INTERDEPENDENCE AND INTEGRATION IN THE EURO-ARAB ECONOMIC RELATIONS

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Inter-regional vs. regional solidarities

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 European Community 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 across 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, looks at the latter as inter-regional in character. The working of 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 supersede, 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 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 substance of this attempt 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 other link between them other 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 consequences - as we hinted at previously - is that whichever scheme for cooperation must be studied (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.

In order to put all these factors together on the path of a virtuous circle, we can envisage the following sequence:

> the revalorisation 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 industrialisation 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 worldwide level, interdependence related to the real aspects of trade, industrial development, etc., has largely grown across the Mediterranean, especially between the Arab and the West 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 specialisation and integration. The key to the working of the virtuous circle is then the deepening of Arab integration.

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

Industrial Growth in the Mediterranean

At the global level industry grew very rapidly until the beginning of the seventies. In the last decade, however, global industrial growth has slowed down considerably.

These global tendencies are the result of partly divergent national and regional trends. Until the early 70s Japan and most West European countries tended to grow faster than the United States and Great Britain, while within the group of developing countries a subgroup experiencing considerable expansion of industry emerged. In the seventies the slowdown of industrial growth affected mostly the industrial nations. Western Europe ceased to grow more rapidly than the United States, while Japan continued to grow more rapidly than both, although at a considerably reduced pace. Industrial growth continued and was only marginally affected in those developing countries that had begun to industrialise in the previous decade(s), while the oil-producing countries were able to devote increasing amounts of financial capital to investment in industry.

In relation to these global trends, the Mediterranean fared rather well. Industrial growth was more dynamic than the global averages, while at the same time there was a relocation of industry, which at the beginning was concentrated in France and North Italy.

Although the process of industrialisation has specific traits in each of the countries under consideration, the data show that there is no country in the Mediterranean which is not experiencing some industrial growth.

This is the result of a determined effort on the part of national governments which have been pursuing an industrialisation policy whose primary goal is to find sufficient domestic employment for a rapidly expanding labour force.

Some major aspects qualifying such evolution of the Mediterranean industrial growth deserve elaboration. The first of these is the role of energy in the process of industrialisation.

The circumstances under which energy is supplied are going to play a growing role in the Mediterranean context. The Arab oil producers intend to increase the value added to their exports domestically by integrating their oil industry "downstream" and exporting an increasing proportion of refined and petrochemical products instead of crude oil. This will change the geography of the above two sectors, which in the past tended to concentrate on the Northern shore of the Mediterranean.

A second important element linked to crude oil is the probable evolution in the transportation system, which will bring an increase in the role of pipelines and a larger proportion of exports from Mediterranean outlets. This will change the geography of transportation costs, affecting the localisation of some types of industrial activity.

A further important development is the valorisation of gas resources. This can be pursued through the utilisation of natural gas in industrial processes in the producing countries or through exports. Both alternatives will be pursued. As far as exports are concerned, because of persisting problems with the economies of liquefaction, we might witness the development of a Mediterranean grid of gas pipelines which would become a strong attraction for industrial activities with a high energy content.

Finally, a development could occur of new technologies to utilise coal in liquefied or gasified form in order to take advantage of existing transportation infrastructure once the supply of hydrocarbons it was originally conceived for starts to decrease.

The second remarkable aspect is the widespread importance in all the Mediterranean countries of basic industries. This feature is due to the crucial role played by the State in the industrialisation of typical latecomer countries.

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

A third crucial aspect is witnessed by the fact that the current processes of industrialisation, 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 industrialising 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. For the most part this course is only open to the more heavily populated nations. However, this type of intermediate industrialisation 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.

In all we have just said it would be easy to pick up indications for cooperation in the energy field, among public firms and in trade and investment policies. However, these problematic aspects of industrialisation assume 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 labour 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 weapons 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 industrialising 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.

Of course, we must ask whether there is an alternative to this confictual scenario. Actually, 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 more positive results for all the countries of the Mediterranean area.

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 inter-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" industrialisation, 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.

Essentially, this hypothesis means getting over the "spontaneous" confrontation between Mediterranean economies, with oil-price rises, protectionist measures, and deflationary tight-money policies, that has so far dominated economic relations within the Western European Mediterranean macro-region. Oil price policies and the industrial countries' trade policies would thus be put in a new context and 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 industrialising MCs together with an accompanying rise in industrial exports from the advanced economies.

A state of recession in the OECD area cannot help damaging the Third World's prospects for industrialisation, 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 West 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 relocation of some energy-intensive production activities to the developing MCs, just as it will be possible to understand the benefits of creating new market-oriented manufacturing plants once the economic geography of the Mediterranean Basin becomes more decentralized.

In our view, however, the prerequisite to make this path of inter-regional cooperation possible is the strengthening of both the European and Arab processes of regional integration. This is the point we must revert to.

Arab Financial Integration

The West European area is certainly well integrated by average standards. The European Community integration process, however, is lagging behind for it does not manage implement a significant financial and monetary union. What is making impossible any further progress of the economic integration is the European inability to set up an integrated set of political institutions. Despite these difficulties, Western Europe and especially the European Community are so economically integrated as to allow a fruitful inter-regional cooperation anyway. An important point, however, is that the possible presence of a growing integration in the Arab region may be an incentive to go ahead with the European integration. The two processes may be interrelated and sustain one another. This would be helpful for both the process of regional and inter-regional cooperation and integration. As we said in the first section of this paper, the starting of an integration process in the most dynamic Arab area today may offer Western Europe opportunities for cooperation which would translate present interdependence into a more articulated and flexible inter-regional integration. For this reason any progress in the integration of the Arab area is presently the key to start a viable inter-regional cooperation across the Mediterranean.

The state and most of all the prospects of the Arab economic integration is very diversely appreciated by the people concerned. In that appreciation the historical experience of the European integration, successfully based on trade liberalisation and increase, weighs very heavily. As the literature on economic integration among developing countries has widely shown, different situations require different instruments. In the Arab case it is the development of a large range of financial flows that is the engine of the Arab incoming integration. For capital movements may lead the way to the movement of goods and - as they already have done - labour. Development of banking, both domestically and internationally, is supposed to play a key role in that evolution.

The present expansion of Arab banks may be considered the fourth echelon of national banks on the international markets after the American banks in the 50s and 60s, the European banks in the 70s and the Japanese banks quite recently. The factor behind the first three echelons has to be identified in the necessity for the national banks to help the international projection of their clients or to capture it in cooperation or competition with the parallel tremendous growth of the xenocurrency markets. As for the Arab banks, their international development is predicated on the plain necessity to invest financial surpluses coming from oil. In other words, while the OECD's banks would have pegged their international financial integration to the real development of the national entities they were based in, the Arab banks would be experiencing a purely financial international integration with no or few links with the nationl economies they are an expression of.

In our view this evaluation does not take into account a number of important features which are emerging in the evolution of the Arab financial system. Although the size of such emerging features may appear limited in relation to the size of the international integration of the Arab banks, the tendencies are supposed to have a dynamic impact on the real aspects of the Arab economies and on their integration.

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. 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. 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. Another way in which resources 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 maximising 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 decisions based on a calculus of private costs and benefits". (1)

The second aspect which tends to be misinterpreted or overlooked in the observation of the Arab international integration is the evolution of the institutional banking structure in itself. To get a significant synthetic idea of the evolution we are talking about one must refer to the total financial activities to GDP ratio and to the domestic to international ratio of such activities. According to the most recent available figures (end of 1970s) Arab countries can be divided into three categories: a) countries with a high ratio of total financial activities to GDP, i.e. Lebanon (172%), Jordan (122%), Egypt (96%), Algeria (102%), Syria (67%), Tunisia (66%), Morocco (62%); b) countries with a low ratio, i.e. Iraq (34%), Sudan (43%), Arab Republic of Yemen (56%); c) oil-exporting countries, i.e. Bahrein (119%), Kuwait (75%), Libya (49%), Saudi Arabia (122%). While the second category needs a case by case explanation, the first and third categories correspond to different absorbing capacities and different roles of the financial institutions. This is more evident when considering the second ratio, namely that of domestic to international activities. For the countries of the third category domestic activities on GDP are about one third of total activities, whereas for the other countries it is about two thirds. The first category countries are clearly developing a financial market to serve their economic development by recycling resources 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 overall (Arab) picture is one of an incipient organic financial system with all its specialisation of functions to cater for different requirements and demands. Historically, one may maintain that this ability to specialise 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.

Both these remarks speak for a strengthening of Arab integration along the path to a successful economic development. If this is correct it is up to the West European countries to take up the opportunities for cooperation and growth this process may offer. This would be the starting point of a sound inter-regional cooperation favouring the industrialisation of the Mediterranean countries beyond the problems it presents today.

(1) 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. 94-5