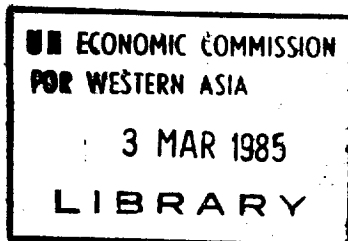




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CURRENT ISSUES IN REGIONAL CO-OPERATION
AND INTEGRATION IN WESTERN ASIA

Note by the Executive Secretary

84-0169

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Introduction

1. At its tenth session, the Commission adopted resolution 119(X) on the policy-making structure of the Commission. The resolution inter alia, requests the Executive Secretary to include in the provisional agenda of future sessions a special item for discussion related to a priority theme, issue or problem facing the countries of the region.

2. Such issues have formed the core of various documents presented to the Commission at its previous sessions. The Development Strategy for the region of the Economic Commission for Western Asia in the Third United Nations Development Decade (see E/ECWA/97/Add.1) and the Programme priorities for the period 1984-1989 (E/ECWA/CMTP/WP.2/Rev.1) specifically identify a number of critical issues confronting the ECWA member countries. These and other issues have been elaborated within the context of the Commission's biennium work programmes and progress on their implementation has been and will continue to be reported to the Commission at its annual sessions.

3. Nevertheless, one of the issues which has increasingly pre-occupied policy-makers and planners alike deals with economic co-operation and integration in Western Asia. The issue has been selected in response to paragraph 4 of resolution 119(X) as it cuts across various fields of endeavour at the national, sub-regional and regional levels.

4. It should be noted that the search for various forms of economic co-operation and integration among the countries of Western Asia is not a new phenomenon. Member countries of the region have experimented in this area with varying degrees of enthusiasm and success since the establishment of the League of Arab States in 1945. Until the early 1970s, however, such efforts were dominated by attempts to liberalize and facilitate the flow of trade. The overall approach was often too ambitious and comprehensive with respect to both objectives and geographic scope. The proposals generally lacked the necessary flexibility to allow for the wide differences in the situations of various countries. These proposals were offered on a full adherence or rejection basis. Because the would-be contracting parties did not have the option to adhere to only those parts of the proposals for which they were ready, the effectiveness of the agreements which have been made has not been encouraging. Witness, in this respect, the example of the Arab Common Market Agreement, the membership and effectiveness of which have remained very limited despite two decades of effort by the Council of Arab Economic Unity (CAEU) to promote the agreement. Another drawback of these earlier efforts resided in the fact that the decisions adopted by the institutional machinery (e.g., the CAEU) were not binding on member countries. In other words, political rather than technical considerations were the decisive factor.

5. The earlier experience also leaned very heavily on inter-governmental action reflecting perhaps the dominant economic and social philosophies prevailing at the time in the regionally more active countries, namely, Egypt, Iraq and the Syrian Arab Republic. Regional economic co-operation was basically viewed, and pursued, as a matter between Governments with a limited role for the private sector to play. Moreover, these efforts suffered from absence of support by "interest" groups, such as producers' associations which emerged subsequently.
6. While the approaches discussed above reflected the prevailing thinking and trends in regional co-operation at the time, which assigned a leading role to trade liberalization and government action, options must have been limited by the lack of financial resources.
7. The adjustment in oil prices in 1973 and 1974 and the subsequent accumulation of substantial financial resources have altered the old equations and opened a wide spectrum of co-operation possibilities and increased attention has been directed to promoting co-operation in production, the establishment of the necessary institutions, and the enactment of supporting legislation. It should be noted, however, that this has not led to abandoning entirely the pursuit of earlier lines of action, towards trade liberalization and freedom of capital movement. This is evidenced by the recent introduction of new Convention for Facilitating and Developing Trade between Arab States in place of the 1953 Convention and the Unified Agreement for the Investment of Arab Capital, to supersede the various agreements concluded thereto. Again, many countries have yet to ratify the two agreements. But it is interesting to note the support by the Gulf countries for the two agreements reflecting, inter alia, their growing concern with ensuring outlets for their emerging exports, particularly petrochemicals notably, and promoting a mutually healthy investment climate.
8. The current phase in Arab economic co-operation is characterized by a number of features which have been making themselves increasingly felt since the mid-1970s and which will certainly have far-reaching implications in the long-term. Among the more significant of these features the following may be mentioned: the growing support for subregional co-operation; increased involvement of the private sector in the co-operative process; emergence of a consensus that joint ventures are one of the more promising vehicles for promoting regional co-operation; large influx of capital from the surplus to the deficit member countries and a substantial flow of labour in the opposite direction; institution building and change; and, the strong impact of political factors on co-operation efforts.
9. Several of these features, it is worth noting, can be related in one way or the other to the emergence of the Gulf

oil-producing countries as a major economic and financial influence in the region.

A. Subregional co-operation

10. The most significant development in this respect has been the establishment of the Gulf Co-operation Council (GCC), on 25 May 1981, by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

11. Although the GCC appears to have been formed primarily in response to preoccupations peculiar to the Gulf subregion, its implications for economic co-operation in Western Asia, and in the wider Arab context, cannot be overemphasized. The GCC member states wield substantial economic and financial power arising from their role as aid donors and markets for goods, services and labour. To that extent their economic policies can have considerable impact on other countries in the region.

12. The achievements of the Council since its inception about three years ago have been quite impressive. They include the abolition of customs duties on intra-industry trade, freedom of movement of citizens and of professional practice, the right to establish business ventures, the establishment of a common external tariff, policy co-ordination in a number of sectors and the establishment of the Gulf Investment Corporation with an authorized capital of US\$ 2.1 billion.

B. Private sector involvement

13. Arguments advocating a more active role for the private sector in regional economic co-operation have steadily gained ground in recent years to the extent of receiving explicit expression of support from the Arab Economic and Social Council. The explanation for this lies in the changed economic realities including: the growing potential and ability of the private sector to mobilize and invest substantial savings; the concentration of investible funds (both public and private) in predominantly market-oriented economies; and, the generally more attractive investment climate prevailing in similarly disposed economies. The issue is how to make best use of this potential. In this, great hopes have come to be pinned on joint ventures.

C. Joint ventures

14. In reviewing the operations of inter-Arab joint ventures a number of issues relating to their formation and operation, and ultimately bearing on their effectiveness, emerge.

15. The objectives of some major intergovernmental joint ventures place considerable emphasis on "strategic" considerations such as manpower training and acquisition of know-how. Their sponsors, however, seem to have failed to indicate the impor-

tance of this dimension relative to financial profitability. This has led to difficulties in assessing the effectiveness of operations and should, therefore, be avoided whenever possible.

16. Some of the major intergovernmental joint ventures seem also to be over-endowed with financial resources relative to their ability to spend, as judged by their experience so far. In part, this could be related to the very broad nature of their mandates. A faster and more effective utilization of resources could result from defining more narrowly the scope of their operations.

17. The link between the ownership of capital, the selection of higher management cadres, and the possibility of Governments interfering in the operations of joint ventures has been a crucial concern. This stems, on the one hand, from the observation that ownership of capital and managerial skills do not necessarily go together and, on the other hand, because government interference could result in restricting the freedom of decision-making.

18. The momentum of establishing large intergovernmental joint ventures with broad mandates, which reached its peak around the mid-1970s, appears to have slowed down. This could be interpreted largely in terms of the weakening enthusiasm for joint ventures with a large membership and, therefore, more diffused decision-making power and broad functions, and the emergence of apparently more attractive combinations characterized by having both fewer members and private sector participation, and more specific mandates.

19. That competition from similar national enterprises could pose a serious threat to the success of joint ventures especially where large investments and world-wide competition are involved, or where the project is regionally export-oriented is supported by the experience of the Arab Maritime Petroleum Transport company (AMPTC). In contrast, building on the experience of national enterprises has proven to be advantageous as illustrated by the case of the United Arab Shipping Company. Avoiding harmful competition and ensuring market access could be achieved by sharing in existing enterprises as, for example, has been done by Saudi Arabia with respect to Aluminium Bahrain (ALBA).

20. Claims by joint ventures for preferential treatment on the basis of the infant industry argument are not infrequent. These, however, ought to be considered on a case-by-case basis. The argument for governmental support is stronger in the case of joint ventures whose operations result in benefits to the economy which would not normally appear in their profit or loss accounts (e.g., training).

21. The experience of the holding-type joint ventures in setting up second-generation projects reveals marked variations in achievements and approach. The second-generation projects have generally been national in scope and intended basically to cater to domestic needs. In some cases, as in the Arab Company for Livestock Development, a definite preference has been shown for wholly-owned projects or majority sharing. In others, minority shareholding, as in the Arab Mining Company, or a combination of minority sharing with lending, as in the Arab Investment Company, has been preferred.

22. Other things being equal, full ownership or majority equity participation implies a more active role in the development of a project from conception to operation, which should promote learning by doing. This is in line with the intended aim of the holding-type joint ventures to act as project generators. Such an aim could also be served if minority participation and associated expertise are essential for getting a project off the ground; in that event, the sharing could ultimately be withdrawn to free resources for other uses.

23. The field of operations of some major intergovernmental joint ventures has remained broad in terms of projects entered into, thus the benefits of learning by doing have been foregone. The experience so far and the slow pace of progress argue in favour of defining more narrowly the fields of concern. In several instances, this could be done without necessarily having to commit new resources by redeploying unused funds.

D. Resource transfers

24. Financial flows have perhaps been the most conspicuous feature of economic relations between countries of Western Asia in recent years. These flows have constituted a major influence in the balance of payments of the deficit member countries and in their capacity to import. However, the flow of funds for investment purposes has remained modest, reflecting the hesitation of the private sector to venture beyond national bounds and the dominance of non-economic considerations and, hence, non-project assistance, notably budget and balance of payments support, in the disbursement of official aid.

25. Moreover, official aid has generally not been undertaken within a long-term and regional development perspective. Rather, it has been strongly influenced by the level of current export earnings; hence, there has been an observed irregularity and at times interruption of some flows, over time and there were large variations in their size.

26. The prospects for a larger share of official aid to be devoted to investment projects will largely depend, given pres-

ent policies, on the ability of Arab national and multilateral aid agencies to expedite the disbursement of their loan and technical assistance aid. This, in turn, is a function of the availability of suitable projects and the expert manpower needed to process aid disbursements. While some notable progress has been made in this respect, the process can be expected to pick up momentum only gradually.

27. Governments have channelled the bulk of their investment aid through their national/multilateral aid institutions and participation in joint ventures. Many of these joint ventures, it should be noted, were the outcome of political rapprochement. Given the likely continuation of present policies, efforts should be directed towards inducing the private sector to invest increasingly in productive ventures inside the region.

28. The flow of private capital faces constraints which vary from one country to another. These impediments have their origin either in the lack of investment opportunities or in the lack of knowledge about them, and in the existence of what has come to be known as an unfavourable investment climate itself a convenient label for a constellation of economic and political factors. In this connection, therefore, it is not sufficient to suggest the setting-up of institutions in the surplus countries to collect and channel private savings. Experience in this area indicates that the savings thus mobilized have been largely invested outside the Arab region, and that such direct investment and equity participation as there has been in the region have been concentrated in only a few countries and have gone to real estate, property development and banking. Similarly, the solution is unlikely to come through the enactment of new legislation or the setting-up of institutions to guarantee the safety of investments, though such steps will no doubt help. The crucial issue is how to overcome the psychological barrier inhibiting the flow of private capital. To a considerable extent, this will depend on having Governments of the potential recipients enunciate clear, well-defined and enduring policies regarding the role of the private sector in order to build up confidence.

E. Labour movements

29. Less conspicuous, but perhaps equally as significant as financial flows, has been the large movements of manpower from the labour surplus countries in the direction of the Gulf subregion. The importance of intraregional labour flows derives not only from the contribution they make to the developmental efforts of the receiving countries and to the balance of payments and savings of the sending countries, but also from the fact that workers' remittances represent an income earned from rendering services to the host country. Hence, they are likely

to be less affected by non-economic considerations; this is in contrast to the bulk of financial flows which are in the form of unrequited transfers and, are consequently, more volatile and unstable.

30. While the intraregional flow of labour has served the interests of both the supplying and the receiving countries, the massive flows of labour witnessed in recent years have had their drawbacks for both groups of countries. The labour-importing countries have had to deal with mounting economic and socio-political costs as a consequence of accommodating large numbers of expatriates, while the demand pressure on the labour-supplying countries has turned them into exporters of certain types of labour, which has had several undesirable consequences, for example, declining agricultural output and high inflationary pressures. Moreover, present requirements of some labour-importing countries show shifts in the composition of skills which carry possibilities of displacement as cheaper non-Arab labour competes with labour from the region. Despite these undesirable consequences, the extensive movement of labour within the region has created a situation of mutually beneficial interdependence for all the countries concerned.

31. The new labour demand-supply relationship developing among the countries of the region, the declining trend in the region's share in the supply of labour, and the imbalances in the region's requirements for skills and their supply call for concerted effort by both the labour-importing and labour-exporting countries to develop a long-term perspective of the region's manpower needs and the best way of meeting them. The effort could usefully begin with manpower planning at the national level, delineating priority areas along with clear-cut employment policies. The countries involved could then enter into bilateral agreements embodying legislative provisions aimed at governing the flow of labour across national boundaries. Such an arrangement could also enable them to exploit their comparative advantage to promote co-operation among themselves and protect the rights of Arab labour vis-a-vis non-Arab labour. Furthermore, the situation calls for concerned efforts to increase co-operation in educational, scientific and technical areas. Progress in all these fronts will undoubtedly provide the basis for initiating collective action within the framework of multilateral agreements at the regional level.

32. Bilateral or multilateral agreements designed to regulate intraregional labour movements, resulting in better planned and orderly policies, should help in evening out fluctuations, and render remittances more predictable and "return" migration less painful. It should also help to reduce the social costs associated with massive labour flows.

33. The urgency of action in this respect has been rendered more pressing by the recent slowdown in economic activity in the labour-importing countries, the impact of which is already felt in lower worker' remittances.

F. Institution building and change

34. The region appears, in terms of numbers and envisaged activities, to be relatively well endowed with institutions, both of the co-ordinating and development financing types. While not arguing against the setting up of new institutions, efforts could more beneficially concentrate on building-up the effectiveness of existing ones, and devoting particular attention to manpower development which appears to be the most important single constraint. Efforts could also be directed towards avoiding duplication and towards pooling expertise through closer co-ordination as has been taking place among the development funds.

35. At the level of intergovernmental machinery concerned with regional co-operation, attention is drawn to the reasserted position of the Arab Economic and Social Council as the focal point for inter-Arab economic co-operation. In part, this must be viewed against the fact that in contrast to the Council of Arab Economic Unity, its wider membership includes the Gulf oil-exporting States.

G. Political factors

36. Political considerations have worked both in favour of and against inter-Arab economic co-operation. However, their overall impact has adversely affected the process and frustrated many initiatives. This negative impact has arisen mainly from a generally weak political commitment which has obstructed implementation, and from uncertainty regarding the continuity of integration measures created by unstable and shifting political relations.

37. The crucial issue is how to isolate economic co-operation efforts at various levels from the vicissitudes of political relations. One way is to avoid hasty commitments motivated by momentary considerations. Revoking such engagements could have a cumulative negative effect on further efforts to promote co-operation. Another is to ensure that sufficient economic interest and momentum are generated so as to reduce the chances of revoking agreements and commitments. This is illustrated by the fact that strained political relations between Jordan and the Syrian Arab Republic, for example, have not prevented some of the more important joint ventures from coming into being and even expanding their activities (e.g., the Syrian-Jordanian

Industrial Company which was conceived within the framework of the 1975 economic and trade co-operation agreement between the two countries).