreb agreement and Mashrek agreement. We are not whereby trying to create new realities or new illusions. They are merely bureaucratic names. I share his objection to this because it implies fact which do not exist, but I do not think you need to read anything particularly sinister into this. We are not trying to slice the AW up into little bits to make it more manageable for us.

Concerning the EAD Dr. A. Dajani has the advantage over me since he was there and I was not. It is true that ~~when~~^{where} the EAD started there were two very clear interests. The Arabs had a political interest, the Europeans had an economic interest, principally oil. It is equally true that the EAD has really not produced a great

deal for either side in terms of their basic aims. However you will have seen that at the recent summit in Venice of the European Community, in addition to the larger declaration on the Middle East problem, there was also a small declaration which gives a political dimension to the EAD.

Now I shall try to cover very briefly the other points made. It is true that EEC member countries have conducted bilateral negotiations with individual Arab countries. This was put forward as a criticism, though I do not know if it was intended to be so. It has not certainly helped the dialogue. I do not think any body at the outset of the dialogue imagined that it would rapidly and effectively substitute the existing relations, and indeed part of the attraction of the dialogue, for some people, was that it would not substitute bilateral relations but would add to them, would provide them with an umbrella .

The EEC countries, just as countries throughout the World had a need for oil and they cannot rely on the procedures of the EAD. They need to satisfy the needs for oil fast and they will clearly use the fastest and most effective way of doing this. In the circumstances prevailing obviously that they deemed negotiations of bilateral relations with oil producing countries, was the best way to do it. They also established energy conservation and pooling of energy resources. Any prudent group of countries would do the same .

On the question of this geographical problem concerning whether Jordan is or is not a mediterranean country. It may seem rather a futile argument to say well look if we do it for you then there is a whole queue of people outside the door, and I particularly take the point about the Yemens. It is a very valid point. But clearly the community itself is only twenty year odd old and we are gradually expanding our relations with the World. In fact there are very few

countries in the World with which we do not have some kind of contractual arrangement. In some cases these arrangements do not go as far as some people would wish.

I cannot discuss every issue of the EAD which has not produced much benefit as one has hoped. However, there is, now, one agreed declaration on manpower (Damascus 1978, meeting of the general committee). On the question of the meetings over the last two years, Dr. A. Dajani said they have been purely formal, this is slightly misleading.

Following the signature of the Egypt, Israeli agreement and the Baghdad summit that immediately followed; a reorganisation of the AW took place with respect to the Arab League. In fact we were asked by the Arab side to suspend all activities in the EAD until further notice and we did. The meetings which have been taking place since 1979 have been designed to be just discussions on how the dialogue should be resumed under what conditions. Both sides are most anxious that the dialogue should be resumed under most propitious conditions which will enable us to proceed. As you know there is a meeting scheduled to the 12th and 13th of November 1981 to be held in Luxembourg which will be attended, on the Arab side, by Mr. Chadly Klibi The Arab League Secretary General. At this meeting the first step to reactivate the EAD will take place.

Concerning the statement that the EEC should play a political role in the Middle East, which seems to get a general consensus of the audience; the EEC is rather a "curious" animal because the question of foreign policy is not in fact a community competence. As a matter of fact the Rome Treaty does not allow the community to deal with matters of foreign affairs. As a consequence when the EEC promoted its initiative in the Middle East it did it in the name of the nine member states rather as a community, not even as a council.

The Venice Declaration shows that Europe is willing to play its role not for the sake of playing a World role but for the sake of peace and stability in the area which is as much as in our interest as it is in the interest of the people who live here . We cannot in Europe live in stability and prosperity if you do not. Concerning the AW's benefit from this process it is limited. We can show that some countries, notably Tunisia, Egypt and to some extents Morocco, have benefited from trade, within the seven Arab countries which are signatories of a cooperation agreement, projects are being carried out in order to improve their commercial competitiveness. We do not claim that, for instance in Jordan with 40 millions units of accounts we are going to change the World, we are not . We are doing this in the name of the community because we believe it is a good thing to do. This activity is conducted in addition to all other activities that are conducted by member states. We believe these cooperation agreements have made significant but limited contribution to varying degrees depending on the country concerned. And we believe the countries concerned will also accept this , though in many cases they may feel that we could and should go further and we, within the limits of what we can persuade our Council of Ministers to do, will endeavour to continue and develop the work that we are doing and the contribution which we think and hope we are bringing to Jordan and the other six Arab countries.

CHAPTER SIX

OBSTACLES TO ARAB ECONOMIC
INTEGRATION

Causes of Failure of Previous
Arab attempts to Integrate

by

Dr. M. Bani Hani
Director
Ministry of Trade
Amman - Jordan

INTRODUCTION

During the last three decades the Arab states have increasingly paid attention to economic cooperation - through bilateral and multilateral agreements - among themselves as an important element in their drive for accelerated economic and social progress. The motive for economic cooperation among the states stems not only from the potential economic effects of integration, but also from the popularity of Arab Unity among the Arab masses in all states. During the period in question, numerous attempts at economic as well as at political integration have taken place among two or more states of the region. In spite of these attempts disintegration has still to run its course.

THE PURPOSE OF THIS LECTURE IS THREE-FOLD:

- The first is to identify the most important attempts at economic integration among Arab states until now.
- The second is to evaluate these attempts in terms of the degree to which they have attained the goals envisaged by them.
- The third is to explore the major causes underlying the failure of these attempts.

I. GENERAL SURVEY.

Political and economic disintegration in the Arab world had started long ago,⁽¹⁾ but the clear-cut situation occurred directly after the dissolution of the Ottoman Empire, commencing with the termination of World War I. Before that time, a customs union did exist between most of the Arab states as part of the Ottoman Empire--in effect, what existed in the region by 1914 was a tariff framework against other countries outside the Ottoman Empire, which, at least, facilitated the regional exchange of agricultural products. It is from this point that the present Balkanization policies in various states have been operative.

Following World War I, Britain and France had colonized most of the Empire's territories including the Asiatic part of the Arab world.*

* The North-African Arab States (Libya, Tunisia, Algeria, Morocco, etc.) had already been colonized by many Western European countries during the 19th century.

1. It is believed that the division of the Arab World had informally started at the end of the Abbasside dynasty and the transfer of power from Baghdad to Istanbul in Turkey. At that time the Arab World, as parts rather than one unit was directly connected with the Ottoman Empire and as a consequence of that the economic relationships between these parts ceased to exist.

To protect their interests, these colonizing countries agreed among themselves to divide the area into many small states and imposed local governments to help in overseeing the local affairs of these states in accordance with their colonial policies.

Since that time, the economy and trade of the Arab countries had over a rather long period of time become geared to and oriented toward the economies of the mandatory and occupying European powers. The economic as well as political relations among the states of the region were limited to a few bilateral trade agreements.¹ During this long period (1914 - 1951), the economic policies of the different states, controlled by the colonial powers, were oriented toward disunity. Each individual state had its own currency, foreign investment policy, and foreign trade relation, all of which were channeled to and from the European countries. By the end of 1951, the Arab countries, for all purposes, were functioning and developing as separate political and economic entities vis-a-vis each other. The only significant attempt at economic cooperation was made between Syria and Lebanon in 1948; in the form of a loose customs union which was dissolved in March 1950.

In the early post-war period, three major political developments took place in the area, the effects of which were, to a large extent, responsible for the economic relationship which prevailed among the states of the region thereafter. These political developments were:

1. Many of the states had won their political independence in the late forties and early fifties. This, to some extent, had reduced the foreign influence on the decision making process in these states.
2. The establishment of the League of Arab States in 1945 with the objective of creating a kind of political and economic cooperation

1. Alfred G. Musrey, An Arab Common Market (New York: Frederick A. Praeger, Inc., 1969), pp. 10-28.

among the member states. The league, although without supranational power, was envisaged as an institution that would be instrumental in strengthening the political, cultural and economic ties among the Arab states.¹

3. The creation of, with the help of the colonial powers, the so-called "Israel" in Palestine and the displacement of about two million Palestinian people in 1948.

The consequences of these events have forced the leaders of that time (pressed by the Arab masses) to reconsider the economic and political relationships among the Arab states and to make them more cooperative than before.

Throughout the years following, many attempts were made toward trade and economic cooperation among the states of the region. The evaluation of these attempts will be the subject of the next section but first a brief definition of the nature and objectives of these attempts as follows (in chronological order).

1. Treaty of Joint Defense and Economic Cooperation Between the States of the Arab League of April 13, 1950, to which Egypt, Iraq, Jordan, Lebanon Saudi Arabia, Syria and Yemen adhered.² Although the treaty was primarily a military defense pact, it contained (Article 7) a collective undertaking in general terms by its parties to cooperate in the development of their economies, to coordinate their economic activities, and to facilitate trade among themselves.³ For this purpose, the treaty provided for the formation of an Economic Council consisting of the ministers in charge of economic affairs in the member states (Article 8). The Council was only authorized

1. For a study of the Arab League see Robert W. Macdonald. The League of Arab States (Princeton: Princeton University Press, 1965).
2. Many other Arab states adhered to the treaty: Morocco and Kuwait 1961 Libya, Tunisia, Sudan and Algeria in 1964.
3. See Arab information center, Basic Documents of the League of Arab States: Document collections No.1 (New York, 1955) pp. 21-25.

to submit recommendations for the fulfillment of this undertaking, but it was to become the first principal organ for multilateral Arab trade negotiations. The multilateral measures continued to be rather limited in scope and Arab economic disunity, however, had still to run its course.

2. The 1953 Intra-Arab trade and payments convention, a conference of the Arab ministers of finance and national economy was convened to discuss and promote economic relations between the member states.

The Conference constituted a turning point in the traditional economic relations among the participants. The delegates agreed that the ultimate objective of all the measures to be taken should be the creation of an Arab Market with free movement of economic resources and goods. The result of the conference was the convention for facilitating trade and regulating transit trade between states of the Arab League which provided, among other things, for the exemption from all import duties of farm, mineral and animal products of Arab origin and selected industrial products of domestic origin for preferential reduction in import duties. But due to many amendments, and absence of policy coordination, the convention treaty did not work out smoothly, and most of the trade and payments agreements were conducted on a bilateral rather than multilateral basis.¹

3. The Economic Unity Agreement in 1957. By the late fifties, it became apparent that political and economic disunity had substantially hindered the full exploitation of the Arab trade convention. Trade liberalization among the underdeveloped Arab countries would have to go hand in hand with harmonization of economic policies concerning development, industry, balance of payments, etc. Thus, it became apparent at that time that steps toward acceptable and fruitful economic cooperation would have to be worked out.

1. For a detailed analysis of the various bilateral and multilateral trade agreements that have been concluded among the Arab countries between 1950-1961, see Musrey, *ibid.*, ch. 5.

The Treaty of Economic Unity entered into force on May 30, 1964 upon ratification by Kuwait, Egypt, Iraq, Jordan and Syria. Only two other states have joined the treaty since then: Yemen in 1967 and Sudan in 1969. This agreement aimed at complete economic unity among the member states that would ensure for them and their citizens on an equal basis the following:¹

- a. free movement of persons and of capital funds;
- b. free exchange of domestic and foreign products;
- c. freedom of residence and employment;
- d. freedom of transportation and transit;
- e. freedom of the use of transport vehicles, seaports, and civil airports;
- f. freedom of ownership, trusteeship and inheritance; and
- g. coordination of their agricultural, industrial and economic policies.

For the purpose of fulfilling these aims, a Council called the Arab Economic Union Council (AEUC) was provided to suggest to the respective countries ways and means to coordinate their economic policies. Again, political dissension among Arab states delayed final approval of the draft project until mid 1964 when only five members (Kuwait, Jordan, Iraq, Syria and Egypt) had deposited their instrument of ratification.

4. The Arab Common Market Resolution: In August 1964, the Council (AEUC) took the first substantial step toward the creation of a common market. This decision seemed on the surface to radically change the approach toward economic cooperation in the area. The Arab Common Market (ACM) resolution stipulated for the gradual abolition, as of January 1, 1965, of all quantitative and qualitative restrictions of the movement of domestic commodities produced by the signatories. A complete removal of all restrictions in trade

1. Ibid.; pp. 108-109.

was envisaged taking place by the first of January, 1974. Such liberalization of trade was to take place in the following manner:

- a. Agricultural, animal and mineral products that had already been exempted from import duties and taken under the trade convention would continue to enjoy such exemption.
- b. All other commodities of the above categories not contained in the schedule of the trade convention would be granted a 20 percent tariff reduction as of January 1, 1965. A complete removal of all restrictions on such commodities would be taking effect over a period of five years (20 percent of the number of such commodities per year).
- c. All manufactured products produced locally would enjoy a 10 percent tariff reduction annually. These products which already had enjoyed 50 percent tariff reduction under the trade agreement would be completely exempted over a period of five years. Those products that already enjoyed 20 percent tariff reduction under the Trade Agreement would be completely freed of tariff over seven and a half years.
- d. All domestic manufactured commodities would be completely freed over a period of ten years (ten percent of the number of such commodities per year).

These are the most important attempts at economic integration among Arab states which have taken place until now. Some other short-lasting attempts have also taken place but are not included above because they did not affect the economies of the region and mostly were conducted on a bilateral basis.

On the political side, numerous attempts at union have also taken place between two states or more, but almost no lasting form of these attempts has so far been achieved except for the United Arab Emirates (UAE) established 1971 between seven sheikhdoms (British protectorates). The

purposes of these attempts were purely political in nature with little or no considerable attention being paid to their economic consequences.

In spite of their political nature, which is beyond the scope of this work, the author^o believes that it might be worthwhile briefly to recall the many attempts at Arab Political Unity witnessed in recent years: The merger of Syria and Egypt into the United Arab Republic (1958-1961); the federation between Iraq and Jordan in 1958; the United Arab States formed in March 1958 by UAR and North Yemen; a project of federation between Egypt, Syria and Iraq in April 1963; A Joint Presidential Council, set up by Egypt and Iraq in May 1964; the signing of the charter of Tripoli between Egypt, Libya and Sudan in December 1969 and subsequently adhered to by Syria; the creation of Federation of Arab republics between Egypt, Libya and Syria in April 1971; the merger of Egypt and Libya in Sept., 1973 and a proposed merger between Tunisia and Libya in January 1974⁽¹⁾.

For different reasons, no lasting form of these bilateral or multilateral attempts has so far been achieved. Some of these attempts died out even before becoming effective and some did not last except for a very short period. Therefore the economic effects of these attempts, if any, were modest except for some increase in the trade among the pact participants for the period the pact remained in effect.

(1) For more on that see:

Hussein A. Hassouna, The League of Arab States And Regional Dispute, (New York: Oceana publications, Inc., 1975), Passim.

II. THE EVALUATION OF PREVIOUS ATTEMPTS AT ECONOMIC INTEGRATION IN THE ARAB WORLD

In the light of the preceding discussion, it appears that the multilateral efforts in the field of Arab economic cooperation were concentrated on the promotion of intra-Arab trade and the harmonization of national economic policies with the objective of achieving economic unity among the states of the Arab League. The failure or success of these efforts can be measured by their achievements towards their objective. The purpose of this section is, therefore, to evaluate these attempts in terms of intra-Arab trade; its magnitude and evolution, and the harmonization of economic policies.

II.1. Intra-Arab trade; its magnitude and evolution.

The state of intraregional relationships under the traditional multilateral efforts in the Arab World was largely reflected in the pattern of intra-Arab trade since the beginning of these efforts. During the 1960s, the share of intra-Arab trade in their total trade fluctuated around 8 percent without any visible rising trend. Despite about 25 years of attempts for regional cooperation, intra-regional trade did not improve in comparison with the region's total trade with the rest of the world. In 1976 intra-Arab trade was less than 6 percent of the region's total trade. The existing pattern and magnitude of intra-regional trade are largely a reflection of economic as well as political factors. The latter, however, does not concern the present work and we shall therefore turn to the following economic factors:

1. The economies of individual states are characterized by a low level of output in the commodity production sectors, a large degree of similarity in products, i.e. mainly agrarian and primary products, and a heavy reliance on extraregional markets for exported primary products and of almost all kinds of imported manufactured products. Moreover, the successive development plans conceived and the policies pursued solely on a statewide basis had an important bearing on the volume and growth of intraregional trade. Industrial programs in various states had been sought in relation to the narrow domestic markets.

For agriculture, most of the states were trying to achieve self-sufficiency. Agricultural and industrial development and the expansion of intraregional trade depend to a large extent on the adoption of policies having a regional outlook, taking into account the relative advantage of the various states in the various lines of production.¹

2. Instability and fluctuations have been at all times the most striking features of intra-Arab trade. Drastic changes and sometimes a complete interruption of trade flows within the region are quite common. This can be explained by two reasons:
 - a. Fluctuations in agricultural production, most notably in Syria and Jordan where the bulk of their agricultural activities depend on rainfall which fluctuates from season to season. Moreover, agricultural products constitute a large portion of the exports of these states, as well as many other states of the region.
 - b. The frequent changes in political relations, due to internal and external factors, have immediately and seriously interrupted trade relations in the region and some times lead to a complete stop in the trade flows between two or more states of the region¹.

II.2. The harmonization of economic policies.

It was mentioned before that the various multilateral agreements among Arab states called for the coordination of economic policies of member states to prepare for economic unity among these Arab League member states. Up to the present time, all efforts have almost completely failed to achieve any progress in this regard. Each individual state still has its own economic policies without any consideration of what other

1. *Irbid.*, ch. 6, passim.

states, policies are. In the foreign trade sector, for instance, no progress has so far been made in coordinating external tariffs among the four members of the ACM (Iraq, Jordan, Syria and Egypt). The level of their nominal tariff varies widely; 23.1 percent in Iraq, 31.5 percent in Jordan, 32.5 percent in Syria, and 57.3 percent in Egypt¹. The free trade area which was supposed to have come into being as of January 1971 has still to become effective.

Moreover quantitative and qualitative restrictions² on trade among member states of the ACM are still dictated by high political officials. These restrictions have offset the benefits of tariff liberalization among these states.

With regard to the monetary policies of the different states, the picture is even more striking than trade policies. Although the payment union has been agreed upon within the CAEU, the project remains in abeyance for lack of sufficient endorsement. Currently, each individual state has its own monetary policy regardless of the policies of other states. Up to the present moment, there exist no effective multilateral payments agreements among the states of the Arab League. All payments for goods and services exchanged are to be made in accordance with bilateral agreements, if any, or in terms of convertible currencies acceptable to the parties concerned. The absence of such an agreement limits any expected benefits, accruing from multilateral trade agreements especially for those states who suffer from a shortage of foreign currencies such as Egypt, Syria, Sudan, etc...

More importantly, the coordination of development plans and the harmonization of industrial policies have been considered the core of economic integration in developing countries, and have been called

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1. UN. Studies on Development Problems in Selected Countries of the Middle East, 1972 (UN Publication sales No. E.72.11.C.1), P.3.
 2. For Trade policies, see IMF., Annual Report on Exchange Restrictions, (Various issues).

for by all multilateral agreements in the Arab World ¹. Despite that, no real progress has been achieved in this field. Each Arab state conducts its development plans without any marginal reference to either an integrated scheme or to any other state's plans. Nor have any multi-state industries been established in the area until the early 1970's when a few projects were established on an ad-hoc basis, rather than along well-mapped paths of cooperation ².

III. The Major Causes Underlying the Ineffectiveness of the Various Attempts at economic integration in the Arab World.

The negative findings of the preceding analysis lead to the conclusion that the various attempts at economic integration in the Arab World during the last 25 years have been ineffective and have failed to bring about the required changes in the economic structure of the states of the region. The reasons for this unpromising history are numerous, but the most important one is the economic, political and social structural imbalances inherited from the colonial era. The economies of various states were directed towards the needs of the colonial markets rather than the region's markets. These economies were specialized in producing and exporting cheap raw materials to the colonial markets and importing from them manufactured products; mainly consumer goods. Moreover, the elite class in each state have used their power to maintain the status-quo and tried to prevent any changes in their advantageous position. These structured influences, have influenced the collective

1. See Muhammad Diab, "The Arab Common Market," Journal of Common Market Studies Oxford, Vol. 4, No. 3 (May 1966), pp. 239-250.

2. See Y.A. Sayigh, The Economics of the Arab World, *Ibid*, pp. 709-710.

effects in the area through their effects: (1) the set-up of the multilateral agreements; (2) the position of the participating state during the integration process, and (3) the machinery and the approach chosen to carry out these attempts. A detailed discussion of these effects will follow in order.

III. 1. The set-up of the multilateral agreements:

The multilateral agreements within the framework of the League of Arab States are mainly based on three schemes:

- a. The Arab payments conventions,
- b. The Arab trade convention, and,
- c. The Arab Economic Unity agreement.

* The set-up of these agreements was not without loopholes and escape clauses which made them ineffective and even impeded their implementation. To mention a few, the following are some loopholes and defects embodied in the set-up of the agreements themselves:

1. The approach to economic cooperation adopted by these agreements was not the correct one. All agreements concentrated on trade liberalization as a first step towards economic unification and postponed the harmonization of economic policies until the fulfillment of the first step. The experiences of other groups of developing countries, and the Arab world in particular, proved that the differences in other policies are more influential, hence, they prevent or at least delay the implementation of trade liberalization among member states. The economic conditions of LDCs, including the Arab World, are characterized by the low output of commodity production sectors, especially the manufacturing sector, and therefore show little potential for intra-regional trade. Without a wide range of exportable products in the states involved, trade agreements among these states would be hollow. The magnitude of intra-Arab

trade is a case in point where it fluctuated around 7 percent on the average during the period in question. Trade liberalization among developing countries, to be fruitful, should go hand-in-hand with the harmonization of social and economic policies¹ such as development and industrial plans, monetary and fiscal policies.

2. All agreements were nearly devoid of any kind of compensating measures to assure a fair distribution of costs and benefits which could ensue from these agreements among the participants. The absence of such measures made the less favored states look for any clause or loophole in the agreements to escape its obligations.
3. The timing of these agreements was not successfully chosen. The 1964 Economic Unity Agreement, for instance, was campaigned for during the Civil War in North Yemen with strained political relations between the Arab states who sided with Egypt and its supporters on one side and Saudi Arabia and its supporters on the other side. For this and many other reasons, Saudi Arabia and its supporters did not join the 1964 agreement.
4. The duration of the agreements was too long and unjustified. The free trade agreement (in ACM) envisages ten years for this purpose. This length of time could be justified for the EEC where a wide range of industries exist but not for the Arab states where no significant industrial sector exists. The benefits accruing from the establishment of the market stem heavily from the fact that the enlargement of the market through integration would accelerate industrialization on a scale that

1. Hiroshi Kitamura, "Economic Theory and the Economic Integration of Underdeveloped Regions," in M.S. Wioczek, Latin American Economic Integration (New York: Praeger, 1966), pp. 59-63.

cannot be achieved within the narrow markets of individual states. The potential benefits from the integrated market should not, therefore, be stifled for some ten years ¹.

5. These agreements did not embody a concrete obligation on the part of the member states with respect to the elimination of payment restrictions. States that lack convertible currencies such as Egypt, Syria, etc., have resorted to non-tariff restrictions and depend heavily on bilateral agreements to promote their trade with other states of the region.

III. 2. The position of the member states:

On the side of the parties involved in these attempts, there is much evidence to prove that these parties, or at least most of them, were not serious enough to reach an advanced stage in economic integration. In spite of the full breadth and ambition of these attempts, some member states tried always to make use of any loophole in the agreements to escape their obligation. The deliberate frustration of these attempts is often a reflection of misguided understanding of the notion of political sovereignty and/ or misunderstanding of the significance of economic cooperation for the parties involved². Moreover, the number of states involved in these attempts is small if compared with the number of states who are members of the League. Only seven out of the twenty states have signed the Economic Unity Agreement (Jordan, Syria, Iraq, Kuwait, Egypt, North Yemen, and Sudan), and only four out of the seven signatories are currently involved in the Arab Common Market arrangement of 1964.

1. Diab, The Arab Common Market, Ibid., P.248.

2. Sayigh, The Economics of the Arab World, Ibid., pp. 707-8.

Saudi Arabia, whose representatives approved the Union convention in 1957, for undisclosed reasons did not join the economic unity agreement. Lebanon, who first initiated the idea of Arab economic unity, did not sign the 1964 economic unity agreement. Later, Lebanon expressed its desire to join the ACM agreement without adhering to the economic unity agreement¹. One wonders about this position given the fact that the text of both agreements reveals a great similarity, if not an identity of purpose². The Maghreb states (Libya, Tunisia, Algeria and Morocco) have completely kept outside these multilateral attempts and concentrated on their own cooperative structure which was not more purposeful than the other group of Arab States. Furthermore, the two groups have done very little to combine efforts or to coordinate activities in the area of economic cooperation until the early 1970's. Currently, the Maghreb states are joining several League institutions including the Organization of Arab Petroleum Exporting Countries (OAPEC). The reasons behind the very limited cooperation between the Maghreb States and the rest of the Arab world have been examined by Burhan Diajani, the Secretary-General of the General Union of Chambers of Commerce, Industry and Agriculture in the Arab Countries, among which are:³

1. Economic cooperation within the framework of the League was started before the Maghreb States obtained independence and joined the League.
2. The French, the colonizers of the Maghreb States had tied the Maghreb economies firmly to their own, and the British did the same with most of the other Arab States. The economic ties with the colonial powers continued under independence.

1. Such an arrangement is explicitly ruled out by the market convention, "An Arab Country wishing to join the market must first adhere to the Economic Unity Agreement".

2. Diajani, The Arab Common Market, p. 248.

3. Sayigh, The Economics of the Arab World, pp. 706-7

The question to be asked here is, "If the governments of these states were not serious enough to implement these agreements, why, therefore, did they join these agreements?" The answer to this question can be found in the ever-increasing popularity of Arab Unity (politically and economically) among the Arab masses. The government of respective states did not dare to reject the cooperation efforts openly, but the escape from these obligations takes place as soon as these governments find the justification.¹ The deliberate frustration of these attempts by various state government is, as mentioned before, a reflection of a misguided understanding of the notion of political sovereignty and the underestimating of the significance of economic cooperation for all parties involved. To these points must be added the following reasons:

1. The political relationships between the ruling groups in most of the states were unfavorable in most cases.
2. The influence of large foreign corporations, especially in the oil producing states, was strong enough until the early 1970's to play a significant role in establishing the persistent Balkanization policies in these states. ARAMCO in Saudi Arabia is a case in point².
3. The presence of powerful vested interest groups in some states impeded the drive toward economic unification in the Arab World. The political groups of Lebanon, for instance, always stood against the idea of unifying Lebanon with any other state since its separation from "Great Syria" by the

1. Ibid., P. 706.

2. For the strong influence of ARAMCO in the Saudi economy, see Farouk M. Akhdar, "Multinational Firms and Developing Countries," (Ph.D. dissertation, University of California Riverside, 1974).

French colonial power. The governments of many other Arab states were reluctant to adhere to the Arab Economic Unity Agreement because, as they saw it, the agreement had an overly ambitious objective: total economic unity, presupposing a unity of view which would extend into social and political fields. This constitutes a real threat to the interest of vested interest groups. Therefore these groups have practised their political and economic powers over their respective governments in order not to join the cooperative attempts in the Arab World.¹

4. Finally, and more importantly, the masses, in most of the states, were completely unarmed and have no power to press for unification. This was partially due to the nature of the political system (dictatorship) in most of the states and partially due to lack of organization.

1. United Nations, Economic and Social Office in Beirut, Studies on Selected Development Problems in Various Countries in the Middle East, 1972 (UN Publication Sale No. 72.II.C.1) pp. 1-3 and p. 10.

THE REGIONAL MACHINERY: THE COUNCIL OF ARAB ECONOMIC
UNITY (CAEU); ITS STRUCTURE AND DECISION-MAKING PROCESS.

The Council of Arab Economic Unity was established pursuant to articles 3 to 15 of the treaty of Arab Economic Unity which entered into force on May 30, 1964. The membership of the council comprises seven of the fourteen signatories of the treaty, namely, Egypt, Iraq, Jordan, Kuwait, Sudan, Syria and North Yemen. As stated in the agreement, the Council is an autonomous entity with its own budget and secretariat, and is authorized to form any specialized committee(s) to help in carrying out its tasks towards economic unity in the Arab World. Later on, various amendments, at the request of some member states, were adopted and restricted the task of the council to the preparation of studies and recommendations in which the member states were left free to apply in accordance with its constitutional laws and practices. Because of these amendments, the Council became, at best, a permanent intergovernmental body rather than a regional organ. The attendance of the council sessions by ministers (as supposed to be) has frequently not been possible for political reasons. In their stead member states were represented by government officials who were not empowered to commit their respective governments' support. In addition, the representatives within the council were only to defend the interest of their own states paying little or no attention to national (Arabwide) interest. By and large, the council represented another feature of the same contradictions embodied in the mother organization; namely the Arab League.

The strategy of the council in preparing the ground for economic union was based on the traditional method starting with free trade area, then Customs Union, common market, and economic union. The establishment of the Arab Common Market was the first step to be undertaken by the CAEU in its first year, 1964. This approach proved to be of little help in dealing with economic problems of developing countries. The economic

conditions of developing countries necessitated the coordination of economic policies such as investment, production, fiscal and monetary policies, etc.¹

The decisions of the council are carried by a two-thirds voting majority with each state having only one vote. These decisions become binding only after ratification by states' legislative authorities. Most of the decisions, especially in fields of coordination of economic policies, failed to receive the legislative support of the member states. Moreover, the decisions of the council were resolved in isolation from each other and usually at the request of the member states.

In summary, the establishment of the CAEU, in spite of what was written in the agreement establishing it, is not an attempt to achieve economic integration in the strict sense, but simply a formula for cooperation. The ineffectiveness of the general machinery for opening up markets and bringing the economies of the contracted parties is, in the first place, the responsibility of the parties involved. The set-up of the multilateral agreements, and the machinery of the decision-making process if to be blamed, come next.

In spite of all obstacles mentioned before, the secretariat of the council has striven at all times to promote cooperation and integration in several areas of activities. Some achievements have been registered after the 1973 events, especially in finance and multistate enterprises, such as the establishment of the Arab Fund for Social and Economic Development with capital resources equivalent to U.S. \$1,380 million, the Arab Potash Company, the Arab Company for re-insurance, the Arab Maritime Company, etc.

1. Kitamura, Economic Theory and Economic Integration, Ibid.

The fundamental complaint against this approach, project by project, is that it involves haphazard cooperation and constitutes no part of a well-mapped path of coordination and complementary development plans.

Obstacles to Arab Economic Integration

BY

DR. A. GUECIOUEUR
Assistant Professor
Economics Department
Yarmouk University
Irbid, Jordan

Obstacles to Arab Economic Integration

Before considering the obstacles to Arab economic integration, one should first consider the attempts which were made in order to achieve such an integration.

Previous attempts at Arab Integration.

Beyond the sub-regional institutions (both at the Maghreb and Mashrek levels), which we mentioned in our paper: Problems of Arab Industrial Integration, at least ten attempts were made at Arab integration or union. We shall, therefore, present only succinctly each case.

1. In 1948 Syria and Libya attempted a loose customs union which was dissolved in March 1950.
2. In April 1950 a Treaty of Joint Defence and Economic Cooperation was formed. It gave birth to an Economic Council grouping ministers in charge of economic affairs.
3. The Intra-Arab Trade and Payments Convention was created in 1953. Its objective was the establishment of an Arab Common Market whose convention was signed in 1964. The Arab Common Market Resolution aimed at a gradual free movement of goods produced by the countries concerned in order to achieve a complete removal of all restrictions by January 1974. Such an objective has not yet been fulfilled.
4. In 1957 The Economic Unity Agreement was signed and entered into force on May 30th. 1964.

From 1961 onwards several trade agreements were signed by different Arab countries. Above and beyond these attempts Arab countries tried on several occasions to achieve political unity.

1. Egypt and Syria created the United Arab Republic (UAR) in 1958. It was dissolved in 1961. However, a common flag and national anthem existed until only very recently.
2. In 1958, Iraq and Jordan attempted a union.

3. The UAR (Egypt and Syria) with North Yemen created the United Arab States.
4. In 1963 a project of federation was attempted by Egypt, Syria and Iraq.
5. In May 1964, Egypt and Iraq created a Joint Presidential Council.
6. The Charter of Tripoli was signed in 1969 by Egypt, Libya and Sudan. Syria joined at a later stage.
7. Egypt, Libya and Syria created a Federation of Arab Republics in 1971.

From 1973 onwards we have noticed a series of mergers between the following:

Libya and Egypt in September 1973

Libya and Tunisia in January 1974

Libya and Syria in August 1980

One can easily remark that not all Arab countries were involved in these numerous attempts.

I. Causes of Failure.

The lack of success at integration can be explained by a set of causes, some of which are of a political order, and others which are of an economic nature.

The political instability which has characterized the Arab region since the beginning of the century constitutes an important contributory factor. As a result of this, the Maghreb and Mashrek countries were cut off from each other for decades. Only very recently have they started establishing serious links. This political instability created political dissensions between individual Arab countries, which, very often, led to the interruption of trade flows between the countries concerned. Unfortunately, despite this political instability, Arab countries opted for political unity first. As a matter of fact, 10 out of 14 attempts were of a political nature. This constitutes a grave mistake on the part of the Arab countries concerned.

In some cases, the timing of the unity, union or merger was inappropriate. For instance, the Economic Unity Agreement (E.U.A.) was launched in 1964 while a civil war was raging in the Yemen Arab Republic. At that time, two countries, Saudi Arabia and Egypt, were confronting each other, and since the Agreement was an "Egyptian baby", the supporters of Saudi Arabia did not join.

These political factors magnified structural economic causes. One of these causes is the economic and social imbalances inherited from the colonial era, and which left little room for cooperation between Arab countries even at sub-regional levels.

Political independence did not mean economic independence. Arab countries were, and still are, dependent on outside powers in the fields of economics, trade, technology and even security.

The different levels of economic and social development constitute another obstacle usually referred to by most observers. In our opinion, this is not a very important issue, since all Arab countries are developing countries, and the difference appeared only after 1973. Furthermore, this difference is not as much due to the level of development, but rather to the capacity to finance this development.

In our opinion Arab countries did not choose the right path towards economic integration. For instance, they opted for a "market integration" through trade liberalization without harmonizing their economic policies and without undertaking the required structural changes.

One must also mention the fact that integration, union or unity attempts were taken lightly by some Arab countries, as if the whole exercise was designed for domestic consumption. As proof of this the agreements were not binding, and they contained so many loopholes that they became useless.

Finally, the most important cause, which might even hinder future progress, is that Arab countries did not consider one basic condition; namely, that the costs as well as the advantages of any integration must be equally distributed amongst the countries concerned.

CONCLUSION

For any group of countries integration is a very difficult aim to achieve. The difficulty becomes greater when, as in our case, it is undertaken by developing countries.

To state that integration has failed in the Arab World, or in its various parts, is incorrect. The reason being that integration is a long undertaking which is taking its course. It has encountered structural and temporary obstacles of every type. However, it cannot succeed overnight, even if the political will is there.

DISCUSSION

Discussion

Dr. A. Dajani: It seems that the emphasis has been on showing the causes of failure, which means that there is a negative side, but the conclusion from this is that we must concentrate on learning methods to achieve solutions. So, please, let us treat the positive side rather than emphasize the negative side.

Dr. Ghanem El-Khalidi: The first point is that if I were one of those organising the programme I would have organised things differently. For instance, the previous lecture was the EEC contribution to Arab economic integration. Now we have heard the causes of failure and the next lecture will be the Agreement of Economic Unity. I believe that we should have listened to the positive side of the argument first, then the negative side. Also, it would have been possible to join the EEC to the ACM making the next session's topic: "the ACM and integration".

Another point I should like to make is that in the first paper (if I am not mistaken) it was said that the commodity exchange between Arab countries amounted to just 5 percent. I should like to correct matters by saying that agricultural foodstuffs amount to about 5 percent but this does not include other goods like for example, oil.

I should also like to mention few other obstacles which the Arab common effort faces:

1. The General Growth period of the Arab World, as developing countries.
2. The weakness of the Arab joint effort from the political side.

3. The differences of the basic systems of the Arab countries from the economic and political view, etc...
4. The major role played by national and institutional interests in the Arab countries and their effects on limiting the development of the Arab joint effort.

Dr. B. Khader: Concerning the approach to obstacles towards integration, I have noticed that the same reasons are repeatedly being given.

I should also like to mention the point of the Israeli aggression in Palestine and the occupation of Palestine since 1967 which has ousted Palestinians from the Arab World and has consequently ousted the human and economic resources which might have contributed, (directly or indirectly) to Arab development which is the aim of the move towards Arab economic integration . I should like this to be born in mind.

Furthermore, this struggle has sometimes created political conflicts between the Arab countries. Here I should like to put aside the political sensitivity to say that the conflicts have sometimes led to the closing of borders between some Arab countries which are direct parties to the Agreement on Arab Economic Unity.

A third point here is the Camp David accords which resulted in the isolation of Egypt from the Arab World and the relations between Egypt and Israel.

This, of course, happened at the expense of Arab economic and political integration.

These points are to be considered in the political and economical analysis, and I am aware that they have painful aspects, but we should always face the facts whenever talking about the various scientific issues, especially the issues of Arab economic

integration and Arab economic unity.

The fourth point to be made is the Israeli occupation of Arab land and the execution of economic policies which directly or indirectly weakened the effort towards Arab economic integration. In other words I would say that the expanding settlement in the occupied territories swallowed up $\frac{1}{5}$ of the cultivable land, not to mention the economic, agricultural and industrial war which weakened the Arab markets' share of Palestinian production, which might have contributed to Arab economic integration and development.

In the second part of my comment I should like to recall my experiences in the Gulf countries, especially those concerning integration and cooperation between those countries. I have noticed other reasons, over and above those mentioned concerning the causes of failure of integration, such as the existence of the psychological fear small countries have of larger countries. The prime reason for this could be the ambiguity of the integration process and the lack of clarity when it comes to the distribution of costs and benefits. This lack of clarity is a direct obstacle to development, and here I should like to single out the Arab agricultural ministers' conference in the Gulf which coordinated agricultural cooperation between these countries. In the first conference held in S. Arabia four years ago, the ideas discussed were theoretical as, for example the idea of building atomic water purification stations, but during the scientific discussion in the sub-conference and the technical committees, it was realised that concentration should be on the natural resources of the region specially with regard to the region's fishing industry.

These are points which I should like to be taken into consideration either from the political or the practical side.

Dr. A. Dajani: I should like to make a brief comment, although I am not supposed to in my capacity as monitor. I think most of these agreements have emphasised the trade sector whereas, let's face it, this sector has certain difficulties and I would like to give just one example. We know that in the Arab World we are all producing materials for fertilizers - phosphate in Morocco, Mouritania, Tunisia, Syria, Jordan, Iraq, etc. Potassium is produced in Jordan, urea, ammonia and other fertilizers are produced in the Gulf. Now, the farming and agricultural sector is a very important one in the Arab World, yet out of the total amount of fertilizers used by Arab farmers, less than 20 percent is produced in Arab countries. Although we are not exporters of fertilizer constituents, the fertilizer we use on our farms constitutes less than 20 percent of the total amount applied to our farms. Why is this so? Simply because we do not have fertilizer available in the form the farmer needs. We have the constituents: superphosphate, ammonium phosphate etc., but we don't have the compound fertilizer in the necessary form.

Here I think the trade community and the industrial community bear the responsibility for developing this, not every thing can be done by governments; we have to recognize that the producers, whether in the public or the private sector and business community have also a role to play.

Dr. A. Guecioueur: I should like to make a brief comment. If you take the Camp David agreement, of course it conflicts with the situation here. I remember what Dr. Harik said: "despite difficulties there is a movement towards integration in the Arab East." If we did not have the Middle East issue, the problem between Israel and the Arab World, the level of integration would be better or higher. This is an important issue and since we're giving examples,

I shall give you the example of the Maghreb countries. Our colleague, Dr. Bani Hani did ~~not~~ mention this. In the late 60's and early 70's there were several attempts in the Maghreb countries to integrate at the economic level, in the fields of industry, agriculture, etc. These attempts were very well advanced and then one event changed the situation: the issue of the Western Sahara. There were three summits between the Algerian President, the King of Morocco and the President of Mauritania. They all agreed that the Sahara was going to be independent, etc. when the former colonial power decided to create problems, you all know what happened. *as the result of the so-called Madrid Tripartite Agreement.*

Now, all that was achieved earlier has been destroyed. Of course this situation influences the evolution and development and integration of the Arab World.

Another point was mentioned by our colleague about "the small countries, fear of the large countries" and this is absolutely *true*. When it comes to integration, the small Arab countries do ~~not~~ want to integrate because of the larger Arab countries, and this is exactly what I meant when I said "the larger *eats* the smaller." That means that there is no equitable distribution of costs and benefits, and since this is so, we cannot have real integration.

Take the Arab league. From 1945 until one or two years ago the Secretary General was always an Egyptian and this hindered in some cases development. Some countries (Jordan, Syria and Iraq) suggested changing the Agreement of the Arab league, but this was refused. This, of course affected the integration of the Arab World.

Dr. M. Saqr : When the economic analyst (especially in the developing societies) faces a matter of an economic nature, he finds it difficult to separate the matter from the social, psychological, cultural and philosophical sides of the society or group whose problem he wishes to solve. The issue of the failure of Arab economic integration is not a separate issue from the social , cultural, philosophical and political problems of the Arab World. The strange thing is that the Arab World was more united during the colonial era than it was after independence, which means that the independence era created partition of the Arabs. In the past the Arab citizen who fought in Syria and Palestine was the same one who fought in Iraq and Egypt and vice-versa. But since independence we have seen customs barriers, borders and visas, let me say quite frankly that this situation shook the Arab masses who did not expect independence would mean barriers and visas. I remember when was addressing the Moslems in MENA a few years ago I told them: I wonder how a nation can expect to get rid of Israel and yet is unable to get rid of the passports and visas which disunite it.

If you wish to experience the colonial issue and Arabism , just pass through any Arab check-point. The colonialist, when we keep insulting all the time through the media, is given preferential treatment, whereas the Arab is searched , checked, etc. It is enough for someone to speak any other language than Arabic as his native tongue and he is given all kinds of priorities. Really it is a tragedy.

The concepts of unity and independence require clarification from the Islamic angle. We (as people and not politicians) believe that the Arab and Islamic nations resources are integrated in nature, the . . . faith is not complete unless he believes in Allah - God - and the unity of this nation .

Generally, the existing political frameworks in the Arab World want to substitute this concept by the unity concept and to consider just geographic unity. In fact, there is a contradiction between the popular and the political framework about the unity issue, the existing political framework is a major obstacle to the real support of the masses, and the masses are the builders and not the political framework or the supreme bureaucracy. The supreme bureaucracy is the result of the impetus which is glowing through the society's feelings and thoughts. The strange thing is that even wealth (which is supposed to help us) is an instrument which strengthens "nationalism" within the Arab World. For instance, the Arab countries have different funds: The Kuwaiti Development Fund, the Emirates Development Fund, and others. What are the objectives of these different Funds?

Even the Arab money which is used to support nationalism is an *obs-*
tacle towards the integration of the Arab nation which is one nation in my opinion.

Despite the different political regimes we can overcome any political regime by means of our prospects, and we believe that these resources (wealth, money, etc.) are to be shared by the whole Arab nation, if not today, then tomorrow. The Arab economic integration concept requires a certain understanding and a great impetus.

The former philosophical framework beyond Arab unity was (on the political scene) without real dimensions, and people were about to dispel that unity, because they believed that it was not a genuine unity. Have we worked through our curriculum and mass media towards fixing this concept? The answer is no.

Let me ask, which of the Arab countries is large? All these

countries are small, size is a subjective indicator. Does the Arab political decision in relations with Israel or the fact who backs Israel carry real weight? We complain to the EEC countries "We need a political decision to support the Palestinian cause". Of course this is a demand we ask for, but if the Arab countries are not ready to take a decision in order to change themselves from small countries to effective ones, how can they expect to cooperate with the World?

How can we ask others to help us when we do not allow ourselves to take this political decision which is the only salvation for the continuity of this nation.

Dr. A. Dajani : I should like to say that although we have heard many negative aspects from the papers under discussion, there are also many positive aspects in the Arab World. I think that the Arab nation has proceeded along the path towards development and growth in an acceptable manner over the last 30 years. If we exclude the obstacles already mentioned, in the private sector, for example, we have, as a commercial and industrial sector, good relations with all Arab countries. There are joint companies, joint meetings and agreements towards cooperation with others. We have relations with both Eastern and Western countries through the joint Arab foreign chambers of commerce.

Concerning technology, there are several conferences in cooperation with other parties. The situation is not that dark, the future of the nation will be bright. The obstacles are natural; for a long time we were a colonized nation, then we started to experience liberty, then started to head in the right direction. There are many obstacles, the principle of which is politics, the unity of Arab ideology is what we should strive to achieve. The differences which exist between Arab systems are a result of differences in

ideology. In order to achieve this unity we should go back to our {nation:} roots, we have the necessary foundation and if we take this foundation into consideration we will achieve this unity.

In Jordan there are many positive aspects; we have experienced development in the fields of industry, agriculture and education. The same can be achieved by all Arab countries to various extents, and I believe that, God willing, this could come about very soon.

Dr. A. Guecioueur: I should like to make a brief comment on what Dr. Saqr has said. The first step towards integration must be taken at home integration must start within the Arab countries themselves; other blocs can only be involved once it is in their own interest.

Secondly, we have to ask ourselves what are the motivations for Arab countries to integrate? Arab unity? Islam ? Self-interest? With regard to what Dr. Saqr said concerning Arab Funds, I agree with his point of view, that is why I said that Arab countries sometimes prefer bilateral to multilateral cooperation, for example the Kuwaiti Fund for Arab Economic Development (KFAED), capital 1 billion dinars, and the Arab Fund for Economic and Social Development, capital 500 million dinars.^U

Concerning the order in which the topics were discussed, with the Agreement of Arab Economic Unity and its role in inter-Arab cooperation being discussed second, this was done on purpose, because there is a logic in the order of all the papers, "Agriculture, Industry etc. I, myself, am quite optimistic about the prospects of integration in the future. What has been achieved so far is quite good, but we should not be self satisfied; however, if we look at the potentials in the Arab World, if we look at the dangers, the borders which are not fixed all these are potential

- (1) The capital of the AFESD has been increased as a result of the Amman Summit.

problems which require wisdom and a positive stand. That is why I put this topic, the Arab Economic Unity Council after the discussion on the causes of failure, because in my mind the Arab Economic Unity Council can contribute, and so I wanted this seminar to end on a positive note . Let us not say that integration has failed, because this is not true.

CHAPTER SEVEN

THE AGREEMENT OF ARAB
ECONOMIC UNITY

The Agreement On Arab Economic Unity Between The Countries
Of The Arab League And Its Integrative Effect.

BY

Dr. Fakhri Kaddouri
General Secretary
Arab Economic Unity Council
Amman - Jordan.

The Agreement on Arab Economic Unity Between the
Countries of the Arab League

In the mid - 1950's the Arab Economic Council felt the necessity to find an agreement through which it could tie the countries of the Arab League, an agreement built on a new basis able to ensure the transition of Arab economic relations to a higher type from the point of view of clear objectives and the decision making process.

As a result of this, the Agreement on Arab Economic Unity between the countries of the Arab League came into being during its preparatory stages it event through the Council of the Arab League and it was approved by the Arab Economic Unity Council during its fourth ordinary meeting on June 3rd, 1957 and came into effect on March 30th 1964.

The introduction of the Agreement mentioned that " the Arab Countries, given their desire to organise their economic relations and to strengthen them on a basis commensurate with current national and historical ties, and in order to achieve the best conditions for the good of their economies and the development of their wealth, and to ensure the welfare of their countries, agreed upon complete economic unity."

The Agreement, therefore, was not reached outside the Arab League but within it and by its will. This explains the ambition of the League of Arab States to strengthen the Agreement and to expand it to include all its members. This was reflected in decision No. 264/D/10/J/2. On June 12th, 1964 (that is after the Agreement became effective) to form a high-ranking delegation to visit Arab countries in order to ensure the approval of the Agreement as well as of other Arab League Agreements. That visit was meant to take place on an annual basis.

In its decisions and meetings the AEUC called on Arab countries to join the Agreement on Arab Economic Unity. Until now, 13 countries⁽¹⁾ (that is just over half the members of the Arab League) have already done so.

Regional economic conferences, whether official or non-official, have always stressed the importance of the non-member countries joining the Agreement.

At the forefront of these conferences is the regional conference on Joint Arab Economic Strategy held in Baghdad on the 6 - 15 May 1978 and which was called by the General Secretariat of the Arab League and the Association of Arab Economists. Official delegations as well as official and popular (non-official) organisations participated. There were one hundred and ten participants. More than 40 studies were presented including papers prepared by the General Secretariat of the League of Arab States and the Arab Economic Unity Council. In its final document the conference called on the rest of the Arab countries to join the Agreement on Arab Unity.

The 10th Arab Summit stressed in its decision (No. 7) and in the modification of the charter of the Arab League on the strengthening of the joint Arab effort and the channeling of the effort towards the realization of Arab Unity. The Agreement on Economic Unity between Arab countries expresses the economic side of the Arab Unity on which the 10th Arab Summit insisted. This summit also decided (Paragraph b decision No. 8) on "strengthening Arab collective relations by removing the barriers to the execution of existing collective agreements particularly in the economic field. It is clear that the

(1) Kuwait, Egypt (whose membership has been frozen), Iraq, Syria, Jordan, The Yemen Arab Republic, Sudan, The Yemen People's Democratic Republic, The United Arab Emirates, Somalia, Libya, Mauritania and Palestine

invitations to non-members to join is based, in particular, on this decision, and that the Agreement on Economic Unity represents the economic side of the joint Arab effort to which the 10th Summit attached special importance.

The characteristics of the AEU could be summarized as follows:

- A. That the Agreement defined its long-term and basic objective which is the realization of economic unity between the Arab Countries. Therefore, it translated the evolution towards regional unity in a clear and defined manner. This was stressed by the decisions of the 10th Arab Summit since unity constitutes the hope of the Arab Community (umma) and the goal of its long struggle.
- B. The Agreement went beyond the definition of the long-term and basic goal since it also stipulated the conditions of Arab economic unity for the countries of the Arab League as follows:
 - Freedom of movement of persons and capital, the freedom of exchange of domestic and foreign goods and products, the freedom of residence, work and the practice of economic activity and the freedom of transport, transit, and the right of ownership, trusteeship and inheritance.

The Agreement also determined what the contracting parties should do in order to achieve this economic unity, that is to create a common customs union under a single administration and the unification of the tariff systems applied in the countries concerned, to unify the import and export policies and the systems related to them, to unify the transit and transport regulations and make joint trade and payments agreements with other countries as well as co-ordinate the agricultural, industrial and commercial policies, and guarantee equal opportunities to all the citizens of the contracting parties in the professional agricultural and industrial fields etc...

When defining these goals the Agreement did not set any deadline; it left it to the AEUC to achieve them stage by stage; furthermore, the Agreement introduced more flexibility when stating that "it is possible to make an exception to the principle of unity in certain cases and in some states but only with the consent of the AEUC.

- C. The third characteristic of the Agreement is the scientific and objective link between the way towards economic unity and the decision-making process in the sense that the Agreement stated that the AEUC takes its decision by a majority of two-thirds ($\frac{2}{3}$) of the contracting parties.

Those three major characteristics of the Agreement on Economic Unity are seldom found in Arab collective agreements between the members of the Arab League. Therefore, they quite rightly expressed the desire of the Arab League council and the Economic Council at that time, to find a more advanced agreement and organization for the joint Arab economic effort.

The Achievements of the Arab Economic Unity Council.

Before talking about the results obtained, so far by the AEUC we should mention some points which should be considered by anyone undertaking a quantitative and qualitative evaluation of these results.

1. That the Agreement on economic unity became effective on April 30th 1964; it is seventeen years old. On the other hand several other Arab councils and organizations are much older, the oldest being the Economic Council which stemmed from the joint Defense and Economic Cooperation Agreements in 1950.

That several regional - international blocs were created well beforehand such as the COMECON and the E.E.C. which were established in 1949 and 1951 respectively.

2. That the joint Arab economic effort was and still is facing problems and difficulties stemming from the situations and conditions of the Arab countries themselves and which negatively affect the joint Arab effort.
3. That not all the Arab countries are members of the AEUC (only thirteen) . This situation did not give a comprehensive regional approach to the AEUC as had been hoped.

It is true that the Arab countries, whether members of the Agreement or not, were given the chance to contribute to ^{its} achievements. The contribution and participation did materialize in the case of the Arab joint companies and specialized unions such as the Arab rail and road networks. However, despite this, the fact that not all Arab countries are members of the Agreement did limit these achievements.

During its 16 years of existence the AEUC held 35 ordinary sessions and 8 extraordinary sessions. The following results have been achieved so far.

The Arab Common Market (ACM):

The AEUC took the decision to establish the Arab Common Market on August 13, 1964. The Market aimed at achieving the following goals:

1. The freedom of movement of persons and capital.
2. The freedom to exchange domestic and foreign commodities and products.
3. The freedom of residence, employment and economic activity.
4. The freedom of transportation, transit and the use of the means of transportation and civil ports and airports.

The decision dealt with the progressive tariff-exemption of products produced by member countries of the ACM and exchange with the countries which were past of the Agreement. A domestic product was defined as a good produced locally at least to the extent of 40%. The decision was also meant to free trade between the countries concerned from tariff, quota and administrative constraints.

Despite all these decisions to remove tariff, quota and administrative constraints imposed on local goods, the Market did not manage to free trade completely between the countries concerned. This has several causes, the main one being the existing economic systems in some countries which were members of the Market and the subsequent import policies in terms of quota and tariff barriers and administrative constraints.

The current members of the ACM are: Jordan, Syria, Iraq, Egypt and Mauritania, AEUC suspended the membership of Egypt on March 31st, 1979. Since mid-1978 the Council has made a tremendous effort towards the development of the ACM, and for this reason the following main decisions were taken.

1. The devising of a flexible formula designed to attract the less-developed Arab Countries (Sudan, Somalia, YAR, YPDR and Mauritania) to their general economic and financial conditions. Negotiations are currently underway with these countries in order to secure their membership according to a simple and unified basis. These negotiations became deeper after Mauritania joined the ACM on July 3rd, 1980.
2. The Council has approved, in principle, the creation of a compensation fund designed to compensate the financial effects sustained by the less-developed Arab countries as a result of their joining the Arab Common Market.
3. The Council decided to start working on preparing the legislative, technical and administrative requirements in order to gradually unify the tariff systems.

4. The creation of a committee at the level of deputy-ministers, in charge of ACM affairs, to solve the difficulties which prevent the complete application of Market decisions and to suggest ways and means of developing ACM activities.

These decisions are expected to promote the ACM by enlarging its membership and by properly and fully applying its decisions.

The Collective Agreements:

In application of (accordance with) the Agreement on Economic Unity, the council established the following collective agreements.

1. The Arab Agreements on Basic Levels of Social Security.
2. The Arab Agreement on reciprocal treatment concerning the social securities systems.
3. Agreements on labour movements in the countries party to the AEUC.
4. Agreements on Transit.
5. The Agreements on avoiding double taxation and tax evasion in the member countries of the AEUC.
6. The Agreement on cooperation on tax-collection in the AEUC countries.
7. Agreement on capital investment and capital flows between the AEUC countries.
8. The Agreement on arbitration on investment conflicts between host countries and citizens from other Arab countries.

ARAB JOINT COMPANIES:

Given the council's goals to achieve Arab economic development and integration, the council opted for the creation of Arab joint companies as one of its methods. These companies are open to all Arab countries whether members of the Council or not, to contribute to them through their official bodies.

The following companies have so far been established:

1. The Arab Mining Company, Amman, with a capital of KD 120 million.
2. The Arab company for the development of Animal Resources, Damascus, capital of KD 60 million.
3. The Arab company for pharmaceutical industries and medical requirements, Amman, capital of KD 60 m.
4. The Arab company for industrial investments, Baghdad, Capital of Iraqi Dinars 150 m.

These companies contribute to other companies located in several Arab countries, and at the same time they are productive in their own field of specialisation.

To their basic goals of development and integration these companies added a new dimension by creating practical opportunities, of investment of some Arab countries' financial surpluses, and by increasing the level of Arab technology.

These companies have their own autonomous personalities and it is their administrative councils and general assemblies which lay down their policies and operations.

SPECIALIZED ARAB UNIONS:

As a practical channel for cooperation and coordination between projects that produce goods or supply services in any field, the AEUC decided to create Arab Unions. Until now, with the cooperation of the Industrial Development Centre for Arab Countries, 13 Unions have been set up.

PLANNING :

From two angles the AEUC considers planning as the scientific and practical corner-stone for Arab development and economic integration.

1. Through the coordination of individual Arab countries' plans.
2. Through the common Arab development plan.

From these 2 angles the General Secretariat has been preparing, for several years sectorial and country studies, the general framework and the basis of the common Arab plan. The joint effort with the United Nations Development Programme (UNDP) is still underway in order to conceive a plan in accordance with Arab official discussions.

As part of its effort the Council decided to unify the five-year Arab plans in terms of when they begin and end. All the current plans began on January 1st 1981 and will end on December 31st 1985. Many Arab countries apply this system of unification as a necessary basis for coordination between the plans of the various Arab countries. At the same time the Council is unifying the taxation and financial concepts and is issuing a lexicon for this purpose.

TECHNICAL ASSISTANCE:

The AEUC gives special attention to the strengthening of statistical institutions. In the framework of its annual assistance programme

provided to the least developed Arab countries; the Council gave \$ 1.247 m. during the 1977/79 period. This financial aid is used to finance the creation of statistical units, staff training and the acquisition of equipment necessary for their functioning. This aid is provided over and above the assistance provided to the member countries to set up long-term planning units.

THE UNIFICATION OF LEGISLATION AND CONCEPTS

The Unified Customs Law:

In its decision No. 1706 (4.6.1975) the Council approved a model for a unified customs law. The member countries were given the freedom to add or modify parts of it in a manner suitable to their conditions provided the dialogue continues between the member countries in order to achieve an acceptable unified law. Some countries took this law as a basis for their customs legislations while others added some points contained in it to their existing laws.

The Council compiled a lexicon of unique customs concepts in accordance with concepts and definitions contained in the unified customs law; at the same time the Council expressed its desire to unify those concepts specific to its members and pertinent to other Arab countries in general.

The Council compiled a lexicon of unified customs allowance equally, considered as a complement to the unified customs law and which was approved by decision No. 87 on July 6th, 1978. It is worth mentioning that all these laws, procedures and lexica dealing with coordination and unification constitute vital steps towards the building of the custom-wall. One has to mention the common lexicon financial and taxation concepts, prepared by the AEUC.

THE ROAD AND RAILWAYS NETWORKS:

As a result of the AEUC's concern with the development of the basic

infrastructure of the Arab countries, their interlinking and integration, the council came up with two plans of roads and railways aimed at linking Arab countries with one another as well as with other countries.

After intensive work which lasted around three years this project constitutes the first one of its kind at regional level undertaken by the General Secretariat of the AEUC. This project will be achieved thanks to the efforts of individual countries, but also thanks to help provided by the General Secretariat. The General Secretariat will use the financing facilities provided by Arab countries and regional funds especially when countries cannot bear the burden of finishing part of the projects within their borders.

This project constitutes one of the fields where the AEUC contribute to the integration of the transportation and communication systems between the Arab countries.

ARAB MONETARY FUND:

The creation of the Arab Monetary Fund was a great initiative of the AEUC which contributed to all its preparatory stages until it became functional in 1977.

COOPERATION WITH INTERNATIONAL ORGANIZATIONS:

In accordance with the council's orientations to create cooperative relations with international organizations in order to benefit from their capabilities and experience. Relations have been forged with the UNDP (United Nations Development Programme), UNCTAD (United Nations Conference on Trade and Development). These relations reinforce the AEUC's role in the sphere of international economics.

A. COMPREHENSIVE OUTLOOK OF THE AEUC'S ACTIVITY:

1. It is clear that the AEUC, thanks to this deep understanding of the Agreement on Arab Economic Unity, stressed its activity from several angles as necessary bases to create a strong base for Arab economic integration which constitutes the foundation of Arab economic unity.

The main approach pursued by the Council to achieve its goals are:

- the ACM approach with its vast and manifold goals. The Market is seen as a necessary approach in that it constitutes the first step in the field of Arab economic relations and in the accompanying technical, administrative and tax procedures.
2. The productive approach through Arab joint companies and Arab specialized unions. The purpose is to maximize Arab joint production and to enlarge its basis and to strengthen the links between Arab economics. Another objective is to increase the exchange of expertise between similar Arab industries and the deepening of the coordination process between them, and to create opportunities for enlarging them on joint integrative bases.
 3. The infrastructural approach which plays a basic role in achieving the inter-linking of Arab economies and in facilitating mutual relations which constitutes a basic requirement for any Arab economic integration.
 4. The planning and statistical approach, by coordinating the different national plans and unifying their time lapses and by creating a common Arab plan, because planning constitutes the only approach to build a common integrative basis from

scattered economies which develop without taking into account the regional elements. The purpose of this approach is to contribute to building and strengthening statistical activities in the Arab countries as a necessary introduction to the development, and unification of the data basis in the Arab countries.

5. The procedure and legislative approach as a necessary preparation in achieving the main goals in the fields of exchange, production and investment and to organise the flow of labour force and others through collective agreements and the unification of legislation and concepts.
6. The financial and monetary approach through the initiative to create the Arab Monetary Fund whose role is to support the balance of payments of the Arab countries, an operation which tends to strengthen inter-Arab economic ties.

All these approaches were used at roughly the same time because the success achieved in any of them will strengthen other approaches and their results will contribute to the creation of an Arab economic integration basis.

It is clear the AEUC did not resort to the creation of the ACM because it is the easiest approach as has been said by some, but it is axiomatic in economics and in the practical field that exchange relations constitute one of the first of any economic relations. They are primary, necessary and conditional relations that create opportunities for deeper and various relations in common interests in the field of exchange. Therefore the council did not limit itself to exchange relations but it went beyond them by laying down the ground for Arab economic integration.

HOW TO EVALUATE THE JOINT ARAB ECONOMIC EFFORT:

As has already been mentioned, the Arab joint effort has so far not achieved highly satisfactory results especially with respect to the hope placed in it, with respect to the magnitude of the material and human capabilities of the Arab countries and with respect to the importance of the danger and challenges which surround the Arab World and the Arab community (Umma).

However, in the political field, the Arab joint effort achieved great results, especially when compared to the economic sphere which affects the former both negatively and positively. However, despite its achievements the Arab joint effort is facing difficulties in the economic sphere as a result of:

1. The general level of development of the Arab countries which are developing countries.
2. The weakness of the joint Arab effort in the political field .
3. The dissimilarity of Arab countries basic economic and political systems.
4. The emphasis given to a country's interest at the expense of the regional interest tends to limit the improvement of economic joint activity.

The Agreement On Arab Economic Unity:
Comments And Suggestions

by

Dr. H. Yahya
Assistant Professor
Economics Department
Yarmook University
Irbid.
Jordan

The Agreement on Arab Economic Unity :

Comments and Suggestions

The Agreement on Arab Economic Unity (A.A.E.U.) includes 13 member countries. The population of the member countries totaled 97.5 millions or about 65% of the total population of the Arab World. The secretariat general of the A.A.E.U. presented a paper to this conference. The paper enumerated the most important achievements of the Agreement such as:

- The ratification of the Arab Common Market by five Arab countries whose population is estimated to be about 63% of the total population of the member countries of the Agreement.
- The Arab Monetary Fund.
- Collective agreements regulating labour and capital movement.
- Joint ventures in mining, medical industries, animal production and other industries.
- The law of customs union.
- The co-ordination of national planning research and technical aids.

The paper admits, however, that these achievements, important as they may be, are still not ambitious enough if compared with the ultimate objective, which forces on the establishment of full Arab Economic Unity in which there would be an Arab common market with complete freedom of movement of Arab labour, capital and various products in a way conducive to economic integration. Such a unified Arab block should have a unified economic policy in foreign trade vis-à-vis other economic blocks and the rest of the world.

Arab countries are characterised by underdevelopment and heterogeneous political regimes. Taking these two facts into account, any independent observer would conclude that the achievements of the A.A.E.U. are acceptable.

However, I beg to differ with the conclusion of the secretariat-general's paper- and the widespread view- that the heterogeneity of the political regimes is a decisive obstacle to the achievement of Arab economic integration.

I believe that the stage of Arab economic development is the main obstacle to economic integration and that economic development is the only path towards economic integration even with the prevailing different political regimes.

Most of the Arab countries are now going through the "Big Push " stage of development which is more evident now than at any other time. Since 1973, for example, the oil-producing states became the masters of their own resources and took the initiative with new policies for the export of oil and the use of the oil revenues for the social and economic development of their countries and other oil-poor countries.

There are certain leading sectors which are considered of high priority by the secretariat-general of the A.A.E.U. and they must be concentrated on for the realization of economic integration. The high-priority sectors include the following:

1. Manpower:

Over a million and a quarter workers from seven Arab labour-surplus countries are migrant workers in nine oil-producing states. This is an excellent example of the possibilities of integration in the field of human capital mobility. However, this still awaits organization and coordination in order for the Arab worker to move freely within a unified Arab market and settle in any Arab country enjoying the same rights and privileges as the natives.

2. Industrialization:

Oil-based industry is still in its infancy. Together, Arab countries form a large market which makes the establishment of petrochemical and other industries based on crude oil economically viable projects.

3. Food and Agriculture:

There are signs of growing interest in agriculture and industrializing agricultural products. The needs of the Arab World however, require more effort towards integration in this rather important sector. In this respect I fully support the call for building-up food-stocks on the same lines of the build-up of oil-stocks in the West.

4. Inter-Arab Scientific Research:

The establishment of Arab universities specializing in post-graduate and scientific research studies is essential for Arab economic integration to play a leading role in realizing this objective, and also to stimulate the return of Arab scientists and highly qualified manpower abroad.

Dr. H. Yahya

DISCUSSION

DISCUSSION

FIRST QUESTION: Two points have been raised here, the idea of economic cooperation and the idea of economic integration . I should like to distinguish between them. Economic cooperation, as Dr. Kaddouri pointed out, is subject to discussion at any time between any two or more countries the world over, but integration is a more precise concept. Whatever our definition of integration may be, it must eventually aim at eliminating local markets or the barriers that divide local markets with the aim of achieving one market in the end. When we talk about Arab economic integration, we mean that there must be a unified Arab economy at the end and no interior walls but just one wall surrounding the entire Arab World (economic wall). This is an important concept.

From here I should like to move to the point raised by Dr. Yahya concerning labour and the fact that there are 1.5 million Arabs working in other Arab countries. In actual fact, this phenomenon might occur in any part of the world. For example, we can find the same quantity of Pakistanis or Bangladeshis (as Arabs), in the Gulf Countries. But , what is the difference between a labour migration resulting from economic integration and a labour migration which does not result from economic integration?

The difference is that the labour movement resulting from economic integration involves free movement of the production factors including labour. That means that if the 1.5 million Arabs working in other Arab countries have the freedom to move from one Arab country to another, freedom of enterprise and freedom of residence then this indeed is a wonderful integrative phenomenon. Otherwise, it is still an international phenomenon, like the presence of Arabs in the U.S.A.

This also leads me to another point raised in this seminar, the "nationalists", who, as we all agree, play a negative role in economic integration. True, this is a conflict because the aim of integration is basically to benefit all the member countries and, by definition, to overcome narrow-mindedness and self-interest. Because if this integration

can not overcome the nationalists, then it is artificial . We can say that there are many non-economic issues that force us in this direction, towards this integration. This may be true in the case of the Arab World since the aims of economic integration are basically political ones, as a reaction to political needs. From this we may understand one side of the problems of Arab economic integration. Why doesn't it give a result ? Why is it blocked? Because it has a political framework preceding the economic framework.

I should like to ask Dr. Kaddouri two questions: First, the development of Arab economic unity, is closely linked to the exceptions issue which is a very important issue and which blocks the execution of the Arab Common Market. decisions whenever a decision about the exception of certain goods is taken. For example, Jordan is able to prevent the in-flow of "exception goods" (exceptions of quantity and quality)... I do not know where this exception issue is now. Is it still going on despite the fact that we have reached the stage of 100% liberation, or not? Second: The Arab Common Market, despite its name is not really a common market in scientific terms but rather a free trade zone. If we have reached the stage of a free trade zone by removing the customs barriers which formerly existed between its members, why do not we move a stage further, what are the reasons for not doing this? Why do not we progress now, for instance, to the customs union stage rather than to the actual common market which comes at a later stage.

Second Question: In fact I would like to ask the AEUC Secretary General this question: One of the obstacles to Arab economic unity is that many Arab countries did not sign the Arab economic agreement and did not join the Arab Common Market. Is there any hope that these countries may join, and if so, when.?

Third Question: Actually, what has been presented by the Secretary General of the AEUC is very important: the sequence and the four barriers. What we look forward to in the Arab World, is to overcoming these barriers,

We have the impression that the Amman Summit will deal specially with economic issues and we hope (as a private sector) in the Arab World, especially after the Bahrain conference held in May that this Summit may overcome these barriers during the last few months there has been an effort amongst the Arab countries to formulate the basis for the Summit. The question is, therefore, what are your impressions about the possibility of this Summit achieving its expected goals?

: Dr. F. Kaddouri:- With regard to the first remark concerning cooperation and integration, in fact, since the emergence of the Alexandria Protocol in 1944, then the Arab League in 1945 and the treaty of Defence and Economic Cooperation in 1950, these Arab conventions have stated the principles of cooperation between the Arab Countries whatever the terms might be (loose cooperation, close cooperation etc....). This was in the mid-fifties. Following the progress of the Arab joint effort and the situations that affected it, a will has emerged for an agreement to reflect the desire for a joint Arab action on the economic side to shift the formula for cooperation more towards integration leading to total unity. In accordance with this need the AEUA emerged in 1957 and became operational in 1964.

After the common defence treaty and the economic cooperation in 1950 many collective agreements appeared on the Arab level, the most important of which was the AEUA which adopted the principle of integration and unity and regarded the cooperation principles alone as no longer (being) coherent with the new prospects for a joint Arab effort. This was reflected in the constitutions and conventions of most of the Arab organisations. Concerning labour migration and facility of mobility, of course the AEUC is for the free movement of workers. At present we cannot say that there is complete freedom of mobility for workers or even for individuals (for example today when travel to several Arab countries with my diplomatic passport I still have to have a visa) and there are other situations and tight restrictions.

The unrestricted mobility of Arab labour is an ambition which we look forward to but which existing conditions restrict for several reasons. There are Arab countries which do not want to have more than a certain percentage of Arab workers. They are afraid of social distortions or a change in certain structures. This is known, at present in the Arab countries when labour leaves a country- especially a rich one - resulting in a labour shortage. So, we can say with regard to the achievement of its goals, these must exist certain Arab collective organisations to face the requirements or to achieve the final target, and simultaneously, take care of the problems which the skilled labour exporting countries may face. So, I think that the intermediate stages do not require any kind of arrangements (agreements) or planning to achieve benefits and decrease losses.

Concerning the exceptions that apply when a member enters the ACM, these are still valid in principle but not in practice. Last June Mauritania laid down, when joining the Market, an exceptions list. The AEUC accepted Mauritania and its exceptions list considering its financial and economic situations.

So the application of exceptions is still valid but it does not apply for countries who are already members. However, there is flexibility in that whenever a member has an extreme need for exception, then it has the right to request them.

It is time that the so-called Arab Common Market (ACM) is not essentially what its name implies. It is, in fact for the time being, a free trade zone. As I said the Council is getting ready to shift, from the free trade zone to the customs union zone. We are making the necessary technical and legislative arrangements to build the first stage which is the unification (standardisation) of customs duties or the custom wall union on the primary goods entering industry. After this the other stages will follow. With regard to the reasons for not moving to build the customs wall, this decision was, in fact, taken previously but the execution was postponed for a while. It seems that there were many different reasons for delaying the construction of the

customs wall. However, we hope that, following the decisions issued by the council in previous sessions, this union will soon be executed.

Concerning the countries which did not sign the agreement of economic unity, I mentioned that 13 Arab countries are new members (half of the Arab League members ~~plus~~ one) and the ACM comprises six countries. But is there any hope of others joining and when? I should like to say that the AEUA is, admittedly, the advanced formula of the joint Arab effort, and the member countries did not all join in one year but on subsequent dates. The same applies to the ACM. When the first national conference for a joint Arab economic strategy was held in Baghdad (1978) with the participation of more than 100 experts more than 40 papers were presented during the week long conference which resulted in an important charter. One article of this charter called upon the Arab countries to join the Agreement of Economic Unity. In addition, the Economic Council has decided to ask the Arab League Secretary in cooperation with the Unity Council. Secretary General to visit the Arab countries and invite them to join the Agreement. This sheds light upon the position of this agreement and the attitude of the conferences towards the Agreement (the official Arab Stand), and I believe that when there are suitable political circumstances in the Arab countries, then the way will be open for the rest of the Arab countries to join the Agreements. But when? No body can tell, I should like to mention that some of the collective agreements which were approved never saw daylight. Others were approved but only came into effect 5 or 6 years later. This is the nature of the Arab joint effort, we do not imagine that a collective agreement officially approved by the Arab League or the unity council will include all the Arab countries the following year. We can say that the AEU is the most important Arab collective agreement with the characteristics already mentioned. Then if, we put the Arab joint effort aside with its problems and put the needs of the Agreement forward we can see that the task involved is a hard and laborious one, requiring patience and effort not despair and neglect.

With regard to the objectives set and in the light of the prevailing Arab political atmosphere, we can say that this agreement must be supported and the Arab countries must be called upon to join it and pool their efforts towards their common commitment.

Concerning the coming Amman Summit, it is not specific, even though it is sometimes referred to as the Amman Economic Summit. In actual fact, it is the 11th Arab Economic Summit, there is no specialisation, but this Summit will consider some important economic issues that are on the agenda starting with the Arab joint economic strategy which we hope will be adopted. In fact it will give the Arab joint economic effort a push forward with one of the elements mentioned by the strategy charter being the medium-term Arab joint development plan, with the participation of the unity council and the economic council.

Dr. A. Harik:- A question concerning Arab labour was raised. Dr. Yahya would you like to comment.

Dr. A. Yahya:- There is a difference of opinion between myself and Dr. Kaddouri. I consider labour migration as part of Arab economic integration, whereas he does not.

Dr. A. Badran:- My first question is to Dr. Kaddouri about the unity of the customs wall or the unification of customs duty among the Arab countries of the ACM. Does this unity concern industrial inputs that may be exported from one Arab country to another, or does it apply to all foreign goods entering the Arab Common Market? And if it covers everything entering the ACM will this mean that there will be free mobility of goods which are "Arab Made" but whose components are, in actual fact, imported? Can these goods, with a low degree of integration move freely between Arab countries without any customs or tax duties?

Second question: I think that the main goal of the Economic Unity Council was ambitious I believe that the basis did not take into account the political framework which must be taken into consideration in order to achieve the minimum level of integration. I mean we always

ask for 100% integration, but I think we should achieve the minimum level then gradually shift towards a more comprehensive integration. Many countries depend on customs revenues for their budget, other countries do not give them much importance because they are well-off. Therefore, they do not need the customs revenues from imported goods. Others, on the otherhand rely on this source of revenue to balance their budget.

We have different Arab countries. Some depend on local industry or all and its derivatives. Others depend on services. Their respective policies reflect these economic structures.

From this point of view, it would have been wise to follow the European Economic integration process, that is to move gradually, step by step towards comprehensive integration.

Question: When we actually talk about Arab economic integration or Arab economic development we are talking about our hopes, prospects and ambitions rather than specific practical steps, even when talking about the actual Arab status. I do not think we have a disparity. Now we have 21 Arab countries. There are basic differences in their political systems and in their ideology, in their economic policies and economic concepts at the social level. At least at the Arab level we have three blocs of political, economic and social concepts. Now the question is to Dr. Kaddouri: when considering the Arab joint effort and especially economic integration; is it not better to consider it at the sub-regional rather than at the regional level? Would not integration on a wider scope (regional) be more difficult to achieve?

Dr. Kaddouri: In reply to Dr. Badran's question about the conditions of the national goods flow and the position of the customs wall, I have already mentioned that a free trade zone has existed between member countries of the Arab Common Market since 1971. The free movement of goods without any tax duty concerns only those goods which include at least 40% of the value added at the Arab World level.

The proposed customs wall will eventually consider all goods entering the ACM, whether they are primary goods, intermediate or finished goods. The Council has also decided to construct this wall gradually beginning with the unification of customs duties imposed on foreign imports then the unification of customs fees (duties) on primary goods in similar industries.

RECOMMENDATIONS

Under the Patronage of his Royal Highness, Crown Prince Hassan, a symposium was held at Yarmouk University, Liaison Office in Amman (Jordan) on the 4th and 5th November 1980. The symposium was entitled " The Problems of Arab Economic Development and Integration" .

A large number of Arab and foreign experts, a selected group of university professors from Jordanian and Arab universities, representatives from the ministries and private and public corporations participated in this symposium.

The following topics were discussed,

1. The Problems of Agricultural Development and Integration in the Arab World.
2. The Problems of Industrial Development and Integration in the Arab World.
3. Financial Integration in the Arab World
4. The Problems of the Transfer of Technology and Arab Economic Integration.
5. The Experience of The European Common Market.
6. Obstacles to Arab Economic Integration.
7. The Agreement of Arab Economic Unity and its Role in inter-Arab economic cooperation.

After presentation of the research papers and having listened to the interventions of the participants, the following results and recommendations were drawn up.

First: The Problems of Agricultural Development and Integration in the Arab World.

As a result of the misuse of extensive areas of cultivable land, its water supply and agricultural labour force the Arab World's imports of the main

food-stuffs have been increasing. This represents a serious phenomenon which aggravates The Arab World's dependancy on the exporting countries.

This dependancy has to be avoided for food has become a dangerous weapon to which exporting countries often resort in order to blackmail the importing countries. Consequently, the participants recommend the following:

1. To coordinate agricultural policies in order to develop Arab agriculture through the best use of land water resources, employment and land reclamation and by increasing productivity through intensive techniques of production.
2. Paying special attention to the agricultural sector crops as well as livestock in the Arab countries which enjoy cultivable lands, water resources and labour force- developing the "Arab Wheat belt" constituted by Iraq Syria, Algeria and Morocco and livestock in countries such as Sudan and Somalia.
3. To improve the domestic price system in order to secure the appropriate financial incentives which will raise the production of the farms and cooperative units.
4. Establishing stocks of wheat and other storable food items, at the earliest, as a reserve against any sudden shortage in the commodities which may result in a serious threat to Arab food security.
5. Paying special attention to agricultural training and supervision, and establishing an Agricultural Research Institute at regional level whose purpose would be to modernize production methods, introduce new techniques and new inputs such as pesticides and fertilizers which would improve quantitatively and qualitatively agricultural outputs. This policy implies the establishment of close relationships between the agricultural and industrial sectors which would subsequently limit the rural exodus.

6. Providing the required funds to establish an Arab Financial institution which would assume the responsibility of making the necessary investments available for meeting the demands of food security

Second:

The Problems of Industrial Development and Integration in the Arab World.

Reliance on outside sources for its industrial needs represents a highly costly and very serious dependancy owing to the magnitude of the import.

Therefore" the participants in the Symposium consider that integrated Arab industrialization has to be one of the priorities of the joint Arab effort, due to the important role that this industrialization may play in changing the structure of the Arab economies. It is important to establish:

1. Petrochemical and chemical industries and their derivatives.
2. Engineering Industries.
3. Intermediate industries such as steel and iron.

These basic industries have highly developmental and integrative results due to their propitious effects to introduce other industries through their downstream and upstream links.

However,"the level of supportive procedures to perform a Joint Arab Industrialization effort the participants recommend the strengthening of the Arab Corporation for Industrial Investment' the improvement of the educational, training and management programmes as well as providing the required funds.

The participants emphasized the fact that all industrial plants should depend on satisfactory rationalization of design, cost, geographical distribution and optimal utilization of inputs. For this purpose regional planning and coordination have to be introduced in order to avoid duplication of effort, high cost, fragmentation of experience and inability to advance research and development institutions and operations.

Third:

The Problems of Financial Integration in the Arab World,

One of the most prominent characteristics of the Arab economies lies in the disparity in financial resources available for each country. Therefore the participants emphasized the importance of Arab financial integration through the development of regional financial markets which aim at financing economic projects in Arab countries. These stock exchanges could be developed as follows,

1. Reorganization of the existing financial services in the Region in the order to make them more efficient.
2. Creation of an institution, dealing in stocks and bonds, able to bear financial risks along the same lines followed by similar specialized institutions in the Kuwait and Amman financial markets,
 - a) these institutions would assume responsibility in taking the initial risks for marketing the stocks and bonds issued to finance development projects and at local or Arab levels.
 - b) In buying and selling the subscriptions, efforts should be made towards facilitating the participation of the Private and Public Sectors with the Arab monetary institutions and development banks

and other financial institutions, and towards stimulating a positive attitude on the part of the Arab saver vis-à-vis the private sector.

- c) To ~~make~~ sure that these bonds and stocks can be transformed quickly into liquidities and that they can be marketed at any time.
- 3. to attract Arab financial surpluses and to direct them to investment purposes in the Arab World and to provide the adequate atmosphere to this effect.

Fourth:

Problems of Transfer of Technology and Arab Economic integratoin.

Technological security is an important component of national security. It does not depend on ready-made foreign technology, importation of foreign skills or the help of foreign consulting offices, rather it depends on strengthening technological capacity. For this purpose the participants recommend the following :

- 1. Capital intensive projects with high technological contents should be properly located at regional level.
- 2. More resources should be earmarked for R & D purposes, vocational training, for creating consulting engineering capacity and for small and medium size production projects.
- 3. Abandonment of the traditional method of transfer of technology through "turn-key" basic projects and the complete reliance on foreign consultancy bureaux which , to a large extent, control Arab development patterns.

- 4,5 To work towards breaking down the "technological monopoly", existing at international market level into its various components in order to choose those which suit the Arab environment and the long term targets of Arab economic and social development.
5. Adaptation of imported technology and creation of a domestic technology adapted to local conditions. This adaptation and this creation require the following:
- a) Establishing and developing local centers of research and offices of engineering designs.
 - b) Establishing and developing R&D units at university and main integrated industries level and earmarking at least 1% of annual G N P for this purpose.
 - c) Reexamining, with a view to improving, the existing educational and training curricula.
 - d) Stopping the brain-drain by creating an adequate scientific atmosphere and providing the necessary financial resources.
 - e) creation of an Arab centre for Economic and scientific research.

Fifth:

The Contribution of the European Economic Community (EEC) to the Development and Integration of the Arab World

The participants to the Symposium emphasized the need to strengthen Arab economic cooperation with international economic groups, particularly the developing countries within the framework of the South-South Dialogue and with the E.E.C. countries within the framework of the Euro-Arab Dialogue

provided that the cooperation does not hinder the Arab common effort which is based on selfreliance.

Sixth:

Obstacles to Arab Economic Integration.

The process of Arab Economic integration requires the adherence to collective work at the national economic level. This requires the creation of integrative institutions whose goal is to realize Arab Economic integration. The obstacles could be summarized as follows:

1. The weakness of the general relationships amongst Arab Countries, a weakness that affects negatively the Arab economic joint effort.
2. The dependency of individual Arab economies in one form or another, on industrialized countries.
3. The different stages of economic development reached by Arab countries, and thier structural imbalances as individual Arab Countries.
4. Imitating industrial nations' development patterns without consideration of the current stage of development reached by Arab countries.
5. The lack of coordination when executing Arab economic policies.
6. The effects of external factors and events, and most importantly the Israëli occupation which adversely affects the Arab economic common effort.
7. The negative effects of narrow interests tend to obstruct Arab economic joint efforts.

Seventh: The Agreement on Arab Economic Unity and its Role
 in inter-Arab economic cooperation.

What has been achieved, so far, on the level of economic integration is relatively negligible when compared to the large potentialities, the challenges and dangers which face The Arab World and its set goals.

Therefore the symposium considers that:

1. Arab economic development must be cast within the framework of Arab economic integration.
2. Arab economic integration , as a step towards economic unity between Arab countries has become an inevitable necessity rooted in national bonds and Arab character.
3. The necessity to direct Arab economic joint efforts towards Arab economic unity.
4. Arab political will should play a larger and more effective role in formulating the foundations of Arab economic integration.
5. Planning at the Arab World level should be used as a means to reach Arab economic integration.
6. Strengthening and enlarging the Arab Common Market in stages which stimulate Arab Economic Unity.

After reviewing the document entitled " The Arab Common Economic Strategy" which has been approved by the extraordinary meeting the restreint committee, which emanated from the Symposium, considers it as an important document and recommends its approval which will represent a great boost to Arab Economic Integration.

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