



E/W

UN ECONOMIC COMMISSION
FOR WESTERN ASIA
26 APR 1982
LIBRARY



UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Distr.
GENERAL
E/ECWA/150
22 January 1982
Original: ENGLISH

ECONOMIC COMMISSION FOR WESTERN ASIA

Ninth session
8-12 May 1982
Baghdad, Iraq
Item 7(h) of the provisional agenda

FOLLOW-UP ACTION AT THE REGIONAL LEVEL ON UNITED NATIONS
WORLD CONFERENCES AND ECWA REGIONAL MEETINGS

Expert Group Meeting on Feasible Forms
of Economic Co-operation and
Integration in Western Asia

(Beirut, 14-18 December 1981)

Note by the Executive Secretary

1. In accordance with the provisions of the Commission's work programme in the field of international trade, the secretariat convened an expert group on feasible forms of economic co-operation and integration in Western Asia, in Beirut from 14-18 December 1981. Its objectives were defined as bringing about a better understanding of the economic factors conducive to economic co-operation and integration in Western Asia and those that hinder or obstruct it; identifying those forms of co-operation to which efforts should be directed and the feasibility of and pre-requisites for the realization of more advanced and workable co-operative arrangements; and, formulating action-oriented alternative solutions and policy guidelines in this respect. The attainment of these objectives was pursued through consultations with and involvement of regional and international organizations concerned, drawing on the experiences of other regional groupings of developing and developed countries, and the choice of topics and related substantive preparations. In preparing for the Meeting, consultations were held, through ECWA staff missions and correspondence, with the secretariats of the Council of Arab Economic Unity (CAEU), the League of Arab States and the United Nations Conference on Trade and Development (UNCTAD) regarding the scope of the Meeting and their participation therein.

2. Participants in the Meeting included experts and consultants from within and outside the region, representatives of regional organizations and funds (Arab Monetary Fund, Gulf Co-operation Council, Gulf Organization for Industrial Consulting, Inter-Arab Investment Guarantee Corporation, League of Arab States, Organization of Arab Petroleum Exporting Countries, Iraqi Fund for External Development, Saudi Fund for Development and the General Union of Chambers of Commerce, Industry and Agriculture for Arab Countries); representatives of other regional groupings of developing and developed countries (Andean Group, Association of South-East Asian Nations, and the European Economic Community); and, representatives of the United Nations system (Economic Commission for Africa, International Bank for Reconstruction and Development, United Nations Development Programme and United Nations and Specialized Agencies in Beirut).

3. The Meeting reviewed the process of evolution of economic co-operation and integration in Western Asia against the experiences of other regional groupings

of developing and developed countries. The main approaches to and forms of economic co-operation and integration among the countries of Western Asia and the instruments utilized and policies pursued to that effect were reviewed. The impact of past efforts on promoting trade and factor movements (capital and labour) among the countries of Western Asia was also analyzed, highlighting the problems encountered and the implications for bringing about closer economic co-operation.

4. The experiences of developing countries in Africa, Asia and Latin America were considered focusing on achievements, failures and prospects and relevance to the ECWA region. The Meeting also considered the experiences of selected regional groupings of developing countries, with specific instruments of regional co-operation and integration. The Meeting reviewed also the extent to which the experience of the developed market economies, based on the experience of the European Economic Community, could be relevant to the situation of the countries of Western Asia.

5. In its analysis of the obstacles to and benefits from closer economic co-operation and integration in Western Asia, the Meeting concentrated on the disparities in development levels and market size, economic structures and divergencies in national economic policies; and, on the dynamic aspects of closer integration, emphasizing the potential for further industrialization and issues of adjustment. It paid further special attention to the question of identification of feasible forms of economic co-operation. In this connexion, it considered the basic requirements of or principles for successful co-operation, and the role of production-oriented activities in a strategy for achieving economic co-operation and integration in Western Asia.

6. Finally, the Meeting considered selected issues of current relevance to economic co-operation and integration efforts in Western Asia, including regional planning, co-operation at the subregional level, the role of the private sector in the integration effort, the identification of intraregional investment opportunities, and the development and integration of financial markets in the ECWA region.

7. For the purpose of examining the above issues, the secretariat had prepared the following studies:

- Main Obstacles to and Benefits from Closer Economic Co-operation in Western Asia;
- Evolution of Economic Co-operation and Integration in Western Asia;
- Toward a Feasible Path to Economic Co-operation and Integration in Western Asia;
- Resource Transfers and Financial Co-operation in Western Asia;
- Regional Co-operation and Trade Expansion in Western Asia;
- Labour Flows in the ECWA Region;
- The Role of the Private Sector in Regional Co-operation and Integration in the ECWA Region;
- Growth and Integration of Financial Markets in the Countries of Western Asia; and,
- Compendium of Intraregional Trade Statistics in Western Asia, 1972-1974 and 1976.

8. In addition, a number of regional and international organizations had also prepared studies; these include:

- The Arab Strategy for Joint Arab Economic Action (League of Arab States);
- Trends and Orientation in Present and Future Joint Arab Economic Efforts Towards Arab Economic Unity (Council of Arab Economic Unity);
- Feasible Forms of Economic Integration Based on the Experience of other Regional Groupings (UNCTAD);
- Economic Co-operation in Africa (Economic Commission for Africa);
- Regional Integration and Co-operation in the 1980s (Economic Commission for Latin America);
- Asian Experience in the Field of Regional Co-operation and integration (Economic and Social Commission for Asia and the Pacific);
- Basic Elements of a Plan of Action Towards a Reactivation of the Andean Economic Integration Process (Andean Group); and,
- The ASEAN Experience in Economic Co-operation (Association of South-East Asian Nations).

Recommendations of the meeting

9. The Expert Group, in its effort to identify specific areas and issues relevant to the promotion of economic co-operation and integration in the ECWA region, highlighted the following recommendations and follow-up proposals for the consideration of the countries and areas concerned.

Overall Considerations

10. By applying the tools of economic analysis and political economy, it is necessary to clearly define the terms used in co-operation and integration efforts, such as economic co-operation, integration, amalgamation, complementarity and unity. Any analysis of the arrangements and/or schemes and instruments need to be viewed in a dynamic setting.

11. It is necessary for the goals and objectives of development to be clearly identified and formulated in an integrated fashion at the national level with emphasis on improving the overall quality of the life of the people. Such an approach is particularly important in view of the wide disparities in the level of development and the complementarity and competitiveness of the economies concerned. It will facilitate the co-ordination of such goals and objectives, within the framework of any bilateral and/or multilateral co-operation and integration agreements.

12. Parallel efforts are also required to establish a long-term regional development strategy with a clear orientation of its objectives and priorities to such vital issues as food production, energy, manufactures, transport, manpower, finance and technology. The Strategy for Joint Arab Economic Action could provide a suitable framework for this purpose. In this connexion, analytical studies on long-term development prospects of the economies of the region need to be undertaken to identify those economic activities that are most promising in terms of their potential growth. This is particularly desirable in order to determine the type and extent of possible inter-Arab co-operation and integration arrangements and the region's dependence on the rest of the world, along with measures to deal with the issues involved.

13. An attempt should be made to identify and thoroughly analyze the factors that seem to have hindered the process of co-operation and integration among the countries of the region. In particular, the examination should help determine the extent to which disparities in the level of development among individual ECWA countries and differences in size, the competitiveness and complementarity of their economies, and the differences in national policies have acted as a constraint on the move towards integration.

14. Studies on the feasibility and social cost-benefit analysis of projects for integration must be given priority consideration. Urgent measures are needed, at both the national and regional levels, to strengthen the technical and managerial capabilities of organizations involved in project identification, formulation and implementation.

15. In order to ensure efficiency and equity in integration efforts, the costs and benefits of integration arrangements, including adjustment instruments need to be studied to provide the basis for formulating national positions to that effect. The importance of the economic efficiency of projects under competitive conditions needs to be emphasized, as members of any regional or subregional groupings would find it, in the long-run, difficult to support uneconomic projects, especially under monopolistic situations. Negligence of this issue is likely to create stresses and undercut the very process of integration. Some protection of the infant industry type is of course acceptable and would not create serious stresses. It is necessary, however, to investigate the trade creation and trade diversion possibilities related to import substitution measures undertaken at the regional level. The investigation should be extended to cover projects that are export-oriented in nature.

16. The cost of adjustment should be carefully assessed in view of the broad similarities of the pattern of industrial development and the magnitude of changes that may be required in the existing industrial structures of the countries concerned, and the allocation of new industries. Compensatory mechanisms need to be established in order to offset some of the cost involved. It is particularly

desirable for special arrangements to be worked out in favour of the disadvantaged and the least-developed countries of the region. Efforts at economic integration will succeed only if no country feels itself disadvantaged. These efforts could, therefore, be accompanied by policies and arrangements to guarantee the poorest countries a minimum share of future benefits.

17. It is important to identify, with reference to the industrial sectors in individual ECWA countries, the benefits accruing to them in respect of future industrialization and rationalization of existing industrial structures as a consequence of regional integration. Serious empirical investigations are called for in order to provide guidelines for policy options.

18. Adequate and flexible measures should be considered to ensure the effective co-ordination of national economic policies, thus avoiding inflexible positions and the emergence of polarization tendencies among the countries of the region. Of particular importance in this respect is the need for an extensive examination of the existing divergence in national economic policies pertaining to such crucial issues as exchange, fiscal and monetary systems, labour and industrial and agricultural development. Such an examination could lead to joint programming in various commodity-producing and services sectors, and contribute to the formulation of measures aimed at ensuring policy harmonization among the countries concerned.

Instruments and Institutional Requirements

19. In view of the rapidly changing circumstances and the relative importance of negotiation and enforcement costs of co-operation and integration arrangements, flexibility becomes a crucial factor in designing such arrangements.

20. Bilateral and subregional efforts and instruments in trade and co-operation, such as the Gulf-Co-operation Council (GCC), deserve greater attention and support in view of their flexibility and political feasibility over the more comprehensive and inflexible arrangements. Efforts need to be intensified to carefully develop the technical, institutional and administrative requirements of such forms with a view to rendering them successful examples of subregional co-operation and integration arrangements which can be emulated elsewhere in the region and in the Arab world.

21. In view of the complex nature of comprehensive planning and the presence of numerous technical and institutional constraints, emphasis could be usefully focused on less ambitious approaches to regional planning such as sectoral planning; partial planning at the subregional level; indicative planning at the subregional and/or regional level; and, infrastructural planning related particularly to manpower, training and research activities. Joint programming could serve as a practical device for the formulation and implementation of activities within the framework of these approaches. As a prerequisite to these efforts, however, planning, programming and project formulation and implementation at the country level need to be strengthened, both technically and administratively.

22. Co-operative efforts are more likely to be feasible and successful in the long-run when initiated and implemented by decision-makers at "the bottom" rather than at "the top" policy-making level. Emphasis in co-operation and integration arrangements needs to be shifted from the relatively glamorous and ambitious "top-down" approaches - i.e., those initiated at the "top" but affecting lower level decision-makers to the "bottom-top" instruments i.e. those initiated at the "bottom" but affecting higher level decision-makers - that are more specific, flexible and efficient. Chief among these are the inter-Arab multinational joint ventures (MJVs) and producers' association. The MJVs offer numerous advantages in terms of flexibility, participation in decision-making and management, complementarity, dynamic linkages, organizational and resource allocation efficiency and others. In view of these advantages, attention should be focused on the possibilities of introducing, on an increasing scale, such "bottom-top" instruments of co-operation.

23. The various regional organizations engaged in promoting co-operation and integration efforts should determine the best way of embedding these "bottom-up" co-operation instruments into the broader framework of regional planning and co-operation among the Arab countries in the region as a whole and in subregions thereof. As a preliminary step, research should be carried out to identify sectors for which one country represents too small a market or has too few resources to allow viable national projects. Appropriate sectors should then be selected for establishing multinational joint ventures (MJVs) (and/or producers associations).

24. In collaboration with the Arab League, the Organization of Arab Petroleum Exporting Countries (OAPEC) and the General Union of Arab Chambers of Commerce, Industry and Agriculture, a comparative study of different types of MJVs should be conducted in order to identify the best modalities for achieving the objectives of joint Arab ventures. It is necessary to note, however, that, while the role of the joint ventures will primarily be assessed in terms of commercial profitability, their potential need to be examined against a composite of economic, social and political considerations.

25. It is important to periodically review the experience of multinational joint ventures, together with other Arab companies involved in production and intraregional trade activities, for the purpose of identifying specific bottlenecks to increased production and trade. The findings, along with information on the efforts of the organizations concerned, could be disseminated to the general public. In order to facilitate this process, a number of parent organizations could be identified and assigned the tasks of supervising and regularly evaluating the operations of these joint ventures with respect to achievements, efficiency, distribution of costs and benefits, etc.; devising incentive systems to encourage management and employee innovation and efficiency; identifying areas for further research and training and the sharing of such facilities; initiating procedures for overcoming problems and impediments; and, others.

26. Serious consideration should be given to rationalizing the objectives and operations of the numerous regional co-operation instruments and institutional apparatus in order to avoid further duplication of efforts, contradictions of positions and unnecessary rivalry and waste of both financial and human resources. In view of the considerable overlap in activities of various regional organizations, such as the Arab Economic and Social Council of the League of Arab States and the Council of Arab Economic Unity, in matters pertaining to regional economic co-operation and integration, adequate attention should be devoted to the division of responsibilities among these organizations.

27. In streamlining the institutional arrangements, consideration should be given to the creation of such new bodies that are crucial for promoting regional co-operation and integration efforts, such as an Arab science and technology fund, an inter-Arab export-import Bank, and an Arab investment underwriting facility.

28. Serious attention should also be given to the examination of different institutional possibilities leading to the quasi-automatic implementation of ministerial level decisions on integration. This seems to be one area in which the experience of more successful regional groupings may be of direct relevance to the growing requirements of some of the recently instituted arrangements within the ECWA region.

29. Labour movement has confronted the ECWA countries with serious socio-economic consequences. It is necessary to undertake a thorough examination of the various economic and social implications associated with labour movement among the countries of the region. One crucial purpose of such examination would be to study the trade-offs of the benefits and costs involved and to help co-ordinate labour policies of the individual countries. Concerted efforts should also be made by both the labour-importing and labour-exporting countries, in order to develop a long-term perspective of the region's manpower needs and how to go about meeting them. The effort could begin with manpower planning at the national level which could provide guidelines for developing bilateral and multilateral arrangements designed to regulate and promote the flow of labour across national boundaries.

30. As regards the intraregional flow of financial resources, it is necessary to undertake a study on the degree to which the Unified Agreement for the Investment of Arab Capital in the Arab Countries (approved at the Eleventh Arab Summit in 1980) is applicable, in fact, in all countries of the region and, if not, to identify the obstacles. On the whole, there is an urgent need for a re-orientation in the outlook and policies of the various national and regional development funds and for providing an appropriate legal, institutional, managerial and technological framework to facilitate greater intraregional flow of financial resources. The Inter-Arab Investment Guarantee Corporation needs to be particularly strengthened in terms of capital and technical capabilities.

31. The emerging Arab financial markets, in general, and those of the ECWA region, in particular, provide significant areas of complementarity in their operations. The rapid pace of developments at the national and regional levels in this area calls for measures aimed at co-ordinating policies towards the development and integration of these markets and ensuring their organic links with attempts at establishing closer economic co-operation and integration. In this respect, emphasis could be placed particularly on measures designed to facilitate intraregional trade and factor movements, promote the establishment of multinational joint ventures, diversify financial instruments, and support the development of specialized institutions for financial intermediation, such as an Arab investment underwriting facility and others, within the framework of an integrated Arab financial market. The Arab Monetary Fund, in collaboration with the Arab central banks, has a crucial role to play in the realization of these and other related goals.

32. The Arab Fund for Economic and Social Development, the Arab Monetary Fund and the Union of Arab Chambers of Commerce, Industry and Agriculture, could co-operate to set up an endowment fund from which annual Arab co-operation and integration awards would be made to individuals and organizations. This is intended to capture the imagination of the Arab world and call the attention of the masses to the progress in and benefits of co-operation among Arab countries.

33. There is a vital need for political support and commitment to agreed co-operation and integration arrangements and a depoliticization in the operations of those arrangements and of the various regional organizations involved in efforts to promote economic co-operation and integration among the countries of the region.

34. While the Governments of the ECWA countries will continue to play the crucial leading role in economic co-operation and integration efforts, the potential of the private sector could be fruitfully exploited to complement this role.

35. In view of its dynamic outlook and entrepreneurial capabilities, the private sector should be encouraged to take full advantage of existing complementarities and, accordingly, optimize, within a regional or subregional framework, the use of resources at its disposal. Its role in the establishment and operation of MJVs could be particularly instrumental in enhancing co-operation and integration efforts. Sufficient information on investment opportunities in various sectors of the economy should be developed, especially at the regional level, and maintained for the benefit of, and possible undertaking by, the private sector. It is equally important to create an overall favourable climate that can withstand political pressures and build up investors' confidence.

36. There is a growing need for a data bank to be established in the region and operate in collaboration with the existing Arab regional organizations. The objective of such a facility would be to collect, analyze, evaluate and disseminate information on experiences in regional co-operation and integration in the ECWA region, in particular, and the Arab world in general.

37. The findings of the Expert Group and these follow-up proposals should be disseminated to regional organizations and individual countries of the ECWA region to obtain, particularly from national authorities and representatives of the private sector, further reactions and suggestions. Arrangements could be made, if sufficient interest is manifested for these contacts to culminate in country seminars.