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PERSPECTIVES OF EURO-ARAB INDUSTRIAL COOPERATION

by

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The terms of reference of the question of industrialization in Euro-Arab relations were profoundly modified in the 1970s. Because of numerous factors, among which the increase in the price of oil is certainly paramount, the outlook for industrial growth both in Europe and in the Arab world has changed dramatically, and the content and meaning of industrial cooperation in the Euro-Arab context is today entirely different from what it was ten years ago. At that time the question was the alternative between dependent and independent industrialization, or between export led and import substituting growth. Nowadays, the prospects for industrial growth in Central Europe are decidedly bleak; on the other hand, industrial development is progressing rapidly in most Arab countries and in some Southern European countries, and access to the European market is almost in no case an immediately critical factor.

While this does not in itself solve the question of dependent development, because it could be argued that industry has become mostly a declining sector, with the exception of a few high technology branches, and that the future lies primarily in the development of certain services, it does nevertheless affect the nature of the problems in relations between Europe and the Arab countries, and the contents of a Euro-Arab cooperation to be defined within the Euro-Arab dialogue.

The discussion in this paper is divided in three sections. A first section is devoted to a very brief overview of industrialization processes in the Mediterranean in the sixties and seventies. It will be shown that, thanks to determined industrialization policies adopted by most Mediterranean countries, and in parti-

cular to the role played by state-owned industry, the rate of industrial growth in most countries has been very satisfactory, although the "concentration" of industry has not significantly diminished yet. A second section is devoted to a discussion of the prospects of industrial growth in Europe, in the Southern European Mediterranean countries and in the Arab world. A final section will propose a few conclusions specifically related to the Euro-Arab dialogue in the light of the previous discussions.

It is clear why the Mediterranean dimension is of crucial importance in the discussion of the Euro-Arab dialogue. The European Community is in fact busy negotiating not just an extensive cooperation with the Arab League and its members, but also the accession of Spain and Portugal, and possibly a complex redefinition of relations with Turkey. None of the two lines of negotiations is progressing very much, and their mutual feedbacks are more negative than positive. This may, in a sense, be the result of the failure of the project of a EC Mediterranean policy as initially conceived in the early 1970s. Be as it may, the fact is that the Arab countries view the negotiations for enlargement as a serious threat to their relative position; while the prospect of having to accept painful conditions within one of the negotiations seriously reduces the willingness of some European countries to be forthcoming in the context of the other. And the spirit of compromise is not in abundant supply in European circles in these days.

Industrialization processes in the Mediterranean in the sixties and seventies

One of the fundamental characteristics of the economy of the Mediterranean region is the tremendous variation in levels of economic development. But even more diverse are the economic structures of the Mediterranean countries. Table 1 surveys the situation for manufacturing industry alone, i.e. excluding construction and mining, which ordinarily contribute heavily to the item "industry", for we feel that the development of manufacturing activity is a good indicator of the level of industrialization a given country has achieved.

The countries surveyed in the present work display so extreme a diversity in economic and political history that for purposes of regional analysis it is useless to

Table 1 : Structure of value-added in manufacturing industry (%) at 1975 prices. 1978

	Food, Drink, Tobacco	Textiles, Clothing	Machinery	Chemicals	Metal- lurgy	Other Manu- factur- ing
<u>Industrialized</u>						
<u>countries:</u>						
France	16	8	32	9	7a	28
Italy	10	14	27	9	8a	32
<u>Newly</u>						
<u>industrialized</u>						
<u>countries:</u>						
Greece	20	26	8	9	5b	32
Israel	13	13	24	8	42	
Yugoslavia	15	14	21	8	42	
Portugal	13	18	20	12	2c	35
Spain	11	18	20	10	6a	35
<u>Industrializing</u>						
<u>countries:</u>						
*non oil-exporters						
a) of small population						
Cyprus	22	28	15	42	-	23
Jordan	22e	14e	4e	24e	15e	21e
Malta	13	34	24	2	4	23
Yemen	55f	26f	12f	5f	-	68f
b) of medium population						
Morocco	33	15	9	9	34	
Sudan	49	29	8i	3	5i	6
c) of large population						
Turkey	17g	19g	17g	23g	14g	10g

Table 1 : Structure of value-added in manufacturing industry (%) at 1975 prices. 1978 (continued)

	Food, Drink, Tobacco	Textiles, Clothing	Machinery	Chemicals	Metal- lurgy	Other Manu- factur- ing
<hr/>						
*oil exporters						
a) of small population						
Kuwait	7	-	4	76	5	8
Libya	26b	3b	3b	50b	10b	8b
b) of medium population						
Algeria	29	20	8	4	20	10
Iraq	28	26	13d	4d	2d	28
Saudi Arabia	29n	8n	9n	15n	3n	64n
Syria	28	36	3	4	1h	28
Tunisia	26	16	7	17	34	
c) of large population						
Egypt	21	28	12	8	34	
Iran	14	13	10	71	56	

Notes

- a : Author's estimates based on 1977 data from UN National Accounts Statistics
- b : Author's estimate based on data from 1978 UN National Accounts Statistics
- c : Author's estimate based on data from 1976 UN National Accounts Statistics
- d : Based on 1975 data taken from 1975 Annual Survey: Statistical Abstracts (Baghdad, 1977)
- e : Author's estimate based on World Bank data for 1976 (machinery includes transportation vehicles and electrical equipment, and chemicals includes oil refining)

- f : Author's estimate based on World Bank data for 1977 (machinery also includes metallurgy, and textiles and clothing also includes leather products)
- g : World Bank internal estimate for 1979
- h : Estimate based on UNIDO data for 1977
- i : Estimate based on National Economic Planning Ministry data
- l : UNIDO estimate based on official figures for 1977
- m : Estimate by the "Secrétariat d'Etat au Plan", for 1977 (programmed)
programmed
- n : UNIDO data for 1972

Source: World Development Report 1981, data for 1978 (in 1975 prices)
except as otherwise specified in the Notes.

retrace the story of the industrialization process in each Mediterranean country (MC) discussed. A brief account of some summary information derived from Table 1 is worthwhile, though. In the MCs of most significant industrialization, the mechanical manufacturing sector is of major proportions, evidently constituting the key factor in a series of inter-industry relations among the various branches of manufacturing. In the other industrialized MCs (except for Greece), the machinery industry has considerable weight, though at a lower level than the first group of countries. In this group of countries, however, manufacturing activity is not always dominant. Metallurgy, and the steel industry particularly, is relatively more developed in the earlier industrialized countries than in those more recently arrived at a fair level of industrialization. For chemicals the situation is more complex. In each of the groupings of economies presented in Table 1, the relative extent of the chemical industry has been affected by a large variety of elements, independently of the overall degree of industrialization of the economy.

Among the traditional branches of manufacturing, we have indicated two groups of productive activity: the food, drink, and tobacco industries on the one hand, and textiles and clothing on the other. These industries generally have considerable importance in the countries of the Mediterranean, and their joint importance (i.e., the sum of their respective percentage shares in total manufacturing activity) is generally inversely proportional to the country's level of industrialization: 24% for France and Italy, 26% for Israel, 29% for Spain and Yugoslavia, 31% for Portugal, 46% for Greece. In the rest of the Mediterranean, the share is usually over 30% (and often considerably above that figure): 36% in Jordan and Turkey, 37% in Saudi Arabia, 42% in Tunisia, 47% in Malta, 48% in Morocco, 49% in Egypt and Algeria, 54% in Iraq, 64% in Syria, 75% in the People's Democratic Republic of Yemen, and 78% in Sudan.

We observe, then, that with such rare exceptions as Kuwait the industrial structure of the Mediterranean developing countries (including oil exporters) was marked in the latter 1970s by the characteristics of very low levels of industrialization, undoubtedly lower than the average for the Third World overall. The sectorial make-up of manufacturing activity is still dominated (except for Kuwait and Libya) by light indus-

try (food processing and textiles, for the most part), often created to serve the local market under the import substitution model, though there have been important recent exceptions to this rule in the textile industry. This manufacturing industry usually operates on quite a modest scale in terms of productive capacity, and is frequently run on an artisanal basis.

Even restricting the analysis to the Mediterranean developing countries alone, the history of manufacturing activity is highly variegated.

In some, the beginnings of the industrialization process date fairly far back. Certainly Egypt and Turkey are countries whose traditional manufacturing activities took root and gained a certain economic importance long ago. Iraq and the countries of the Maghreb had begun a process of industrial development by the 1960s, not to mention Lebanon, which is a special case in the Middle East region. In the remaining countries, we have often seen a virtually complete lack of any "industrial base" to the economy right into the 1970s, so we should not be surprised if statistical data are frequently unable to signal the structural changes now under way in the emerging MCs. Except for Egypt and Turkey, where industrial development has a historical base of longer date, and where consequently the structure of manufacturing is more highly diversified, the degree of industrialization of the less developed Mediterranean countries generally stops at the first levels of manufactures, i.e. the typical stage of small industry producing essential consumer goods for the local market, with no significant marketing problems, frequently safeguarded in large part from the competitive threat of imports by excessive tariff protection (and thus often not competitive internationally), and highly labour-intensive. In most of these countries, what is often called the subsequent stage of industrialization has not gotten under way - that is, the creation of factories to produce capital goods to supply the local consumer-goods industries.

In the past many factors inhibited a broadening of the industrialization process beyond the production of consumer goods for the local market. Some were socio-political and institutional, and others were more strictly economic in nature. The virtually absolute isolation of the oil sector from the rest of the economy - encouraged by the ownership structure as well - prevented the OAPEC countries from enjoying any dif-

fusive effects from the only really dynamic part of the economy, while the comparative advantage of oil production over all other sorts of industrial investment was such as to inhibit effective industrial diversification.

Industrial development has remained at an exceedingly low level, even though the socio-economic and cultural environment would have allowed for much more rapid evolution (as we are now seeing). In this region, at least for the OAPEC countries, the stimulus of balance-of-payments difficulties was lacking, whereas elsewhere (Latin America, to name but one region) this factor led to massive adoption of import-substitution-led industrialization. For in the Mediterranean, the oil-rich nations were relatively immune from hard-currency needs, since raw materials exports earnings easily covered their import needs. Nor, if not in Egypt and Turkey, was population growth of any particular stimulus, because of the availability of a safety valve in massive emigration to Europe. Furthermore, these countries were generally left out of the investment programs of the multinationals, which were investing in manufacturing undertakings in other parts of the world (and in other parts of the Mediterranean region itself, i.e. in Southern Europe).

In any case, it is clear that the "oil crisis" hit a Mediterranean region more or less evenly divided between countries essentially left out of the industrialization process and those with an already-functioning industrial structure (in some cases consolidated, in others rapidly becoming so).

Obviously, the situation did not present itself in static terms for the industrialized MCs. Both endogenous and outside forces continually threaten their ability to maintain given levels of production and place their very structure of industrial specialization in jeopardy. And these trends of evolution are usually to be explained by extra-Mediterranean factors, namely the global dynamics of the industrial division of labour.

This, then, is the initial situation upon which, in the course of the 1970s, new factors intervened which, starting from the sudden redistribution of international purchasing power to the OAPEC area, stimulated new interest in industrialization in the Mediterranean's less developed countries. And this interest involves not only the OAPEC countries but also, as part of the ongoing evolution of world industry, countries not parti-

cularly well-endowed with oil resources.

First, let us look at what happened in the more developed MCs (Tables 2 and 3). After two decades of strong, sustained industrial growth starting in 1950, marked by faster growth in international trade than in domestic income, the 1970s saw a slowdown in growth of the industrial product in the entire OECD area. For the European MCs, the rate of growth faltered in France, Italy, and Spain in conjunction with the first oil crisis, while Greece's much less extensive industry maintained its rate of expansion. In terms of the breakdown of productive activity by sectors, the higher growth rates are generally to be found in manufacture of basic intermediate products, as against light industry, harder hit by the drop in purchasing power produced by inflation and unemployment. Particularly hard-hit was the textile industry (see Table 4), while signs of difficulty appear in many other manufacturing industries as well, provoked in part by high energy costs. So industrial employment declined, and the second "oil shock" at the end of the 1970s induced a further slowdown of economic growth in the industrial countries due to its negative repercussions on the balance-of-payments. The sharp recession in these countries is particularly clearly illustrated by the trend of investments as against aggregate demand - in the 1970s, the former declined relative to the latter.

In terms of the sectorial make-up of production, the crisis seems to have been worst for light industry in those countries, owing to its negative impact on the demand side in terms of inflation and unemployment and on the supply side in terms of increased production costs (energy and other). Less hard-hit were industries producing basic intermediate goods. The competition of the NICs, the "energy" factor, the credit restrictions imposed by anti-inflation policies, the containment of consumers' purchasing power - these were all factors leading to recession for a good number of manufacturing industries, causing a decline in industrial employment and fixed capital investment, and making those nations' businesses more attentive and more aggressive in seeking alternative outlets for their products in international markets.

This critical situation for the MCs of Europe, which worsened when the second "oil shock" in 1979 deepened the recessionary trend, felt the impact of the

Table 2 : Industrial value added in the European Mediterranean countries (billions of US \$)

	1960		1970		1978 ⁽¹⁾	
	b. US\$	%	b. US\$	%	b. US\$	%
Cyprus	0.08	0.07	0.16	0.09	0.20	0.09
France	68.54	53.04	76.87	44.69	97.50	42.75
Greece	1.33	1.21	3.04	1.77	5.22	2.29
Israel	0.08	0.72	2.29	1.33	3.53	1.55
Italy	30.53	27.66	52.93	30.77	66.57	29.19
Malta	0.04	0.03	0.08	0.05	0.24	0.10
Spain	11.25	10.19	23.22	13.50	31.81	13.95
Turkey	2.43	2.20	5.48	3.19	9.16	4.01
Yugoslavia	5.35	4.85	7.93	4.61	13.80	6.05
TOTAL	110.37	100.00	172.03	100.00	228.05	100.00

(1) 1977 for France, Greece, Italy

Source: Author's elaboration on data from UN Yearbook of National Accounts and from International Financial Statistics

Table 3 : Average annual rates of increase of industrial production

	1960-1970	1970-1977
Cyprus	+4%	+2.5%
France	+5.5%	+3.5%
Greece	+9.3%	+8.0%
Israel	+12.0%	+6.5%
Italy	+7.25%	+3.0%
Malta		+11.5%
Spain	+11.2%	+8.0%
Turkey	+9.5%	+9.5%
Yugoslavia	+8.25%	+7.5%

Source: Statistical Yearbook 1978 U.N.

Table 4 : Evolution of production indexes in clothing industry

Area	1958	1963	1968	1970	1972	1973	1974	1975
Industrial market economies	70	89	101	100	108	110	106	105
EEC	72	91	100	100	109	107	106	104
Centrally planned economies	45	60	84	100	109	115	123	131
Developing economies	59	74	101	100	115	130	138	155
Asia	57	77	114	100	116	141	159	198

Source: Comitextil Bulletin 77/4-5

new industrialization strategy of the Mediterranean developing countries.

For the oil exporters, the idea was to lay the basis of diversification of production both for the domestic market and, at least in prospect, for export goods, away from the single-product oil economy. In many of those countries two particularly rigorous limitations (shortage of labour and shortage of arable farmland) made the option for highly capital-intensive downstream industrialization virtually inevitable, together with the development of all the usual ancillary activities (complementary industries, infrastructures, productive services). Aware that their oil resources are not inexhaustible, the oil exporters committed themselves more and more decisively to diversify their non-agricultural production before known oil reserves are totally depleted (while at the same time introducing conservation policies aimed at limiting the speed of exploitation of crude oil). In this case we can speak of an export-substituting industrialization strategy, to underscore the fact that at least in the long term these new specializations should open up new export capacities for the producer countries, which have been almost totally dependent on oil sales up to now.

For the most part, this strategy of diversification has looked first to foster an industry based on downstream processing of oil and natural gas. This sort of development was not totally unknown in the oil-producing countries, but it had not managed to find enough room for expansion, owing to the lack of national control over the utilization of oil resources (in the hands of the multinationals) and to the oil nations' modest financial resources, insufficient for a change of such massive proportions. That this change, when it came, was a true revolution is demonstrated by the soaring growth rate for investments over the past decade, nearing an annual average of 50% in many countries. In some instances investment has absorbed over 60% of GDP.

The diversification effort has been substantial, though in all but a few cases the statistics on industrial structure did not yet register it by the end of the 1970s (see Table 5). Often, in fact, after 1973 these investments emphasized the creation of infrastructures, and thus in statistical terms were translated into a rise in construction activity, while the incubation period for new industrial investments some-

times forced extension of the preliminary phases. These delays were caused in part by the very need to see to the emplacement of the requisite infrastructures, and in part by the investing countries' problems in obtaining direct or indirect involvement by the Western business community in investments that have all the earmarks of productive decentralization.

The downstream industrialization strategy had the primary objective of assigning to the oil producer the added value created in subsequent stages of refining of crude oil and gas, which normally goes to corporations in the industrial nations where those operations are carried out, i.e. near the major world centers of consumption. An analogous strategy has been followed for some other industries as well, those which while not part of the vertical chain of oil refining nevertheless have a direct relation with energy, in the sense that they are highly energy-intensive (steel, aluminium, cement). This despite the fact that some such industries depend on imported raw materials (aluminium and sometimes the ores used in steelmaking). Part of this same overall strategy are Moroccan and Tunisian investments in phosphates mining and industrialization for downstream fertilizers production, which intersects with the analogous outlet derived from petrochemicals. Even the nascent Maghreb steel industry can be read as a downstream processing of North Africa's wealth of iron ore, enjoying the advantages of gas-based technology rather than the traditional coke-fueled processes, for products widely used in industry (including special steels).

But the drive for industrialization, which exploded in the wake of massive exploitation of natural resources, gradually extended to industries that were not resource-oriented. The aim was to expand all possible manufacturing industries, producing either for the local market or for export, for the neighbouring MCs or for the huge markets of the industrial economies.

Of course the principal signs of this development of manufacturing activity merit some consideration.

Oil refining, petrochemicals, steel, as well as construction and transportation vehicles, are all part of a highly capital-intensive development, with substantial employment of highly skilled labour, and requiring major Research and Development activity. This in turn exerts pressure for substantial and rapid progress in all predominantly technical training activities, to see to the

gradual replacement of foreign personnel, who take part in the start-up of new industrial investments at all levels.

Though this type of industrialization is not directed to the immediate offer of consumer goods, or to the direct raising of living standards, nevertheless the changes it entails obviously cannot fail to have "industrializing" effects on the surrounding society. The presence of such centers modifies social and economic behaviour patterns, indirectly helping bring about conditions suitable for the development of other types of manufacturing aimed more directly at the local market. And this will be the more true, the greater is the room allowed for small and middle-sized enterprises to fill the vacuum left by unbalanced capital-intensive industrialization.

To what extent has this growth of basic industries modified the international pattern of specialization in the Mediterranean? To what extent does it result in conflicts in the Mediterranean region, engendered by excess production which world markets lack the capacity to absorb? Under what conditions can this type of industrialization be successful in the MCs that are trying it? How far can the export-substituting strategy lead the industrialization drive? And is it feasible in the other industrializing MCs, those lacking oil, or must the latter seek an original path of their own?

Prospects of industrial growth in Europe, in the Southern European Mediterranean Countries and in the Arab world: some quantitative considerations

The difficulty of proposing quantitative estimates for the growth of Mediterranean industry is to a large extent connected to the fact that the current supply of econometric models does not include, in spite of its abundance, any model which is specifically designed to deal with the European Community and the Arab League together.

Without engaging in a thorough discussion of the various models available and how they could be adapted to our purposes, I am going to focus my attention on one model in particular which is, to my knowledge, the closest that is available to what we would need. This is the "Interdependence Model" submitted by the Ente Nazionale degli Idrocarburi (ENI) at a conference in Rome between the OAPEC and the European Mediterranean countries in April 1981.

The model considers the complex web of economic interconnections between oil exporters and importers utilizing in particular data for six OECD countries (the USA, Japan, the UK, West Germany, France and Italy) and ten OAPEC countries (Kuwait, UAE, Saudi Arabia, Iraq, Bahrein, Qatar, Algeria, Egypt, Libya and Syria). Therefore, this model excludes numerous European or Arab countries, while including others which do not belong to these regions. However, it also takes into consideration certain global linkages, in order to obtain a limited number of coherent quantitative estimates for other regions of the world. It is therefore useful as a point of departure for the formation of some rough estimates.

This model has been utilized by ENI to formulate two main scenarios - a "trend" scenario and a "cooperative" scenario. The first scenario assumes a continuation of the current conflictual relationship between oil exporters and importers, both as far as the pricing of oil is concerned and with respect to the international division of industrial labour. The second scenario assumes, on the other hand, that there is a degree of cooperation both between exporters and importers and among each of the two groups. It assumes in particular that oil prices will increase at a moderate, gradual and regular pace; that the industrial world will accept the consequences of technology transfers and will not erect

barriers against industrial exports coming from the oil producers; that political conflict will not damage growing inter-Arab cooperation at the economic level, e.g. affecting migratory movements within the region.

On the basis of the above assumptions, GDP is expected to grow at an average annual rate of 6.2% for the OAPEC region, and 3.3% for the OECD region. If, on the other hand, the conflictual scenario prevails, rates of GDP growth of 3.8 and 2.3% respectively are predicted.

A widespread and credible estimate puts EEC growth at around 2.5% per annum in the coming years. There is little reason to expect that the situation will improve significantly within our century, all the more so because the initial years of the present decade will probably close with an even worse record. Furthermore, a 2.5% growth estimate is coherent with ENI's estimate of 3.3% growth for the OECD in their optimistic scenario, because Japan will certainly do better than the EEC, while the United States will do no worse.

Further data derived from the ENI model put the growth rate of the non-OAPEC countries of North Africa and the Middle East at 7.2%. This growth rate would however not be applicable to most Mediterranean European countries - excluding France and Italy - whose rates of growth should be expected to be considerably smaller, although higher than the EEC average.

The above rates refer to GDP, not specifically to industrial growth. No estimates are available with specific reference to industry. However, some rough guesses can be worked out.

While in the case of EC members (excluding Greece), the share of Industry in the generation of GDP has shown a long-term tendency to decline, in the other European Mediterranean countries the share of Agriculture has been declining, while the relative shares of Industry and the Services have been oscillating, and fundamentally growing in parallel over the long run.

The trend for the EC (excluding Greece) may be assumed to continue in the future, meaning that industrial growth will be slower than GDP growth; if the latter is somewhere around 2.5%, then a reasonable estimate for the industrial sector is a negligible growth of around 1% p.a. A further consideration is that this growth will not be evenly distributed in the industrial sector, because some industries certainly have a much

higher growth potential. Thus, if we accept a 1% rate of growth for the industrial sector as a whole, we are implicitly assuming that some sectors will continue to decline in absolute, not just relative, terms, exacerbating problems of unemployment and requalification of the labour force.

As far as the other European Mediterranean countries are concerned, the process of relative decline in agriculture has reached a stage in which it may be assumed to slow down and cease to be a significant factor. Turkey is an exception from this point of view, and we will come back to its case. Furthermore, these countries will face difficulties because of the slowdown of growth in Europe and the rising income and welfare expectations of the labour force, leading to a deterioration in the terms of trade. Thus it is perhaps reasonable to expect that if we rather optimistically put the GDP growth rate at around 5%, industry will grow at a slightly slower pace, of around 4.5% - which, after all, is the historical average for the OECD in the good years prior to the seventies.

As far as the Arab oil producers are concerned, the speed of industrial growth should also be expected to be higher than GDP growth, especially in a scenario of moderate increases in the price of oil. The oil sector has a variable but generally large share of GDP today, and it is to be expected that this will decline in relation to industry. A GDP growth rate of 6% is thus consistent with a much higher rate of growth of the industrial sector:

In the case of the non-oil-exporting countries, it may also be expected that industry will grow faster than GDP, essentially because of the decline of the agricultural sector, but the differential should not be as large as in the case of the oil producers. As, however, the ENI simulations propose a GDP growth rate for these countries which is actually higher than that of the OAPEC countries, we may simplify our view by assuming a single rate of industrial growth for the Arab Mediterranean countries which may be as high as 10% p.a. if the political conditions are favourable.

Thus we are led to the following picture for Mediterranean industrial growth:

Average annual growth rates
of industrial value added

EC (excluding Greece)	1%
Turkey	7%
Other Mediterranean European countries	4.5%
Arab Mediterranean countries	10%

We may ask ourselves if this scenario is a) coherent and b) politically satisfactory.

Starting from the latter problem, it seems to me that this scenario will hardly be considered politically satisfactory. There are two main reasons for this. The first is that the above rates of industrial growth are not sufficient to provide employment to the labour forces in the countries concerned. Of course, the final outcome may be influenced by policy initiatives, and we may devise a set of assumptions for the rate of participation, the length of the work week, and the growth of industrial productivity whereby full employment will be attained anyhow. How reasonable the picture may appear is a matter of personal opinion, but personally I am skeptical.

The second reason why this picture is not politically satisfactory is that it does not allow a fast reduction in the differentials in industrial growth. This is so notwithstanding the fact that the spread in the rates of industrial growth is much wider than the spread in the rates of GDP growth, because industry is expected to grow slower than GDP in the most industrialized countries and increasingly faster in the others as we move down along the industrialization scale. Yet, if one takes into account the present unevenness in the distribution of industry in the Mediterranean (which is so far more pronounced than for income) and the differences in the rate of growth of population, the level of industrial output per capita will continue to be strongly unequal well into the next century.

It is not clear how far this conclusion should be considered no more than a manifestation of the fact that we are unable to fully understand the dynamic rules of the economy. Existing disequilibria always appear ex

ante more resistant than they actually turn out to be historically. The international economy has witnessed transformations that no one dared to predict. Thus perhaps we are simply unable to take into account the reaction mechanisms of the industrial systems which will bring us closer to full employment and equal levels of industrial development. Yet, the more we look at the figures the more we are drawn to pessimism.

Thus, how far is this picture logically coherent? If we think that it is not politically satisfactory, we cannot at the same time hold the assumptions that were made on a cooperative approach between and within the different Mediterranean subregions. Indeed recent experience, both in Europe and within the Arab world points to growing manifestations of nationalism, economic particularism, conflict.

We know that conflict is in most cases damaging for both sides, and if we believe that a conflictual scenario will prevail we should modify our expected industrial growth rates to downwards for all Mediterranean countries, thus further increasing both the occasions for conflicts and their intensity. That this would be an irrational outcome does not mean much, because, as history teaches us, this has been the case in most international conflicts - even the ones which are purely confined to the economic sphere. Such conflict-inducing approaches may prove irrational, but they are nevertheless repeatedly practised.

Prospects and new contents for the Euro-Arab dialogue

Assuming however that there is sufficient political basis for a meaningful continuation of the Euro-Arab dialogue - and, just to avoid misunderstandings, let it be clear that I believe that this is the case - what the quantitative picture that I proposed implies is that the priorities within the Euro-Arab dialogue have perhaps changed and should be critically reviewed.

If we expect Europe to continue on a path of slow growth we must also reassess the importance to the Arab countries of gaining free access to the European market for their manufactured goods. From this point of view also the negative consequences that some Arab observers expect from the Southern enlargement ought to be reconsidered.

In fact, although it is true that, theoretically speaking, exports from the Arab countries might gain a share of the European market even if the latter were stagnating, and that this might be an important factor in Arab industrialization, in view of the fact that the European market, albeit stagnating, is very large; in practice however the odds are solidly staked against this turn of events.

Not only will the industrial stagnation and growing unemployment in Europe fuel open or disguised protectionist tendencies - which are likely to be kept in check, but not defeated in a definitive way - but also the competition from other industrializing countries, most notably the countries of South-East Asia will become increasingly intense. To clash and try to outbid the competition from these countries is, by and large, a no-win path for the Arab countries, for a variety of structural reasons, and even if it were promising it is not in their best interest to do so.

It seems in fact rather clear that, even if oil prices will marginally decline in real terms in the coming years, the process of industrial growth in the Arab countries, both in those which are significant oil producers and in those which are not, will be stimulated by the dramatic enlargement of the Arab domestic market. As oil revenues are increasingly transformed from government money largely deposited with international banks, into local and regional revenues of government employees, or contractors, and attendants to these etc., the domestic market of the Arab region as a whole may

still grow even if oil prices stagnate. Simply stated, from this point of view internal dynamics still have to catch up with the sudden overturning of the tables that took place in oil trade in the 1970s.

In these conditions, what is crucially important to the industrialization of the Arab world is regional cooperation. It is the inter-Arab frontiers that must be kept open at all costs, even in the presence of political tensions between individual Arab governments; conversely, some degree of protectionism vis-à-vis exports from the EC may be beneficial at this stage, and would of course be incompatible with pushing for maximum access to the European market within the Euro-Arab dialogue.

This is not without consequences in terms of current investment programs in the Arab world, because it suggests that the emphasis should be shifted from investment in those sectors that would crucially depend on exports if all the current investment plans were carried out, such as steel and petroleum refining, to investment in sectors catering to the regional Arab market, i.e. principally in lighter manufacturing. This may also create some inter-Arab problems because not the same countries are most likely to develop each of these sectors.

The potential for a conflict between Europe and Arab countries that is embedded in the large investment plans in sectors which are facing a dramatic crisis of excess capacity in Europe is further complicated by the fact that these sectors are most often dominated, everywhere around the Mediterranean, by public industry, which, as was pointed out, played such an important role in fostering industrialization in the past. Because of their nature, public enterprises are often in a position to sustain losses for an extended period of time. Also, political pressure is usually strong against layoffs or the abandonment of "strategic" sectors, and this qualification is accorded with great profusion. Thus, persistent excess capacity in sectors where public industry is dominant has the potential to create a lot of bitterness, and seriously spill over into political conflict between sovereign governments.

Thus it would appear that a fundamental aspect of the Euro-Arab dialogue, and one which is increasingly important in present circumstances, is to provide a framework within which cooperation between public

industry of different countries may be organized. This cooperation could also acquire wider implications and meanings: indeed, it could be a path towards internationalization of industrial production, alternative to what is provided by multinational corporations.

The role of the latter is also an increasingly important aspect which may fruitfully be taken up within the Euro-Arab dialogue. Until recently the Arab countries, and the Mediterranean region in general - with the possible exception of Northern Italy and Spain - attracted relatively little interest from the multinational corporations operating in the manufacturing field. In the future this position may be reversed, and indeed is already in the process of being reversed. As the domestic regional Arab market will grow in size, and all the more so if it will be moderately protected from imports from abroad, the multinational corporations will increasingly be attracted to manufacture in the same Arab countries. This of course will apply to the European based corporations as well as to the American or Japanese-based ones.

Although the issue of development effects of direct foreign investment still are highly controversial, it seems fair to say that in the present circumstances of the Arab world multinational corporations may play a positive role. In fact, while on one hand the Arab countries scarcely risk falling prey of oppressive industrial domination, which would later on significantly reduce the options for further industrial growth and development, on the other there are presently well known constraints on the availability of managerial personnel in the Arab countries (even more than finance or technology) and this may become, at least temporarily, a serious obstacle to the achievement of the high rates of industrial growth which are hoped for.

From this point of view it may be very useful to seek within the Euro-Arab dialogue an agreement to establish a code of conduct regulating European investment in Arab countries (and the viceversa may also be increasingly relevant). This should essentially establish procedures through which the host country may gradually revert control of some industrial sectors or specific companies to national control, if it so wishes. The clarification of a set of "rules of the game" would on one hand provide multinational companies with a greater degree of certainty in their decisionmaking, and on the

other eliminate the potential to create a conflict that may follow from the natural tendency of the governments of the developing countries to gradually enlarge the scope of nationally controlled industry.

Another point of importance, on which a great deal should be expected from the Euro-Arab dialogue, is migration.

Migration is a fundamental aspect both for inter-Arab integration and for Euro-Arab cooperation. Although lately migrant flows within the Arab region have grown much more important than flows to the European countries, and are predicted to stay so for many years, yet they both exist at the same time, as do also flows of European workers directed to the Arab countries. There might be some advantage in tackling the issue within the Euro-Arab dialogue and considering globally the entire set of Mediterranean migrations as a single problem. The emphasis should be on the protection of the migrant, only too often subjected to forms of discrimination that can only be termed as racist, and on a management of the entire phenomenon that would specifically pursue the goal of maximizing potential benefits for the process of industrial growth in the entire Arab region. This implies a growing attention to the protection of migrants' savings and encouragement of the utilization of remittances for productive investment, and also to the upbringing of the migrant workforce and to the transfer of relevant skills.

Finally, allow me a provocative suggestion on the hotly debated issue of transfer of technology. Under this heading a number of specific requests are alluded to, reflecting the fact that technological progress is a multiform phenomenon, which little allows to be programmed, predicted and, indeed transferred. So, how is technology to be more speedily transferred? Buying the latest available machinery and equipment? Allowing patent protection to lapse more rapidly? (Forget the nonsensical notion of LDCs being allowed to use valid patents free of charge!). I believe that neither are what is needed. What is needed are more numerous occasions for Arab scholars and professionals to acquire skills and exercise them actively. If this is the case, then the productive approach to technology transfer within the Euro-Arab dialogue would be the setting up of a series of joint Euro-Arab research programs. As much as I like this approach - and I do think that it would

be the right one - I cannot but end in a note of caution: the failures of the European attempts at a joint research policy are under everybody's eyes.

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