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INDUSTRIAL DEVELOPMENT IN THE ARAB COUNTRIES AND PROSPECTS FOR CO-OPERATION WITH THE EC AND OECD 1991 TO 2000

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FOREWORD

The first years of the 1990s are witnessing major changes in the international economy which affect the traditional relations between the Arab region and the EC/OECD countries.

First, rapid advances in technology, product development and changing forms of company interactions transform the modes of international competition. The Arab region is responding to these changes through industrial restructuring programmes emphasizing exports, improved competitiveness and a greater role of the private sector. Efforts are made to privatize important public industries established during the investment-intensive period of the 1970s and early 1980s. Second, there are strong tendencies towards regionalization of trade and finance flows, leading to increased market segmentation among the various regional blocs. The creation of a unified European Common Market in 1992 is likely to have a particularly pronounced effect on Arab exports of manufactured goods and indeed on the entire industrial development process of Arab countries. The liberalization of the Central and East European economies and their desire to be closely associated with the EC further accentuate the challenge. Third, the Gulf Crisis has deeply affected the Arab countries relations, alliances and co-operation schemes.

The combination of these trends and driving forces has made the future course of development in Arab countries unpredictable. Uncertainties prevail in terms of industrial development patterns, investment, trade policies and co-operation prospects with major economic partners, the OECD countries, in particular, the EC.

One of UNIDO's tasks is to monitor global industrial developments and to advise national/regional actors effectively on changing conditions and their effects. The present document briefly reviews the major current economic trends in order to facilitate policy formulation for industrial development in the Arab region and co-operation between the Arab Region and the OECD countries. The document was prepared by Regional and Country Studies Branch, with UNIDO consultant Pamela Ann Smith.

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EXECUTIVE SUMMARY

The present document briefly reviews developments in Arab countries during the past 25 years and notes the considerable progress made in the development of agriculture, communications, infrastructure, education, etc. The investible resources were available through raw materials exports. Oil is the most important raw material, but the region also has vast reserves of natural gas and non-metallic minerals for the cement and fertiiizer industries. There is also a considerable agricultural potential in some countries. The challenge of the 1990s will be to increasingly process these resources within the region itself, providing additional export income and employment to a strongly growing labour force. A development strategy which takes up this challenge should lead to a strong growth in the manufacturing industries which have so far played a rather subordinate role in the economies of most Arab countries, the sector's 1989 GDP share exceeding 15 per cent only in Jordan, Morocco and Tunisia.

The document shows that the heavy dependence on oil income has had major drawbacks: prices have been subject to great fluctuations during the past two decades. If anything, demand for oil will increase during the coming years, and OPEC output - largely provided by the Arab region - is expected to increase to 31.5 million b/d by the year 2000 - an increase of more than 40 per cent over 1991. This will translate in increased export earnings, but the very high earnings resulting from the second oil price shock in 1981 will not be parallelled again in the foreseeable future.

A major asset for future industrialization is the Arab market. While per capita levels of purchasing power vary widely among countries, the combined population of the Arab countries (214 million) is comparable to that of the EC and the USA; Muslim countries like Turkey, Pakistan and Iran, which are geographically contiguous with the Arab region, double the population constituting the potential "internal" market of the region. This potential has so far only been marginally exploited by Arab industrialists and investors.

The Arab region is heavily dependent on the OECD (and especially the EC) for its trade. The formation of a Single Market in the EC by end-1992 could have an adverse influence on Arab exports, at least in the short run and would mainly affect the non-oil exporters in the Arab Region. In the longer run, greater growth in the Community as a whole could lead to increased demand for outside imports.

The Arab region has so far also relied very heavily on the OECD/EC for the supply of basic inputs to the industrialization process: capital goods, high-level company staff and industrial services. One of the goals of increased co-operation among the countries of the region is to reduce this dependence. At the same time, the countries of the region are encouraging investors from within and outside the region to participate in a wide range of new industries such as for downstream processing of oil products, and capital and intermediate goods.

During the 1980s, the Arab region has witnessed a trend towards privatization and liberalization, encouraging foreign investment in industry. A disproportionate share of foreign investment was attracted to the Gulf countries, where investment legislation has maintained a pronounced liberal character. Most foreign investment is found in branches related to the sub-region's major raw material, i.e. oil. The Maghreb countries have become a major location for offshore industrial production for the EC. Traditional links, low wages and a favourable geographical location vis-à-vis the Community have prompted this development.

However, foreign investment has been generally constrained. A declining trend in OECD investment in the developing countries and uncertain prospects in the oil sector have been main causes. Other constraints, which have particularly affected investors from within the region include the lack of capital markets; the small markets for manufacturers; lack of qualified labour in some countries; business attitudes which do not favour industrial enterprise and innovation; and a lack of basic information on the opportunities and conditions in the countries of the region.

The document then takes a closer look at the present trade in manufactured products and at investment trends. It is shown that the manufactured exports of the region (which constituted only 5 per cent of its total exports by value ($4.3 billion) in 1987) to the OECD countries largely consist of products of the textiles and leather subsectors. Capital goods accounted for some 25 per cent of Arab manufactured exports in 1987. The EC countries were the major importers. Manufactured imports from OECD countries by the Arab countries were ten times the level of Arab exports. Again, the EC countries were the major trading partner. Capital goods constitute the most important single category. The expansion of manufacturing in the Arab countries has also resulted in a dramatic rise in imports of related services, especially in the fields of plant construction, engineering and design, insurance and transport, operations and maintenance, and software and data processing. Service imports were averaging close to $35.8 billion/year in the late 1980s, a figure not much below that of imports of manufactured goods, and the EC countries were once again the most important suppliers.

Foreign investment in Arab industry during the next few years is likely to be concentrated in the Gulf states (with the exception of Kuwait), Egypt and Syria as a result of their growing links with the USA, the EC and Japan following the Gulf war. Investment in Saudi Arabia will be particularly emphasized. The country's plans to expand its defence and internal security programmes are expected to have a major impact in this context. Plans by the Gulf states to revise existing legislation which so far banned foreign majority ownership in most firms, will also encourage further foreign industrial investment, as will the expansion of privatization programmes in both Egypt and Syria.

The middle income, populous countries of North Africa could also benefit from an increase in official aid and investment flows from the EC which are meant to reduce the pace of emigration from these countries. The big markets and large supply of labour available in Central and Eastern Europe could on the other hand be seen as alternative location for West European investors.

For foreign and Arab investors, the following sectors seem the most promising: water supply infrastructure, housing and social services infrastructure, extraction industries and related downstream industries, intermediate goods, capital goods, and consumer goods.

With regard to foreign trade in the near future, a continued dependence on the main OECD and EC trading partners is to be expected. Also, Arab exports of (particularly) petroleum-based products such as fertilizers and plastics to OECD countries are expected to increase considerably; intraregional trade in these products, however, should expand as well, and reduce the import dependence of the Arab region at least with regard to these goods. Basic metals, household goods and automotive parts are also among the products which are expected to be increasingly supplied by producers within the region.

Before the Gulf crisis, three regional co-operation schemes were taking shape: the Gulf Co-operation Council (Saudi Arabia, Qatar, Bahrain, the UAE and Oman); the Arab Co-operation Council (Egypt, Iraq, Jordan and Yemen); the Arab Maghreb Union (Algeria, Morocco, Tunisia, Mauritania, and Libya). The Gulf crisis has interrupted further progress of the Arab Co-operation Council. New modes of co-operation, however, are being established between Saudi Arabia and Egypt, and these could pave the way for a more general increase in co-operation between the major Arab oil producing countries (as a source of capital and raw materials) and the Arab countries with a large papulation (as a source of qualified technicians and skilled labour). Moves towards sub-regional and regional integration are being accompanied by new regulations governing the degree of foreign participation, and foreign partners will increasingly be required to hire and train local staff. Arab capital, hitherto predominantly invested in developed countries, is now being redirected to investment opportunities in the region. The cultural communalities of the countries as well as their geographic contiguity favour such a development. Increasing the overall levels of education and strengthening the training systems, however, are essential if the Arab countries are to become less dependent on outside expertise in the industrialization process.

The document concludes by highlighting the role of international organizations in stimulating industrial development in the Arab region and fostering co-operation between the region and the OECD. Given the current lack of information in the Arab countries on marketing and possible joint venture arrangements that can assure access to markets in the industrial countries, these agencies already fulfill a vital function, inter alia, in disseminating such information. International organizations, including UNIDO, are also important promoters of regional co-operation schemes.

As the Arab states and their private sector companies become more aware of the need for assistance in all areas of manufacturing, the creation of national and regional institutions aimed at promoting industrial production should create considerable scope for further assistance from international agencies, particularly UNIDO, in industrial development. Such assistance would have a major training component, to increase the region's supply of qualified labour.

I. Introduction

Almost two decades after the first "oil shock" of 1973/4, the Arab countries are revising their development strategies and reassessing their future economic and social priorities. Despite having made substantial strides in infrastructure, extractive industries, agriculture, transport and telecommunications, education and other social services, they remain primarily exporters of commodities--crude oil and natural gas, minerals and agricultural produce--to the world's main industrial countries.

Although GDP in the 20 Arab states grew from just over $24 billion in 1965 to more than $383 billion by the end of 1989, the severe economic recession in the second half of the 1980s, caused by falling world oil prices, and the eruption of the Gulf war in early 1991 halted progress and disrupted both investment and trade. The countries neighbouring Iraq are estimated to have lost income worth $4 billion in 1990 and could lose another $9 billion by the end of 1991 as a result of the conflict, according to World Bank estimates made in April 1991. Domestic markets, the supply of labour and financial flows also suffered dramatically, necessitating a re-orientation of policy in both the public and private sectors.

These developments coincided with a major reformation of the world's trading structure in the industrialized countries. National policies in North America, Europe and the Far East fostered the formation of large trading blocks which, it is feared, could adversely affect not only the Arab countries but also producers and consumers elsewhere in Asia, Africa and Latin America. Delays in reaching agreements on measures to open agricultural and textile markets, to promote free trade in services and to protect intellectual property rights as a result of the failure of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) talks in 1990 also adversely affected trade and investment prospects in the developing countries.

Natural Resources

Nevertheless, the Arab world has substantial advantages in its favour as it seeks to embark on a second wave of industrialization and to expand its trade in manufactured goods in the remainder of the 1990s. First and foremost are its extensive natural resources, which include more than half the world's reserves of crude oil and one-fifth its reserves of natural gas, as well as important deposits of phosphates, iron ore, base metals, chromium, sulphur, marble, gypsum, gold, silver and such strategically important metals as uranium, vanadium, tungsten and manganese. The development of industries based on these resources, including petroleum products, petrochemicals and other heavy industries such as iron, steel and aluminium is already a major priority.

Agriculturally, the region's natural resources also include highly fertile land in the Nile, Tigris and Euphrates river valleys, along the Mediterranean coasts of North Africa, Lebanon and Syria as well as in other countries adjoin adjoining the Red Sea and Indian Ocean. Some of the world's richest fishing grounds are located adjacent to Morocco and Mauritania, Yemen and Oman, and other important marine life is found in the Red Sea and in the Gulf. Livestock, poultry and dairy production is expanding rapidly, even in parts of the Arabian Peninsula where oil revenues have helped to provide the basis for both irrigated and greenhouse cultivation. Forestry and timber products are also produced in the Maghreb countries, as well as in Sudan, Somalia, Syria and Lebanon.

Markets and Labour

Although in terms of overall per capita income the Arab region as a whole remains part of the developing world. the combination of a high birth rate plus a rising per capital income makes it potentially one of the most important international markets. By the year 2,000. the population of the 20 Arab countries is expected to reach some 285 million, compared to just over 200 million in 1987. Together with the neighbouring Muslim states of Iran. Turkey and Pakistan, it forms an extensive trading area that, by the year 2,000, will consist of some 577 million people. Moreover, this figure is likely to rise still further as economic and financial ties are expanded with other important Muslim communities in Central Asia, the Indian sub-continent and Southeast Asia, as well as in East and West Africa.

The relatively high share of those aged 15 to 45 in the demographic profile of most Arab states also favours the expansion of domestic demand. particularly for consumer and semi-finished goods. Moreover, while some Arab countries, such as Somalia, Mauritania and Sudan, rank among the world's poorest in terms of purchasing power, the per capita incomes of most of the oil producing states compare favourably with those of Europe. In the case of the six Gulf Co-operation Council countries (Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman), they averaged more than $10,000 a year, ahead of Hong Kong and New Zealand and just below Australia and the United Kingdom, according to data published in 1990 by the World Bank.

The existence of a common culture and language across national borders also makes the Arab region uniquely wealthy in terms of its potential labour supply. While countries such as Saudi Arabia and the United Arab Emirates must import a substantial portion of their working population, the region as a whole has huge reserves of highly skilled professionals, technicians, managers, clerical staff and labourers to realize development potential, reducing un- and underemployment. The increasing emphasis on both academic and vocational training has also helped to improve the valorization of labour, a fact that will take on increasing importance as labour migration to Europe and some of the Gulf states is discouraged.

Financial Flows and Free Trade

As the world's major energy exporting region, the Arab world benefits from substantial oil and gas revenues which have been deployed toward the development of industry and infrastructure. Saudi Arabia, Kuwait and the other Gulf states, together with the Libyan Arab Jamahiriya , Algeria and Egypt, have been the main beneficiaries, with Yemen, a newcomer to the club of Arab oil exporters, joining the list in 1989. During the second half of 1990, combined production of crude oil by these countries (excluding Egypt and Yemen) averaged an estimated 14.7 million barrels a day (b/d). At an average price of $25 a barrel, this was worth some $367 million a day, or about $66 billion for the half-yearly period.

Although this figure was expected to fall by the end of 1991 as a result of a reduction in world oil prices at the end of the Gulf war in February (and possibly by a reduction in output by Saudi Arabia and the UAE as well), the decline in revenues for the Arab world as a whole could be offset considerably by a resumption of oil exports by either Kuwait or Iraq and by increased output in Yemen. Similarly, the completion of the first stage of the huge North Field gas project in Qatar will bring added revenues to the region from the export of natural gas to Europe and the Far East by the mid-1990s.

As a result, while virtually all the Arab oil and gas exporting countries will remain highly vulnerable to fluctuations in world demand and in world energy prices, the region will continue to be able to draw on substantial capital flows to finance development. Moreover, the availability of cheap energy fuels and of inexpensive feedstocks should further promote the expansion of the refining and petrochemical sectors in the Arab oil exporting countries in addition to encouraging the development of heavy industries--such as iron, steel and aluminium smelting--which rely heavily on energy inputs and of smaller scale downstream industries linked to these sectors.

Access to capital--including substantial earnings in hard currencies in the case of the Arab oil exporting countries--has also helped to make the Arab world one of the most important markets for imports from the main industrial countries. In 1989, OECD exports to the Arab countries were valued at more than $83 billion, more than half of which came from the 12 member states of the European Community (EC) alone. This figure compares with only $62 million two years earlier, when almost 70 per cent, or $42 billion, was accounted for by imports of machinery and transport equipment and manufactured goods. Capital goods imports from the OECD in 1987 were valued at just under $25 billion, or about 40 per cent of the total imports from the EC, 42 per cent from the USA and 65 per cent in the case of Japan.

GDP and MVA

Of the $383 billion in combined GDP recorded by the Arab countries in 1989 (see above), the share of industry's contribution ranges from a high of 56 per cent in the case of Kuwait to only 10 per cent in the case of Somalia (see Table I.1). As the figures include extractive industries, i.e. crude oil, natural gas and mining output, the actual figures for the percentage derived from manufacturing are lower. These range from only 5 per cent in the case of Somalia to 17 per cent in the case of Morocco, where the development of light industrial products both for domestic use and for export, mainly to the EC, is more advanced. Egypt ranked a close second, with manufacturing taking a 16 per cent share, again reflecting its longer history of industrial development.

Table I.1
Gross Domestic Product and Distribution of GDP, 1989

Country	GDP ($ billions)	Industry (%)	Manufacturing (%)
Algeria	39.8	44	14
Egypt	31.6	30	14
Jordan	3.9	29	16
Kuwait	23.5	56	9
Morocco	22.4	34	17
Oman	7.7	80	4
Saudi Arabia	80.9	45	8
Somalia	1.1	10	5
Syria	11.5	23	n.a.
Tunisia	8.9	33	16
UAE	28.3	55	8
Total/Average	259.6	40	11

Source: World Bank, World Development Report 1990, Washington D.C., 1991
GDP is shown at purchaser's prices.

Of the total \$43.7 billion in manufacturing value added (MVA) produced by the Arab countries in 1989, Saudi Arabia alone accounted for almost one-sixth, with a total of \$7.3 billion, most of which is accounted for by its hydrocarbons sector, although its non-oil output is growing as well. The other oil producers also registered high on the list: Iraq came in second with \$5.9 billion, while Kuwait registered a total of \$3.3 billion and the UAE \$2.4 billion. Significantly, however, both Morocco and Algeria scored high as well, ranking third and fourth with figures of \$5.8 billion and \$5.3 billion respectively. While Algeria exports both crude oil and natural gas, Morocco has no such resources, and the performance of both states demonstrates the success which they have achieved through investment in light industry and semi-finished goods (see Table I.2).

Table I.2
Manufacturing Value Added (MVA), 1989

Country	MVA ($ bn at current prices)	Average growth (%)
UAE	2.4	5.6
Bahrain	0.6	1.9
Algeria	5.3	-19.0
Saudi Arabia	7.3	10.4
Iraq	5.9	-12.2
Oman	0.4	11.8
Qatar	0.8	14.6
Kuwait	3.3	22.5
Libya	1.8	5.6
Jordan	0.5	-16.4
Tunisia	1.4	2.0
Dijibouti	0.0*	3.4
Sudan	0.8	13.0
Syria	2.3	75.8
Somalia	0.1**	-29.7
Lebanon	0.3	0
Egypt	3.9	0.7
Morocco	5.8	12.2
Mauritania	0.0+	-1.7
North Yemen	0.9	34.3
South Yemen	0.1	3.3
Total/Agerage	43.7	2.6

* \$27.6 million; ** \$60.0 million; + \$45.7 million. Total may not add up due to rounding.

Source: Arab Monetary Fund, Al-Taqrir al-Iqtisadiyyi al-Arabiyyi al-Muwahid (United Arab Economic Report), 1990, Abu Dhabi, 1991.

In terms of average growth, however, the figures show extreme variations. Syria ranked highest, with a figure in 1989 of 75.8 per cent, followed by North Yemen with 34.3 per cent, a reflection of the expansion of the hydrocarbons sector in both countries. Kuwait also showed an impressive performance, with MVA growing by 22.5 per cent, as petrochemical production and utilities received priority funding. At the bottom of the table, MVA in Somalia, Algeria, Jordan and Iraq declined considerably, with the figures ranging from a high of 29.7 per cent in the case of Somalia to 12.2 per cent in the case of Iraq. Political disruptions and the burden of debt repayments may have been significant factors during the year for these countries.

Few up-to-date figures are available for the distribution of MVA, but those produced by the World Bank for 1988 show that the production of food, beverages and tobacco dominates MVA in Algeria, Egypt, Jordan and Somalia (see Table I.3). Textiles and clothing account for 20 and 13 per cent of MVA in the case of Egypt and Algeria respectively, while in Kuwait, other industries--mainly refined petroleum products, petrochemicals and fertilizers--dominate. Algeria has a relatively larger share for the production of machinery and transport equipment: this sector contributed 13 per cent of MVA in 1988.

Table I.3
Distribution of MVA, 1988
(%)

Country	Food Beverage & Tobacco	Textile & clothing	Machinery & transport Equipment	Chemicals	Other*
Algeria	20	17	13	3	47
Egypt	29	20	9	17	25
Jordan	25	4	1	8	62
Kuwait	7	5	3	4	81
Somalia	59	13	2	4	27
Tunisia	20	20	4	9	47

* Includes unallocated data.

Source: World Bank, World Development Report 1990, Washington D.C., 1991.

Policy reforms that seek to encourage the growth of industry and of MVA in all sectors will be major priorities for most of the Arab states in the 1990s. New frameworks for appraising the role that technology transfer can play in creating horizontal, as well as vertical, linkages are being drafted, as are plans to increase further the valorization of labour and of human resources in general. Countries and regions that depend on the Arab world either for sources of energy or for markets are, in turn, reconsidering their relationships, whether political, financial or economic, as awareness of the importance of stability in this vital part of the globe increases. In this regard, OECD and EC governments need to consider policies that further such stability while at the same time encouraging reforms aimed at liberalizing trade and investment in the region. International organizations, and the UN agencies in particular, through their access to decision-makers, technical assistance and know-how can provide an important focal point for encouraging such co-operation, especially given their orientation toward longer-term development needs.

II. Economic Outlook and Industrial Development Trends in the Arab Region

A. Macro-Economic Outlook

As the 1990s began, the 20 Arab states were looking forward to a new period of prosperity following the second half of the 1980s when plunging oil prices, rapidly accumulating foreign debts and the Iran-Iraq war dampened optimism and prospects for the enlargement of their industrial sectors. Oil prices had begun to improve once again and debt service payments looked set to fall given lower interest rates, a lower dollar and promises of increased OECD aid. Throughout the region, measures were being taken to encourage the private sector in an effort to attract more local and foreign investment and to reduce unemployment.

The outbreak of war in the Gulf following the Iraqi invasion of Kuwait in August, 1990, however, has led to a radical revision of economic policies in virtually all the Arab states. While many of these policies are still to be elaborated, it is clear that the conflict has once again focussed the world's attention on the importance of the Arab oil exporting countries in the world economy as well as on the political vulnerability of the region as a whole. Similarly, the plight of millions of refugees caught up in the turmoil, together with the prospect of a severe reduction in labour migration to the EC countries, has highlighted the potential disruption which can occur when social and political problems--both domestically and regionally--are ignored.

As a result, industrial development policies in the Arab world are now being radically re-examined by government officials, while private and foreign investors are revising their medium- and long-term plans to take account of the new circumstances. In the next decade, much will depend on the degree to which Arab oil and gas revenues can be maintained, or increased; on the political re-alignments currently underway and on the degree to which both public and private investment can be obtained, particularly in view of the loss of millions of dollars of remittances from Arabs working in the Gulf states and the massive capital flight which occurred after the Iraqi invasion.

1. Oil and Gas Revenues

Historically a centre of world trade and a major exporter of agricultural produce, the Arab world has undergone rapid change since the discovery of crude oil and the commencement of substantial hydrocarbon exports in the aftermath of the Second World War. Until the early 1970s, much of this natural wealth was produced by foreign oil companies operating in concessions granted by the respective government, and the ability of the individual Arab states to marshal these resources for their own development was limited. However, in the wake of the Arab-Israeli war of 1973, Arab producers succeeded in nationalizing these assets and in obtaining a four-fold rise in oil prices. Further price rises led to a second "oil shock" in the early 1980s. As a consequence, Arab oil revenues rose to unprecedented heights, reaching a total of almost $162 billion in 1981 for the Gulf states (Saudi Arabia, Kuwait, Bahrain, Qatar, UAE and Oman) alone (see Table II.1).

By 1986, however, the combination of increased energy conservation in the main industrial consuming countries, increased production by non-OPEC producers such as the UK, Norway, Mexico and the Soviet Union, and excessive OPEC output forced oil prices down to levels not experienced since 1974, when prices had risen fourfold as a consequence of the nationalizations. Despite efforts later in the decade by OPEC to enforce quota and price discipline on its members. oil revenues for the six Gulf states fell to less than $53 billion. according to estimates compiled from IMF and Arab government data.

Table II.1
Population, 1989 - 2000
(millions)

Arab Countries	Year 1989	2000
Algeria	24.4	33.0
Bahrain	0.5	n.a.
Djibouti	0.4	n.a.
Egypt	51.0	62.0
Iraq	18.3	26.0
Jordan	3.9	5.0
Kuwait	2.0	3.0
Lebanon	2.9	n.a.
The Libyan Arab Jamahiriya	4.4	6.0
Mauritania	1.9	3.0
Morocco	24.5	32.0
Oman	1.5	2.0
Qatar	0.4	n.a.
Saudi Arabia	14.4	21.0
Somalia	6.1	9.0
Sudan	24.5	33.0
Syria	12.1	18.0
Tunisia	8.0	10.0
UAE	1.5	2.0
Yemen	11.2	17.0
Total Arab	213.8	282.0
Other Middle East		
Turkey	55.0	68.0
The Islamic Republic of Iran	53.3	77.0
Pakistan	109.9	155.0
Total non-Arab	218.2	300.0
TOTAL MIDDLE EAST	432.0	582.0

n.a. = not available
Source: World Bank, World Development Report, Washington D.C., 1991.

Although both oil prices and OPEC exports recovered dramatically in the second half of 1990, following the Iraqi invasion of Kuwait in August and the consequent loss of Iraqi and Kuwaiti exports, they fell back sharply after the end of the Gulf war. The average spot price for Saudi Arabia's Arab Medium crudes, for example, fell from $30.14 in October, 1990 to only $14.98 in May, 1991, while for the UAE the comparable figures for its Dubai crude were $31.54 in October and only $15.95 in May. Over the same period, combined OPEC oil export revenues halved, falling from $20 billion in October to $10 billion. (1)

While some of these declines reflected a seasonal drop in demand in the main consuming countries due to the onset of spring and to overstocking during the war, few industry observers expected the higher prices to resume in the medium-term. Although the damage caused to the Kuwaiti oil fields during the conflict was considerably higher than even the most pessimistic observers had expected prior to the outbreak of war, and UN sanctions continued to prevent an early resumption of Iraqi supplies, a consensus was emerging by mid-1991 among oil experts that, sooner or later, both Kuwait and Iraq would be pumping as much oil as possible, irrespective of OPEC's need to limit its combined output to maintain prices at its target of $21 a barrel level. Given doubts that either Saudi Arabia or the UAE would agree in 1992 to reduce their production back to pre-war levels to enable OPEC to absorb rising output from either Kuwait or Iraq, the forecast was for oil prices to continue near their bottom levels (with some slight firming during the winter as consuming countries' demand increases temporarily) during most of 1991 and the first half of 1992, especially given the prospect that the economic recession experienced in the USA would take longer to end than was anticipated in early 1991. (2)

Despite this, the long-term prognosis for oil prices appears to support those who argued prior to the war that the world supply/demand situation would favour substantial rises by the mid-1990s through to the end of the decade. A study by UK accountants Ernst & Young, released in June, 1991, estimates that world demand, outside Eastern Europe, will require an extra 5 million to 8 million b/d, mostly from OPEC producers, to satisfy expected consumption of 58 million to 61 million b/d by the year 2,000. OPEC also reported in June that the organization expects to be supplying 31.5 million b/d by 2,000, 9.3 million b/d more than OPEC out put in June, 1991. (3)

The extent to which this additional demand is reflected in higher world oil prices, and in higher revenues for Arab oil producers, will be contingent both on talks OPEC is planning to set up with the main consuming countries during the next 18 months and on OPEC output. Saudi Arabia is currently engaged in a programme to expand oil productive capacity to 10 million b/d, while the Islamic Republic of Iranis expected to seek to raise its output to 4 million to 5 million b/d by the mid-1990s. (4) While world demand may be able to absorb this increased production by two of OPEC's most important producers, particularly if Soviet output continues to fall and demand increases in Eastern Europe, excessive output by either Iraq or Kuwait to help finance the costs of war reconstruction could push combined OPEC output beyond the levels needed to obtain an oil price higher than the average of $18.58 a barrel which prevailed in the first half of 1991. (5)

Assuming, therefore, that OPEC oil prices remain constant in real terms through the mid-1990s at about the $18 a barrel figure recorded in mid-1991, any rise in Arab oil revenues will be achieved either through a more general rise in combined OPEC output or an increase in market share vis-a-vis non-Arab OPEC producers. Thus, while Gulf oil revenues of an estimated $52.8 billion in 1989 were achieved with an average OPEC oil price of $17.36 a barrel and of combined OPEC output of 21.4 million b/d, an average price of $18 a barrel together with an OPEC output in 1995 of 24 million to 25 million b/d could lead to a substantial rise in Arab oil revenues by 1995.

In addition, the expectation that the Gulf producers will continue to increase their market share, which had risen from 43 per cent of combined OPEC output in the first half of 1990 to 47 per cent by May, 1991 despite the loss of Kuwait output, is likely to lead to further rises in Arab oil revenues above and beyond those which would accrue from either increased oil prices or increased world demand for OPEC supplies. (6) To this extent, Gulf revenues could rise to $80 billion to $90 billion by 1995, compared to the $52.8

billion recorded in 1989, while for the Arab producers as a whole, the figure could be in excess of $120 billion.

2. Political Alignments and Arab Aid Flows

The Gulf war has also led to a dramatic realignment of foreign relations among the Arab states, a development that will have profound effects on inter-Arab aid flows, investment, trade and labour migration. Prior to the Iraqi invasion, sub-regional blocks had been formed which grouped together all but five of the Arab League States.

While the Gulf Co-operation Council (GCC), whose members include Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman, was formed in 1981 to promote greater integration between newly independent states with small populations, the establishment of the Arab Co-operation Council (ACC) and of the Arab Maghreb Union (UMA) at the end of the 1980s reflected a mutual concern on the part of the member states regarding their ability to compete in an international environment that was becoming increasingly dominated by three main trading blocks: the USA and Canada, the European Community (EC), Japan and the newly industrialized economies (NIEs) of Asia and the Pacific.

As a consequence of the Iraqi invasion of Kuwait, the ACC, whose members included Egypt, Iraq, Jordan and North Yemen, has virtually ceased to function. While Egypt found itself allied with Kuwait during the conflict, Jordan retained good relations with Baghdad, not least because of the presence of a large number of Palestinians in Jordan and its vital dependence on Iraqi oil supplies. North Yemen, which merged with South Yemen in May, 1990, in turn refused to support the allied campaign against Iraq and subsequently suffered the expulsion of hundreds of thousands of its citizens working in neighbouring Saudi Arabia.

Within the GCC, ties formed prior to the war were reinforced as each of the six states took part in the military campaign to oust Iraq from Kuwait. Regionally, however, the GCC's relations with its neighbours underwent a dramatic transformation. Having supported Iraq during its eight-year war with Iran, the GCC states reversed their policies in the aftermath of the struggle to form closer ties with Tehran, whose policies of neutrality during the war had greatly helped to undermine the Iraqi threat. The Damascus Declaration, signed in March, 1991, also spelled out the GCC's growing links with Egypt and Syria, both of which had supplied troops to the allied coalition (see Chapter III). (7)

Despite Morocco's early support for the US-backed allies, the UMA countries, which include Algeria, Tunisia, the Libyan Arab Jamahiriya and Mauritania as well as Morocco, generally opposed the military action against Iraq and, as a consequence, have found their relations both with the US and with the Gulf states extremely strained. While this may to a certain extent be offset by greater aid from those European countries such as France, Germany and Italy which sought a peaceful resolution to the conflict, as well as from the World Bank, there is little doubt that, together with Yemen, Sudan, Jordan and the Occupied Territories of the West Bank and Gaza, the Maghreb states will experience a decline in trade and investment flows from those countries which supported the anti-Iraq alliance.

3. Capital Flight and Private Investment

This new emphasis on using political criteria for determining economic assistance to the Arab states also reflects the worsening financial situation within the Gulf states as a result of the war. Countries such as Saudi Arabia and Kuwait have had to draw on the substantial foreign assets they accumulated in the 1970s and early 1980s to help fund the allied war effort and to provide aid to their Arab coalition partners. Both were also drawing up plans in the autumn of 1991, along with Bahrain, Oman, Qatar and the UAE, to borrow substantial sums in international markets to finance development projects and, in the case of Saudi Arabia, its balance of payments deficit as well.

The flight of billions of dollars of private capital from the Gulf states, together with the withdrawal of interbank credit lines by international banks in the aftermath of the Iraqi invasion of Kuwait, also depressed investment in the GCC states during the second half of 1990 and in early 1991. While confidence in the commercial banking sector was restored somewhat during the crisis as a result of government support for the banks (mainly in the form of government deposits), a radical overhaul of Gulf banking, particularly in Kuwait, Bahrain and the UAE, is expected during the early 1990s.

Public investment will also be affected by the continuing need to pay for the allied military effort in the case of Saudi Arabia and Kuwait, by increased defense expenditure, the costs of reconstruction, and by the need to provide additional military and economic aid to countries such as Egypt, Syria, Turkey and Pakistan, which are expected to play a larger role in the security affairs of the Gulf states. As a result, virtually all the Gulf states are expected to experience budget deficits through the early 1990s, thereby placing a strain on capital investment in industry. Government borrowing will also hinder the development and expansion of local capital markets in the Gulf and could lead to delays in plans to privatize public industries despite forecasts of continued high liquidity in the leading Saudi banks. (8)

Elsewhere, however, countries such as Egypt and Syria are expected to accelerate their plans to streamline public sector industries and to create new incentives for foreign investment. The end of the civil war in Lebanon will also foster new opportunities for private sector growth and for an expansion of investment banking and financial services outside the Gulf.

Inter-Arab trade in manufactured goods can also be expected to increase in the 1990s between the Gulf states, Egypt and Syria, but, once again, will be adversely affected in the case of the Maghreb states, Yemen, Jordan, Sudan and Somalia which, in addition to their lack of participation in the allied war effort, also suffer from the international inconvertibility of their currencies--Yemen excepted--rising levels of external indebtedness. While Sudan, Jordan and Mauritania may in the future benefit from increased Iraqi demand for their products once international sanctions are lifted, the benefits are extremely unlikely to offset the losses in export revenues suffered as a result of the conflict.

In the case of Yemen, the modernization of the huge oil refinery at Aden, together with rapidly rising crude oil export revenues, could help it to escape from the otherwise negative effects of its alienation from the GCC states. Finally, the credit squeeze affecting private sector Kuwaiti companies, which is expected to last at least until the mid-1990s, could provide an incentive for them to turn more to countries such Algeria, Morocco and Tunisia--as well as Egypt--for supplies of consumer goods such as passenger cars, textiles, clothing, household durables and processed foods.

B. Resources for Economic Development

1. The Arab Market

Together, the 20 states of the Arab League formed a market of almost 214 million people by the middle of 1989 (see Table II.1). This compares to a figure of 275 million for the United States and Canada, 326 million for the 12 member countries of the European Community (EC) and 123 million for Japan--the world's three main free-trade blocks. However, if the neighbouring Muslim countries of Iran, Pakistan and Turkey are taken into account as well, the figure for the Middle East as a whole doubles, totalling 432 million people in all, more than any of the other major trading regions.

Moreover, plans by some of the Arab North African states to expand further their commercial ties with the neighbouring Muslim communities of sub-Saharan Africa and by some of the Gulf states to accelerate economic and commercial links with other Muslim states in the region, such as Afghanistan and Bangladesh, as well as with the largely Muslim populations of Azerbaijan, Turkmenistan, Uzbekistan, Tajikistan, Kirghizia and Kazakhstan, could create a wider regional market totalling as much as one billion people.

While there is little doubt that the Arab world is more fragmented economically and politically than North America, western Europe or Japan, the commonality of a language and religion shared by the overwhelming majority of Arabs makes the region a huge potential market in theory, if not yet in practice. The formation of a common market in the Gulf states in the early 1980s--the Gulf Co-operation Council (GCC)--and the implementation of current plans to create an Arab Maghreb Union (AMU), consisting of Morocco, Algeria, Tunisia, the Libyan Arab Jamahiriya and Mauritania, is already leading to the integration of economic, financial and industrial planning across many state borders in the region. In the 1990s, these new groupings, together with the closer links being forged between the Gulf states and those Arab countries which took part in the allied coalition against Iraq, will play a vital role in helping to channel Arab capital and labour into new trans-national joint ventures aimed at increasing the share of Arab value added and at providing new products designed specifically for Arab and Muslim markets.

Perhaps even more importantly, given the extremely high rate of population growth in most of the Arab countries, the combined Arab market is one of the most significant in terms of potential demand. Forecasts by the World Bank, using their own and United Nations figures, show that the total population of the Arab world is expected to reach more than 282 million people by the year 2,000. Egypt alone will have some 62 million people. Algeria, Morocco and Sudan will each have populations ranging in size from 32 to 33 million people, while Iraq and Saudi Arabia's will amount to 26 and 21 million respectively, according to the Bank's estimates.

Looking further afield, the population of Pakistan is set to rise by almost 41 per cent during the next decade, according to the Bank's figures, while that of Turkey and the Islamic Republic of Irantogether is expected to grow by more than one-third. As a result, the population of the Middle East as a whole is expected to total more than 582 million by the year 2,000, making the region's potential market one of the largest in the world, even without including Afghanistan, Bangladesh and the Central Asian republics or the Muslim countries of sub-Saharan Africa. In contrast, the population of the 12 member states of the EC is expected to rise by no more than 9 million, to 335 million, by the year 2,000, while that of the US and Canada is expected to total just over 300 million and Japan only 131 million.

In terms of purchasing power, however, the Arab states differ widely in terms of their personal incomes (gross domestic product per capita). The figures range from $500 a year or less for countries such as Somalia, Mauritania and Sudan to $5,310 for Libya, $5,220 for Oman, $6,020 for Saudi Arabia and an estimated $8,500 for Bahrain (see Table II.2). Three of the Gulf states--Kuwait, Qatar and the United Arab Emirates--enjoy higher per capita incomes than many states in Europe, while the UAE's alone, at $18,430, is higher than that of the United Kingdom, France and Italy.

Table II.2
Personal Income, 1989
($)

Country	Amount
Arab countries:	
Algeria	2,230
Bahrain	8,500*
Egypt	640
Iraq	n.a.
Jordan	1,640
Kuwait	16,150
Lebanon	n.a.
The Libyan Arab Jamahiriya	5,310
Mauritania	500
Morocco	880
Oman	5,220
Qatar	15,500
Saudi Arabia	6,020
Somalia	170
Sudan	330*
Syria	980
Tunisia	1,260
UAE	18,430
Yemen	650
Other Middle East:	
The Islamic Republic of Iran	3,200
Turkey	1,370
Pakistan	370

Source: World Bank, World Development Report, 1991; figures represent gross domestic product (GDP) per capita.
* Estimated.

Consequently, as a group the six GCC states possess the highest purchasing power within the Arab world even though their combined population, at 20.3 million, represents less than one-third that of the Maghreb's. Average purchasing power in the Gulf states amounts to just under $11,640 a year, compared to an average of only about $2,000 for North Africa ($2,400 excluding Mauritania), $640 for Egypt, $980 for Syria and $1,640 for Jordan. (9)

Moreover, since nearly 40 to 61 per cent of the population of the Arab countries falls between the 15-to-44 age bracket, i.e. the group with the highest purchasing power, the region's age profile accentuates its disposable income from a marketing point of view. The resulting high level of household formation also favours the creation of local consumer goods manufacturing and other light industries which can provide important import substitution in terms of products such as furniture, lighting equipment, small electrical appliances, white goods, kitchen ware, carpets and furnishings, infant and baby care and passenger cars as well as building materials, sanitary ware, marble and tiles, joinery and carpentry, handicrafts and aluminium and steel fabrications.

Joint ventures catering to these needs, as well as to the demand for pre-fabricated housing, clothing and textiles, plastics and other durables, producing both generic goods and brand names under license from international manufacturers, constitutes another prospective area for industrial expansion and industrial investment in the area. This is especially the case where local assembly, i.e. using imported kits, can reduce cap ital costs and capital goods imports.

2. <u>Oil, Gas and Minerals</u>

Although at first oil production was primarily centred in the states bordering the Gulf--Iraq, Kuwait, Saudi Arabia, Bahrain and Qatar--the list of Arab exporting countries has since grown to include the United Arab Emirates, Oman and, most recently, Syria and Yemen, as well as others in North Africa--Algeria, Tunisia, the Libyan Arab Jamahiriya and F[illegible] Important commercial finds have also been reported in Sudan, while Morocco possesses extensive reserves of oil shale.

Figures produced by British Petroleum show that reserves of crude oil in the Arab countries at the end of 1990 amounted to 607.3 billion barrels, or slightly more than 60 per cent of total world reserves (see Table II.3). Saudi Arabia alone possesses 257.5 billion barrels, one-fourth of the global figure, followed by Iraq, the UAE and Kuwait with reserves ranging from 94.5 to 100 billion barrels each.

While Arab reserves of natural gas are not as impressive as those for crude oil, they are nevertheless still very substantial (see Table II.4). The six GCC states have combined natural gas reserves of 17.3 trillion cubic metres, 14.5 per cent of the world total, while together the main Arab producers have reserves of 24.8 trillion cubic metres, about one-fifth global reserves.

The existence of these huge hydrocarbon resources has given rise in the past 40 years to the development of some of the world's largest refineries, petrochemical, fertilizer and gas liquefaction plants as well as to the establishment of heavy industries, such as aluminium smelting and iron and steel production, that require high levels of energy inputs. The creation of still more value added, through the expansion of downstream industries, is a major priority in the Arab oil and gas producing countries, as is the expansion of their market share in the main consuming countries of North America, Europe and the Far East.

The location of the Arab world above some of the most significant geological formations has also given them a wealth of mineral resources that have great potential for the creation and/or expansion of their mining and metallurgical industries. Morocco alone possesses some two-thirds of the world's known phosphate rock deposits and significant reserves are also found

Table II.3
Crude Oil Reserves, 1990
(billions of barrels)

Country	Amount
Saudi Arabia	257.5
Iraq	100.0
UAE	98.1
Kuwait	94.5
The Libyan Arab Jamahiriya	22.8
Algeria	9.2
Neutral Zone*	5.0
Qatar	4.5
Egypt	4.5
Oman	4.3
Yemen	4.0
Syria	1.7
Tunisia	1.7
Arab Total	607.8
World Total	1,009.2
Arab Share (%)	60.2

* Shared between Saudi Arabia and Kuwait.

Source: B.P. Statistical Review of World Energy, 1991. All figures are for proved reserves.

Table II.4
Major Natural Gas Reserves
(trillion cubic metres)

Country	Amount
UAE	5.7
Saudi Arabia	5.1
Qatar	4.6
Algeria	3.2
Iraq	2.7
Kuwait	1.4
Libya	1.2
Egypt	0.4
Neutral Zone*	0.3
Bahrain	0.2
Arab Total	24.8
World Total	119.4
Arab Share (%)	20.5

* Shared between Saudi Arabia and Kuwait.

Source: See Table II.3

in Tunisia, Algeria, Mauritania, Egypt, Jordan and Syria. In some Arab states, the rock is refined into phosphoric acid--a vital component of detergents and fertilizers--for export, but only a few have actively developed related by-products, including sulphur and uranium.

Mauritania is also a major world producer of iron ore for export, and other substantial deposits exist in other parts of North Africa and in the Arabian Peninsula, as do important reserves of coal. Copper, lead, zinc and other base metals are currently produced in the Maghreb states but commercially exploitable reserves also can be found in Yemen, Oman and the UAE. Saudi Arabia and Morocco both possess significant deposits of gold and silver, while Sudan, Oman and the UAE have strategically important reserves of chromium.

Cement is produced commercially in Saudi Arabia, Oman, the UAE, Algeria, the Libyan Arab Jamahiriya and Jordan, while reserves of gypsum are being exploited in Yemen, Mauritania, Sudan and the Libyan Arab Jamahiriya as well as in parts of the Arabian Peninsula. Other important deposits of minerals important for building materials industries--such as marble and granite--are being developed in Saudi Arabia, Yemen and Sudan.

Virtually all the Arab countries currently produce salt, but Egypt's sector is the most developed, producing some one million tonnes annually. Potential also exists in several Arab states for the development and exploitation of such strategically vital metals as tungsten, fluorspar, vanadium and selenite, as well as uranium (both as a by-product of phosphoric acid production and as uranium ore.) Finally, exploration of the seabed in the Red Sea and Indian Ocean has confirmed the existence of some of the world's largest reserves of manganese and molybdenum, although these are yet to be developed by the coastal countries involved; namely Saudi Arabia, Sudan and Yemen.

3. Finance and Debt

While oil revenues for the main Arab oil producing countries are expected to witness a substantial rise by the mid-1990s, possibly from $52.8 billion in 1989 to as much as $90 billion by 1995 (see Table I.1), many of the Arab countries with little or no hydrocarbon resources are carrying a huge burden of debt caused by the low commodity prices that prevailed in the second half of the 1990s, the huge rise in world interest rates and adverse effects on their exchange rates vis-a-vis the leading hard currencies. For the 11 main Arab debtor countries, the combined burden of external debt has doubled since 1981, rising from $68.8 billion to $137.5 billion by the end of 1989--the last year for which comparable figures are available (see Table II.5)

At the beginning of the 1990s, Egypt led the list of debtor countries in the region, with a figure of $48.8 billion, nearly one-third the Arab total. However, as a result of its support for the allied coalition during the Gulf war, the USA, the GCC states and some of its Paris club creditors have written off substantial portions of the amount owed for past military purchases. This was expected to bring its total external debt down to some $25 billion by the end of 1991. Additional sums are being re-scheduled over a longer period, thereby also reducing the country's future debt payments profile significantly (see Chapter III).

Syria is also expected to benefit from its political support for the coalition. Its debts, amounting to $5.2 billion at the end of 1989, were being re-negotiated with some of its main creditors during the second half of 1991. However, little action is expected in the case of Algeria, which ranked second in the list of Arab debtor countries with a figure of $26.1 billion, and in the case of Sudan, fourth on the list with debts of $13 billion. Morocco, with a figure of $20.9 billion--making it the third largest Arab debtor at the end of 1989--could, however, also benefit from favourable treatment from its Western and Gulf creditors, although no firm agreements had been announced by the end of August, 1991.

Table II.5
External Debt of Major Debtor Countries, 1981 to 1987
($ millions)

Country	1981	1984	1989	Debt/Export Ratio (%) 1987
Algeria	17,614	13,865	26,067	248.8
Egypt	22,572	30,514	48,799	355.3
Iraq	n.a.	n.a.	n.a.	n.a.
Jordan	2,058	3,162	7,418	245.4
Lebanon	579	447	520	n.a.
Morocco	10,632	13,969	20,851	328.6
Oman	754	1,633	2,974	65.1*
Sudan	6,169	8,466	12,965	1.00
Syria	2,993	2,941	5,202	242.7**
Tunisia	3,589	4,095	6,899	136.5
North Yemen	1,207	1,963	3,324	182.8
South Yemen	600	1,110	2,505	591.0
TOTAL/AVERAGE	68,767	82,165	137,524	174.1

*1987 **1988

Source: World Debt Tables, Vol. II, The World Bank, 1988-89 Edition, Washington D.C., 1989; 1990-91 Edition, Washington D.C., 1990; Debt Export Ratio includes principal and interest; exports includes merchandise goods and services. Figures for Yemen are expressed separately for North and South Yemen prior to their merger in 1990.

It must be remembered that the figures compiled by the World Bank do not include Iraq, where no estimates of the effects of the war damage have been published. However, the country was estimated to have had debts--both military and economic--prior to the Gulf war of at least $80 billion, most of which were incurred during its eight-year conflict with Iran. Payments to an international compensation fund set up by the UN, the loss of much of its oil export revenues during the early 1990s and the worldwide freeze on its assets abroad already constitute a burden that will last for the remainder of the decade. However, if there is a political change acceptable to the major developed countries, it could find its access to international capital markets and to official creditors opened again, a move which would allow it to borrow and therefore to increase its already high level of external debt.

For the remainder of the decade, the need to service existing debt will pose a considerable strain on most of the Arab debtor countries (see Table II.6). Although the combined total of payments on principal and interest is expected to fall from $18.4 billion at the end of 1991 to only $6.3 billion by the end of 1999, this assumes that no future borrowing is incurred, a prospect that is unlikely.

Algeria will be particularly adversely affected, with repayments due in 1991 alone of $5.8 billion, although a rise in oil and gas prices in the middle of the decade could help to offset some of this burden beyond the projections made by the World Bank. Elsewhere, the need to service the debt will add to the pressure to cut back government spending, especially given the worldwide shortage of capital that is emerging due to the huge need for borrowing in Eastern Europe and the declining financial surpluses in the leading creditor countries of Japan and Germany. The prospect of lower interest rates is also rapidly diminishing due to the expected scarcity of capital and thereby removing hopes that the debt service burden could be reduced not only for the Arab countries but for other developing countries as well.

Table II.6
Major Arab Debtors: Projected Debt Service, 1989 to 1997
($ millions)

Country	1991	1993	1995	1997	1999
Algeria	5,818	4,386	3,143	2,180	1,420
Egypt	5,475	5,427	4,634	3,468	2,073
Iraq	n.a.	n.a.	n.a.	n.a.	n.a.
Lebanon	49	49	39	29	15
Morocco	3,367	2,559	2,546	1,982	1,227
Oman	872	649	373	207	99
Sudan	957	437	417	360	269
Syria	658	461	402	332	248
Tunisia	506	1,125	1,001	816	623
North Yemen	369	298	205	183	149
South Yemen	327	311	302	207	195
TOTAL	18,398	15,702	8,428	9,764	6,318

Source: World Debt Tables, Vol. II, The World Bank, 1988-89 Edition, Washington D.C., 1989; 1990/91 Edition, Washington D.C., 1990. Debt service includes principal and interest. Figures for Yemen are expressed separately for North and South Yemen prior to their merger in 1990.

Moreover, the costs of the Gulf war are also affecting the Arab oil economies despite their access to substantial export earnings. Several of the GCC states are expected to experience budget and balance of payments deficits in the early 1990s despite the rise in oil revenues and in oil production. In the case of Saudi Arabia, the payments deficit was estimated to have totalled $8 billion by the end of 1990, a figure that could double by the end of 1991, according to estimates produced by the London-based weekly, Middle East Economic Digest (MEED). For Kuwait, the figure could be even higher--$22.5 billion, with Oman recording a balance in the red by some $2 billion. (10)

As a result, the borrowing profile of several Gulf states is expected to rise markedly in the run-up to 1995. The government of Saudi Arabia arranged a mega-loan, worth $4.5 billion, from the international syndicated market in May, followed by another, for $2.5 billion, provided by local Saudi banks. Another major loan, of from $4 billion to $5 billion, was expected to be signed before the end of 1991.

Kuwait has announced plans to borrow up to $25 billion within the next few years to finance reconstruction, while Qatar is expected to seek loans and export credits to finance the largest portion of the $7 billion to $8 billion it is planning to spend to develop its huge gas reserves in the North Field. Both Bahrain and Oman will also be seeking smaller syndicated credits to help ease their budget problems and to finance development of their local industries and infrastructure.

Several state-owned Gulf companies, including Aluminium Bahrain, Saudi Aramco, the Saudi Consolidated Electric Company for the Western Region (Sceco-West), Gulf Air, Emirates Air and Kuwait Airways have arranged, or are seeking, sums ranging from several hundred million dollars to up to $2.5 billion. As a result, government expenditure in all the Gulf states during the early 1990s is expected to be adversely affected. Although few of the Gulf states had published budgets for 1991 by the end of the summer, their cutbacks were expected to concentrate heavily on reduced aid for Arab, African and Asian states (except for countries such as Egypt and Syria which joined them in the allied coalition) and on lower subsidies for local industries. Capital spending on new projects was forecast to decline, while utility prices and customs fees were, in turn, expected to rise in an effort to raise government revenues.

4. Human Resources, Valorization and Skills Emigration

Aside from its wealth of natural resources and its large market, the Arab world can draw up substantial reserves of labour, including both trained professionals and skilled workers. The commonality of a language that spans borders, of a combined historical heritage that has made English and/or French a common second language and a tradition of higher education modelled on European lines provides a potentially large pool of workers available for deployment throughout the region. However, in common with many other developing regions of the world, the Arab labour force also suffers from a relatively high degree of un- and under-employed labour except in countries such as Libya, Saudi Arabia and the Gulf states which have capital for development but relatively small indigenous populations.

Figures published by the Arab League, the Arab Monetary Fund and the Arab Fund for Economic and Social Development (AFESD), show that the combined Arab workforce amounted to an estimated 64.5 million at the end of 1990 (see Table II.7). By the year 2,000, this is expected to rise by 39 per cent to 89.6 million. Egypt alone will then have almost one-fourth of the total, i.e. some 21.5 million potential workers; while another one-fourth will be accounted for by the three leading Maghreb states-- Morocco, Algeria and Tunisia--with a combined work force of 22.6 million. Sudan will have 13.4 per cent of the total (12 million), followed by Iraq with 8.5 per cent (7.6 million workers).

While comparable data on levels of employment within the labour force are only available up to 1986, figures produced by the UN Economic and Social Commission for West Asia (ESCWA) for that year show that the employment rate outside the Gulf states ranged from a low of 37 per cent in North Yemen to a high of 49 per cent for Iraq (see Table II.8). Within the Gulf states, the rates varied from 50 per cent for Saudi Arabia to 76 per cent for the UAE, figures that reflect both their greater dependency on imported labour and the lack of women in the labour force.

Again, while figure are available only for 1986, employment in manufacturing industry is low: ranging from a low of 3.2 per cent, in the case of both Oman and North Yemen, to a high of 17.9 per cent in the case of

Lebanon. Of the total industrial labour force of 3.5 million (excluding extractive industries and utilities), nearly two-thirds were accounted for by just two states: Egypt (1.9 million) and Iraq (449,000). Saudi Arabia, third on the list, had 350,000 workers in manufacturing industries, followed by Syria with 334,000 and Lebanon with 124,000.

Within the Gulf states, however, an overwhelming percentage of the industrial labour force consists of non-nationals, including both Arab workers from other countries and immigrant labour from the Indian sub-continent and Southeast Asia. Again, figures are only available for 1986, and then only for four Gulf states, but these show that the rate of non-nationals in the Gulf economies ranges from 50 per cent in the case of Bahrain to a high of 97 per cent for the UAE (see Table II.9.).

Table II.7
Arab Work Force, 1988 - 2000
(thousands)

Country	1990	2000
Algeria	5,522	8,258
Bahrain	218	296
Djibouti	223	296
Egypt	16,361	21,473
Iraq	5,119	7,641
Jordan	749	1,161
Kuwait	789	1,030
Lebanon	901	1,192
Libya	1,190	1,681
Mauritania	680	936
Morocco	7,843	10,771
Oman	390	526
Palestine	527	731
Qatar	209	262
Saudi Arabia	3,471	5,121
Somalia	2,204	2,807
Sudan	3,633	12,043
Syria	3,101	4,622
Tunisia	2,645	3,524
UAE	946	1,124
Yemen	2,797	4,133
TOTAL	64,518	89,628

Source: Majallat al-Wihdat al-Iqtisadiyyat al-Arabiyya, June, 1989; OAPEC Monthly Bulletin, August/September, 1989; Arab League, Arab Monetary Agency, AFESD, OAPEC, Unified Arab Economic Report, Abu Dhabi, 1990.

Table II.8
Economically Active Population in Industry, 1986

Country	Employed In Industry*	Share in Industry(%)	Employment Rate**
Bahrain	20,748	11.3	54
Egypt	1,909,389	15.8	44
Iraq	448,905	10.4	49
Jordan	37,382	7.1	38
Kuwait	61,157	8.6	62
Lebanon	124,341	17.9	40
Oman	14,825	3.2	59
Qatar	33,604	17.2	70
Saudi Arabia	350,213	11.5	50
Syria	334,159	13.4	45
UAE	75,129	8.4	76
North Yemen	47,744	3.2	37
South Yemen	58,940	10.7	48
TOTAL/Average	3,516,536	12.7	56

* Mining, Quarrying and Manufacturing.
** Refined activity rate as defined by the UN, i.e. Percentage of population aged 15 years and over that is economically active.

Source: UN Economic and Social Commission for West Asia (ECOWAS), Demographic and Related Socio-Economic Data Sheets, Baghdad, 1987; MEED estimates and calculations. Figures for Jordan include Palestinians.

Table II.9
Selected Gulf States: Economically Active Population in Industry, by Nationality, 1986

Country	Total (Amount)	Non-Nationals (Amount)	Non-Nationals (%)
Bahrain	20,748	10,484	50.5
Kuwait	61,157	53,145	86.9
Qatar	33,604	32,132	95.6
UAE	75,129	72,884	97.0

Source: ECOWAS; MEED

The need to find jobs for this growing Arab labour force will dominate the policy-making bodies of many Arab states in the 1990s, particularly in those countries with large populations and little or no oil and gas. The increasing trend in the Gulf states in the wake of the Gulf war to rely more on their own nationals will also reduce demand for Arab workers from states such as Jordan, Sudan and Yemen which were seen as friendly to Iraq, as well as for Palestinians from the Occupied Territories. However, Egypt and Syria could benefit as their nationals are employed in greater numbers in the GCC countries to replace other Arab workers.

The valorization of the Arab labour force is also seen as a major priority by most Arab countries in the 1990s, although budget constraints on spending on education will pose major problems. In 1988, the last year for which comparable figures are available, enrollment at the secondary school level ranged from a low of only 16 per cent of the total relevant age group in the case of Mauritania to a high of 82 per cent in the case of Kuwait (see Table II.10), compared with an average for the OECD countries of 95 per cent. Figures for Somalia and North Yemen in 1985 show levels even lower than that of Mauritania, with only 12 and 15 per cent respectively.

Table II.10
Labour and Education: Per Cent of Age Group in Education, 1988

Country	Primary		Secondary	Tertiary
Algeria	96		62	9
Bahrain		---100+----		n.a.
Djibouti		----27**---		n.a.
Egypt	87		69	20
Iraq	96		52	n.a.
Jordan		----90**---		n.a.
Kuwait	93		82	16
Mauritania	52		16	3
Morocco	67		36	10
Oman	100#		42	4
Qatar		---100+----		n.a.
Saudi Arabia	71		44	13
Somalia*	20		12	4
Sudan	49		20	2
Syria	110#		57	18
Tunisia	116#		44	7
UAE	104#		62	9
North Yemen*	79		15	n.a.
South Yemen		----52*----		n.a.
OECD:				
Average	103#		95	41

*1985; **1986; +1987
** Includes pupils older than the country's standard primary school age, i.e. adults in literacy classes or other forms of adult education.
n.a. = Not available.

Source: World Bank, World Development Report, 1991, Washington D.C., 1991 and The World Bank Atlas, Washington D.C., 1989 and 1990.

At the tertiary level, the highest enrollment level in 1988 was recorded in Egypt, according to figures available for 12 Arab countries, with 20 per cent, or one-fifth the relevant age group. This was followed by Syria with 18 per cent, Kuwait with 16 per cent and Saudi Arabia 12 per cent against an OECD average of 41 per cent. At the bottom end of the scale, Oman had only 4 per cent of its relevant age group enrolled in tertiary education and Mauritania only 3 per cent. (It should be noted that enrollment levels at the tertiary and secondary levels are much lower for women than for men in most of the countries for which data are available).

As a result, while Egypt and Syria have, relative to other Arab countries, a larger labour force of skilled professionals, including engineers, bankers, teachers, doctors, managers, academics, journalists and civil servants, the lack of suitable employment opportunities in their own countries makes them a prime recruiting ground for the Gulf states which depend on immigrant labour particularly at this level of expertise. Moreover, while both Saudi Arabia and Kuwait in 1988 had a relatively high level of enrollment in the tertiary sector, it must also be remembered that some of these potential graduates were drawn from the non-national, immigrant labour force of neighbouring countries such as Jordan, Yemen, Sudan and the occupied Palestinian territories of the West Bank and Gaza Strip. In the 1990s, unlike in the case of immigrants from Egypt and Syria, students from these countries are unlikely to be allowed access to institutions of higher learning and to jobs in government and industry in the Gulf states unless an extreme shortage of their particular skills requires their employment in exceptional circumstances.

III. The Regional and International Context After the Gulf War

A. The Arab Region

As indicated above, the burden of external debt in the region, combined with the prospect of increased borrowing by the Gulf states, is expected to have an adverse effect on Arab aid flows in the remainder of the first half of the current decade, although oil revenues for the Arab oil producing countries could reach an estimated $120 billion by 1995. By the end of 1989, as noted in Table II.5, Arab external debt (including both official and private sector flows) had already reached more than $137.5 billion, representing an average debt/export ratio of 174 per cent.

At the same time, the Gulf war has created new divisions within the region which intersect with those which already separate the richer, but generally less populous oil producing countries from those with little or no oil but large, and growing, populations. These new lines of political cleavage, together with the expected financial constraints on the Gulf states, are already creating profound shifts in the direction, amount and type of inter-Arab aid, as well as in aid flows to the region from international donors.

Prior to the Gulf war, despite the austerity witnessed in the Gulf as a result of the decline in world oil prices in the second half of the 1980s, cumulative aid from the region's eight main funds to the Arab countries rose from $13.3 billion in 1987 to $15.7 billion in 1989, representing an increase of 17.7 per cent, according to figures produced by the Co-ordination Secretariat of the Kuwait-based Arab Fund for Economic and Social Development (AFESD) (see Table III.1) Aid to industry and mining increased even further, by 22.2 per cent, over the same period to a total of $3.2 billion. The share of total Arab aid to Arab industry in turn rose from 19.7 per cent in 1987 to 20.4 per cent in 1989.

Table III.1
Arab Aid Funds: Aid to Industry and Mining in North Africa and the Middle East
($ millions)

	1985	1987	1989
North Africa and the Middle East:			
Total Aid	11,254.83	13,349.76	15,717.80
Aid to Industry and Mining	2,143.65	2,629.28	3,212.64
Aid to Industry and Mining (Per cent of Total Aid)	19.0	19.7	20.4
All Developing Countries:			
Total Aid	21,950.57	25,338.27	28,869.5

Source: Co-ordination Secretariat at the Arab Fund for Economic and Social Development, Kuwait.

Notes: Aid funds include the Islamic Development Bank; Abu Dhabi Fund for Arab Economic Development; OPEC Fund for International Development; Saudi Fund for Development; Arab Fund for Economic and Social Development; Kuwait Fund for Arab Economic Development and the Arab Bank for Economic Development in Africa.

Since then, however, because no figures have been published for 1990 or 1991 by AFESD, it is difficult to ascertain the extent to which total Arab aid flows to the Arab region, and to Arab industry in particular, may have diminished because of the disruptions caused by the Gulf war and the extraordinary demands made on the Gulf states to finance the deployment of US and other allied troops. What is clear, however, is that two important donors--the Kuwait Fund for Arab Economic Development and the Saudi Fund for Development--are now taking political criteria into account in their lending policies, according to unpublished comments by their officials and by Arab bankers in Kuwait, Riyadh and London. (11) A similar situation may now apply in the case of the Abu Dhabi Fund for Arab Economic Development (ADFAED) as well, although officials there have had not confirmed such a change of policy by the end of August, 1991.

Lending by the Kuwait Fund to the Arab states in 1989 amounted to $207.7 million, out of a total for the year of $333.6 million. (12) This pushed its cumulative aid to the Arab region by the end of the year to just under $3 billion. Of the total funds provided to all developing countries since its inception--$5 billion by the end of 1989, about one-fifth, ie. $966 million, had been directed to the industry and mining sectors.

Despite the Iraqi occupation of Kuwait, KFAED continued to lend in 1990 and 1991, in addition to honouring its previous commitments. Total new lending signed between 2 August, 1990 and the end of May, 1991, reached KD 116.8 million ($397 million at pre-invasion exchange rates). Of this, more than three-fourths, or KD 90.6 ($308 million), went to the Arab region. Significantly, this represents a 48 per cent increase during the 10-month period over the sum provided in the whole of 1989. However, it is not clear that such an increase will be maintained now that the Gulf war is over: of the Arab total, some KD 21.6 million ($73.4 million) was provided to Egypt and Syria to help repatriate their returnees from Kuwait after the invasion. (12)

Of the remainder provided to the Arab region, Syria was the main beneficiary with a loan of KD 30 million to finance a sewerage project in Damascus, while Egypt obtained KD 20 million for a water supply and land reclamation scheme in the North Sinai. Morocco received KD 14 million for its Majaara Dam project, while Oman obtained KD 5 million to build a gas pipe line.

Aside from the lack of funding for Arab industry (excluding the loan for the hydrocarbons sector in the case of Oman), this recent pattern of lending is notable for its concentration on those Arab countries which supported the allied coalition against Iraq. In contrast, KFAED loans and grants in the years until the invasion had included nearly $2 billion for countries such as Jordan ($438 million), Tunisia ($437 million), Sudan ($332 million), Yemen ($319 million) and Mauritania ($163 million) which either remained neutral during the war or which supported Iraq.

While no up-to-date figures have been issued by the Saudi Fund, bankers say a similar pattern is being applied, although it is thought that the scope of its total aid may have diminished in favour of a trend toward more bilateral lending made directly by the government itself as well as toward a combined approach by the six GCC states and through the allied partners (see below). By the end of 1989, the Fund had provided cumulative aid worth $2.4 billion to the Arab region, of which $126 million was made in 1989 alone. Since its inception, Jordan had been the leading beneficiary, receiving a total of $264 million, followed by Tunisia ($252 million), Sudan ($249 million), the Yemen ($236 million), Syria ($224 million), Morocco ($218 million), Egypt ($212 million) and Mauritania ($183 million), according to the AFESD figures.

In December 1990, before the war, the Saudi Foreign Minister announced plans to provide $1.5 billion to Egypt, including $1 billion for balance of payments support and $500 million for development projects, including industry. That month the Saudi Fund is also reported to have agreed loans worth $97.3 million for Egypt to fund industrial, infrastructural and agricultural projects. In November, the Saudi government announced that it was writing off Egyptian debts to the Kingdom worth $4.5 billion. (13) Earlier, in September, 1990, the government agreed to provide $136 million to build a cement works in Minya, Upper Egypt, according to Egyptian officials, in addition to providing some $100 million to help repatriate Egyptian workers from Kuwait and Iraq. (14)

To date, however, no official announcements have been made by Saudi officials regarding lending to countries such as Jordan, Sudan, Tunisia, the Yemen and Mauritania which failed to support the allied stance, and it is assumed that much of the funding they formerly received may now go instead to Egypt, Syria, Morocco and other allies in the region, notably Turkey, Pakistan and Bangladesh.

Of the remaining Arab aid funds, AFESD itself has said that while it hopes to meet its target level of lending for 1991, it has not published any guidelines on possible policy changes; however, it is thought that it may be more lenient toward countries such as Jordan and the Yemen which suffered greatly from the loss of workers remittances as a result of the Gulf war. According to AFESD an estimated 10 million people had lost their livelihoods as a result of the Iraqi occupation of Kuwait; however, it was not clear how many of these were from the Arab region. According to figures produced by the OECD Secretariat in Paris, AFESD provided a total of $540 million in aid in 1989, half of which went to Egypt with the remainder going to five other Arab countries. (15) Although AFESD was in the process of restoring its headquarters in Kuwait in the summer of 1991, the disruption of its activities since the Iraqi invasion of Kuwait could delay some of its funding activities.

Similarly, the Jeddah-based Islamic Development Bank (IDB), the Vienna-based OPEC Fund for International Development (OFID) and the Khartoum-based Arab Bank for Economic Development in Africa (BADEA), are expected to resume funding without taking political alignments into primary consideration. The OPEC Fund granted only three loans to Arab states in 1990: Sudan received $7 million for fertilizer imports; Mauritania $2.5 million for agricultural rehabilitation and Djibouti $1.9 million for urban development. Bir Zeit University in the occupied West Bank was awarded a grant of $250,000 to modernize its research facilities. In July, 1991, the IDB announced 12 loans worth $172.5 million to member states, including Tunisia ($15 million), Algeria ($13 million for industrial product imports), Lebanon ($10 million), Jordan ($7.5 million) and Egypt ($7 million). (16) However, to the extent that their donor governments consist of those from the Gulf which favour the employment of such criteria, the total resources of these funds may be diminished for the foreseeable future, leaving future loans and grants to be financed either from existing reserves or from loan re-payments.

One of the leading Gulf donors, Qatar, agreed in October, 1990 to write off the debt of several of its Arab beneficiaries despite differences in their political alignments during the Gulf war. The countries benefitting include Tunisia, Mauritania and Somalia--which did not take part in the allied coalition, as well as Egypt, Syria and Morocco. While the Qataris have not issued any further details on their current aid policies in the region, the move may indicate that GCC unity regarding giving aid priority to politically sympathetic governments may not be uniform. To this extent, bi-lateral Arab aid provided directly by the Gulf governments may be given more impartially than that provided by the Saudi or Kuwaiti funds.

Meanwhile, Egypt and Syria are expected to be the main beneficiaries of a huge new fund--as yet unnamed--set up in April, 1991 by the six GCC states. It is to have a capital base of $10 billion for an initial 10-year period. Projects will be agreed on a case-by-case basis by a committee consisting of the heads of the existing Arab aid funds, according to the GCC Secretary-General. However, the Finance and Industry Minister of the UAE has also said that funding would be "implemented in co-operation with...international finance groups, especially the World Bank and the IMF". Priority, he added, would be given to projects in the recipient countries "within the framework of programmes already approved" with the two organizations and "to help recipient countries realize free market economies." No information is available yet on how much of the finance will be provided in concessional loans and/or grants. (17)

In other remarks outlining future policy guidelines for the fund, the GCC Assistant Secretary General said in Riyadh in May 1991 that non-Arab countries might also receive assistance from the fund and that the private sector, rather than governments, would be given priority. He also confirmed that political criteria will be used in deciding on projects. "We will take a new look at the relationship between the GCC and the other Arab countries," he maintained. "There must be a new approach to development participation which has an element of interest for both sides. Earlier, he had said in an interview in Riyadh in April that neither Jordan nor Yemen were likely to be given aid from the fund. GCC relations with these two countries, he said, were "...static, stagnant. There are no dynamics for change in the two," he added, noting that the fund was designed to benefit "those countries which sent troops and which spilled blood here." (18)

While both Kuwait and Iraq will require billions of dollars in aid over the next decade to finance reconstruction (see Chapter II), neither government is expected to benefit directly from the regional Arab aid funds nor from the GCC fund. With some $86 billion in overseas assets, Kuwait instead is expected to borrow on the international capital markets to finance its needs pending the full resumption of its crude oil exports. Compensation payments from Iraq, under a special UN fund set up in Geneva, will also help provide finance for re-building, especially for the private sector, according to Kuwaiti bankers who say they expect some $4 billion to be made available from this source during the next year or so. (19) The Islamic Develop Development Bank also said in May that it would provide $60 million to Kuwait's private sector for reconstruction. (20) Within the sheikhdom itself, government plans to help Kuwaiti industry are so far concentrated on the state-owned hydrocarbons sector and the bankers note that most of the needed financing in the private sector, as a result, is expected to come either from the compensation fund or from the reserves held by Kuwaiti merchants abroad, although some assistance may also be derived from bank borrowing and from suppliers' export credits.

In the case of Iraq, no substantial regional aid can be expected in the next few years unless there is a radical change of regime in Baghdad. Those countries which are in a position to provide aid--mainly the Gulf oil exporting countries-- continue to support sanctions against Iraq and are likely to do so until there is a full peace settlement and until Iraq renounces its claims on Kuwait. Others, such as the Libyan Arab Jamahiriya and Algeria, which have oil earnings but which did not form part of the allied coalition during the Gulf war, have more pressing needs at home and, in any case, will not want to act unilaterally as long as UN sanctions remain in force. Countries such as Jordan, Yemen and Sudan which were seen as neutral or supportive of Baghdad during the conflict are not in a position to provide financial assistance to Iraq, although they may agree to smaller projects involving the provision of manpower and technical assistance in certain sectors--utilities and light industry, agriculture and social services--deemed vital to the welfare of the Iraqi people.

B. Trends in International Co-operation

The dramatic realignment of inter-Arab relations following the Iraqi invasion of Kuwait has also been mirrored on the international scene. Those Western countries which led the allied coalition during the Gulf war, namely the USA, the UK and France, have forged closer ties with their Arab partners, Egypt, Syria and the Gulf countries. Similarly, relations with Arab countries opposed to the allied action (such as Jordan, Yemen) and with the Palestine Liberation Organization have been weakened, although France has, since the end of the conflict, attempted to restore its strained relations with the Maghreb countries, most of which generally remained neutral.

As a result, international co-operation with the Arab states outside the allied coalition is expected to be led by countries such as the Soviet Union and Japan which are eager to retain their good relations with all the Arab states irrespective of the political shift of allegiances either because of their perceived interest in avoiding future conflicts or because of their dependence on Arab markets and Arab contracts as well as on Arab oil. The Mediterranean countries of the European Community--Italy, Greece, Spain and Portugal--as well as Germany, Ireland, Austria and Canada are also expected to take a more neutral role in Arab divisions, as are the Scandinavian countries and Eastern Europe. Finally, the UN and its agencies will be called upon by member states to play a greater role in both inter-Arab conciliation and in assisting greater international co-operation with the region as a whole.

1. OECD Aid and Investment

Total OECD aid to the developing countries by the main international donors (the US, Canada, Japan, European Community, Scandinavia, Austria, Switzerland, Australia and New Zealand) has shown an irregular pattern in the second half of the 1980s after a period of successive falls in real terms following the advent of the international debt crisis in the early 1980s. Net disbursements of bilateral and multilateral aid in 1989 (the last year for which figures are available) amounted to $47.3 billion (expressed in constant 1988 prices and exchange rates), compared to $48.1 billion in 1988, $44.6 billion in 1987, $45.2 billion in 1986 and only $41.4 billion on average for the period 1980 to 1985 (see Table III.2). In real terms, this represented a fall of 1.6 per cent in 1989, when aid fell to only 0.33 per cent of combined OECD GNP, compared to 0.36 per cent in 1988.

Although no breakdown for net disbursements in dollar figures is available by region, figures for the geographical distribution of gross bi-lateral disbursements by the main OECD donors show that the share obtained by the Middle East and North Africa fell from 22.1 per cent in the two-year period, 1980/81, to only 16.4 per cent for 1988/89 (see Table III.3) In the

Table III.2
ODA Flows from DAC Countries Net Disbursements, 1980 to 1989

Total ODA	1980-85	1986	1987	1988	1989
Current Prices and Exchange Rates ($bn)	27.7	36.7	41.6	48.1	46.7
1988 Prices and Ex-change Rates ($bn)	41.4	45.2	44.6	48.1	47.3
Change over Previous Year in Real Terms (%)	3.1	0.9	-1.3	8.0	-1.6
As Per Cent of GNP	0.36	0.35	0.35	0.36	0.33

Source: OECD, Development Co-operation, 1990, Paris, 1990.

Note: ODA = Overseas Development Assistance, including bi-lateral and multi-lateral aid. DAC = Development Assistance Committee Members; i.e. Australia, Austria, Belgium, Canada, Den mark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, the United States and the European Commission.

Table III.3
ODA Flows from DAC Countries to the Middle East and North Africa, 1980/81 - 1988/89
(% of Gross Disbursements)

Donor	1980/81	1988/89
DAC Countries:		
US	50.7	43.2
Japan	8.3	7.1
France	12.5	9.1
Germany	28.8	29.0
Nordic Countries	42.6	3.7
Italy	28.1	11.7
Netherlands	5.4	5.3
UK	8.3	4.
Canada	8.0	8.5
Australia	2.0	1.2
New Zealand	0.1	0.1
Other	23.5	14.7
Total DAC	22.4	16.4
Multilateral Institutions:		
EC	11.8	8.2
International Financial Institutions*	4.8	1.7
UN Agencies**	19.3	10.3
Total Flows	28.1	14.3

* Includes International Development Association, International Fund for Agricultural Development, regional banks and soft windows.

** UNDP, UNICEF, UNWRA, WFP, UNHCR and UNFPA.

Source: See Table 2.

case of the European Community, the percentage fell from only 11.8 per cent in 1980/81 to just 8.2 per cent in 1988/89. The share of total flows, including aid from the main multi-lateral institutions as well as from individual DAC countries, to the Middle East and North Africa fell from 28.1 to 14.3 per cent.

Net resource flows to the developing countries from all donors (DAC, Arab aid, the USSR and Eastern Europe), including export credits, direct investment and bank lending as well as ODA, reached $111.5 billion in real terms in 1989, up from $105.9 billion in 1988, but still way below the peak of $201.9 billion recorded in 1981. For the Middle East and North Africa, in contrast, net resource flows reached only $6 billion in each of the two years, 1989 and 1988, compared to $8 billion in 1987, $9 billion in 1986 and $11 billion in 1985, according to figures produced by the OECD.

While no breakdown of either aid or of net resource flows is available by both geographic region and economic sector, figures produced by the OECD Secretariat in Paris in 1990 show that in 1989 industry, mining and construction in all the recipient developing countries received only 5.5 per cent of total ODA from DAC donors. Sweden contributed the highest share for this sector, 6.8 per cent, followed by the Netherlands (5.9 per cent), the UK (4.1 per cent) and Norway (3.6 per cent), with the US recording the lowest percentage, only 0.3 per cent. The EC share as a whole was a low 1.4 per cent. In contrast, World Bank aid for industry, mining and construction amounted to 8.2 per cent of their total multilateral assistance, while for the UN agencies the figure was 3.8 per cent.

2. The Gulf Financial Crisis Co-ordination Group

Originally established by the US Treasury Department in the autumn of 1990 following the Iraqi invasion of Kuwait, the Group had secured some $15.7 billion in pledges for aid to countries affected by the crisis by the end of March, 1991. Consisting of 27 nations, the Group is also supervising the disbursement of the funds, which consist of about two-thirds grants and the remainder of concessional loans. (22)

By May, 1991, it appeared that the main Arab beneficiaries would be Egypt and Jordan; however Morocco, Syria, Lebanon, Somalia and Djibouti have also been mentioned as probable recipients. Non-Arab beneficiaries are expected to include Turkey, Pakistan and Bangladesh. Together, Egypt, Jordan and Turkey had been promised $11.7 billion, of which about half had been disbursed by the end of March, according to Group officials in Washington. The other countries were to receive a total of $4 billion, of which $2.8 billion had been disbursed by the end of March.

Publication of a detailed breakdown of the allocations by both country and sector was expected later in 1991, but initial indications were that much of the funding would be spent on balance of payments support, commodity imports and social services for returning workers, rather than on capital projects in industry and mining or in other sectors. However, to the extent that the fund enables recipient governments to reduce their own expenditure on crisis-related needs, existing and future budgets in the recipient countries may reflect a less reduced allocation for capital projects and aid to their local industrial sectors. Moreover, aid from the Gulf Group could also be used to help support efforts by returning workers to set up small-scale industries in the private sector.

Of the donors to the Group, the three Gulf states of Saudi Arabia, Kuwait and the UAE contributed $6.2 billion; the European Community $3 billion (including $1.2 billion by Germany); and Japan $2.1 billion. Japan has also pledged an additional $500 million in support for the Kurdish refugees in Iraq and to aid workers returning from Iraq and Kuwait to other states in the region, as well as $12.5 million for helping to clean up the environment in the wake of the war. (23)

In the longer term, the Group is expected to work closely with the World Bank and with the IMF in setting up a permanent structure for donors to channel aid to the Arab countries. Plans announced by US Secretary of State James Baker prior to the war to create a Middle East Bank for Reconstruction and Development have met with little response from potential donors such as Japan and the EC to date, many of whom have expressed their concern about setting up yet another institution for regional aid. A structure managed by the two large Washington-based international organizations would also help to ease donor governments' concern about the assessment of aid projects and encourage their policy aims of channelling more funds to the private sectors in the recipient countries, while at the same time encouraging these countries to liberalize their economies. (24)

By May, 1991, following the annual spring meetings of the World Bank and the IMF in Washington D.C., it appeared that the new, broader arrangements had met with the endorsement of the US as well. The US Treasury Secretary said at the end of April that "multilateral co-operation must...be the cornerstone of efforts to promote market-oriented reform and economic development in the Middle East." (25) Further movement on the plan, however, was not expected to be finalized before the annual autumn meetings of the two institutions at the end of September.

3. European Integration and the Arab States

Aside from the issues of aid, the advent of the Single European Market in 1992 has caused considerable concern in the Arab states and is one of the main reasons why Arab governments are accelerating their own plans to develop inter-Arab trade and inter-Arab investment. While Arab exports of crude oil and gas to the 12 countries of the EC can be expected to remain relatively unaffected, subject mainly to demand and price constraints, the same cannot be said of Arab exports of petrochemicals and of non-fuel commodities such as textiles, shoes and leather goods, minerals and metals, electronics, processed foods and beverages. Moreover, the potential market in the EC for new supplies of iron, steel and aluminium products, fertilizers and other smaller manufactured goods due to come on stream in the Arab oil producing countries in the 1990s will also be affected, and any moves toward making the EC into a "fortress Europe" could have a considerable impact on the overall potential for industrialization and economic diversification in the Arab region as a whole.

Officials at the European Commission in Brussels have issued several assurances in the run-up to full integration that relations with trading partners outside the EC will be maintained. However, they have also stressed that imports of goods in "sensitive" areas, such as in the automotive, textiles, and electronics sectors, will still be subject to restrictions which could be tightened further in an effort to protect re-structured European producers.

Negotiations between the EC and GCC petrochemical producers have also shown little progress, and although another round of talks--following the signature of an initial co-operation agreement in June, 1988--was due to be held in the autumn of 1991, all special duty-free access provisions for Gulf petrochemical exports have been eliminated.

In the financial sector, many Arab officials fear that aside from trade diversion, the creation of a single market in the EC could also lead to a greater emphasis on channelling European investment to the 12 member states of the EC, as well as to the newly emerging free market countries of Central Europe, thereby diminishing capital flows to countries outside. A widening of the EC to include countries such as Sweden and Austria could also affect their important aid programmes for the poorer Arab countries, as well investment abroad by their private sectors, to the extent that their policies are brought into line with those of the EC.

Loans from the European Investment Bank (EIB), which formed an important source of project aid in several Arab states in the 1980s, are already being diverted to the poorer countries of the EC, such as Ireland, Greece, Portugal and Spain to help bring them up to northern European standards, as well as to Central Europe indirectly through the newly formed European Bank for Reconstruction and Development (EBRD) in London. In 1990, according to EIB's Annual Report, lending to the Mediterranean countries (which include Yugoslavia, Israel and Malta as well as the Arab states) totalled just ECU 344.5 million, up only slightly from the 1989 figure of ECU 342.8 million, out of total loans worth ECU 13.4 billion. Lending to Central Europe (Hungary and Poland) rose from nil to ECU 215 million, and this was expected to increase sharply as a result of the conclusion of new lending agreements in 1991 with Czechoslovakia, Bulgaria and Romania and with the addition of new aid for the eastern provinces of Germany. Official development aid from Germany to the Arab countries in general is most likely to decline substantially in the next few years, especially given the revised upward estimates of the financial investment and assistance Bonn will need to provide to its eastern territories to avoid an economic collapse and large scale German emigration to the richer provinces west of the Elbe.

In the 1990s, the Arab market for European capital goods, technology, services and consumer products will remain substantial and the prospect of an economic recovery in Kuwait and, eventually, in Iraq could lead to a considerable increase in Arab demand for European consumer goods as well. While the Gulf states so far are unwilling to make their import of goods and services produced in the Community dependent on the removal of restrictions on Arab exports to the EC, such a move cannot be ruled out should the current negotiations fail to achieve the required degree of co-operation.

In the Maghreb states, Egypt, Syria, Lebanon and Jordan, concern is also growing about what Morocco's Foreign Affairs and Co-operation Minister has called the "unbalanced" relationship with the EC. At present, total EC aid to the Arab states and Israel is expected to reach only ECU 4.4 billion ($5.3 billion) over the next five years. (26)

Meanwhile, the network of existing preferential co-operation agreements worked out between the EC, North Africa and the Levantine states in the 1960s and 1970s are regarded by many EC officials as out-of-date given the prospects for 1992 and recent discussions in the Uruguay round of GATT trade talks (see Section 4). They are reported to be considering plans to insist on greater reciprocity in trade between the two regions under new agreements to be arranged in the 1990s. Such agreements could work to the disadvantage of Algerian, Tunisian and Moroccan exporters and others in Egypt, Lebanon, Syria and Jordan, particularly those supplying industrial and manufactured goods which already face heavy competition within the Community, especially given the EC's stiff rules regarding certificates of origin. While countries such as France, Italy and Spain are making efforts to retain their close economic ties with North Africa and/or Lebanon by encouraging the establishment of joint ventures in services and higher technology industries, some disruption seems inevitable.

EC representatives, on the other hand, continue to insist that the establishment of a Single Market will lead to greater growth within the Community as a whole and therefore, in the longer term, to a greater demand for imports from outside the EC. However, while the trade diversion effects may be offset by the impact of increased economies of scale for Arab exporters to an enlarged European market and by greater economic growth in the Community, this will take time to develop (see Chapter V).

4. The General Agreement on Tariffs and Trade (GATT)

Delay in reaching an agreement on the Uruguay Round of talks to expand the General Agreement on Tariffs and Trade (GATT) could also adversely affect Arab exports to the OECD and foreign investment in Arab industry, as well as dampening growth in world trade in general. The Uruguay Round, which involves some 106 countries and which was begun in 1986, was originally scheduled to end in December, 1990. Disagreements between the US and the EC over the level of agricultural subsidies to be allowed necessitated a continuation of the discussions in 1991. While OECD trade ministers expressed the hope in June that an agreement on the main items, which also include liberalizing trade in services, expanding trade in textiles and clothing and a system of copyright protection for intellectual property as well as the reform of international agricultural trading policies, would be reached by the end of the summer, developments in the Soviet Union were expected to lead to a further postponement of the high-level discussions needed to reach a formal conclusion by the desired date. (27)

For the Arab countries, especially those outside the Gulf, agreement on the GATT proposals to reduce agricultural subsidies would have a highly beneficial effect not only on their exports of bulk produce (such as fruits and vegetables, raw fish and cotton) but also on the manufactured goods and processed foods made from these raw materials. EC protectionism, in particular, would be weakened in this important sphere and while other agriculturally rich countries such as the US, Canada, the USSR, Argentina and Brazil would also gain from greater access to the wealthy West European market, Arab products--given their greater price competitivity and lower transport costs--could benefit in particular.

This is especially true for the North African states of Morocco, Tunisia and Algeria which have suffered from tariff protection and other forms of trade discrimination in their exports of fruit juices, wine, sardines, olive oil and luxury foods to the EC despite the existence of preferential trading treaties with the 12 (see Chapter V). Competition from Israeli exports should also be diminished in a more open market, while the potential for the creation of value added in the processed food industries of Egypt, Lebanon, Syria, Jordan and Sudan would be greatly enhanced, as would the prospects of both foreign and local investment in this sector.

While GATT trade in textiles and clothing has been governed by the Multi-Fibre Agreement (MFA) of 1974, which provides for a system of controlled limitations on these exports to the main importing countries, only about half of EC imports are affected, and the figure is even lower for the US and Canada. With the EC market alone in this sector valued at just under $30 billion a year, the expansion of free trade in textiles and clothing would give a substantial boost to these labour-intensive industries in the Arab countries where, again, their favourable location gives them a competitive edge over other low-cost producers in the Indian Subcontinent and in the Far East. Moreover, given the fact that the MFA was due to expire in July, 1991, a re-negotiation of its terms is mandatory under the current Uruguay Round if a return to the protectionist era which dominated world trade in textiles and clothing up to 1974 is not to reoccur.

In contrast, bringing the $680 billion worldwide trade in services under the hegemony of GATT would not necessarily benefit the Arab countries. At present, some 80 per cent of service exports--including banking and insurance, telecommunications, shipping and air transport--are provided by the main industrial countries of the OECD. The Arab countries, on the other hand, constitute one of the world's largest markets for the import of services: Saudi Arabia alone ranks 13th on the list of importing countries--behind the main EC countries, Switzerland, Sweden and Norway--with imports in 1987 valued at some $9 billion. (28) Like most other developing countries, therefore, most Arab states have argued against US proposals for bringing services into the Uruguay Round in favour of local policies which aim to protect their own infant service sectors, particularly in tourism and banking. At the end of 1990, however, it appeared that a compromise might be reached which, in return for developing countries' support for including services in GATT, would grant them exemptions until their own balance of payments figures reflect greater earnings from service exports.

The successful conclusion of an agreement in the Uruguay Round to bring intellectual property under the aegis of GATT principles would also have considerable impact on the Arab states, most of which lack the degree of protection which is provided for authors, filmmakers, inventors, software writers and other producers of intellectual property in the industrialized countries. While on the one hand it will most certainly increase the cost of such property (by, for example, blocking the pirating of books, films, videos, designs and software, requiring the registration and implementation of safeguards for trade marks and making more expensive existing imports of such goods from non-regulated countries such as India, Pakistan and Taiwan), the Arab countries stand to benefit in the longer term from the enhanced prospects of foreign investment such protection would encourage.

This is particularly true for measures concerning both patent law and copyright. While legislation in the Gulf states and Lebanon, which currently lead the region in "pirating," would have to be severely tightened to conform with such a GATT agreement, some Arab countries, notably Egypt, would stand to benefit immediately given the existing importance of their intellectual property exports. Similarly, countries such as Kuwait, which has developed advanced biotechnology and genetic engineering in areas such as fish breeding, or Saudi Arabia, which has developed indigenous Arabic hardware and software products, would also benefit insofar as these processes and/or products provide important scope for the commercial application of this technology in industry both in their own countries and abroad.

IV. Investment Co-operation between Arab, EC and OECD Countries in the 1980s

1. Investment Trends

The decline in Arab oil revenues, coupled with the growing debt burden of the more populous or poorer Arab countries, led to a greater emphasis on industry and manufacturing throughout the region in the 1980s. In the larger countries, like Algeria and Egypt, this reflected not only a determination to increase industrial output and to reduce costly imports, but also to decrease the high level of unemployment, particularly among the young. However, the trend was also apparent in the less populous, oil dependent countries such as Libyan Arab Jamahiriya and the Gulf states, where the need to reduce this dependency grew more urgent as oil revenues declined.

Within the Arab region as a whole, the Gulf Co-operation Council (GCC) states achieved a pronounced lead in measures to encourage private industry and efforts to obtain the maximum value added from their resources of both oil and gas. As a result, Saudi Arabia alone was estimated by the end of the decade to be producing more than 20 per cent of total Arab manufacturing in value terms. (29)

Within the Gulf, however, the contribution of industrial production to GDP varied considerably. While Saudi Arabia's share of the Arab value added as a whole was relatively high, at home the share of industrial output relative to total GDP was among the lowest in the Gulf states, amounting in 1986 to only 6.7 per cent (see Table IV.1). While this reflected in part the extremely large share of GDP taken by Saudi Arabia's hydrocarbons production, it also indicated that the Kingdom had a long way to go to meet its target of a 15 per cent contribution by industry and manufacturing to total GDP within the next few years.

Table IV.1
Gulf States: Industrial Contribution to GDP

Country	Nominal GDP ($ millions)	Manufacturing Contribution to GDP (%)
Saudi Arabia	77,415	6.7
Kuwait	17,258	11.1
United Arab Emirates	23,971	9.4
Oman	7,831	3.7
Bahrain	3,678	12.3
Qatar	5,104	9.9
Iraq	45,718	10.3

Source: Arab Monetary Fund, United Arab Economic Report, 1987; IMF; National Bank of Kuwait; Gulf International Bank.

Notes: Figures are 1987 except for Saudi Arabia, Kuwait, Bahrain and Iraq (estimated), which are for 1986.

Outside the Gulf states, the trend toward encouraging industrial production and manufacturing also led to the adoption of new initiatives in other countries, notably, Egypt, Tunisia, Algeria, Morocco, Syria, Iraq and North Yemen, aimed at attracting more foreign investment to finance industrial development (see below).

Unfortunately, the lack of a region-wide reporting system has made it virtually impossible to determine the level of foreign investment in Arab manufacturing industry as a whole. Where statistics do exist, as for particular countries, they are generally compiled without regard to any regional standards, making comparisons difficult.

Saudi Arabia and the Gulf States

Figures compiled by the Gulf Organization for Industrial Consulting (GOIC) in 1989 showed that there were then 95 joint venture industrial projects in the six GCC states, with a total paid-up capital of $2.07 billion. Of these, 38 per cent were located in Saudi Arabia, 29 per cent in the United Arab Emirates, 11 per cent in Bahrain, 8 per cent in Oman and the rest in Kuwait and Qatar. (30)

However, Saudi Arabia's own figures, which distinguish foreign from Arab investment in industry, showed that a total of 429 factories with total capital of SR 49.2 billion ($13.2 billion) had been established involving foreign investment by the end of 1987. (31) A more detailed breakdown, available for 1985, shows that of the 389 factories with a total capital investment of SR 28.9 billion ($7.7 billion) that had been established in the Kingdom under its foreign investment laws by the end of 1985, foreign partners contributed capital worth SR 10.8 billion ($2.9 billion) of the total (see Table IV.2).

Table IV.2
Saudi Arabia: Foreign Investment Shares in Non-Oil Manufacturing Industries, 1985

Industrial activity	No. of factories	Total capital investment (million SR)	Foreign partner share (million SR)	Percentage share of foreign partner (%)
Foodstuffs, beverages and tobacco	38	1,216	306	25.2
Ready-made clothes and textiles	8	244	92	37.7
Wood products	13	118	67	56.8
Paper and paper products	16	478	206	43.1
Chemical industries, including petro-chemicals, coal, rubber and plastics	90	15,968	7,662	48.0
Manufacture of china, earthenware, pottery, porcelain and glass	1	21	3	14.3
Building materials	65	4,167	1,174	28.2
Metal industries	152	6,524	1,169	17.9
Other products	5	150	78	52.0
Storage	1	20	12	60.0
TOTAL	389	28,906	10,769	37.3

Source: Saudi Arabia, Ministry of Industry and Electricity, Industrial Statistical Bulletin, 1985; Gulf Economic and Financial Report, Gulf International Bank, Manama, Bahrain, III.4, April 1988.

Foreign participation as a per cent of the total ranged from a high of 60 per cent in storage industries and 58.6 per cent in wood products to a low of 17.9 per cent in the metal industries and only 14.3 per cent in the manufacture of china, earthenware, pottery, porcelain and glass products. Of the total foreign investment, 71.1 per cent went to the chemical industries sector (including petrochemicals) alone. (32)

Other figures on foreign investment in the Kingdom, available from the Saudi Industrial Development Fund (SIDF), showed that the USA was the most heavily involved in terms of the number of projects funded by SIDF in which foreigners invested in 1986 (see Table IV.3). These totalled 55, with 27 alone in the engineering products sector, followed by 28 for the United Kingdom (10 in building materials, 7 in engineering and another 7 in consumer products); 24 for Switzerland, mainly in chemicals; 22 for the FRG (8 in building materials and 6 in engineering); 17 for France (9 in engineering and 4 in building materials); and 11 for Italy (4 each in engineering and building materials).

Table IV.3
Joint Venture Projects in Saudi Arabia Funded by the Saudi Industrial Development Fund

	Sectoral Distribution of Products					
Countries involved	Engineering Products	Chemicals	Consumer Products	Building Materials	Other	Total
West Germany	6	4	3	8	1	22
France	9	3	1	4	--	17
Netherlands	7	2	--	1	--	10
Belgium	2	1	--	1	--	4
Luxembourg	--	--	--	1	--	1
Italy	4	1	2	4	--	11
United Kingdom	7	4	7	10	--	28
Denmark	1	1	5	--	--	8
Greece	--	1	--	--	1	2
Total EEC	36	17	19	29	2	103
USA	27	14	4	10	--	55
Japan	4	1	1	--	1	7
Switzerland	6	11	--	6	1	24
TOTAL	97	60	54	63	6	280

Source: Saudi Industrial Development Fund, Guide to Saudi Arabian Manufactured Products, VIII edition; Gulf Economic and Financial Report, April 1988.

Altogether, the 12 members of the European Community (EC) invested in a total of 103 projects, of which 36 were in engineering products, 29 in building materials, 19 in consumer products and 17 in chemicals. Significantly, Japanese investment was involved in only 7 projects, 4 in engineering products; however, this was expected to have increased markedly between 1986 and the end of 1989, while the number of projects in which the U.S. invested may have declined, especially in relation to the UK, which was benefitting from a new $7.6 billion offset investment programme covering the sale of military aircraft to Saudi Arabia (see Chapter VI).

Although figures are not readily available for other countries in the GCC, the varying conditions regarding foreign investment tended in general to limit it to those sectors which are likely to use either advanced technology or be regarded as important to national economic development. Unlike Saudi Arabia, where the Foreign Capital Investment Code provided various incentives to foreign investors (see Chapter VI) and which allowed foreign participation of up to 75 per cent of a joint venture, Kuwait generally allowed foreign capital to hold only a minority share of up to 49 per cent.

In the UAE, the figure was also 49 per cent, while in Qatar foreign capital was not allowed at all in the case of small and medium-sized industries. In other cases, as stipulated under the 1963 law governing foreign investment, non-Arab shareholders were allowed a maximum participation, again, of 49 per cent. In the case of Bahrain, however, while the Companies Law in the past limited foreign participation to 49 per cent as well, amendments to the law in the late 1980s limited this figure to only 25 per cent, except where specific exemptions were granted by the Ministry of Commerce and Agriculture. These were primarily given for joint ventures involving Bahraini and other shareholders from the neighbouring Gulf states. (33)

Nevertheless, foreign investment in industry and manufacturing in the Gulf region was significant, although it was concentrated mainly in those sectors which relied on petrochemicals as feedstocks or which required high energy inputs. Bahrain-- which had the largest share of manufacturing relative to GDP of all the Gulf states--had substantial foreign investment in its growing aluminium industry, for example (see Table IV.1). Kaisertech Ltd. of the USA held 17 per cent of the shares in the Aluminium Bahrain (ALBA) smelter, which was being expanded to take capacity up to 400,000 tons a year, with Breton Investments of West Germany holding another 5.1 per cent. The latter also held 49 per cent in Bahrain Atomizers, with the remainder of the shares owned by the government.

Qatar was seeking foreign investors for its plans to expand into aluminium as well, with Pechiney of France, Eisenbau Essen of West Germany and Davy McKee of the UK reported in 1989 as being interested in plans for a $1.2 billion plant capable of producing 180,000 tons a year by 1993. However, although Qatar moved to encourage its own private industrial sector in the 1980s, foreign investment was limited.

Kuwait tended to buy complete turnkey industrial projects, set up under government ownership, or to invest its substantial capital surpluses, both official and private, in industry located abroad, although there was evidence toward the end of the decade that private Kuwaiti investors were seeking more foreign participation in projects producing consumer and light industrial goods for the local market. (34)

In the United Arab Emirates, C. Itoh of Japan had set up a joint venture with the Abu Dhabi National Oil Company (ADNOC), the Abu Dhabi National Plastic Pipe Fabrication Company (NPP), to manufacture PVC pipes for the irrigation, sewerage, water and general industrial sectors of the country. (35) C. Itoh, along with another Japanese company, Tokyo Boeki, and AMOCO Sharjah Oil, a subsidiary of Standard Oil of Indiana, also held a minority shareholding in the Sharjah Liquified Petroleum Company which produced propane, butane and light oils for export.

Three UK-based firms, Brown and Root, Hawker-Siddeley Power Engineering and Balfour-Beatty Ltd., along with Ferrostaal of West Germany, owned minority shares in the Umm al-Quwain Aluminium Company (Umalco) while BP Arabian Agencies, an affiliate of British Petroleum, was involved in a factory to blend lubricants located in Dubai's Jebel Ali Free Zone. (36) In addition, another 13 UK companies had established facilities in the Free Zone, mainly in the lubricants, concrete, chemical and engineering products sectors. Their total investment was estimated at 150 million pounds sterling. Altogether, some 180 foreign companies had set up operations in the Zone, either independently or with local joint venture partners by the end of 1989. (38)

Finally, some 30 factories had been set up in Oman's Rusail industrial estate, with several joint ventures involving U.K. and local Omani firms involved. Plans by the Oman Chamber of Commerce and Industry to attract foreign investment in industry were also well advanced, as were plans to develop additional industrial estates for private companies at Raysut in Dhofar, at Sohar and at Sur and Nizwa. (38)

The Arab Co-ordination Council States

Foreign investment in industry was a particular priority for the four Arab states (Egypt, Jordan, Iraq and North Yemen) which agreed to form the Arab Co-ordination Council (ACC) in February, 1989. Unlike the GCC countries, they shared the problem of having weak currencies, of holding substantial foreign debt and, except for Iraq, of depending on remittances from their nationals working abroad to fund a substantial portion of their earnings in hard currency. However, on the plus side, they had a combined population of some 80 million people, five times as large as that of the GCC states, while their total GDP of some $78 million amounted to about 60 per cent of that of the GCC (39) (see Table IV.4)

Table IV.4
ACC Countries: Gross Domestic Product, 1982 to 1987
($ millions)

	1982	1983	1984	1985	1986	1987
At market prices:						
Egypt	18,480	21,047	20,724	19,661	19,779	19,999
Iraq	41,125	38,260	44,381	48,395	45,718	48,003
Jordan	3,758	3,830	3,799	4,367	4,766	5,125
North Yemen	4,369	4,679	4,225	3,823	3,134	4,400
At constant prices:						
Egypt (1980/81)	16,200	16,910	n.a.	n.a.	n.a.	n.a.
Iraq	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jordan (1985)	4,225	4,097	3,797	4,404	4,766	5,143
North Yemen	5,891	6,129	5,057	3,823	2,766	3,587
Gross fixed capital formation:						
Egypt	4,840	5,423	4,862	4,179	4,012	3,496
Iraq	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jordan	1,485	1,522	1,544	1,606	1,640	1,692
North Yemen	1,249	939	751	561	403	626

Source: IMF, International Financial Statistics, May 1989; MEED calculations and Gulf International Bank. Iraqi GDP figures for 1985 to 1987 are estimates by GIB. Exchange rates for Egypt are calculated at the commercial bank rate. N.A. - not available.

With the exception of North Yemen, industrial production and foreign investment in the ACC countries was adversely affected in the mid and late 1980s by severe shortages of foreign exchange and, in the case of Iraq, by the eight-year conflict with Iran. Egypt and Iraq, in addition, tended to discourage the growth of private industries in key sectors until the latter part of the decade, and although policies more favourable to foreign investment were adopted, actual investment flows continued to be affected by the low rate of returns experienced in manufacturing industry, by bureaucratic delays in project approval and funding and by competition in local markets from subsidized industries.

In Egypt, for example, a $700 million plan by General Motors to establish a joint venture with the state-owned NASCO car factory to assemble cars and to produce automotive spare parts was abandoned in August, 1987. GM said the proposed project, which was to be called the General Misr Car Company, became uneconomic when the value of the Egyptian pound depreciated substantially against the Deutschmark, thereby increasing the cost of importing the necessary car kits from GM's Opel subsidiary in West Germany. The lack of interest among private entrepreneurs in Egypt regarding spare parts production to supply the assembly plant was also given as a reason for the project's cancellation, as was the size of the overall funding involved. GM's existing light truck plant in Egypt was also experiencing some difficulties: it was operating well below design capacity due to lack of market demand and to problems in obtaining government permission to vary its output to produce more luxury cars. (40)

However, another joint venture, involving several Japanese firms as well as a number of government and locally owned companies such as the Egyptian General Petroleum Company, the National Investment Bank, the National Bank of Egypt, Bank Misr, Bank of Alexandria, Misr Insurance Company, the Executive Organization for the Industrial and Mining Complexes, the Egyptian Steel and Iron Company, the National Metals Industries Company, the Delta Steel Mill Company and the Egyptian Copper Work Company, was more successful.

Set up in 1982 with a total capital of 201.6 million Egyptian pounds, it built the El-Dikheila steel complex to produce 745,000 tons of steel bars and rods a year, primarily for the local market. Commissioned in December, 1986, the complex was being expanded in 1989 to produce 1.1 million tons of raw steel annually and this output, together with that from the government-owned Helwan steel works, was helping to reduce the need to import substantial quantities of steel. Aside from the Japanese shareholders, which included Nippon Kokan, Kobe Steel and Toyo Menka Kaisha, additional funding for the complex and for a related industrial port at El-Dikheila came from the World Bank, the International Finance Corporation and Japan's Overseas Economic Co-operation Fund. (41)

The five-year development plan which began in fiscal year 1987/88 aimed to increase private investment in industry to reduce imports of both raw materials and consumer goods and to promote industrial exports. However, no major increase in the industrial component of GDP, which amounted to about 20 per cent including power generation and mining (see Table IV.5), was expected in the short term. While the plan called for investments of 10 billion Egyptian pounds in the private sector, compared to 8 billion pounds in public sector industries, officials admitted that this target was unlikely to be achieved due to the country's chronic balance of payments deficit, the burden of foreign debt (about $50 billion in 1988) and the endemic shortage of foreign exchange needed for repatriation of profits as well as for imports of raw materials. (42)

Table IV.5
ACC Countries: Industrial Contribution to GDP

Country	GDP ($ millions)	Industrial contribution (%)
Egypt (1986)	26,382	20.4
Iraq (1986)	45,718	10.3
Jordan (1987)	3,277	10.0
North Yemen (1986)	3,134	12.0
Syria (1985)	7,103	6.4

Source: IMF; MEED; GIB, The Middle East and North Africa, Europa Publications, London, 1988, page 804; Central Bank of Jordan, Monthly Statistical Bulletin, February 1989; Industrial Bank of Yemen, Annual Report, 1987.

Notes: GDP is at market rate except for Egypt, which is at factor prices, and Syria, which is at purchasers' values; figures for Iraq and North Yemen are estimates. Industrial contribution in Egypt includes poer and construction; for other countries it includes manufacturing only. GDP for Syria is calculated at 1988 dollar exchange rate.

In Iraq, foreign debt was equally a problem, with the total estimated to have reached $30 billion by the end of the 1980s. While the private sector was being encouraged to set up new industries to produce consumer goods once the war with Iran had ended, the state continued to play a major role in vital industries such as oil refining, petrochemicals, iron and steel and building materials. Arab investors, particularly from the Gulf states, were being given special incentives under an investment law passed in April, 1988, but the tax exemptions and repatriation of profits allowed under this scheme was not extended to investors from other countries. However, Soviet and East European countries had been active in providing both technical expertise and funds for the construction of light industry factories and in expanding Iraq's power generating facilities.

Plans to privatize some 47 of the country's state-owned consumer goods and light industrial factories were announced toward the end of the decade as part of a programme aimed at creating additional opportunities for private investment in the 1990s. The government was also increasing its own investments in manufacturing and mining, with a target of 234 million Iraqi dinars listed in the 1986 to 1990 five-year development plan. (43) It was hoped that this would increase the industrial contribution to GDP during the next decade; in 1986, the latest year for which figures were available, it amounted to just over 10 per cent (see Table IV.5).

Unlike Iraq, Jordan has always favoured private investment in industry and actively promotes foreign investment as well. Its Investment Law of 1984, for example, offered a wide range of tax concessions and liberal terms for repatriating capital and profits. However, like its fellow members of the ACC, the government experienced severe shortfalls in government revenues during the second half of the 1980s and had to cut back on expenditure for industrial development. The trade balance recorded a deficit of $2 billion for each year since 1980, and this worsened as Arab aid and remittances from Jordanians working abroad fell in the wake of the recession in the neighbouring Gulf states during the second half of the decade. Real GDP fell by 2.4 per cent in 1987 and the current account deficit rose to 350 million Jordanian dinars. The dinar itself lost a third of its value against the U.S. dollar in 1988 alone, exchange controls were introduced, customs duties raised and, and in early 1989, the country was forced to negotiate a rescheduling of its estimated $1.5 billion medium- and long-term commercial bank debt, as well as the $4 billion to $5 billion it owes in short-term credits. (44)

The industrial sector in Jordan is dominated by the minerals and chemicals sectors, notably the Jordan Phosphate Mines Company (JPMC), the Arab Phospate Company (APC), the Jordan Cement Factories Company (JCFC) and the Arab Pharmaceuticals Company, in which the government has substantial shareholdings, the remainder being held primarily by either private or other Arab shareholders. However, in the 1980s the government sought to encourage joint ventures involving foreign firms in the engineering industries, manufacture of paper, cardboard and packaging materials, batteries, petroleum products and in the development of renewable energy sources such as solar power and wind generation.

Industries producing products for export were also being given special incentives. Moreover, the existerce of substantial, but untapped, oil shale deposits in the Dead Sea, the confirmation of a significant gas field discovery in the northeast and encouraging signs of potentially huge crude oil resources were also helping the government's plans to attract more foreign investment in local industry in general. (45) In 1987, the share of manufacturing in GDP totalled 10 per cent, excluding mining and energy. (see Table IV.5).

Aid for the development of industry came from the US Agency for Industrial Development (AID), The FRG's Kreditanstalt fuer Wiederaufbau, the World Bank and International Development Association (IDA), the European Investment Bank and the European Community (EC), as well as from other official donors in Ireland, Canada, Scandinavia and Eastern Europe and from Arab aid funds, notably the Kuwait Fund for Arab Economic Development, the Kuwait-based Arab Fund for Economic and Social Development, the Saudi Development Fund and the Islamic Development Bank. US and Italian private interests were involved in the development of phosphate resources in the Wadi Hasa area south of Amman, a Finnish company was helping APC expand potash extraction in the Dead Sea region and the Soviet Union provided technical assistance for the development of the country's oil shale reserves.

An Australian company was setting up a joint venture to produce agricultural machinery, with assistance from the Australian International Development Bureau, and private investors from Taiwan were planning to develop an export-oriented textile joint venture as well as other projects producing processed foods and electronics goods for export to the Gulf states, Egypt and North Africa. Foreign investors were also being welcomed in plans to privatize several public companies, notably the Royal Jordanian Airlines as well as in the establishment of new factories in the Sahab industrial zone south east of the capital and others planned for Irbid, Salt and Aqaba by the EC-funded Jordan Industrial Estates Corporation (JIEC). (46)

The discovery of substantial crude oil deposits in North Yemen (which merged with South Yemen in 1990) and the confirmation in 1987 of the commercial viability of these deposits gave a major boost to plans to develop petrochemical industries in the country. Mobil International Petroleum

Corporation was setting up a joint venture in Hodeidah to blend lubricating oils and Japanese aid was being provided for a similar proposed venture. Discussions on setting up a liquid petroleum gas (LPG) plant and another to produce ammonia were well advanced, and foreign investors from the FRG, the Netherlands and France were reported to have expressed interest in providing project finance for these ventures. (47)

The government continued to be the main shareholder in the largest industries, especially in textiles and in cement, but private investors were involved in smaller, mixed enterprises producing pharmaceuticals, tobacco and cigarettes. Altogether, industry contributed only about 12 per cent of total GDP, and growth in manufacturing (9 per cent in 1987) was adversely affected in later years by restrictions on the import of raw materials and a low level of capacity utilisation in certain manufacturing sectors, such as in beverages and building materials, as well as a shortage of hard currency. (48)

However, industry's contribution to GDP was expected to rise in the 1990s as the petrochemical projects got under way and as a result of the government's efforts--channelled in part through the Industrial Development Bank of Yemen--to encourage foreign investment in light manufacturing industries, particularly in food processing, beverages, clothing, leather goods, plastics, wood products, utilization, glassmaking and building materials. (49)

The Maghreb states

The historic meeting in Algiers in June, 1988, in which the heads of state of Algeria, Libya, Tunisia, Morocco and Mauritania agreed to form the Arab Maghreb Union (UMA) was followed by concrete measures to integrate the five states politically, economically and culturally. Agreements on setting up a unified parliament were drafted in the first half of 1989, and work progressed in five key committees, including one to promote economic and trade integration, to produce new combined legislation governing the development of joint venture industrial and manufacturing projects in the five states by the early 1990s (50) (see Chapter VI).

With extensive oil and gas reserves in Algeria, the Libyan Arab Jamahiriya and Tunisia, and a combined population of some 60 millions, the new union was already attracting huge capital inflows from European governments, while some private firms saw the region as a main centre of "offshore" industrial production for the European Community in the 1990s. The five states, concerned that the creation of a Single European Market in 1992 could lead to a reduction in their exports to the EC and in the demand for North African labour, were equally anxious to forge both new trade links with their Arab neighbours and to attract foreign investment which, particularly in Algeria, Tunisia, Morocco and Mauritania should allow them to reduce their high rates of unemployment and also alleviate the substantial burden of foreign debt they face.

In Algeria, new constitutional changes were being made in the wake of the severe political disturbances which started in October 1988. These included a shift to a more mixed economy, in which the virtually total economic domination of the huge state enterprises was expected to give way to more incentives for both private and foreign investment in industry, including measures to remove existing credit ceilings on bank loans for the establishment of privately owned factories in the hydrocarbons, food processing and manufacturing sectors. (51) Other measures, to promote joint ventures involving foreign participation, were expected to be launched after the adoption of the new five-year plan due to run from 1990 to 1994. (52) Foreign support for these changes in the 1980s was considerable, with the IMF agreeing in May, 1989 on a new loan rescheduling package that was to provide some $619.2 million in new standby credits and in the form of a new compensatory and contingency finance facility (CCFF). The World Bank was also providing three sectoral loans, totalling $211 million, under the terms of a financial aid package agreed in April, 1989. (53) These funds were expected to help alleviate the country's huge debt service burden, which was estimated to require interest payments to foreign debtors of some $1.7 billion in 1989 alone. Total foreign debt was estimated to have reached some $21.5 billion by the end of September, 1988. (54)

Huge sums were also provided by several governments and govern ment agencies, including $1.15 billion by France, $380 million by Spain, $320 million by Italy, $87 million by the United Kingdom, and $33 million by the U.S. suppliers credit agency, Eximbank. Japan agreed to provide Algeria $157 million in soft loans and grants in a joint package with the World Bank. (55) While a substantial share of these credits were used to finance bi-lateral trade with the respective countries, private industrial projects, particularly those in light industry and which furthered the government's aim of substituting imports with products produced locally, were also benefitting through loans provided to the Banque Algérienne de Développement. These projects included a joint venture involving Fiat of Italy to produce cars and other vehicles for the local market and plans to set up new Franco-Algerian joint ventures in engineering, automotive spare parts and electronics to supply the public sector enterprises. (56)

In Libya, most heavy industry, including oil refining and petrochemicals, is state-owned as well and, as in Algeria, government spending on this sector was severely affected by the fall in oil export revenues in second half of the 1980s. In an attempt to counter the fall in government spending, measures to encourage private Libyan investors to set up factories producing consumer goods for the local market were announced in March, 1987. Loans for these industries were to have been provided by the Libyan Development Bank, but considerably delays in project implementation were reported. (57)

Foreign joint ventures are limited to those industrial areas considered of vital strategic interest to the economy. Efforts by a joint Libyan-Yugoslavian company, the Libyan Aluminium Company (Libal), to set up an aluminium complex in the Libyan Arab Jamahiriya ended in 1986 due to a lack of government finance and delays experienced in obtaining suppliers credits and bank loans from Japan, South Korea, the USA, the UK, France, the FRG and Italy. However, a joint venture between the Heavy Industry Secretariat and Massey-Ferguson of the US has been assembling tractors for the local market since 1979. Another joint venture, involving Iveco of Italy, was set up to produce buses in kit form, while a third, involving Italian company Calabrese, has been producing truck bodies and trailers since 1985. Discussions were also held with Algeria in the latter part of the decade to set up a number of joint venture projects as well, including plants to make cars, Saharan vehicles, gear boxes, diesei motors and aluminium for the North African market. (58)

In contrast to Algeria and Libya, both Tunisia and Morocco have long encouraged the establishment of private industry and both have specific incentives for foreign investors as well. Tunisia expanded these incentives even more in 1988 and 1989 as its traditional revenues from the export of crude oil, gas and phosphates diminished due to falling world prices for these commodities. Manufacturing industry accounted for about 14.1 per cent of total GDP in the late 1980s and within this sector, production of textiles, clothing, shoes and processed foods was particularly important (see Tables VI.6 and VI.7). (59)

Table IV.6
Tunisia: Gross Domestic Product by Industrial Sector, 1983 to 1987
(At 1980 prices, in millions of dinars)

Sector	1983	1984	1985	1986	1987
Total GDP at market prices	3,892	4,115	4,347	4,278	4,525
Industry	1,257	1,304	1,328	1,322	1,327
Of which:					
Mining	54	51	44	55	59
Hydrocarbons, power and water	441	442	441	435	421
Manufacturing industries	522	556	585	613	639
Of which:					
Food processing & agro-industries	111	132	131	137	141
Building materials, ceramics & glass	82	83	92	93	97
Mechanical and electrical industries	75	80	85	85	85
Chemicals and rubber	63	63	67	77	81
Textiles, clothing and shoes	120	121	126	133	143
Wood, paper and other	71	77	84	88	92
Construction and public works	240	255	258	219	208

Source: Banque Centrale de Tunisie, Statistiques Financieres, December 1989, page 71.

Table IV. 7
Tunisia: Industrial Production by Sector, 1983 to 1987
(1983 = 100)

Sector	1983	1984	1985	1986	1987
Food processing	100.0	100.7	108.4	112.7	114.1
Building materials	100.0	96.4	97.5	94.1	103.3
Mechanical and electrical industries	100.0	103.4	103.8	93.7	85.1
Chemical industries	100.0	99.8	101.2	116.9	123.5
Spinning and weaving	100.0	106.2	112.1	106.5	121.0
Paper and cardboard	100.0	101.6	122.9	128.8	128.6
Mining	100.0	90.6	78.1	95.6	102.6
Hydrocarbons	100.0	100.2	99.5	97.9	94.8

Source: Banque Centrale de Tunisie, Statistiques Financieres, December 1989, page 57.

Tunisia's Agence de Promotion de l'Industrie (API) has been in the forefront of measures to attract foreign firms and joint ventures in textiles, plastics, electronics and other light industries producing goods for export, primarily to Western Europe and the USA. Aid to set up these factories has been provided by the World Bank. (60) UK firms involved in these ventures in the 1980s included Courtaulds and Lee Cooper as well as

Coats Viyella and Unilever, but investment in this sector by FRG and French firms was even greater. (61)

Production of cars by the state-owned company, Société Tunisienne d'Industrie Automobile (STIA) under license from a number of foreign firms unfortunately declined after 1986 as a result of the devaluation of the Tunisian dinar and the resulting higher cost of importing car kits for assembly. Volkswagen and Daimler-Benz withdrew from joint projects in mid-1987 and Renault closed its project shortly afterwards. The high cost of some other cars produced locally, such as Peugeots and Citroens, also made them less attractive to the Tunisian consumer, and the STIA plant at Sousse was forced to close as a result in 1988. Plans to produce cars jointly with Algeria, under license from European and US firms, were reported to be still going ahead, however, and it was thought that production for the Maghreb market as a whole could introduce economies of scale that would make local vehicle production more commercially viable. Peugeot, for example, completed a study for an assembly plant in Tunisia that would supply up to 30,000 small vans a year to the North African states. (62)

In Morocco, the Office pour le Développement Industriel (ODI) promoted joint ventures involving foreign participation in textiles and leather goods, electronics, food processing and fish canning plants. By the end of 1988, there were more than 1,200 textile and leather goods companies alone in Morocco, almost all of which were in the private sector. Excluding mining and other extractive industries, manufacturing accounted for about one-fifth of total gross domestic product, with textiles dominating the sector. Of the 1,189 new industrial projects approved by the authorities in 1985, the last year for which figures are available, foreign investment accounted for about 16 per cent of the total investment involved of 2.8 billion Tunisian dinars. (63)

As in Tunisia, Morocco also assembles cars and vehicles for the local market under license from European and US manufacturers. Factories set up for this purpose included Renault Maroc, SOPRIAM (Peugeot-Talbot), SOMACA (Fiat) and SMEIA (Land Rover). Berliet Maroc produced hea goods vehicles and buses under license while Somami-Rahali, a Casablanca-based company, manufactured bus bodies for DAF chassis imported from the Netherlands. Vehicle tyres were produced locally under license from Goodyear and General Tyre. (64)

Manufacturing industry in Mauritania was limited to a few small plants which existed alongside the big iron ore mines and oil refinery which were dominated by the government and other Arab investors. Fish processing and canning accounted for the bulk of manufacturing: since 1980, any foreign government or company wishing to fish in Mauritania's extremely fertile fishing grounds has been obliged to set up a joint venture in Mauritania in which local participants have at least a 51 per cent shareholding. Moreover, the law stipulated that the entire catch must be landed in Mauritania for processing and export, and while there have been many fleets that have successfully evaded these provisions, the value of fish and fish products produced in Mauritania rose fourfold after 1980 to a total of about 312,000 tonnes a year by the end of the 1980s. (65)

Plans for joint ventures with the other Maghreb states should increase manufacturing output over the next decade, but most foreign investment in these new industries was expected to come from other Arab investors in North Africa and in the Gulf states. The Kuwait Foreign Trading, Contracting and Investment Company (KFTCIC) had already set up a joint venture with the Mauritanian government in a scrap metal rolling mill in Nouadhibou. (66)

2. Constraints on investment co-operation

Aside from the international environmental constraints resulting from a decline in OECD aid and investment in the developing countries, the uncertain prospects for oil prices and the burden of debt borne by some of the more populous Arab countries, investment co-operation between the OECD countries and the Arab world in the 1980s was also affected by certain constraints which existed in the Arab region itself.

While these constraints can be mentioned only briefly, they can be summed up in terms of those which resulted from 1) the disparities between natural resources, labour supply and markets within the region; 2) capital flight and the lack of sophisticated regional capital markets suitable for channelling investment to local manufacturing industries within the area; 3) payment delays to local industries and to foreign suppliers; 4) duplication of existing industries; 5) business attitudes which hindered the development of modern indigenous technology, research and industrial enterprise; and 6) an insufficient data and regional information network suitable to the creation of new market-oriented industries.

Labour markets and financial resources

Within the Arab region, the wide disparity between market size and the lack of an integrated, region-wide market continue to pose problems for potential investors. While the GCC states enjoyed high per capita incomes, for example, the establishment of private sector, market-oriented manufacturing industries was hindered by the relatively small market involved, even allowing for moves by the GCC to remove customs barriers and to promote investment across their mutual borders.

Population figures for the six states involved--Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman--showed that in 1985 the combined total amounted to only about 15.5 million people, even on the best estimates. While this figure was expected to rise to just under 23 million by the year 2,000, a substantial share of the population consisted of expatriates from the USA, Europe and Asia. In 1985, this share was estimated to be as much as 45 per cent of the total population and although governments in each of the six states were seeking ways to reduce their reliance on foreign labour, the share will still be considerable in the next decade (67) (see Table IV.8).

The reliance on expatriate and migrant labour in the Gulf states was also a major factor adding to the cost of labour in manufacturing industries and/or the complexity of obtaining labour. While the managerial and executive level included expatriates from the USA and Europe, the industrial work force consisted to a high degree of immigrant labourers brought in under short-term contracts from other Arab countries, the Indian sub-continent, the Philippines and Thailand. Government attempts to reduce the dependence on expatriate labour meant that work permits were often difficult to obtain while requests to the authorities for permission to bring in a work force of a specific size were often denied if the authorities felt that the applicant could operate with a smaller number. Finally, while wage costs for Asian labourers in particular were competitive in the 1980s, the cost of paying a labour contractor and of housing a migrant labour force, in addition to the costs of complying with government regulations regarding immigration, were sometimes prohibitive. In the case of expatriates from the USA and Europe, there were also additional costs for medical services and for providing company transport as well as for holidays abroad.

Table IV. 8
Population in the GCC countries, 1985 to 2000

	Saudi Arabia	Kuwait	U.A.E.	Oman	Bahrain	Qatar	Total
1985:							
Total (thousands)	10,164	1,697	1,532	1,420	412	213	15,864
Annual growth rate (%) 1975 to 1985)	3.3	3.8	3.8	3.2	2.5	3.8	3.5
Expatriates (%)	38.0	60.0	75.0	32.0	35.0	68.0	45.0
2000:							
Total (thousands)	15,864	2,169	2,016	1,809	650	301	22,809

Source: UN ESCWA, Survey of Economic and Social Developments in the ESCWA Region, March 1987; Gulf Economic and Financial Report, October 1987.

Note: 1985 figures for Oman and Bahrain are estmates; figures for the year 2000 are projections based on UN figures.

While the markets in the ACC countries and in the Maghreb states were considerably larger and there was a plentiful supply of skilled industrial labour in countries such as Jordan, Lebanon, Egypt, Tunisia and Morocco, the smaller per capita earnings and lack of disposable income served to act as a constraint on prices and on the ability to market certain manufactured products. Per capita annual incomes, for example, ranged from $420 in Mauritania, $470 in South Yemen, $550 in North Yemen, $590 in Morocco and $760 in Egypt to $1,140 in Tunisia, $1,540 in Jordan and $2,590 in Algeria. This stood in sharp contrast to the situation in the Gulf states, where per capita incomes were ten- or even 20-fold higher: in the U.A.E., for example, the 1986 figure was $14,680, in Kuwait $13,890, in Qatar $13,200 and in Saudi Arabia $6,950 (see Table IV.9).

Table IV. 9
GDP per capita, selected Arab countries, 1986
($)

Country	Amount
Algeria	2,590
Bahrain	8,510
Egypt	760
Jordan	1,540
Kuwait	13,890
Mauritania	420
Morocco	590
Oman	4,980
Qatar	13,200
Saudi Arabia	6,950
Somalia	280
Sudan	320
Tunisia	1,140
United Arab Emirates	14,680
North Yemen	550
South Yemen	470

Source: World Bank, World Development Report, 1988; Islamic Development Bank, Thirteenth Annual Report, 1987/88, Jeddah, 1988.

Reduced purchasing power and the lack of local credit facilities, for example, played a role in the decline of the North African indigenous car industry. Ceilings imposed by the International Monetary Fund also prevented debtor countries like Tunisia from expanding credit for car purchases against the security of state pensions. (68)

The need to service foreign debt in the more populous countries also created shortages of foreign exchange and led to restrictions on vital raw material imports, particularly in countries like Egypt, Algeria, Morocco, Lebanon and Jordan where the local currencies were often subjected to devaluations and/or extensive black market trading. As a result, while their governments sought to encourage foreign investment in local industry as part of a larger import substitution programme, the combination of reduced purchasing power in the domestic market and delays on imports often reduced the commercial viability of a particular project even when the market demand for a particular product was potentially sufficient.

Capital flight and capital markets

Although Kuwait had almost fully recovered from the crash of the unofficial stock market in 1982, and new measures were taken in the second half of the 1980s to facilitate GCC-wide investment by residents of the six Gulf states involved, the growth of the Gulf capital market as a whole was still severely restrained. Stock exchanges were opened in Bahrain and in Oman, as well as in Kuwait, but efforts to create a trading floor in Saudi Arabia were hindered by the government's determination to control trading and speculation in the riyal as well as by the need to re-schedule the debts of several big family-owned Saudi companies. (69) Throughout the GCC, the limited number of publicly traded companies and GCC restrictions on share ownership by non-GCC citizens acted as a further deterrent to foreign investment. (70)

Elsewhere, civil unrest--as in the case of Lebanon--economic recession and currency devaluation led to stagnation and/or falling share prices in local markets, and prevented the implementation of plans to create region-wide capital and money market trading facilities. Egypt's attempts to unify its exchange rates and to liberalize its interest rate structure in line with recommendations issued by the International Monetary Fund actually increased the cost of local funds, particularly for long-term lending. (71) In Jordan, strong selling pressure led to sharp falls in the dinar in 1988 and share prices suffered accordingly, a trend that was further aggravated by the severe reduction in the amount of funds repatriated by Jordanians working abroad and by the uncertainties surrounding the future of the West Bank. (72)

Although some of the Gulf states began to issue government debt that could be traded on the secondary market, the lack of opportunities for both Arab and foreign investors in local capital markets and exchange rate volatility in certain Arab states led to an undue emphasis on overseas investments and, especially in the debtor countries, to a flight of capital abroad. The private sector in the Gulf countries alone was estimated to have invested some $162 billion abroad between 1973 and 1989, while the amount of capital that left Egypt, Yemen, Jordan, Sudan, Lebanon and Syria after 1981 was estimated to have reached at least $8 billion by the end of the decade. (73)

While the stock market crash of October 1987, encouraged many private Arab investors in the Gulf states to reduce the amount of their investments abroad, preliminary evidence suggests that the capital that returned home as a result was invested in property, gold or in commerce and trade rather than in local equities or in longer-term manufacturing projects, even though the attitude of businessmen to making longer-term investments in manufacturing industry was becoming more positive. (74) Measures in Egypt and Jordan to curb the activities of money changers and to raise local interest rates began to help retain more capital in the country, but efforts by other Arab states to introduce exchange controls often simply served to encourage the black market, especially when these controls were not been matched by sensible interest rate policies and other reforms to encourage sound macro-economic policies aimed at encouraging local investment.

Payment delays

Economic recession in the Gulf states and the growing shortage of foreign exchange in other Arab countries also led to problems in payments made to both local manufacturing concerns and to foreign suppliers, a trend which in turn further discouraged private investment in Arab industry. Within the GCC countries, for example, payments delays by the Qatari government to local contractors and suppliers in the second half of the 1980s led to cash flow problems that hindered expansion plans, a problem which in the case of Qatar was compounded by the small size of the local market. (75) Elsewhere in the GCC countries, the decline of oil revenues in the second half of the 1980s led to a growing dependence on government orders, thereby compounding problems which arose when government payments were late. Additional difficulties centring on the need to re-schedule the debt of some big Saudi companies also affected local companies dependent on these firms for orders.

Payment delays to foreign suppliers in turn often led to a shortage of raw material imports and disruptions in local production lines as a result. This was been a particular problem in countries such as Egypt and Morocco which were involved in extensive negotiations with the IMF to re-schedule their foreign debts, but such delays were not uncommon elsewhere in certain sectors. Delays due to a shortage of foreign exchange, for example, ranged from three months in Egypt and Morocco to up to 5 months in Iraq, 6 month in Syria and 8 months in the Libyan Arab Jamahiriya in 1988 and 1989. In Lebanon, due to the civil war, the delays ranged as high as 35 months for payments due before the Lebanese pound was devalued in the late 1980s. In Qatar, despite government pledges to the contrary, the delays in con tract payments to private firms sometimes lasted up to a year or more. (76)

Industrial duplication

Throughout the region, the duplication of industries due to the separation of the regional market by national development policies constituted a major constraint to the expansion of manufacturing industry. However, this problem was particularly pronounced in some of the Gulf states, where government expenditure on industry during the 1970s, when oil revenues were at their peak, was often made without regard to the policies of neighbouring states. The Gulf cement industry was a case in point.

Within the UAE alone, where the problem of internal industrial duplication is compounded by the division of the country into seven separate emirates, each with their own development policies, nine cement plants had been built by the end of the decade, with a total capacity of some 9.2 million tonnes a year. The emirate of Ras al-Khaimah, which has abundant reserves of limestone (which constitutes 80 per cent of the final product), had three plants and there was one each in the other six emirates--Abu Dhabi, Dubai, Sharjah, Ajman, Fujairah and Umm al-Qaiwain. Yet the combined domestic demand in the UAE as a whole was estimated to total only some 1.5 to 1.8 million tonnes by the end of 1989. Efforts to impose a country-wide policy aimed at reducing foreign imported supplies failed, thereby adding to the problem of local oversupply. (77)

Similarly, efforts by some UAE producers to export their high quality output to other Gulf states were ineffective given the existence of other local suppliers, and the lack of import restrictions, in these states. Saudi Arabia, for example, had seven plants with a total capacity of 9.2 million tonnes a year in 1987, a figure that was expected to have risen to 4.2 million tonnes by the end of 1989 as new planned new factories were brought into operation. At the same time, local demand fell as a result of the economic recession and the decline in new infrastructural projects. The government, however, did not raise tariff barriers to supplies coming from outside the GCC area, which reduced profit margins severely and decreased the possibility of other GCC suppliers selling in the Saudi market once demand improved. (78)

While the problem of industrial duplication was particularly severe in the case of the Gulf cement sector, other sectors which experienced problems of duplication included ship repair, chemicals, fertilizers and aluminium. However, in the latter case, the sharp rise in world aluminium prices in the late 1980s and the comparative advantages which the Gulf states enjoyed due to their indigenous supplies of cheap energy prevented the problem of duplication from adversely affecting foreign investment in this sector.

Business attitudes, technology and research

The success of manufacturing projects requires the adoption of attitudes and approaches that are innovative, flexible and capable of responding to changing situations, both locally and internationally. While the relatively cohesive patterns of company ownership in some Arab states, such as in the Gulf, can promote swift and effective decision-making, large and diffuse bureaucratic structures elsewhere can lead to delays and indecision. Equally, the small number of decision-makers in a Gulf company can create conflicts of interest inimical to the adoption of sound policies, while the longer time scales involved in bureaucratic systems can ensure lower levels of risk, even if stagnation often results.

These patterns of ownership and of decision-making are particularly important with regard to the choice of appropriate technology and to the development of suitable marketing strategies designed to enhance the long-term commercial viability of a particular industrial venture. To date, the choice of technology has to a large degree been conditioned by the ability to pay, and this has meant that industries in the more populous, poorer Arab countries have suffered from a loss of competitiveness due to the lack of up-to-date equipment, research and skills. Where the ability to pay has not been a problem, as in the case of some of the Gulf states during the 1970s and early 1980s, the choice of technology without regard to local conditions and the impact it may have on local attitudes, by the late 1980s also led in some cases to financial loss or to expectations that could not be fulfilled.

University graduates seeking employment in countries like Kuwait and Saudi Arabia, for example, came to expect access to the latest equipment, whether this was a powerful mainframe computer for scientific or banking applications or a turnkey petrochemicals production line imported directly from the West. Yet the lack of indigenous technicians capable of repairing and maintaining such equipment, or of using it optimally, in fact often meant that lower-level or alternative technology would have been more appropriate for the particular application involved. (79)

Existing attitudes therefore needed to be changed if these constraints on industrial development were to be removed. Similarly, the lack of marketing expertise and an attitude which did not value such expertise needed to be rectified as well. An awareness that the consumer needs after-sales service for his or her new car or washing machine, for example, is only now becoming conventional wisdom in many parts of the Gulf states, where the emphasis heretofore has been simply on the sale itself. Packaging, presentation and credit terms also need to be re-evaluated and co-ordinated in a post-war atmosphere where purchasing power has declined and the competition of both locally-produced and imported products has increased.

Production-oriented strategies that take advantage of local resources or manpower need to be supplemented by market-oriented policies that are based on sound consumer research and an analysis of market potential whether the final product is seen as part of an import substitution or export policy. In the case of consumer products, for example, the needs of retailers and distributors must be borne in mind particularly if, in the case of the Gulf states, the potential market consists of consumers of various nationalities with different tastes and buying habits. Similarly, demographic changes are taking place in countries such as Jordan, Algeria, Tunisia and Yemen. These are the consequence of high birth rates (with a consequent high proportion of under-15s in the population) and increasing numbers of returning migrant workers with a low disposable income. These changes imply that there is vast need to create employment opportunites, a need to be borne in mind at the planning stage of a project, not after the plant is built and commissioned. (80)

Finally, the existing business climate throughout the region in the 1980s tended to neglect the pressing importance of adequate data and information on the manufacturing sector and on regional markets. This climate needs to be changed radically if this sector is to develop with the assistance of foreign investors. By the early 1990s, virtually no region-wide comparative data existed, for example, on industrial output by sector, pricing or company ownership. While organizations such as the Kuwait-based Arab Fund for Economic and Social Development (AFESD) and the Gulf Investment Corporation (GIC), the Dohar-based Gulf Organization for Industrial Consulting (GOIC), the Gulf International Bank (GIB) and the various Arab Chambers of Commerce, as well as the Abu-Dhabi based Arab Monetary Fund (AMF) attempted to create new information services to provide basic statistical data, agreement was needed both for adequate funding and staffing and to establish suitable region-wide methods of reporting and dissemination of such information. This issue will also be taken up in the next chapter.

V. Manufacturing Trade Co-operation between Arab, EC and OECD Countries in the 1980s

1. Manufactured Trade: Structure and Growth Trends

A. Arab Manufactured Exports to OECD Countries

Determination of the quantity and growth of manufactured goods exported from the Arab countries is more difficult that it would seem at first sight. Aside from the obvious difficulties of comparing value due to parallel and sharply fluctuating rates of foreign exchange, few Arab countries provide up-to-date statistics in which commodity exports (or imports) categorized according to the accepted Standard International Trade Classification (SITC) can be disaggregated by direction, i.e. by importing country or region. In the case of Saudi Arabia, for example, the latest statistics available, for 1986, provide only total trade figures by either commodity or country, not both. In addition, many of the Arab oil exporting countries provide only general summaries, for recent years, in which all non-oil exports are grouped together, i.e. including agricultural, mineral and other non-manufactured, as well as manufactured, exports.

For the purposes of this study, trade statistics published annually by the Organization of Co-operation and Development (OECD) in Paris, which groups together the leading industrial countries, have been used, and "manufactured" has been limited to SITC categories 6, 7 and 8, according to SITC Revision 3, i.e. "manufactured goods classified chiefly by material," "machinery and transport equipment," and "miscellaneous manufactured goods" respectively. This is somewhat problematic in that manufactured goods are also included in other SITC categories, i.e. SITC Category 0 includes both live animals, grains and fresh fruits and vegetables as well as processed foods; while SITC Category 5 includes base chemicals (organic and inorganic) as well as petrochemicals, fertilizers, aromatics and other manufactured products. (81)

Moreover, the OECD figures available, for 1987, do not disaggregate each of the SITC categories below the second level, and problems arise where non-manufactured and manufactured goods are included in figures for these levels, i.e. SITC Category 05 includes both fresh and processed fruits and vegetables, 12 (under Category 1--beverages and tobacco) both raw tobacco and cigarettes, and 34 (under Category 3--mineral fuels and lubricants) both natural and manufactured gas and related products. (82) Additional difficulties arise because of the inclusion of both Israel and Iran in the OECD's definition of the "Mideast" region, necessitating separate and detailed compilations by each individual Arab country. As a result, a longer and more detailed study would be required to ascertain more accurately both the complete scope of manufactured exports and imports to and from the Arab world and to determine the growth trends both by country or regional group and by commodity. (83).

For 1987, the value of Arab manufactured exports, as described above, to the OECD countries amounted to $4.3 billion (Table V.i). The EC was the biggest importer by far, taking goods worth just over $3.5 billion, or 80 per cent of the total. Exports to both the USA and Japan, in contrast, were small, worth only $341 million and $171 million respectively, reflecting the inability of Arab goods to compete successfully in these two markets, not least because of the lack of geographical proximity.

Table V.1
Arab Countries: Share of Manufactured Goods in Total Exports, 1987
($ millions)

	To: OECD	USA	Japan	EC
Total Exports	90,163.6	12,249.3	19,046.1	52,303.2
Manufactured Goods of which:	4,344.3	340.6	170.5	3,510.7
UMA	2,190.6	60.8	1.0	2,093.3
ACC	735.2	102.1	3.7	544.3
GCC	1,196.6	150.5	163.3	728.3
% of Total	4.8	2.8	0.9	6.7
Capital Goods*	1,022.3	15.7	1.1	983.9
% of Total	1.1	0.1	0	1.9

* Machinery and Transport Equipment
<u>Source</u>: See Table V.2 below.

Of the regional groups, the Maghreb countries accounted for more than half of all manufactured exports to the OECD, with a total figure of almost $2.2 billion, most of which went to the neighbouring EC. Exports by Algeria and Tunisia of miscellaneous manufactured goods, including textiles, clotning, footwear and other leather goods, to the EC alone accounted for more than $1.4 billion of the Maghreb exports, or more than two-thirds of the regional total (see Table V.2).

GCC manufactured exports to the OECD amounted to just under $1.2 billion, representing 27.5 per cent of the Arab total, followed by the ACC countries, with $735 million, or 16.9 per cent of the total. Significantly, Egypt alone accounted for more than three-fourths of the manufactured exports from the ACC group, most of which were also sent to the EC.

Of the Arab manufactured exports, capital goods exports accounted for less than one-fourth of the total, or just over $1 billion, more than 96 per cent of which went to the EC. Of the $1 billion, the GCC countries provided half, $510 million (Table V.2). Saudi Arabia's exports of capital goods, mainly electrical engines and motors and of unspecified transport equipment, primarily to the UK and the FRG, alone amounted to $274 million, more than one-fourth of the Arab total, with another $157 million coming from the UAE and Kuwait.

The Maghreb countries exported $249 million worth of capital goods to the OECD in 1987, of which Tunisia accounted for $111 million, mainly because of its good markets in Germany and France. In third place, the ACC countries together provided only $177 million worth of capital goods. However, in terms of the share of its total manufactured exports to the OECD countries, these represented 24.2 per cent, against only 11.4 per cent for the UMA and a remarkable 42.7 per cent for the GCC.

What is, however, most significant in the 1987 figures on Arab manufactured exports is the degree to which they still represent only a tiny part of their total exports to the OECD, i.e. less than 5 per cent (Table V.1). While the Maghreb states, notably, have achieved the highest success in this respect, thanks largely to their close trading ties with France and the relatively greater emphasis they have placed on offshore, labour intensive

Table V.2
Arab Countries: Manufactured Exports, 1987
($ millions)

Country	To: OECD	USA	Japan	EC
Machinery and Transport Equipment				
UMA:				
Morocco	96.2	3.7	--	90.8
Algeria	26.4	--	--	26.1
Tunisia	111.2	1.0	0.3	07.7
Libya	14.0	--	--	13.9
Mauritania	1.2	0.3	--	0.9
Total	249.0	5.0	0.3	239.4
ACC:				
Egypt	42.4	0.6	0.1	40.7
Jordan	58.3	2.7	--	54.7
Iraq	72.5	--	--	71.6
North Yemen	3.2	0.1	--	3.0
South Yemen	0.8	--	--	0.5
Total	177.2	3.4	0.1	170.5
GCC:				
Saudi Arabia	274.3	3.8	0.6	263.9
Kuwait	70.0	0.3	--	68.7
Bahrain	63.4	0.1	--	63.1
UAE	87.4	1.0	0.1	83.9
Qatar	10.2	0.1	--	9.9
Oman	58.0	0.1	--	57.5
Total	510.1	5.4	0.7	493.8
Other:				
Somalia	1.1	0.4	--	0.7
Sudan	5.6	0.1	--	5.5
Syria	9.4	0.1	--	9.2
Lebanon	16.7	1.3	--	11.6
Other	--	--	--	--
Arab Total	1,022.3	15.7	1.1	983.9
Manufactured Goods, classified by material				
UMA:				
Morocco	224.6	8.8	0.1	210.4
Algeria	60.1	9.5	--	46.3
Tunisia	168.9	12.7	--	148.3
Libya	0.7	--	--	0.7
Mauritania	0.2	--	--	0.2
Total	454.5	31.0	0.1	405.9
ACC:				
Egypt	445.2	67.2	3.1	319.8
Jordan	3.2	0.4	0.2	2.3
Iraq	10.1	0.3	--	1.5
North Yemen	1.1	0.1	--	1.1
South Yemen	0.2	--	--	0.2
Total	459.8	68.0	3.3	324.9

.../...

Table V.2, cont'd

Country	OECD	USA	Japan	EC
GCC:				
Saudi Arabia	55.1	23.3	11.2	11.2
Kuwait	2.2	0.2	--	2.0
Bahrain	138.5	48.5	52.8	23.5
UAE	191.6	58.0	88.1	37.4
Country	OECD	USA	Japan	EC
Qatar	0.7	--	--	0.7
Oman	12.0	--	10.3	1.6
Total	400.1	130.0	162.4	76.4
Other:				
Somalia	2.5	1.5	--	1.0
Sudan	5.9	0.1	--	5.8
Syria	4.7	0.8	--	3.0
Lebanon	40.5	1.9	--	17.8
Other	--	--	--	--
Arab Total	1,368.0	231.8	165.8	834.8
Miscellaneous Manufactured Articles				
UMA:				
Morocco	737.4	17.2	0.6	713.6
Algeria	12.3	0.3	--	12.0
Tunisia	734.8	6.5	--	720.6
Libya	1.4	--	--	1.4
Mauritania	1.2	0.8	--	0.4
Total	1,487.1	24.8	0.6	1,448.0
ACC:				
Egypt	71.1	27.9	0.3	38.3
Jordan	17.0	2.7	--	10.7
Iraq	7.3	--	--	7.2
North Yemen	1.7	0.1	--	1.6
South Yemen	1.1	--	--	1.1
Total	98.2	30.7	0.3	58.9
GCC:				
Saudi Arabia	112.3	1.9	0.1	49.3
Kuwait	13.5	0.1	--	12.8
Bahrain	55.0	0.7	--	25.3
UAE	82.8	12.4	--	48.4
Qatar	2.1	--	--	1.6
Oman	21.0	--	0.1	20.7
Total	286.4	15.1	0.2	158.1
Other:				
Somalia	0.4	--	--	0.3
Sudan	1.3	0.4	--	0.8
Syria	6.0	0.7	2.5	2.3
Lebanon	74.3	19.9	--	23.6
Other	--	--	--	--
Qatar	10.2	0.1	--	9.9
Arab Total	1,954.0	91.6	3.6	1,692.0

Source: OECD, Foreign Trade by Commodities, 1987, Volume II, Paris, 1989.
Note: OECD figures are c.i.f. + f.o.b. All others are c.i.f.

industries in the textiles, clothing and electrical goods sectors, with a share of 10.6 per cent (Table V.3), the dominance of crude oil and hydrocarbon related industries in the exports of the GCC states lowered their share of manufactured exports to the OECD to only just over 3 per cent. A similar situation in Iraq, which exported only $89.9 million worth of manufactured goods to the OECD out of total exports of $6,689.2 million, outweighed the better performance of its ACC partner, Egypt ($558.7 million worth of manufactured exports compared to total exports of $3.3 billion, or 16.9 per cent) in this respect, reducing the combined ACC share to only 7.2 per cent.

Table V.3
Arab Regions: Share of Manufactured Goods in Total OECD Imports, 1987

Region	Total Imports ($ millions)	Manufactured Goods ($ millions)	Share (%)
UMA	20,639.7	2,190.6	10.6
ACC	10,265.9	735.2	7.2
GCC	37,301.7	1,196.6	3.2

Source: See Table V.2

Of the OECD importers, it is also worth noting that the EC is the by far largest market in the OECD for Arab manufactures, taking more than 80 per cent (or $3.5 billion) of all Arab exports in this sector. Altogether, EC imports of manufactured goods represented 6.7 per cent of their total imports from the Arab countries consisting of these goods. In contrast, the USA's share is only 2.8 per cent, while for Japan the figure is less than 1 per cent, again reflecting the greater reliance of these two countries on the Arab countries for crude oil, natural gas and related products, as well as, in the case of the USA, on imports of phosphates and fertilizers, among other minerals and raw materials.

B. Arab Manufactured Imports from OECD Countries

While the Arab region is dependent on the OECD countries, particularly the USA, for vital imports of food and raw materials, manufactured imports account for a large proportion of their total imports from these countries, i.e. 68.3 per cent or more than two-thirds of total imports amounting to $61.4 billion (see Table V.4). Arab dependence on the OECD countries for supplies of manufactured goods far outstrips their exports in this sector. In 1987, Arab manufactured imports from the OECD totalled slightly less than $42 billion, a figure that is almost ten times as high as the value of their manufactured exports. Moreover, because existing trade data make its difficult to disaggregate certain categories of manufactured imports, particularly of fertilizers, other chemicals and processed foods which are excluded from the total, the actual sum may be considerably higher. The EC countries were the largest suppliers, providing $25.4 billion worth of manufactures, about 60.5 per cent of the total. Japan supplied goods worth $6.1 billion, 14.6 per cent of the total, followed by the USA with $4.5 billion, or 10.6 per cent, with the remainder, 14.3 per cent, coming from the rest of the OECD states.

Table V.4
Arab Countries: Share of Manufactured Goods in Total Imports, 1987
($ millions)

	From: OECD	USA	Japan	EC
Total Imports	61,359.5	8,213.0	7,749.9	36,917.5
Manufactured Goods*	41,897.9	4,456.6	6,110.2	25,357.9
of which				
UMA	9,762.4	153.1	547.5	8,387.5
ACC	8,667.0	1,018.2	886.6	5,001.2
GCC	21,311.2	3,109.2	4,412.0	10,687.0
% of Total	68.3	54.3	78.8	68.7
Capital Goods**	24,917.6	3,432.1	4,995.1	14,612.8
% of Total	40.6	41.8	64.5	39.6

<u>Source</u>: See Table V.5.

* SITC Categories 6,7 and 8 only; certain chemicals and processed foods are therefore excluded from these totals.

** Machinery and Transport Equipment.

Of the three main regional groups, the GCC countries were the largest importers of OECD manufactures. Saudi Arabia led the list of GCC importers, buying some $12.6 billion worth of manufactured goods, a figure that represents just under 60 per cent of the GCC total (see Table V.5) However, the UAE and Kuwait are also big importers of manufactured goods from the OECD, with figures of $3.8 billion and $2.7 billion respectively. Half of the GCC imports were provided by the EC countries, with about 21 per cent coming from Japan and 15 per cent from the USA.

Manufactured imports from the OECD countries by the Maghreb states amounted to about $9.8 billion in 1987, about 23 per cent of total Arab manufactured imports. Algeria led the list in this group, with imports amounting to some $3.5 billion, slightly more than one-third of the total. Libya imported goods worth $2.3 billion, followed by Morocco with $2.2 billion and Tunisia with $1.6 billion. In contrast to the GCC, which has a wider geographical spread of suppliers among the OECD countries, the UMA group is almost totally dependent on the EC for its imports of manufactured goods; in 1987, EC exports of manufactured goods formed almost 86 per cent of the UMA total.

ACC manufactured imports from the OECD totalled just under $8.7 billion in 1987, about 14.1 per cent of the total for all the Arab countries. Of the $8.7 billion, the EC provided 57.7 per cent, the USA 11.7 per cent and Japan 10.2 per cent. Egypt alone accounted for almost half of the total manufactures imported by the ACC states, with $4.3 billion, followed by Iraq with $2.6 billion, or 30.1 per cent.

Arab dependency on the OECD countries for the capital goods needed to develop their own industries is demonstrated by the high proportion which these represented in its total manufactured imports; in 1987 imports of machinery and transport equipment amounted to just under $25 billion, almost 60 per cent of total Arab manufactured imports from the OECD countries

Table V.5
Arab Countries: Manufactured Imports, 1987
($ millions)

Country	From: OECD	USA	Japan	EC
Machinery and Transport Equipment				
UMA:				
Morocco	1,136.7	46.6	35.2	1,005.2
Algeria	2,241.4	48.7	134.5	1,942.2
Tunisia	664.5	17.2	8.0	602.5
Libya	1,316.8	--	220.7	1,012.7
Mauritania	115.7	3.2	2.6	106.8
Total	5,475.1	115.7	401.0	4,669.4
ACC:				
Egypt	2,863.0	503.3	363.0	1,737.7
Jordan	812.0	146.9	84.9	503.0
Iraq	1,440.1	101.9	218.6	847.0
North Yemen	193.0	58.0	29.4	99.1
South Yemen	74.9	3.3	20.6	47.7
Total	5,383.0	813.4	716.5	3,234.5
GCC:				
Saudi Arabia	7,689.6	1,585.6	2,095.2	3,518.6
Kuwait	1,636.3	285.3	611.1	596.6
Bahrain	322.2	57.9	74.7	162.2
UAE	2,160.5	252.9	606.0	1,213.9
Qatar	368.0	43.5	117.2	194.8
Oman	731.9	139.7	184.6	383.8
Total	12,908.5	2,364.9	3,688.8	6,069.9
Other:				
Somalia	123.9	6.2	9.3	106.8
Sudan	302.0	48.9	61.2	177.0
Syria	445.2	65.2	87.2	208.2
Lebanon	279.9	17.8	31.1	147.0
Other	--	--	--	--
Arab Total	24,917.6	3,432.1	4,995.1	14,612.8
Manufactured Goods, classified chiefly by material				
UMA:				
Morocco	816.4	10.3	7.6	747.2
Algeria	967.0	11.0	42.2	752.7
Tunisia	699.0	3.7	4.2	655.8
Libya	633.5	--	63.9	506.5
Mauritania	58.9	0.6	0.8	57.1
Total	3,174.8	25.6	118.7	2,719.3
ACC:				
Egypt	1,055.9	106.7	11.0	672.4
Jordan	314.7	17.1	35.2	171.7
Iraq	923.6	10.6	12.0	299.5
North Yemen	101.8	1.3	22.7	56.5
South Yemen	34.6	--	7.6	22.4
Total	2,430.6	135.7	88.50	1,222.5

.../...

Table V.5 cont'd

Country	OECD	USA	Japan	EC
GCC:				
Saudi Arabia	2,832.3	280.8	79.0	1,444.2
Kuwait	562.3	46.3	16.0	250.7
Bahrain	127.0	9.3	28.8	72.6
UAE	884.9	53.8	36.0	392.6
Qatar	111.1	10.3	21.6	70.9
Oman	137.1	4.9	40.6	82.7
Total	4,654.7	405.4	222.0	2,313.7
Other:				
Somalia	46.0	2.8	0.4	41.5
Sudan	81.8	2.8	11.7	54.9
Syria	267.6	11.0	32.4	171.8
Lebanon	272.0	11.8	15.1	188.1
Other	62.4	--	--	--
Arab Total	10,989.9	595.1	488.8	6,711.8
Miscellaneous Manufactured Articles:				
UMA:				
Morocco	228.5	5.1	4.3	210.1
Algeria	270.6	4.1	14.9	236.3
Tunisia	212.9	2.5	1.5	203.8
Libya	386.8	0.1	6.9	335.3
Mauritania	13.7	--	0.2	13.3
Total	1 ,112.5	11.8	27.8	998.8
ACC:				
Egypt	348.8	49.5	33.7	231.8
Jordan	202.5	12.6	9.6	129.6
Iraq	246.1	3.4	32.6	139.5
North Yemen	41.8	3.4	3.6	31.8
South Yemen	14.2	0.2	2.1	11.5
Total	853.4	69.1	81.6	544.2
GCC:				
Saudi Arabia	2,035.5	203.0	266.0	1,220.5
Kuwait	492.2	37.8	59.6	319.2
Bahrain	139.2	6.7	9.8	88.2
UAE	755.8	79.8	122.3	452.3
Qatar	126.5	5.7	9.7	91.6
Oman	198.8	5.9	33.8	131.6
Total	3,748.0	338.9	501.2	2,303.4
Other:				
Somalia	21.3	2.3	0.1	18.3
Sudan	40.5	1.8	1.4	36.0
Syria	65.6	1.8	9.1	45.6
Lebanon	149.1	3.7	5.1	87.0
Other	--	--	--	--
Arab Total	5,990.4	429.4	626.3	4,033.3

Source: OECD, Foreign Trade by Commodities, 1987, Volume I, Paris, 1989. All figures are f.o.b.

(Table V.4) or 25 times as much as their combined capital goods exports (Table V.1). The EC countries provided more than half, 58.6 per cent, of total Arab capital goods imports, followed by Japan with 20 per cent and the USA with 13.8 per cent.

The GCC states accounted for more than half of total Arab capital goods imports from the OECD, with a total figure of just under $13 billion. In 1987, Saudi Arabia alone imported capital goods worth $7.7 billion, more than half the GCC total, or almost one-third the figure for all 21 Arab states. Another $3.8 billion was imported by the UAE and Kuwait together, both of which represent important markets for OECD exporters of machinery and transport equipment.

Within the ACC, both Egypt and Iraq are important markets for capital goods exports, taking $2.9 billion and $1.4 billion respectively out of an ACC total of $5.4 billion (21.6 per cent of total Arab capital exports). The Maghreb states imported capital goods totalling just under $5.5 billion in 1987, slightly more than the ACC states. Algeria led the list of importers with $2.2 billion, followed by Libya with $1.3 billion and Morocco with $1.1 billion. As is the case with total manufactured imports, the EC is by far the dominant supplier of capital goods to the Maghreb states, in contrast to the GCC where they accounted for only half of all capital goods imports.

Of the three Arab regional groups, the GCC, as indicated above, is most dependent on the OECD for manufactured goods, which represented more than three-fourths of their combined imports (Table V.6). The ACC was least dependent, with a figure of just under 60 per cent, mainly because of lower shares for Egypt and (North) Yemen (58 and 52 per cent respectively), both of which have relatively larger industrial sectors than their fellow ACC member states. In the Maghreb states, the share amounted to more than two-thirds of their total imports from the OECD, primarily because of Libya's relatively higher dependence on manufactured goods imports, which represented 68.5 per cent of its total imports from the OECD; in Algeria, the largest OECD market in the Maghreb, manufactured goods accounted for only just over 60 per cent of its total imports.

Table V.6
Arab Regions: Share of Manufactured Goods in Total OECD Exports, 1987

Region	Total Exports ($ millions)	Manufactured Goods ($ millions)	Share (%)
UMA	15,171.8	9,762.4	64.3
ACC	14,532.6	8,667.0	59.6
GCC	28,237.7	21,311.2	75.4

Source: See Table V.5

C. The EC Market for Arab Manufacturers

As the largest market by far for Arab exports of manufactured goods (see Section A above), developments in the European Economic Community (EC) will have a major impact on Arab industry in the 1990s, not least as a result of the formation of a Single Market in the EC by 1992. The Arab states, along with other developing countries are concerned that implementation of European integration, along with the formation of a single trading block incorporating the USA and Canada, could have an adverse effect on their access to key markets within the OECD as well as diverting substantial resource flows away from the developing countries toward the newly emergent democracies of Eastern Europe.

To date, EC officials have emphasized their belief that the formation of a Single Market will lead to greater growth in the Community as a whole and therefore, in the longer term, to a greater demand for imports from outside the EC. Developing countries exporters, they have maintained, will benefit from increased economies of scale and the establishment of uniform standards throughout the EC, thereby reducing the effect of non-tariff barriers to imports from the developing countries. Such gains, they add, would offset any trade diversion effects cause by the creation of the Single Market. (84)

While definitive data on the impact of European integration are still lacking, a recent UK study suggests, however, that Arab exporters of non-oil products to the EC could suffer a 9.5 per cent fall in the value of their trade by 1992 (compared to 1987) as a result of demand elasticities and other trade diversion effects. (85) Countries which have a relatively higher proportion of manufactured goods in their exports than of crude oil or raw materials would experience the sharpest falls, according to their analysis, which assumes a 1.00 to 1.50 income elasticity for non-fuel Arab exports and EC GDP growth of from 3.3 to 5.8 per cent during the completion period.

The Maghreb countries would be particularly adversely affected, with falls of 68.7 per cent and 55.7 per cent for Tunisia and Morocco respectively (Table V.7). However, both Algeria and Libya, which have a lower share of manufactured goods in their total exports as a result of their crude oil and natural gas exports, would suffer relatively little effect.

Both Jordan and Egypt can also expect a serious decline in their manufactured exports to the EC, which are expected to account for 61.2 and 38.5 per cent of their total export declines respectively. In the GCC countries, Bahrain would be the worst affected, with a fall of 69.7 per cent, followed by Oman with a figure of 49.3 per cent. Elsewhere, Lebanon would also experience a severe negative impact, with a fall of 32 per cent for its manufactured exports.

While presently unknown factors, such as the rise in income levels in the EC after 1992, could push up demand sufficiently to counter some of the greatest declines as a result of the completion of European integration, such positive gains could take several years to materialize. As a result, if the data are accepted, a severe fall in manufactured exports to the EC by 1992 can be expected by many Arab countries, with a total for the Arab states of around 30 per cent, a figure that is far higher than the negative impact anticipated for their non-oil exports as a whole.

D. Trade in Services

The development of industry must be seen as in integrated activity in which a specific industrial plant must be operated and maintained, in an industrial environment that links the plant to the national scientific and technological infrastructure, local industry-related services, equipment fabrication and construction capabilities. (86) In the case of engineering and consultancy services, this "umbilical cord" extends well beyond project

Table V.7
Predicted Decline in Arab Manufactured Exports to the EC
As a Result of the Completion of EC Integration in 1992*
(ECU millions)

Country	Manufactured Goods	Machinery and Transport	Misc. Manufact. Goods	Total Decline in Exports	Per Cent Fall in Manufactures
UMA:					
Morocco	29,657	11,606	57,962	177,942	55.7
Algeria	6,779	4,144	1,082	213,745	5.6
Tunisia	20,042	14,722	57,416	154,259	68.7
Libya	--	1,233	--	241,701	0.5
ACC:					
Egypt	48,521	5,327	2,923	147,560	38.5
Jordan	--	7,047	548	12,404	61.2
Iraq	--	5,622	215	174,830	0.3
North Yemen	--	--	--	131	--
South Yemen	--	--	--	310	--
GCC:					
Saudi Arabia	--	28,062	4,257	284,452	11.4
Kuwait	--	5,169	734	115,655	5.1
Bahrain	3,343	2,973	518	9,806	69.7
UAE	3,229	9,190	3,645	69,440	23.1
Qatar	--	1,209	--	12,319	9.8
Oman	--	5,231	1,593	13,853	49.3
Other:					
Syria	--	1,293	--	30,614	4.2
Lebanon	--	806	1,975	8,682	32.0
Sudan	--	--	--	17,143	--
Arab Total	286,059	119,201	274,388	268,722	

* Using NACE (digit 3) commodity classifications, rather than SITC, as above.

Source: Chris Milner, John Presley, Tony Westaway, "The Impact of the Completing of the European Internal Market on Middle East Exports," unpublished paper presented to the British Society for Middle Eastern Studies (BRISMES), University of Durham, July, 1989, Table 6; MEED calculations.

generation and the demonstration of the feasibility of an economic project to the life of the investment, often for 20 years or more. Consultancy services are required after start-up to operate and maintain the plant, to manage it efficiently, to optimize output, improve the product, extend and update existing facilities as required and to generate new investment if a process of self-sustaining industrial development is to be ensured. Failure to develop these services locally therefore adds not only substantial sums to a country's import bill but can actually increase dependency on foreign supplying countries. Policies that encourage industrialization without taking into consideration the need to develop the proper local environment will therefore simply add to this dependency rather than reducing it. Countries which neither import the required industry-related services, nor develop them locally, in turn will suffer a decline in both manufacturing output and competitiveness both regionally and internationally.

The establishment and expansion of manufacturing in the Arab countries has entailed a dramatic rise in the demand for related services, especially in the fields of construction, engineering and design, insurance and freight, operations and maintenance, consultancy, software and data processing. While figures on the import of industry-related services are often difficult to obtain, and while those concerned with manufacturing cannot easily be distinguished from others such as tourism or travel, statistics compiled annually by the United Nations Conference on Trade and Development (UNCTAD) show that service imports, excluding interest payments and income from direct investments, are costing more than $35.8 billion a year (Table V.8). As a percentage of GDP, these amounted to 10.6 per cent, a figure that is remarkably high due to the lack of indigenous industry-related services

Table V.8
Arab Countries: Trade in Services*, 1987
($ millions)

Country	Imports of Services	GDP	Share of MVA	Imports of Services/GDP (%)
UMA:				
Morocco	1,156.3	18,876.9	24.6	6.3
Algeria	1,456.0	61,234.4	12.8	2.4
Tunisia	605.2	9,604.8	15.1	6.3
Libya**	987.8	23,132.6	5.7	4.3
Mauritania**	201.7	846.4	6.1	23.8
ACC:				
Egypt	2,742.6	29,337.3	17.0	9.3
Jordan	1,296.6	4978.3	12.7	26.0
Iraq***	1,141.3	13,852.9	6.1	8.2
North Yemen	271.1	4,212.2	12.4	6.4
South Yemen	202.3	1,047.8	11.3	19.3
GCC:				
Saudi Arabia	19,314.6	73,463.2	8.4	16.3
Kuwait	4,295.6	22,089.3	10.6	19.4
Bahrain	416.0	3,495.0	12.4	11.9
UAE	n.a.	23,798.5	9.2	--
Qatar	n.a.	5,445.9	9.7	--
Oman**	700.4	7,263.3	3.7	9.6
Other:				
Somalia**	101.8	1,681.5	5.5	6.1
Sudan	229.0	5,591.8	7.8	4.1
Syria**	651.1	25,462.9	15.4	2.6
Lebanon	n.a.	2,688.3	0	--
Djibouti	n.a.	338.8	9.3	--
Arab Total	35,769.4	338,442.1	11.3	10.6
USA	72,153.0	4,497,200.0	--	1.6
Japan	52,835.0	2,373,800.0	--	2.2
EC	236,635.0	5,456,000.0	--	4.3

* Excluding Interest Payments and Direct Investment Income.
** 1986 *** 1975
Sources: UNCTAD, Handbook of International Trade and Development Statistics 1988, UN, New York, 1989; Arab Fund for Economic and Social Development, Kuwait, April and May, 1990; IMF, International Financial Statistics, March, 1990;

within the Arab countries themselves. This dependency on service imports contrasts markedly with the industrial OECD countries, notably the USA (1.6 per cent), Japan (2.2 per cent) and the EC (4.3 per cent), where the services sector is highly developed.

Arab dependence on the leading industrial countries for vital industry-related services is even more pronounced in the Gulf countries. Due to the relatively recent development of modern education, highly educated expatriate manpower skilled in management and technology (as well as skilled and unskilled labour) must be imported. Moreover, the cost of service imports required to maintain and expand hydrocarbon exports, as well as to establish a manufacturing sector, are high. The UNCTAD figures show that Saudi Arabia's service imports in 1987 alone totalled more than $19.3 billion, or 16.3 per cent of total GDP. An even higher ratio was recorded for Kuwait, 19.4 per cent. Bahrain, which has a larger indigenous services sector and a relatively larger skilled labour force, still had a ratio of 11.9 per cent, while for Oman, which started to industrialize later than its GCC partners, recorded a figure of 9.4 per cent.

Moreover, it is important to remember that the year in question, 1987, was one in which, due to the sudden drop in oil export revenues, service imports declined relatively sharply in the Gulf countries (87). An increase in these imports can therefore be expected in the GCC region as spending on industry and on infrastructural expansion and maintenance projects returns to more normal levels in the 1990s.

Elsewhere, the ratios are particularly high for two ACC states: Jordan, with 26 per cent and (South) Yemen, with 19.3 per cent. (Figures for Iraq are only available for 1975, and could well have increased significantly since the ending of the Gulf War in August, 1988, although its lack of foreign exchange to finance both commodity and service imports will have been a limiting factor in this regard.) In the case of Jordan, the high ratio would appear to reflect the loss of its skilled workers and professionals to jobs in the Gulf and elsewhere, as well as high indigenous demand for service imports despite a relatively skilled labour force, while for South Yemen the import of oil- and mineral-related services may be responsible, especially given the extensive government emphasis placed on oil and gas exploration during the period under discussion.

Only in the Maghreb states, Syria and Sudan are relatively low rates recorded, although Mauritania, which imports services related to its mining sector, is an exception. In some of these countries, indigenous services are more developed than in other Arab countries, partly as a result of government incentives to the private sector and partly as a result of the relatively higher degree of education and/or the experience which its labour force has obtained working abroad, especially in the EC. In other cases, such as Algeria, the relatively low rate reflects the government's discouragement of service imports in favour of capital goods imports. The lack of inlustry-related services (exacerbated by the low availability of local services to substitute for imports), may hinder manufacturing growth and explain the relative decline in the country's MVA during the second half of the 1980s. In the case of Sudan, however, the low rate may more generally reflect the country's difficult financial situation, which precludes costly imports, and/or the relatively smaller share which industry takes in its overall GDP.

Of even more concern, however, is the relationship between the import of services, especially from the OECD countries, and those of capital goods imports. While the industrialized countries of North America, Europe or the

Far East can draw on their own construction, engineering, design, marketing and financial sectors, for example, Arab manufacturers must often import these services along with machinery and transport equipment if they are to maintain their competitive edge and make the most of their supplies of either labour and/or low-cost energy and hydrocarbon feedstocks. (88) Moreover, access to capital goods is often specifically tied to the import of related services from the supplying country, either for financial reasons--as in the case of suppliers' credits, for example--or because the capital goods are provided as part of a turnkey (produits en main) contract that links the supply of these goods to the import of the related services by the purchasing country.

As Table V.9 indicates, service imports for the 17 Arab countries for which data are available average 144 per cent of the entire cost of capital goods imports. In both Saudi Arabia and Kuwait, the ratios are extremely high, at 251 and 263 per cent respectively, i.e. almost three times capital goods imports, with a similar ratio recorded for (South) Yemen. Figures above the Arab average were also recorded for Jordan, Syria and Mauritania, despite their shortages of foreign exchange. Significantly lower than average figures were reported in the Maghreb states Mauritania excepted), Egypt, Bahrain, Oman, Somalia and Sudan.

Table V.9
Arab Countries: Imports of Services/Capital Goods Imports, 1987
($ millions)

Country	Imports of Services*	Capital Goods Imports	% Share of Imports of Services/ Capital Goods Imports
UMA:			
Morocco	1,156.3	1,136.7	101.2
Algeria	1,456.0	2,241.4	65.0
Tunisia	605.2	664.5	91.1
Libya	987.8	1,316.8	79.2
Mauritania	201.7	115.7	174.3
ACC:			
Egypt	2,742.6	2,863.0	99.8
Jordan	1,296.6	812.0	160.0
Iraq	1,141.3	1,440.1	79.3
North Yemen	271.1	193.0	140.5
South Yemen	202.3	74.9	270.1
GCC:			
Saudi Arabia	19,314.6	7,689.6	251.2
Kuwait	4,295.6	1,636.3	262.5
Bahrain	416.0	322.2	129.1
UAE	n.a.	2,160.5	--
Qatar	n.a.	368.0	--
Oman	700.4	731.9	95.7
Other:			
Somalia	101.8	123.9	82.2
Sudan	229.0	302.0	79.8
Syria	651.1	445.2	146.2
Lebanon	n.a.	279.9	--
Other	n.a.	--	
Arab Total	35,769.4	24,917.6	143.6

* See the notes on applicable years for service imports as in Table 8 above.

Source: UNCTAD, Handbook of International Trade and Development Statistics 1988, U.N., New York, 1989; Table V.5 above.

2. Constraints on the Expansion of Manufactured Exports

A. International Trade Constraints

Within the EC, the main market for Arab manufactured exports, constraints on the expansion of trade consist of both tariff and non-tariff barriers. Of major concern is the existing imposition of tariffs, ranging between 12 and 14 per cent on exports of petrochemicals from the GCC states, despite the virtual lack of GCC tariff barriers on their own imports from the Community. The EC tariffs apply to the bulk of GCC petrochemical exports excepting a relatively small amount which is subject to duty-free treatment. (89) A similar situation applies with respect to GCC exports of aluminium products, where production is expected to expand significantly in the 1990s; at present EC duties on these products range from 4 to 6 per cent.

Although talks on a free trade agreement between the two regions progressed considerably in the first half of 1990, the proposal under discussion would still allow the EC to apply quotas and duties on products which are deemed to be "sensitive." In practice, this term is generally applied to those products which entail relatively higher amounts of MVA, i.e. petrochemicals and heavy industrial goods. To this extent, therefore, the reservation about "sensitive" products simply disguises a continuing policy of protectionism on the part of the EC.

Moreover, the integration of East Germany, and the conclusion of closer associations with other European states, such as Austria, Sweden, Poland, Czechoslovakia and Hungary, could, some Arab officials fear, lead to an expansion of the definition of "sensitive" to favour petrochemical producers in Eastern Europe at the expense of those in the GCC. (90) In the case of textile, clothing and footwear exports, EC officials have admitted that while the association agreements with the Maghreb countries foresaw duty-free entry for these products, the Community has gradually introduced restrictive quotas to protect its local industries. Progress on scrapping the Multi-Fire Arrangement (MFA) in the current Uruguay Round of international trade talks under GATT has also been disappointing, mainly because of objections from the USA and the EC (91) (see above).

Non-tariff barriers consist of a wide range of regulations ranging from standards applied differently by each of the 12 EC member states to immigration restrictions on Arab visitors. While the creation of a Single Market in 1992 is expected to remove many of these barriers, or at least to create single, uniform standards, the lack of ratification of many of the relevant EC directives on items such as value added tax, the harmonization of trade marks, packaging and labelling requirements, building regulations, insurance licensing, pharmaceuticals pricing, permitted food additives and on social policy is expected to forestall progress in this direction for some time to come. Similarly, EC regulations affecting both reciprocity and competition policy can have a negative impact on the export of Arab manufactured goods, much as they are already expected to do in the case of Arab banks.

B. Domestic Structural Constraints

Because of the huge variations in government policy, public sector investment and in employment which exists in the Arab world, domestic structural constraints vary widely within the region. Foremost among these, however, is the lack of financial resources for investment in most countries outside the Gulf due to relatively poor development of local and/or regional capital markets and the rise in foreign debt, as well as the worsening terms of trade caused both by IMF austerity plans requiring the abolition of parallel rates for soft currencies at a time when world prices for some of the Arab countries' main commodity exports are falling. In the GCC countries, where rising oil prices in the 1990s are expected to lead to a renewal of both private and public investment in industry in the 1990s, the lack of an indigenous labour force willing and able to take up positions in local manufacturing, from the middle-management level down to foremen and skilled workers, is a major obstacle to the expansion of industry.

A further domestic structural constraint arises from the relative lack of large-scale manufacturing in the region, again excepting certain sectors located mainly in the oil producing countries, and of large transnational corporations (TNCs) able to compete effectively and continually in foreign markets. Even where such large firms do exist, as for example, in the hydro carbon-related sectors, comparative advantages that arise from the low cost of fuel and of feedstocks may be offset by the lack of reliable markets abroad, the high cost of services and of capital goods (see above) and of skilled labour, especially in the Gulf states and Libya. Exceptions to this norm do exist, however, notably in the case of companies such as the Saudi Arabian Basic Industries Corporation (Sabic) and the Kuwait Petroleum Company (KPC).

In 1989, SABIC, whose shareholders include both the government and private Saudi and foreign investors, increased its production by 3.4 per cent (compared to 1988), to almost 9.5 million metric tons of petrochemicals, fertilizers, iron and steel and other heavy industrial goods, despite adverse conditions internationally. Company officials attributed the performance to improvements generated in manufacturing operations and noted that exports had also risen as a result, reaching 9.4 million metric tons, up 8 per cent. SABIC, which employs more than 8,900 people in the Kingdom, of which 5,200 are Saudis, has established huge subsidiaries through joint ventures with foreign firms (mostly large TNCS) from the USA, Europe and the Far East. This has given it access to advanced technology, enabled it to conduct its own research and develop and helped it to maintain a vital presence in its foreign markets. (92)

In contrast to Sabic, whose manufacturing activities are concentrated in its own home markets, KPC has managed to expand its comparative advantage internationally by extensive marketing and manufacturing abroad, using its own crude oil and refined petroleum products. It now markets its own brand of gasoline, lubricating oils, aviation and diesel fuels through 3,000 retail outlets in several member states of the EC, including the Netherlands, Belgium, Luxembourg and the UK, as well as in Scandinavia. (93) Solely owned by the government of Kuwait, it has been criticized at home for its extensive investment abroad, but its success demonstrates the degree to which investment in downstream operations, whether locally or foreign based, can enhance industrial output at home.

Finally, it must also be noted that the lack of up-to-date statistics on manufacturing constitutes a major impediment to the growth of industry throughout the region. Few countries published annual figures on industrial production, by both volume and value; size of firms; employment, foreign and private investment in industry; and other vital data that are comparable across borders. While the Gulf Organization for Industrial Consulting (GOIC) in Qatar has attempted to establish a broad database on such matters, dissemination of its material could be improved. Similarly, private entrepreneurs need to have access to far more marketing information than is currently available.

Throughout the Gulf states, especially, the complaint is often heard that while this function is often carried out by local or regional Chambers of Commerce in the industrialized countries, their ability to successfully carry out this role in the Arab states is limited, partly due to the lack of sufficient data and partly because of the lack of the trained professionals that are needed in this area. While the recent emphasis on installing advanced computerized networks, linked to international databases, could help improve access to information in the Gulf states, the high cost of operating, maintaining and accessing databases, especially on-line, in other Arab countries is a major constraint.

C. Domestic Policy Constraints

Throughout the region, the domination of industry by the public sector, whether because of nationalist, anti-colonial policies adopted in the 1950s and 1960s (as in Algeria, Egypt and Iraq) or because of the leading role played by government in establishing new industries in the 1970s and 1980s (as in the Gulf states), is also a major constraint to the expansion of private and foreign investment in manufacturing. While many countries are attempting to privatize government shareholdings in heavy industry, notably in Egypt, Tunisia and some of the Gulf states, other barriers remain.

In Egypt, for example, controversy continues in Parliament about the effects that privatization of major producing sectors and companies could have on employment, and the same applies in Algeria, although both have taken steps to encourage more private sector activity in other areas, notably in tourism and finance. As a result, and with the exception of the Free Zones (where access to the local market is strictly curtailed), controls on pricing and on private sector ownership, as well as limits on the repatriation of profits to foreign investors, access to foreign currency for the import of capital goods, intermediate products, services and raw material inputs, are extensive outside the GCC states, Morocco, Tunisia and, to a lesser extent, Yemen. These constraints, together with the lack of developed capital markets and of access to finance, especially commercial bank loans for small- to medium-sized firms, constitute major impediments to industrial expansion at present and, barring further changes in macro-economic policy are likely to continue to do so in the future in those countries where the public sector is predominant.

In the Gulf states, the need to formulate a common policy on export incentives and subsidies to industry to meet EC requirements for the conclusion of a free trade pact is likely to advance progress on creating a free trade area within the GCC itself. However, this could mean a reduction in the subsidies which are currently provided by countries such as Saudi Arabia and Kuwait to match the lower amounts provided by countries such as Oman and Abu Dhabi. Moreover, the need to reduce rapidly rising local consumption of power, water and fuel and to initiate charges for these services (to reduce government expenditure on subsidies for utilities) is already becoming a factor in industrial planning for the 1990s, especially in Kuwait and Bahrain.

Another major constraint stems from government policies which are being initiated throughout the region to reduce the dependency on imported labour. In the future, private sector industrial firms in several states expects to employ mainly locally skilled labour, and government requirements on the employment of indigenous citizens could lead to rising costs and reduced competitiveness internationally. (94)

On the positive side, the 1990s are expected to witness greater support throughout the region for export incentives and export finance. The formation of the Arab Trade Finance Program (ATFP) in March, 1990 by the Abu Dhabi-based Arab Monetary Fund and several Arab banks is expected, for example, to provide a capital base of some $500 million to promote export credits and guarantees for Arab manufacturers. Institutions participating include the Bahrain-based Arab Banking Corporation and Gulf Investment Bank, Saudi Arabia's National Commercial Bank, the National Bank of Kuwait, The Arab Investment Company, the Amman-based Arab Bank, the Industrial Bank of Jordan, the Bank of Morocco for External Trade, the Saudi Cairo Bank and Riyadh Bank.(95). The Jeddah-based Islamic Development Bank has also launched a Long Term Trade Financing Scheme (LTTFS) for its 44 member states covering goods originating in these countries where 40 per cent or more of the finished content is produced from raw materials or intermediate products made locally or imported from another member state. Maturities on these credits range from 18 months to five years.(96)

VI. Prospects for Investment and Trade Co-operation between the Arab, EC and OECD Countries in the 1990s.

1. Prospects for Investment

Foreign investment in Arab industry during the next few years is likely to be concentrated in the Gulf states (with the exception of Kuwait), Egypt and Syria as a result of their growing links with the USA, the EC and Japan following the Gulf war. Offset programmes in Saudi Arabia will be particularly emphasized, being linked to Saudi plans to expand its defence and internal security programmes. Plans by the Gulf states to revise existing legislation banning foreign majority ownership in most firms, along with the expansion of privatization programmes in both Egypt and Syria, will also encourage other foreign industrial investment in these countries.

The middle income, populous countries of North Africa could also benefit to the extent that official aid and investment flows from the EC are increased to reduce the prospect of a huge rise in emigration from these countries. However, private European investment in Algeria, Tunisia and Morocco, could witness a downturn as investors look more closely at the big markets and large supply of labour available in central Europe.

Elsewhere, Yemen may benefit as a result of its recent discovery of substantial crude oil reserves, but this stands in direct contrast to the prospects for other countries such as Jordan, Libya, Sudan, Mauritania and the Occupied Territories of the West Bank and Gaza Strip which supported Iraq during the war. The failure in early 1991 of US Secretary of State James Baker's plans to set up a separate Middle East development bank that would channel aid to the most needy countries in the region like the "Marshall Plan" did for Europe after the Second World War means that future aid from the leading OECD and Gulf states will be channelled through the IMF and the World Bank. Both organizations in turn will expect potential donors to open up their economies to free market reforms before providing substantial aid beyond that which is already anticipated. What aid is made available, as a result, will most likely be needed for basic infrastructure, social services and balance of payments support rather than for the expansion of industry and manufacturing.

Until a change of government occurs in Iraq, there is little likelihood of any substantial aid to, or foreign investment in, its industry. Even if sanctions are gradually removed, it will take many years for industry to recover to the level of its pre-war output.

Foreign investment in Lebanon, however, is expected to increase markedly as a result of the ending of the 16-year civil war and the return of private capital by Lebanese exiles returning to their country. Commercial bank lending in particular will play a major role in Lebanese reconstruction and industry is likely to be a top priority, especially given the presence of a large and skilled workforce and the country's relatively long experience in local manufacturing for both domestic consumption and export to regional markets.

Progress on a wider Middle East peace settlement could also open up the West Bank and Gaza Strip for investment in industry, although this is unlikely to be significant, even with a settlement, before the mid-1990s. However, given the extremely skilled and professionally-trained workforce that could be deployed in the Territories (not least because of the very high level of unemployment among Palestinians in Jordan who would be also be available) and the prospect of substantial private capital investment by Palestinian exiles themselves, the longer-term prospects for industrial development in a self-determining area, or independent Palestinian state, are considerable. Such a move would also benefit industrial investment in Jordan, although, again, the worsening economic climate in the country as a result of the war and the emigration of Palestinians from the Gulf states is expected to reduce foreign investment in the country in general.

In Saudi Arabia the petrochemical industries are expected to benefit from foreign investment in particular, with additional interest being shown in setting up defence-related manufacturing projects funded through offset agreements with major weapons suppliers in the U.S. and Europe. The Kingdom's strong financial and legal incentives are a major factor in promoting such investments, including its low corporate tax rate, low- cost loans to industry through the Saudi Industrial Development Fund (SIDF), subsidized utility rates and access to appropriate infrastructural facilities. Plans by the state-owned Saudi Arabian Basic Industries Corporation (SABIC) to privatize its shareholdings in several major joint venture petrochemical and refining operations will also create new opportunities for both private Saudi and foreign investment during the early 1990s. (97)

At present, joint venture partners in Saudi petrochemical projects include Mobil, Shell, Exxon, Mitsui, C. Itoh, Mitsubishi and the Taiwan Fertiliser Company, to name just a few (see Table VI.1). Most of these projects are located in the new industrial cities of Yanbu or Jubail and involve the production of ethylene and polyethylene products as well as fertilizers using the Kingdom's supplies of both associated and natural gas as feedstocks. New projects under way or planned, that are likely to include foreign investors, include the expansion of the Saudi Methanol Company's 600,000 t/y plant, the establishment of a new 1.2 million t/y nitrogenous fertiliser complex at Jubail and completion of the 1.3 million t/y expansion project at the National Chemical Fertiliser Company, also in Jubail. (98)

Table VI.1
Saudi Arabia: SABIC Petrochemical Joint Ventures

Location	Company Name	Products	Partner
Yanbu	Yanpet	Ethylene/ethylene	Mobil
Jubail	Sadaf	Ethylene/ethylene dichloride/styrene	Shell (US)
Jubail	Sharq	Ethylene glycol, low density polyethylene	Mitsubishi
Jubail	Ibn Sina	Methanol	Celanese/Texas Easter
Jubail	Ar-Razi	Methanol	Mitsui/C.Itoh
Jubail	Kemya	Low and high density polyethylene	Exxon
Jubail	Ibn Hayyan	Vinyl chloride PVC	Lucky Group
Jubail	Samad	Urea	Taiwan Fertilizer Co.

Source: Saudi Arabian Basic Industries Corporation; Economist Publications, "Country Profile 1988/89: Saudi Arabia", London, 1988, page.24.

Aside from these heavy industries, the Saudi government and SIDF is also encouraging foreign investment in companies set up by the privately-owned National Industrialization Company (NIC). Twelve joint venture projects have already been completed and another 12 are under way, including plants to produce pharmaceuticals and medical appliances, batteries, paper products, furniture, wire products, scrap metal, taps and cuttings and a company for industrial services. NIC is also setting up a titanium dioxide plant in Yanbu in which the foreign partners include the Kuwait-based Gulf Investment Corporation and Kerr-McGee Chemical Corporation of the USA. SIDF provided a loan worth \$65 million to help fund the \$128 million project. Moreover, both local and foreign investors are being encouraged to invest in smaller scale "secondary" plants producing plastics and other derivatives using the output of either the SABIC or NIC plants. (99)

Huge joint ventures involving US, British and French companies are also being established as a result of the Peace Shield, Al-Yamanah and other offset programmes were agreed between the Kingdom and these countries. The UK programme, which involves offsetting an unspecified proportion of the cost of Saudi Arabia's \$15 billion order for Tornado aircraft and other military weaponry from Britain, was launched in both London and Riyadh during the first half of 1989. It calls for the establishment of an independently managed investment company to act as a catalyst for the formation of private sector joint ventures involving companies from the U.K. and Saudi Arabia. In addition to ventures in manufacturing industry, the programme is also seeking to encourage partnerships in technical training, licensing agreements and the expansion of Saudi Arabian industrial exports.

Current proposals call for possible British Aerospace involvement in a proposed \$747 million aluminium smelter to be set up in Yanbu as well as the establishment of a missile engineering facility in Saudi Arabia involving British Aerospace and the U.K. firm Dowty Rotol. These ventures will supplement the estimated 170 UK-Saudi partnerships currently operating in the Kingdom. Additional efforts to attract foreign investors from other countries as well are to be outlined later in the year by the Saudi Ministry of Defence, Ministry of Commerce and Ministry of Industry. (100)

These plans follow a similar agreement with the USA in the early 1980s covering the Peace Shield early warning radar and aircraft sales to the Kingdom. The agreement has led to the establishment of nine potential joint venture civilian and military industrial projects involving the Boeing Company and other US firms. Five of these projects are now being implemented in the Kingdom, and the combined potential investment is estimated at \$700 million. Projects set up under these arrangements include an aircraft modification centre at Riyadh's King Khaled International Airport worth an estimated \$127 million, in which the Boeing Industrial Technologies Group is taking part.

Funding for the project is being provided in part by GIC as well as by Saudia, the national airline and the Riyadh National Industrialization Company. GIC is also helping to fund another project at the airport under the offset arrangements, in which General Electric of the US, Saudia and other Saudi firms are taking part. Additional offset programmes are being considered with French firms following the Kingdom's agreement in June, 1989 to purchase up to \$2.7 billion worth of anti-aircraft missiles and other weapons from France. (101) Future defence procurement plans involving the US, the UK and France are likely to continue the offset mechanism, thereby paving the way for still more industrial investment in the Kingdom. Similar offset programmes may also be launched in other Gulf states as part of their plans to increase their defence and internal security.

Elsewhere in the Gulf, major multi-national involvement is taking place in Bahrain, which is expanding its Aluminium Bahrain (ALBA) smelter (see above) and in foreign investment is also expected to be involved in another aluminium project being set up in Qatar. Several consortia and companies have submitted plans to the Qatari government for the $1.2 billion project, including the UK-based London Consortium, another British group led by Davy McKee of the UK (along with Pechiney of France and Dravo Corporation of the US) and Norsk Hydro of Norway. Pechiney is also involved in the provision of suitable technology for the planned Saudi smelter at Yanbu and for the Alba expansion. (102)

Most of these projects will involve multi-national companies working in partnership with the Gulf's largest family-owned corporations and with funding provided by the relevant national export credit agencies, Arab aid funds and international commercial banks, as well as the privately-owned Saudi Venture Capital Group (SVCG) which represents some 50 of the Kingdom's most prominent businessmen. However, smaller projects are being developed throughout the Gulf states, particularly in Bahrain, the UAE and Oman, aimed at providing for the local consumer market and as a substitute for imports. Individual entrepreneurs, both local and foreign, are expected to take an interest in setting up these companies, many of which will benefit from substantial government incentives.

Areas of particular interest include food and fish processing, beverages, automobile spare parts, batteries and tyres, household detergents, polyvinyl chloride (PVC) pipes and polyester fibres, household utensils, cans, furniture, glass products, toys, toiletries and paper products. Finally, companies specializing in operations and maintenance, including those involved in machining and light engineering, will be especially encouraged in order to help fill the growing need for both spare parts and repairs to consumer, scientific and industrial appliances and equipment.

Plans by the GCC to provide more tariff protection for local industries will help increase the potential profitability of some of these projects, and could pave the way for an increase in foreign investment in them as well. To date the tariff on imported products ranges from 4 to 20 per cent, but very few products are affected by the higher rates. While individual companies will still have to apply for protection to their Ministry of Industry, prove that their plant is viable and that the product is available in sufficient quantities to avoid higher costs to local consumers, the new GCC-wide tariff regime is expected to their applications being considered more sympathetically than in the past. While producers of any product can seek such protection, locally manufactured and packaged food products are expected to benefit in particular. (103)

The establishment by private businessmen in the Gulf in 1990 of a $100 million Gulf Company for Industrial Investment is also expected to help promote joint ventures involving foreign investors. Initial proposals call for it to set up two manufacturing plants, one for petrochemicals and another for metal ingots. (104)

In the Maghreb, foreign investment is expected to increase as negotiations gather pace to develop new areas of co-operation with the

European Community. Small and medium-sized European firms are being encouraged to join projects with their counter parts in Morocco, Tunisia and Algeria to help the Maghreb states maintain their markets in the EC. This follows the establishment of several joint ventures in textiles, clothing and shoes involving companies in West Germany, France and Italy in preparation for the establishment of a Single European Market in 1992. (105)

Despite fears within North Africa that the onset of the Single Market will damage the prospect for industrial exports, EC officials are confident that the removal of national customs barriers among the 12 European members and the streamlining of customs and credit procedures will facilitate an increase in trade with North Africa, particularly as European firms seek to establish "offshore" manufacturing in the Maghreb states. The formation of a joint common market by the five members states of the Arab Maghreb Union and plans to unify their currencies and to make them more convertible internationally will help encourage this trend. Tunisia has also signed an agreement with the UK offering protection for British investors in Tunisia, including clauses covering the transfer of profits, while Morocco has passed legislation allowing the establishment of companies and subsidiaries wholly owned by foreigners. (106)

While some sectors, notably textiles and shoes, will still be subject to tariff barriers aimed at keeping "sensitive" goods from flooding into the EC, local banks and businessmen in Tunisia and Morocco report that the development of products for "niche" export markets is expected to accelerate. These include the establishment of new specialized food processing plants providing goods such as tinned "exotic" fruits and vegetables as well as designer fabrics and clothing.

2. Prospects for Trade

Inter-Arab trade in 1988--the last year for which figures are available--accounted for only 6.5 per cent of total Arab trade, according to figures produced in 1991 by the Arab Monetary Fund. The 20 countries of the Arab region are expected to remain highly dependent on their main EC and OECD trading partners, especially for imports of capital goods, machinery, manufactured goods, transport equipment and services throughout the 1990s. At the same time, opening OECD and EC markets for the import of Arab manufactured goods, which amounted to only $4.3 billion in 1987, will be contingent on policy changes in the OECD countries, as well as further progress in developing high quality export-oriented industries in the Arab states themselves.

While an adequate study of the prospects fc .rab manufactured exports to the year 2,000 would require more discussion, a short resume of some of the developments currently underway in this regard in a few key Arab economies may demonstrate the considerable possibilities that exist at present throughout the region. In the case of the GCC states, given the low cost of fuel (whether oil, natural or associated gas), feedstocks (from the base petrochemical industries), access to both private and public capital and a good geographical position midway between Europe and Asia, the export potential for heavy industries is particularly strong.

Saudi Arabia alone is expected to invest some $5 billion in industries during its current five-year development plan (1990 - 1995), aside from the huge joint ventures being established under its offset programme (see below)

As a result, Industry and Electricity Minister Abdel-Aziz Al-Zamil expects the value of manufactured exports (including petrochemicals) to increase by around 50 per cent during the plan period, to some $4 billion. (107) Manufacturers will also have access to a new private venture set up to encourage exports, the Saudi Industrial Export Company, financed by $20 million worth of local private capital. (108) Tariffs of up to 20 per cent will be imposed on certain competing goods as a way of assisting the establishment of the new plants, Al-Zamil said in January.

SABIC is also expanding its sizeable manufacturing base through its affiliates and joint ventures to create what it calls "a global presence." A new marketing arm, Samarco, has been set up, and a sales office has already been established in Europe, where exports were expected to reach more than $150 million a year by the end of 1991 despite the problems with EC protective tariffs. In 1988, European sales accounted for only 19 per cent of SABIC exports, with the main share, 49 per cent, going to the Far East and Southeast Asia. (109)

SABIC expansion plans currently under way include the addition of 6,000 tonnes of methanol production to its Jubail complex run by the Saudi Methanol Company (Al-Razi); a tripling of PVC production, to 300,000 tonnes a year, at its National Plastics Company (Ibn Hayyan); the installation of two new feedstock crackers, each capable of producing 500,000 tonnes of ethylene a year at its petrochemical complexes (Petrokemya and Yanpet); the installation of new plant at Safco in Jubail to increase fertiliser output threefold, to 1.2 million tonnes a year; and the installation of a new direct reduction plant at the Hadeed iron and steel company to increase production from 1.2 million to 2 million tonnes annually. All these companies produce primarily for export. (110)

Elsewhere in the GCC, heavy industries, producing for export, are also being emphasized in petrochemicals, fertilizers, iron and steel. Aluminium exports in particular are expected to expand substantially as a result of the construction of huge new plants in Qatar, the UAE and Saudi Arabia as well as the expansion of existing smelters in Bahrain and Dubai. (111) Virtually all six GCC member countries are also encouraging their public sector owned industries, including SABIC, to provide basic manufactured products, such as steel and ethylene, at low cost to local producers to encourage more linkages that will help to expand industrial output in general. Already this is producing greater interest by private Gulf entrepreneurs in setting up plants producing consumer goods, especially plastic household goods, paints and detergents, electrical appliances (including air conditioners, water coolers and refrigerators) automotive spare parts (radiators, alternators, car shop products), white goods, batteries and packaging products, both for import substitution purposes and for export to neighbouring Arab countries as well as to Iran, India and Pakistan.

In the Maghreb, as well as in Egypt, export potential is rapidly growing in the automobile and motor vehicle industries, although exports may at first be concentrated on neighbouring countries. Iveco of Italy is discussing plans to expand its production of buses in Libya, Algeria is considering increasing its output of cars, Saharan vehicles and gear boxes and Peugeot of France is discussing proposals to produce small vans in Tunisia for export throughout North Africa. Fiat is also expanding its operations in the Maghreb, while Tunisia's biggest private industrial group, Poulina, is going ahead with plans to establish a plant to produce 1 million exhaust parts a year by 1992. In

Egypt, General Motors has received government permission to begin production of luxury cars which eventually will also be sold abroad. (112)

Development of these manufactured products, primarily for local consumption, reflects the large demographic growth that is expected in the Arab countries during the next decade and beyond. To this extent, EC and OECD exporters may be well advised to consider the expanding market for exports of technology and know-how that will emerge as the Arab countries seek to recapture and enlarge their own indigenous markets. Co-operation in this regard between the Arab countries and the main industrial exporting countries could provide better returns for both than the existing emphasis on increasing trade in manufactured goods as such.

While EC regulations may affect North African exports of textiles, clothing and footwear (see above), the long-term prospects for an expansion of exports in these sectors remains extremely good given the lower cost of skilled labour in North African when compared with either the EC or Eastern Europe. Scandinavian and British firms (including Lee Cooper, Coats Viyella and Unilever) already operate export-oriented factories in Tunisia, and more are expected as a result of the EC's recent efforts to promote industrial development in North Africa to help increase local employment and alleviate the prospects of massive immigration to the EC once the Single Market is completed. (113)

Egypt is revising its foreign investment laws to encourage foreign firms and local private sector partners to produce for export in an effort to alleviate the country's severe shortage of foreign exchange. Although progress has been slow, new plants producing processed foods, textiles, electrical goods, small appliances and other consumer goods for export are to be encouraged. The resolution of Egypt's debt problems with the IMF, World Bank and its Paris Club creditors in the aftermath of the Gulf war in 1991 will also encourage this trend, as will the anticipate expansion of aid for industry from Saudi Arabia and other Gulf states.

Plans by the government to expand petrochemical exports are also under way, but success in this sphere will depend greatly on future investment. Rapidly increasing local demand for power and fuel is, however, reducing the availability of feedstocks for direct export. Similar problems with a lack of funds for investment are also holding up industrial expansion in Jordan, although the potential for expanding its chemical industries, particularly the production of phosphoric acid, fertilizers and potash, as well as other mineral and metal products remains high given rising world demand for these commodities. Syria's rapprochement with the West and the expansion of its oil and gas sectors should also pave the way for increased trade in manufactured goods with the OECD, as should the exploitation of huge oil and mineral reserves in Yemen.

Transnational companies are being encouraged to take part in manufacturing through a varied range of government incentives now being offered in many Arab countries, a marked contrast to the situation a few years ago when those with large public sectors generally eschewed such investment except in strategic industries. Saudi Arabia's huge offset programme, in which foreign firms supplying military weaponry and aircraft to the Kingdom are required to spend part of the proceeds on industrial investment in the country, is proceeding rapidly. Multi-billion agreements have already been signed with TNCs in the USA and UK, and a third major offset programme has been agreed with France. While many of the factories being established under these programmes relate to the military sector, future developments are expected to concentrate on the production of civilian goods, both for import substitution purposes and for export. (114)

Similar arrangements, albeit on a far smaller scale, are also being considered in Tunisia and Oman to encourage foreign investors and to reduce the drain of hard currency, and more countries are expected to follow suit in the next few years. As a result, OECD exporters of industrial plant and capital goods could benefit substantially. On the other hand, OECD exporters of consumer goods will need to be aware of the competition that will result from increased local production and import substitution policies not only in their specific local market but as a consequence of expanded trade within the Arab region itself.

In conclusion, it is therefore remarkable that the EC has developed no coherent long-term development project for its immediate neighbours, i.e. its own "South". While it played a major role in the establishment in 1991 of the London-based European Bank for Reconstruction and Development (ERBD) for aid and investment for Eastern and Central Europe, no such proposal has been launched for the Mediterranean countries of the Maghreb and Levant despite their importance in EC trade and in its wider financial, commercial and political relationships. This stands in marked contrast to the situation in North America, where the US has signed free trade pacts and reformed its trade and investment policies with both Canada and Latin America, and in Japan, which has a 20-year program to promote development in South Korea and in the other dynamic economies of Southeast Asia.

Sectoral Opportunities for the 1990s

The size, type and implementation strategies of projects are expected to vary considerably from the pattern which prevailed in the period from 1963 to 1985 as a result of the new political, economic and financial trends in the region. The implications for a number of sectors are outlined in the following paragraphs.

a. Water Supply for Drinking Consumption, Agriculture and Industry. The high rate of population growth, which is associated with a similarly high rate of urbanization, will require large additional water supply capacity and investments dams, water desalination plants, water transport and distribution networks. It will also require water conservation policies for industrial processes and technologies to save water, whether this be from natural, saline or brackish sources. The extensive use of plastic piping and drip feed irrigation equipment in agriculture is one way of using the cheap resources available today for saving future water supplies.

b. Housing and Social Services Infrastructure. These sectors are expected to witness unprecedented development in the 1990s. The less populous, but wealthy, Gulf countries have almost reached a reasonable level of satisfaction of housing demand, but will still have to meet requirements related to a high rate of population growth and urbanization. (The highest population growth rates by the year 2,000 are expected in Libya--4 per cent--the UAE--7 per cent--and Saudi Arabia--3.5 per cent.)

On the other hand, the most populated Arab countries are far from reaching an acceptable level of satisfying housing demand. In Algeria, for example, the occupancy rate has been estimated to range as high as 6 to 7 persons per apartment. As a result, these countries will come under increasing domestic pressure to inaugurate huge housing schemes to meet the accumulated shortage and also to meet future needs arising from population growth and urbanization.

Building materials industries will continue to expand rapidly despite the high rate of growth they witnessed in the past 20 years. Their products will be needed to help develop schools, health and social service infrastructure as well as domestic housing. Much potential exists in most Arab countries for adapting and creating new technologies which can enhance local raw materials and minerals for use in the construction sector.

c. Extractive Industries (primarily oil and gas). Financial resources from oil and gas exports will remain the major source of income to sustain the development of Arab countries during the 1990s. It can be assumed that the depletion of existing oil and gas reserves will justify the pursuance of investment and expansion programmes which had been cancelled or postponed due to the oil glut of the early 1980s. Reconstruction of the oil production, refining and exporting sector in Kuwait will also involve considerable government expenditure at least until the mid-1990s.

These investments will call for technological processes in the area of field development (onshore and offshore production facilities, gathering networks, pipelines, terminals) and related utilities. The progressive depletion of oilfields will also create demand for enhanced recovery technologies such as gas-lift, gas and water injection and other methods.

d. Downstream Industries. The important financial resources derived from oil and gas export have allowed the Arab oil producing countries, particularly in Libya and the Gulf states, to invest heavily in basic industries during the past 20 years. However, the need to use the skills of a rapidly growing labour force as well as the desirability of adding value to crude hydrocarbon exports has led to government policies favouring diversification into downstream industries, both at home and abroad. Creation of new petrochemical, fertiliser and heavy industrial plants using cheap energy feedstocks will create a new physionomy for industrial investment at all levels, both private and public, and require new technological processes as well as imported skilled labour.

e. Manufacture of Intermediate Products and Capital Goods. Given the level of industrialization reached by the Maghreb countries, it appears that investments in industry will increasingly be channelled toward intermediate and heavy industries. At present, manufacturing is concentrated on end products which have a high dependency on imported inputs and equipment. This causes inefficiencies and underutilization of capacity and creates pressures for trade protection and financial subsidies.

Such a shift of emphasis will require greater attention to the needs of local industry for local service inputs (in terms of management, marketing, rehabilitation, product development, maintenance and training, engineering and design) as well as more emphasis on the proper valuation of the cost of imported raw materials, intermediate and capital goods. A valuation of this kind could in turn make more feasible the longer-term development of local inputs, both of goods and services.

f. Manufacture of Consumer Goods. While consumers in the Gulf countries, with their high disposable incomes, have been major buyers of imported, brand-name products from the OECD countries, greater national pride in the wake of the Gulf war combined with the expected rise in household formation due to their young and growing populations, will create more demand for indigenously manufactured goods, particularly for processed foods (including dairy, confectionery and fish), beverages, plastic durables, furniture, textiles, shoes, car pets, baby goods and infant care, pharmaceuticals, toiletries, handicrafts, stationery, books, magazines, film and video.

Investment by local entrepreneurs in these industries, together with greater import demand from the neighbouring Arab countries such as Egypt, Jordan and Syria, could create new opportunities for the efficient deployment of Arab capital and labour as well as increasing inter-Arab trade. The use of low-cost energy inputs, i.e. from heavy petrochemical industries, could also foster the growth of an important export market in consumer goods produced in the Gulf states aimed at the neighbouring Muslim countries of Iran, Pakistan, Bangladesh, Turkey as well as in India, Sri Lanka and Central Asia. (115)

VII. The Role of International Organizations

Multinational organizations such as UNIDO, which are seen by both the Arab world and OECD governments to be impartial, have a vital role to play in fostering industrial co-operation between the two partners. Given the current lack of information in the Arab countries on marketing and possible joint venture arrangements that can assure access to markets in the industrial countries, these agencies already fulfill a vital function in their efforts to publicize such information.

UNIDO itself is currently engaged in a project with the Arab Maghreb Union (UMA) to study measures to liberalize trade and to promote industrial co-operation by improving sectoral complementarity within the region. In 1990 it was also asked to help assist the regional development of engineering industries, electronics and informatics, textiles and leather, the pharmaceutical industries and others including cold storage and food production.

It has already set up a network of subcontractors within the UMA and has developed proposals to establish a regional information centre and computerized data bank on existing industry within the Maghreb countries that will also consider measures to promote industrial co-operation both within the UMA and between the UMA and other Arab states as well as with the EC and other OECD countries. Similar activities have been undertaken by UNIDO in the Eastern Mediterranean while in the Gulf area the organization is conducting a major study aimed at promoting the development of small- and medium-sized industries.

In 1991, following the ending of the Gulf war, UNIDO was also actively involved in the promotion of industrial co-operation and investment between Saudi Arabia and Egypt. UNIDO's pioneering experience in fostering what are expected to be important new financial and economic links between the Gulf states and its Arab allies could be of significant benefit as policy planners and decision-makers in the GCC states undertake new measures aimed at fostering links between the populous Arab countries and both the public and private sectors in the wealthier oil producing states.

As the Arab states and their private sector companies become more aware of the need for assistance in all areas of manufacturing, the creation of national and regional institutions aimed at promoting industrial production should create considerable scope for further assistance from international agencies, particularly UNIDO, in industrial development. The supply of skilled professionals, experienced in international markets and with a knowledge of TNC operations, to train local cadres can be improved even in those countries, such as Egypt, Algeria and Morocco which have large budget deficits if international assistance is made available.

UNIDO could also play a vital role in the establishment of new Arab agencies, such as the Arab Trade Financing Programme (see above) and the proposed Arab Marketing Company, aimed to promote manufacturing exports, as well as in the dissemination of technical know-how and statistics gathering. Finally, given the almost total lack of detailed empirical information on the possibility of downstream linkages within national industrial sectors and between Arab countries, an international agency that is not linked to one or the other Arab government can offer a vitally important, and impartial, perspective that is both sympathetic to local needs yet aware of international opportunities and constraints.

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