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INDUSTRIAL INVESTMENTS IN THE ARAB WORLD: THE CHALLENGE OF THE OIL INCOME

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IN THE ARAB WORLD
ALEXANDRIA, EGYPT

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"Nobody looked at the Arabs before. Why does everybody expect us to be the Godfather? This part of the world has been neglected for centuries and its wealth has been carried away by foreigners without giving it a hand for development. The major part of our international financial aid will be put at the service of Arab countries, and to assist other Moslem countries, particularly in Africa." 1/

I. INTRODUCTION

History reveals very few examples where the ultimate course of great events was clearly foreseen by those who launched them. Calculation, however cool and deliberate, cannot lead to a grand construction unless the forces at hand are already in momentum. At the present time the forces for a grand construction in the Arab world are at hand and already in momentum. The only question is whether those who guide that momentum will see the need to think in new terms, and use the opportunity to build an integrated Arab world strong enough to bargain equally with any other economic bloc in the world - even after Arab oil runs out.

Over the last five years the world has witnessed the most dramatic change in history in the terms of international trade, resulting

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1/ Abdel-Rahman Salem Al-Atiki, Minister of Finance, Kuwait, in a statement made in early 1974.

in the appearance of a new entity in global finance. Irving S. Friedman[1] has analysed this and introduced the concept of varying combinations of relative wealth and poverty of countries. He proposes the distinction between:

- rich-rich countries which possess both capital and technology;
- poor-rich countries which, though rich in technology, have considerable balance of payments problems;
- rich-poor countries, like the OPEC oil-exporting nations which possess surplus capital but lack technology and infrastructure;
- poor-poor countries having neither capital nor technology.

Nine of the new "rich-poor" states - Algeria, Bahrain, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates - are Arab. While Algeria (16.8 million) and Iraq (11.1 million) have relatively large populations and can easily employ their oil incomes at home to build large domestic-based economies, the remaining seven Arab oil states have a combined population of about 13 million people or only some 10% of the combined Arab world.[2] Conservative estimates of the accumulated investible funds available to these nine states through 1980 range between $ 250-300 billion, about double the total of all US investments abroad, which stood at $ 137 billion at the end of 1976.

II. THE OPTIONS FACING THE OIL-RICH ARAB COUNTRIES

Mr. Al-Hamad, Head of the Kuwait Fund, had with his usual perceptiveness said as early as in 1973:

- "First, we are very much aware that oil revenues are not truly disposable income like income that accrues, say, from agriculture or industry. Oil revenues are only another form of our countries' capital wealth, a monetary form of the oil reserves in the subsoil.

1/ Irving S. Friedman, "The new world of the rich-poor and the poor-rich", in Fortune, May 1975, p. 245-252.

2/ Three of the "poor-poor"states between them, have 51% of the population of the Arab world: Egypt (27%), Morocco (12%), Sudan (12%).

- Second, these reserves are relatively fast wasting resources, which, if we fail to adopt adequate development policies, may one day leave us perhaps in a situation worse, from the social as well as the human points of view, than before the oil era. The fact that present oil reserves could last us 30, 50 or even more years, is really mere instants in the lifetime of nations." 1/

(a) Development Resources and Constraints

Here is the heart of the problem of economic and financial management which is facing the oil-rich Arab countries today. They are realistically conscious that when their oil reserves run out, their economic condition in the post-oil period will be determined entirely, by the way in which they use the financial surpluses which are accruing to them now, free of the usual constraint of developing countries of being limited to investing surpluses accruing only from production performance. However, capital is only one of the resources required for economic development. What other development resources do these countries possess? They do of course have oil and an immense quantity of natural gas. One or two of them, in addition, have some valuable minerals like phosphates, iron ore and uranium. Some have a few top level financial and economic managers, but they are unevenly distributed. So much for resources. On the other hand there are severe constraints to development which drastically reduce the absorptive capacity of these oil-rich countries. There is little scope for them to develop agriculture to fulfill one of the basic needs. In the whole Arab world, only Morocco, Algeria, Egypt, Iraq, Syria, Sudan and Somalia have enough water to grow food; and Iraq is today having to import Egyptian farmers, and put them up in preconstructed settlements, to develop its agricultural base. They also lack the necessary technology, management, manpower and skills, and industrial infrastructure. Above all, with their minute populations, they suffer a severe handicap in building up an adequately large domestic market.

(b) Building a Domestic Industrial Structure

In the absence of the opportunity of developing agriculture, the oil countries are left with the options of building industry and a service sector. The bulk of initial investment in industry will

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1/ Al-Hamad, A.Y., Arab Funds and International Economic Cooperation, 1973, page 4.

naturally relate to the oil and gas sectors. Currently, most of Arab oil is exported as crude, only 10% being refined. Energy-based industries, such as refineries and down-stream petro-chemical projects, will therefore receive priority, followed by a diversification of the industrial base through development of engineering industries. Refineries built in the Arab oil states could supply European countries and Japan with refined oil, since lack of space in some of these countries, is even encouraging the idea of building artificial islands to provide space for new refineries. Down-stream petrochemical projects including nitrogenous fertilisers which may be set up by the Arab oil countries, particularly around the Gulf, will have two features in common. Similarity of the resource base and economic environment would lead to replication of like industries, and all of these would be export-oriented. In consequence, these industries would not only be striving to sell into world markets, but fighting in competition with one another while doing so.

In any event, the petrochemical industry would allow rather slender domestic value being added within the economies of the oil countries. One might question the economic and social advantage in these countries of acquiring sophisticated petrochemical plants at great cost, which domestic operators might run by working electronic control panels, but not be able to repair in times of breakdown for some time to come, until long and adequate training has been imparted. Moreover, such plants installed in the oil countries would almost certainly incur significantly higher investment costs. Whilst this situation is generally acknowledged, estimates of the excess cost of new plants installed in these countries vary from about 45% to even 100% compared to the USA, Europe and Japan. The reasons for higher investment costs are well known. First, there is the lack of physical infrastructure which needs to be provided with each plant resulting in greater off-site expenditure. Second, construction costs are higher since almost all supervisors and construction workers are expatriates brought in from outside. Third, there is the suggestion that the bids or prices offered by suppliers from the industrialised countries to the oil countries for plant and machinery, have perhaps higher built-in margins than prices offered elsewhere. Fourth, the need to carry higher maintenance spares, adds to the cost of the project.

Despite the irresistable appeal of setting up industry based on one's domestic resources, it is interesting to reflect on how far a petrochemical industry set up by the Arab oil countries would in fact be competitive against plants in the industrialised countries. Cost of servicing capital investment, covering depreciation, interest and dividends, accounts for almost 80% of the production cost of nitrogenous fertiliser. Since investment costs of these plants are likely to be much higher than those in the industrialised countries, the advantage of having one's own feedstock can hardly make up for the difference. In a vertically integrated petrochemical complex, the component of feedstock cost in total sales value, may be even lower than 10%. As a result, a nitrogenous fertiliser plant working at 100% of its capacity, could afford to pay $1.50 per 1000 cft. of gas and come out with the same unit cost of production of urea, as a plant operating in the oil countries which might get its gas or feedstock free, but runs at 80% of its capacity. Two further basic handicaps, will affect Arab petrochemical plants. First, marketing of petrochemical products will for a long time, depend entirely on large foreign international companies. Second, the Research and Development content in such industry, must be high, if technological and therefore competitive edge is to be maintained.

Any discussion of the relative competitiveness of nitrogenous fertiliser plants set up in the Arab countries as against those in the industrialised countries, has necessarily to be hypothetical. For example, nitrogenous fertiliser plants set up in the Gulf today would almost certainly be replaced by new plants with perhaps new techniques and economies in about 20 years, before the Arab oil countries enter the non-oil era. On the other hand, on the strength of known reserves, it is currently believed that natural gas will run out in the industrialised countries earlier than the Arab oil countries will run out of oil. Should this happen, then of course nitrogenous fertiliser plants in the Arab countries would have open access to markets of the industrialised countries, provided no new reserves of natural gas are discovered in the future in the industrialised countries. An overriding consideration with the nitrogenous fertiliser industry is that it is notoriously prone to cyclical booms and slumps in demand and prices, and in the valleys represented by the downswings plants accumulate vast inventories if capacity utilisation is maintained. In the absence of a large domestic market to fall back upon, the nitrogenous fertiliser plants in Arab countries may find it particularly difficult to ride out the storms.

There is of course the other option of the service sector, and some of the Arab oil countries around the Gulf are known to have consciously elected to develop this sector, rather than install large industrial plants. Bahrain has for some time concentrated on building up an efficient system of financial services to cater not only for its own needs, but also for the needs of the Gulf as a whole. Offshore banking units are the latest innovation. Kuwait is understood to have decided to invest in a very large fleet of oil tankers, not only to carry its own oil, but also to handle ocean transportation of oil around the world.1/ As of January 1, 1977 OPEC countries had a tanker fleet of 94 vessels with a total tonnage of 8 million DWt or only 2.5% of the world tanker tonnage of 320.7 million DWt. Four Arab countries have 45 vessels with total tonnage of 5.28 million DWt as follows:

	No. of vessels	1000 DWt
Kuwait	10	1,639
Iraq	14	1,493
Libya	10	1,107
Saudi Arabia	11	1,038

In the matter of reaching optimum decisions with regard to managing its financial surplus, the Arab oil states face the final truth namely, that their own absorptive capacities are severely limited, even after satisfying basic needs of the population. The limit to absorptive capacity stems from the narrowness of the resource base, the absence of an agricultural structure, and the smallness of the population. Bahrain's Minister of Development and Industry, Mr. Youssef Ahmad Al-Shirawi, put this problem in a nutshell by saying"the economy of Bahrain is like a pot with a small amount of water - it boils easily".2/ Even Saudi Arabia's economy displayed the tendency to overheat quite easily in the recent past, forcing the country's economic planners to scale down the gigantic development plan which had been drawn up. Absorptive capacities of the Arab oil countries as compared to their oil incomes are shown below.

1/ Already operating are: Arab Maritime Petroleum Transportation Co. (AMPTC) - a US$ 500 million consortium with participation of Abu Dhabi, Algeria, Bahrain, Kuwait, Libya, Qatar, Iraq, and Saudi Arabia. Also the Gulf Navigation Company (Bahrain, Oman, Qatar and UAE).

2/ Youssef Ahmad Al-Shirawi in an interview with the Middle East Economic Digest in May 1977.

TABLE I : ABSORPTIVE CAPACITY

(US$ billion)

	Oil revenue	Non-oil exports	Total revenue	Merchandise imports	Net service payments	Grants/aid disbursed	Total absorption	Surplus (deficit)
Algeria								
1974	3.7	0.4	4.1	3.7	0.5	0.0	4.2	(0.1)
1975	3.8	0.3	4.1	5.7	0.3	0.0	6.0	(1.9)
1976	3.9	0.5	4.4	6.2	0.6	0.2	7.0	(2.6)
Iraq								
1974	5.7	0.2	5.9	3.2	0.4	0.4	4.0	1.9
1975	8.0	0.2	8.2	6.1	0.8	0.1	7.0	1.2
1976	9.9	0.3	10.2	6.9	1.0	0.5	8.4	1.8
Kuwait								
1974	8.0	0.4	8.4	1.4	(0.5)	1.2	2.1	6.3
1975	7.8	0.6	8.4	2.2	(0.8)	1.8	3.2	5.2
1976	8.4	0.7	9.1	2.8	(1.2)	1.0	2.6	6.5
Libya								
1974	6.2	0.0	6.2	2.7	0.7	0.2	3.6	2.6
1975	5.9	0.0	5.9	4.6	0.8	0.4	5.8	0.1
1976	7.2	0.1	7.3	5.2	0.6	0.5	6.3	1.0
Qatar								
1974	1.6	0.0	1.6	0.2	0.1	0.2	0.5	1.1
1975	1.9	0.0	1.9	0.6	0.1	0.2	0.9	1.0
1976	2.2	0.0	2.2	0.9	0.3	0.0	1.2	1.0
Saudi Arabia								
1974	24.5	0.0	24.5	3.8	0.9	2.2	6.9	17.6
1975	26.8	0.0	26.8	6.5	0.6	1.9	9.0	17.8
1976	33.2	0.1	33.3	8.5	(0.3)	2.0	10.2	23.1
UAE								
1974	6.0	0.0	6.0	1.2	0.1	0.6	1.9	4.1
1975	6.4	0.6	7.0	2.6	(0.1)	0.4	2.9	4.1
1976	8.3	0.5	8.8	3.0	(0.2)	0.5	3.3	5.5
					1976 TOTAL SURPLUS (50% of oil revenue)			36.3

(1976 figures are forecasts)

(c) Investing in other economies

The above analysis does not by any means suggest that the Arab oil countries should make no attempt to industrialise and develop their own economies. On the other hand, consistent with the social development of their peoples, they would indeed invest their present resources in developing adequate infrastructure, social services, efficient service sectors, and those industries which would prove feasible on the basis of comparative advantages. Alternative economies that may thus be built up within their own borders however, would not be sufficient to help them enter the non-oil era without a perceptible drop in living standards. The balance of support will therefore have to come from investments of their present surpluses in economies other than their own.[1/] Investments outside their own economies may be directed either towards the industrialised countries or other developing countries including those in the Arab world. Whatever the direction, in the context of the objective before the oil countries the criteria for such investments would be:

- security of investment
- acceptable current income
- future capital gain to keep up with inflation

(d) Investing in Industrialised Countries

The record of recent years shows that surpluses accruing to OPEC countries (Arab and non-Arab) have been generously used to "assist" developing countries, through grants as well as loans on concessionary terms. Relative net flows of financial resources from the OPEC and OECD countries to the developing countries were as follows:

1/ Kuwait's income from its investments abroad in 1976 reached about US$ 4.5 billion before tax. Its oil revenue for the 1977/78 financial year which started in July, is officially estimated at about US$ 7.3 billion. Since investment income from abroad would not be spent, but reinvested in full, at the present rate Kuwait should be able in 8-10 years to earn as much from its external investments as its present annual oil income, in current dollars.

TABLE II: NET FINANCIAL FLOWS TO DEVELOPING COUNTRIES

(US$ billion)

	1973	1974	1975	1976
OPEC COUNTRIES				
ODA 1/	0.48	2.5	2.75	n.a.
Bank Credits	0.42	2.2	3.25	n.a.
OPEC TOTAL	0.90	4.7	6.00	7.50
OECD COUNTRIES				
ODA	9.35	11.32	13.59	13.73
Other official flows	2.46	2.18	3.02	3.30
Private flows	12.81	14.48	23.33	22.45
OECD TOTAL	24.62	27.98	39.94	39.48

(Source: IMF Survey, July 18, 1977)

Having satisfied development assistance requirements, the bulk of Arab oil surpluses have initially pursued investment opportunities in the industrialised countries, taking the following forms:

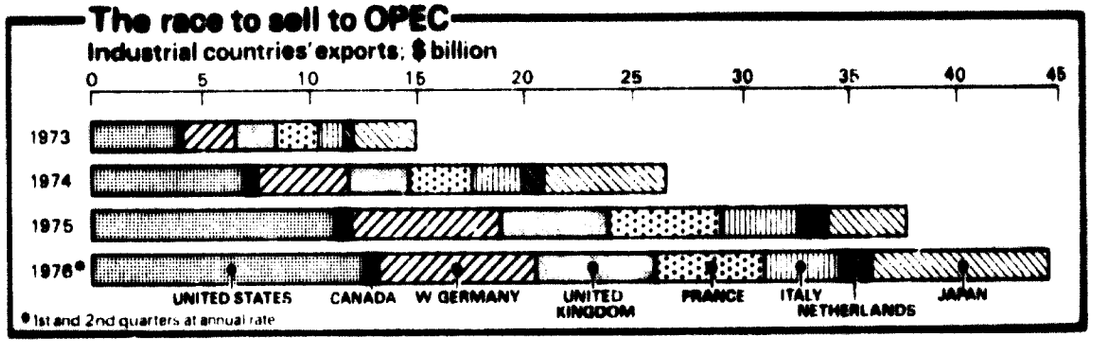
1. Direct investments in real estate and other property
2. Short and medium-term investments in the Euromarkets
3. Investments in Stocks and Bonds through the stock exchanges
4. Direct participation in the equity of large corporations
5. Investment in national money and capital markets through Government bonds and short-term treasury deposits
6. Medium term lending through international institutions such as the World Bank, and the IMF (the Oil Facility and the recent Witteveen Fund).

1/ ODA (Official Development Assistance) is a concept evolved by the Development Assistance Committee of the OECD in the early 1970s; it refers to official transactions characterised by (i) the objective to promote primarily socio-economic development, and (ii) the concessional financial terms with a minimum grant element of 25 per cent using a 10 per cent discount rate.

While in the earlier stages much of the surplus Arab funds sought immediate liquid outlets like Eurobonds, the trend lately has been more towards investments in real estate, particularly in the USA and in giant corporations in the USA as well as in Europe. One estimate claims that US$ 12 billion of Arab funds have been invested in real estate in the United States alone.

Are the three investment criteria mentioned above really fulfilled through such investments in the industrialised countries? In the short and medium run the answer would seem to be yes. In the long run, massive accumulated investments[1/] in the American or European economies, would result in an intricate interlocking of interests, perhaps preventing the Arab oil countries in the future from negotiating and readjusting the distribution of benefits arising from international trade as freely as they are able to do today. At the same time it is possible that if one looks ahead to the post-oil era, there may no longer be a continuing need for the type of economic confrontation that has prevailed since 1973 with the successful operation of OPEC. Again, if some of the corporations in which Arab funds have been invested in the industrialised countries are to continue to operate profitably, they may have need in the present and the future to keep increasing their selling prices. Arab oil countries purchasing goods and services from these industrialised countries would either have to agree to import inflation into their economies or combat the higher prices and thus hurt their own investments. Lastly, and perhaps most importantly, unlike the OECD countries, the Arab oil countries' capital investments or development assistance do not immediately flow back through the export of goods and services, as usually happens with the OECD countries. Whatever Arab funds which are deposited in the industrialised countries such as the USA, have in fact flowed back, have come anonymously as "laundered money" on costlier terms. The extent of flow back of Arab oil funds to the industrialised countries, is shown in the chart below.

1/ The total nominal value of all stock in West German corporations, amounts to about US$ 100 billion.



THE BANKER MARCH 1977

(e) The Present Investment Performance

In line with the desire to invest a large part of their surplus in the industrialised countries to fulfill the three investment criterias mentioned above, it is significant that there has been a recent trend towards a proportional decline in concessional contributions from the Arab oil countries, and a tendency to commit financial resources more at commercial rates rather than on ODA terms. This trend to increase commercial lending proportionately is likely to persist in the future, in view of reduced oil revenues of Arab countries and their preference, in general, for profit-generating investments. In pursuance of the same tendency, Arab development assistance hardened in 1975 compared to the two preceding years. In 1973 the total "concessional" element of Arab aid committments was 85%, close to that of OECD aid at 87%, but dropped to 74% in 1974, and declined further to 65% in 1975. At the same time, the "grant" element of Kuwaiti assistance declined from 81% in 1974 to 74% in 1975; that of Saudi Arabia's from 94% to 72%.

How surplus Arab oil funds have been invested in the last three years can be seen from the following table.

TABLE III: HOW THE OIL SURPLUSES HAVE BEEN INVESTED[1/]

($ billion; percentage of total in parenthesis)

	1974		1975		1976 *	
United Kingdom						
Government stocks	0.9	(1.6)	0.4	(1.1)	0.3	(0.9)
Treasury bills	2.7	(4.7)	-0.9	(-)	-1.6	(-)
Sterling deposits	1.7	(3.0)	0.2	(0.6)	-1.6	(—)
Other sterling investments	0.7	(1.2)	0.3	(0.8)	0.4	(1.2)
Foreign currency deposits	13.8	(24.2)	4.1	(11.5)	5.3	(15.4)
Other foreign currency borrowing	1.2	(2.1)	0.2	(0.6)	1.1	(3.2)
	21.0	(36.8)	4.3	(12.0)	3.9	(11.3)
United States						
Treasury bonds and notes	0.2	(0.4)	2.0	(5.6)	4.3	(12.5)
Treasury bills	5.3	(9.3)	0.5	(1.4)	0.4	(1.2)
Bank desposits	4.0	(7.0)	0.6	(1.7)	1.5	(4.3)
Other	2.1	(3.7)	6.9	(19.3)	6.8	(19.7)
	11.6	(20.4)	10.0	(28.0)	13.0	(37.7)
Other countries						
Bank deposists	9.0	(15.8)	5.0	(14.0)	4.7	(13.6)
Special bilateral facilities and other investments	11.9	(20.9)	12.4	(34.7)	10.4	(30.1)
	20.9	(36.7)	17.4	(48.7)	15.1	(43.7)
International organisations	3.5	(6.1)	4.0	(11.2)	2.5	(7.2)
TOTAL	57.0		35.7		35.5	

* 1st three quarters at annual rate.

Source: Bank of England Quarterly Bulletin.

1/ For all OPEC countries, including Arab and non-Arab.

III. TOWARDS AN INTEGRATED ARAB COMMON MARKET

(a) Investment of surplus capital in the Arab World

The impact of Arab oil on the international economic order is likely to be permanent. There has been a change in the balance of forces with the entry of the Arab oil countries as an economic power capable of readjusting the old terms of trade. New interfaces will have to be set up in the economic relationships of the world, particularly those between the rich and the poor. If the Arab world is to continue to deal with the new international economic order from a position of strength, it is our strong conviction that it can do so only if it builds between now and the time the oil runs out, a base strong enough to sustain it economically in the future. We believe that an integrated Arab Common Market is the strongest base which the Arab oil countries can try to build now, in order to endow themselves with competitiveness and bargaining strength in the future. Rather than over-build an industrial structure within their own borders dependant entirely on exports to world markets, we submit that the Arab oil countries would in fact derive greater benefits by integrating their own industrial development with that of the rest of the non-oil Arab world. We visualise a system of complementary industries between the oil states and the other Arab countries. We visualise coordinated development of agriculture in those courtries which have such possibilities, like developing the Sudan as the "bread basket" of the Arab world. We ultimately visualise a large integrated Arab Common Market with tremendous potential for growth and purchasing power, which would operate as the domestic base for the industrial structures that may be built between now and the end of the century. We feel that only by doing so would Arab industry be built on a strong and stable foundation, able to compete effectively against the rest of the international economic system, even after oil has run out. For the Arab oil countries, such integrated development in the present will be the only means by which assistance and investments made by them outside their own borders, will in future flow back through the output of complementary industry in exchange for their own output. Nitrogenous fertiliser plants built in the Gulf would then be sustained by the concerted development of agriculture in Sudan and elsewhere. Sudan's own desire to build an agricultural tractor factory would in turn be supported by the rising tempo of food production.

(b) Present and Projected Economic Position of the Arab Market

It is interesting to conceptualise what an integrated Arab Common Market might look like by aggregating in the first instance individual consumption in each of the Arab countries. Annexes I to III provide some basic indicators showing the present level of consumption and demand in the Arab countries, as compared with those in the European Economic Community. Table IV below attempts to aggregate and project the total GNP of the Arab World, assuming current prices and a straight-line extrapolation of growth. Although the average annual compound growth rate from 1976 to 1986, of 17.8% might look reassuringly high, it ought to be remembered that these projections at current prices include built-in inflation, so that the growth rate in real terms would be rather lower.

TABLE IV : THE MARKET OF THE ARAB WORLD *

	AREA ('000 sq km)	POPULATION millions 1975	GNP at Current Prices ($ billions) 1970	1976	1986	Per Capita GNP ($) 1976	Annual Compound Growth 1976-86 (%)
ALGERIA	2,293	16.8	4.6	13.8	52.0	820	14.2
BAHRAIN, UAE, QATAR	103.7	0.7	0.9	12.3	54.9	17,570	16.1
EGYPT	1,000	37.2	6.7	12.2	41.5	330	13.0
IRAQ	438	11.1	3.1	15.2	79.2	1,370	18.0
JORDAN	95	2.7	0.6	1.6	6.3	590	14.7
KUWAIT	24	1.0	2.5	15.8	73.9	15,800	16.7
LIBYA	1,760	2.4	3.1	16.8	83.0	7,000	17.3
MOROCCO	460	17.3	3.4	8.4	33.5	490	14.8
OMAN	259	0.8	0.3	2.0	5.9	2,500	11.6
SAUDI ARABIA	2,400	9.0	3.0	51.7	357.7	5,740	21.4
SUDAN	2,500	17.8	1.8	3.1	11.3	170	13.8
SYRIA	186	7.4	1.7	5.5	23.8	740	15.7
TUNISIA	164	5.8	1.2	5.5	20.4	950	14.0
YEMEN A.R.	200	6.5	n.a.	1.0	2.9	150	11.4
TOTAL	11,882.7	136.5	32.2	164.9	846.3	1,210	17.8
TOTAL: EEC		258.5		1332.6		5,160	2.4

* Somalia, Mauritania, Yemen P.D.R. and Lebanon have been excluded for lack of data.

(1970 figures actuals; others are forecasts.
Conversion into dollars may alter local-currency-measured growth. The figures given here may differ from other dollar figures currently available because of variations in the exchange rate used for conversion. These forecasts were provided by First National City Bank.)

As explained, these projections of GNP are merely aggregations of individual country performances based on exploitation of domestic resources. It is our submission however, that economic integration of the Arab world would generate much greater internal and regional momentum, leading to perceptibly higher levels of growth, production and purchasing power than are indicated in Table IV. Present plans for developing the petrochemical and the iron and steel industry by processing domestic resources, are fairly ambitous, reflecting an exponential rate of growth in production capacity even through 1985. Annexes IV and V display the plans for building up the petrochemical and the iron and steel industry; these are summarised in Table V below.

TABLE V: INDUSTRIAL DEVELOPMENT PLANS

(Capacities in '000 tons per year.
Investment costs in 1977 US$ billion)

	1975	1980	1985
Petrochemicals			
Capacities	67 TPY	1,797 TPY	2,622 TPY
Investment costs	$ 0.054 bill.	$ 1.437 bill.	$ 2.098 bill.
Iron and Steel			
Capacities	2,000 TPY	-	29,980 TPY
Investment costs	$ 2.0 bill.		$ 29.980 bill.

Total financing in current US dollars, required for the whole of the above ambitous programme of installing new production capacity for petrochamicals and iron and steel, amounts to US$ 32.078, which is less than the 1976 surplus of US$ 36.3 of seven of the Arab oil countries, as shown in Table I.

(c) Constraints

Building up an integrated Arab Common Market would necessitate the free mobilisation and flow of resources within the whole region, into industrial investment opportunities which are economically feasible in the context of national and/or regional priorities. Presently, the flow of investment from the Arab oil countries to the non-oil Arab world is

insufficient for building up an Arab Common Market. It is possible that the impediments are a sense of insecurity on the part of potential investors, an uncertainty with regard to profitability and management of the enterprises, as well as the lack of confidence regarding capital appreciation in the future. There is no reason why the situation with regard to prospects could not visibly be improved, so that investment opportunities in the non-oil Arab countries would meet the three criteria of investment which might be applied by the potential investors.

At the same time, it should be admitted that several constraints presently militate against such improvement in the investment climate. First, there is insufficient capability for project identification, preparation and implementation. Without such capability, bankable projects cannot be prepared for serious consideration by investors. An admirable start in this field has been made by the Arab Fund for Economic and Social Development and the Arab Bank for Economic Development of Africa, both of which are actively engaged in improving the means for processing investment opportunities. However, a great deal more remains to be done, and one possibility of assisting further will be brought up later in connection with national development banks. Second, there is hardly any coordination at present between the Arab countries, for integrating their development programmes and building complementary industries. Even the countries around the Gulf are finding it difficult to coordinate their industrial plans; a December 1976 meeting of Foreign Ministers in Oman proved inconsequential. Third, there is the inadequacy of other inputs apart from capital and absorptive capacity of the population. Some raw material resources are available, but these are pathetically short. Infrastructure is not as yet fully developed. Technology, plant and equipment have to be procured from outside. Worker and management skills need strengthening; and between the Arab countries themselves, job security needs to be strengthened by facilitating entry/exit visas and repatriation of earnings.

(d) How to build up the integrated Arab Common Market

Basically, an integrated Arab Common Market can only be built if there is sufficient political will and if some of the differences in economic systems are not allowed to come in the way. One of the most

successful regional groupings, the Andean Pact, has a high level ministerial body or junta, exercising prescriptive functions over member countries. Having said this, we are conscious that economically a concerted and determined effort will have to be made before the Arab market is integrated. We recommend however that a start be made on a project by project basis with regional coverage. This could be done even bilaterally between a surplus and a non-surplus Arab state to start with, that is between a rich-poor and a poor-poor state. Individual successes could be the strongest demonstration factor for forging a common will in due course. The Sudan agricultural development project where AFESD and ABEDA are together financing Sudan to develop its agriculture intensively, is a glowing example which in turn could have other spin-off effects in encouraging complementary industries.

Economic integration of developing countries cannot be achieved unless two strategic requirements are satisfied: first, achieving coordination of the investment policies of member countries; second, devising mechanisms to compensate those partners of the integration schemes who derive less benefits from individual projects. Regional project financing appears at present to be the most suitable operational form to coordinate investment policies, and integrate Arab countries. Cooperation arrangements for integration partners who may feel "disfavoured" by regional projects, may then best be evolved by bringing in external capital and technology. Regional programmes may hitherto have resulted in limited success, because they were only developed within the regional group, without outside participation. However, if development efforts could combine external finance and technology with the internal thrust and political desire for regional coherence, it could become an efficient integration formula.

IV. TRILATERAL COOPERATION IN INDUSTRY

(a) The underlying economic compulsion

Bilateral partnership between the Arab oil countries and the rest of the Arab world would be able to provide some of the inputs required for industrialisation. The oil countries would provide capital, while the non-oil countries would provide the absorptive capacity of their populations and whatever raw materials they might have. A whole range of

other inputs would still be required such as process technology, plant and equipment, construction management, production management and marketing expertise. These inputs can for the present only be obtained from the industrialised countries, or in a few instances from one or other of the more advanced developing countries. Inevitably therefore, partnership between the oil and non-oil Arab states will require to be supplemented for sometime to come, by a third source for the supply of the missing inputs, setting up a triangular relationship between a capital surplus country, a technology surplus country (which could be a developing country) and a developing country which is neither surplus in capital nor technology.

Basically, trilateral cooperation with Arab involvement is an attempt to come to a better factor combination. Like many other aspects of development cooperation, this form of cooperation is not yet fully defined in all its implications, nor are the proposed solutions universally applicable. It will not supersede other forms of cooperation; it may, however, supplement them in a crucial period in the history of development efforts.

Proliferation of trilateral projects in the Arab world signifies an important trend, because it proves that basic economic realities can overcome the difficulties inherent in the negotiation of transnational cooperative ventures. These trilateral projects are increasing not only in number, but also in size, intricacy, and ingenuity. Willingness of a number of partners to combine their strengths to surmount costs, distances, risks, and technological and marketing problems result in a symbiotic effect, whereby the simultaneous actions of the separate parties involved, achieve a total accomplishment which no single party could have hoped for, had it acted alone. A variety of interlocking interests can make projects profitable - projects that otherwise would never have got off the drawing board. New world economic forces are acting to compel private and public enterprises to act together, to combine their efforts multinationally because the goals they seek are best achieveable in trilateral cooperation with others.

(b) The different forms of trilateral cooperation

Conceptually there are three different forms:[1]

(1) The first form of trilateral cooperation with Arab involvement is similar to the traditional form of trilateral assistance arrangements, namely, co-financing of development projects of the public sector, with the collaboration of an Arab fund or interest.

(2) The second form is a more integrated approach for geographic or economic sector development or for intercountry, regional, and sub-regional programmes in the third world with the assistance of Arab oil countries. This form also covers cooperation between Arab funds and national development banks operating in specific sectors and areas of the recipient countries.

(3) The third form which is only just emerging may be called the institutionalised and coordinated approach whereby programming and implementing mechanisms are set up within an institutional framework. This form of cooperation should have a multiplier effect on volume and impact of available resources, both public and private, for the developing world. Once this form has reached a certain self-sustaining level, so as to ensure an integrated interaction between the three groups, it could contribute to stabilising the new balance of interests arising from the structural change of economic relationships.

1/ OECD: Conference on Special Approaches to Trilateral Cooperation, Paris, 26-28 January 1977.

(c) The advantages of trilateral cooperation

Among the many advantages of trilateral cooperation for all the parties involved are:

1. The host country is guaranteed that the technology-supplying and financing partners have a strong and lasting interest in the success of the project because of their equity involvement.

2. Consequently, the financing partner and the host country are assured that they will start with plant and equipment incorporating appropriate technology, and participate in research and development results.

3. Trilateral ventures expand other possible sources of financing. International, regional, and national development banks, as well as commercial lenders, prefer joining in the financing of multinational projects because the transnational guarantees spread, and thereby reduce to an absolute minimum, the risks involved.

4. All three partners can employ their project as a regional supplier for the entire Arab market.

5. The host country can use the venture (as Jordan is doing with its phosphate fertiliser project) to build up other areas of domestic industry through cost concessions to domestic manufacturers, who not only win sales, but also gain valuable know-how by associating with leading international industrial suppliers.

6. Projects incorporating industrialised partners from both market as well as planned economies can also provide a number of benefits for all parties, in particular, in the fulfilment of bilateral governmental clearing agreements.

7. The project can function as a built-in training programme for managers and technicians in the host country.

(d) Possible weaknesses

Some of the recipient developing countries have criticised the trilateral cooperation arrangement as leading to a division of benefits largely between the industrialised and the financing partners, leaving relatively little for the recipient country. Whether this is true will

depend of course on each case and on the terms of the arrangement made, but in principle it may be argued that a trilateral arrangement may not be too beneficial for the recipient country because of:

- Possible overpricing of plant and equipment supplied by the industrial country partner;
- Overpricing of raw materials/components arranged to be supplied on a continuous basis by the industrialised country partner;
- Overcharging of royalties and fees payable to the industrialised country partner;
- Underpricing of exports from the plant to an industrialised country partner.

(e) Alternative to Trilateral Cooperation

In order to avoid any inequity that might flow to the recipient country from trilateral arrangements, it has been suggested that it would be advisable for these recipient countries to set up enterprises for new projects, and through these enterprises arrange for international competitive bidding for procuring all inputs required for the project. Such an arrangement can successfully be adopted, providing the enterprises set up to construct the projects have independent capability to handle construction management, and compile bid documents for awarding engineering, design and construction contracts. In most cases however, the mechanism of international competitive bidding could perhaps be employed in trilateral arrangements, particularly where the foreign partner is not an equipment supplier, and is prepared to take an equity interest. Such an arrangement might combine the best features of all arrangements, and favourably affect the future performance, maintenance and renovation of the plants.

(f) Proposed strengthening of trilateral cooperation arrangements

We are conscious that the trilateral concept has by no means yet been perfected and would therefore go along with any suggestions for building in improvements and safeguards on behalf of the recipient developing countries. Some suggestions that we would make ourselves are:

(i) Norms and Ground Rules for Industrialised and Technology-supplying Developing Countries

UNIDO would recommend the introduction of a moderating influence on trilateral arrangements in order to aleviate some of the concerns of the recipient developing countries. We would suggest that certain norms be laid down, and perhaps a framework be erected for ground rules for each industrialised and technology-supplying developing country. UNIDO would offer its good offices not only for setting up such norms for trilateral cooperation arrangements, but also for evolving the framework of ground rules for each country. In accomplishing the latter we would visualise working with certain national institutions in these countries such as the DEG in the Federal Republic of Germany.

(ii) Redeployment of Industry from Industrialised to Developing Countries

UNIDO would also recommend that the exercise for redeploying industries from the industrialised to the developing countries be integrated with a system of trilateral cooperation. Under this exercise, only those industries would be moved which become relatively uncompetitive in the industrialised countries on account of structural change. In view of the quid pro quo, it would be reasonable to assume that the terms of the transfer would be as equitable as possible for the recipient developing countries.

(iii) Consequential Loss Insurance

It is recognised that a developing country which is acquiring manufacturing facilities at great cost, will be anxious to ensure that the undertaking contracted for is completed satisfactorily, within the scheduled dates, within agreed costs and most importantly, in keeping with the performance guarantees contemplated by the contract. The buyer expects and assumes that the ultimate commercial operation of the plant will fulfil the full-scale performance criteria established by the original contract specifications.

A thorough appraisal of several completed international contracts during the period between 1967 and 1977 in terms of

rated "performance achievement levels" shows that not too infrequently, the buyer in developing countries has been frustrated in his justifiable expectations from the plant and technology acquired from foreign suppliers. Furthermore, in many instances, the buyer has had to bear the brunt of consequential losses and damages arising directly or indirectly from the inadequate performance or failure of plant operations, following commissioning and take-over of the plant.

Many international contracts provide for the payment by the seller/ supplier of liquidated damages or penalties in the event of failure in plant performance or breakdown of equipment and component systems. Notwithstanding these provisions, however, the buyer - particularly in a developing country - is often left unprotected after the plant has achieved technical performance levels during "reliability or acceptance testing", but thereafter fails to achieve the rated capability in terms of output, efficiency, plant capacity or quality of product. In such circumstances the scale of liquidated damages or penalties provided in the contract hardly compensates for the immense indirect or consequential losses that are suffered directly by the buyer, and indirectly by the developing country as a whole.

In order to protect developing countries from such inherent weaknesses in contractual relationships with trilateral partners from industrialised countries, which would also be of concern to any Arab Fund considering an investment in the proposed project, UNIDO is considering the establishment of a multi-lateral insurance scheme covering consequential losses. Briefly, such a consequential loss insurance scheme would indemnify the buyer in respect of the liability for costs and losses arising out of the delay in supply, or failure or break down of plant and equipment, or any component system of the plant. Indemnification will include losses sustained from delay in completion or commissioning of the plant, due to any default on the part of the seller or supplier. The insurance cover would have to remain valid (on a project by project basis), for up to two to three years after final acceptance or commissioning of the plant, <u>following completion of the project</u>, so that all claims and consequential losses are adequately compensated and satisfied.

Ratings for calculation of premium, and other complicated financial and legal concepts are presently under discussion. Due to extensive cause/effect impact of the terms and conditions of contracts on the successful implementation of the scheme, it has been suggested that the administration of the programme be centralised within the control of UNIDO. Should the scheme be launched successfully, it would go a long way towards protecting developing countries in the acquisition of new production facilities by transfer of plant, equipment and technology from the industrialised countries. By doing so, it will help greatly to create a sense of security in the minds of potential Arab funds which may consider making investments in the project, as well as strengthen the concept of trilateral cooperation, by assuring the recipient developing country with regard to the capability and performance of equipment and technology supplied by partners from industrialised countries.

(iv) Guarantee systems for inter-Arab investments

The lack of legal and institutional provisions within the Arab region has been one of the major reasons for surplus funds being invested primarily in the international financial and real estate markets. In the context of foreign investment a close relationship exists between economic, financial, institutional and legal problems. Therefore the new capital centres in the Arab world, have stimulated the development of a variety of legal and institutional mechanisms to facilitate the flow of capital between the rich and the poor Arab countries.

The Arab governments have yet to adopt an inter-Arab investment code. Nevertheless, there exists the "Agreement on the Investment and the Movement of Capital among the Arab States".1/ This legal instrument was approved by the Council of Arab Economic Unity (CAEU) in 1970 and subsequently amended in 1973 and 1975. The agreement defines basic principles governing inter Arab investments:

1/ "Agreement on the Investment and the Movement of Capital among Arab States", Council of Arab Economic Unity, Cairo, 1970, amended in 1973.

(a) Arab capital shall be distinct from other forms of foreign capital and investment;

(b) Arab investment shall receive priority treatment;

(c) Arab investments in Arab joint ventures shall be encouraged as a means to promote economic integration;

(d) The conditions and rules, as well as sectors open to foreign Arab investment shall be determined by the member States of the CAEU and deposited with its Secretariat General;

(e) Arab investments shall be treated as national investments;

(f) Arab investment shall be treated not less advantageously than any other foreign investment;

(g) Nationalisation and confiscation of most Arab investments shall be prohibited once they have been approved by the Arab host countries.

One major bottleneck in the flow of private capital between rich and poor Arab countries was felt to be the lack of insurance cover against non-commercial risks. A guarantee system for inter-Arab investments was therefore institutionalised. The objectives of the Inter-Arab Investment Guarantee Corporation, (IAIGC)[1/], established in 1972 in Kuwait, were twofold:

(i) To provide insurance cover for investments with substantial Arab equity against losses resulting from non-commercial risks;

(ii) to promote the transfer of capital within the Arab region, particularly for inter-Arab project financing.

The guarantee operations cover three types of non-commercial risk: (i) nationalisation and confiscation; (ii) non-transferability of principal and dividends; (iii) military losses caused by war or public civil disturbances.

1/ Convention Establishing the Inter-Arab Investment Guarantee Corporation, Kuwait, 1971.

There are four unique features in the Arab Guarantee System:[1/]

(i) The institution combines two complementary functions for investments: the passive role of guarantee coverage and the active role of project promotion.

(ii) The link between capital-exporting and capital-importing countries - both groups being members of the IAIGC - makes it a unique institution in the multitude of newly-established finance and investment institutions.

(iii) The Charter foresees cooperation with regional and international and national institutions from industrialised countries. Article 17 requires only a substantial Arab ownership in the projects. This provision opens the Arab scheme to trilateral arrangements. The second condition for eligibility for insurance cover is that the headquarters of the project has to be in an Arab member country.

(iv) The Arab guarantee system could play a major role in promoting the flow between Arab capital-exporting and recipient countries, thus directly enhancing the private and public initiative for development investments and, indirectly, for multiparticipant projects.

V. ARAB NATIONAL DEVELOPMENT BANKS

(a) Project orientation and use of financial intermediaries

Arab development funds have in the recent past shown a distinct preference for project lending as opposed to general balance of payments support or programme lending. The Head of the Kuwait Fund, Mr. Al-Ahmad had clearly explained that the Kuwait Fund had neither the means nor the capability of getting involved in the development plans of too many developing countries. The Kuwait Fund as well as other Arab funds generally believe that project assistance allows more effective allocation of development funds, and ensures a more direct socio-economic

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1/ Samia, Farid: "The Inter-Arab Investment Guarantee Corporation", paper presented at the UNIDO-convened Intergovernmental Expert Group Meeting on the Industrialisation of the Least Developed Countries, Vienna, 22 - 24 November 1976, (p.3 and p.5).

impact through the development process.

Whilst project lending admittedly allows greater scope for optimum investment decision-making in individual cases, it is clear that if the volume of Arab assistance is to increase, it will be necessary to introduce programme lending in addition to project assistance. A major objective of the new Arab aid is the concept of "additionality" whereby the flows of additional Arab assistance should not substitute traditional sources, but increase the total volume of capital invested in the third world. Arab funds therefore, will contribute to programme loans only if there is a substantial involvement (in terms of evaluation, finance, technology, management, market outlets, etc.) of the industrialised countries as well as international financial institutions. In addition, developing countries will have to strengthen their institutional infrastructure, particularly national development finance institutions, to provide for efficient absorption of the additional funds and for their allocation to sectors promising the highest development potential. Such an integrated approach should provide greater chances for success of common development objectives, through risk sharing and a more committed involvement.

Apart from operating as a vehicle for channellising programme or sector lending from the Arab funds to the non-oil Arab countries, national development banks could also greatly help in diversifying the resources available for project preparation and implementation. In addition, they could operate as ideal outlets for financial assistance to medium and small-scale enterprises, thus developing private entrepreneurship as well as spreading round more evenly the social benefits of industrialisation.

(b) Participation of national development banks in trilateral cooperation

In the emerging forms of trilateral cooperation arrangements, development finance institutions could assume special functions. They could supplement the project-oriented policy of the Arab funds by channelling their credit lines to, or administering special trust funds for, specific sectors and important programmes in the country in which they operate. These national development banks could fulfil two strategic functions:

1. Increasing the absorptive capacity of recipient countries; and

2. offering the Arab funds the opportunity to have a higher and quicker operational impact, without getting too seriously involved in development plans of individual countries.

Collaboration of national development finance institutions in trilateral cooperation arrangements would lend credibility to the local project, and render management support which in time should increase not only the security of the investment made by outside agencies, but also improve the profit earning capacity of the project. In short, cooperation of development finance institutions in trilateral projects could greatly help to re-inforce investor confidence.

(c) Catalysing other foreign investment flows

Operations of development finance institutions could assume a special role in the frame of development assistance with Arab involvement. Although national development finance institutions often are only a small part of the financial infrastructure of a developing country, they constitute a "sort of privileged credit circuit" 1/ with a highly catalytic effect. So far the record of national development finance companies directly mobilising funds in domestic or foreign markets has generally not been impressive. Some of the most developed national finance intermediaries continue to depend heavily on traditional resources. In order to continue their development activities in appropriate scope and scale, the more established and experienced development finance intermediaries will have to explore not only the possibility of attracting the surplus funds of the Arab countries, but also a greater share of the funds of the international financial institutions such as the World Bank, the Asian Development Bank, and the Inter-American Development Bank. Mobilising international financing in such a way, would wholly be in line with the concept of "additionality" pursued by the Arab funds.

1/ World Bank, Development Finance Companies, Sector Policy Paper, Washington, D.C. 1976, p. 46.

(d) Channelling Arab oil funds to industry

Among the Arab funds, the Kuwait Fund has been most active in assisting national development banks because it believes that they discharge certain essential development functions, such as:

- Channelling institutional credit to medium and small manufacturers;
- Promoting the private sector for development purposes;
- Redistributing development assistance throughout all strata of society;
- Encouraging entrepreneur and manpower development for industrial ventures;
- Assisting in evolving and upgrading an efficient evaluation mechanism as well as economic selection criteria;
- Promoting institution building at the national level.

The Arab Fund for Economic and Social Development is considering an innovative mechanism. In some instances it intends to request national development banks to establish an interest differential fund[1/], to be financed and replenished from the interest spread between lending and borrowing rates. This fund would serve development activities such as staff training, project promotion, and entrepreneur development.

(e) Cooperation amongst development finance intermediaries

The regional grouping of national development finance institutions in Latin America, Africa and recently also in Asia and the Pacific, could be followed by cooperation amongst national Arab development institutions. This would be particularly beneficial in the field of project information, organisation of training programmes and communication with other development and investment agencies outside the Arab region. A possible network of project and sector information could also increase the absorptive capacity of the recipient countries and at the same time contribute to regional development.

It appears that cooperation amongst Arab national development banks will be more feasible once their operations are upgraded and streamlined.

1/ A policy introduced by the KFW, Germany, when lending to development banks in the third world.

Thereafter, a grouping at regional level will strengthen the operational impact and become a major step forward in establishing an institutionalised and continuous flow of project information, helping to promote joint operations and investments among Arab and other development institutions.

(f) Internationalising the Arab national development banks

One further step forward is strongly recommended in broadening the basis of Arab national development banks. We submit that Arab national development banks should open their equity structure and policy management to participation of the Arab Development Funds. Such a gesture would go a long way towards fulfilling a basic requirement, that of improving investor confidence in the management, profitability and financial security of industrial projects in non-oil Arab countries which may receive Arab development funds. We have already suggested that Arab national development banks could play a key role in evaluating and implementing industrial projects. Participation of Arab funds in the equity structure and Boards of Directors of the Arab national development banks, will give these funds a greater sense of belonging, and re-inforce their faith in the future and security of the investment portfolio. Cross-linking the development banking structure across the breadth of the Arab world, will also automatically encourage coordination at the regional level, of investment decision-making.

VI. ARAB STOCK EXCHANGES

Inter-related with our recommendation to encourage the creation of an integrated Arab Common Market, is the suggestion to set up Arab Stock Exchanges. At a conference in the spring of 1976 in Dubai, bankers from fifteen Arab countries, dissatisfied with the domination of the region by foreign banks, made some suggestions for a more independent role in Arab finance. Their main suggestions were: a unified Arab currency, the formation of Arab consortia, the improvement of channels for Arab funds in the Arab world, the strengthening of the financial position of joint Arab banks so that they could compete in the international financial markets, and the setting up of training centres for banking staff. In the last two years, the seeds of most of these aims have taken root.

The Gulf states are moving to unify their currencies, and have decided to allow reciprocal rights to citizens of other states to start businesses and acquire property. On a wider front, a common financial unit, based on a basket of currencies, is emerging for use in joint Arab economic projects. There can be no doubt that the Arab world is becoming a more coherent body in its global financial and banking relationships. Deficit Arab countries are developing channels whereby surplus governments can be informed of their domestic investment opportunities. Surplus Central Banks are being encouraged to hold Arab government bonds as part of their currency cover, and commercial banks are accepting them as part of their legal reserves.

One important mechanism for improving the intra-flow of Arab funds, particularly to industry, would be the setting up of Arab Stock Exchanges. With the present demise of Beirut as a financial market, this has become an urgent requirement.

Arab stock exchanges will help in several ways:

- by mobilising not only quasi-public, but also private savings for investment requirements;
- by encouraging the mobility of investment funds across the national frontiers of the Arab world;
- by making the industrial investment portfolio of Arab oil funds more flexible, and therefore more liquid;
- by imparting greater liquidity to industrial investments, and thus attracting greater participation from industrialised countries in trilateral arrangements;
- by toning up corporate management through the imposition of the financial and legal disciplines of a Securities and Exchange Commission.

Progress towards setting up such Arab Stock Exchanges would give considerable stimulus to industrial development in the Arab world, and be a strong economic force leading towards regional integration.

VII. SUMMARY OF POLICY APPROACHES

The dramatic rise in the price of oil over the last five years has created a new category of "rich-poor" developing countries, nine of which belong to the Arab World. Except for Algeria and Iraq, the remaining seven Arab states find it difficult to invest much of their financial surpluses in their own economies, because of narrowness of the resource base, absence of any agriculture and smallness of their populations. Owing to such inherent limitations in absorptive capacities, the bulk of the enormous financial resources available to these countries must be invested outside their borders, so as to support their domestic economies and living standards in the future, when the oil is exhausted. We have argued however, that although the financial surpluses may in the short run be invested largely in real estate and giant corporations in the industrialised countries, this could in the long run, conceivably create a conflict of interest between the industrialised countries and the Arab oil countries in the non-oil era.

We have therefore argued that such external investment would lead to future economic and social strength, if they are directed towards the non-oil Arab countries, to finance agricultural production and complementary industries within the framework of an integrated Arab Common Market. If this goal is to be reached, the Arab oil countries must be provided with sufficient incentive to use their funds in creating such an Arab Common Market. In the final analysis, this can be done only if there is the required political will, and if realistic steps are taken to improve investor confidence in: the security of regional investment, the prospect of a good running income, and the chances of capital appreciation in the future to overcome inflation. We have argued that in practical terms, regional integration may best be achieved by starting on a project by project basis, since demonstration of individual successes may provide the strongest urge towards regional coherence. We have also suggested that the introduction of a partner from an industrialised or developing country, for supplying technology, plant and equipment, equity finance, management and marketing expertise is not only essential for procuring such inputs, but may in the initial phases, provide a strong binding force for achieving economic integration. In order to improve the effectiveness of trilateral cooperation, we have suggested that: framework agreements be devised for each third party

country; that redeployment of industry from the industrialised to the developing countries be integrated into the industrialisation of the Arab World; that consequential loss insurance schemes be devised; and that the investment guarantee systems for Inter-Arab investments be improved. We have also strongly urged the use of Arab national development banks as financial intermediaries for identifying and preparing bankable projects, for developing entrepreneurship, medium and small enterprises, and for acting as catalysts to attract foreign and Arab oil funds into Arab industry. We have even suggested internationalising the Arab national development banks to reinforce pan-Arab investor confidence. Lastly, we have recommended setting up Arab stock exchanges, both for mobilising public and private funds as well as for channelling them into viable industry within the Arab Common Market.

We have said at the beginning that the Arab World stands today at the threshold of a new era, with overwhelming financial resources at its command. What it makes of this opportunity will depend on its wisdom, its capability and its combined will to overcome any obstacle. We trust it will act with generosity and understanding, and build a future in which life will have meaning and hope, not only for its people of today, but also for the generations to come. Let us hope that history will record that this unique opportunity was used to the fullest possible extent.

ANNEX I

THE MARKET OF THE ARAB WORLD

	TOTAL IMPORTS		TOTAL EXPORTS	
	1975 (US$ million)	Compounded Annual % Increase 1970 - 75	1975 (US$ million)	Compounded Annual % Increase 1970 - 75
ALGERIA	6,383	38.4	4,438	34.5
EGYPT	4,346	40.7	1,251	14.9
IRAQ	3,557	47.8	7,123	45.2
JORDAN	732	31.8	153	35.1
KUWAIT	2,386	30.9	8,740	35.4
LEBANON	2,331	34.2	1,169	44.9
LIBYA	4,400	51.3	5,707	19.3
MOROCCO	2,631	30.8	1,572	26.6
SAUDI ARABIA	7,176	58.8	28,210	63.3
SUDAN	1,007	28.4	499	10.9
SYRIA	1,703	36.5	964	36.6
TUNISIA	1,422	36.0	858	36.1
YEMEN A.R.	294	55.8	29.7	n.a.
YEMEN P.D.R.	192	-0.9	17.7	14.0
TOTAL ARAB MARKET	38,560	37.2	61,031	32.1
TOTAL EEC	300,053	20.9	295,989	21.4

Bahrain, Oman, Qatar, UAE, Mauritania and Somalia not included as markets per se due to smallness of populations and lack of data.

ANNEX II

THE MARKET OF THE ARAB WORLD

	STEEL CONSUMPTION		ELECTRICITY PRODUCTION		ENERGY CONSUMPTION
	1974 ('000) Metric Tons	Compounded Annual % Increase 1969 - 74	1975 (kWh billion)	Compounded Annual % Increase 1970 - 75	per capita (coal equivalent in kg) 1974
ALGERIA	1,466	16	2,700	12	505
EGYPT	1,080	9	8,200	3	322
IRAQ	1,864	50	2,800	8	906
JORDAN	71	8	310	9	388
KUWAIT	422	15	4,000	15	10,094
LEBANON	520	12	2,000	12	1,073
LIBYA	806	12	750	16	975
MOROCCO	437	7	2,900	8	257
SAUDI ARABIA	1,055	32	1,500	18	976
SUDAN	118	8	325	-0.2	125
SYRIA	544	14	1,400	8	590
TUNISIA	309	13	1,200	12	416
YEMEN A.R.	n.a.	n.a.	30	37	30
YEMEN P.D.R.	n.a.	n.a.	175	-0.7	360
TOTAL ARAB MARKET	8,692	16.3	28,290	12.5	1,216
TOTAL EEC	97,943	-4.4	1064,450	3.8	4,879

Bahrein, Oman, Qatar, UAE, Mauritania and Somalia not included as markets per se due to smallness of populations and paucity of data.

THE MARKET OF THE ARAB WORLD

ANNEX III

	CARS 1 Jan. 1975 ('000)	CARS Compounded Annual % Increase 1969 - 74	TRUCKS + BUSES 1 Jan. 1975 ('000)	TELEPHONES 1 Jan. 1975 ('000)	RADIOS 1 Jan. 1976 ('000)	TV SETS 1 Jan. 1976 ('000)
ALGERIA	204	8.8	103	230	1,010	500
EGYPT	185	8.7	40	503	5,120	620
IRAQ	83	5.4	59	185	1,252	352
JORDAN	25	12.0	8	41	529	205
KUWAIT	165	10.0	51	109	500	135
LEBANON	214	10.6	24	227	1,321	410
LIBYA	234	20.9	107	45	106	10
MOROCCO	289	7.5	201	189	1,600	460
SAUDI ARABIA	130	10.7	129	135	255	124
SUDAN	31	0.6	23	56	115	100
SYRIA	37	4.9	23	152	878	224
TUNISIA	94	8.6	56	114	280	100
YEMEN A.R.	n.a.	n.a.	n.a.	7	87	n.a.
YEMEN P.D.R.	14	7.8	8	10	96	31
TOTAL ARAB MARKET	1,705	9.0	832	2,003	13,149	3,271
TOTAL EEC	74,043	6.2	7,289	80,536	n.a.	71,945

Bahrain, Oman, Qatar, UAE, Mauritania and Somalia not included as markets per se due to smallness of populations and lack of data.

ANNEX IV

PLANNED DEVELOPMENT OF ARAB PETROCHEMICAL CAPACITIES FOR BASIC PRODUCTS BETWEEN 1975 AND 1985

(in '000 tons per year)

	1980				1985			
	Ethylene	Propylene	Butadiene	Aromatic	Ethylene	Propylene	Butadiene	Aromatic
Mauritania	-	-	-	-	-	-	-	-
Morocco	-	-	-	-	-	-	-	-
Algeria	500	220	70	335	500	220	70	335
Tunisia	-	-	-	-	-	-	-	-
Libya	330	-	-	-	330	-	-	-
Egypt	35	-	-	-	35	-	-	-
Sudan	-	-	-	-	-	-	-	-
Saudi Arabia	450	-	-	330	950	-	-	330
Syria	-	-	-	-	-	-	-	-
Lebanon	-	-	-	-	-	-	-	-
Jordan	-	-	-	-	-	-	-	-
Iraq	182	-	-	-	182	-	-	-
Kuwait + Arab Gulf States	300	-	-	380	625	-	-	380
TOTAL	1,797	220	70	1,045	2,622	220	70	1,045

N.B. Existing capacity of production in 1975: Ethylene 67,000 tons/year
Others: nil

Accumulated Investment Cost in 1985: US$ 2.098 billion.

Sources: BCN, Hydrocarbon Processing Informations, Chimie, AGEFI etc.

ANNEX V

PLANNED DEVELOPMENT OF ARAB STEEL PRODUCTION CAPACITIES BETWEEN 1975 AND 1985

(in '000 tons per year)

	1975			1985		
	Direct Reduction	Oxygen Steel making	Electric Steel making	Direct Reduction	Oxygen Steel making	Electric Steel making
Mauritania	-	-	-	300	-	150
Morocco	-	-	-	-	1,000	-
Algeria	-	600	30	300	6,000	780
Tunisia	-	150	-	1,000	300	-
Libya	-	-	-	1,000	-	1,400
Egypt	-	870	350	4,200	1,500	880
Sudan	-	-	-	3,500	-	1,750
Saudi Arabia	-	-	-	-	-	-
Syria	-	-	-	-	-	720
Lebanon	-	-	-	-	-	-
Jordan	-	-	-	-	-	100
Iraq	-	-	-	1,200	-	1,200
Kuwait + Arab Gulf States	-	-	-	2,500	-	800
Yemen (Arab Rep. + P.D.R.)	-	-	-	-	-	-
TOTAL	-	1,620	380	14,000	8,800	7,180

Sources: Arab Steel, Metal Bulletin, AGEPI

Accumulated Investment Cost in 1985: US$ 29.980 billion.

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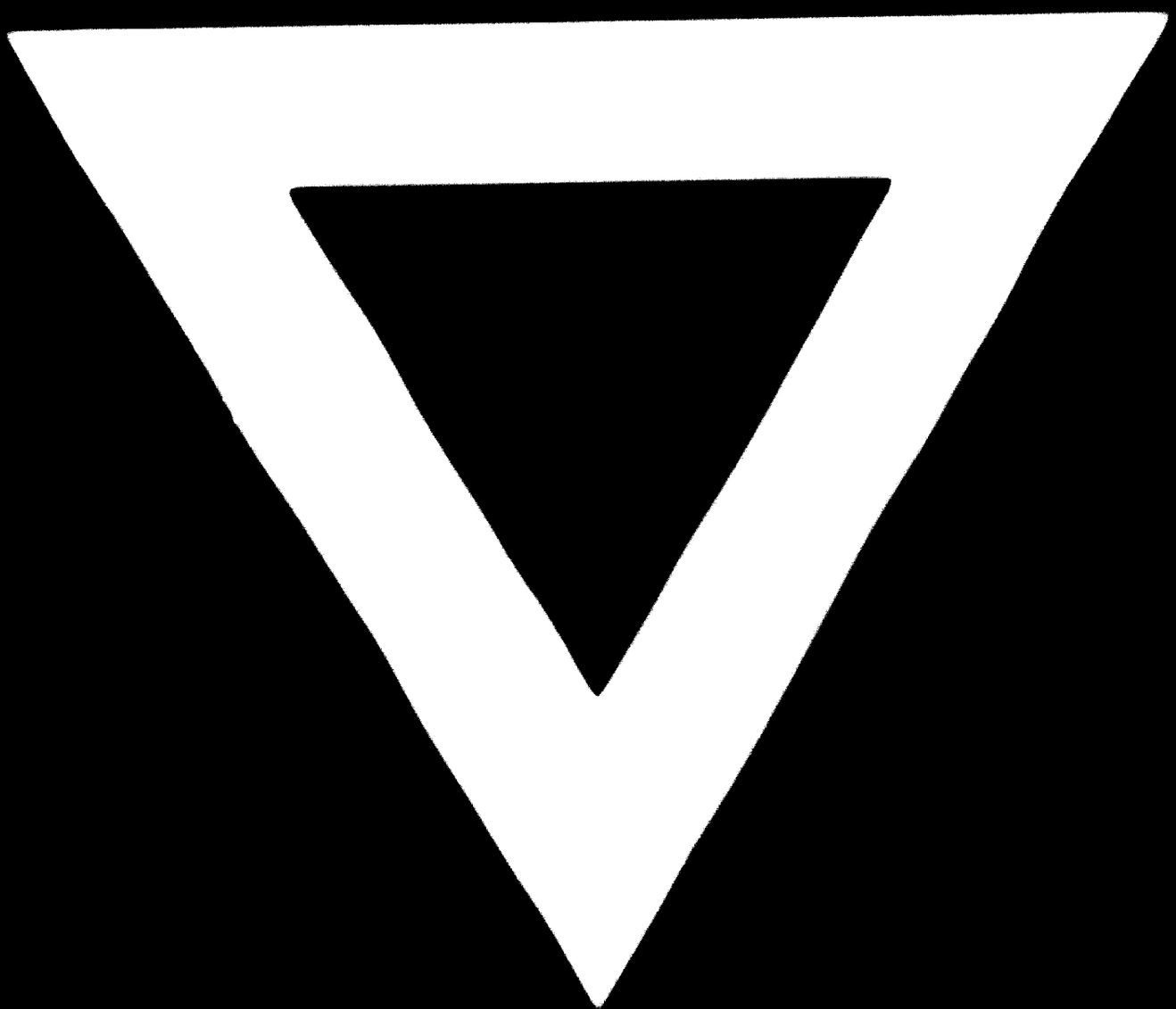

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