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THE MULTINATIONAL CORPORATIONS' STRATEGY IN THE MEDITERRANEAN

by

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Preface

This report is a first draft prepared in view of the Milan Conference and should be considered confidential.

The report is based principally on opinions collected in a series of interviews with representatives of and experts on multinational companies and the Mediterranean countries. Due to the nature of the theme, which requires forward perceptions rather than an analysis of the past, I asked my interviewees to express their personal opinions, convictions and intuitions freely, guaranteeing that they would be used with the utmost discretion. For this reason sources are for the most part not given.

Introduction and a Few Definitions

This research project is part of a vaster effort to understand not only the economic, but the political and strategic variables as well. It should throw light on a problem which is not in itself economic but political (and not even strictly of political economy). The problem is to understand whether the Mediterranean area will become, certainly not in the immediate future but not in the too distant future either, an area of political and economic integration and cooperation, or whether it will continue to be as it is now, the scene of conflicts between the East and the West, between the developed and the developing world and between exporters and importers of oil.

The answer, it goes without saying, depends on a great number of variables. Among these can certainly be included the behaviour of the multinational corporations. They can, through their industrial strategy (1), make more or less probable one or the other of the two possible solutions: cooperation or confrontation.

This introduction is necessary for the understanding of the terms which constitute the parameters which define our study.

First of all, our definition of the Mediterranean area is particular: it includes the following countries: Portugal, Spain, Greece, Turkey, Cyprus, Malta, Syria, Iraq, Iran, Kuwait, Saudi Arabia, the United Arab Emirates, Egypt, Libya, Tunisia, Algeria and Marocco.

Italy and France are excluded from the definition because they are members of the EEC: the behaviour of the multinational firms in these countries must therefore be seen in relation to

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(1) By "industrial strategy" I mean the complex of decisions which affect the location of productive facilities, the direction and entity of geographic flows of goods, the quantity and type of labour employed and also its remuneration.

their European not their Mediterranean strategy.

Likewise, Yugoslavia, Rumania and Bulgaria are excluded since they belong to the socialist bloc and this is by far the most important element affecting the attitude of the multinational companies.

Israel is not considered since the boycott policy carried out by the Arab countries leaves it out of the economic dialectics of the Mediterranean and puts it in a very particular position.

Thus defined, the Mediterranean can obviously be divided into two sub-areas: "Southern Europe" (Portugal, Spain, Greece and Turkey) and "North Africa and the Middle East". These two sub-areas have almost nothing in common and the question of the attitude of the multinational firms presents itself in completely different terms.

The distinctive characteristic of Southern Europe is that it constitutes the poor, unindustrialized periphery of Central Europe. That presents, immediately and in the future, a number of political and social problems which cannot easily be solved. Greece has already formally applied for full membership of the European Community. Spain has not yet put forward a formal application but for years her diplomacy has been directed toward this end. Many predict that similar requests by Portugal and Turkey will be formulated before long. The problem is: are the multinational firms interested in investing in these countries, in actively participating in the process of industrialization which is indispensable for their full membership in the EEC?

The situation in the North Africa and Middle East countries is completely different. Here we have governments determined to industrialize, a determination made credible in some cases by the financial means acquired directly or indirectly following the increase in the price of oil. The attitude of these countries toward the multinationals varies: all however, even if in different forms, ask for their collaboration. The problem is: are the multinationals interested in collaborating?

We can therefore at once affirm that the Mediterranean strategy of the multinational corporation cannot exist as other than the simple sum of one strategy toward Southern Europe and another toward North Africa and the Middle East. Unfortunately, even these two sub-strategies are simple aggregates of as many different attitudes as there are countries in the areas under consideration.

These areas are, in fact, extremely fragmentary and diversified from the point of view of the multinational firm. That is particularly evident in relation to North Africa and the Middle East. Only a few of the countries in the area have oil fields; others are completely lacking. Some have large populations, others irrelevant ones. Some have governments which pursue a policy of State intervention in the economy, others are run by more or less corrupt feudal regimes. The amount of trade among them is slight: most foreign trade is done with countries outside the area, mainly with the European nations. The attempts at economic integration carried out by the Arab League or by the OAPEC (Organization of Arab Petroleum Exporting Countries) have until now produced modest results, though it would be wrong to ignore them as irrelevant. All this means that from the point of view of the multinational firm "North Africa and the Middle East" does not exist as such; there is only a long list of individual states.

The same applies to Southern Europe. The economic structures of the four countries that make up the area are very different. Spain is a highly populated country with a certain degree of industrialization; Portugal is much smaller and more backward. Likewise, there is a noticeable difference in the degree of industrialization between Greece and Turkey. This difference is only partially compensated for by the larger population of the latter country.

One might therefore wonder: what is the sense of a study on the Mediterranean strategy of the multinational corporations when a priori one knows that it does not exist as such? The significance of our study is that the single strategies concerning each country are not independent of each other, but are closely interrelated. That is even truer if we consider not the single firm but the operations of the multinational corporations as a whole. It is then clear that decisions to locate in certain countries of the area condition (facilitating or obstructing) others in other countries.

The existence of these interrelations makes it possible to categorize the single strategies and to discuss the possible scenarios of future multinational presence in the area under consideration.

The discussion of such scenarios is possible only within well-defined time limits. The industrial strategies considered are those which will determine the productive structure and the trade flows in the next decade. Trying to see beyond 1985 would only lead to wild intellectual speculation. Limiting ourselves to a nearer horizon would take away much of the interest of the research since it is clear that within the next five years the actual changes will necessarily be very limited and, at the most, some tendencies will emerge.

A time limit is also necessary in order to define the meaning of the two terms: integration and confrontation. In fact, they are meaningful only within a finite and delimited temporal perspective. Within the next ten years will the countries of North Africa and the Middle East be able to build up their own productive facilities in the manufacturing sector? If so, will they look to the EEC for a market outlet? Will they be allowed to enter the Common Market? Will the competition coming from these countries damage the countries of Southern Europe? Is it possible that some firms will install plants in the countries of Southern Europe in order to export to the countries of North Africa and the Middle East? Whether a model of integration or a model of confrontation will prevail in the next ten years depends on the answers given to these questions.

By integration we mean a two-way increase in trade flows: and therefore the opening of the European markets to Arab exports and the installation of productive facilities in Southern Europe as a function of both the Arab and the Central European markets.

By confrontation we mean the continuation of the present situation, that is, of the tendency to concentrate the productive facilities of the manufacturing industry in Central Europe and the prevalence of exchanges of manufactured goods against raw materials and certain food products.

It is clear that the choice between integration and confrontation does not depend only on what the multinational corporations do since they are responsible for or involved in only certain investment decisions and are completely extraneous to others. It may well be that a climate of confrontation prevails even though the multinationals are willing to expand their operations to the Mediterranean. It is also possible that a process of integration will evolve instead, even though the multinationals maintain a conservative attitude: but in order for that to happen the Mediterranean countries would have to overcome formidable difficulties and they would certainly not be able to do so in a decade. They are very aware of this and therefore seek the cooperation of the multinationals, making a clear distinction between politics and business. We can therefore say that the cooperation of the multinationals is a necessary though not a sufficient condition for the development of greater integration in the area.

Multinational cooperation is not equally necessary in all sectors and it is for this reason that we shall concentrate on the manufacturing industry leaving out the oil-refining and petrochemical industries. My opinion is that, in the actual circumstances, the balance of power between the governments of oil producing countries and oil companies is decidedly in favour of the former. The governments can get what they want from the companies in exchange for concessions which are, on the whole, modest. The companies have no other choice but to cooperate. That may not be true for one company or another, but it certainly is for the companies as a group in the sense that there will always be one among them that is willing to cooperate.

The logic of the oil-refining and petrochemical industries, where the availability of oil predominates, is completely different from that of any other industry. This is clearly reflected in the data on direct investments in the Mediterranean in the past: the petroleum sector is the only one which has developed in the area.

The future trend will undoubtedly be different in the sense that a greater percentage of the crude oil extracted in the Mediterranean area will be transformed into refined products and petrochemicals. But this would not be enough to create integration. In fact, as is known, the impact of the oil and petrochemical industries on the rest of the economy has been very slight -- they tend to appear as modern enclaves in a substantially backward context.

There are a number of reasons for concentrating our attention on the manufacturing sector and for leaving out the oil and petrochemical ones. On the other hand, it is clear that these two sectors will be the ones in which most of the new developments will take place in the next decade. That is only too obvious since development in these sectors would be the logical evolution of past history. It would therefore be erroneous to consider them unimportant: it is clear that their importance will continue to prevail in the Mediterranean framework, but it is a matter of seeing whether their evolution will be accompanied by evolutions in other sectors as well or whether it will remain an isolated fact.

The Past Experience

The major problem in the discussion of the multinationals' strategy in the Mediterranean area derives from the fact that in the past direct investments in the manufacturing sector have been slight. The available data is extremely limited and this in itself is an indication of the scarse relevance of the phenomenon. What information we were able to gather is illustrated in tables 1 and 2. A detailed discussion of it is not necessary. In fact, it is quite clear that until the latter half of the '60s multinational investments in the Mediterranean area were very modest. In the last years of that decade there was a noticeable increase in interest; but, in the first place, the investment flows in the area still remained far below those going to Central Europe (they were therefore not the rule but the exception; the net effect of the multinational corporations' industrial strategy was to widen rather than to narrow the gap in the degree of industrialization between Central Europe and the Mediterranean); secondly, over 50% of the investments were concentrated in Spain (thus it would be more correct to speak of the trends in the Spanish economy where what happens is more closely linked with trends in the EEC area than with events in the Mediterranean area); thirdly, the figures for investment in the Arab countries remain irrelevant and there is not even one example of a medium-sized undertaking in the productive sector: multinational presence in the area is limited to operations which, even though a part of manufacturing, belong to the distribution stage (bottling, packaging, partial assembly).

The conclusion is quite simple: up until the end of 1973 the Mediterranean was seen by almost all multinational firms which operate in the manufacturing sector as an area of little interest.

That is not at all surprising. The debate on the motivations for direct foreign investment verifies that in most cases the determining factor is the size and accessibility of the market. Direct investment arises from an export flow. It comes about when the size of the national market has become large enough to absorb the production of an economic productive unit and when transportation and other costs make continued exportation less profitable. In this logic, the key variable for determining the importance of the direct investment flow is the size of the local market. The size of the market in its turn generally depends on the size of the population and on income per capita. The distribution of income and the amount and nature of public spending may influence the behaviour of single firms but they are not likely to change the general picture.

Along with the size of the local market, its accessibility, i.e. the level of transportation costs and of tariff and other entry barriers, is of equal importance. However, if the size of the local market is insufficient, entry barriers will not be enough to stimulate the flow of direct investments.

Another important variable is the possibility of local competition arising. In other words, the multinational firm may hasten its decision to pass from exportation to production in loco if it fears that a firm of the country can validly compete with its production.

If the economic conditions for a flow of direct investment exist, political conditions, i.e. the attitude of the government authorities toward foreign investment, will be of decisive importance.

If these are the fundamental criteria it is then easy to conclude that the Mediterranean does not offer the multinational corporations favourable conditions for their expansion. The degree of regional integration is very slight -- except for formations such as the EEC and, in the past, EFTA. It follows that in most cases the multinational firm must take into consideration only the national market and in most countries of the Mediterranean this is very small.

Table 1 : indications of the size of the internal markets of the Mediterranean countries

	population in millions	per capita income in US $
Portugal	8.5	1,099
Spain	34.0	2,000
Greece	8.9	1,100
Turkey	38.2	310
Malta		
Cyprus		
Marocco	15.3	323
Algeria	14.6	458
Tunisia	5.4	131
Libya	2.2	655
Egypt	33.6	260
Lebanon	2.3	730
Syria	7.2	245
Iraq	10.4	441

As is clearly revealed in Table 1 , the size od the internal market varies sharply within the area from country to country. Spain's unique position is evident: it is the only country with a considerable population and in income per capita well over $ 1,000. Only Egypt and Turkey have comparable populations but their income per head is about one-seventh of Spain's. All the other countries have substantially lower populations and a low per capita income. Only the oil producing countries of the Gulf have an income per capita comparable to that of Spain. But income per head is not a meaningful index for those countries since it only reflects the price of oil, and a large part of the national income from oil immediately leaves the economy to be invested abroad. In any case, the population of those countries is very low.

The consideration of the other variables that concur to determine the flow of direct investments only reinforces this negative conclusion.

The majority of the countries of the area had, for a certain time, a not very favourable attitude toward the multinational corporations: Egypt until 1973, Turkey until 1970, Libya since 1969, Algeria since independence, Iraq since 1958 and Syria until 1974; even in Marocco there is a programme of "marocanisation", the effectiveness of which is questionable, but which nevertheless constitutes a disturbing element for the multinationals. Spain also maintained a negative attitude until the early '60s and even now the right wing of the Falange is suspicious of the penetration of foreign capital. As for Portugal, while Salazar was in power the government's economic policy was aimed at limiting not only foreign investments but the process of industrial development itself.

It is to be noted that the Mediterranean markets have, for the most part, been fairly accessible. The Mediterranean is near the Central European industrial pole and transportation costs are certainly not relevant. Moreover, the markets of the Mediterranean countries have in the past been quite "open": many of the countries of the area have gained independence only in the postwar period and Algeria not until 1962; Portugal belongs to the EFTA while Greece, Turkey, Cyprus, Malta, Tunisia and Marocco are associated with the EEC and this prevents them from adopting highly protective tariff policies. Once again, only Spain has a not very accessible market.

Finally, the threat of competition from a local producer has been, and still is, very slight. The only exceptions, besides Spain, are Greece and perhaps Turkey. But in all the other countries there is no private manufacturing sector in the making; that is, there are no small- or medium- sized establishments with a clearly industrial organization which could make the qualitative leap and attempt to imitate the foreign product. On the contrary, the productive structure is highly polarized with small, craft industries at the one end and large public or semi-public enterprises controlling key industries at the other. In Spain too public intervention in the economy is of capital importance (INI), however it is run according to private business criteria and has encouraged the formation of joint ventures with foreign companies.

Thus the multinational corporations not only are not encouraged to install productive facilities *in loco* in order to defend their market interests, but they are also discouraged by the absence of an "industrial ambient", i.e. of that network of subsidiary firms, suppliers of services or basic and standardized parts and components, which all manufacturing firms need.

Comparing the Mediterranean to an area like Latin America, which has attracted consistent multinational manufacturing investments, may prove enlightening. Table 2 reveals that the size of the markets in the Latin American and Mediterranean countries does not differ greatly: with the exception of Brazil, the size of the populations is comparable; income per head is only slightly higher in the Latin American countries. How then can the influx of direct investment be explained? In the first place, the markets of the Latin American countries are far more integrated then those of the Mediterranean. Secondly, access has been historically much more difficult both because of the greater incidence of transportation costs and because of the decidedly protectionist policies adopted by the governments of these countries. Finally, the risk of local competition is historically higher in Latin America principally because of the migratory waves from Europe at the turn of the century.

Table 2 : indications of the size of the internal markets of some Latin American countries.

	population in millions	per capita income in US $
Argentina	23.5	400
Brazil	101.7	640
Chile	10.2	510
Mexico	48.4	931
Peru	13.5	571
Uruguay	3.0	189
Venezuela	11.0	1,100

Before concluding our analysis of the multinationals' past behaviour in the Mediterranean area, we must discuss one last point: the possibility of direct investments centered on export-oriented production and attracted by an abundant supply of certain factors of production, in particular, of labour. This type of investment, characteristic of the last stage of the product cycle as theorized by Vernon, is a relatively recent phenomenon, the dimensions of which cannot be compared to those of investment in view of the local market. To date, mainly Mexico and certain countries of Southeast Asia have been affected.

Why has it not concerned the countries of the Mediterranean? The most obvious explanation is that, the supply of labour in the Mediterranean countries is not all that large. And if compared with Southeast Asia the Mediterranean certainly does not appear as particularly suited to investments for export-oriented production.

If compared with Mexico, however, the answer is not so clear. Certainly, we must keep in mind that the wage level in the EEC is lower than in the U.S., that within the EEC there are wage disparities and depressed areas that enjoy special incentives, that there are alternatives to the Mediterranean area (for example, the East European countries). However there is also little doubt that the European firms are -- or at least have been - less enterprising than those of the U.S.: the former continue to depend on imported labour and have not seriously considered, until very recently, the possibility of locating plant where manpower is more abundant and cheaper.

This then is the analysis of the past and these are the reasons why the manufacturing multinationals have not expanded operations to the Mediterranean area. The question is: can we forecast a change?

We must therefore ask what has changed in the picture. Certainly the size of the population has not changed, and the sudden increases in per capita income in certain countries are above all statistical anomalies. The attitude of the governments, however, at least in the majority of the countries, has changed: from a closed policy they have passed to asking for collaboration, even though in forms which vary greatly from country to country. The balance of power at the financial level has shifted owing to oil surpluses. Their international collocation could change if Portugal, Spain, Greece and Turkey joined the EEC. Above all, the political initiatives taken by the countries of the area can no longer be ignored by the multinationals and they can no longer pursue a "wait and see" policy: they either have to enter or be left out. Those who stay out may be able to enter later on, but it will not be easy.

The Mediterranean therefore appears as a risky venture. For the multinational corporations it is a completely new situation and their assessment criteria as well will have to be new. Under some aspects it is similar to the East European situation with the very important difference that, compared with the rest of the economy, the degree of industrialization and the relative importance of the initiatives the multinationals are invited to collaborate on varies greatly. Also the level of commitment asked for is different: much greater in the case of the Mediterranean countries.

The novelty of the situation we are discussing justifies the fact that, regarding the future presence of the multinational companies in the Mediterranean, extreme and opposing opinions are expressed, such as those gathered during our research. There is absolutely no consensus among the multinational operators regarding the prospects of future action in the Mediterranean: on the contrary, opinions diverge sharply. My impression is that many firms are still not aware of the nature of the problem or, in any case, have not yet developed a strategy. In many cases there is remarkable ignorance of the economic developments in the Mediterranean countries. Even more often, there is an extremely cautious attitude: and since the Mediterranean undoubtedly presents noteworthy risks this usually leads to negative attitudes. On the contrary, firms already operating in the area or Mediterranean observers and experts generally have a positive view of the area's potentialities. We shall discuss later on the elements which, in my opinion, determine one or the other attitude: for the moment it is important to underline the extreme variety and the provisional character of the viewpoints gathered: that means that the researcher not only has to forecast what will be done on the basis of the intentions expressed but must also predict the future evolution of these same intentions, not yet definitive, on the basis of the most recent developments in the area.

The attitude of the governments of the Mediterranean area toward the multinational corporations

The attitude of the governments of the Mediterranean countries toward the multinationals has undergone remarkable changes over the past years. This evolution is particularly noticeable in the Arab countries and it is on these that we shall concentrate our attention in this part. The attitude of the European countries is less interesting: Greece and Turkey have no "multinational policy" as such but follow an open door principle; as for Portugal, it is still difficult to say what its attitude will be in the next few months, even if to date their desire to avoid conflicts with the multinationals has been quite obvious. That leaves Spain, which is the most interesting because of the way in which public intervention and promotion of industry (INI) has operated to promote important joint ventures with foreign companies.

Among the Arab countries, Tunisia has had the most encouraging policy for foreign investments. After pursuing a hostile policy toward foreign investments until 1970, the year in which Ben Salah was forced to abandon the direction of Tunisian economic policy, that country's attitude changed radically in 1972. In fact, in that year a law aimed at promoting export-oriented industries was approved. Besides granting various forms of fiscal facilitations, an 'Agence de promotion des investissements' was instituted to provide consultation and assistance to potential investors. Even though the law does not concern only foreign investments but also national ones, provided they are substantially directed toward exportation, foreign firms and, in particular, German ones pressed for its approval as well. In fact, in the first years of its application a consistent proportion of the projects approved originated abroad and, in particular, in Germany (1).

(1) In 1974 German investment accounted for 56.5% of the investments approved by the Agence de promotion des investissements. The approved investments amounted to about 163 million US dollars. The investments are concentrated in the textile and electromechanics sectors. 9,342 jobs have been created

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The Tunisian government therefore seems to take for granted that the country's internal market is not large enough to attract investment and purposely concentrates on an industrialization model based on exportation. In this sense its industrialization process is similar to that of the Gulf states (Saudi Arabia, the United Arab Emirates, Kuwait). But the similarity is only formal since the factors which the Arab states count on for affirming themselves on the world market are completely different.

In fact, while Tunisia offers cheap labour, few raw materials and very limited financing possibilities, the Gulf states concentrate above all on the abundance of raw materials (and principally, but not exclusively, on the more or less reduced cost of energy) and the availability of funds for financing large-scale projects.

The Gulf countries' preferred formula is that of joint ventures under fairly similar participation conditions (usually 51/49%, sometimes 60/40%, rarely 75/25%); the host country (either the government, a state enterprise or a local private citizen) usually has the controlling interest, but there are also examples of joint ventures controlled by foreign interests.

It is not clear whether the governments of these countries would allow foreign companies to invest in the country without at least minority local participation. In some sectors, those most directly connected with the extraction and transformation of raw materials, this seems highly unlikely. In other sectors the problem has probably not been seriously considered. It seems to me that there is a philosophy which sees joint ventures as the only form which allows for rapid industrialization. A lot is asked of the foreign firms : advanced plant and technology, management, and above all market outlets. A lot is also offered, especially in the way of financing, which is, for certain projects characterized by high-cost fixed capital, an extremely

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./. in the export-oriented industries of which 5,630 in textiles. This information is taken from the Economist Intelligence Unit, n° 2, 1975. As we can see, this is the beginning of a "Mexican border" phenomenon the dimensions of which are, however, very limited.

important factor.

We must also ask ourselves to what extent preference for joint ventures is a tactical choice dictated by the fact that for the moment this seems to be the most convenient solution : or a strategic one. It is more likely a tactical choice and this presents the problem of its stability: for how long will the joint venture formula be valid? It is not difficult to immagine how the governments' attitude might change in the future: if the projects prove profitable there will be a tendency to buy off the foreign partner; if, to the contrary, they prove not very remunerative the foreign partner will be saddled with the responsibility of the failure or the foreign firm will itself want to pull out. Under certain aspects then we can say that the attitude of the Gulf states toward the multinational corporations is not all that clear.

Even Egypt's and Syria's strategy is partially based on exportation. In both countries, in fact, they are speaking of creating free zones (in Egypt along the Canal, in Syria on the Mediterranean) though it is not certain under what conditions the multinational corporations would be allowed to establish themselves in those regions (whether only as joint ventures or also as subsidiaries completely controlled by the foreign firm). However, in the immediate future both in Egypt and in Syria initiatives directed toward satisfying the needs of the internal market will probably be more relevant. In these two countries, in the past years, there has been a change in government policy which has opened up greater possibilities for private initiatives. Even though this change is more noticeable in Egypt, it is present in Syria as well. That could encourage the flow of investment toward those sectors without large economies of scale. For large-scale projects it is probable that the joint venture formula in which the local governments have the controlling interest will prevail.

Other considerations must be made for Iran and Algeria. In both countries the emphasis seems to be on the development of the internal market and exports are seen as a necessity only in those sectors where plant indivisibility means that not all the production could be absorbed by the local market. Actually the strategy of collaboration with the multinational corporations is very different in the two countries: this obviously reflects different previsions of future developments in Mediterranean economic relations. Iran is aiming at becoming an industrialized country on a par with Central European countries. To this end it depends to a certain extent on joint ventures but these are clearly conceived as a secondary alternative to: a) the development of national enterprises and b) the acquisition of shares in the multinational corporations themselves rather than in one of their subsidiaries.

This second strategy, which saw Iran as the protagonist of some clamorous initiatives in 1974-5, was greeted with remarkable and largely irrational hostility by public opinion and the governments of the developed countries. That led to its redimensioning and perhaps to its abandonment.

At the same time the tendency to increase participation in the existing initiatives was reinforced. Thus the Shah's recent decision to institute a sort of workers' participation, which on paper is similar to the "comunidad industrial" of Peru, besides being an internal political move (aimed at containing the power of the middle class which he evidently trusts only up to a certain point), also has the effect of reducing the relative influence of the foreign firms.

As for Algeria, the nationalistic character of its policy is even more evident and one might say that she does not believe in the prospect of future Mediterranean integration and sees the necessity of exporting as a temporary limit. Moreover, the Algerian government wants to closely control its own industrialization process and therefore tends to keep for itself the controlling interest of all foreign firms operating in its territory. Relations with foreign firms therefore usually consist of contracts for supplying plant "key in hand" or more often "product in hand" (in the second case the foreign firm supplies not only the plant but also the necessary management to begin production until there is available local management). At times the foreign company is required to hold limited shares in the capital of the enterprise as a guarantee of its good faith in the contract. At times the foreign firm is offered payment in the form of products of the plant, i.e. there is a sort of contracted barter; which is the same thing as asking the foreign firm to take on the burden of selling part of the production.

As a conclusion to this brief panorama of the attitudes of the Mediterranean governments, we can say that they generally refuse direct investment in its most common form, and ask the corporations to collaborate on a new basis.

Different forms of multinational intervention and their significance

The multinational corporations can therefore choose various forms of intervention in most Mediterranean countries. In this section we shall discuss the significance of these various forms of intervention in relation to the conflict-cooperation dilemma.

At one extremity, there is the case of the multinational which simply supplies plant "key in hand" or "product in hand" at an established price. In this case it is unlikely that the multinational corporation asks itself whether or not the investment is economically valid: its role is merely that of supplier and its responsibilities are limited to the execution of the concluded contract. Since the market for this sort of supply is extremely imperfect (very limited number of potential suppliers and buyers and therefore collusion among suppliers is very likely) the suppliers often realize consistent profits. Moreover, a number of ties are established between seller and buyer which later on may prove to be even more profitable.

This explains why most of the countries are reluctant to conclude this sort of contract, and why the multinationals are instead anxious to conclude them. They are certainly not the most interesting form of intervention and do not in themselves mean greater cooperation and less conflict. It depends very much on the honesty of the supplying firm and the venality of the purchasing party's representatives. Nevertheless it is very important that the two parties to the contractual relationship are aware of the fact that these contracts can be a valid alternative. In other words, the fact that <u>if a country wants a certain plant, and if it has the money to pay for it, it will always find a firm willing to supply them with it</u>, is of great importance. That would not have been as true some years ago and the current recession in the OECD countries contributes to making it true now. After all, the firm that sells the plant may thus help give birth to a dangerous competitor. As is known, this possibility is not at all rare. It is a fact that in most industries there are firms that are not at all worried about this.

That makes easier the task of those governments that oblige the firms to become minority shareholders in the project, thus increasing the supplier's sense of responsibility. If in order to secure the order the firm has to become a shareholder in the project as well, it will ask itself whether or not the project makes economic sense or not. An affirmative answer is a guarantee for the purchasing government that the firm will work for the success of the project. On the other hand the firm will refuse only if it is very sure of the unviability of the project since it knows that if its refuses the governments will still be able to realize the project even without the supplying firm's participation. It does not pay the firm to refuse a deal simply because it does not fit in with its individual strategy, since if the project itself is valid the government can carry it out anyway.

On the other hand, the guarantee deriving from the multinational corporation's participation in the shares is very relative. If the participation is limited (let's say less than twenty per cent) then it is likely that the deal is worthwhile for the supplying firm even if it ends in a conflict. Under such conditions a conflict would mean that the multinational would recuperate more than 80% of the value of the contract and that would still leave it with a profit margin.

Certainly, if the proportion of foreign participation increases, even though a minority interest, the cost of conflict will increase proportionately for the multinational firm. Nevertheless, there are examples of multinational enterprises which, in order to avoid contrasts between different productive units, withdrew from joint ventures suffering heavy losses. The fact that the multinational corporation agrees to hold a relevant minority interest in the joint venture does not guarantee its continued collaboration.

From the standpoint of the purchasing government the best guarantee is when the multinational agrees to being paid, completely or partially, with the products of the plant to be installed. In this case the problem of resolving eventual conflicts with other partners of the multinational corporation rests completely in the hands of the latter. On the other hand, if the firm is not obliged to hold shares in the project as well, there should be no divergencies on the question of plant or other variables of the society's policy (capital, financing, dividends).

In reality the nature of the problem is quite independent of where the necessary capital for the realization of the project comes from. The important point is whether the multinational corporation, as a shareholder in the project, intends to integrate this project in its productive and distributive structure at the international level. If it does, i.e. if the enterprise adapts its international productive and distributive structure to its participation in the project, we can speak of real cooperation and the probabilities of success for the project are great. Otherwise there will be potential elements of conflict.

Naturally not all projects present the same problems. It is clear that when it is a matter of a small project directed mainly toward satisfying the demand of the local market the risks of conflict are slight. But if it is a project in a sector characterized by the indivisibility of plant, and if a good part of the production will have to be exported, then the risks of conflict are great.

An example will help to clarify the problem. Saudi Arabia launched two large iron and steel projects: the bigger of the two provides for the formation of a 50/50 joint venture between the state-owned company Petromin and the Marcona Group (headed by the American Marcona) for the creation of an iron and steel works with a capacity of 5 million tons a year, for an investment of about 500 million dollars. Saudi Arabia's internal market will certainly not be able to absorb all this: a good part of the steel will have to be exported. The task of selling this abroad will obviously fall to the foreign partner: that can also not be stipulated in the contract, but the Saudis obviously expect it to work this way... If the foreign market does not expand as rapidly as expected, the foreign partner may have to choose between cutting down production in the establishments where it owns 100% of the shares or else in Saudi Arabia. This is a difficult conflict to resolve. Other disagreements might arise from the management of the joint venture: for example, if it is successful the Saudis might want to expand while the foreign partner might want to expand elsewhere.

In this case, given the size of the project, it is unlikely that the foreign partner has not carefully considered these risks: and it is probable that it decided to adapt its investment, production and distribution decisions to its participation in this project. But that is not necessarily true: future difficulties may have been underestimated. Many of the observers I interviewed maintained that this was usually the case and that many of these initiatives are destined to prove uneconomic. If this view proves well-founded, it is likely that the foreign partner will withdraw.

If instead of acquiring a 50% interest, the Marcona group had agreed to supply the steel works in exchange for a certain quantity of steel for a certain period of time, Saudi Arabia would have reduced the risk inherent in the necessity of exporting part of its production at least for a certain period of time (but, it should be noted, for the initial period of time which is probably the most critical), while the Marcona group would have been obliged to sell that part of the product. At the same time the Marcona group would be protected from the risk of unexpected increases in the costs of production. The partnership would be for a limited period of time; but for the duration of the contract the risks of conflict would have been less.

The probability of conflict depends not only on the nature of the project but also on the nature of the foreign firm chosen as a partner. Franko pointed out that the protagonist of many joint ventures is an "outsider", i.e. a firm that until that moment did not have an extensive productive and distributive structure for the product of the project. It is clear that a firm that is starting out in a new sector can more easily adjust its structure to "make room" for the joint venture; the risk of conflict is therefore less. We will discuss this problem in more detail later on.

We are here interested in pointing out that in the cooperation-conflict dilemma, the total amount of shares which the multinationals hold in the Mediterranean enterprises does not have as much importance as the attitude of the multinationals in relation to these projects, and also how their decisions to become involved in the Mediterranean fit into their comprehensive industrial strategy.

An assessment is therefore not easy to make on the basis of statistical data. On the contrary, many of the observers I interviewed maintain that one gets the illusory impression that certain multinational corporations are willing to co-operate. According to this point of view the multinationals decide to take part in Mediterranean projects in order to "leave their visiting cards", or to sell a plant and presumably assure themselves the role of suppliers of parts, components, consultants, etc. for the future. These same observers are convinced that in the long run the Arab countries do not have the possibility of becoming industrialized : the present projects would therefore be ballons d'essai destined to give deluding results.

The problem of the local market

The size of the local market is unanimously seen as the key variable for the success of industrialization projects and for the future of multinational corporations' collaboration.

The governments of almost all the Arab countries have concentrated their attention on heavy industry projects. The fact that this policy is adopted contemporaneously by almost all the countries of the area accentuates the risks of overproduction and brings them nearer in time.

Leaving out the oil-refining and petrochemical sectors, we shall briefly analyze what is happening.

The most colossal developments are expected in the iron and steel sector. We have already mentioned one of the two Saudi projects; the second is of smaller but still considerable dimensions (accord between Petromin and Broken Hill Proprietary Co., Australia; estimated investment of 186 million dollars). Iran is planning seven different steel works that should bring productive capacity to 14-17 million tons a year by 1983. Iraq is planning at least one complex with a capacity of 1.6 million tons. In Egypt the steel works of Helwan will increase capacity from 0.3 to 1.6 million tons. Syria has an agreement for the formation of a joint venture with a German corporation. Algeria wants to increase production (presently about 200,000 tons) to two million tons a year by 1980.

In all, the productive capacity of steel in the North African - Middle East area could reach 40-50 million tons a year by 1985, roughly what Germany presently produces. It is not absurd to maintain that a good part of this production could be absorbed within the area if noteworthy investments are made in the various sectors of construction and transport. But if other projects are launched it will be necessary to find market outlets abroad. And, since the iron and steel sector is organized along national lines and often with preponderant State intervention, conquering foreign markets will be rather problematic.

The problem of a market for aluminum is more serious. There are two big projects in this sector, one in Bahrein and another in Dubai. Aluminum, unlike steel, is a very internationalized sector and is presently going through a serious crisis in the industrialized countries.

Cement is another primary industry in which many investments have been concentrated. In this case also, the market is linked with infrastructure spending programs, and, as one of the people interviewed said, "before long these countries will have all the infrastructures possible and immaginable". That is certainly true for the minor Gulf states, but not for Iraq, Egypt or Syria.

All the other sectors, apart from the automobile one, do not have comparable indivisibilities of scale, and it seems likely that a local market of interesting dimensions exists in many of the countries of the area.

My opinion is that the affirmation that the markets of most of the Arab couuntries are too small for valid manufacturing initiatives is based on past data and cannot be maintained if a careful analysis is made.

This conviction was based on two facts: 1) the Arab countries that had noteworthy populations did not have oil; those that had oil did not have significant populations (except for Iran and perhaps Iraq and Algeria); 2) the income from oil did not lead to a real expansion of the consumer goods market because it was invested abroad without circulating internally.

This was in fact the situation until 1974. But since then there have been significant changes.

In the first place, the employment of oil income internally has increased greatly, and in some cases the end is clearly to transfer this income from the State to the citizens. There are many examples. Libya has launched a gigantic program for the construction of low income housing, in which the houses are sold at prices 30-90% below cost depending on the buyer's income; the interest-free payments can be spread over a period of twenty years. Similar low-income housing projects have been launched in Iraq and Saudi Arabia. In Algeria a system of subsidies to keep down the cost of basic foods has been introduced.

Similar initiatives did not exist previously. Programs of public spending in infrastructures existed, but nothing as colossal and generalized. It is difficult to deny that such initiatives will have immediate effects on the real incomes of a good part of the population and this will be reflected in a significant increase in the demand for consumer goods.

On the other hand, even though it is true that the most populated countries are without significant quantities of oil, it is also true that the major oil producing countries are concentrating their investments in just these countries (and in particular in Egypt). It is quite true that there is always the danger of old political disputes re-surfacing; but in my opinion it is quite unlikely that this would lead to a substantial inversion of this tendency. After all, not only can countries such as Egypt not afford to do without investments from Kuwait; but also countries like Kuwait cannot stop investing in Egypt, first of all because they have already invested too much to be able to back out, and secondly because the alternatives to Egypt are not so attractive.

From this point of view, I maintain that the dichotomy between rich but unpopulated and poor but populated countries is on its way to being resolved. I must point out however that this is a minority opinion and that the majority of the observers interviewed continue to maintain that countries such as Egypt are bad risks because "if Sadat quarrels with Kuwait or with Saudi Arabia...".

This discussion introduces a point of great importance, which is, that even the problem of the size of the market and its dynamic in the next decade is linked with political variables and in particular with the development of economic cooperation among the Arab countries. This cooperation must be developed not only at the financial level (investments by Arab countries in Arab countries), but also commercially (liberalization and increase of trade).

The success of certain industrial initiatives, especially in the automotive sector, depends on this greater commercial integration. The automotive industry is perhaps the one which most benefits from economies of scale and international specialization of production: the size of the productive units is continually increasing, a greater number of parts are standardized and can be used on different models, and there is a growing tendency to concentrate the production of a certain part in a single plant. In other words, the degree of integration and interdependence among different establishments situated in different countries is increasing. On the other hand, the automotive industry is a key industry in the industrialization process both because of the amount of semi-skilled labour it absorbs and because of the importance of the activities it gives rise to. This leads many developing countries to install automotive industries even when their dimensions are not economic (cf. Baranson).

The countries of North Africa and the Middle East will also want to substantially increase their presence in the auto industry. It is probable that they have learnt the lesson from the past and that they will not be content to have plants of uneconomical dimensions. However, the local market of each of these countries is not large enough to absorb the production of an economic unit (except perhaps Iran).

In some of these countries an auto sector already exists but it is usually limited to the assembly of CKD* parts. In Iran there is a national company (Iran National) producing prevalently on license from the British Chrysler. General Motors, Citroen, American Motors and Mercedes are also present. In Saudi Arabia General Motors is present in a joint venture in which it controls 60% of the capital and which should produce

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* completely knock down

22,000 light transport vehicles a year. In Egypt Ford and British Leyland initiatives have been announced, but there are no details regarding the size and type of production. Peugeot is present in Syria. In Marocco and Tunisia there are limited assembly activities (Renault, Fiat).

In all, the actual dimensions are limited. But Iran intends to reach a production of 400,000 vehicles a year, Algeria has considered and perhaps not yet abandoned an initiative capable of producing 100,000 vehicles a year, and Egypt certainly has, if only implicitly, similar programs.

It is almost impossible that the countries of North Africa and the Middle East will be able to attract the auto multinationals to collaborate on projects of these dimensions. The only possibility seems to be in a context of cooperation and regional division of labour, similar to the Andean Pact model. In other words, the countries of the region would have to unify their markets, fix a total production target, and divide this in different specialized productive units to be located in different countries.

Since such a solution does not seem likely these countries will probably not be able to make significant progress in the auto sector. They may be able to expand their productive presence (no longer only assembly, but also production of those parts which do not necessarily call for large dimensions; or else plants for the production of those vehicles, such as light transport vehicles, which potentially have a consistent local market, but which are not normally produced in very large series), but they will still be on the sidelines of the industry. They cannot go very far in this direction: already the 22,000 light transport vehicles which Nissan intends to produce in Saudi Arabia are more than can be reasonably absorbed by the local market: the success of the initiatve depends on access to the markets of the other Gulf states - if all decide to produce light transport vehicles Nissan will find itself in trouble; if the others renounce then there will be no further developments for a while.

The problem of the local market therefore exists, even if it has been slightly exaggerated by most of the multinationals. Its seriousness depends very much on political variables; that is, principally on the criteria of public spending within the oil producing countries and the degree of financial and commercial cooperation among the countries of the region. The only industry whose development might be seriously hindered by a lack of greater cooperation is the auto industry.

The problem of the supply of labour

Some of the observers I interviewed maintain that the main obstacle to the expansion of multinational presence in the Mediterranean is the inadequate labour supply. This affirmation is made above all in relation to the Middle East situation.

The question of the supply and movements of labour is dealt with in a separate report. Here I shall just examine a few essential points.

The Mediterranean is characterized by intense migratory movements. The most important are from the Southern European and the Maghreb countries to the Central European ones. Movements within the Middle East area are also very important (from Iraq, Jordan, and Yemen to Kuwait, Saudi Arabia, and the United Arab Emirates).

In these conditions the affirmation that there is a scarsity of labour power might seem paradoxical. But this is not necessarily so since for industrial development a certain degree of specialization is necessary. In particular, for the multinational corporations, the availability of a certain type of average- and low-level white-collar personnel is very important.

And it is just this sector of the labour force which is the most mobile from a geographic point of view. It is therefore not impossible that there has been an exodus of such dimensions in this sector as to create a situation of scarsity.

My impression is that, in any case, the firms are not too worried about this aspect. In fact, among the people interviewed, there were some that indicated the relative availability of white-collar personnel as an advantage of these countries, and it certainly is, especially if we make a comparison with other African countries or with some of the countries of Latin America. In reality, it seems unlikely that at this stage the problem exists for the single multinational firm.

It is another matter for the economy as a whole and for the longer-term prospects. That is, it is quite possible that the supply of skilled manpower will be a serious limit for industrial development, particularly in the Middle East countries.

If the supply of skilled manpower were inadequate, it could affect the decisions of the multinational enterprises. However, I doubt whether this eventuality is the fundamental deterrent that keeps them from expanding their operations in the region.

The problem of competition from other areas

To a certain extent the Mediterranean's industrialization prospects are linked with the possibility of competing on the European market. This is true not only for those sectors characterized by large economies of scale and for which the local market is insufficient; but also for other typically export-oriented sectors such as the textile industry. This is a problem for all the Mediterranean countries, and in particular for those of Southern Europe, that would like to integrate themselves with the EEC by overcoming the different levels of industrial development that separate them from it.

In this context, more than one of those interviewed expressed the opinion that, after all, the Mediterranean countries did not offer the most advantageous conditions for multinational corporations looking for a productive base for exportation. The alternatives most often cited were the Comecon countries and those of Southeast Asia; in some cases even the Latin American countries, and in particular Brazil, were held to be serious competitors.

The inclusion in this list of the Comecon countries is particularly interesting both because they, like the Mediterranean countries, are geographically close to Central Europe, and because they are not usually considered from this point of view.

The advantage of these countries is that they offer the possibility of stable accords. Usually the agreement involves the transfer of technology, know-how and, if necessary, plant on the part of the Western enterprise; while the Eastern enterprise is committed to supplying certain products at certain prices. In other words, it is something quite similar to a subcontract, a not unusual operation for large corporations. Furthermore, the interested countries are ready to encourage such accords by offering particularly advantageous conditions.

We shall not here assess the relative advantages of the Mediterranean alternative since, among other things, it would be impossible to do so in general, and we would have to go into the analysis of specific cases. It is however important to remember that the problem of relations between Central Europe and the Mediterranean must be dealt with taking into consideration the general context, that is relations with other major economic areas.

The different behaviour of the multinational corporations according to their primary activities and their country of origin

We have until now underscored the fact that the Mediterranean is not a geographically homogeneous area and that fundamental differences exist from country to country. We must now specify that the multinational enterprises are not homogeneous either, and that to speak of a "multinational strategy" without introducing the necessary distinctions would be very misleading. Some distinctions have already been introduced here and there; but it is necessary to present the matter in a more systematic way. This necessity was often underlined by the people interviewed in the course of this research project. As I hope is clear to the reader, the introduction of subdivisions within the multinational group makes it possible to outline their probable future activity in the Mediterranean area with much greater clarity.

A first distinction is to be made on the basis of the sector to which the multinational belongs. From this point of view, a first group is made up of those enterprises that operate in sectors which: 1) do not necessarily require large productive units; 2) have a non-standardized product which can be adapted to the needs of the local market; and/or 3) have a product whose transport costs weigh heavily on the selling price. For example, most food processing and pneumatic tire production industries do not require very large production dimensions: in almost all cases the local market is large enough to absorb the output of a plant of economic dimensions. Foods are an example of a product that must usually be adapted to the local market (and not only because of "tastes"; but also because legislative norms vary for food products, because packaging must be conceived in the national tongue, because the publicity campaign and the brand name are of great importance, etc.). Pneumatic tires are an example of a product where transport costs are too high in relation to the benefits of centralization. In both cases, the multinational corporations will examine the market situation country by country, and will end up being present in most of them.

A second group is that of firms operating in sectors with highly specialized products, produced in small series and with high technological content, and requiring skilled manpower. These firms have a marked preference for concentration, are prevalently located in Central Europe, and are not likely to take into consideration a location such as the Mediterranean.

There are then the corporations operating in sectors that produce goods that need limited adaptation to the local market, have large economies of scale in production, and require prevalently semi-skilled labour. The major examples are the automotive and electrical household appliances sectors. It is more difficult to make predictions for this sort of enterprise for the reasons already illustrated: uncertainty about the market, the labour supply, the politico-contractual context.

Finally, there are those firms for which the key variable is the cost of labour (for example: textile processing, integrated circuits, small household appliances). These are highly internationalized sectors, but there is no reason for predicting their concentration in the Mediterranean area; on the contrary, it is probable that there will be a tendency to skip over the Mediterranean and concentrate in other areas

(Southeast Asia, Comecon, Latin America). This does not mean, however, that these sorts of investments will not be important for certain countries of the Mediterranean (Tunisia, Greece, Turkey, perhaps Egypt and Portugal).

Secondly, the behaviour of the corporations varies according to the country of origin. Franko (Prospects for Industrial Joint Ventures in the Oil Exporting Countries of the Middle East and North Africa) revealed how the United States and Japanese companies are more active than the European ones. The Americans are particularly active in the oil refining and petrochemical sectors, while their predominance in the strictly manufacturing sector is less evident. The Japanese firms are instead active in all sectors, but their interests are mainly concentrated in the Gulf area, and are less evident at the Mediterranean level.

In the case of the British enterprises, for example, the colonial tradition seems to have significant influence. It is affirmed, in other words, that we are not dealing with real multinational enterprises that consider the problems from a global point of view. They have expanded mainly in the Commonwealth countries. Only recently some have attempted to establish themselves in the Community area, but not all have been successful. At the moment most British firms are going through a phase of reconsideration and re-organization, and are generally not very interested in getting involved in a new area. The few that are active in the Mediterranean area concentrate their attention on those countries with a prevalently British influence (the Gulf States, Egypt), while they are ill at ease in countries with a predominantly French influence (Maghreb).

The fact that these national distinctions are still important is indicative of a lack of political initiative. If adequate incentive, information and support policies were equally furnished by all the European governments to the corporations interested in establishing themselves in the Mediterranean, similar national behaviour differences would not exist. But this is not the case: certain governments have taken no initiative at all and initiative at the European level is inadequate. The Mediterranean situation is unique in that generally political interest follows economic interest, while here it must precede it. This reflects what we already said at the beginning about the political nature of the problem of Mediterranean economic integration.

One last distinction must be introduced among the multinational firms. We have already mentioned Franko's observation (cit.) according to which the "outsider" firms, i.e. those firms that within a sector have a marginal position or are attempting to enter a new line of production, are more active. This observation may be extended to say that the weakest firms of each sector are the most willing to meet the government's requirements and to take risks. This is certainly the justification for the behaviour of certain firms (for example the British Leyland in Egypt).

This behaviour is justified. In fact, to the extent that there is a limit, due to the dimensions of the market and the importance that relations between the corporation and the government assume, it will not always be possible to expand in the Mediterranean. In certain cases, those who do not commit themselves now in certain countries will not easily be able to get involved in the future.

This risk of exclusion is obviously greater for the weaker firms, for those that have less to offer in terms of advanced technology, managerial capacity, commercial penetration. For these firms it is very important to acquire the advantage inherent in a long-term relationshup with the authorities of the national governments.

The effects of the crisis in Europe

One of the key variables in determining multinational behaviour in the Mediterranean is the economic situation in the industrial world and, in particular, in the EEC.

The crisis of economic relations between the industrialized countries is, in my opinion, at the root of the increase in the price of crude oil (Cf. L'Opec nella economia internazionale). If there had not been a crisis, the Mediterranean countries would have been able to work up to industrialization gradually, and the confrontation-cooperation dilemma would not have been manifested in the extreme terms that we are experiencing.

The latest manifestation of the crisis is the recession that has hit, with greater or less severity, all the European economies. There is now talk of an imminent recovery, but there are a number of very important question marks. If there is a recovery in production, to what extent will it be possible avoid fuelling inflation? How vigorous will the recovery be: will it be limited to a recovery of lost ground, greater utilization of productive capacity which already exists; or will there be really new economic growth? How long will the recovery last: two or three years at the most, or five to ten years?

It is clear that these elements are of fundamental importance for the behaviour of the multinational corporations. Simplifying, it is obvious that before asking themselves if they should invest in the Mediterranean the corporations will ask themselves if they should invest at all.

If there were no recovery, the hardest hit would be the Southern European countries. Especially if the process of liberalizing trade with the EEC were accelerated, the multinationals would find it to their advantage to improve the utilization of excess capacity in the Community by increasing exports.

On the contrary, if there were a recovery these countries could benefit from it, particularly if the recovery led to an immediate increase in prices. In this case in fact, the multinationals, in order to avoid the price-wage spiral, would be stimulated to transfer their productive facilities to these "marginal" countries.

The matter is quite different for North Africa and the Middle East since these countries can, by manoeuvring the price of oil, isolate themselves to a certain extent from the crisis in the OECD countries.

If the recession in Europe continues, or if the recovery is very weak, then the multinational corporations would be encouraged to take the Arab countries into consideration since this could improve their sales and their liquidity, at least in the short term.

At the same time, the problem of finding market outlets would become more serious since it is not likely that these countries will be allowed substantially greater access to European markets when within the Community there is excess capacity, high unemployment, and firms on the brink of bankruptcy.

This could stimulate an acceleration of the process of economic integration among the Arab countries, and therefore also their industrialization and multinational presence in the area. That would come about however, at least in the short run, at the expense of Mediterranean integration, since the goal would ultimately be to reduce reciprocal dependence between the Community and the Arab countries. In the usual terminology of literature on regional economic areas, we can say that the emphasis would be more on "trade diversion" than on "trade creatinn".

On the contrary, a recovery from the recession, particularly if inflation were contained, would favour greater Mediterranean integration, since it would attenuate the problem of market outlets, and therefore the resistances and social tensions that would otherwise be manifest.

An African strategy?

We have already mentioned the possibility that an industrialization process tending to reduce rather than increase Mediterranean inter-trade may prevail in North Africa and the Middle East. In this part I should like to pursue this hypothesis in greater detail, examining the eventuality of the Arab countries attempting to create market outlets for themselves in the other African countries, as an alternative to the European markets, by financing development projects in those countries; in other words, it is a question of extending the discussion of economic integration to other African countries, with North Africa and the Middle East as the industrial pole and financial center for the whole continent.

Though such a hypothesis may seem somewhat futuristic, some of the observers interviewed agree with me that the Arab countries have an "African strategy", even if for the moment only implicitly. This attitude manifests itself in the creation of special institutes for credit and financing for a significant number of projects.

It should first of all be remembered that not all the Arab countries are Mediterranean. Significant investments are being made in non-Mediterranean Arab countries, and in particular in Sudan. These investments are concentrated in the food and agriculture sector, in the extraction of raw materials, and in infrastructures.

If we then widen the horizon from the Arab countries to the Muslim ones, or to those with important Muslim minorities, nearly the entire continent is included. After all, European domination in most of Africa lasted less than a century; the influence of the Arab world goes back much further.

That the Arab countries have a particular interest in Africa seems to me indubitable. For example, Kuwait's purchase of an important minority share in the Lourho is of particular significance.

An "African strategy" would have great potentialities. Investment opportunities are particularly numerous in the agricultural sector, the development of which has always been limited by the lack of available capital, and which is today particularly important in the face of the gravity of the world food problem.

Investments in transport infrastructures would greatly expand the market area relevant from the point of view of industrial development, and would themselves open up new market outlets for some of the expanding industries in North Africa and the Middle East (steel, cement).

According to one of the interpretations given, the Arab countries are, to a certain extent, forced by diplomatic necessity to adopt an "African strategy", A split in the front of the developing countries is developing between the oil-producing and the other countries. The latter, that at first unconditionally supported the formers' action, now have growing doubts, since the benefits from the greater flow of aid do not compensate for the damage provoked by the higher price of oil. The EEC is attempting to take advantage of this incipient contradiction: this explains its "generosity" during the Lomé convention negotiations. The multinational enterprises, rather than promote the industrialization of the Arab countries, will become involved above all in the so-called ACP countries, and the Arab countries will have no other choice but to finance the industrialization of other countries, renouncing their own.

Apart from that which concerns the Community (I do not think it is that cunning), it seems to me a credible scenario. It is, especially if one thinks of countries such as Saudi Arabia, Kuwait or the Emirates, which will certainly have to resign themselves to being mainly financial centers. On the other hand, financing is one of the most politically important roles in an integration process: just think of the significance of the Marshall Plan for European integration.

Ignorance and political action

One of the characteristics I discovered in the course of this research is that the Mediterranean situation is generally not well known. There is widespread ignorance which derives from the fact that, until recently, most of the corporations had no good reason for concerning themselves with the region.

In these conditions, as we pointed out earlier, it is up to the governments rather than the multinational corporations to take the initiative. We have already seen what the positions and the policies of the Mediterranean governments are; we must now ask ourselves what is and what could be the Community's role. In the present conditions, the Community's attitude is a variable of the greatest importance in determining multinational behaviour.

The Community's present attitude is difficult to describe because it is characterized by numerous contradictions.

As far as Southern Europe is concerned, requests for full membership are expected, sooner or later, from all the countries of the region. It is widely agreed that political motives exist which would prevent a refusal. It cannot say no to a Greece that wants to consolidate its re-found liberty, to a Spain that guaranteed fundamental democratic rights, to a Portugal in search of a defense against reactionary or adventuristic temptations. And if Greece is accepted Turkey cannot be refused. On the other hand, the present members of the Community do not seem willing to accept the necessary consequences at the level of political economy. The most repeated prediction is that assent in principle will be followed by more or less openly dilatory tactics.

As for North Africa and the Middle East, there are the two parallel questions of the "Mediterranean policy" and the "Euro-Arab dialogue". The latter is proceeding very slowly and with many political and economic difficulties. It is easy to predict that nothing concrete will develop within the next few years. The Mediterranean policy has been recently carried into effect with the signing of three separate agreements with Tunisia, Algeria and Marocco. The principal defect of these agreements is the fact that they are three distinct accords, and that they do not therefore provide for cooperation between areas, but between an area and a single country.

What could the Community do instead?

As far as the Southern European countries are concerned, it should accept their membership as soon as possible (once the political conditions have been respected), and face all together and resolutely the problem of the existent disequilibriums not only between those countries and the present members of the Community, but also those within the group of nine.

The importance of the question is just this: the adhesion of the new South European members would oblige the Community to face the problems it already has, and that are becoming ever more serious.

I am convinced that if the Community does not face these problems, the centrifugal forces which are growing stronger and stronger will pull it apart. I maintain, therefore, paradoxically perhaps, that the entry of the new countries of Southern Europe could help rather than hinder the process of integration. Another way of saying the same thing is to affirm that the multinational companies, after having contributed in a fundamental way to linking the different European economies, are incapable of keeping them together.

Remarkable farsightedness would also be necessary for relations with North Africa and the Middle East.

From what we have said up till now, it is first of all evident that the principal goal of the Euro-Arab accord should be that of creating the most favourable conditions for the economic development of the Arab countries.

The principal obstacle to this development is the size of the internal markets of the Arab countries and the difficulty of finding European or other market outlets. A Euro-Arab accord should first of all eliminate this obstacle.

It follows that such an agreement would have validity only if it were a real accord between economic blocs and not a sum of bilateral agreements between single Arab countries and the Community.

Presently,economic cooperation within the Arab League is not very developed. Trade among the Arab countries is slight, and it is therefore logical that each of them is primarily interested in regulating trade with the EEC. However, this only makes the problem of a market more difficult. For this reason a Euro-Arab accord should be conceived in such a way as to favour, first of all, inter-Arab economic integration, and only subordinately Euro-Arab integration. The EEC should assume a position similar to that assumed by the USA in the postwar period with regard to the European countries with the Marshall Plan. Freer access to the European market should be conditioned by freer trade among the countries of the Arab League: for each product the EEC should not offer better conditions than the worst conditions offered by any of the countries of the League for the products coming from the other members of the organization. At the same time, no Arab League country should offer the EEC better conditions than the worst conditions offered to any of the other countries of the League. In this way it would always be easier for an Arab producer to export to another Arab country rather than to the EEC; and for each Arab importer, assuming equal quality and prices, it would always be more convenient to import from another Arab country rather than from the EEC.

Secondly, the accord should be conceived in such a way as not to discourage rather than favour inter-African economic integration. There is really no reason for limiting our definition of the "Mediterranean area" to only those countries which actually have access to the Mediterranean. Already the fact of having begun new negotiations with the Arab League implies a widening of that definition, since the League also includes countries of the Middle East without access to the Mediterranean and the sub-Saharan African countries as well. But this too would be an artificial distinction: we have already seen that there are important forces which might induce the Arab countries to act as the linchpin of a process of development involving the entire African continent. An expansion of the potential market cannot but favour a dynamic solution, opening development possibilities not only for the new Arab industries but also for the European ones.

These considerations also lead to a few observations about the nature of the accord to be concluded.

It is first of all clear that a simple commercial agreement would not be enough. Such an agreement would be limited to liberalizing trade, reducing tariff and other obstacles. On paper, that would imply an expansion of the potential market open to the Arab countries, but in practice this would not be the case. For some products the abolition of tariffs and quotas would permit the Arab countries to increase their sales on the European markets: that would happen for certain agricultural products and for petroleum by-products. And it is just for this reason that it is absurd to think that the European countries would not have to put certain limits on imports from Arab countries. In the absence of complete liberalization, the agreement would make sense only if the limits were agreed upon, that is, only if inter-trade were politically regulated - which is just what a commercial agreement cannot do. For other products liberalization would not have relevant consequences, since there are more important obstacles than duties that impede access to the European markets : these obstacles can ultimately be reduced to only one, that is, the oligopolistic control exercised by the large corporations on these markets, through well-known mechanisms. A simple commercial agreement would therefore certainly be without substance.

A cooperation or association agreement (different from a commercial agreement in that it institutes a mixed commission responsible for carrying out the agreement) would be a valid solution but still insufficient. It would make it possible to politically regulate the trade of "sensible" products (mainly agricultural products and petroleum by-products) but it would probably not have great relevance for other products. Generally, cooperation agreements are effective if the economic operators of the two countries have specific interests, and present a series of proposals and incentives to the mixed commission. But without impetus from the operators, it is not likely that the mixed commission will be able to stimulate the integration process. In the case of Euro-Arab relations, we have seen how the Arab countries' development contrasts, in general, with the logic of the multinational corporations: therefore the conditions for effective cooperation do not exist a priori. A cooperation accord would risk leading to the institution of a commission that would limit itself to being an impotent witness to a paralyzing conflict.

The Euro-Arab dialogue therefore calls for a new formula. In order for it to have concrete significance, it would be necessary to institute an organism responsible not only for regulating trade, but also for promoting and financing development projects in the Arab countries, and more in general in Africa. In other words, it is not possible to stop at the constitution of a mixed commission, but it is necessary to institute an agency which is really and truly for Euro-Arab-African economic cooperation.

This organism's task should first of all be to arrange and plan investments in the oil sector. Secondly, it should promote the realization of large projects for the construction of the infrastructures necessary for the unification of the inter-Arab and inter-African markets. Finally, it should promote investment projects in the manufacturing sector, obtaining from the European firms the necessary assistance both for launching the productive structure and for placing part of the production on the European markets.

It is useless to say that there are formidable practical difficulties that would make it difficult to realize such a project. We presented the idea not because we are convinced that it is possible (even if we are also not convinced of its impossibility), but more than anything to completely develop our analysis and to single out the behaviour it suggests.

Conclusions

We have attempted to analyze the principal variables that will influence multinational behaviour in the Mediterranean from now until 1985. It is now time to offer a prediction.

I think it is necessary to distinguish two main cases, according to whether there is an organic political initiative by the Community or not.

If such an initiative is lacking, it seems unlikely that the picture can change much. I think that there would not be a vigorous recovery in the Community, and that this would damage Southern Europe. The countries of North Africa and the Middle East will see a good part of their industrialization projects frustrated, and this will make relations with the EEC more and more difficult. The "African strategy" will be developed, but timidly. Inter-Arab integration will be slowed down because of political difficulties. Two countries will register a very rapid rate of growth in the manufacturing sector: Iran and Egypt. Iraq and Syria could constitute a third pole, but they would have to resolve their present contrasts. The same is true for Algeria, that is aiming at becoming the Ruhr of a Maghreb that, at the moment, does not exist: it is not to be excluded that it may exist in ten years time, but that assumes the collapse of American influence. Saudi Arabia will be able to make interesting progress, but it will conserve its characteristic of a "character in search of an author". The Community itself will be prey to continual crises, and the political scene of certain European countries will be tinted red.

With a Community initiative, the picture would be substantially different. In fact, the conditions exist for the heavy intervention of the multinational corporations, similar to those of the '60s in the EEC. That, provided A) that a decided policy of aggregation of Southern Europe to the community is launched and B) that a policy of economic integration among the Arab countries is begun. I shall leave the details to the imagination of each reader.

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28

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Statistical Annex
THE MULTINATIONAL CORPORATIONS'
STRATEGY IN THE MEDITERRANEAN

by

Giacomo Luciani

Tavola 1 – Percentage breakdown of number of manufacturing subsidiaries of non-US based parent systems by subsidiary's country and principal industry group (as of 1-1-1971)

	Portugal	Spain	Greece	Turkey	Iran	Mashrek	Maghreb	Mediterranean	World %	World total number
Food and tobacco	0.7	1.8	0.1	0.3	0.0	0.0	0.0	2.9	100	685
Textiles and apparel	1.4	3.6	0.0	0.4	0.4	0.0	0.0	5.8	100	279
Wood, furniture and paper	0.5	1.0	0.0	0.0	0.5	0.0	1.0	3.0	100	210
Chemicals	1.4	4.8	0.6	1.2	0.3	0.5	0.5	9.3	100	1258
Petroleum	0.5	1.6	0.0	0.5	1.0	2.1	4.2	9.9	100	192
Rubber and tyres	0.9	7.5	1.9	0.9	0.0	0.0	0.0	11.2	100	106
Primary metals	1.2	2.2	0.2	0.2	0.2	0.7	0.2	4.9	100	413
Fabr. metals + non el.machinary	0.7	2.1	0.3	0.3	0.5	0.5	1.0	5.4	100	605
Electric and electronic	0.5	3.6	1.3	0.6	0.8	0.5	1.5	8.8	100	787
Transportation equipment	2.0	5.7	0.0	1.6	0.8	0.8	0.4	11.3	100	246
Precision goods	0.0	2.6	0.0	0.0	0.0	0.0	0.0	2.6	100	78
Other	0.6	4.8	0.3	0.0	0.6	0.0	0.6	6.9	100	336

Fonte: Vaupel e Curham, The World's Multinational Enterprises, PP. 51-55

Tavola 2 - Percentage breakdown of number of manufacturing subsidiaries of US based parent systems by subsidiary's country and principal industry group (as of 1-1-1968)

	Portugal	Spain	Greece	Turkey	Iran	Mashrek	Maghreb	Mediterranean	World	
									%	total number
Food and tobacco	0.6	3.3	0.2	0.2	0.2	0.6	0.4	5.5	100	509
Textiles and apparel	1.0	2.0	0.0	0.0	0.0	0.0	0.0	3.0	100	102
Wood, furniture and paper	0.5	4.5	0.5	0.0	0.0	0.0	0.5	6.0	100	199
Chemicals	0.6	3.4	0.7	0.3	0.5	0.5	0.3	6.3	100	1093
Petroleum	0.0	2.9	0.5	0.5	1.9	4.9	0.5	11.2	100	206
Rubber and tyres	2.7	2.7	0.0	1.8	1.8	0.9	1.8	11.7	100	113
Primary metals	0.0	0.9	1.8	0.9	0.0	0.9	0.9	5.4	100	112
Fabr. metals + non el.machinary	0.2	3.2	0.4	0.4	0.2	0.0	0.4	4.8	100	530
Electric and electronic	0.0	1.1	0.3	1.1	0.3	0.0	0.3	3.1	100	359
Transportation equipment	0.4	2.7	0.0	0.9	0.0	0.0	0.4	4.4	100	226
Precision goods	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100	74
Other	0.4	1.7	0.4	0.0	0.4	0.4	0.4	3.7	100	233

Fonte: Vaupel e Curham, op. cit., pp. 59-63

Tavola 3 - Percentage breakdown of number of manufacturing subsidiaries of non-US based parent systems by subsidiary's country and national base of subsidiary's parent system.

	Portugal	Spain	Greece	Turkey	Iran	Mashrek	Maghreb	Mediterranean	World %	World Total number
United Kingdom	0.8	2.1	0.5	0.5	0.4	0.6	0.3	5.2	100	2269
Germany	1.3	5.7	1.5	2.1	1.1	0.8	0.6	13.1	100	792
France	2.5	9.3	0.6	0.9	0.9	1.6	7.5	23.3	100	429
Italy	1.7	14.0	0.9	1.7	0.0	1.8	4.1	24.2	100	133
Belgium + Luxemburg	2.4	5.3	0.9	0.0	0.6	0.6	1.4	11.2	100	276
Netherlands	0.4	2.0	0.4	0.4	0.9	0.0	1.7	5.8	100	479
Sweden	1.3	1.9	0.0	0.0	1.4	0.8	0.0	5.4	100	171
Switzerland	1.2	4.0	0.7	1.2	0.0	0.5	0.0	7.6	100	397
Japan	1.4	0.8	0.0	0.0	1.0	0.4	0.5	4.1	100	483
Canada	0.0	2.2	0.0	0.7	0.0	0.0	0.8	3.7	100	201
Other non-US	0.0	2.2	0.0	0.0	0.0	1.2	0.0	3.4	100	100

Fonte: Vaupel e Curham, op. cit., pp. 107-111.

Tavola 4 - Percentage breakdown of number of manufacturing subsidiaries by subsidiary's principal market and country (non-US as of 7-7-1971)

	Portugal	Spain	Greece	Turkey	Iran	Mashrek	Maghreb
Local country	90	97	90	100	94	72	69
Export markets	10	3.0	10	0	6.3	28	31
Total percent	100	100	100	100	100	100	100
Total number	39	134	20	25	16	18	13

Fonte: Vaupel e curham, op. cit., p. 378.

Tavola 5 - Book value of investment of US corporations in selected countries at end 1973 (million of dollars).

	All industries	Manufacturing
Spain	1.017	563
Other Western Europe*	1.086	378
Other Africa**	2.830	143
Middle East***	2.682	130
<u>Subtotal</u>	7.615	1.214
Canada	28.055	12.635
EEC	31.257	18.962
Latin America	18.452	6.460
<u>All Areas</u>	107.268	45.791
5/9 x100	4,5	3,5

* Includes Austria, Cyprus, Finland, Gibraltar, Greece, Iceland, Malta, Portugal, Turkey and Yugoslavia.

** Includes United Arab Republic and all other countries in Africa except South Africa.

*** Bahrain, Iran, Israel, Jordan, Kuwait, Lebanon, Qatar, Saudi Arabia, South Yemen, Syria, Trucial States, Oman and Yemen.

Fonte: "Survey of Current Business", August 1974.