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STRUCTURES, CONSTRAINTS AND PROSPECTS OF CO-OPERATION IN MANUFACTURED TRADE BETWEEN THE ARAB COUNTRIES, THE EC AND CECD

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oil and hydrocarbon-related products. OECD imports of manufactured goods from the Arab countries amounted to only $4.3 billion in 1987, ten times less than Arab imports of these goods from the OECD. Altogether, Arab exports of manufactures to the OECD accounted for only 4.8 per cent of their total exports to the region. While the EC took 6.7 per cent of its imports form the Arab countries in form of manufactured goods, the figure was only 2.8 per cent in the case of the USA and less than 1 per cent in the case of Japan.

Capital Goods and Services.

The cost of importing industry-related services and know-how is an increasingly important factor in industrialisation which adds significantly to the cost of establishing and maintaining manufacturing enterprises in the Arab countries. The need for these services extends beyond the immediate project-related costs and initial feasibility studies involve in setting up an industrial plant to a dependency that can last for the life of the plant itself. This is particularly the case concerning operations and maintenance, engineering and design, marketing, ongoing product innovation and technological updating as required over what may be a period of 20 years or more.

International and regional statistics presently available continue to neglect this important sector, despite the fact that services and other tertiary activities constitute the major

contributor to GDP in many industrial countries. As a result, it is difficult to ascertain precisely the degree of Arab dependence on the OECD countries for these services, and the extent to which the industrialised countries benefit from service exports to the developing countries (DCs).

Preliminary estimates in this study, however, show that the import of industry-related services could be costing the Arab countries as much as $36 billion a year or more, or about 11 per cent of their combined GDP. In some countries, notably Jordan and Mauritania, the percentage is exceedingly high, i.e. 26 and 24 per cent respectively, figures which are even more significant given the lack of financial resources available to these countries. In the Gulf states, where capital resources are far greater, service imports cost from 10 to 19 per cent of GDP.

Countries such as Algeria and Syria, which have a low level of service imports relative to GDP, are often unable to supply the required services locally. As a result, their inability to import these, or unwillingness to do so, constitutes a major barrier to the growth of their industrial sectors and to the modernisation and maintenance of existing plant.

EC Policies.

Although the Arab in 1987 imported almost $40 billion worth of goods from the EC in 1987 alone, including $25 billion in man-

ufactured goods, and the Arab world forms its most important external market, the EC at present lacks a coherent policy to help the Arab states to develop as potential partners in economic growth. This stands in sharp contrast to Japan, which has carefully formed working partnerships with the developing countries in its own region, i.e. the dynamic economies of Southeast Asia, and with the USA, which has reformed its trade and investment policies with Latin America.

The creation of a Single Market by 1992 and the expected rise in EC trade and investment in Eastern and Central European countries could work to the disadvantage of furthering cooperation between the Community and the Arab states. Already the EC's decision to establish a European Bank for Reconstruction and Development (EBRD) in London to promote investment in Eastern Europe stands in sharp contrast to its failure so far to promote a similar institution for the Arab countries.

Projections of a fall of 10 per cent or more in Arab manufactured exports to; the Community as a result of the creation of a Single Market could also create additional strains in relationships between the EC and the Arab states, particularly in the Maghreb and other Arab Mediterranean countries. While the EC may provide additional sums to help develop employment opportunities in the Maghreb to prevent a substantial rise in Arab immigration to the EC, this would be insufficient to counter the massive outward flow of funds already occurring as

a result of interest and debt payments and the high level of imports.

EC plans to negotiate a free trade pact with the Gulf states may be contingent on these states eliminating intra-GCC customs barriers. However, EC promises to open up its market to GCC exports of petroleum products and petrochemicals will continue to cause concern in the Arab countries if other Arab exports remain subject to excessive tariffs an protectionist policies.

Import Substitution.

In contrast to Eastern Europe, the Arab world constitutes a market for the EC that is both larger in terms of population and which has greater disposable income. In the GCC countries, per capita income approaches that of Western Europe, and payment for goods is made in hard currencies. Moreover, the population of the Arab world, which presently amounts to some 202 million people, is expected to reach 285 million by the year 2,000, a figure that would make it more than double the size of Eastern Europe and equal to that of the USA. Combined with the neighbouring Muslim countries of Iran, Pakistan and Turkey, the Arab market already consists of 404 million people, a figure that is expected to rise to 577 million by the year 2,000.

These projections indicate the huge potential which exists for the development of local manufacturing in the Arab countries aimed at import substitution, as well as at exports, where the

region's comparative advantage due to low cost fuel and energy and/or skilled but inexpensive labour constitutes largely untapped potential. The extremely young profile of the Arab population, particularly in countries such as Algeria, Egypt and the GCC, also provides a significant market for household and consumer goods which could be supplied by indigenous light industrial plants. Export of know-how to build other plants producing cars, trucks, buses, vans and heavier goods for an expanding regional market will also create new opportunities for cooperation between the EC, OECD and Arab countries, particularly as disposable income in the Arab countries rises in line with the expected increase in oil and gas revenues in the 1990s. Development of these local industries, whether by the private or public sector, would also help considerably to reduce the financial drain caused by the high import bill for manufactured goods and further add to indigenous purchasing power.

Introduction

While most of the Arab states have long espoused national goals that include a major emphasis on industrialisation, the actual establishment of manufacturing production has fallen far short of announced aims. In many of the more populous countries, the need to feed a rapidly growing citizenry has consumed scarce reserves of hard currency as food imports have risen and local agricultural output has failed to keep pace with requirements. In other countries, particularly those in the Gulf, the development of the requisite infrastructure has had to take priority, and while much of this was completed by the mid-1980s, the dramatic fall in world oil prices in the second part of the decade has hindered further advances on the industrial front until recently.

In contrast, the 1990s are expected to witness a renewed emphasis on increasing manufacturing output and trade in virtually all of the Arab countries. Three factors are responsible: 1) the realisation that rising burdens of foreign debt can be successfully managed only by increasing industrial exports; 2) the prospect of a substantial rise in world oil prices by the middle of the decade that should again generate the revenues needed to finance industrialisation, and 3) the pressing need to find employment for a younger generation of professionals and skilled workers who may, in the future, be excluded from working abroad in Europe or in other Arab states.

The formation of sub-regional blocks which now group together all but five of the Arab League states is also accelerating the pace of industrialisation, both in the public and private sectors. 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 industrialised economies (NIEs) of Asia and the Pacific.

Table I

Arab and OECD Countries:
Population
1987 - 2000

($ million)

Region	1987	2000
Arab States	202	285
EC	322	326
USA and Canada	270	298
Japan and NIE Asia*	192	212

* NIE Asia includes Singapore, Hong Kong, South Korea and Taiwan.

Source: World Bank, World Development Report, Washington D.C., 1989.

Throughout the Arab region, finance for new projects is expected to be generated increasingly from the private sector and from foreign investment, as well as from government spending. While the capital and savings generated by remittances from Arab workers working abroad fell in the second half of the 1980s, along with oil revenues, the oil producing economies continue to hold substantial foreign assets. (1) The earnings from these international investments constitute an important pool of capital held by both the public and private sector which could be invested in local industry. In many Arab countries, the private sector is also being encouraged to invest in industry by the adoption of sweeping new policies aimed at liberalising the economy; removing dual exchange rate systems; privatising national concerns and government shareholdings in industry; and by special incentives, such as protective tariffs on imports, tax holidays and subsidies on utilities.

Nevertheless, the successful implementation of this new emphasis on the manufacturing sector, which amounts almost to a second industrial revolution in the Arab world, will depend greatly on the extent to which co-operation between the leading industrial countries, grouped together in the Organisation for Co-operation and Development (OECD), and the Arab regional blocks can be achieved. While the Arab countries remain vitally dependent on the industrial countries for technology, capital goods, investment and trade, the OECD countries stand to benefit from increased access to a market that, by the year

2,000, will be one of the largest in the world in terms of population and, in the case of the GCC countries, also one of the wealthiest. (See Tables I and II).

Table II

Arab and OECD Countries:
GDP per Capita, 1987

($)

Region	Amount
GCC	10,560
UMA	2,074
ACC	1,250*
OECD Average	14,670

* Including South Yemen.

Source: Middle East Economic Digest, Arab Industries in the 1990s, London, 1989, page 46; Ministry of Planning, Central Statistical Organisation, Annual Abstract of Statistics, 1988, Baghdad, 1989.

I. Production of Manufactured Goods in the Arab Countries

A. Manufacturing Value Added

Combined manufacturing value added (MVA) in the 20 Arab countries amounted to just over $43 billion by the end of 1989, according to figures produced by the Kuwait-based Arab Fund for Economic and Social Development. (See Table III.) The five Maghreb states lead the list with a combined MVA in 1989 of $14.3 billion, more than three-fourths of which is accounted for by just two countries: Morocco ($5.8 billion) and Algeria ($5.3 billion). (See Table III.) In the GCC, where combined

MVA reached $13.7 billion, Saudi Arabia alone accounted for almost one-half the total or $6.5 billion, followed by Kuwait ($3.3 billion) and the UAE ($2.4 billion).

A similar pattern occurred in the four ACC states, where Iraq's MVA of $5.9 billion accounted for more than half the combined total of $10.9 billion, followed by Egypt ($3.7 billion). (The figures are separated for North and South Yemen, prior to their merger.) Of the five Arab states which do not belong to a regional block, manufacturing output in value terms is significant only in Syria, where MVA in 1989 amounted to just over $3.3 billion, about the same as in Kuwait.

Table III

Arab Countries:
Manufacturing Value Added
1975 - 1989

($ millions)

Country	1975	1985	1989
UMA:			
Algeria	1,451.6	8,177.8	5,269.1
Libya	277.6	1,233.2	1,803.9
Mauritania	21.3	29.4	30.4
Morocco	1,489.5	2,679.8	5,760.4
Tunisia	384.8	980.2	1,442.6
Total	3,624.8	13,100.4	14,306.4
ACC:			
Egypt	2,248.9	3,701.7	3,671.4
Iraq	826.2	4,584.4	5,858.4
Jordan	124.3	483.0	331.4
North Yemen	56.3	470.5	923.0
South Yemen	25.2	103.6	105.4
Total	3,280.9	9,343.2	10,889.6
GCC:			
Bahrain	157.0	374.2	417.6
Kuwait	681.0	1,273.9	3,314.7
Oman	6.1	238.3	361.5
Qatar	64.9	486.2	774.9
Saudi Arabia	2,094.2	6,762.8	6,478.6
UAE	93.1	2,521.1	2,355.2
Total	3,096.3	11,656.5	13,702.5
Other:			
Syria	1,231.5	3,012.2	3,331.6
Lebanon	538.7	0	0
Somalia	36.0	104.9	60.0
Sudan	397.1	497.0	776.2
Djibouti	11.7	25.5	27.6
Arab Total	12,165.9	35,739.8	43,093.9

Source: Arab Fund for Economic and Social Development, Kuwait, May, 1990. All figures in current prices.

With the exception of Libya, where MVA amounted to $1.8 billion, Tunisia ($1.4 billion) and the Yemen ($1 billion)--formed by the merger of the two states of North and South Yemen in May, all the remaining countries--Bahrain, Djibouti, Jordan, Lebanon, Mauritania, Oman, Qatar, Somalia and Sudan--had MVAs of less than $800 million. However, both the Sudan and Qatar are important candidates for industrial growth, the former because of its important agricultural output and position as the largest Arab state in geographical size, and the latter because of its huge natural gas reserves which, in the 1990s, are expected to form the base for a major expansion of heavy industries producing refined oil, gas liquids, petrochemicals, iron, steel and aluminium.

B. Share of Manufacturing Value Added

The figures on MVA, however, disguise important differences between the Arab states in the share which MVA represents as a percentage of gross domestic product (GDP). Moreover, while the combined Arab MVA in 1989 registered more than a threefold increase on the $12.2 billion figure recorded in 1975, manufacturing still accounted for only 10.7 per cent of total Arab gross domestic product for the year, compared with 8 per cent in 1975. (Table IV.)

Table IV

Arab Countries:
Manufacturing Value Added and Gross Domestic Product
1975 to 1989

($ millions)

	1975	1985	1989
Manufacturing Value Added	12,165.9	35,739.8	43,093.9
Gross Domestic Product	151,768.4	378,500.7	383,191.1
MVA/GDP (%)	8.0	9.4	10.7

Source: Arab Fund for Economic and Social Development, Kuwait, April/May, 1990. All figures in current prices.

Morocco, with a share of just over 26 per cent is by far the most industrialised country in terms of MVA/GDP. (Table V.) Syria, with 19.1 per cent, is second, followed by Egypt and Tunisia, with 16.6 and 16.3 per cent respectively. In all four cases, industrialisation began prior to the Second World War, during the period when they were still ruled by either the British or the French. While food processing, textiles and light consumer goods formed the bulk of their output at that time, both public and private industries in these countries have since benefitted from the relatively large size of their own domestic markets and/or import demand from their former masters. In addition, most also have large pools of skilled labour and, particularly in the case of Egypt, access to highly trained professionals, many of whom have gained further experience by extensive periods working abroad.

Table V
Arab Countries:
Share of Manufacturing Value Added
1975 - 1989

(%)

Country	1975	1985	1989
UMA:			
Algeria	11.0	11.9	12.1
Libya	1.8	4.5	7.6
Mauritania	5.0	6.2	6.1
Morocco	17.3	22.4	26.1
Tunisia	10.1	13.5	16.3
Average	9.0	11.7	13.6
ACC:			
Egypt	17.4	14.8	16.6
Iraq	6.1	9.2	9.7
Jordan	13.1	13.7	12.1
North Yemen	5.7	12.3	13.8
South Yemen	9.8	11.2	10.9
Average	10.4	12.2	12.6
GCC:			
Bahrain	14.6	8.8	10.8
Kuwait	5.7	5.9	14.5
Oman	0.3	2.4	4.3
Qatar	2.6	8.0	12.0
Saudi Arabia	5.3	7.9	8.4
UAE	0.9	9.1	8.5
Average	4.9	7.0	9.8
Other:			
Syria	22.7	14.8	19.1
Lebanon	16.6	n.a.	n.a.
Somalia	5.6	5.0	5.1
Sudan	9.7	9.6	8.3
Djibouti	7.5	9.4	9.1

Source: Arab Fund for Economic and Social Development, Kuwait, May, 1990. All figures as a percentage of gross domestic product in current prices. N.A. = not available.

Of the three regional groupings, the Arab Maghreb Union has the highest average manufacturing share, 13.6 per cent, followed closely by the ACC with 12.6 per cent. Newcomers to the industrial scene, the GCC still has considerable progress to make, given its relatively low average of just under 10 per cent at the end of 1989, despite the emphasis given by its member states in the past decade to measures aimed at increasing non-oil output.

Of the Maghreb states, both Algeria and Tunisia have significant industrial sectors, along with Morocco. However, although the share of MVA to GDP in Libya has grown from just 1.8 per cent in 1975 to 7.6 per cent in 1989, it, along with Mauritania, which is an important producer of iron ore, is still largely dependent on a single commodity for the bulk of its overall domestic production.

With the major exception of Iraq, which was burdened in the 1980s by the Gulf war, industrialisation is relatively better distributed in the ACC countries, where the shares of MVA to GDP in 1989 ranged from Egypt's high of 16.6 per cent to just under 14 per cent for North Yemen (now part of the Republic of Yemen). The addition of South Yemen to the ACC in May, 1990, through its merger with North Yemen, added a country with a manufacturing share of 10.9 per cent, although this is expected to increase substantially with the establishment of oil-related

industries following the discovery of large commercially viable crude oil deposits in the late 1980s.

In contrast, both Kuwait and Qatar show a relatively higher share within the GCC countries--14.5 and 12 per cent respectively--than either Saudi Arabia or the UAE, where the figures amounted to only 8.5 and 8.4 per cent respectively. Kuwait's relatively earlier attention to the establishment of export-oriented refineries and petrochemical plants is partly responsible, as is its huge expenditure on power and desalination plants. Qatar has also benefitted from its big industrial complex at Umm Said which has been producing petroleum products, natural gas liquids, fertilisers, iron and steel since the mid-1970s. Oman, which only began to build a modern infrastructure in the mid-1970s, is still far behind in the development of a manufacturing sector, with a share of only 4.3 per cent. However, this could improve rapidly with the opening in the late 1980s of a sizeable number of small factories producing textiles for export and other light consumer goods.

C. Growth of Manufacturing Value Added

In many Arab countries, the pace of industrialisation in the second half of the 1980s was affected considerably by the fall in world oil prices and by the drain of funds needed to service foreign debt. Saudi Arabia and the UAE both witnessed a negative growth rate in their MVA for the period 1985 to 1989, with falls of 4.2 and 6.6 per cent respectively. (See Table VI.)

Saudi Arabia, until recently, was highly dependent on earnings from the export of crude oil, leaving it vulnerable to world oil price fluctuations. However, the completion of the huge industrial cities of Jubail and Yanbu, as well as the establishment of light industries in the urban centres of Jeddah, Riyadh and Dammam in the second half of the 1980s should lead to a major improvement in the 1990s. By the end of 1989, the Kingdom was in a position to meet 5 per cent of the world's demand for base petrochemicals, as well as to export more than one million barrels of petroleum products a day. (2) In the UAE, both Abu Dhabi and Dubai, the leading oil exporting emirates, were adversely affected by si ilar factors as well as by the loss of markets due to the Gulf war, despite the establishment of light industries in the Jebel Ali free zone.

In sharp contrast, Kuwait witnessed almost a threefold rise in its MVA during the period, mainly as a result of the modernisation of its petroleum refineries, petrochemical plants and industrial utilities. It also has the advantage, unlike Saudi Arabia, of established markets in Europe and the USA for its petroleum products as a result of its huge investments during the past two decades in the downstream oil industry. Impressive gains in MVA were also recorded in Qatar, with an increase of just under 60 per cent--about 15 per cent a year during the period, and in Oman, with a rise of 51.7 per cent. While Qatar benefitted from the expansion of its hydrocarbon-related industries, Oman's emphasis on the development of its mining sector,

focussing on the Sofar copper smelting complex, helped quicken industrial growth rates as did the rise in the production of textiles and processed foods.

Altogether, the GCC witnessed an average 17.6 per cent increase in MVA over the period 1985 to 1989. While this represents the best average reported among the three regional blocks, it is still disappointing given government emphasis on increasing industrialisation, especially as it amounts to only about a yearly rate of abcut 4.4 per cent. The fact that this improvement was registered despite a 4.6 per cent fall in the average overall GDP for the Gulf states may, however, prove to be of some compensation to government planners.

Table VI

Arab Countries:
Growth of GDP and Manufacturing Value Added
1985 - 1989

Country	GDP ($ millions) 1975	1985	1989*	Growth Rates 1985 - 1989 (%) GDP	MVA
UMA:					
Algeria	14,286.1	56,476.7	47,185.7	-16.5	-35.6
Libya	12,768.1	27,958.1	24,757.8	-11.4	46.3
Mauritania	475.9	716.3	987.4	37.8	3.4
Morocco	8,981.8	12,873.0	23,709.3	84.2	114.9
Tunisia	4,335.6	8,280.3	9,997.9	20.7	47.1
Total/Average	40,847.5	106,304.4	106,638.1	0.3	9.2
ACC:					
Egypt	13,335.1	26,298.0	24,289.7	-7.6	-4.3
Iraq	13,852.9	49,441.5	58,871.2	19.1	27.8
Jordan	977.0	4,075.6	3,220.6	-21.0	-31.4
North Yemen	1,070.5	4,205.6	7,392.5	75.8	96.2
South Yemen	289.2	1,106.3	1,128.4	2.0	1.7
Total/Average	29,524.7	85,127.0	94,902.4	11.5	16.6
GCC:					
Bahrain	1,076.8	4,263.1	3,872.4	-9.2	11.6
Kuwait	12,015.9	21,453.0	23,082.5	7.6	160.2
Oman	2,103.9	9,999.4	8,532.2	-14.7	51.7
Qatar	2,512.7	6,152.7	6,475.1	5.2	59.4
Saudi Arabia	39,688.0	86,661.8	79,230.5	-8.6	-4.2
UAE	9,959.7	27,080.9	27,281.4	7.4	-6.6
Total/Average	67,357.0	155,610.9	148,474.1	-4.6	17.6
Other:					
Syria	5,567.4	21,205.7	17,878.9	-15.7	10.6
Lebanon	3,247.5	2,131.5	3,600.0	68.9	0
Somalia	711.0	2,210.0	1,213.5	-45.1	-42.8
Sudan	4,338.4	5,[illegible]0.7	10,113.3	81.3	56.2
Djibouti	174.7	332.2	370.8	11.6	8.2
Arab Total/Av.	151,768.4	378,500.7	383,191.1	1.2	20.6

* Estimated figures.

Source: Arab Fund for Economic and Social Development, Kuwait, April, 1990; See also Table III in text above. All figures at current prices.

MVA growth in the Maghreb countries in second half of the 1980s was also disappointing, as the average rise amounted to only 9.2 per cent, about 2.3 per cent a year. A sharp fall in Algeria's MVA, which was down by 35.6 per cent, was mainly responsible, as the country was adversely affected by both falling world prices for its exports of oil and natural gas and by a rapidly rising level of foreign debt, some of which resulted from heavy borrowings during the early 1980s to finance the import of capital goods and foreign technical assistance to expand its hydrocarbon industries.

In contrast, Morocco, which has almost no reserves of oil or gas but which is one of the world's largest exporters of phosphates, witnessed a rise in its MVA during the period of almost 115 per cent, representing an annual average of about 26 per cent. Expansion of world demand for phosphate derivatives, as well as phosphate rock, helped to increase industrial output in the second half of the 1980s, but so too has Morocco's investment in chemical complexes to develop fertilisers, the opening of a huge steel rolling mill, the expansion of cement production, sugar refining and mineral processing plants, as well as the continued output of cars, trucks, motorcycles and refined oil products for domestic consumption. Equally important has been the rapid growth of smaller private sector enterprises

producing textiles, clothing, footwear, electrical goods and processed food for export to the USA and Europe.

MVA also grew at an average rate of some 12 per cent a year in both Tunisia and Libya during the second half of the 1980s. As in Morocco, Tunisia has developed phosphate processing facilities, chemical and cement plants, car assembly, and a wide range of electronic and food processing factories, as well as metallurgical industries using locally produced iron ore as a raw material. Textile production for export is particularly important, accounting for more than 22 per cent of total MVA, and some 190,000 jobs in the country. (3) However, the country also produces refined petroleum products and has access to inexpensive natural gas feedstocks to fuel industry and provide electricity and water.

Although much of Libyan public spending has been diverted to the massive Great Manmade River Project, the government's attempts in the mid-1980s to encourage local manufacturers using locally produced raw materials has led to the expansion of production in privately owned, small-scale industries producing consumer and intermediate goods.

In the state sector, chemical production based on the country's resources of methane has also increased substantially, as has the manufacture of ethylene and naphtha derivatives. Iron and steel output from the huge Misurata complex and cement produc-

tion is also rising. Finally, although Mauritania has a modern mining sector based on its big reserves of iron ore, its modest rise in MVA, especially when compared with its far greater increase in GDP during the four-year period under study, is mainly attributable to the growth of fish packing and processing plants as a result of the government's attempts to encourage foreign joint ventures.

MVA growth rates in the ACC countries varied widely in the second half of the 1980s, although the regional average, at 16.6 per cent, was only slightly less than the figure recorded for the GCC states. Negative rates were registered in Egypt (-4.3 per cent) and in Jordan (-31.4 per cent), mainly because of a sharp fall in foreign and private investment, debt problems that delayed industrialists access to spare parts and credits and generally slower growth that affected GDP as a whole. However, in the late 1980s Egypt began a significant reform of its economy to encourage the private manufacturing sector and foreign joint ventures and this, together with a settlement of its debt problems, increased local demand and rising prices for its petroleum export products should lead to growth again in industry in the 1990s.

Elsewhere in the ACC, North Yemen was the main success story, having increased MVA between 1985 and the end of 1989 by an average of 24 per cent a year, while GDP in general grew at an annual rate of about 19 per cent. The Marib oil refinery began

operations in 1986, providing one-third of domestic demand, and there has been significant investment, both public and private, in heavy, medium and light industries, including food processing, textiles, cement, pharmaceuticals, tobacco, building materials, plastics, chemicals and metal working.

Iraq's MVA increase, which averaged almost 7 per cent a year during the period, reflected the start up of new complexes producing petrochemicals and fertilisers as well as an expansion of output in other industrial sectors which include iron and steel, food processing, building materials, textiles, pharmaceuticals and truck and tractor assembly. While the declaration of a ceasefire in the Gulf war in August, 1988 was expected to lead to a considerable rise in investment in industry, particularly by other Arab investors, foreign exchange problems could delay an upturn.

South Yemen's discovery of important oil reserves is already leading to the drafting of plans for the development of hydrocarbon related industries and the implementation of a major expansion project for the country's 170,000 barrels-a-day oil refinery at Aden. Integration of the country in the larger Republic of Yemen should also give a spur to the manufacturing sector and to private investment in industry in the 1990s.

Outside the regional groupings, two countries remain important candidates for industrial growth: the Sudan, which registered

a 56.2 per cent rise in MVA during 1985 to 1989, and the Lebanon, which has traditionally had one of the largest manufacturing sectors in the Arab world. An end to the civil war in the country, coupled with rising consumer demand in its export markets in the oil producing states of the Gulf, could help restore the country's growth rate in industry. Potential also exists in Syria, given its broad industrial base, but a sustained rise in MVA will have to await a resolution of the country's economic difficulties that have led to severe shortages of foreign exchange and a considerable fall in private investment.

D. Distribution by Product

Efforts to distinguish the production of capital goods from that of other manufactures are hampered by the lack of reliable and up-to-date statistics that are comparatively valid on a regional basis. Few Arab countries adhere to the system adopted by the United Nations in its International Standard Industrial Classification (ISIC), and when they do, there is often a failure to provide sufficient detail to easily distinguish capital goods in the various categories, i.e. the production of metal goods is grouped together with that of machinery and transport equipment in ISIC Group 38 and further disaggregation is needed.

Alternatively, it may be possible to obtain the required data from individual countries in each of the Arab states, i.e. for

the production of motor vehicles from SONACOME in Algeria, SOMACA in Morocco, the Complexe Mecanique du Tunisie and Societe Maghrebine de Fabrication de Moteurs Thermiques, also in Tunisia, the El-Nasr Automotive Manufacturing Company (NASCO) and General Motors Corporation in Egypt and Saudi Arabia's National Automobile Industry Company. This would entail a larger study than is possible here.

However, it is fairly clear that virtually all the Arab countries are almost totally dependent on imports from the main OECD countries for industrial plant and machinery, machine tools, mainframe and mini-computers, scientific instruments, transport and telecommunications equipment, as well as for the services needed to operate, maintain and modernise their industries. (See Section II below.) As indicated above, a few countries, notably Algeria, Morocco, Tunisia and Libya, all in the Maghreb, Egypt and Iraq in the ACC and Saudi Arabia in the GCC currently assemble trucks, buses, vans, tractors and/or passenger cars or are planning to do so in the near future, but these are used primarily in the agricultural, construction and transport sectors or for private consumption if they are not exported.

Figures produced by the World Bank and UNIDO for 1986 giving a sectoral breakdown of MVA show that the production of machinery and transport equipment accounted for 11 and 7 per cent of total MVA in the Maghreb countries of Algeria and Tunisia

respectively, 13 and 2 per cent in the ACC states of Egypt and Jordan and 7 per cent in Kuwait, the only country in the GCC for which figures are available. (See Table VII.) Algeria is gradually integrating its iron and steel plants with downstream local production of machine tools and motor vehicles and potential for a similar development also exists in Egypt and Libya, although in the latter case the lack of highly trained professionals and technicians remains a considerable problem. (4)

Table VII

Arab Countries:
Manufacturing Value Added by Sector
1986

(%)

Country	Food and Agriculture	Textiles and Clothing	Machinery and Transport Equipment	Chemicals	Other
UMA:					
Algeria	26	20	11	1	41
Libya	n.a.	n.a.	n.a.	n.a.	n.a.
Mauritania	n.a.	n.a.	n.a.	n.a.	n.a.
Morocco	n.a.	n.a.	n.a.	n.a.	n.a.
Tunisia	17	19	7	13	44
ACC:					
Egypt	20	27	13	10	31
Iraq	n.a.	n.a.	n.a.	n.a.	n.a.
Jordan	28	5	2	7	58
North Yemen	n.a.	n.a.	n.a.	n.a.	n.a.
South Yemen	n.a.	n.a.	n.a.	n.a.	n.a.
GCC:					
Bahrain	n.a.	n.a.	n.a.	n.a.	n.a.
Kuwait	10	7	7	9	67
Oman	29	0	0	0	71
Qatar	n.a.	n.a.	n.a.	n.a.	n.a.
Saudi Arabia	n.a.	n.a.	n.a.	n.a.	n.a.
UAE	n.a.	n.a.	n.a.	n.a.	n.a.
Other:					

Syria	28	19	10	6	38
Lebanon	n.a.	n.a.	n.a.	n.a.	n.a.
Somalia	46	21	0	2	31
Sudan	22	25	1	21	31
Djibouti	n.a.	n.a.	n.a.	n.a.	n.a.

Source: UN Industrial Development Organisation (UNIDO) and World Bank Development Report, Washington D.C., 1989. N.A. = not available.

Aside from capital goods, manufacturing is concentrated on food processing, textiles and clothing, chemicals and petrochemicals, petroleum products, cement, iron and steel and aluminium. These figures show that in 1986 food and agriculture-related industries accounted for about a quarter of the value added in Algeria, Jordan, Oman and Syria and about one-fifth in Egypt. Textiles and clothing contributed a quarter of value added in Egypt and Sudan and about one-fifth in Algeria, Tunisia, Syria and Somalia. Chemicals accounted for just over one-fifth of total MVA in the Sudan and 13 per cent in Tunisia, with figures of 10 and 9 per cent respectively for Egypt and Kuwait.

For the 1990s, it is expected that government priorities will continue to emphasize the production of consumer goods for import substitution purposes or of light and intermediate goods--as well as petroleum products, petrochemicals and other heavy industries with high energy inputs in the oil producing countries--for export. As a result, the great reliance on capital goods imports that this expansion of local manufacturing entails raises important questions about the extent of gains

that can be achieved from an expansion of industry, whether for import substitution or to increase export earnings.

This is particularly true in those Arab countries, notably in the ACC region, which lack reserves of foreign exchange and which have large foreign debts. The provision of subsidies and incentives to expand public sector investment in industry, in these cases, may reflect more a concern to provide employment for a rapidly growing and increasingly urbanised population rather than an effort to reduce costly imports, especially where local industry is unable to compete effectively in international markets or against goods supplied from abroad. For the private sector, the dependence on capital goods imports also necessitates the allocation of often scarce foreign exchange to these needs as well as the extension of other subsidies and protective tariffs to ensure profitability, even when locally produced raw materials are used. (See below.)

II. 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) categorised 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 Organisation 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. (See Appendix I.) 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, fertilisers, aromatics and other manufactured products. (5)

Moreover, the latest 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. 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. (7)

For 1987, the value of Arab manufactured exports, as described above, to the OECD countries amounted to $4.3 billion. (Table VIII.) 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 VIII

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	554.3
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

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* Machinery and Transport Equipment
Source: See Appendix II and Table IX 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, clothing, 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 IX.)

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 IX). Saudi Arabia's exports of capital goods, mainly electrical engines and motors and of unspecified transport equipment, primarily to the UK and West Germany, 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.

Table IX

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	107.7
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 chiefly 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
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
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	--	--	--	--
Arab Total	1,954.0	91.6	3.6	1,692.0

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

What is, however, most significant in the 1987 figures on Arab manufactured exports is the degree to which they still represent only a tiny amount of their total exports to the OECD, i.e. less than 5 per cent (Table VIII). 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 industries in the textiles, clothing and electrical goods sectors, with a share of 10.6 per cent (Table X), 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 (See Appendix II), 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.

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 fertilisers, among other minerals and raw materials.

Table X

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 Appendix II and Table VIII.

B. Arab Manufactured Imports from OECD Countries

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 makes its difficult to disaggregate certain categories of manufactured imports, particularly of fertilisers, other chemicals and processed foods which are excluded from the total, the actual sum may be considerably higher. See Tables X and XI.) 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 $5.1 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.

Of the three main regional groups, the GCC countries were the largest importers of OECD manufacturers, with a figure of $21.3 billion, more than the ACC and UMA countries combined, or just over half of the total figure for all 21 Arab countries. 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 XII.) However, both 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.

Table XI

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* of which	41,897.9	4,456.6	6,110.2	25,357.9
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

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

Source: See Appendix II and Table XII.

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 XI), or 25 times as much as their combined capital goods exports (Table VIII). 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. Saudi Arabia alone imported capital goods in 1987 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.

Table XII

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
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.

While the Arab region is dependent on the OECD countries, particularly the USA, for vital imports of food and raw materials, manufactured imports still account for a large proportion of their total imports from these countries, i.e. 68.3 per cent of more than two-thirds of total imports amounting to $61.4 billion. (See Table XI and Appendix III.) Again, Arab dependence on the OECD countries for capital goods is demonstrated by the fact that these alone accounted for more than 40 per cent of total imports from the OECD, with an even higher figure, 64.5 per cent, in the case of Japan.

Of the three Arab regional groups, the GCC is most dependent on the OECD for manufactured goods, which represented more than three-fourths of their combined imports. (Table XIII.) 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, at 64.3 per cent, 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, compared to Algeria--the largest OECD market in the Maghreb, where manufactured goods accounted for only just over 60 per cent of its total imports.

Table XIII

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 Appendix III and Table XII.

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. (6) The Arab states, along with other DCs, 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 DCs 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. LDC exporters, they have maintained, will benefit from increased econo-

mies 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. (8)

While definitive data on the impact of European integration is still lacking, a recent study by three academics from the UK's Loughborough University 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. (9) 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.

Table XIV

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	134,259	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.

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 XIV) 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, with these accounting 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 the authors stress that 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, they note, significantly, that such positive gains could take several years to materialise. As a result, if their data is 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 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 (O & M), consultancy, software and data processing. While figures on the import of industry-related services are often difficult to obtain, and distinctions between 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 show that service imports, excluding interest payments and income from direct investments, are costing more than $35.8 billion a year. (Table XV). 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 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.

Table XV

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	[illegible].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

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* 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;

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, the need to import highly educated expatriate manpower skilled in management and technology--as well as skilled and unskilled labour, and the cost of service imports required to maintain and expand hydrocarbon exports, as well as to establish a manufacturing sector. 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 industrialise 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. (17). 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 operated as 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 lowrate reflects the government's discouragement of service imports in favor of concentrating on capital goods imports. As a result, the lack of industry-related services, especially because of the low availability of local services to substitute for imports, may hinder manufacturing growth and explain the rela-

tive decline in the country's MVA during the second half of the 1980s. In the case of the 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 industrialised 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 those of machinery and transport equipment if they are to maintain their competitive edge and make the most of their low supplies of either labour and/or low-cost energy and hydrocarbon feedstocks. (18) 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 by the purchasing country of the related services.

As Table XVI indicates, service imports for the 17 Arab countries for which data is available average almost one and one-half times more, of 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, with significantly lower than average figures again reported in the other four Maghreb states, Egypt, Bahrain, Oman, Somalia and the Sudan.

While many Arab countries have developed their own domestic building industries, especially for housing, light commercial and infrastructural projects, the import of other services, notably in engineering, consultancy and design is still high due to the relative lack of development of these services locally. The development of industry, in this sense, must be seen as in integrated activity in which a specific industrial plant must be operated and maintained, as a recent study points out, in an industrial environment that links the plant to the national scientific and technological infrastructure, local industry-relate services, equipment fabrication and construction capabilities. (19)

In the case of engineering and consultancy services, for example, this "umbilical cord" extends well beyond project 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 optimise 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 industrialisation 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.

Table XVI

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 XV above.

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

III. Constraints on the Expansion of Manufactured Exports

A. International Environmental 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 GSP duty-free treatment. (10) 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 early part 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, than those which do not, i.e. crude oil exports or semi-finished 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, 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. In the case of textile, clothing and footwear exports, EC officials have admitted that while the EC originally intended in its association agreements with the Maghreb countries that these products should enter duty free, 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.

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 harmonisation 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. (See below.)

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 trans-national corporations (TNCs) able to compete effectively and continually in foreign markets. Even where such large firms do exist, as for example, in the hydrocarbon-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, fertilisers, 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.

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 its 3,000 retail outlets, using the Q-8 logo, in several members states of the EC, including the Netherlands, Belgium, Luxembourg and the UK, as well as in Scandinavia. 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 Organisation 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 industrialised 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 computerised 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 privatise 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 privatisation 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, controls on pricing and on private sector ownership, as well as limits on the repatriation of profits tc foreign investors, access to foreign currency for the import of capital goods, intermediate products, services and raw material imputs, except in the free zones (where access to the local market is strictly curtailed) are extensive outside the GCC states, Morocco, Tunisia and, to a lesser extent, the 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 (see below) 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 -60-

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.

While most of the GCC states are expected to benefit from rising oil prices in the 1990s--a development that will lead to greater investment in industry, both public and private, another major constraint stems from government policies which are being initiated throughout the region to reduce the dependency on imported labour. Private sector industrial firms are seen in several states as the main future employer of locally skilled labour, as well, and government requirements on the employment of indigenous citizens could lead to rising costs and reduced competitiveness internationally. (20)

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 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, Saudi Cairo Bank and Riyad Bank. (21). 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. (22)

IV. Prospects for Manufactured Exports

While an adequate study of the prospects for Arab manufactured exports to the year 2,000 would require far more discussion than is possible in this brief paper, 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. (23) 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. (24) 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 its Vice-Chairman, Ibrahim ibn Salamah, 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 are expected to reach more than $150 million a year by the end of 1990 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. (25)

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 polyvinyl chloride (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 com-

plexes (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. (26)

Elsewhere in the GCC, heavy industries, producing for export, are also being emphasised in petrochemicals, fertilisers, 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. (27) Virtually all six GCC member countries are also encouraging their public sector owned industries, including Sabic, to provide base 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, body 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 is expected to receive government permission this year to begin production of luxury cars which eventually will also be sold abroad. (28)

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. (See Introduction above). 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 become available 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 to arrive 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. (29)

In the ACC, 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. 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 demand locally for power and fuel is also 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, fertilisers and potash, as well as other mineral and metal products remains high given rising world demand for these commodities.

Trans-national 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. (30)

Similar arrangements, albeit on a far smaller scale, are also being considered in Tunisia 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 plans to establish a European Bank for Reconstruction and Development (ERBD) are well advanced with regard to Eastern and Central Europe, no such proposal has been launched for the 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.

V. Policy Reforms

A. Domestic Policy

As indicated above, while most of the Arab governments are placing considerable priority on the development of industry in both the public and private sectors, severe constraints still exist. Measures to promote exports in particular are therefore contingent on the removal of these constraints in general. In

the medium-term, efforts also need to be taken to create more linkages between the establishment of basic industries, i.e. in petrochemicals, iron and steel, aluminium and cement, and the creation of factories producing downstream products which can make better use of the comparative advantages which already exist, whether this concerns the low cost of fuel and feedstock as in the GCC countries and Libya or the relatively lower cost of skilled labour and certain commodities produced locally as in Egypt, Jordan, Syria and most of the Maghreb states. Similarly, linkages need to be rationalised and expanded between agriculture and food processing and between operations and other complementary services, particularly in construction, engineering and design, operations and maintenance (O & M), computer aided design and computer aided manufacture (CAD/CAM), telecommunications and, most importantly, marketing and administration. Only in this way will the already high cost of capital goods imports be fully justified in terms of the return on local manufacturing (whether for import substitution or export) throughout a given economy.

At the domestic policy level, reforms are especially needed in three main areas: 1) export finance; 2) marketing and 3) information. While the establishment of the Arab Trade Finance Program (see above) indicates a growing awareness of the need to provide exporters with access to export credits and guarantees, it can only succeed if existing export credit facilities in each of the Arab countries are expanded and rationalised to

allow national agencies to fully participate in the Program, to enter into agreements and loan contracts with it, to discount and rediscount financial paper for eligible trade contracts and to issue financial paper in favour of the Program against the financing they are likely to obtain from it. Moreover, similar region-wide export finance schemes need to be established to cover trade to all the major industrial countries, not just to other Arab states.

In this regard, the work of existing regional organisations, such as the Inter-Arab Investment Guarantee Corporation (IAIGC) in Kuwait; the Arab Industrial Investment Company (AIIC); the Arab Industrial Development Organisation (AIDO), also in Baghdad; the Khartoum-based Arab Bank for Economic Development in Africa (BADEA) and the Islamic Development Bank in Jeddah, needs to be more fully supported in a way that would encourage mutual co-operation and the sharing of information and resources. Similarly, while many of the Arab commercial banks already provide trade finance, the growth and extention of the Arab private banking sector and the creation of greater links between it and the world's money centres would greatly enhance financial co-operation between the Arab countries, the EC and OECD. The Bahrain Stock Exchange's decision in June, 1990 to allow the Arab Banking Corporation to register and to allow trade in its shares by non-GCC residents is a case in point which should lead to further listings of non-GCC shares on the one hand and encourage non-Arab investment in the GCC states on

the other. Finally, new credit facilities to encourage manufacturers to invest in export-oriented opportunities need to be offered by the existing national industrial development banks, many of which are government-owned, in a way that promotes co-operation within each of the sub-regions in the short-term, and within the larger Arab world as a whole in the longer-term.

Progress within the regional sub-groupings on unifying customs duties and procedures, standards and investment regulations is making considerable headway already and helping to encourage intra-regional trade. However, some obstacles remain. In the GCC, discussion on measures to create uniform conditions for state subsidies to industry have been delayed pending a wider agreement on raising customs duties to protect local manufacturing. While countries such as Bahrain and Oman would like such protection, Dubai and other GCC members remain firmly committed to free trade, although some raising of tariffs cannot be ruled out within the next 18 months, especially for goods that can be produced locally and which are regarded as strategically important.

Talks have also been held between the ACC states on unifying customs duties, but given the widely differing economies in the region and the larger problems concerning unemployment and high levels of foreign debt, progress has been slow. Nevertheless, discussions on creating the necessary transport infrastructure

to link the ACC countries will facilitate intra-ACC trade substantially by the end of the decade.

Talks are well advanced within the UMA on creating a customs union and on regulating foreign investment as well as on removing barriers to the free circulation of persons and on integrating road, rail and air transport systems and expanding them to Egypt and to West Africa. A development bank has been proposed and a common currency is planned to come into effect by 1995. Such measures will greatly promote trade liberalisation within the Maghreb and are already setting the scene for a considerable increase in private and foreign investment in industry.

Secondly, while an awareness of the almost total lack of marketing facilities is growing rapidly, few steps have so far been taken at the national level, let alone on a regional basis to encourage the formulation and implementation of the required marketing surveys. AIIC is moving in the right direction, with plans to establish an Arab Marketing Company in co-operation with other Arab regional organisations to both trade goods directly in its own name and to guarantee the transfer of goods. However, this does not obviate the glaring need for the establishment and expansion of marketing facilities in each of the Arab countries, at a governmental level, and the creation of new educational and institutional facilities to train the professionals needed.

Access to information, especially to modern international databases, needs to be improved extensively. While some Gulf public sector companies and institutions, such as the Kuwait Institute for Scientific Research (KISR) and the Doha-based Gulf Organisation for Industrial Consulting (GOIC) have made remarkable progress in this area, the high cost of such services, together with the lack of skilled personnel able to fully utilise such facilities, mitigates against the wide dispersal of such knowledge within industry as a whole, as does the lack of suitable telecommunications and print distribution networks in the poorer Arab countries.

Restrictions on the dissemination of information in many Arab countries present futher hindrances to the development of marketing information in particular, as does the lack of vital data on historic, current and forecast industrial production that is comparable internationally. Plans by the Union of Arab Chambers of Commerce, Industry and Agriculture announced at its 31st Annual Conference in Abu Dhabi in November, 1989, to publish an Arab economic journal and to promote co-operation between Arab business publishers represent a step forward in this direction. (31) Finally, restrictions on the movement of people across borders, while seen to be necessary in many cases for reasons of national security, nevertheless continue to impede the free flow of information and the creation of essential business contacts and access to commercial, technical and legal information within the region and internationally. While

the Maghreb countries appear to be addressing this important question in their current efforts to create an Arab Maghreb Union, the GCC countries in particular still lag far behind.

B. OECD National Governments

Although the European Commission is gradually recognising the importance which industrial development in the Maghreb states could play in increasing local employment and in reducing outward emigration, there appears to be limited awareness within the OECD states as a whole of the benefits and advantages which could stem from industrial co-operation with the Arab world. Indeed, efforts by various lobbying groups, such as that of European petrochemical producers who fear an encroachment of their markets, has acted as a hindrance to the further development of such co-operation. And, while some EC governments as well as others in Scandinavia, provide technical assistance and training facilities for Arab industries, either bilaterally or through multi-lateral organisations, their efforts are often adversely affected by fears that such co-operation could limit their own countries' export trade or negatively effect local employment.

In fact, as the trade figures above indicate, industrial growth in the Arab countries, and in the DCs as a whole, rather than limiting demand for goods and services from the industrial countries, acts as a stimulant to demand for capital goods and related services. While this is recognised in the case of EC

investment in Eastern Europe (as Fiat discovered in the early 1970s, when it provided industrial plant and equipment for the opening of the Togliatti plant in the Soviet Union), many OECD exporters in the private sector still regard the Arab countries as an unlimited market for expensive, and sometimes poor quality, exports of intermediate, and light industrial and consumer goods. However, Arab patience with their adverse balance of trade and growing foreign debt is creating substantial pressure throughout the region for higher protective tariffs on the import of goods that can be produced locally. In the case of the GCC countries, this pressure is also extending to public demand for a reduction in Arab investments in the industrial countries, funds that to date have been vitally important to the banking sectors in the leading OECD countries. As a result, OECD exporters could face a reduction in Arab demand for their products unless they are prepared to form joint ventures, share technology and training and promote the growth of local industry in general.

UK, US and French government support for Saudi Arabia's offset program is a case in point, creating an estimated $20 billion in exports for these countries and estimated 5,000 jobs in the Kingdom, as well as potentially significant earnings for the host country. While the initiative for this was taken by the Kingdom and while much of the planned exports concern military equipment and services, similar initiatives could be taken by the OECD governments in civilian production elsewhere in the

Arab countries. The same applies to "Build, Operate and Transfer" (BOT) arrangements now being adopted on a limited scale to promote vital infrastructural projects, such as hydro-electric power stations and desalinated water plants in countries such as Oman, Turkey and Pakistan. OECD concern that the Arab markets are not sufficiently large nor wealthy enough, outside of he GCC, to warrant such investment, could be overcome by the successful integration of the three main Arab trading blocks, and the growth in demand that is expected from the neighbouring Muslim states in Asia. In any case, neither the OECD states nor the Arab countries would benefit from a rise in protective tariffs, or a withdrawal of Arab investment abroad, that a failure to co-operate could entail.

Multi-national agencies such as UNIDO, which are seen by both parties to be impartial, have a vital role to play in fostering such co-operation. 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 publicise such information.

UNIDO itself is currently engaged in a project with the UMA to study measures to liberalise trade and to promote industrial co-operation by improving sectoral complementarity within the region. UNIDO has already set up a network of subcontractors within the UMA and is presently developing proposals to estab-

lish a regional information centre an computerised data bank on existing industry within the Maghreb that will also consider measures to promote industrial co-operation both within the UMA and between the UMA and other regional groupings, such as the ACC and GCC, as well as between the UMA, the EC and other OECD countries. A similar UNIDO programme is also underway in the ACC, while in the GCC, the organisation is conducting a major study aimed at promoting the development of small- and medium-sized industries within the Gulf states.

As the Arab states and their private sector companies become 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 provision of skilled professionals, experienced in international markets and with a knowledge of TNC operations, to train local cadres can be encouraged even in those countries, such as Egypt, Algeria and Morocco which have huge budget deficits if OECD assistance is available.

UNIDO could also play a vital role in the establishment of new Arab agencies, such as the ATFP 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 empiri-

cal 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 perspective that is both sympathetic to local needs yet aware of international opportunities and constraints.

(ends)

FOOTNOTES

1. Deposits with Western banks originating from the seven leading Arab oil producing countries--Saudi Arabia, Kuwait, the UAE, Libya, Qatar and Iraq--reached $125.8 billion by the end of 1989 according to figures produced in May, 1990 by the Bank for International Settlements in Basle. A rise in oil revenues was thought to be responsible for the 4.1 per cent increase that this represented over the figure for 1988, $120.9 billion. Middle East Economic Digest (MEED), London, 15 June, 1990, page 8. Total foreign assets for the GCC countries (bank deposits, government paper and direct investment) reached $349.4 billion by the end of June, 1989, according to figures compiled by the Bank of England. Of this, 35 per cent was held in the EC, 14.5 per cent in the USA and 15.9 per cent in other OECD countries. Bank of England, Quarterly Bulletin, London, November, 1989; Arab Oil and Gas, Nicosia, Vol. XIX, No. 446, 16 April, 1989, page 29.

2. Arab Banking Corporation (ABC), The Arab Economies: Structure and Outlook, Third Revised Edition, Manama, February, 1990, page 115.

3. Ibid, page 148.

4. Ibid, page 11. ABC has also produced a very useful study on Industrialisation in the Arab World (Manama, August, 1986), detailing MVA by country and industrial sector; however, most of its statistics refer to the first half of the 1980s and are now somewhat out of date.

5. In 1987, Arab chemical exports to the OECD, consisting of manufactured fertilisers and petrochemicals as well as other base and manufactured chemicals, amounted to $1.7 billion, with the EC accounting for $916 million. (See Appendix IV.)

6. The latest annual publication of the World Bank, World Development Report 1989 (Washington D.C., 1989), includes a Table (No. 17) listing OECD imports of manufactured goods by origin and composition for 1987. Here, "manufactured goods" is taken to include SITC sections 5 through 9 (according to SITC revision 1), excluding division 68 non-ferrous metals. However, not all OECD countries are included; for 1987, the figures exclude Greece, Portugal ard Turkey. Moreover, no breakdown is available for imports from the major OECD countries, i.e. the USA, Japan and the EC.

7. For an outline of the broad implications of the Single Market and its effect on Arab industry, see "The Challenge of the EC," in the author's study, Arab Industries in the 1990s, MEED Profile No. 2, Emap Business Information, London, 1989, pages 69 - 73.

Footnotes/2

8. The Cecchini Report, published by the EC in 1988, estimates that the aggregate gain resulting from economies of scale, cost benefits and tougher competition fostered by European integration could amount to ECU 250 billion. As a result, the EC's combined GDP, the report adds, could rise by 4.5 to 7 per cent. Business International, "The European Community," IL&T Yearbook, New York, June, 1990. See also the report in the Saudi Gazette, (Riyadh) 30 March, 1990, on a visit to the Kingdom by the Director-General of External Affairs of the European Commission, Dr. Hervy Jouanjean and Thierry Bechet, Gulf Countries Desk Officer at the Commission in March; Dr. Rolf Breuer, "The Single Market: A challenge for Europe and the World," Arab Banker, London, January/February, 1989; and sylf International Bank, "The GCC and Europe 1992," Gulf Economic and Financial Report, Manama, May/June, 1989. For an outline of the existing co-cperation agreements between the EC and the Maghreb and Mashrek states, as well as developments in the Euro-Arab dialogue, see The Middle East and North Africa 1990, Europa Publications Limited, London, 1989, pages 244-5. Recent proposals by the European Commission on increasing aid flows to the Arab states are discussed by Shada Islam in "Looking South," MEED, London, 15 June, 1990, page 6.

9. 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, page 10.

10. The Gulf International Bank in Bahrain has estimated that the entire value of Saudi Arabian petrochemicals entering the EC duty free is equivalent to only a few days worth of the Kingdom's production. "GCC and Europe," Gulf Economic and Financial Report, Manama, May/June, 1989, page 4.

11. Reuters, Muscat, 17 March, 1990; Brussels, 19 December, 1990. In 1987, more than 90 per cent of polyethylene imports from the GCC entered the EC paying full duty, and while quotas have been increased since then, their implementation has been made automatic throughout the Community, rather than on a discretionary basis as determined by each member state as applied in the past. As a result, it is estimated that the ECU value of polyethylene exports which entered the EC free of duty has diminished by about one-third since 1986. In volume terms, however, the reduction has been far greater due to the substantial increase in the market value of polyethylene which occurred in the second half of the 1980s. European Chemical News, various issues, 1986 and 1987. In the USA,

notably, no GSP is provided by chemical imports from the GCC, although such favoured status is granted to like exports from many Latin American countries.

12. Reuters, Nicosia, 5 June, 1990. The expected diversion of private industrial investment to Eastern Europe, rather than to the Arab countries of the Mediterranean or to the GCC, could also adversely affect the expansion of Arab manufactured exports to the EC. In May, 1990, the Community's Economic Affairs Commissioner, Henning Christophersen, estimated that at least $17 billion, and possibly as much as $23 billion, in private capital would have to flow to Eastern Europe if the EC's aim of supporting its emergent democracies was to succeed. The Independent (London), 15 May, 1990. See also "West Germany and the Arab World: Economic Co-operation in the 1990s," Memo, MEEC Publications, Cyprus, 16 May, 1990, pages 8 to 12 and Michelle Gittelman, "Transnational Corporations in Europe 1992: Implications for Developing Countries," The CTC Reporter, U.N. Centre on Transnational Corporations, New York, No. 29, Spring, 1990, page 37.

13. Shada Islam, "Looking South," MEED, 15 June, 1990, page 6.

14. The OECD's Secretary-General, Jean-Claude Paye, warned in May, 1990, that "The brunt of responsibility of success of failure" of the trade talks will rest on the outcome of the MFA discussions and on co-operation of the industrialised countries. Reuter, Washington, 7 May, 1990.

15. Press release, March, 1990. See also its 12th Annual Report (1988),

16. See the various annual reports produced by KPC since 1985; also, author's unpublished study, July, 1989.

17. See the section, "Trade in Invisibles," in the article on "Gulf External Sectors," in the Gulf International Bank's Gulf Economic and Financial Report, Manama, August/September, 1988, page 5. Using figures produced by the UN Economic and Social Council for West Asia (ESCWA) (Recent Developments in External Trade and Payments of the ESCWA Region, Baghdad, 1988), it shows that gross payments for non-factor services by Saudi Arabia, Kuwait, Bahrain and Oman declined from $43.8 billion in 1982 to only $33.4 billion in 1986. Factor service payments over the period also declined, from $14.7 billion to $11.3 billion.

18. For example, although many Arab countries now possess a large construction sector of their own, with a wide variety of indigenous firms capable of qualifying at all but

the highest levels for government and/or private sector projects, figures produced by the Centre Scientifique et Technique du Batiment in France, show that 35 to 40 per cent of the market for construction in North Africa, and 40 to 45 per cent of the market in the other countries of the Middle East, is taken by international firms either through contracts or joint ventures. Christopher R. Seppala, The International Construction Law Review, Vol. 6, Part 1, January, 1989, page 102. With the value of forthcoming construction work in the GCC countries alone expected to reach $50 billion in the next five years, the significance of construction service imports, and of the relative importance of this market for these service suppliers in the OECD countries is especially marked. See MEED, 23 March, 1990, page 4.

19. Dr. Mahfoud Bouhacene, "Consulting/Engineering and Industrial Development," Unpublished paper for the Arab Engineering Company. For a broad discussion of the relationship between industrial development and the import of services by the developing countries, see UNCTAD's recent publication, Trade in Services (New York, 1989). See also M. Mozza and L. Soete, "Trade and Development in Services: A Technological Perspective, (UNCTAD, Geneva, unpublished paper, October, 1989), in which, Soete points out that "for both the services and manufacturing sectors, the speed of delivery, ease of communications and access to [information and database] networks are major factors in building up international competitiveness." Trade in Services, ibid, pages 51 and 52.

20. See "Gulf Population and Labour Force Structure in the 1990s," Gulf Economic and Financial Report, Manama, March, 1990. Employment of foreign labour is particularly high in industry, compared to agriculture or services, for example, with the rates varying between an estimated 72 per cent for 750 industrial firms studied in Saudi Arabia and an average of 69 per cent for the leading occupations in Bahrain. Ibid, page 4.

21. MEED, 30 March, 1990.

22. Arab-British Chamber of Commerce, "Arab and Islamic Agencies Boost Export Prospects," March 1990. See also IDB's 13th Annual Report, Jeddah, 1988.

23. MEED, 19 January, 1990

24. Ibid. For a comprehensive report on the Company's plans, see its unpublished report to the Conference of British Industry (CBI), Conference on Saudi Arabia, London, 18 June, 1990.

Footnotes/5

25. MEED, 21 July, 1989.

26. "Saudi Arabia, A Special Report," MEED, 15 December, 1989.

27. MEED, "Bright Outlook for Gulf Aluminium," 30 June, 1989; On the future of Gulf heavy industries, see the excellent summary produced by Tooru Sakamuro, Economist at The Sanwa Bank Ltd., "Achievements In and Prospects For the Industrial Development of GCC Countries," JIME Review, The Japanese Institute of Middle Eastern Economies, Cairo, No. 7, Autumn, 1989.

28. International Herald Tribune, Survey on Egyptian Industry, 31 May, 1990; Arab Industries in the 1990s, ibid, and various issues of MEED.

29. European Commissioner Abel Matutes warned in May, 1990 that a failure by the EC to provide "job-creating" financial assistance to the Maghreb states could aggravate immigration problems and called for a new plan to increase industrial output in the area. Under his proposals, Arab countries in the Mediterranean which have association agreements with the EC would receive almost ECU 3.3 billion in loans and grants over the next five years. Middle East International, 8 June, 1990. 30. MEED, 6 April, 1990 and 15 September, 1989.

30. MEED, 6 April, 1990 and 15 September, 1989.

31. Arab Belgium Luxembourg Chamber of Commerce, Bulletin, No. 5/6, Brussels,September-December, 1989.