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STRATEGIES AND PROSPECTS OF MEDITERRANEAN COOPERATION : THE INDUSTRIAL AND FINANCIAL ISSUES

by

Massimo D'Angelo

Istituto Affari Internazionali - R o m e -

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Chapter I

"DEVELOPMENT OF MEDITERRANEAN COUNTRIES IN AN INTER-REGIONAL PERSPECTIVE" (1)

1.1 Inter-regional vs. regional solidarities: the institutional dimension.

During the last 15 to 20 years the Mediterranean countries, like countries in other regions, have attempted to change the character of their relations from colonial or semi-colonial to normal international relations among peers. Because of oil, change has been particularly sweeping. The strategic importance of this history-old area, both on economic and political grounds, has brought about a multiplicity of actors, including the two superpowers and other external powers. This has made the Mediterranean a highly conflictual area. Nonetheless different networks of cooperation have been created. The compatibility of these networks is particularly complex because of the existence of parallel processes of economic and political integration both on the northern and southern side of the sea basin: namely among Western European countries which are parties to the European Community, on the northern shore, and within the League of the Arab States on the southern shore.

These processes show a different institutional intensity and, particularly in the case of the Arab League, important sub-regional differences as well.

The working of the two parallel experiences of integration within the same framework of the Mediterranean inter-regional relationship has the further advantage of giving this

(1) This chapter counts with the collaboration of Roberto Aliboni

very framework a unitarian consistency which would otherwise be just impossible.

The European Comunity has set up a number of association agreements with all the riparian countries except Albania and Libya. Arab and West European countries have started the complex exercise they call Arab-European dialogue, while the European Community and the League of the Arab States have continued their regional cooperation. Important bilateral relations, such as that between Yugoslavia and Italy, have finally been evolved, along with specific Mediterranean multilateral undertakings such as the United Nations Environment Programme's "Plan Bleu".

In view of this mixed predicament of conflict and cooperation, two different attitudes have been worked out by Mediterranean peoples towards the area. A first attitude - by far the most widespread and active - stresses the common cultural heritage and blames external interferences (especially that coming from the presence in the Basin of the superpowers) for both the outstanding conflicts and the lack of political and economic integration. In this view the Mediterranean is considered a region of its own, cutting accross Western Europe as well as Africa and the Middle East. By contrast, the second attitude stresses existing differences in economic development and political alignments and, without ruling out the potential for cooperation, look at the latter as interregional in character. The working af a Mediterranean cooperation is then subservient to respective regional cooperation schemes. It cannot outstep both regional and international interests and alignments.

Although the "Mediterranean" school of thought has been mostly vocal in its rethoric, the evidence is that Mediterranean countries, such as Italy and Egypt, will cooperate at their best but any goal of Mediterranean unity will never supercede, in their eyes, either European or Arab unity. Rivalries between Mediterranean and non-Mediterranean countries within the European Community have been largely responsible for working out such a misleading interpretation of the Mediterranean inter-regional reality. France, and partially Italy, in order to shift the centre of gravity of the European Community have attempted to claim the existence of a regional Mediterranean region. The real meaning of this move is clarified by the fact that the so-called EC's "global" Mediterranean policy, far from being a multilateral arrangement, is a set of bilateral agreements without any link between other them than the Community itself. This is not to give a negative appreciation of the EC's Mediterranean presence, but only to say that its regional rethoric should not conceal the Mediterranean inter-regional reality.

Once the inter-regional nature of the Mediterranean relations is ascertained, the main consequence - as we hinted at previously - is that whichever scheme for cooperation must be studies (analysis) and prepared (policies) starting from the working of cooperation and integration processes within the various regions bordering the Mediterranean Basin. Another consequence is that conflicts induced from outside cannot simply be played down as alien influences which bother an otherwise cooperative environment. Beside conflicts, cooperation is also coming from outside the Mediterranean. On the other hand, conflicts emerging within the Mediterranean belong to the different regions bordering the basin and not to the Mediterranean itself. All this suggests that international integration and involvement is also an important factor in analysing the Mediterranean regional and inter-regional set.

1.2 East-West relations and their relevance in the Mediterranean framework

Among the political factors which affect the Mediterranean economic inter-regional relationship, a considerable influence is exerted by the East-West relationship. By East-West relationship we mean the conflict between the Western industrialized countries (the Western European countries, the USA and Japan) and the Eastern industrialized countries (the USSR and the Eastern European countries) and their rivalries to acquire alliances and exert their influence on Third World and non-aligned countries.

When considering the influence of the East-West dimension, inter-regional cooperation may be seen as an instrument utilized by both groups of industrialized countries to achieve their goals of influence within the frameworrk of the East-West conflict. The setting up of inter-regional economic links may also be seen, however, as a way to avoid too immediate interferences from the East-West conflict evolution. On the whole the relevant issue seems to be that of the relationship between economic co-operation and non-alignment. To what extent will inter-regional economic co-operation allow non-alignment ? Will alignment or non-alignment permit the setting up of significant forms of inter-regional co-operation? In other words, it seems necessary to discuss the compatibility between inter-regional economic co-operation, which is a question related to the North-South dimension, and alignment/non-alignment, which on the contrary belongs to the East-West dimension.

The fundamental pattern of international/regional relations which operates in the Mediterranean area continues to be that which came up after the end of the Ottoman Empire.The disappearance of such an Empire did not leave a clear-cut political situation in terms of state entities. Different communities and nationalities felt they had to assert and/or defend themselves. This situation paved the way to a kind of mutual exploitation of both the local actors and the then European great powers. The latter exploited the local conflicts as a tool to intervene and acquire advantages in their own rivalries. On the other hand many local actors called in the different European powers to gain support in their own rivalries and conflicts, to defend themselves from local enemies and to satisfy national aspirations which sometimes would never have arisen without the intervening attitudes of the external powers. The picture today is no different with the exception that the two present Superpowers, the USA and the USRR, have replaced the old European great powers. It is the Superpowers' attitude to intervene and the persistent attitude of the local powers to call in the Superpowers in their own support that gives the local conflicts and the regional poli tics an East-West dimension.

One may wonder whether the Mediterranean less-developed countries' inter-regional co-operation with the Western Euro pean countries is but an aspect of the pattern we have just described. A simplistic interpretation of the present balance of power would lead one to give an affirmative answer, since the Western European countries are among the closest allies of the USA. The Fact is that the Atlantic Alliance is much more articulated than is commonly understood, and Mediterranean policies are the object of diverging visions on behalf of the United States and the Western European countries. This divergence was apparent in several occasions and is summarized very well by the specific European attitude on the Palestinian issue. In fact, while a number of European States have even officially recognized the PLO, all of them subscribe to the Palestinian self-determination and to their right to a territorial base in the West Bank and Gaza.

This is not to say that the Western European countries do not appreciate the necessity to contain what they -as well as the Americans- perceive as the relentless Soviet attempt to gain advantages in an area that from the security (particularly economic) point of view is much more sensitive to them than to the Americans. Quite on the contrary they do, but their feeling is that the means to stop the Soviet influence in the region are different. According to the pattern we discussed above the involvement in the East-West di mension of the local countries invites the Soviet presence in the region instead of keeping them aloof.

Average Western European opinion holds that the most efficient East-West policy is to permit the Mediterranean less-developed countries to remain non-aligned. Their non-alignment will be the basis of fruitful co-operation to sustain their development. This development, as the result of successful economic co-operation, will in turn convince the Mediterranean countries to prevent the Soviets from exerting a significant political influence in the region. In this sense the inter-regional economic co-operation is a factor of the European East-West policy. Nevertheless it remains true that this European policy is respectful of the Mediterranean less-developed countries' political options and that European' North-South Mediterranean co-operation is not a mere instrument of their East-West security policies.

The principle of maintaining a stable and positive attitude in favour of the economic co-operation to the Mediterranean less-developed countries, irrespective of their international alignment in also important, for it is intended to avoid their shifting along the East-West co-ordinate as a consequence of their needs along the North-South co-ordinate. Even though the Western countries may feel that such shifting will be no more successful than in the past, in East-West terms these shiftings will create further obstacles to development. These developmental delays will have an adverse effect on political regional stability and hence on the ability of the regional countries to become independent from the Soviet Union irrespective of Western pressures.

In conclusion, economic inter-regional co-operation in the Mediterranean is affected by the East-West dimension in several ways. First, the two Superpowers keep on involving individual countries in their rivalries and on linking economic assistance to the East-West dimension. Consequently, the Mediterranean less-developed countries may feel forced to accept the strong East-West option in order to get the assistance they need. This pattern is harmful to the strengthening of development and co-operation in the area. It makes the North-South dimension instrumental to the East-West conflict. At the same time it diverts the economic options of the countries concerned from its natural geo-political setting. Economic inter-regional co-operation is therefore hindered by the East-West dimension interference. Secondly, the Mediterranean inter-regional co-operation is seen by the Western European party as a long-term factor for its security in the East-West conflict, while the non-European parties' opinion on the same point is sharply divided. Some Mediterranean less-developed countries are members of the inter-regional co-operation also for security reasons. Others are only interested in the economic aspect of such a co-operation. In any case, the Western European concept of the Mediterranean inter-regional co-operation stresses the autonomy of the North-South factors and does not require any political alignment. For this reason several Mediterranean non-aligned countries accept it as a convenient and reasonable foundation for an economic inter-regional co-operation which to date has appeared mutually fruitful.

1.3 European Community, its enlargement and the Mediterranean

The inter-regional setting of the Mediterranean area is subject to continuing changes which might be playing a substantial role in the development of economic co-operation in the future. Among these changes the process of southern enlargement of the European Community has been often considered as a crucial one. The EC acquired its 10th member, Greece, on January 1, 1981. A request for admission to membership has been tabled by Portugal and Spain. Turkey has also expressed the intention of requesting admission, but it is unlikely that it will formally do so until political conditions become more favorable.

Even though the most acute consequences of these changes will primarily refer to trade relations, and capital and labour movements as well, one might logically expect that the perspectives of industrial development of the area will probably be modified consequently. As this paper specifically refers to the industrial dynamics of the Mediterranean area, it must be noticed the unclear nature of these changes as relates to non-candidate Mediterranean countries. There is a clear difference in the level of technological development and manpower training in the candidate countries vis-a-vis the non-candidate MCs, and exposts of the former group are already geared predominantly towards the EC, whereas exports of manufactured goods from the latter group are still a minor share of both their total exports and EC's imports (2).

(2) See M.D'Angelo (editor), "L'Italia e i paesi mediterranei in via di sviluppo: effetti dell'allargamento della CEE", Milano, 1981.

Inter-regional trade in manufactures could be positively boosted by the EC's enlargement, in favour on non-EC econo= mies, if comparative advantage and tariff policy enlarge the market perspectives of the latter.

But the influence of structural changes of this nature cannot be evaluated without any detailed analysis of the trade relations, and should be confronted with the political links and contrasts which dominate also bilateral relationships within the Mediterranean.

The present study over looks many of these aspects,which are beyond the limits of our analysis, in order to stick to the structural factors which in the future might more profoundly change the pattern of competitive potential in the Mediterranean. These factors are those which are triggering a continuing effort to spread industrialization processes in alla MCs and the establishment of a regional financial system among Arab countries (which could be the feeding vehicle of this effort).

1.4 Interregional relationships and economic cooperation

All the institutional, political and economic factors which depict the complex relations within the Mediterranean area are here considered as the general framework from which are will start our analysis. The diverging nature of the social and economic realities of the MCs do not prevent the enforcement of a cooperating approach in dealing with their reciprocal relations. On the contrary, we can envisage a dynamic sequence of events which are potential factors in favour of closer cooperation within the area, with positive effects on development perspectives of all the countries. Such a sequence could be based on the economic ground as follows: the revalorization and the national reappropriation of oil has started a process of growing international interdependence by triggering new patterns of trade and financial flows all over the world and new processes of industrialization into both the oil exporting countries and the so-called newly industrialized countries. The financial and real aspects of this evolution are decoupled. Whereas the financial flows have tended to increase interdependence at a world wide level, interdependence related to the real aspects of trade, industrial development, etc., has largely grown accross the Mediterranean, especially between the Arab and the Western European countries. This enhanced inter-regional interdependence has given way to both dangers of conflicts and opportunities for cooperation. To lessen conflicts and catch opportunities within the inter-regional frame, a significant progress in the respective regional integrative processes is needed. Were the Mediterranean countries to fail in accelerating their respective processes of integration, inter-regional relations would never manage to overcome present conflicts and to evolve a smooth and fruitful economic cooperation. In particular, one has to bear in mind that a factor of Arab integration is at the same time a factor of Arab economic development and a factor which is supposed to allow the European Community and the other West European countries to evolve interdependence into sound international specialization and integration. The key to thz working of this virtuous circle is then the deepening of Arab integration.

In the following chapters, in order to test such a sequence, we will discuss the Mediterranean industrial growth and the financial Arab integration.

Chapter II
"INDUSTRIAL DYNAMICS IN THE MEDITERRANEAN"

2.1 Industrial development: a common aim?

Intensification of industrial development is a priority policy among all Mediterranean countries (MCs). Naturally, data about the economic structure of each country shows that this common objective is backed up by varying realities. It is clear that the problem of industrial development in France and Italy, where secondary industry accounts for more than 30% of GDP, is quite different from other countries where (leaving out activities directly connected to utilisation of oil resource) that percentage crops off to less than 20% and is often much below that figure.

Apart from the "oil" variable, the first distinction which should be made concerning industrialisation in developing MCs is the size of the domestic market. For smaller nations, ad industrial system which is not geared to export is unthinkable, and except for a few rare occasions this also holds true for medium-sized system (between five and twenty million inhabitants). The situation can be different in more populated countries where economies of scale in individual manufacturing branches could make industrialisation geared for local markets feasible, even though, as we will see later, similar policies have created problems in the past for countries like Egypt and Turkey.

The importance of the oil sector for industrial growth is not uniform in all Mediterranean oil exporting countries. Tunisia, for example, considered an oil exporting country, can certainly not base its economic development on its oil reserves, even if the oil sector's contribution in the recent past has been considerable. We therefore recommend not to consider the Mediterranean area as a "homogeneous region", but rather as the sum of a number of diversified industrial realities, better described as an interregional area.

The dynamics of industrial development in the last twenty years has caused much tension in the industrial structures of the more developed countries and a slowdown in their economic growth rate, with respect to that of newly industrialising countries (especially in Latin America and even more so in South-East Asia), is indicative of the complex situation of mature economies. Growing competition by NICs in certain productive branches is trying for some traditional manufacturing sectors of industrialised countries, forcing them to continually change their production structure or to defend it by protectionist policies. At the same time, price rises in certain basic input, such as energy, mechanisms exerting upward pressure on salaries, high inflation, credit controlling policies, high interest rates and dim prospects of accelerated growth in aggregated demand on an international level are all factors which have a dampening effect on these countries' investments, thus further slowing down their growth.

For these countries, then, industrial development is a priority objective of economic policy not aimed at creating an industrial structure "ex novo", but rather at establishing the conditions necessary for more rapid growth of demand without the "inflationistic" while introducing technological and organizational innovations to overcome structural and dynamic difficulties.

Inasmuch as their process of integration with other industrialised countries goes on, similar industrial policy problems are arising in newly industrialised Mediterranean countries, too. As the favourable conditions which once existed (low labour costs as well as aggressive trade policies) rapidly disappear as a result of a levelling off of salaries or the saturation of penetration possibilities on high consumption markets (thus achieving a dynamic balance in maintaining shares of markets), the same problems of inadequate growth of overall demand crop up as well as those of competitiveness on international markets, continually threatened by changes in structure and production costs.

For the remaining MCs, however, the Key problem is a matter of creating new industrial production capacity, even though some of them already have a thriving manufacturing industry, despite various types of drawbacks. Except for Egypt, Turkey, and Iran, 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 Mediterranean less developed countries (including oil exporters) is generally very low undoubtedly lower than the average for the Third World overall and stops at the first levels of manufactures, producing essential consumer goods for the local market (import substitution), 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), highly labour-intensive, operating on a modest productive scale and frequently run in artisanal units (1). Local production of capital goods required to meet demand of consumer-goods industries is generally absent.

Were we are particularly interested in this study are the consequences and conflicts inherent in the gradual changes in the economic systems of the different groups of MCs, starting with changes taking place in the industrial activity of the less developed ones. What policies are the forces operating in this last group of countries implementing to accelerate industrial development? What kind of production structure are they aiming at? Are the different kinds of "national" changes compatible with the previous order of industrial specialisation?

The existence of industrial policies in all Mediterranean developing countries leads one to believe that their economies intend to strive for a <u>common aim</u> with the substantial support of public and private cooperation from industrialised economies. But what is the ultimate objective behind

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(1) See L. Lang, "Middle East Industrialization: Some recent and anticipated trends", in <u>Development</u> and Peace, vol.2, No.2, Autumn 1981, pp.180-82

this intensification of industrialization policies?

Industrialization is often meant in different ways by MCs, as a mere means for economic growth, (for oil economies) as a process to diversify production and exports, as a means of redristibuting value added from old industrial economies to primary ones as a way to gain international political power or prestige (i.e. real independence, as compared to formal independence), as a step in the modernisation of social behaviour, as the most important means of creating employment.

Perhaps over-simplifying a bit, we feel that the fundamental reasons for the industrialisation policy in most MCs can be traced back to two positions:

a) for scarsely populated countries with oil resources, the long-run need to diversify the economy;
b) for largely populated countries, the need to create employment.

Above and beyond these two basic positions, industrialisation often risks becoming a value in itself, not necessarily related to the greater welfare of social community, which has a potentially high social cost, if it is not supported by a thorough analysis of the industrial structure, its efficiency and its international position.

We therefore strongly suggest that industrialisation were not the only road to economic development in MCs, but rather one of the sectors (even if one of the most important) in which balanced and diversified planning can have an impact, taking into account the crucial importance of agriculture as well as the high potential in services offered by MCs' geographical position with respect to other geographical regions.

2.2 Dynamic factors for industrialization

a) The over-all picture

The main thrust behind industrialisation in every Mediterranean country has a "political" and domestic base in that industrial development is an objective uniting individual national communities. This objective will bring together not only "domestic" but also "foreign" forces, i.e. the action of multilateral and bilateral cooperation agencies, as well as contributions from the international business world. However, we feel that this inclination towards industrialisation is "endogenous" in the area (as compared to other cases where external factors have played a prominent role).

This thrust is transformed into an <u>industrialisation demand</u> upon which individual industrial policies are then set up (2).

But a political pressure in favour of industrialisation is not a sufficient condition to turn intentions into facts, if other conditions are not simultaneously satisfied as for actual space for a change in industrial specialisation of MCs, the existence of adequate policy management as well as capacity to finance the new industrialisation processes, access to modern technology, availability of qualified manpower and sustained demand for industrial products.

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(2) This internal drive in MCs has led to talk of the risk of "wild-cat" industrialisation.
See C. Auari "Sviluppo e industrializzazione", in "Europa Mediterraneo: quale cooperazione" (edited by A.Zevi),IAI, Il Mulino, 1975, pp.75-76.

These processes of industrialisation have not arisen only in recent years. There are some old industrialised countries and some countries where industrialisation dates back to the thirties, even if its economic and social impact is small. And then, there are others which have only recently begun industrialisation. But even in those countries which already have a rather considerable industrial infrastructure, there are new problems today which merit reconsideration of the role of industrial development.

The main factor in the Mediterranean causing changes in the sectoral dynamics of the international division of industry is oil. Besides causing a concentration of purchasing power in several developing countries in the 70s, the energy factor has also created the logical pre-conditions for making reorganisation of some existing industrial specialisations feasible. Potentially therefore, one might conceive of a space for new producers in the Mediterranean area necessitating reconversion of industrialised economies in order to be consistent with energy-based industrialisation of less industrially developed MCs.
In the past, 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 fostering any industrializing process based on oil, as the comparative advantage of oil extraction over all other sorts of industrial investment was such as to inhibit diversification policies.
But changes in the owneship first, and the sudden redistribution of income produced in the seventies by the higher prices of oil stimulated new interest in industrialization of develop-

ing MCs. And this interest involves out only oil MCs, but also other emerging nations as a part of the ongoing evolution of world industry.

But this process requires that investment decisions will be made on that line, and adequate financing will be available. In our opinion, financing does not represent a real long-term constraint to industrialisation in most MCs (not only in those which directly benefit from ever growing oil revenues, but also in many others). Through growing infra-regional financial intermediations, access to international financial sources, as well as to tipically regional sources (e.g. Arab banks), industrial investment projects in the area can be easily supported. This growing financial intermediation creates a disseminating effect in the purchasing power of some MCs, (especially Arab countries) other than OAPEC ones. Real constraints seem to be axerting more direct influence in the industrial development of the area: the entrepreneurial and manpower resources among them, represent a Key element for greater manufacturing activity.

As for the entrepreneurial capacities, the dominant role of public enterprise in implementing industrial policy must be emphasized in the majority of MCs. The space for local private enterprise, especially in the development of small and medium sized industry has been often underestimated. Both constitute "endogenous" forces in MCs and are not a consequence of foreign interference.

This does not mean that foreign (or multi-national) enterprise does not have a specific role to play. In fact, transnationals' technological contribution (and their capacity for trade absorption) cannot be ignored. But it remains a contribution which is generally supplied in answer to "endogenous demand", requesting the outside help of long-time industrialised countries. The spread of industrial technology due to the delocalization of labour intensive processes to countries with low labour costs, which was behind the industrialisation of many NICs, cannot be expected with respect to MCs (there are a few exceptions).

As for manpower resources, MCs are very heterogeneous, some with manpower surpluses (thus supplying structural flow of emigration towards the North and other countries in the area); others with a marked lack of native population calling for immigration to maintain an accelerated growth rate. This causes a close dependency between industrialisation processes feasible in MCs and the dynamics of international manpower movements involving the Mediterranean area.

In short, <u>the main driving forces behind industrial development in MCs seem to be "endogenous" based on oil market dynamics and an aspiration for economic progress as expressed by governmental policies: entrepreneurial capacities and manpower skills will be the main constraints and sources this development, whereas its financing will be favoured by the growing financial intermediation of regionally based institutions</u>.

b) Energy: the critical factor in Mediterranean industrial development.

One of the Mediterranean area's distinctive features is the simultaneous presence of countries with large energy sources (oil and natural gas) and countries almost entirely lacking those resources, as well as a number of intermediate situations.

We feel that the availability of energy sources is a fundamental factor in the development of countries in the area, as it is in other regions in the world.

While during post-war development we were accustomed to thinking of oil supply as being determined by demand, in turn dependent on the rate of industrial growth (3), with multinational oil companies producing (extracting) all the crude oil which could be absorbed by the market, as of 1974 this ten-

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(3) To tell the truth, the idea of considering industrial growth independently of energy availability sprang up during the boom of oil as an energy source. Before that, both when fossil fuels (coal, for example) or hydroelectric power were used, the scarcity of the energy resources and the high cost of transportation were considered restraints. The large scale use of an easily transported energy resource, apparently abundant and cheap, like oil, determined the breaking away from this restraint. Thus industry could spring up even where there were no energy resources. (It is no coincidence, in fact, that for many years multinational industrial investments in manufacturing followed the lines of large consumer concentrations, rather than the proximity of energy supplies).

dency is reversed. Oil availability takes on restaints dictat ed by the market policies of oil-producing countries (which in the meantime have replaced multinationals in establishing policies regarding use of those resources) and their policies concerning conservation of these resources which have been proved to be easily depleted.

The critical nature of this restraint for industrial development of OECD countries (in particular in Europe) is showed by existing projections of oil supply and demand for consumer and producer areas for the next 20 years (see table 1). The gap between supply and demand for Europe (and a little less in North America) requires a considerable increase by oil-producing countries. Europe and the Middle East have diametrically opposed positions.

The effect of all of this on industrialisation in the Mediterranean area is on our view immediate: we therefore claim that while energy restaints limit the industrial growth of Mediterranean countries without oil and European countries in general (43% of energy consumption in European OECD countries is derived from industry), they are the basis of the industrialisation of oil MCs because of the availability of an indispensable input for much industrial activity (creating a comparative advantage over countries lacking similar energy resources) and because of the introduction of a surplus financing mechanism producing an unexpected supplementary purchasing power.

In particular, in OAPEC countries, oil or natural gas processing or other high-energy consuming activities (such as metallurgical and cement industries) could take on an all-important role while the industrial development possibilities of other countries depend on their capability of finding low cost energy sources (both oil and other) as well as their capability of concentrating on low-energy consuming production activities.

The fundamental idea of this strategy is that of laying the basis of diversification of production both for the domestix and, at least in prospect, for export, away from the single-product oil economy. In many of those countries two particularly rigorous (shortage of labour and shortage of arable farm land) 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) (4).

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 (5), to under-

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(4) See, among others, R. Hablützel, "Issues in Economic Diversification for the Oil-Rich Countries" in Finance & Development, June, 1981, p.11.

(5) See A. Aluasrawi, "The OPEC and the Strategy of Export-substituting Industrialization", in OPEC Review, April 1978.

score the fact that at least in the long term these new specialties should open up new industrial export capacities other than oil sales.

This perspective, explains (the "downstream" industrialisation) policies under way in some MCs involving oil refining (see Table 2), and petrol chemistry, as well as their interest in high-energy consuming industries (steel,aluminium, cement). Although many of these industrial activities are still in their initial stages in OAPEC countries, prospects seem to be favourable.

A general idea of the proportions of this industrialisation effort can be gleaned from Table 3, showing projections of investment projects in OAPEC countries in the energy consuming sectors.

That this diversification strategy is 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.

On the other hand the discontinuity of energy supply and the inflationary effects caused by oil price rises in addition to the other pressures on prices in the last twenty years have brought about adjustments in industrial economies aimed at substituting oil with other energy sources and introducing energy savings measures; on the other hand anti-inflationary policies in recent years sybstantially depressed their aggregate demand, resulting in an indirect reduction of demand for energy by industrial countries.

Supposing that oil prices undergo a 54% increase in the eighties, negative repercussions on production in major industrialised countries have been estimate (6) to bring the annual development rate to somewhere between 1.7 and 4%, with a 2.3% average for the entire group which includes the United States, Japan, Western Germany, France, Great Britain and Italy. Negative repercussions are also predictable for world trade, which should have an annual growth rate of only 3.2% as well as a 1.6% slowdown annually of oil exports from OAPEC countries to industrialised countries. Thus, the adjustment of industrialised economies to oil price rises would cause repercussions not only on oil-producing countries (export of refined products would increase by only 4% annually in answer to OECD countries' adjustment) but particularly on non-oil producing developing countries.

If these projections have any heuristic value, we can conclude that the transformations brought on by the oil crises will result not only in changes in relative advantages in favour of oil producing countries, but that these effects are likely to spread in all directions, with a depressing effect on international raw material markets.

As a consequence contrasting pressure will be put on the localisation processes of new industrial activities, both in the more industrialised Mediterranean countries and in oil-producing countries: the relative force of these phenomena

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(6) See ENI, "Development through cooperation - The Interdependence Model", 1981.

(oil price fluctuations, adjustment policies) will define the international change in comparative advantages in relation to the "energy" factor. The new downstream activities are all part of a highly capital-intensive development, with substantial employment of highly skilled labor, and requiring major Research & Development activity. This in turn exerts pressure for a greater progress in technical training activities.

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 unbalancedcapital-intensive industrialization.

What will happen to industrialising Mediterranean countries lacking oil resources? In such a case, the "energy" factor will not have a univocal role; it will depend on the vulnerability of the economic system to oil price rises, on the prevailing industrial pattern, as well as the indirect financial effects connected with oil matters.

Wherever the system is only slightly industrialised, immediate negative effects will be proportionally less as compared to an industrialised economy, whose industrial energy requirements are much greater. But the problem is not quite that simple. First, the kind of energy consumption must be calculated given a certain path of growth rate, and the alternative sources available to individual systems.

Secondly, the incidence of a worsening of balance of payments due to oil price varies in the short-term, as do predictable repercussions on the entire economy. A typical example is Turkey, which was unable to survive the first energy crisis without increasing foreign debt considerably, thus causing brankruptcy at the end of the seventies.

The sectorial composition of industry in developing Mediterranean countries' is another decisive fact in determining the possible reaction of the production apparatus to energy price rises (each sector has different energy intensity).

In some cases, the possibility of counterbalancing oil price rises with a more dynamic export flow in new sectors or by direct access to financial flows of a compensatory nature, such as those being established among Arab countries can put the phenomenon into a new perspective. Thus, it is possible that in the future non-oil producing developing countries in the Mediterranean region will not be particularly affected by oil price rises, especially if they continue to enjoy the boost offered by Arab financing. But, we do not feel that such general statements can lead to categorical conclusions about the long-term trends of these countries. The problem will be touched on again while analysing the specific dynamics of the industrial structures of Mediterranean countries.

c) <u>The role of the state in the process of industrialisation.</u>

It is often claimed that the State plays a specific role strengthening industrial growth of MCs. Of course, there are considerable differences on a political-institutional level and from a philosophical point of view, among the Mediterranean nations with regard to the state's role in economy. Nonetheless, it is clear that the government never merely implements the traditional instruments economic policies (fiscal, monetary and trade policies) but has much a broader direct involvement through "industrial policy" which, for less developed countries means "industrialisation policy".

A frequent characteristic of such great involvement by government is the taking on of an "entrepreneurial" role through public by-owned structures. Public concerns have sometimes replaced, but more often supplemented private enterprise, making the industrial situation in each country unique.

Of course, despite this characteristic, common to the entire Mediterranean region, there are concrete differences in the government role as the central force in industrial development from one country to another. These differences are, for the most part, tied to differences in the way in which the government came into the management of industrial activity.

In the oldest industrialised countries, and generally all European MCs, industrial activity originated in private enterprise, which carried, and still carries, out the primary role in promoting economic growth: this is why the public sector can never be considered there as the exclusive axis of industrial policy, unless closely linked to private enterprise. In that case, industrial policy is the result of the interaction of the policy trends of both types of industrial firms. Nevertheless the existance of "state industry" is anything but negligible.

For many Mediterranean developing countries "demand for industrialisation" is usually met by the state which translates it into an industrial development policy converging a number of elements: trade policy (protectionism, export promotion), employment policy (think of Egypt's example), creation of cadres (management, intermediate and workers), infrastructure policy (ports, roads, telecommunications, social services), foreign industrial cooperation policy (foreign investment and purchase of "turn-Key" plants) support of public demand for industrial goods, as well as a decisive role. of public entreprise.

Naturally, this takes on particular importance in centrally-plannes or so-called socialist nations, such as Algeria, Libya , Syria and Iraq. It is interesting to note the problems of coexistence of private and public enterprise in those countries, with the latter concentrated in a few particularly "capital intensive" sectors and the former often dating back to before the foundation of the socialist state, but no less important for the national economy.

But even countries with a well-developed mixed industrial infrastructure, often have a strong public sector; this is the case in Turkey and Egypt.

In Turkey, state participation began in the thirties to create a basis for industrial development. In 1979, 35.7% of employment in the manufacturing industry (producing 32% of output and 30% of value added) was covered by public enterprise. Its activity is extremely diversified in various sectors: 48.2% of food, beverages and tobacco production; 14.5% of textiles; 35% of shoes; 29.4% of wood products; 26.9% of furniture; 68.9% of paper, 42.3% of basic chemical production; 100% of refining; 19.5% of ceramics; 41.2% of metallurgy; 24% of the metal-working industry and so on. These percentages refer to 1976.

Public enterprise is no less important in Egypt where it represents 69.1% of the manufacturing industry; 26.6% of the oil industry; 100% of the electrical industry and 70.2% of construction.

The fact that state entrepreneurial activity is not linked to any specific development philosophy is proved by the fact that the percentage of public investments is often high regardless of the type of social system. In Middle Eastern Arab states (excluding Lebanon), it is estimated that 60 to 80% of manufacturing activity is in the hands of the state (the percentage seems to be higher in "Liberal" Jordan than it is in "socialist" Syria) (7).

In Tunisia, for example, a country very open to private enterprise, of the 856 million dinars earmarked for investment for formation of capital in 1979, 407.6 million were from public or mixed enterprise, 175.3 million from private

(7) See M. Chatelus "A propos du development industrial au Moyen-Orient" Maghreb-Machrek, no.92, Avril-Juin 1981, p.70.

enterprise and 140.1 million from the state itself.

Therefore, we can conclude that in MCs, public enterprise (latu sensu) can constitute a key structural characteristic in the industrial development process: both when taken as a substitute (more or less temporary) of non-operating areas of the private sector, or as a concrete instrument for capital accumulation (as in centrally-planned economies). It is clear that the type of industrial structure characterizing MCs at the end of the year 2000 will depend to a great extent on the kind of industrial policy carried out by public enterprise.

In recent years the disadvantages of the public enterprise system characterising all MCs have given rise to much controversy: generally, the government cannot manage a productive activity along strictly "efficient" lines, but brings in political elements. In Mediterranean economies, in particular, public enterprise has not been only an instrument for capital accumulation but also an instrument for the yielding of power and as such, it is prone to being used as a means for ensuring social consensus to the government. In some countries (Italy, Egypt and Turkey, for example) this has created a special use as an instrument for employment growth. In general, public enterprise may also play a "redistributive" role which is, in itself, a source of inefficiency in plant management.

Nonetheless, public enterprise as a structural feature of MCs' economies is not, to a very great degree, replaceable by private enterprise, especially in technology or capital-intensive productions. We therefore suggest that a correct analysis of public enterprise in industry should not lead to an unavoidable contrast with the private sector. The latter being operating quite independently or complementarily in productive sectors quite different from those in which public enterprise is concentrated.

However we recommend to pay a particular attention to a number of basic problems (above and beyond plant efficiency) regarding the role carried out by public enterprise in MCs: a concentration of public investments in basic industries could lead to production surpluses in many sectors already marked by saturation, given the slowdown in world economy; the strongly "nationalistic" view often characterising public enterprise cannot but aggravate this risk creating a premise for trade conflicts which could add to conflicts already present on the crude oil market with an explosive effect. This element of contrast should be taken into account in looking for alternative solutions favouring cooperation among countries in the area.

d) Small scale industrial firms: a driving or braking force?

Speaking of industrialisation in the Mediterranean, one often hears critical comments about the role of small-scale private enterprises in less developed MCs. Operating only in the more traditional low technology sectors (often still cottage industries), small-scale industrial firms, they say, are more oriented by mercantilism and speculation, and thus by short-term prospects and do not possess the management capability needed to adequately develop that section of industrial activity known as "light" industry and then cannot complement public enterprise which generally operates in the "heavy" industry section. Some feel this theory is borne out by the marginal role played by Mediterranean industry's "traditional" sectors (before the OAPEC's "income explosion" in the seventies their low investment dynamics, their limited exporting capacity their technological and organisational drawback as well as the lack of coordination with the public sector (8).

The low "industrialising" power of small-scale industrial firms is the reason, they say, for the little interest shown in the past by many countries' industrial policy for strengthening small-scale private industrial firms.

But not everyone agrees on this theory in Italy, the dynamic role of small-scale industrial firms has often been pointed out, contrasting the drawbacks of large-scale industrial investment in the depressed areas with the advantages of a much broader system of small and medium-sized industrial firms in some Adriatic regions of the Italian peninsula.

In brief, the "Adriatic model" (9) consists of an industrial structure composed of a large variety of small,dynamic

(8) See L. Lang, op.cit., p.197.
(9) See Censis, "XIII Rapporto sulla Situazione Sociale del Paese",Rome,1979; V.Belloni, "Riflessioni sulle politiche industriali per la crescita della piccola impresa" in L'Industria, 1,1980; AA.VV., "Il Sistema Adriatico", PALMO,Bari, 1980.

manufacturing businesses, generally family run. The entrepreneurs can be of vastly different origin: farmers or merchants, craftsmen or workers returned from abroad (from more developed countries) where they have acquired greater technical skills (as well as the capacity for financing the initial stages).

A fundamental characteristic of the "Adriatic model" is its remarkable flexibility as compared to the rigidity of large-scale industrial complexes. Flexibility and low urbanisation costs (they can be developed in rural areas) are two positive aspects of small-scale industrial firms. In the Adriatic regions of Italy, they have proved suitable for both simple technology manufacturing sectors (clothing, furniture light mechanics) as well as some higher technology sectors, proving to be capable of expanding much more rapidly than large establishments. Higher productivity is often guaranteed by less trade union conflict and less absenteeism, though through tougher working conditions and less worker security.

Unfortunately lack of data does not allow us to see if the small-scale industrial system could be feasible in all MCs. We know that this kind of process is not present in the industrial economies of France and West Germany. However in Greece, a definite trend to reducing concentration in the manufacturing sector has been ascertained from 1963 to 1974 (10).

(10) See N. Perdikis "Concentration and Foreign Domination in the Greek Manufacturing Sector", in "The Mediterranean Challenge: IV The Tenth Member-Economic Aspects", Sussex European Papers, No.7 1980, pages 203 and following.

During the seventies, there as been growing interest in Yugo slavia for small-scale industrial activity, also in sectors of manufacture which are not centrally controlled and are headed by private enterprise (11).

Small-scale industrial firms definitely plays a dominant role in Israel. It is estimated that 90% of employment in some sectors (food, wood, shoes, clothing, furniture) in Middle Eastern countries is concentrated in small-scale industrial firms (12).

Nor is it possible to write off the role of small-scale productive units merely as a historical heritage. In Jordan, the number of estabilishments with less than ten workers (thus, very small) doubled from 2,410 in 1967 to 4,790 in 1977, with a relative increase in their absorption of industrial employment (from 45.7% to 53%) (13).

In Lebanone, manufacturing plants with less than ten workers numbered 7,147 in 1955 and 13,939 in 1971 (from 40.1% to 42.4% of industrial employment). In Iraq, their number rose from 31,733 in 1954 to 37,669 in 1976 (14).

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(11) See World Bank, "Yugoslavia: Small Scale Industry and Industrial policy", August 28, 1981.

(12) See G.P.Casadio; "The Economic Challenge of the Arabs", Saxon House Lexington Books, 1976, pp.116-7.

(13) Limiting our analysis, however, to industrial establishments with more than five employees, the number diminishes considerably, indicating the almost exclusively artisanal character of there Jordanian establishments.

(14) See S. Nasr, "Les travailleurs de l'industrie manufacturière au Machrek, Irak, Jordanie-Palestine, Liban, Syrie" in Maghreb-Machrek, no.92, avril-juin, 1981, p.9.

We find renewed interest in development of small and medium-sized industrial firms in the 1980-84 Algerian development plan, after the defeat of the "industrialist" trend which dominated former plans and in view of greater priority to light industries (textiles, food, construction materials) with respect to the exclusive attention previously given to basic sectors. Morocco's 1978-80 development plan gave priority to growth of small and medium-sized industrial firms in a country dominated by the dualism of huge enterprises (mainly publically owned) and very small artisanal establishments.

In Egypt, private industry initially played a decisive role, but was later suffocated by Nasser's "socialism", giving priority to the strengthening of the public sector, a dualism was then created between the private enterprise (in the more traditional manufacturing activity) and public enterprise (that was responsible for almost all modern industry). After 1973, the El-Infitah (opening) strategy of Sadat brought about the development of secondary industry as a result of cooperation of private and public enterprise. A continued increase of the share of private investments in building new industrial infrastructures can be expected in the 80s, and small-scale private industrial firms will be playing a particularly active role. A new industrial entrepreneurial class is emerging mostrly originated from medium-sized farming and commercial activity.

Analogously, the Saudi Fund for Industrial Development recently confirmed its policy of greater opening to growth of small-scale industrial activity (15).

In Turkey, in spite of the importance of the public sector private enterprise is behaving much more dynamicly, especially with regard to productivity.

The above discussion gives enough evidence that industrialisation in Mediterranean countries can be given a boost by the dynamism of small and medium-sized establishments (especially private).

Though the "Adriatic system" is part of a specific cultural and economic context, it is nevertheless based on structural characteristics which are not wholly lacking in other MCs. These characteristics are: the existence of a class of merchants and craftsmen historically formed by domestic as well as international trade, the existence of a flow of emigrants returning from technologically more advanced work experiences, the interest of many governments in assisting, not only financially, but also by means of technical assistance, the development of small and medium-sized industrial firms in various sectors of basic industry.

In conclusion, we would like to emphasize that we do not maintain that the future of industrialisation in the Mediterranean lies in small-scale industrial firms. An assertion of that kind would be both unrealistic and pretentious. But we do maintain that small enterprise in many Mediterranean countries does possess advantages which justify an important, though not unique, driving role in the

(15) See MEED, Saudi Arabia, special report, July 1981, p.97.

future of industrialisation in the area. These remarks mut be regarded with caution because of the high artisanal level still present in much small-scale firms in the Mediterranean with a degree of technological, commercial and organisational knowledge which does not justify hope of rapid transformation of archaic structures into modern establishments without adequate financial and technical assistance.

e) The contribution of multinational corporations

Can we distinguish a "heterodirect" policy of industrialisation (16) connected with direct investment by transnational enterprise, in the Mediterranean area?

If we take a look at the long-run evolution of international direct investment in the Mediterranean during the course of the seventies, we can state that these were definitely marginal (except for Spain) with respect to other areas of the world (17).

(16) For the distinction between "endogenous" and "heterodirect" policies, see G. Sacco "Industria e potere mondiale", F. Angeli, Milan, 1980, p.158 and following.

(17) See "L'Italia e i paesi mediterranei in via di sviluppo. Effetti dell'allargamento della CEE" (edited by M. D'Angelo), IAI - Dipartimento per Cooperazione allo sviluppo, F. Angeli, Milan, p.86 and following; R. Aliboni "Impieghi e investimenti internazionali nel Mediterraneo" and G. Luciani "La strategia delle imprese multinazionali nel Mediterraneo" both in "L'Industrializzazione del Mediterraneo: movimenti di manodopera e capitali", IAI, Rome, 1977.

In fact, "resource oriented" investments which dominated the oil sector in the Arab world reduced drastically during the last decade, due to considerable nationalisation on the part of oil-exporting countries. At the same time, typical multinational investments in the sixties and the seventies, generally of the "export-led" type, preferred other geographical regions (for example, South-east Asia, Latin America) rather than low cost labour countries in the Mediterranean. In the same way, "market-oriented" investments which substantially replace imports, were not made in the more depressed areas of the greater Mediterranean region, because of scarce local demand (it is no coincidence that this kind of investment has been directed towards countries with a higher level of welfare and thus, domestic consumption such as Italy, France, Spain and Yugoslavia).

But even if past figures do not give a very dynamic picture of direct investments in the Mediterranean area, we do recognize that new situations calling for greater attention to the role of multinational corporations in industrialisation in the area arose in the seventies.

In the first place, in the oil sector there have been signs of a definite return, albeit limited, of international oil companies to activity including recovery of old oil fields and exploration for new ones. The value of the contribution of such companies in this kind of activity is quite obvious (18). But even more important is the role of multinational enterprise in the processing of oil and natural gas, the so-called "downstream" industrialisation. Namely, we refer to refining and petrolchemistry, but we could also speak of downstream industrialisation of other natural resources (iron and phosphates, for example).

This "downstream" industrialisation is called for by government policies, but its implementation requires the assistance of foreign concerns with the technological and organizational "know-how", both through contracting arrangements (e.f. turn-key contracts) and the "joint-venture" (19).

Either way, transnational corporations become directly or indirectly (through the intermediation of contractors or consulting engineering firms) involved in this kind of industrial development. However this kind of industrial development is not the product of "heterodirect" policies managed by multinational corporations. Rather, it is the compulsory answer of transnational enterprise to a certain path to industrialisation plotted by Mediterranean (especially OAPEC) countries.

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(18) As for this "second cycle" of oil companies,see the records of M. Colitti's speech to the ENI seminar for OAPEC and Southern European countries held in Rome in April 1981, published in the second volume of "Development through Cooperation". Among the major oil companies operating in the area, there are Shell, Mobil, Exxon, Texaco and CFD.

(19) See M. D'Angelo, G. Sacco, G.S. Sandri, "La cooperazione industriale tra Italia e paesi in via di sviluppo", IAI - Dipartimento per la cooperazione allo sviluppo, Il Mulino, Bologna, 1979, p.16-19.

In fact, local Mediterranean governments did not hesitate to make participation of foreign companies in "downstream" industrialisation or in sectors which had nothing to do with processing of the raw materials concerned, a condition for assured supply of their energy resources.

Within the rational context of transnational enterprise, this exchange of direct investment in industry (often risky and of doubtful economic advantage) for oil supply imposes greater long-term considerations than those of short-term profitability usually entertained for investments in other countries (20).

As for "local market oriented" investments, which were slightly present in many MCs in the past the rapid growth of both population and per-capita income recorded in recent years is, suggesting an increasing tendency a especially for consumer goods. Geographic distribution of these investments will be influenced by both economic and political factors, while the size of the market and the degree of affluence can determine the location of the production unit. The

(20) See L. Turner and J. M. Bedore, "Middle East Industrialization. A Study of Saudi and Iranian Downstream Investments", Saxon House, 1979, p.57. It is interesting to note that unlike oil companies which more easily compensated "downstream" investment risks with clear returns in the oil sector, large chemical companies, were more hesitant to commit themselves, in this transfer of technology, even though they recently proved more oriented towards high research products, leaving certain basic petro-chemical products for new producer.

advantages of using major countries such as Turkey and Egypt as bases for export to other countries in the region are not to be overlooked. Hence, in perspective, we suggest that due to their past lack of importance and recent changes (the "income explosion") characterising the rapid economic and demographic growth of many MCs, market oriented investments can be more dynamic than other types of foreign investment.

As far as subcontracting of labour intensive processes through direct investments is concerned (in order to take advantage of lower labour costs), creating export flows towards the world market or the investing country, there are, some examples of this kind of investment, especially of European origin (Western Germany and Netherlands), although they are generally restricted to the textile and clothing sectors. Except for Tunisia (to a degree, Morocco) and more recently, Egypt, there are generally no domestic policies aimed at favouring the development of "export-led" investments of this kind based on the decentralisation of activity by foreign industry in MCs.

We therefore conclude that an industrialisation process induced from the outside through subcontracting is generally not possible in MCs while that type of investment will continue to favour Asia and Latin America with their more diversified industrial structure, more adequate infrastructures, more efficient bureaucracy, less political instability and most importantly, abundant manpower, greater productivity, minor salary costs, and high managerial ability at an intermediate level (21).

There will nevertheless be investments of this type in Tunisia, Morocco and Yugoslavia, and perhaps even Egypt if it reactivates the Suez Canal. Export-based investments are not unthinkable in Cyprus and Malta as well.

In conclusion, it is our opinion that the role of multinational enterprise in Mediterranean industrialization will probably be important for its technical contribution and beneficial effects in terms of the marketing of some products (22).

In any case, national industrialisation policies, local development institutions, government authorities or large local public enterprises, i.e. what we call "domestic demand for industrialisation", will establish the lines of industrial development in the area, while multinational corporations will only contribute technically and economically to its growth.

f) Manpower, emigration and industrialisation

Does the "labour" factor play any role in changing conditions which are favourable or unfavourable to industrial development in MCs, as has generally occurred throughout

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(21) Projections for MCs with the highest development rates fore see a rapid growth in salaries brought on by accelerated basic industrial growth (affecting salaries paid in other sectors).

(22) It is no coincidence that MCs are more and more frequently concerned with "product en main" formula, rather than "turn-key" contracts.

contemporary industrial history?

Undoubtedly, ties between the labour and industrial development are too close not to give a positive answer, but the meaning of those ties is neither simple nor one-way. National availability of "technical skills" and their adequancy with respect to industrial development rates and patterns are the result of a number of interacting problems. It is clear that the initiation of an "energy-oriented" industrialisation process such as might be outlined in particularly oil-rich MCs is mainly conditioned by the human factor. That explains why the MCs more determined in their industrial development policy are also the ones who are investing the most in vocational and professional training, at both an intermediate and superior level, to overcome the existing gap between availability and demand of technical skills as derived from the path to industrial development chosen.

Although the manpower "quality" aspect is important, the "quantity" aspect is just as decisive for the industrial development of an area. The Mediterranean region has always supplied migrational flows towards north-western and central Europe, as well as the Americas.

This does not mean that MCs can be considered merely as manpower suppliers, applying traditional ideas about development in a situation of unlimited labour supply. Although developing MCs are characterised by a high population growth rate, differences in demographic dinamics one of the typical features of the Mediterranean. While industrialised MCs have lower population growth rates, there are considerable differences also among developing MCs, in particular between countries which have a population growth rate that is high but proportional to their natural rate (births minus deaths) and countries which have an even higher rate due to international immigration (see Table 4).

Thus, there are two different migratory flows in the Mediterranean (23)

a) emigration to the north (in particular to central Europe),
b) emigration to same developing MCs (inter-Arab emigration).

With regard to the former, which historically mainly involved countries along the northern Mediterranean coast, it is evident that today, countries along the southern and eastern coasts are more active in providing a manpower reserve, whereas the more industrialised MCs, despite large unemployment rates, are decreasing their role as emigratory countries.

The migratory flow from the Mediterranean area helped European economic growth, especially in France, Germany, Switzerland, Netherlands and Belgium (Great Britain's situation is different, given her ties to the Commonwealth) (24), as it

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(23) Domestic flows are here omitted, even if they play as important role, through the deepening of urbanization as typically happens in all developing countries.

(24) See A. Bouhdiba, "I movimenti migratori arabi", in "Industrializzazione e integrazione nel mondo arabo" edited by R. Aliboni), IAI, Rome, 1978, p.139 and onward; J. Sassoon, "Movimenti di lavoro e capitale nel Mediterraneo" in "L'industrializzazione del Mediterraneo, ecc.", op.cit., p.73 and onwards, and the wealth of literature listed there.

represented a flexible element that allowied the industrial systems to expand without the restraint of limited labour.

Although the slowdown in, the growth rate of the industrialised economies of central Europe was produced a braking effect on migration from the South, it does not altogether eliminate demand for foreign labour, given the domestic demographic stagnation of those countries and the imperfect substitutability of immigrant and national workers (despite the high rates of unemployment).

Of course, demand for immigrant labour will only grow again if industrial systems overcome the recessional phase affecting the world economy since 1973. But supply will not decrease: many MCs still show a high rate of population growth leading to projections of even greater manpower reserves in the future which in many cases, despite optimistic predictions of growth rate for each MCs, will not be completely absorbed in the country of origin and will give rise to international migrational flows. This is particularly true for non-oil and populated countries such as Tunisia, Morocco, Egypt, Syria, Jordan, Lebanon, Turkey and, to a lesser degree, Spain and Yugoslavia.

Another aspect of international mobility of labour which is recently goining some relevance for the industrial process is the phenomenon of the return flow of emigrants from industrialised economies which is taking on serious proportions in some MCs. Although it produces a positive effect in currency terms for the country of origin, emigration strips local labour markets of its most dynamic elements, often with serious consequences to local development. Any cost-benefit analysis of emigration would have to take into account the immediate (certain) social cost given by the reduction in productive labour force with respect to future (uncertain) benefits of a possible return of qualified manpower (with greater production capacity than it had at the time of emigration). A simultaneous, but inverse, flow of benefits is produced by emigration through currency remittances, which are reduced in case of return migration.

But the most relevant factor of migration dynamics is the difference in the Mediterranean developing area between countries with excess active population and countries which cannot satisfy their own labour requirements.

Some Mediterranean oil-producing countries, in fact, despite their naturally high rate of population growth, are scarsely populated with respect to their rates of economic development which generate an acceleration of labour demand. They therefore become a pole of attraction for inter-Arab emigration this is especially true for Saudi Arabia, the Gulf states and Libya). The problem is altogether different for more populous oil-producing countries, such as Algeria and Egypt, which not only can fully satisfy their labour requirements, but also provide labour to other Arab and central European markets.

This inter-Arab mobility is not new in the history of the Islamic world but has taken on completely new aspects, inasmuch as it is now a function of the growth rate of individual economies and proportional to respective labour availability and their wage differentials.

In some MCs, labour supply limitation leads to the choice of capital intensive industrialisation, whereas in more populous countries, the situation in much more diversified.

What effect does inter-Arab emigration have on the development of labour-surplus countries ? Undoubtedly it represents an indirect means of redistributing the benefits derived from oil revenues ,extending them to the non-oil producing countries through the emigrants remittances. These flows may be potentially very useful to finance the establishment of new small-scale private industrial firms in these countries. However, emigration has its usual costs for the manpower supplying country: seems to be particularly serious in inter-Arab emigration, even more so than in migrations to central Europe (25).

Inter-Arab emigration, remarkable population growth, and industrialisation pattern which favours large-scale industrial

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(25) See G. Pennisi, "Development Manpower and Migration in the Red Sea Region", to be published by the Deutsches Orient Institut, Hamburg.

plants accentuate a problem already dominant in many Mediterranean, especially Arab, countries today: over-urbanisation. Estimates show that the present urban growth rate in the Middle East is due for two-thirds to the emigration phenomenon and for one-third to natural growth (26).

Lastly, inter-Arab emigration brings about substantial changes in the active domestic populations of MCs, reflected in the high number of foreign worrkers as compared to national workers, the fragmentation of the labour market and social and political problems whose importance for the stability of the economic and social development process must be taken into account.

(26) See A. Bourgey, "L'Urbanisation au Moyan-Orient arabe, in Maghreb-Machrek, no. 81, juillet-septembre 1978, p.29 and following. Naturally urbanisation is fuelled above all by domestic emigration (abandonment of rural areas), which is given a further boost by industrialisation, especially when it so extremely differs from agricultural activity.

2.3. Industrial Development and Foreign Trade: Some Reflections

Between 1966 and 1979, intra-Mediterranean trade grew perceptibly as a share of total world trade, but the size and dynamics of trade among the various groups of MCs vary greatly (27). For while it seems that trade among the European MCs is substantial and growing (in comparison with trade with the entire world), trade among Arab MCs is virtually negligible (at least relatively), and it actually shows a tendency to decrease. As to trade between European and Arab MCs, Papayannakis estimates a drop in both reciprocal imports (from 39.7% to 35.1%) and exports (from 39.3% to 36.4%).

Clearly, each group of MCs establishes privileged trading relations not so much with the Mediterranean region as with the industrializied countries is general (and first among these, with the European Community). This applies to the MCs of the North shore as to those of the South-shore.

Despite the substantial size of inter-regional trade between the European Community and the Arab world, this interchange is based on a clear and distinct sub-division of tasks.

As for agricultural trade major flows are not among countries of the Mediterranean region as shey are supplying the same agricultural commodities, i. e. the typical Mediterranean

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(27) See M. Papayannakis, " Relations économiques intra-méditerranéennes", in Expertise NO. 8 PLAN BLEU.

food products, especially to continental Europe. Thus in this "export-oriented" agriculture it is hard to locate potential complementary elements among Mediterranean-shore countries, except for some particular sub-sectors, or some coordination in the annual schedule of harvests.

Heterogeneity mostly refers to non-agricultural trade: the developing MCs have substantial balance-of-trade deficit in non-agricultural goods, which is counterbalanced by the oil exports only in the OAPEC countries (and not always), whereas for the European MCs , exports of manufactures play a decisive role.

Obviously, for some of the developing MCs oil exports are preponderant, and for others exports of other mineral products play a role of some impotance.

The changes in the export structure of the MCs from 1960 to 1978 (su Table 5) show the increased share of petroleum-products sales by oil exporters, an increase in the share of textiles and clothing in Greece, Portugal, Morocco, Tunisia, Egypt, Jordan, and Turkey, a corresponding decrease in the same sectors in France and Italy, with a substantial rise in the share of export earnings generated by engineering products. Gains in the export share of machinery products are still modest in many developing MCs.

More recent evolutions of export patterns (in value terms) for some MCs, both European and non - European, for selected manufactured products, do give rise to interesting considera tions as to the effective incidence of ongoing industrializa-tion policies in the dynamics of the international division of industrial labour.

The developing MCs' exports of machinery and transportation equipment are modest, though in some countries the percentage growth rates over the 1976-1980 period are very high. Such exports increased ten-fold in Libya, for instan-ce, seven-fold in Morocco, and six-fold in Tunisia.

As for exports of more traditional manufactures by the developing MCs, the situation is as follows: for textiles in general, the most active exporters are Turkey, Morocco, Tu-nisia and Egypt, as well as the European MCs. Yet the recent sales trend is not positive. Indeed, there is an actual drop in the value of textiles exports, especially marked in Egypt but present in all the other countries as well. For shoes, exports are at a significant level only for Morocco and Tuni-sia (with a fairly dynamic upward trend). And in any case ex-ports here are not such as to alter the overall trade structure of this industry, in which other suppliers account for the vast majority of output. The European MCs have the edge over the rest of the Mediterranean here, though Europe may suffer the effects of competition from other developing countries.

<u>Thus, our conclusion is that for the traditional manufacturing industries, and for all those products that supposedly reflect a diversified industrial structure, the effect of industrialization policies on international trade patterns has been modest indeed</u>. The principal protagonists here ha-

ve been Morocco and Tunisia. The situation in Egypt immediately emerges as complex, with contradictory trends, while Turkish industry shows scanty dynamism on international markets, despite the importance of manufacturing for the Turkish economy.

Now, however, let us turn to the industries more directly involved in the dynamic pointed up in Section 2.2, whose primary foundation is the energy factor. We have selected three industries as amply representative: chemicals, steel,and fertilizers.

From 1976 to 1980, Tunisia more than doubled its sales of chemical products abroad. Algeria's progress, by contrast, appears modest, though the country is in a growth phase. Both Libya and Morocco show substantial growth, while Egypt and Turkey appear in serious crisis. On the whole, in any case, the developing MCs' share in the branch has begun to be worthy of note, modest though it is with respect to the chemicals exports of other countries of the Mediterranean region. Comparing chemicals export sales in 1980 for the main industrial and developing countries directly or indirectly converging on the Mediterranean (see Table 6), the developing MCs' share is certainly to be deemed minimal. Nevertheless, in absolute terms it is still substantial. Individual countries show dynamic growth in this branch, and the factors noted earlier point to the possibility of a rise in developing MCs' export sales, which inevitably will mean direct competition with the industrial countries' exports, at least in certain particular branches of the petrochemical industry.

Among chemical products, manufactured fertilizers are rapidly expanding in some MCs (first and foremost Tunisia), associated with traditional export activity in the field of unprocessed fertilizers, but they are still at extremely modest levels in comparison with the overall world exports of processed fertilizers.

A similar pattern is to be observed in steel, to which certain developing Mediterranean countries are dedicating substantial investment. There is dynamic growth in iron and steel exports only in Egypt and Turkey of the Mediterranean shoreline countries. Exports plunged dramatically in Algeria, while in the rest of the Mediterranean region's emerging economies they are practically negligible.

In conclusion, it appears that the dynamic factors discussed in Section 2.2. have not yet managed to produce modification of the international division of industrial labour. The "first-comers" to industrialization still have the predominant role. But the examples of the chemical industry and of synthetic fertilizers manufacture do show the trend (not yet fully realized) toward penetration of international markets by those MCs that are investing in these industries. Can the structure of international trade in these products remain unchanged once the emerging countries actually consolidate their industrial activity in these new realms of manufacturing?

2.4. Export-led or Local-market-oriented Industrialization?

The industrial strategies devised by Mediterranean countries are highly complex, not always lending them to straightforward interpretation. The very diversity of economic situations to be found in the region rules out the application of a single model in all cases. In Section 2.2 we assumed as logically defined an energy-based industrialization for Mediterranean oil-producers, whose ultimate goal should be to diversify the export industries, moving away from dependence on oil alone. This is a hypothesis for export-led industrialization and its implementation would require adjustment of the productive structure of the industrial nations of the European continent as well. As for the new refinery locations in the producer countries, their comparative advantages consist essentially of reliability of supplies, the possibilities of using more energy-intensive technologies while improving the quality of the product, the lower cost of transportation, whereas disadvantages include higher investment and operating costs that are incurred in the developing MCs. Changes in the transportation systems of both oil and gas will probably effect the balance between advantages and drawback. As for petrochemical products decentralization in oil MCs is not a one-way process: even though the availability of raw materials and financial resources are favorable factors for decentralization, higher costs of production and potential difficulties in international marketing have a negative influence. Entry of oil producers into the petrochemical field is often limited to the earlier stages of production, i.e.

basic processing, leaving forther downstream processing (highly demanding in terms of technological capability) to industrialized economies.

The energy-based pattern is not the only available hypothesis for industrialization, though, even if it is the only conceivable one for the oil-producing lands of smallest population. In countries with larger population, different industrial strategies could be invoked. In this context, Tunisia offers a good example of a different sort of export-led strategy, not based on natural-resource exploitation. Though Tunisia has phosphates and oil resources its industrial strategy is based on its reserves of "labour", available at low cost, seeking for relocation of certain labour-intensive productive processes, especially with participation of foreign firms (first of all German, then Dutch). This strategy has created privileged "islands" of production for export, but the geographical concentration of the markets for these exports (primarily textiles and apparel) on the countries of origin of the investment makes this development pattern. We be labelled as "dependent integration". This type of industrial development has been found in Morocco as well.

We cannot rule out the possibility of applying this model to other industries (such as small household appliances) or extending it to other MCs (Cyprus, Malta, for instance). But the chances of achieving really large-scale industrialization along these lines are very slim, as the comparative advantage of other developing countries (the NICs) is greater, there is limited room for international market penetration in most of these sectors, their limited value-added, will not allow for high profit (unless the scale of production is truly large), and the required labour intensiveness (rather high) does not fit to scantly populated MCs.

The two strategies examined so far have been set forth in terms of pure "export promotion". There is reason to believe, however, that the industrialization models actually adopted in the more populous MCs are not strictly and entirely export-led but are much more oriented toward the domestic market than is usually thought.

The objective of diversifying exports away from oil is often set up as a long-run goal, in fact, while in the short run productive facilities are sometimes installed with capacity limited to meeting modest domestic demand. This has been the case, for instance, of the steel industries in Libya and Saudi Arabia, whose output is sufficient only to cover domestic market demand (28).

It should not come as a tremendous surprise, however, if a supposedly export-oriented industry turns perforce into a local-market-oriented one, given the considerable problems of international sales and merchandising. It is well known that the "Algerian model", based in the first stage on the creation of a major heavy industry of high technological level as the

(28) See Middle East Economic Digest, Nov.7, 1980, on the Saudis' self-imposed limitation on steel production to cover domestic demand alone.

prelude to rapid industrialization (following the "industries industrialisantes" approach), essentially adopted an approach that was to be initially export oriented. For the country could not count already on sufficient domestic demand for in termediate goods. However sales problems forced Algerian decision-markers to modify their requests for technology transfers, turning from the export-led toward strategy the"domestic market" formula, as the international marketing problem, had inevitably created an excess of unutilized productive capacity. But the size of Algeria's domestic market permitted on ly a partial rectification of this imbalance between the failu res of export-oriented industrialization and forced reconversion of industry to import substitution.

We must recognize that the reserve may also prove true: namely, that the process of industrialization oriented to vertical integration may often turn into obligatory production for export. This happens whenever the industrialization process has not affected all stages of production but has halted at the first stages of processing. This is the case with the petrochemical industry, for example, which usually has left intermediate and final processing untouched, as well as "post-chemical" processes, thereby obligating the industry to find outlets exclusively abroad.

In many cases -- Algeria, Iran, and Iraq are the prime instances, but the principle applies in all countries with a substantial local domestic market -- the question does not arise in terms of a rigid alternative between export-led and local-market-oriented industrialization. Rather, the aim should be a balanced mix of the two strategies, looking for investments that can bring new productive capacity into being aimed primarily at the domestic market, yet at levels of efficiency that give the nascent industries international competitiveness. Thereby the industrial system attains flexibility and can adapt dynamically to the shifting pattern of international specialization. It can be ready to move into new sectors, exploiting comparative advantages that may arise in foreign markets as a consequence of differential inflation rates, exchange rates, and labour costs. This "mixed" strategy is nothing but an import-substitution strategy adjusted in order to meet an international competitive confrontation. This allows the new industries to become potential sources of exports, especially in new markets where firms from industrialized countries still have limited access.

This type of strategy requires that the market for the new manufactures established by the developing MCs be greater than the national domestic market, covering at least a "regional" dimension. For the MCs, the concept of region will thus embrace diverse groups of countries: first of all, bordering countries, or again countries of similar levels of economic development, or linked by particular agreements (associations with the EEC, inter-Arab pacts). But the concept of region must not be restricted to the Mediterranean alone. It could be expanded to other regions of great interest for the future: the countries of Africa, for example, or the rapidly developing and densely populated countries of Asia, or even the nations of Eastern Europe.

This sort of mixed strategy can also be used by developing MCs where industrial activity is in profound crisis, as a consequence of past undiscriminating policies of import substitution based on protectionism. This applies to Turkey and to Egypt, to mention two representative cases, where the scale of many manufacturing activities was decided on in the past without reference to rigorous standards of competitiveness. Therefore we can conclude that the regional dimension may be the only remaining possibility if there is to be a return to import substitution. Otherwise, the only thing left is the head-on confrontation of export-led industrialization, which risks being throttled by lack of export outlets.

This kind of diversified strategy applies to a much broader range of manufactures than those of the downstream strategy. In particular it involves a very great variety of consumer durables, for which the accelerating rise in the incomes in industrializing MCs is creating a dynamic demand, all types of consumer goods and many intermediate goods as well.

An important observation is that adoption of more sophisticated industrialization strategy as hypothesized here could also prove more effective in achieving one of the chief objectives of industrial development in the Mediterranean, namely the creation of jobs. The rapidly growing population of a number of MCs cannot be absorbed by the farming and mining sector, nor by exclusively capital-intensive, high-technology industry. Thus there remain only three alternative:

emigration, growth of administration and service industries, and more diffuse industrialization. The first two options have already been amply implemented by many Mediterranean countries, while the third (diffuse industrialization) has offered disappointing but highly meaningful experiences in such countries as Turkey and Egypt.

Of course, a one-way employment strategy is simply not realistic. Still, it is clear that absorption of a fast-growing labour force in the more populous countries -- if the aim is to avoid repeating the harmful experiences of "inefficient swelling" of employment in manufacturing and in administration and services -- will in any event need to be based on simultaneous expansion of the more labour-intensive industrial activities (both for the domestic market and for export) and the services sector, where rhe MCs have particular comparative advantages.

In conclusion, energy-based industrialization represents a complete solution only in the scantily populated MCs. In all the rest, employment policy demands a much more sophisticated and diversified development strategy.

Chapter III

"FINANCIAL FLOWS IN THE MEDITERRANEAN: A NEW REGIONAL DIMENSION" (1)

3.1 Interregional financial flows: a new reality

The Mediterranean does not represent any meaningful reality from the financial point of view, but has been the linkage point of many regional situations deeply affected by the events of the last decade after the first "oil shock" through the modification of the MCs' terms of trade in favour of oil-producing countries, the Mediterranean area has been considered as the transmission channel of many financial disturbances, starting from the jump of the current account balances of the oil-exporting countries of 1973 and the following reactions of the remaining countries.

It is well known that while some oil producing MCs rapidly eliminated their surplus, by means of domestic policies as well as growing consumer demands (in more populated countries), others have maintained their current surpluses, as their spending capacity was limited, and therefore caused a worsening deficit in current account in many industrialized countries and a few non-oil MCs as well.

International banks unquestionably succeeded in managing the difficult process of recycling those surpluses, even after the renewed thrust to the intermediary function of international capital markets that followed the second "oil shock"

(1) This chapter largely counts with the collaboration of Franco Franciosi

of the late seventies. In this phase, however, intermediation was more difficult and dangerous in that the financial conditions in which banks and borrowers operated were radically changed.

The greater growth of financial with respect to real relationships increased the risk of instability of the international financial system, already aggravated by a large increase in interest rates and the "volatile" nature of exchange rates. Reduction of OPEC country surpluses in 1981 ($ 60 billion) and their envisaged elimination in 1982 raised other questions concerning future development of the system caused by the risk of the financial system's non-liquidity and the insolvency of many countries.

Therefore Mediterranean interregional financial relationships, which were just part of the international network of flows which was fostered after 1973 through the growing entity of Euromarket operations, have been subject to many difficulties, even though uncertainty about projections of OPEC's current account balances does not allow for definite predictions.

All projections agree, however, that a surplus group of Arab states will continue to exist, while the deficit of other OPEC countries which have increased their imports will keep growing.

It is nevertheless clear that even if OPEC countries as a whole were to have a negative current account balance, this does not mean that problems connected to oil-originated balance of payment imbalances could be considered solved. Indeed, on the one hand, "investment income" which in 1981 was more than $ 30 billion continues to grow, while on the other hand, the stock of financial activities, accumulated by OPEC countries in the past, which has been estimated at around $ 400 billion, remains enormous.

A reduction of oil surpluses could, nevertheless have remarkable effects on international financial markets inasmuch as the decreased aggressiveness of Arab banks and the increased debt of some OPEC countries could cause an increase of "spreads" on the Euromarket, thus aggravating conditions for the granting of loans.

Effects on the international capital market could be accentuated by the strengthening of present oil market trends, marked by a sharp drop in consumption due mainly to progress in oil savings achieved by the United States and Japan, by a drawdown in reserves and by a persistant excess supply by oil-producing countries, especially those harder pressed by financial difficulties.

In 1981, the surplus Arab countries recorded a positive balance of $ 78 billion, compared to a $ 18 billion deficit of the other OPEC economies.

Projections for 1982 call for a $ 28 billion surplus for the first group and a $ 30 billion deficit for the second. An important fact to be noticed is that in the last year, over two thirds of the decline in the overall balance of OPEC current accounts, is due to traditionally surplus Gulf countries (Saudi Arabia, Kuwait, Arab Emirates, Qatar), while the year before, the reduction in oil surplus was mainly due to other OPEC countries. Thus, the function of the main oil-exporting countries and the Arab countries in particular, in the recycling of funds between surplus nations and deficit nations should be put back into perspective. In 1980 OPEC surplus countries composed 84% of total world oil surpluses. That percentage fell to 67% in 1981 and according to the most recent projections, to 34% in 1982. On the other hand, the relative incidence of surplus industrialised countries climbed from 13% to 31% and 64% respectively.

Within this three-year period, it should be noted that total surpluses diminished from $ 125 billion in 1980 to $ 117 in 1981, and according to IMF projections, to $ 83 in 1982.

It should be emphasized that these tendencies are affecting the kind of financial relations within the Mediterranean area: increased difficulties in refinancing middle and long-term loans, together with the strong increase in the cost of debt servicing are threatening the international banks (both American and European), preventing them to run high risks and compete in highly competitive situations. This will probably accentuate the role of the Arab banks in the Mediterranean area, where they will concentrate their activity mainly to finance the growing deficit of some countries in the area.

A decline in the total surplus of OPEC current accounts has also produced a significant shift towards more long-term uses: in 1980, almost half of new investments were short-term, whereas in 1981, no more than 6% were short-term; OPEC deposits in international banks between 1980 and 1981, grew by only $ 3.7 billion compared to an increase of over $ 41 billion the previous year.

Although Arab countries with low import capacity have continued to increase deposits in international banks (1981 marked a $ 20 billion increase), Arab countries with high import capacity have reduced their deposits by $ 11 billion.

The reduced supply of funds by oil-exporting countries did not, however, prevent a strengthening of Arab banks on the international market which, together with Japanese banks, have noticeably increased their share on the joint loan market. In 1978, credit associations led by Arab banks covered less than 10% of total loans granted on Euro-currency markets; in 1981, that percentage had risen to 26% and over 56% for loans granted to non-oil producing developing countries.

Therefore we conclude that recent tendencies within the international financial system may be lessening the role played by international banks in the Mediterranean area as for the recycling of oil-surpluses, whereas their function was fundamental in the past decade. This new reality is not producing a decrease in the interregional relations in the area, which are solidly established in real terms, but leads to review the prominent role played by western banking in the development of the more backward countries of the area, as part of the recycling mechanism, in favour of a more regional approach to the international financing of growth in the developing MCs.

This conclusion may be clarified if we relate it with the recent growth of the financial system in Arab countries.

In a little less than ten years, Arab banks have taken over a fundamental role on their national markets and above all, on international financial markets, where their involvement is continually growing. Whereas until the middle of the sixties, Arab commercial banks were strictly of a national character and operated on local markets in operations of limited scope, it was only from the beginning of the sixties to the beginning of the seventies that a more comprehensive and organic banking system was established, as a result of the greater wealth enjoyed by oil-producing Arab countries.

In this stage, the Arab banking system carried out a complementary role to the economic evolution of economically stronger countries and, at an international level, began to operate Euro-Arab banking consortia alongside the development of Euro-currency markets. Operating mainly in Paris, these consortia had limited capital and therefore participated mainly in short-term operations (see table 7).

During the two sharp increases in oil prices in 1973 and 1979, the Arab banking system showed a surprisingly dynamic nature: in a situation of high exchange rate instability, the Euro-Arabian banking associations, tried to defend the interests of Arab countries on international financial markets. In this period, monetary and financial markets appeared and established themselves in Bahrain, Arab Emirates and Kuwait, drawing ever greater financial resources thanks to a change in Arab governments' traditional policies of channelling all oil returns into international banks and completely bypassing the local banking systems.

In the last years, after the increase in oil surpluses due to a second oil price rise in 1979-80, the process of diversification of surplus uses by surplus countries has been accentuated and the Arab banking system has taken on an all-important role in the process.

Arab banks which, up to that time carried out a strictly complementary role in intermediation of the use of oil surpluses now operate actively and autonomously on international financial and monetary markets, competing against large European and American banks. The banking sector's capability of providing profits draws new capital, thus allowing for greater capital backing of banks and guaranteeing growing business volume. Islamic banks which operate according to the Koran's principles are also a part of this process.

3.2 Arab financial system

Financial markets in the Middle East developed according to local traditions in answer to precise national requirements, and might be divided into four categories:

a) markets operating self-sufficiently, in that they cover strictly local needs from the point of view of both deposits and uses (Algeria, Iraq, Oman, the Arab Republic of Yemen);

b) financial markets which have surplus supply with respect to domestic needs and thus operate actively on international capital markets (Kuwait, specialized in long-term financial operations, and more vaguely, Saudi Arabia, the Arab Emirates and Qatar);

c) financial markets where demand exceeds national resources and can be met only by resorting to external capital flows (this is the case of Egypt and Jordan);

d) financial markets which, with respect to both supply and demand, work with financial operators from outside the area (this is the typical case of offshore centres such as Bahrain).

Beirut is a unique case, in that up until 1979 it led an important role in the financing of Middle East regional trade; the long civil war and the recent invasion have prevented former conditions from rapidly returning for the moment.

Among major Arab financial markets, one of the most interesting is that of Bahrain, created in 1975, that has taken on a fundamental international role, rapidly attaining the same business volume of the other Far East offshore financial centre, Singapore.

With the output of oil falling progressively, Bahrain tried to diversify its economy by authorising branches of large international banks (OBUs, Offshore Banking Units) to establish there. The only restraint imposed by Bahrain's monetary authorities to avoid dangerous inflationary trends, was that offshore banks could not handle deposits or loans to residents of the country. Bahrain's establishment as a financial market has greatly increased competition among banks operating in the Gulf area. Thus, Bahrain has become the Middle Eastern currency market, in particular for Saudi Arabia's ryals and Kuwait's dinars, which created concern in neigh bouring countries. The OBUs activity in Bahrain has grown from \$ 6.2 billion in 1976 to \$ 15.7 in 1977 and a volume of \$ 27.7 billion in 1979. At the beginning of 1982, debit and credit totalled \$ 55 billion. Over half of all operations are carried out with Arab countries , but a large part are also with Western European countries. Approximately two-thirds of the operations are carried out in dollars and slightly more than one-quarter are in Gulf currencies.

Another important Middle East centre is Kuwait, which specializes in issuing bonds in dinars, through a constant flow of capital coming from outside the area as well, but has suffered the negative effects of restricted local monetary policy and the higher interest rates at an international level.

Availability of funds has allowed the Arab banking system to be a dynamic element in the growth of these financial markets, competing against all the other large American, European and Japanese banks operating internationally.

On the other hand, the international banking system reacted positively to the success of Arab banks inasmuch as they contributed to a greater distribution of the risks connected with the recycling of the 1979-81 oil surpluses. For the countries which have benefitted from Arab bank loans include the same ones which received loans from other large international banks (i.e. the major deficit countries of Latin America, Asia and Europe). In the case of minor nations, which encountered greater difficulty in financing their oil deficits, Arab countries maintained strict separation between the activity of commercial banks, which intervened only in very exceptional cases and influenced by strictly political considerations, and the activity of numerous Arab institutions specialised in providing financial development aid.

As for the composition of the Arab banking system, both public and private institutions are involved and the following categories can be distinguished:

- "private" banks which are mostly directly controlled by certain Arab states (for example: The Arab Banking Corporation, the Gulf Bank). These banks operate mainly on

Euromarkets, undersigning international loans or organising credit associations;

- bank consortia whose shareholders include Arab financial institutions and large foreign banks (this is the case of the UBAF, Union de Banques Arabes et Françaises and BAII, Banque Arabe et Internationale d'Investissement);
- investment banks, of which the three Kuwait banks - Kuwait Investment Co., Kuwait Foreign Trading Contracting and Investment Co, Kuwait International Investment Co. - are particularly active on international markets;
- institutions which carry out functions similar to those of central banks but which often operate directly as investment banks (the most typical example is SAMA, Saudi Arabia Monetary Agency);
- financial development institutions, specialising in loans to Arab countries with large oil deficits.

This vast range of financial institutions has helped to rapidly establish the Arab banking system, which is becoming more and more self-sufficient inside the Middle East area. In 1978, more than one third of the loans to Arab countries were covered by resources from the region. The reduction of major oil-exporting Arab countries' surpluses does not seem to have but a very marginal effect on the Arab banking system, inasmuch as returns from management of funds accumulated up to now can compensate this reduction, at least for all of 1983.

Despite their having reached considerable proportions, Arab banks certainly do not threaten the positions of large European and American international banks. For 1981, Banker review included only twenty-six Arab banks among the five hundred major banks in the world, and of these, the largest (the Rafidain Bank of Iraq) is on 101st place. It is nevertheless probably that this number will tend to increase in the future, given the new wave of capitalization which took place in 1981 (2).

The important question is not, however, the size of the banks, but rather the extent of the banking system. To this end, some countries have introduced liberalizing policies - as in Bahrain and the Arab Emirates, defined as "over-banking" by some - while other countries have followed the road of greater regulations and control - this is the case in Saudi Arabia which is undergoing a process of "Saudi-ization" of the banking system.

While major Arab banks have concentrated their activity in the field of international loan trusts and of Eurobonds, minor banks have consolidated and extended their positions on local markets and have only recently started to operate on international markets, especially as financial support to commercial operations. It is possible that the latter group is the more dynamic even at an international level, as a result of the greater spread of wealth in Middle Eastern countries.

An interesting phenomenon of the Arab financial system is the growth of so-called Islamic banks, i.e. banks which operate with regard to interest rates on the basis of principles expressed in the Koran. In fact the Koran forbids what

(2) It has been estimated, in fact, that the twenty-five Arab banks most active on the Eurodollar market have raised their total capital from $ 2.4 billion in 1979 to approximately $ 5 billion at the end of 1981, giving them a growth potential of over one hundred billion dollars (see table 8).

is called "riba", which can be taken to mean usury as well as simply interest rate (3).

The latter interpretation, clearly more traditional is against interest in that it represents an element which tends to increase the concentration of riches in the hands of a few by legally guaranteeing profits without risks which are borne totally and exclusively by debtors.

These principles based on ethics, which can certainly be shared, are nevertheless difficult to implement in a world in which financial intermediation is based on interest rates. Nonetheless, financial institutions have been established and have developed in a number of Arab countries which try to operate on the basis of the Koran's principles. The manner in which is done is by means of profit-sharing ("modarabe"), where depositers obtain a share of profits or support the same share of risk of loss rather than receiving a fixed interest rate. The same holds true for uses, whereby banks grant medium or long-term loans in return for risk-sharing certificates backed by mortgages. By this means, the operational risk is born by the holders of the abovementioned certificates,

(3) Since the literal meaning of the term is any addition to borrowed capital, two different interpretations have grown up, the one allowing for the payment of interest when it is justified either by public activity or for reasons inherent in trade or production, especially in an inflationary context (in that case, the addition to the initial capital is nothing but a way of maintaining its real value and should, therefore, not be considered as interest) and the other, a literal interpretation of the Koran, forbidding all kinds of interest, no matter what the reason nor the amount.

and thus, in turn, by depositers.

Despite the technical and administrative difficulties in implementing this system the profit-sharing system has, according to its supporters, important advantages over traditional forms of financial intermediation, as depositors' returns are more protected under inflationary conditions, banks are more responsible with regard to the use of money and, at the same time, can partipate in more risky operations as part of the risk is borne by depositors, it is possible to mobilize savings which otherwise would never come on to the financial circuit, temporary production crises are more easily buffered and it is in the banks' interest to supply technical and management assistance to business (especially if small), thus stimulating initiative and development in depressed areas.

The strong growth of Islamic banks in recent years proves the competitiveness of the system with respect to traditional systems, even if there are major differences among the nations that adhere to the principles of Islam (4).

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(4) It might be interesting to point out that growth of the Islamic banking system seems to be less in those very countries where observance of religious traditions is greater (Saudi Arabia, Iran, Pakistan, Qatar and Libya) and is, on the other hand, more dominant in other countries such as Egypt, Jordan and some Gulf states. For in the former group the banking system developed under Western influence, making modification of the system in an Islamic sense more difficult, although some countries, such as Pakistan, are definitely headed in this direction.

3.3 Arab financial integration and Mediterranean economic development

The process of regional integration of those MCs which can be considered as Arab countries has found in the development of a "regional" financial system such as that we have just outlined the leading engine. Whereas European integration based its success on trade liberalization, which opened the door to factor movements, it is often claimed that in the Arab region the growing range of financial flows within the area may lead the way to the movement of goods and - as it has already done - labour. The consolidation of this regional banking system in national and regional activities is supposed to play a key role in this integrating evolution. At the same time the commitment of OAPEC countries to finance development processes in the third world is a substantial evidence of the links between arab financial intermediation and development perspectives of less advanced MCs.

As a matter of fact, the growth of the Arab banking system, which is often predicated on the plain necessity to invest financial surpluses coming from oil as a purely financial event, with no or few links with the national economies of the region, will not prevent a sustained dynamic impact on real economies of the South-shore of the Mediterranean fostering their integration as well.

As for the activity of oil-producing countries in favour of developing societies, it must be recalled that the relative share of OPEC countries in financing Third World development has increased from five percent in 1970 to over twenty percent in 1980, with a tendency toward further growth. That sum stands out even more if considered in relation to the various countries' income (5).

The most active Arab development funds are Kuwait's KFAED, which provided $ 718 million worth of funds (of which approximately one-third was directed to Arab countries) in 1981, and the Saudi Arabian Islamic Development Bank, which operates on the basis of the Koran's principles. The beneficiaries of this large flow of resources have been mainly Arab, or Islamic, countries, favoured by the development fund managers' greater knowledge of the areas close to the Middle East.

The decline in oil returns and thus, in oil surpluses, poses a number fo questions concerning the future capacity of Arab oil-exporting countries to finance poor countries at present rates.

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(5) In the last four years, Gulf oil-esporting countries (Qatar, Arab Emirates, Saudi Arabia and Kuwait) have headed the list of nations which in relative terms (with respect to GDP) have contributed to development financing. That share which in the past varied between five and ten percent of GDP, is now steady between two and five percent; these values are still very high, especially if compared with those of industrialised countries, where average contributions are barely 0.37% of GDP. Between 1975 and 1979, the six major Arab oil-exporting countries (Iraq, Kuwait, Libya, Qatar, Saudi Arabia and the Arab Emirates) granted over $ 234 billion in loans, with respect to the $ 23.5 billion granted by the United Sates.

The high degree of capitalization of development funds and the mainly political nature of much aid rule out the possibility of a marked decrease in funds earmarked for that purpose. What does seem more probably is that a large part of aid be used to support reconstruction of war-torn countries.

Apart from official flows through the various development funds, it is interesting to verify any evidence of possible correlation between regional financing and economic development. Although the size of energing features of this kind may appear limited, the recent tendency are on the line of such evolution.

The first aspect to consider is the implementation of development plans, particularly in the less populated oil-exporting countries. Altogether they have been successful and as a result these countries have began to recycle domestically a much larger proportion of their financial surpluses than was supposed possible. A crucial aspect of this domestic recycling is the large transfer to individuals, families and firms which have been operated as public expenditures in the form of housing allowances, low or free interest loans, and subsidies designed for diverse purposes. This development is preparing a new significant balance between international and domestic uses of available financial resource.

Even though industrial development is still lagging behind a satisfactory level in developing MCs, a number of specialized banks have been established in the Arab countries to raise the degree of support to the manufacturing sector.

It can be observed (see Table 9) that in 1979, capital in specialised banks totalled $ 2,800 million as compared to total capital in commercial banks of approximately $ 6,700 million.

Growing bank loans together with budgetary financing by some MCs have become a decisive element in boosting spending capacity. Y. A. Saygh (6) estimated that the private sector invested $ 41 billion in the Arab region in 1979. To this must be added $ 46.5 billion in investments from the public sector (this last estimate was indirectly obtained from investments predicted in the five-year plans of the various nations). In any case the industrial growth stimulated by the implementation of the development plans has triggered a tremendous increase in the inter-Arab migration flows. This in turn has been translated into significant flows of remittances (7). These particular financial flows, along with aid extended for political and military reasons - to Jordan for example - is creating an Arab use, as opposed to the international use, of available financial resources and is working as a potent element of Arab integration. In fact remittances are initiated today in the building of private houses in the countries of origin and will be invested tomorrow in the productive activities of migrants who have returned home.

(6) See Y.A. Saygh, "The Arab Economy", Oxford University Press, 1982.

(7) These remittances are usually underestimated, as they generally are carried out through unofficial channels. Nevertheless, in 1976, on the basis of official IMF data, it was calculed that emigrants' remittances represented a large share of the total goods and services imported by some countries. In particular: 12% Egypt, 32% Jordan, 21% Pakistan, 1% Sudan, 193% Yeman Arab Republic.

Another way in which resource are recycled into the Arab world as a whole is the setting up of public and private joint ventures. For cultural as well as for political reasons these joint ventures - very often linked to the intergovernmental network - have grown based in populated Arab countries, such as Jordan, Egypt and Tunisia. This is very helpful in maximizing the Arab-wide recycling of financial resources. In this framework the role of the banks and of other financial institutions is becoming increasingly important. As was said by an Arab economist: "The regional and national financial institutions which have been established have acted as a channel for the multilateral transfer of Arab funds among the Arab countries, in addition to direct bilateral transfers which have taken place for economic and non-economic reasons. This is an important form of cooperation because the flow of capital has been induced generally in accordance with certain criteria designed for this purpose. In the absence of such institutions these flows may not have occurred, at least their level and geographic and investment pattern would have been different, being then governed by autonomous decision based on a calculus of private costs and benefits" (8).

The fundamental idea that is emerging from this consi-

(8) Samir A. Makdisi: "Arab Economic Co-operation: Implications for the Arab and World Economies", in Roberto Aliboni (ed.), Arab Industrialization and Economic Integration, Croom Helm, London, 1979, pp.94-95.

derations is that potentially there is a close correlation between economic integration and development of the Arab region on one hand and the growing regional financial system on the other. Continuing high financial potential despite a decline in or the total elimination of oil surpluses, is the main force behind Arab banks which explains their dynamic role in the international loan market. As far as development efforts are attracting regional financing either through the banking system or by any other channel), this potentialities will be translated in actual perspectives for future growth of many MCs.

However potentialities must not be confused with undergoing transformations. The existence of a number of financial centres does not alter the fact that much still has to be done to integrate the nascent Arab financial system into the development mechanism of each MC. If the relation between total financial assets and GDP can be taken as an indicator of the role of financial intermediaries in the region's economy, the Arab countries can be divided into three categories at the end of the seventies:

a) countries in which the relation is high (more than sixty percent): Lebanon (172%), Jordan (122%), Egypt (98%), Syria (67%), Tunisia (66%), Morocco (62%). In these countries, liberalisation of the exchange and monetary markets has created strong growth in financial markets, in particular, in Lebanon and Hordan.

b) countries with a low relation (less than sixty percent): Sudan (43%) and Arab Republic of Yemen (56%). Here, the more restricted role of financial mediation must be seen in the framework of the economic system adopted, and is related to the degree of economic backwardness;

c) OAPEC countries: Algeria (82%), Bahrain (119%), Iraq (34%), Kuwait (75%), Libya (49%) and Saudi Arabia (122%). The ratio between financial assets and GDP is high in some of these countries, but rather low in other cases. The differences can be attributed to the degree of control of the economic system (which is high in planned economies), to the level of development, or to the incidence of foreign assets on a not adequately developed banking system.

The latter factor is more evident if we distinguish domestic financial activities from the global assets of each countries and relate the former to the latter.

In fact, whereas this ratio is approximately two-thirds for all other countries, falls to around one-third for oil-exporting countries (44% for Bahrain, 32% for Kuwait, 19% for Libya) and only 7% in the case of Saudi Arabia.

The first category countries are clearly developing a financial market to serve their economic development by recycling resource from international to Arab uses. The second category countries are more integrated in the international market, in forms and with roles as different as those of Saudi Arabia (plainly investing abroad) and Bahrein (an off-shore center). The over-all (Arab) picture is one of an incipient organic financial system with all its specialization of functions to cater for different requirements and demands. Historically one may maintain that this ability to specialize while growing is the mark of the birth of a unitary system. On the same historical ground one has to say that, as international as their projection may be today, their national base will not remain without effect in the future. It should also be emphasised that greater integration of financial markets could ease investment conditions not only inside each Arab countries but could increase economic ties within the region as well. In this context, an important role can be attributed to the Arab Monetary Fund, which was created in 1975 and started operating in 1977.The Fund set itself the ambitious aims:

- to finance the balance of payments imbalances of its members;
- to stimulate monetary cooperation among member countries as a condition for hastening economic integration;
- to prive adequate consulting for foreign use of Arab financial resources;
- to develop Arab monetary markets;
- to coordinate international policies of member countries on important economic and monetary questions.

The achievement of many of these goals will require not only a long time,but also a change in certain fundamental conditions. In the short-run,on the other hand,the most urgent aim is a gradual shift of Arab financial resources from the international market to a regional one,to keep the deterioration of Arab countries' balance of payments from blocking development plans undertaken at the time of the oil price rises.

The strengthening of Arab integration along the path to a successful economic development might be substantially fed by such a finantial evolution: the very process of industrialization we examined in Chapter 2 will greatly benefit from this process.

Chapter IV
"FINAL REMARKS"

4.1 Options and constraints for an inter-regional cooperation

The above analysis summarises a number of options (and constraints) on which economic cooperation across the Mediterranean could expand, as far as industrial development and regional financing are concerned. The inter-regional nature of the Mediterranean area has been definitely claimed. That requires the cooperation frameworks for MCs not to be just a uniform process of regional integration, but rather a conflictual research of reciprocal advantages.

Politically the Mediterranean scenario is highly divided and interference of East-West contrasts does not favour a mutual cohesion among the different parties. The only base on which interregional integration can be based is presently the mutual economic interests, more than a political ground. This limitation represents undoubtedly a risky weakness, for an all-out triggering effort to promote development in the more backward countries of the area is often limited if not prevented by this lack of political understanding. As a consequence, any reinforcement of regional integration within the area (not geographically defined), being an expression of political (and economic) understanding, does represent a lessening of this weakness, making effective integration easier and realistic. Unfortunately political and economic constraints do interfere to regional integration both in the Arab and the European sphere, giving rise to many doubts as for the feasibility of any inter-regional cooperation process.

In this paper we have tried to find out a pragmatic mechanism which would lead to reciprocal strengthening of development and cooperation in the area starting just from the economic mutual interests. We are aware of the great limitation of this kind of reasoning but at the same time we are convinced that the substantial value of the structural factors we have singled out is such as to exert an all-out influence in favour of inter-regional mutuality, even though political events would act on a contrary direction.

The first factor which deserves major attention is the determined effort of developing MCs' governments to pursue an industrialization policy as a primary goal (being this policy aimed at either expanding domestic employment or diversifying exports and for production patterns). This is a political factor for global growth of less developed MCs, which is having an impressive economic effect, although the industrial European business world could try to put obstacles to any modifications of the Mediterranean division of labour.

The second factor which has played a growing role in this industrial process in energy, being oil resources highly concentrated in some developing MCs (among others) whereas industrial Europe remains substantially dependent from oil imports. Even though the sluggish world demand of oil has caused immediate short-run reactions which will counter ail the changes in the terms of trade and in the comparative advantages within the area, we claim that some major irreversible transformations have been produced by the past "oil-shocks", which will not in the long-run be altered by recent tendencies to reduction of oil prices.

One of these transformations which potentially leads to strengthen the regional integration processes is the definite establishment of a sort of regional financial system; such a system was born in the wake of the oil surpluses of the 70s, but is now highly independent from them, as a substantial amount of financial assets is managed by Arab banks and similar institutions both in the international markets and in regional lending operations.

The second effect of the energy dynamics, which has been fed by both governments' policies and the new regional financing, is the attitude of Arab oil producers to increase the value added to their exports by integrating their oil industry downstream and exporting an increasing proportion of refined and petrochemical products instead of crude oil, as well as some basic industrial products generally energy-intensive.

This creates both dangers of conflict and opportunities for cooperation; the outcome will depend on the total installed capacity in some crucial sectors. The two sectors in which conflict is most likely are petrochemicals and steel. In both cases the increase in the production capacity of the Arab and European NICs cannot be singled out as a relevant cause of the overcapacity plaguing the European countries some Mediterranean ones. Yet the problem remains because of the essentially regional nature of these markets, which is a consequence of global conditions of excess capacity and of widespread protectionism.

Altogether, steel production and industrialization "downstream" from oil production represents additional productive capacity in sectors where the Western European countries are already strongly present; hence, it could take place only if there were a shift of such activity to the developing MCs, with a simultaneous liberalization by the EC and the other West European countries with respect to imports of those products from the new Mediterranean plants.

Of course the new pattern of Mediterranean industrial specialization is not expected to be so clear-out: each industrial branch is highly fragmented into sections with technological, marketing, organizational features which are so peculiar that current transformations are likely to result in a very complex network of manufacturing trade links between both shores of the Basin. The evolution in the transportation systems of oil and gas resources,for instance, will change the geography of transportation costs, by bringing an increasing role of pipelines and a more prominent position of the Mediterranean outlets: the localization of some types of industrial activity will be consequently affected by these changes.

A further element which must be taken into account is the dissemination of growth and industrialization in sectors not particularly related to energy consumption and indeveloping MCs other than oil-exporters. As for the first disseminating effect, it must be emphasized that the current processes of industrialization, based on the exploitation of the MCs' natural resources and on the development of substantial basic industry; ordinarily state-owned, create economic and social tensions within each of the industrializing countries, with evident imbalances between the rise in incomes and the limited productive capacity for consumer and intermediate goods.In the more populous countries, such imbalances tend to be covered in the short run by virtually exclusive recourse to imports. The only way to avoid greater and greater dependency on imported manufactures is to induce a parallel growth of light industry integrated with the basic industries already established, and for the most part this course is only open to the more heavily populated nations. However, this type of intermediate industrialization can no longer be based on simple import substitution under policies of autarky. Rather, to be sustainable and to constitute a driving force for each individual economy, it must be open to international competition, trying to find new outlets at the regional level, particularly in the markets of the "new" countries with rising incomes.

As industrialization is not confined to energy based sectors, but is much a generalized process which will involve a growing number of products as far as the income explosion of some MCs is translated into welfare terms and increased purchasing power, a parallel dissemination of wealth is involving a crescent number of countries in the area much beyond the strict group of oil producers. This diffusing effect is favoured by financial mechanism which feed regional lending, official financial assistance to Arab countries and private flows such as foreign currency remittances from labour-defict to labour-surplus MCs. This widening influence of regional improved financing conditions is simultaneous to governments' industrial policies in non-oil MCs and will potentially allow for higher rates of industrial development in other MCs.

However in all we have just said it would be easy to pick up difficulties for cooperation at an interregional as at a regional level, as a situation of rivalry among the various economies, inasmuch as efforts by any individual country or group of countries to obtain a new position in the industrial division of labor can always be interpreted simply as threats to the other countries. The industrial policies of the oil-producing MCs are in fact founded upon just such conflictual confrontations, thanks to the powerful weapon of energy supplies, which has shown itself to be an extremely effective tool for producing accelerated growth. If we posit such conflictual mechanisms as the only factors that generate industrializing drive, however, it would appear that the MCs' industrial growth "trail" cannot go much further than a conflict-ridden expansion of productive activity connected with energy resources.

4.2 Instruments and policies for an inter-regional cooperation

The general assumption from which we started is that there is room for an alternative to this conflictual scenario: we can imagine a "concerted" process of industrial transformation for the Mediterranean economies, by means of a policy of inter-regional cooperation which could produce results for all the countries of the Mediterranean area.

The institutional framework of such a cooperation is not clearly established. The Euro-Arab Dialogue has proved to be unable to translate conflicting debates into operational policies. As a matter of fact the only operating mechanism which goes beyond the regional boundaries is the existance of a policy of the European Community towards the Mediterranean.

Given the opening of RC towards developing countries, this po licy counts with a whole set of financial end industrial cooperation provisious the which, for the moment, have no other parallel example in other regional experiences. That means that the Mediterranean policy of the EC is one of the potential instruments that could promote cooperation in a number of sectors (technical, scientific, educational) which have a direct influence in the implementation of new industrial programmes of developing MCs.

For the moment these means have been largely used in the framework of the Lomé Convention and only partially fitted to the Mediterranean scenario. As a matter of fact the very weak ness of the integration among the developing MCs is the key factor that explains why the EC cannot act there as effective ly as with the ACP countries.

This is to say that institutionally any reinforcement of regional integration among non-EC Mediterranean countries will benefit interregional relationships as well by favouring dialogue and operational initiatives.

Unfortunately that kind of regional integration on the southern shore of the Basin seems to be much harder to be enhanced than that of the northern side. However the nascent Arab financial system, the emigratory flows of labour among Arab countries, and the political common felling (conflicting but not largely converging in some cases) represent linking elements which could foster new perspectives as for trade relations and joint regional industrial investments. As far as Arab economic integration spurs development and welfare, European partners will find it convenient to enlarge their presence in those MCs, by taking part into their productive efforts.

One channel towards a wider involvement of European productive structure must be emphasized: the substantial role of the state in the MCs' industrial policy has already been underscored. What is imaginable, now, is the end of the strictly "national" outlook that rules the activity of the MCs' public industrial enterprises, to establish regional cooperation among the various publicly owned industrial groups. Such an arrangement would provide a framework of natural economic and social interest in which compromise agreements could be reached on exploitation of natural resources, "downstream" industrialization, marketing, and regional division of production.

Obviously, such concerted action would not necessarily exclude private firms. But the main thing is to establish a framework of cooperation - necessarily a public one - within which all countries' economic and social problems can be properly considered.

This public framework could be the source of a number of cooperation means such as investment guaranties, new financing juridical agreements on , trade, property, transfer of wealth, incomes, technology, and so on. The transfer of industrial activities to developing MCs will not be a mere redeployment but rather an increasing integration through a long term planned process.

Essentially, this hypothesis means getting over the "spontaneous" confrontation between Mediterranean countries, with oil-price rises, protectionist measures, and deflationary tight-money policies, that has so far dominated economic relations within the Western European Mediterranean macroregion. Oil price policies and the industrial countries' trade policies would thus be put in a new contex - sidestepping the world eco_ nomic slowdown, it would spur growth in all the countries of the macro-region. Only in conditions of rising income for all the economies concerned, indeed, can we imagine the development of new manufacturing activities in the industrializing MCs together with an accompanying rise in industrial exports from the advanced economies.

The recession in the OECD area cannot help damaging the Third World's prospects for industrialization, relegating industrial development in the emerging MCs to the more modest status of growth hyper-concentrated in a few energy-based products.

Thus, the alternative - more dynamic cooperation between the less developed MCs and the Western European countries is undeniably attractive. In conditions of rising world demand, it will be easier to make the needed production adjustments gradually, through a subsequent deployment of some energy-intensive production activities to the developing MCs, just as it will be possible to benefit mutually from the creation of new market-oriented manufacturing plants in a more decentralized Mediterranean industrial pattern.

However we reiterate that a fundamental prerequisite to make this path of inter regional cooperation possible is the strengthening of both the European and the Arab processes of regional integration.

STATISTICAL ANNEXES

Table 1: World oil supply and demand (in millions of barrels per day)

DEMAND	1979	1990	2000	SUPPLY			
Market economy countries	53	55	61	Markets economy countries	52	53	55
– United States	18	16	15	– United States and Canada	12	9	9
– Europe	15	13	13	– Europe	2	4	4
– Japan	5	5	5	– other non OPEC countries	6	10	13
– other industrialised countries	4	4	4	– OPEC countries	32	30	29
– developing countries	11	17	24	– centrally planned countries	14	15	16
– centrally planned countries	13	15	16	– synthetic and veri heavy oil	–	2	6
World total	66	70	77	World total	66	70	77

Source: Petrol Intelligence World, December 22, 1980

Table 2 : Estimated refining capacity of some Mediterranean OPEC countries (in thousands of barrels per day)

	1980	1981
- Algeria	436.5	611.5
- Saudi Arabia	1,178.0	2,293.0
- Iraq	305.5	995.5
- Libya	130.0	350.0

Source: OPEC (printed in Petrol Intelligence World, April 6, 1981, page 5)

Table 3 : Investment costs of the main OAPEC industrial projects by sector and by country (in millions of dollars)

	Algeria	Bahrain	Egypt	Irak	Kuwait	Libya	Qatar	Saudi Arabia	Syria	UAE	Total
- Refining and processing of gas	2500	400	1392	4200	500	1218	850	12495	433	3250	27238
- petrochemistry and fertilizers	1376	300	744	3000	720	3500	1310	8575	556	800	20881
- basic metallurgy	500	300	1957	630	-	4150(1)	423	680		1850	10490
- cement	750	-	869	1481	-	610	50	1486	944	135	6325
Partial Total	5126	1000	4962	9311	1220	9478	2633	23936	1933	6035	64934
Other manufact.	5675	50	5830	1723	90	1656	170	6174	1565	515	23448
Total	10801	1050	10792	11034	1310	11134	2803(2)	29410	3498(2)	6550(2)	88382

Percentage composition

	Algeria	Bahrain	Egypt	Irak	Kuwait	Libya	Qatar	Saudi Arabia	Syria	UAE	Total
- Refining and processing of gas	23,1	38,1	12,9	38,1	38,2	10,9	30,3	42,5	12,4	49,6	30,8
- petrochemistry and fertilizers	12,8	28,6	6,9	27,2	55,0	31,4	46,7	29,2	15,9	12,2	23,6
- basic metallurgy	4,6	28,6	18,1	5,7	-	37,3	15,1	2,3	-	28,2	11,9
- cement	6,9	-	8,1	13,4	-	5,5	1,8	5,0	27,0	2,1	7,2
Partial Total	47,4	95,3	46,0	84,4	93,2	85,1	93,9	79,0	55,3	92,1	73,5
Other manufact.	52,6	4,7	54,0	15,6	6,8	14,9	6,1	21,0	44,7	7,9	26,5
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: ENI estimates

(1) including "integrated" steel industry project
(2) excluding "integrated" $ 2,500 million oil project

Table 4. - Population change in the OAPEC countries

	1968 Population (Thousands)	(%)	1978 Population (Thousands)	(%)	Average annual rate of increase (1) (%)
Saudi Arabia	5,859	8.4	7,866	8.6	3.0
Libyan AJ	1,828	2.6	2,748	3.0	4.20
Kuwait	615	0.9	1,215	1.3	7.0
Bahrain	206	0.3	341	0.4	5.2
UAE	180	0.3	877	1.0	17.2
Qatar	91	0.1	201	0.2	8.2
Iraq	8,851	12.7	12,420	13.6	3.4
Algeria	12,950	18.7	17,613*	19.3	3.1
Egypt	32,803	47.2	39,979	43.7	2.0
Syria	6,077	8.8	8,163	8.9	3.0
Total OAPEC	**69,460**	**100.0**	**91,423**	**100.0**	**2.8**

* Estimated
(1) Rate of increase for the period 1970-77
Source: ENI estimates on the basis of national sources.

Table 5 - Export structures in some Mediterranean countries, 1960 and 1978 (%)

	Fuels, minerals and metals		Other primary products		Textiles and Clothing		Machinery and Transport vehicles		Other manufactures	
Industrialized countries:	1960	1978	1960	1978	1960	1978	1960	1978	1960	1978
- France	9	6	18	18	10	6	25	36	38	34
- Italy	8	7	19	8	17	12	29	33	27	40
Recently industrialized countries:										
- Greece	9	18	81	36	1	17	1	3	8	26
- Israel	4	1	35	17	8	6	2	10	51	66
- Yugoslavia	18	9	45	19	4	8	15	32	18	32
- Portugal	8	4	37	23	18	29	3	14	34	30
- Spain	21	5	57	22	7	6	2	25	13	42
Industrializing countries:										
* Non-oil exporters:										
- Jordan	0	32	96	30	0	5	0	2	4	31
- Lebanon	..	4	..	32	..	10	..	17	..	37
- Morocco	38	41	54	36	1	11	1	1	6	11
- Syria	0	66	81	26	2	3	0	2	17	3
- Sudan	0	5	100	95	0	(.)	0	(.)	0	(.)
- Turkey	8	6	89	72	0	15	0	1	3	6
* Oil exporters:										
- Algeria	12	97	81	2	0	0	1	0	6	1
- Saudi Arabia	95	10	5	0	0	(.)	0	0	0	0
- Egypt	4	33	84	38	9	21	(.)	1	3	7
- Iraq	97	99	3	1	0	(.)	0	(.)	0	(.)
- Iran	88	95	9	2	0	2	0	(-)	3	1
- Kuwait	..	90	..	1	..	1	..	3	..	5
- Libya	100	100	0	(.)	0	(.)	0	(.)	0	(.)
- Tunisia	24	44	66	18	1	20	1	3	8	15

Source: World Development Report, 1981.

Table 6 - Exports of selected manufactured products, 1980 (thousands of dollars)

Exporter	Chemical products	Manufactured Fertilizers	Iron and steel
UNITED STATES	I2,933,362	784,653	I,350,23I
JAPAN	2,036,093	I7,776	4,73I,258
FRANCE	9,II9,890	228,224	5,0I5,I78
WEST GERMANY	I7,455,I37	443,083	8,040,295
GREECE	88,605	3,982	I48,550
ITALY	3,944,I88	90,I7I	2,I05,6I0
NETHERLANDS	9,524,458	447,698	I,784,44I
PORTUGAL	170,625	27,82I	66,5I0
SPAIN	958,I97	53,I47	I,I33,808
TURKEY	I9,678	22	4I,035
UNITED KINGDOM	8,076,383	I0I,046	I,429,900
YUGOSLAVIA	I99,I95	53,I7I	I02,022
MALTA	2,497	9	325
CYPRUS	3,0I6	-------	472
MOROCCO	49,885	4,068	7
ALGERIA	I9,302	-------	I2,846
TUNISIA	I85,996	I02,072	30
LIBYA	82,327	-------	-------
EGYPT	I0,352	I,0I9	I2,334
SUDAN	384	-------	-------
SYRIA	3I5	-------	-------
LEBANON	I3,802	I2,792	II5
ISRAEL	396,995	I08,333	I6,724
JORDAN	I,30I	-------	4
IRAQ	397	-------	-------
SAUDI ARABIA	626	I4	460
YEMEN	28	-------	-------
SOUTH YEMEN	2I8	I79	67
KUWAIT	6,730	-------	I48
BAHRAIN	I,I34	-------	I5
ABU DHABI	2,022	----------	23
DUBAI	9I	-------	I39
U.A.E.	692	-------	II
QATAR	6,25I	-------	------
MUSCAT & OMAN	74	-------	------
IRAN	I8,I53	-------	5

Source: OECD

Table 7 - Role of Arab Countries in loan operations on the Euromarket

(in billions of dollars)

		Industrialised countries	Developing non-OPEC countries	TOTAL
Consortium headed by Arab banks.	1978	1,4	2,4	6,9
	1979	2,2	2,2	7,7
	1980	3,3	3,2	8,0
	1981	10,5	10,2	23,9
Consortium headed by Arab banks in % of all consortium loans granted.	1978	5,1	9,0	9,9
	1979	7,9	6,3	9,3
	1980	8,4	13,5	10,3
	1981	23,9	56,3	26,1

Source: World Financial Markets

Table 8 - Arab Banks on the international credit syndicate market
(January - May 1982, in millions of dollars)

	Number of loans	Amount	%
Gulf International Bank	31	614,42	13,9
National Commercial Bank	10	542,94	12,3
Arab Banking Corporation	18	437,81	9,9
KFTCIC	13	397,65	9,0
Saudi International Bank	13	299,88	6,8
National Bank of Kuwait	16	234,09	5,3
Arab Bank	6	139,51	3,2
BAII	10	138,51	3,1
Riyad Bank	6	130,28	3,0
KIIC	5	128,67	2,9
Arab Latin American Bank	7	113,98	2,6
Saudi American Bank	9	98,42	2,2
UBAF Group	10	87,29	2,0
Other banks with a relative weight of less than 2%	93	1.045,79	23,8
TOTAL		4.409,24	100,0

Source: Financial Times

Table 9

Capital and reserves of commercial banks and capital of specialized banks in Arab countries during 1979 (in millions of dollars)

	Commercial Banks	Specialized Banks
Iraq	304.4	694.2
Kuwait	972.4	409.3
Saudi Arabia	758.7	995.3
Bahrein	90.9	-
Qatar	102.2	88.5
Arab Emirates	1,193.2	144.7
Oman	39.7	51.8
North Yemen	87.9	-
South Yemen	19.9	-
Jordan	225.9	30.2
Syria	135.5	76.6
Lebanon	270.8	18.5
Egypt	1,101.5	60.0
Sudan	49.7	94.2
Libya	397.6	-
Tunisia	210.8	31.8
Algeria	558.8	26.0
Morocco	157.2	33.2
Mauritania	17.9	-
Somalia	2.3	-
TOTAL	6,697.3	2,807.3

Source: Y.A. Sayigh, op. cit.