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Pragmatic Approach To Arab Gulf States Development Cooperation
Conceptual And Practical Basis

A Thesis Submitted to the Faculty of Social Sciences

University of Durham

for the Degree of Doctor of Philosophy

By

Fouad Hamdi Beseisu

B. Com. (Economics and Political Sciences), M.A. Economics

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October 1982

TO

'JERUSALEM'

THE HEART OF PALESTINE....

OUR HEART....

PRAGMATIC APPROACH TO ARAB GULF STATES' DEVELOPMENT COOPERATION: THE CONCEPTUAL AND PRACTICAL BASIS

ABSTRACT

In designing a viable approach to development cooperation, on two planes, horizontal (geo-economic circles) and vertical (function and form of cooperation) analysis was conducted of AGS' development structural needs for development. Forms of cooperation found both in development literature and in practice were surveyed.

Analysis of the opportunities and constraints associated with the structural characteristics of the AGS' Sub-region, indicated that, whilst current development is concentrated on material production i.e. 'quantitative' aspects, the need for structural change demands priority for 'qualitative' development.

Quantitative development is concerned with the structural and infra-structural base, in broad terms, including fields such as human-resources development, training, research, science and technological base, development administration, the industry of finance, environment preservation, and the socio-cultural values necessary for 'mobilized development' rather than 'passive pseudo-development'.

The present situation can be more accurately described as 'development diversion' rather than 'development creation'. Development determinants of the AGS produce strong motivations to, even the necessity for cooperation. Such cooperation, between relevant geo-economic zones - the 'horizontal' element - is found to be viable if based on a Trilateral approach involving three circles: the Sub-region stimulates the AGS to pooling their financial surpluses within an investment strategy, which is based upon the qualitative needs within the Sub-region, wider opportunities for AGS investment on productive activities and which will also benefit the recipients of investment motivate cooperation within the Regional and International circles.

To achieve the structural change necessary for self-sustaining development, a viable, functional 'vertical' approach is necessary, identified as: piece-meal, partial, development-oriented and based upon programmed cooperation within an integratory realm. This approach, within the Trilateral framework, would create new development forces, counteracting the limitations of absorptive capacity and other constraints inhibiting AGS economic diversification. It would establish the platform on which to build self-sustaining economic development onward into the post-oil era.

OAPEC projects and the AAAID programme on food security within the Region are especially significant operational examples of the applicability of our approach, since the food security issue is identified as a strong motivation for trilateral cooperation.

The operational side of the proposed approach is determined by an investment strategy which is based upon the principles of equitable distribution of costs and benefits, reciprocity, additionality, and, through cooperation the harmonious relationships within all three circles which are necessary for but also created by successful development cooperation.

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LIST OF ABBREVIATIONS, SYMBOLS AND DEFINITIONS

AAAID	: Arab Authority for Agricultural Investment and Development
ABEDA	: Arab Bank for Economic Development in Africa
ACM	: Arab Common Market
ADFAED	: Abu-dhabi Fund for Arab Economic Development
AFEASD	: Arab Fund for Economic and Social Development
AGS	: Arab Gulf States, Members of GCC
AMPTC	: Arab Maritime Petroleum Company
AOAD	: Arab Organisation for Agricultural Development
Apicorp	: Arab Petroleum Investment Corporation
Apsc	: Arab Petroleum Services Company
Arab World	: Arab League States (22 countries in 1982)
(Arabic)	: Refers to the literature written in Arabic language
Art.	: Article
Asry	: Arab Ship-building and Repair Yard Company
Asrymar	: Asry marketing arm
Asry Propel	: Asry Tanker Propellers
Asry Weld	: Asry Weilding works
BMA	: Bahrain Monetary Agency
CACM	: Central American Common Market
CAEU	: Council for Arab Economic Unity
CMEU	: Council for Mutual Economic Assistance
COMECON (CMEU)	: Is the term used in this thesis to refer to the most long-lived arrangement for economic collaboration between the centrally planned economies of the Communist bloc and also to its successor organisation CMEA, the Council for Mutual Economic Assistance
CPO	: Central Planning Organisation

EAC	: East African Community
ECAFE	: Economic Commission for Asia and the Far East
ECWA	: Economic Commission for Western Asia
EEC	: European Economic Community
EIU	: Economic Intelligence Unit
FAO	: Food and Agriculture Organisations, U.N.
FYP	: Five Year Plan
GCC	: Gulf Cooperation Council
GIA	: Gulf Investment Authority
GIB	: Gulf International Bank
GOIC	: Gulf Organisation for Industrial Consulting
HRD	: Human Research and Development
HYV	: High Yield Variety
IBRD (World Bank)	: International Bank for Reconstruction and Development
ICARDA	: International Centre for Agricultural Research in Dry Areas
IDB	: Islamic Development Bank
IDCAS	: Industrial Development Centre for Arab States
ILO	: International Labour Organisation
IMF	: International Monetary Fund
KFAED	: Kuwaiti Fund for Arab Economic Development
LDC's	: Less Developed Countries
Meed	: Middle East Economic Digest
Mees	: Middle East Economic Survey
MPCC	: Maghreb Permanent Consultative Committee
N. Yemen	: Arab Republic of Yemen
OAPEC	: Organisation of Arab Petroleum Exporting Countries
OBUs	: Offshore Banking Units
OECD	: Organisation for Economic Cooperation and Development

OPEC	: Organisation of Petroleum Exporting Countries
PDRY (S. Yemen)	: People's Democratic Republic of Yemen
QAFCO	: Qatar Fertilizer Company
R&D	: Research and Development
SAMA	: Saudi Arabia Monetary Agency
S. Arabia	: Arab Kingdom of Saudi Arabia
SIDF	: S. Arabia Industrial Development Fund
S.S.	: Self Sufficiency
TNE's	: Trans-National Enterprises
UDAO	: West African Customs Union
U.N.	: United Nations
UNCTAD	: United Nations Conference on Trade and Development
UNEP	: United Nations Environment Programme
UNESCO	: United Nations Educational Scientific and Cultural Organisation
UNICEF	: United Nations International Children's Emergency Fund

Currencies and Other Symbols

BD	: Bahraini Dinar
Dh	: UAE Derham
KD	: Kuwaiti Dinar
LD	: Libyan Dinar
OR	: Omani Riyal
QR	: Qatari Riyal
SDRs	: Special drawing rights
SR	: Saudi Riyal
$ U.S.	: United States Dollar
mn	: million
bn	: billion (thousand million)

c.m.	: Cubic Meter
sq. kms.	: Square Kilometer
F. Assets	: Foreign Assets
ha: hectar	: 10,000 square metres = 2.47105 acres
n.a.	: not available

GDP	: Gross Domestic Product
GNP	: Gross National Product
ICI	: Imperial Chemical Industries - U.K.

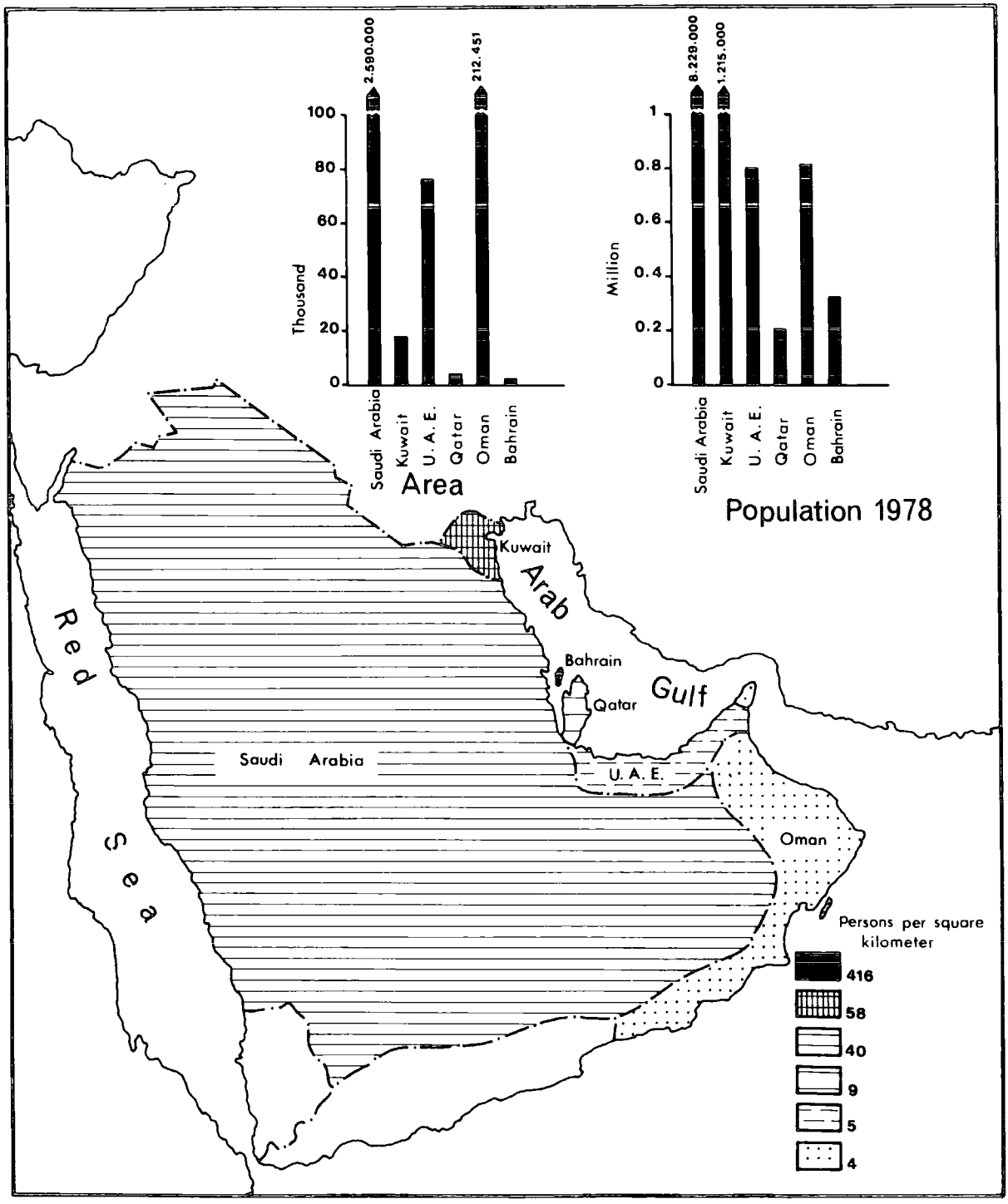


Fig.1 A.G.S. AREA, POPULATION AND DENSITY

INTRODUCTION

The Arab Gulf States now possess economic structures characterized by nearly complete dependence on depleting resources of oil and gas, very limited populations, very small geographical size in most cases and a restricted resource base (Fig. 1). These states have been experiencing recently some forms of development cooperation designed with the objective of diversifying their economic base in preparation for the future non-oil era.

In this situation any strategy for economic diversification which does not take into consideration wider regional and international factors as well as those of the Arab Gulf Sub-Region is misleading. At the same time as cooperative movements between the Arab Gulf States (AGS) have been emerging, regionally and internationally there have occurred frequent and sharp changes in the political, military, economic and financial systems and there has appeared some loss of confidence in the ability to achieve Arab Economic Unity.

Given this context (which is analysed in Parts 1 and 2) then development cooperation between the AGS must be examined in terms of how fundamental factors available within Regional - Arab - and International circles as well as within the Gulf Sub-Regional Circle are basic to a trilateral approach which in turn is necessary for fruitful cooperation.

Consequently the primary purpose of this study, is to explore the feasibility of a trilateral approach (involving Sub-Regional, the Regional and International circles) for development cooperation in such a way that will define:

(a) How sub-regional cooperation between the six Gulf States can be of optimum benefit to their development and which of the various known forms of economic cooperation and integration will suit these countries,

taking into consideration the experience gained from recent cooperation and integration movements in the Gulf Sub-Region. At the same time establishing, in broad terms, the rank order of activities that compose a cooperative movement ladder.

(b) How cooperation within the Arab Region can be of vital importance and effectiveness to AGS development, this to be explored in particular with reference to Arab component inputs to AGS development activities. At the same time we have to explore the sound avenue for AGS cooperation within the regional circle on the light of recent Arab Economic integration experience. Examples will be given of sectoral cooperation to illustrate the feasibility of cooperation within the region, mainly in Agriculture and Investment activities.

(c) How the international circle constitutes a basic element in the current development process and how this should be developed on a sound basis.

Thus the main objective of this research becomes the exploration of the feasibility of development cooperation within a pragmatic approach.

In order to achieve the main objective of this thesis analytical procedures for this study were divided into four parts, a division which is not a rigid progression but rather a framework for analysis and discussion.

Part One assesses the development resource base and potentials including an evaluation of current conditions, achievements, the prospects for growth and the obstacles to development.

Part Two describes and analyses the AGS current sub-regional cooperation movement which has recently been crystallised through the establishment in 1981 of the Gulf Cooperation Council (GCC) in addition to AGS regional and international economic relations and cooperation.

Part Three will analyse the potential motivation for cooperation within the Sub-regional, Regional and International circles, the basis for

analysis will be conceptual as well as practical. AGS' real motivation to cooperation will be examined throughout various sectors of analysis.

Part Four will be devoted to examining basic issues with respect to the proposed pragmatic approach to AGS cooperation within a trilateral approach. On the basis of the first two chapters of part four on the Sub-regional approach, examinations will be extended to clarify practical aspects of cooperation within the region, while Chapter 14 crystallizes arguments for AGS investment strategy, within which a trilateral pragmatic approach will be formulated.

The pragmatic approach adopted, will be based on two aspects which are termed, for this research analytical purposes, as 'horizontal' and 'vertical'. The horizontal approach deals with circles of cooperation from the geo-economic or spatial point of view and will be explored in part three, motivation for the trilateral approach. The vertical approach deals with various forms of avenues for economic cooperation as covered by development literature and applied in practice.

Part Four is devoted to case studies and the conclusion. Here the pragmatic and conceptual approaches earlier established are examined in the context of actual cooperative activities which have already been initiated and which tend to confirm the validity of the general trilateral approach.

It is thought that this study is the first among various recent studies and researches which deal holistically with the development of AGS and their cooperative movement. No previous study has tried to explore a sound, pragmatic approach for development cooperation from an over-view which considers the basic fundamental elements that are provided by a trilateral approach. This study has the widest coverage among studies of a similar kind, both in the sense that it deals with Sub-regional cooperation within the three circles, Sub-regional Regional and

International and in being directed towards serving the development drive of the AGS.

This study is not intended to provide a definitive history of all cooperative efforts within the Sub-region and other circles. Neither do we intend to recapitulate fully the many economic and other justifications for cooperation as opposed to national approaches to development. Some detail is given on past cooperative movements within the Sub-region, but concentration will be directed to the recent and current movement. The subject of feasibility of cooperation has been dealt with extensively elsewhere and there is little need to repeat these findings extensively here. However, reference will be made as needed to cooperation feasibility forms and problems of various recent known cooperative movements. We can also note that general studies of international development strategy have realized the importance of Sub-regional groupings within the larger ones.

Methodology and Conceptual Framework

Completion of this research required large amounts of data on the economic structure, resource base in each of AGS. Once gathered, checked for plausibility against other sources and systematically examined, each piece of data was synthesized with other existing information. Additionally, considerable information was gathered from extraordinary numbers of official national and international reports, discussions, analysis and from seminars.

The lack of accurate information and statistics and wide differences between some sources sometimes became very clear during the course of analysis. In addition the extent of coverage for these statistics constituted a problem from time to time when the author of this thesis was using the tools of economic analysis, such as balance of payments, national income, foreign trade statistics, Government budgets, investment abroad etc. The associated problems of weakness of statistical base will

be illustrated further in Part One of this research.

One of the key references used in this thesis is the collection of development plans of the AGS. Not only do such plans present explicit data on their economies, useful analyses of past economic performance and interrelationships among the various sectors of their economies, they also provide skeleton backgrounds to the course of their programmed projects. The latter when analysed help in identifying joint needs and fields of duplication, as well as joint objectives, this facilitating the formulation of Sub-regional joint development objectives.

Although aspects of cooperation could not be restricted to what is included in AGS development plans or programmes, since up to now they do not consider the Sub-region in planning their programmes and projects, however the writer has to assume that the main course of objectives, programmes, projects and policies included reflect their countries' real needs. This of course does not mean that such plans or development programmes are not left with some gaps.

Because, not only of the doubtful quality of much of the statistical datas, this study is mainly concerned with recently evolving human and socio-political behaviour and attitudes to cooperation for development, the author has not used rigorous econometric analytical techniques; these are felt to be inappropriate to this study. As Sayegh put it:

> "Being the transmission lines via which the power generated in the realm of ideas, values and generally intangible determinants can reach the field of development, its mechanisms properly speaking, are near-impossible to quantify."(1)

This study is not designed in terms of any special model, ideology or doctrine, but with the maximum degree of flexibility consonant with a conceptual approach to development and its determinants to discover to what extent cooperation within the three circles could be considered one

of these basic determinants, and to what extent and how this determinant can affect the efficiency of development processes.

The examination of development cooperation and forces behind it in this study proceeds, then, along pragmatic rather than ideological or theoretical lines. However, the course of analysis bears in mind the sociocultural framework of development and analysis based on well known economic cooperation and integration forms and uses the tools of economic analysis if not econometrics:

> "There has been no economist, from the early times when economics emerged as a science until today, whose angle of vision of the factors of economic growth or development has not been wide enough to include some non-economic, and specifically some political factors."(2)

Conceptual Framework and Hypothesis

Cooperation as a term used in this thesis includes all forms of joint economic action purporting to enhance development.

We will examine the situation actually in existence both for development and development cooperation, then turn to the course cooperation ought to take if it is to be influential in development; this will be done within the context of the three circles of cooperation earlier identified. It is hypothesised that development cooperation can be extended into a very powerful determinant of far-reaching and profound development.

> "The drive for economic complementarity require a deliberate regional vision of and approach to development for the best results to ensue, rather than the fragmented, accidental and haphazard approach still characteristic of the region's behaviour."(3)

The writer of this thesis will follow this course of analysis throughout the research topic, bearing in mind his adoption of a meaning of the term 'Development' which is different from the terms 'Growth' and 'Modernization'. Essentially this study is concerned with those factors which contribute to the real and profound changes which

characterize the real development process.

> "Development is taken to mean growth of a magnitude or speed, of a content and comprehensiveness, and in directions that could not have taken place without important changes having occurred, or occurring, in socio-cultural, political and technological institutions, structures and forces, - in addition to significant changes in the economic sphere proper."(4)

Compared with this, 'Growth' is restricted to the characterization of change in national product (or national product per head) in real terms, within the given institutions and non-economic factors relevant to growth within the circular flow.

Development conditions that should be provided to allow the process of development to take place and arrive to self sustained growth are as follows:(5)

1. The growth should be the outcome of the performance largely by the society itself, not of foreign islands of capital, entrepreneurship and technology that can be seen in the major foreign projects or activities such as copper-mining, large plantations or petroleum concessionary activities totally managed by foreign companies.
2. The political and social environment should be able to provide the economy with many of the ideas, knowledge, attitudes, and institutions essential to efficient functioning.
3. The preceding two conditions must make possible a sustained improved rate of growth. Thus, technological and other change should continue in considerable measure in order to enable the economy to sustain the rise in the rate of growth, or to sustain the rate itself if it has reached a high level. Otherwise, short-lived windfalls of brief duration reflected in steeply rising national product per capita should not be considered for real development.
4. Real growth of income should not merely mean improvement per head, in the mechanistic sense of a higher arithmetic mean; more important is

its association with a more equitable distribution of income. This in the sense of distributive justice that those who make a major contribution to the increase in the national product should share in the fruits of their mental and manual effort. In other words, development should be oriented to the needs of the masses.

> "Those objectives are usually presented as reference points against which performance is measured, where very commendable rates of growth are reported and praised but where the mass of people feel the blessing of 'the development' only marginally."(6)

5. Wide ranging participation by the population in the design of development strategies and policies and in the allocation of development resources.

6. Self reliance in the sense of importing only those systems of thought and models of organisation and operation which can usefully evolve within the framework of inherited values.

To summarise we understand the 'development' process from an enlarged angle of vision, with its true dimensions sought through the interplay of a large number of determinants found in many economic, social, cultural and political-administrative fields. This leads at the end to considering development to emerge as a truly revolutionary process.

7. The difference between the terms Industrialization' and 'development' is now well established since the works of the late nineteen forties and early fifties used both terms almost interchangeably. The identification of one process with the other is unjustified, both conceptually and empirically, due to the following reasons:

(a) Development is much wider than industrialization; whilst industrialization is considered to be occupying a central position in the

process and state of development, it cannot be considered to be the whole process.

Sayegh has examined the experience of Denmark and New Zealand as examples while mentioning that development could be identified without industry being the major sector in the economy.(7)

(b) Industrialization cannot be considered developmental if it is not integrated with other sectors of the economy. This is particularly relevant to the discussion of cooperation within the Arab-regional circle on agriculture. This is of urgency in view of the facile tendency in development to emphasise speedy industrialization at the expense of development of the agricultural sector,

> "even though the latter is the unavoidable under-pinning for all development and societal structure in most of the developing countries of the world, and even though a mechanistic and simplistic over-emphasis of industrialization might subvert the very foundations that support the building of a healthy and viable industrial sector."(8)

8. Development is different from modernization in that the latter is essentially limited to technical and organizational improvements in particular activities.(9)

The first hand experience of the research in the on-going Arab region economic integration movement as well as acting for a period as an adviser participant in Sub-regional Gulf cooperation movements has also been a primary source of much of the information and conclusions presented in this analysis.

As the issue of time constitutes a basic element in the whole analytical process of the subject of this thesis, it should be noted that the most recent decade, that of the nineteen-seventies will be taken as a base for most of the analysis and examination of development and development cooperation. This last decade has witnessed profound changes with respect to petroleum prices especially in 1973 and 1979, with their

financial surpluses which, as examined later in this thesis, played a leading role in shaping AGS development. This decade has witnessed also another and strong food security dilemma which first impressed the world in 1972/73. It also witnessed the most important developments with respect to developing cooperation within the Sub-regional, Regional and International circles. However, the analysis will be backed, as needed by the examination both of earlier developments and of plans for the eighties. At the same time the prospects for development and development cooperation necessitated also an outlook further into the future, particularly as far as the post-oil era is concerned.

References and Notes

(1) Sayigh, Y.A. The determinants of Arab Economic Development, Vol. II, (London, Croom Helm: 1978) p. 30.

(2) Ibid, p. 72.

(3) Ibid, p. 148.

(4) Ibid, p. 10.

(5) Ibid, p. 11.

(6) Ibid, p. 11.

(7) Ibid, p. 14.

(8) Ibid, p. 14.

(9) "Modernization can be seen in ten types of institutions or organization: The school, the city, the medium of mass communication, the factory, the Bank, the corporation, the small nuclear family, the respective political organs, the plan and the income tax." (Ibid, p. 16)

PART ONE

ECONOMIC DEVELOPMENT-RESOURCE BASE, ECONOMIC STRUCTURE, CONSTRAINTS AND PROSPECTS

CHAPTER 1 - RESOURCE BASE AND DEVELOPMENT

1.1 Introduction

This chapter highlights the available physical and Human resources, both qualitative and quantitative. This aim at defining possibilities for widening the existing economic base of the Arab Gulf States (AGS), based on one hand, on their real resources as well as on the other opportunities which could be created through sub regional, regional and international development cooperation. In this way analysis of development cooperation approach, priorities and possibilities will be based on an objective evaluation of natural and human resources endowment.

Secondly, this chapter analyses the economic structure of the AGS to identify the positive and negative aspects of this structure as a first basic step towards assessing how trilateral economic cooperation could lead to positive structure changes for the build-up of the non-oil economic base.

1.2 AGS - Historical Introduction (Political and Economic)

Highlights of the recent history of AGS include the following elements summarised below.(1)

AGS have only recently achieved their political independence. Terminating their treaties with the U.K., Qatar, Bahrain and UAE gained their independence in 1971, while Kuwait reached its independence earlier in 1961. Saudi Arabia was established as a political unity in 1932, however development only rapidly proceeded with Faisal's reign. UAE was established following many efforts towards unity starting with the Trucial States Council in 1962. It is thought that security motivation was the main driving force behind the establishment of UAE and had the blessing of the U.K. A deeply-rooted relationship seems to have

been built with the U.K. It is very clear in the Omani example which continued from the early eighteenth century into the present regime of Qaboos.

Consequently the AGS include new-born political entities with recent political experience, recently established government machinery and recent independent regional Arab and international economic relations.

Economic Background

Economic activities in the pre-oil period:

Prior to the discovery of oil the people of the AGS earned their livelihood by herding in the desert and in the coastal zones by fishing, pearling, boat building, and the transportation of goods to and from India and the orient. (2)

The competition from Japanese cultured pearls in the 1920's and 30's, the great depression in 1929, the Second World War and lastly the better employment prospects directly and indirectly created by the oil industry, all these factors lead to the decline of the prosperous pearling industry.(3&4)

Trade and Maritime Transport:

The people of the Emirates have a long history of seafaring and trade. Since the region was a coastal one with few natural resources, the population was forced to look to the sea to meet their essential needs long before the time of the famous Arabian seafarer Ahmed Bin Majid. Seafaring and shipping activities were among the principal occupations of the Gulf Arabs, who were the principal voyagers between the Gulf and the other parts of Asia and Africa, and became the most expert in seafaring in these parts of the world.

In the nineteenth century, the Gulf Arabs were faced with the competition of cheap and regular steamer services and consequently their

maritime activities became less important. Nevertheless, some shipping services were retained between the Gulf port and other ports in the Red sea, East Africa and South-East Asia, and shipping remained the second industry in the Emirates. Bahrain for example had about 100 ships occupied in maritime transport in 1905.

During the First World War, when regular steamer services were interrupted, the shipping services provided the Emirates resumed their old scale. During this period, Kuwait was the principal country on the Arabian side of the Gulf engaged in transport by sea. By the end of the 1920's, the Kuwait commercial fleet consisted of 150 ships with a load capacity of 40,000 tons. This activity again came to a halt between the two world wars and resumed during the Second World War. One main reason for this elasticity, was that the shipping trade was complementary to the pearling industry.

The Gulf Arabs traded not only with neighbouring countries but also with all the ports they visited on their voyages to in East Africa and South Asia, buying and selling from one port to another.

The main trading centres on the Arabian side of the Gulf were Kuwait, Bahrain and from the beginning of this century, Dubai. These three centres supplied the interior parts of the Arabian peninsula, South Iraq, the lower Gulf, and Oman.

Boat Building:

The Emirates were famous for building all the local craft used in the pearling and shipping industries. Bahrain and Kuwait were the main centres for this industry, Bahrain's production amounting to 119 boats in 1926, 74 in 1927 and 89 in 1928. During the 1920's this industry succeeded in applying sea diesel engines to the local craft, and in 1930 succeeded in building a small "tanker" for carrying oil products from Abadan to Bahrain. In Kuwait the industry was able to build yachts of European design of 65 ft length in 1931 and 80 ft length in 1932.

Other Activities:

Agriculture. Agriculture was one of the principal activities in Bahrain and the interior oases of the UAE and the eastern province of Saudi Arabia, but was very minor in Qatar and Kuwait. Even so in the 1930's, cultivable land in Bahrain was estimated at only five percent of the total area. The main crop was dates of which Bahrain's production in 1905 was 5,200 tons. In addition to date palms, limes, bananas, oranges, tomatoes, onions, melons, and a wide range of other vegetables were grown in the Emirates, whilst in some eastern areas of the southern region, tobacco was also cultivated.

Pastoralism. In the Emirates this was mainly a complementary activity for the coastal settlements, while it was the principal activity in the interior. However, nomadic life and the tribes movements and loyalties played a major part in local politics. Consequently the tribes in the interior were subsidized by local sheikhs and did not depend entirely on their nomadic herding.(5)

1.3 Physical and Human Resources

Evaluation of natural resources in this area is recent and as yet incomplete. For the region as a whole there are no comprehensive or consistent surveys of water resources, soils, land classification or land use. While this situation is improving, progress is slow, despite the introduction of new techniques into the process of resource evaluation. Estimates of the quantities and qualities of basic natural resources are inevitably, therefore, imprecise and open to different interpretations.(6)

In the following we will refer to the current situation relating to the resource base of AGS and its reflection on development prospects, mainly in relation to agriculture activities in general. This will assist in illustrating some areas of needed joint cooperation which

conform with development priorities.

1.3.1 Physical Resources

Area, water and land resources:

The Arab Gulf states occupy a very vital and strategic location in the Middle East. These countries constitute the largest part of the Arab peninsula, lying on the Western side of the Arab Gulf and extending along the Gulf of Oman. The total area of the six countries is approximately 2,459,000 square kilometers (see Table 1.1).

Table 1.1

AGS Area

Country	Area (000 sq. km.)	%	
S. Arabia	2150.000	87.4	1
Kuwait	17.818	0.7	2
UAE	77.600	3.1	3
Qatar	1.100	0.0	5
Oman	212.457	8.6	4
Bahrain	0.622	0.0	3
Total (AGS)	2459.597	100.00	
Total (Arab League Countries)	13,658.500		
AGS/Arab proportion	18%		

Source: UNESCO, National Science and Technology Policies in the Arab States - Present Situation and Future Outlook, Science Policy Studies and Documents (France: The Unesco Press, 1976).

IBRD, World Development Report 1980.

Water resources and Agriculture (see also Chapter 3):

The general feature characterizing AGS is the scarcity of water resources caused mainly by having the largest part of their land either desert or arid subtropical.

In the Arabian peninsula precipitation is generally about 60 mm a year, and only in the uplands of the south and west do annual totals rise above 200 mm. As a result desert conditions prevail almost everywhere.(7)

This results in the drastic limitation of cultivated and potentially

cultivable land for the six countries (see Table 1.2).

Agriculture and water resources development are still at the resource exploration and proving stage. There are indications however, that prospects and potentialities in this sector are being increasingly understood. However, after near two decades of development effort Saudi Arabia for example continues to be a net importer of food, grains, meat, milk and milk products, vegetables and fruit.

Kuwait:

The cultivated land is only 1000 hectares (0.06% of the total land) but the cultivable area is 2.7 thousand hectares (0.15 percent of total land) (Table 1.2). Rainfall, which occurs mainly in winter time, varies between 23 mm and 206 mm with an annual mean of 118 mm (1952-1971). (8)

The cost of water from desalination plants as an alternative source for water is too high and the availability of reasonable quality groundwater too low to permit any agricultural expansion. Given other economic opportunities, normal agricultural work has ceased although considerable experimentation has been carried out with artificial environment systems and specialised production units.(9)

Qatar:

Qatar is a peninsula situated midway along the western shore of the Arabian Gulf, about 100 miles in length, and between 35 and 50 miles in width, composed mostly of desert where annual rainfall ranges between 25 mm (1 inch) and 212 mm (8.5 inches).(10)

Agricultural production is limited by the scarcity of arable land and water. Generally the soil consists of shallow layers of silt deposits above clay and is suitable for growing only a limited number of vegetables, feed grains and dates.(11) Qatar, as with many of the other AGS, faces a serious problem in ensuring adequate food supplies over the next 20 years, and any undue delay in implementing detailed

Table 1.2

AGS Agriculture - Areas, Cultivated, Potential and Available Water Resources

Country	(1) Total land Area 000 ha. (1977)	(2) Cultivated land 000 ha. (1977)			Columns 2(a):1	(3) Area well or moderately suited to irrigated cultivation (000 ha.)	Columns 3:1	Available Water Resource for Agr. (1975)	
		Total (a)	Irrig. (b)	% b:a				Total (cu.f.million)	cu.f. per cropped ha.
S. Arabia	214,969	1,110	390	35	0.5	3000.0	1.4	1,500- 1,900	10,100
Bahrain	62	2	1	50	3.2	6.0	4.3	100- 150	83,000
Kuwait	1,782	1	1	100	.06	200.0	11.2	100- 150	125,000
Oman	21,246	36	36	100	0.2	N.A.	N.A.	300- 400	15,900
Qatar	1,100	2	2	100	0.2	29.0	2.5	80- 100	60,000
UAE	8,360	11	5	45	0.1	20.5	0.02	200- 300	23,200
AGS	247,519	1,162	435	37.4	0.47			2,280- 3,000	52,866
ECWA								29,880-40,400	13,400
Total Arab	1,365,846	46,356	7,634	16.5					
AGS:ECWA		3.7	5.9						
AGS:Arab	18%	2.4	6.2	5.7	3.7			7.6 - 7.4%	

Note: Areas indicated in Column 3 are derived from FAO mission's estimates based on reconnaissance surveys of varying depth and quality carried out between 1969 and 1979.

Source: Bowen Jones, H. 'Agriculture in Bahrain, Kuwait, Qatar and UAE.' In, Issues in Development: Arab Gulf States, Edited by May Ziwar-Daftari (London: M.D. Research and Services Limited), 1980.

El-Khalidy, G. Food Dilemma and Food Security in the Arab World, Part 1, (Amman: CAEU, March 1980), Table no. 1-1 and 1-3, p. 3 and 6 (Arabic).

investigation into a number of options and controls will bring about a crisis within the next 15 years.(12)

The very nature of the land resources, climatic conditions and groundwater quality seriously mitigate against an expansion of conventional irrigated agriculture. Only 29,000 ha. of the land area are considered to have irrigable soils and these are fragmented and dispersed over numerous small depressions. Only 25 percent of farm areas are usually under irrigation at any one time. These constraints may be devalued by adoption of improved irrigation including recent advances in hydroponics using the nutrient film method, by which agricultural production has shown dramatic results in arid regions.(13)

While the development of modern technology for the desalination of sea water has revolutionised the water economics of the arid zone, particularly in the Arabian Gulf where abundant energy from vast oil and gas accumulations exists, in contrast, the role of ground water reserves in Qatar and their potential for phased expansion is becoming increasing less practicable due to limited resources and over-extraction.(14) Rainfall and water are scarce about 50% of the needed water supply is provided by desalination, and the remainder from 300 artesian wells in the northern part of the peninsula.(15) Not only is there a deterioration in the quality of cultivable land but the declining quality of pumped water is one indicator of a general depletion of water-resources following rates of extraction consistently higher than recharge. The expected useful life of the northern aquifors, for example, at present extraction rates, will be shorter than that of the oil-fields; some 20-30 years.(16)

The major absolute constraints therefore is that of water supply. About two-thirds of domestic and industrial water consumption (involving about 98% of the population and 95% of economic activity) is met by sea-water desalination plants but a few hundred farms and between 1500

and 2000 farmers and labourers consume about 43 million cu. metres of ground-water per annum, 75% of the total extracted, and are mainly responsible for rapid and irreversible depletion.(17) Given this, the critically sensitive crop-climate relationship, the shortage of labour and lastly, the low degree of full commitment to commercial farming by landowners, the only way open to viable non-subsidised agricultural growth would seem to be in a very small number of highly specialised production units. Capitally intensive, employing high technology and skills in multi-cropping of vegetables and non-tree-fruit, and efficiently utilising irrigation water at no more than half the present rates, these would seem to be the best way of utilising scarce resources and producing marketable commodities.

The real problems here, as else where in the Gulf, remain quantitative and qualitative limitations of water, soil and labour.

UAE:

In UAE rainfall is erratic and low, generally between 25 mm (1 inch) and 125 mm (5 inches) a year, slightly higher in the mountains. The cultivated area is estimated at 11,000 hectares all irrigated. Much of the UAE is desert or scrub, and because of scarce water resources and limited arable land, less than half of one percent of the total land area is cultivated.(18)

Cultivation is limited mainly to parts of the Emirates of Ras al-Khaimah and Fujairah and to a few scattered areas such as Al-Ain and Liwa in the other Emirates. In these areas cultivation is mainly on small private holdings which depend on underground water resources.(19)

Oman:

Oman extends over some 300,000 km^2 of which only about 37,000 ha. (0.12%) are cropped. Most of the area consists of desert, sparsely populated by nomadic herdsmen. The agricultural areas are located where suitable water has been found and developed, either through the aflaj

system of man-made underground channels, as in much of the interior, or, increasingly, from wells, equipped with motorized pumpsets.(20)

Availability of water, and to a lesser extent suitable soil, is the major technical constraint to expansion of cropped area. No systematic studies of Oman's soils have been undertaken, although information based on limited surveys suggests that cultivable lands are restricted in extent and widely scattered. Unusually great contrasts in soil quality exist within short distances in presently-cropped areas. In these locations, deep medium textured soils with considerable potential for irrigated agriculture are closely associated with sandy or stoney soils which offer little or no potential for crop production.

With yearly rainfall averaging less than 150 mm in most areas with suitable soils, all crop production requires irrigation. Until recently, little was known of the extent of potentially arable new lands and the amount of surface and underground water available for agriculture and livestock production.

In 1973-75, a series of land and water resource studies were carried out which covered nearly all potential development areas. While of varying quality and coverage, these studies strongly suggest that the country has little unexploited water supply. Excluding considerations of water availability and the economics of development, up to 10,000 additional ha. are suitable for crop production. More than 900 ha. of this total are in Northern Oman (2,000 in Sharkiya; 2,000 in Wadi Quryat; 5,000 in the Batinah coast; and less than 1,000 in Dhofar). In some areas limited unused quantities of water exist and its coincidence with suitable soil would permit some increase in cropped area.

The Sharkiya was identified as one of the most promising areas for expansion, with more restricted possibilities in the Interior, in Dhofar and, with improved management of the existing water resources, in the Batinah Coast. The studies suggest that even with favourable

economic conditions for development, an expansion in cropped area by something considerably less than the 10,000 ha. indicated by soil considerations would be possible.

Given the high costs of developing relatively small scattered areas which appear to be suitable, opportunities for economically-viable expansion are likely to be limited. More efficient use of existing water would permit additional expansion, although this would require considerable expenditure on field reorganization, introduction of new methods of irrigation and agricultural extension work.

Over exploitation of available water is a growing phenomenon in several areas, e.g. parts of the Batinah Coast, the Sur area and Buraimi in the Interior. This is resulting in falling fresh-water tables and deterioration in water quality through salt-water intrusion. The major effect until now has been to reduce crop yields, particularly for saline-sensitive crops such as citrus and some vegetables. Some abandonment of land has occurred. Continued deterioration of water supplies would lead to more serious, lasting effects on soil productivity.(21)

Bahrain:

In Bahrain annual rainfall averages about 70 mm (3 inches). Apart from a narrow fertile zone in the north, Bahrain is rocky and bare. The limestone rocks are covered by varying depths of sand which is often too poor and saline to support much vegetation apart from a few hardy desert species. Agriculture, traditionally important, has declined as a result of industrial competition for water, land and labour.(22)

There are no rivers in Bahrain, but some springs provide fresh drinking water which is also used for irrigation. Agricultural production in Bahrain is restricted by the small land area, the increasing salinity of the water supply, and the movement of labour to the urbanized sectors.(23)

The total cultivated land area in Bahrain is estimated at about 2000 hectares corresponding to 3.2 percent of the total land area of Bahrain (Table 1.2). Agriculture uses over 120 million cubic metres of water out of a total consumption of about 170 cu. m.

The problem is not whether water can be made available at a certain site, but rather, primarily, if it can be obtained cheaply enough to fit into the budget which handles it, and secondly, if it can be supplied in such a way so as to be assimilated as a new cultural amenity by the consumers.

In effect, there is doubt whether governments here and elsewhere in the Gulf are educating their populations adequately in the costs and means of utilising new and expensive water sources in a way that will both protect the environment from ill-considered ventures into irrigated agriculture leading to soil salination and also constrain demand for water so that the energy sources used in desalination processes are not wastefully diverted from higher value operations.

There is evidence that almost all the cultivable land in Bahrain was once used but by the mid 1970's the number of agricultural holdings had fallen to 885, covering some 3700 ha. of which less than half was utilised. Two-thirds of all agricultural employees (totalling almost 1000) were non-Bahraini, and 34% of all holdings were, worked entirely by employees.(24) Poor quality water availability from the shallow wells which supply almost 90% of holdings individually, and the loss of land to non-rural demand were significant physical disincentive to existing farmers. Low returns on effort, relative to perceived urban opportunities, encourages a move out of farming and, as many holdings are retained only for residential purposes and for non-commercial family use, the quality of effort and other inputs and the efficiency of water use have remained low and in many cases declined.

At present agriculture utilises 75% of extracted groundwater,

already over exploited. It is, therefore, difficult to see how more planned intensive livestock production, which would be dependent on locally grown fodder and/or imported feed and make greater demands on water resources, can be justified economically. Artificial environmental systems, devoted to vegetable and some fruit growing, would increase water-use efficiency but require considerable capital investment, labour and operational skills if costs are not to be excessive. In Bahrain these demands compete with those of other sectors in a diversified economy.

Saudi Arabia:

Water Resources: There are regions, such as Buraidah and Qatif, where water is relatively abundant, but other regions such as Wajh, Dhiba and Asir lack water resources of sufficient quality.

The growing population and the industrial development of the country have put water resources under pressure and current demand exceeds available supplies. Inadequate supply of water has proved to be a major impediment to a more rapid expansion in agricultural output. Of a total cultivated land area estimated at 1.1 million hectares in 1977 only 390,000 hectares were irrigated and the rest were sparsely fed by rain. Recent surveys conducted in several regions of the country have indicated substantial groundwater resources, but their effective utilization is likely to be slow and costly.(25)

Investigated more and more intensively since the 1930's, basic knowledge of groundwater resources was well-established by 1972. More detailed studies have been and are needed for specific development areas but the general situation is clear.(26)

The general wealth of groundwater resources in the Kingdom of Saudi Arabia is very large. In 1970 the chief geologist of the Ministry of Agriculture and water stated:(27)

> "In the regions where sedimentary formations occur, groundwater conditions are favourable, at least in terms of quantity ... the water stored in these formations is fossil. However, the reserves are so huge that they will meet all the requirements of the kingdom for many centuries."

Although requirements have vastly increased since this statement was made, it remains true that the aggregate national demand-supply ratio remains favourable. However, sectoral and spatial variations, both in demand and supply, alter the position very considerably.(28)

In the Eastern province, as an example of Saudi agricultural expansion possibilities, studies proved the existence of notable possibilities for expansion as reflected in the following table, Table 1.3:

Table 1.3

Possibilities of Agricultural Expansion according to Water Availability
(hectares)

Region	Cultivated 1968	Max. Cultivable	Could be Developed
Jabrin	-	5,000	5,000
Haradh	-	4,000	4,000
Al Hassa	7,070	20,250	13,180
Coastal Belt (Qatif)	4,300	6,000	1,700
Wadi Al-Miyah etc.	350	10,000	9,650
Total	11,720	45,250	33,430

Source: Bowen Jones, H. 'Agriculture and the use of Water Resources in the Eastern Province in Saudi Arabia', in Issues in Development: The Arab Gulf States, edited by May Ziwar-Daftari (London: MD Research and services limited, 1980) p. 119. Table 1, p. 121.

Desalination. To an increasing extent, the supply of water for urban and industrial needs will come from desalination plants. Al Khobar already has one 75 million gallons a day plant and phase II will add another 76,000 cubic meters a day. Jubail's three phases when completed during the third plan may produce almost 200,000 cu. m/day - equivalent to double the annual maximum flow at Al Hassa! Nevertheless, the immense cost and complexity of building and operating such installations

and associated pipelines (the saline water conversion corporation supplies free to municipalities water which cost almost $ 2 a gallon) places great onus on irrigation agriculture, the main water user, to utilize efficiently this most precious of resources.(29)

A domestic production response to demand changes is inhibited by environmental limitations, and by shortages of indigenous labour and investment, neither of which can find rewarding attractions in agriculture.(30)

1.3.2 AGS and ECWA

In illustrating water resources and agriculture base of AGS from comparative view, we refer in the following to the situation in comparison with ECWA of which AGS constitute a part.

(a) The irrigated cropped area of AGS constitutes 7-8 percent of total ECWA cropped area. (Table 1.4.)

(b) Potentially permanent irrigated areas of AGS are estimated to constitute 6.2 percent of corresponding percentage of ECWA in 1985 and from 7.1 to 7.3 percent in the year 2000. (Table 1.4.)

(c) Table 1.5 reflects the non-existence of surface water resouces of AGS, while other parts of the ECWA region, mainly in Iraq and Syria are relatively well-off in this respect. AGS' share of irrigated cropped area was only 8.9 percent in 1975, while Iraq and Syria's share was more than 75 percent.

(d) The comparatively weak AGS resource base in this respect becomes very clear when referring to AGS: ECWA population percentage ratio which is 25.3% while area percentage is 66.2% (see table 1.6).

Area, Water and Land Resources (Summary)

This section has shown the existence of water and soil limitations in the AGS, limitations wich seem to constitute a serious constraint on agricultural development. This situation in addition to the inadequacy of information and comparative weak management of this

Table 1.4

Irrigated and Potentially Irrigated Areas in ECWA in 1975, 1985 and 2000 (000 hectares)

Country	Irrigated Cropped Area	Potentially Permanent Irrigated Areas	
	1975	1985	2000
(a) AGS	205	269	425- 500
Saudi Arabia	168	228	350- 400
Other AGS	37	41	75- 100
Iraq	1567	2825	3850-4400
Jordan	29	80	125- 140
Libanon	60	103	135- 150
Syria	516	769	1050-1250
P.D.R.Y.	63	115	150- 175
N. Yemen	170	160	200- 250
(b) ECWA	2610	4321	5935-6865
a:b	7.8	6.2	7.1- 7.3

Source: ECWA, 'Irrigated Agriculture in ECWA Region'. In Agriculture and Development, No. 2, May 1979. Table 2, p. 57.

Table 1.5

Irrigated Areas According to the Source of Water (1975) (000) hectares

Country	Surface Water Resources		Ground Water Resources	Total	%
	Permanent flow	Ephemeral flow			
AGS				247,000	8.9
Saudi Arabia	-	98,800	91,200	190,000	6.9
Oman	-	-	36,000	36,000	1.3
Other AGS	-	-	21,000	21,000	0.7
Other ECWA					
Iraq	1,547,000	-	20,000	1,567,000	56.8
Jordan	23,000	1,500	4,500	29,000	1.1
Lebanon	47,500	-	12,500	60,000	2.2
Syria	456,100	40,000	20,000	516,100	18.7
P.D.R.Y.	-	84,000	26,000	110,000	4.0
N. Yemen	73,000	120,000	37,000	230,000	8.3
Total ECWA				2,759,100	100.0

Source: Ibid., Table 4, p. 60.

Table 1.6

AGS & ECWA Population and Area

	Population 1978 million	Area 000 sq. kms.
AGS	11.39	2459.5
S. Arabia	8.20	2150.0
Kuwait	1.20	17.8
UAE	0.71	77.6
Qatar	0.20	1.1
Bahrain	0.28	0.6
Oman	0.80	212.4
Iraq	12.2	435
Syria	8.1	185
N. Yemen	5.6	195
Jordan	3.0	98
Libanon	3.0	10
S. Yemen	1.8	333
ECWA	45.09	3715.5
AGS : ECWA	25.3%	66.2%

Sources: Table 1.1

IBRD, World Development Report, 1980

resource base tend to support the need for AGS joint efforts to carry out the following:

1. Intensive and widespread surveys to identify water and soil resources of the area should be adopted. Cooperation within the international circle seems to be important in this field.

2. As water resources are comparatively scarce and prospects are not promising joint efforts should be directed towards the more efficient use of existing water resources, applying modern methods and techniques. These activities necessitate joint research and training projects. This activity seems to demand high priority as it relates directly to all aspects of agricultural development in particular and the whole development process in general.

3. Research and training are badly needed in the fields of science based agricultural activities as well as in desalination processes. It

has been shown that the best way of utilizing scarce resources and producing marketable commodities seem to be connected with highly specialized production units, capitally intensive, employing high technology and skills in multi-cropping of vegetables and non-tree fruit and efficiently utilizing irrigation water at no more than half the present rates.

1.4 Hydrocarbon Resources

It is of vital and logical importance to study the hydrocarbons resources of the Arab Gulf states as these resources alone make basic development possible through providing the funds generated from oil and gas exports. At the same time most of these countries rely on their hydrocarbon resources in planning to widen the base of their economics, which is reflected in the major programmes to build-up petrochemical industries based on hydrocarbon resources in Saudi Arabia, Kuwait, Qatar, UAE and to a less extent in Bahrain.

1.4.1 Oil discovery

The discovery of oil in the various A.G.S. extends over several decades.

In Bahrain oil in commercial quantities was found in 1932 and export commenced in 1935.

Bahrain's oil production is relatively small compared to neighbouring countries. It reached a maximum of 28 million barrels in 1970, and has been gradually declining ever since. It has been estimated that the 1976 rate of production will last about 15 years.(31)

The Government shares production revenue from Abu Sa'fa field which straddles the off shore boundary with Saudi Arabia; field output in mid-1976 had dropped to 100,000 barrels a day from 200,000 bld. 12 months earlier.

Oil accounts for approximately 80% of the GDP and a similar

portion of the Government revenues.(32)

In Saudi Arabia oil was first produced in commercial quantities in 1938 at Dammam Dome near Dhahran (the depth of the well was 4727 feet). This proved to be an important oil field. From that date Saudi Arabia as a whole has been transformed from being a land of total scarce resources to one of the richest countries in oil resource all over the world.

The discovery of the above mentioned well was followed by the drilling of other wells in the Eastern province. The outbreak of war in 1939 brought many difficulties against investigation. By the end of 1945 three further fields had been discovered.

The production of crude oil has shown an average annual increase from 1940 to 1950 of about 53.4 percent; from 1951 to 1961 about 9.3 percent and from 1962 to 1972 about 14.0 percent. The rate of increase was not constant, the production fell during the Second World War to its lowest in the years 1941-43. In 1944 production jumped 60.1 percent over 1943, but after this production increases were associated with the rate of discovery of more fields, and from 1955 to 1958 increases were moderate compared with most of the post war years.(33)

In Kuwait, the second test well, in the Burgan area south of Kuwait bay, discovered oil in April 1938 and opened up what is perhaps the most prolific single oil field in the world. Eight additional wells were drilled before the war forced suspension of field work, in 1942. Consequently the first commercial production in Kuwait was in 1946. Post war period permitted K.O.C to develop the Burgan field and pipeline, refinery storage and large berthing facilities at Mina Alhmadi were completed by the end of 1949.

Four of the eight producing fields in Kuwait are prolific. Burgan, the initial discovery in 1938, has a capacity of close to 1 million b/d. Magwar and Raudhatain fields are in the 200,000 b/d. class and Ahmadi,

over 150,000 b/d.(34)

The Kuwait-Saudi Arabia Neutral Zone was established in 1922. In March 1953, oil was discovered from Wafra field with moderate size.(35) Combined production capacity of three onshore fields is about 200,000 bld. Offshore are the Hout and Khafji oil fields with a normal capacity of 300,000 bld. and nearly 50,000 bld.(36)

In Qatar the first discovery of oil was made onshore in 1939 at Dukhan. In 1942, the company plugged all wells and suspended operations for the duration of the war. Field activities were resumed in 1947, and the first shipment was made in 1949 (Table 1.7) from the Umm Said terminal. In UAE, Abu Dhabi is the largest oil producer accounting for over 80% of UAE output. Offshore areas of Dubai and Sharjah also produce oil, and there is a chance that Ras Al Khaimah may join the ranks of producers. There has been drilling offshore Umm al-Qaiwain, but no commercial oil has been found.(37)

The search for oil in the seven Emirates began in January 1939. But it was not until July 1962 that exportation began from ADMA's (Abu Dhabi Marine Areas Limited) offshore Um Shaif field and this was followed in December 1963 by the first exports from ADPC'S (Abu Dhabi Petroleum Company) offshore Bab field. In Dubai oil was discovered in commercial quantities in 1966 and exportation commenced in September 1969, from the offshore Fateh field operated by Dubai petroleum company (DPC). Oil was discovered in Sharjah in 1972, and exportation commenced in July 1974, from the offshore concession of Crescent petroleum company (CPC).

In Oman prospecting for oil began in 1937 but oil was not found in Yebal, Fahud, and Natih in northcentral Oman until 1964. Regular commercial exports of crude oil began in August 1967.(38)

Oman's crude oil production, while modest in comparison with most other oil producing countries in the Arabian peninsula, is vital

to the country's economy, accounting for nearly two-thirds of GDP, more than 90 percent of government domestic revenue and virtually all export earnings. All of Oman's crude oil output is exported except for a small amount used for power generation.(39)

In the AGS as a whole the revenue from oil have exceeded the needs for the current as well as the capital investment expenditure and permitted the achievement of large surpluses. Saudi Arabia alone has built up two-thirds of the whole Arab petroleum surpluses, followed by Kuwait with 21% and UAE with 13%. These three AGS countries have achieved around 98% of the total Arab petroleum financial surplus.(40) (Further relevant analysis in Chapter 14.)

1.4.2 Oil Participation

The potentially most important innovation in the oil producing countries has been the introduction of the concept of participation. By the end of 1972 Kuwait, Saudi Arabia, Qatar, and the UAE reached agreement with the major petroleum companies operating in their respective territories giving each signatory government a share in the oil companies in its territory that would rise by stipulated stages from 25 percent at the beginning of 1973 to 51 percent in 1982 with compensation to be paid in a manner specified in the agreement. But as we will see later, the terms of participation were later changed.(41)

In January, 1973, Qatar acquired a 25 percent share in the equity of QPC and SCQ (Shell Company of Qatar) and this was raised to 60 percent effective from January, 1974. On September 16, 1976 an agreement was signed where by Qatar acquired the remaining 40 percent foreign owned share of QPC. Subsequently on February, 1977 a similar agreement was signed for the acquisition of the remaining 40 percent foreign owned share by SCQ.

In Kuwait approximately 90 percent of crude oil output in recent years was produced by the Kuwait Oil Company (KOC), until 1973

equally owned by BP and Gulf. The Kuwait Government acquired a 25 percent share in KOC effective January 1, 1973; this participation was raised to 60 percent effective January 1, 1974 and in December 1975, an agreement was reached for full nationalization of KOC effective retroactively to March 5, 1975.(42)

In UAE, effective January 1, 1974, Abu Dhabi acquired a 60 percent participation share in the equity of ADPC and ADMA (the two companies developing petroleum in the country) under a participation agreement which replaced the 1973 participation agreement under which the Emirates had acquired a 25 percent share in the equity of the operating companies.

In Bahrain an agreement giving 60 percent participation to the Bahrain Government was reached in November, 1974, and in March, 1975 the Bahrain Government announced that it intended to take over full ownership of BAPCO.

In Saudi Arabia the structure of the oil industry has, in recent years, been undergoing a basic change, with the position of the concessionary companies altering radically. A major innovation related to the introduction of the 50-50 profit sharing principle of participation, and the Government-Company relationship has been changing its fundamental character. The Saudi Government first took a 25% equity interest in Aramco, but increased it to 60% in the summer of 1974, and announced its intention to have 100% control and ownership of Aramco, to which the four original Aramco shareholders agreed in principle by the end of 1975.

In Oman, Petroleum Development Oman, (PDO), is the sole operating oil company. The Government acquired a 25 percent share in PDO effective January 1, 1974, and in July, 1974 this share was increased to 60 percent retroactive to January 1, ownership of each of the other partners being reduced proportionately. Since January 1974

foreign partners have paid royalties and taxes on their 40 percent equity share, the Government 60 percent participation, oil being bought back by the foreign partners or sold directly to third parties. A new financial arrangement was negotiated in May, 1977.(43)

To summarize, this AGS group of countries has extremely important oil wealth achieved through a high rate of exploitation development. Collectively these countries are second only to the U.S. in terms of cumulative production.

The most important innovation in the oil producing countries has been the introduction of the concept of either participation or full control over oil development. Most of these countries now own 100% of the companies assets. Thus they have become either participants or full controllers in the full spectrum of oil industry functions: "upstream", or exploration, development and the production of crude oil and natural gas, and "downstream", or operations of transport, refining, marketing, and distribution.(44)

Finally, it is important to refer to the major new developments in the pricing of crude oil and in the financial arrangements between the governments of oil producing countries and the operating foreign-owned oil companies, which took place in late 1973. A sharp increase in posted prices was decided in December 1973, and effective from January 1974. The posted price for the Market crude was set at U.S. dollar 11.65 per barrel representing an increase of 350 percent over the January 1973 level.

As a result of these changes as well as of the increase in the Government's participation the average government take per barrel of the market crude rose, in Saudi Arabia for example, as of January 1, 1974 to 5.7 times the level on January 1, 1973.(45) Since this time it has been the producer countries which have taken the initiative, mainly

through OPEC, in setting the official prices at which they will sell oil. These, in turn, have become very strongly influenced by AGS national needs for development revenue and, vice versa, development planning has become affected by changes in oil revenue flows.

1.4.3 Depletable Resource

Although an enormous amount of oil reserves exist in the AGS, these reserves are expected to be depleted inbetween 12-168 years at 1981 level of production, given the existing potential of creating other sources of energy at competitive prices to petroleum (Table 1.7).

Total oil reserves in the AGS are estimated at the end of 1981 to be 273.9 bn barrels. In Saudi Arabia these reserves are estimated at 167.8 bn barrels (61.3% of all Countries of the sub-region) with estimated 46 years of production at 1981 level of production. In Kuwait reserves are estimated at 67.7 bn barrels (24.7%) with estimated 168 years of production at 1981 level. In the Neutral Zone Reserves are estimated to be 6.2 bn barrels (2.3%) with 37 years of production. (Neutral Zone estimates are for the year 1976.)

In UAE reserves are estimated to be 32.3 bn barrels with 58 years of production. (Dubai reserves 1,400 mn barrels with 14 years of production, and Sharjah reserves of 25 mn barrels with 20 years of production, Dubai and Sharjah estimates are for the year 1976). UAE reserves correspond to 11.8% of AGS reserves. Qatar reserves are estimated at 3.4 bn barrels (1.2%) with 22 years of production whilst Oman reserves are estimated to be 2.6 bn barrels (0.9%) with 22 years of production. Bahrain reserves are estimated to be 0.2 bn barrels (0.1%) with 12 years of production.

However, these published reserves figures are estimated to be conservative to different degrees by many experts who consider that a more realistic level or recoverable reserves would be higher.(46) While AGS production percentage to OPEC and World was 59.1 and 23.6 respectively in 1981, AGS reserves' estimates corresponding percentage was 62.7 and 40.8 respectively (Table 1.7).

Table 1.7

AGS, OPEC & World Oil Production, Reserves and Years of Production

Country	First Commercial Production	Production 1981 (000 b/d)	Reserves bn barrels 31.12.81	Reserves %	Years of Production at 1981 level
Saudi Arabia	1938	9,827	167.8	61.3	46
Kuwait	1946	1,101	67.7	24.7	168
UAE	1962 (1)	1,512	32.2	11.8	58
Qatar	1949	0,414	3.4	1.2	22
Oman	1967	0,317	2.6	0.9	22
Bahrain	1934	0,044	0·2	0.1	12
Total AGS		13,215 (2)	273.9 (2)	100.0	56
Total OPEC		22,354	436.5		
Total World		55,886	670.9		
AGS:OPEC		59.1	62.7		
AGS:World		23.6	40.8		

(1) Abu-dhabi
(2) Excluding Neutral Zone (Reserves estimated in the end of 1977 at 6,200 bn barrel)

Source: CAEU, Arab Central Bureau of Statistics and Documentation.
EIU, Oil in the Middle East, Annual Supplement, 1978, London, 1978.

Table 1.8

AGS, OPEC & World Gas Production and Reserves

Country	Production (1980) cu. m. mn	Reserves cu. m. bn (21.12.1981)	Reserves %
Saudi Arabia	54,082	3,345.6	47.8
Kuwait	0,878	981.2	14.0
Qatar	6,400	1,699.0	24.2
UAE	14,859	658.4	9.4
Bahrain	4,757	242.7	3.5
Oman	N.A.	76.4	1.1
Total AGS (1)	88,896	7,003.3	100.0
Total OPEC	270,412	28,915.0	
Total World	1,675,010	82,440.7	
AGS:OPEC	32.9	24.2	
AGS:World	5.3	8.5	

(1) Excluding Neutral Zone, (Reserve estimated at 1 Jan. 1977 to be 142 cu.m.bn).

Source: CAEU, op. cit.
International Petroleum Encyclopedia, 1977 (Tusslo: The Petroleum Publishing Co., 1977).

1.4.4 Gas Resources

Another development indicating a new pattern emerging in AGS hydrocarbon activities is the discovery and exploitation of gas. Gas exploration and exploitation permitted these countries in general terms, to become more and more preoccupied with the post-oil era endeavouring to develop their economies and diversity by their revenue resources.

Natural gas which was often a waste by-product of oil lifting that was flared off in earlier years, is now being utilized, through reinjection, as a source of energy for domestic industry, as a feed stock in petro-chemicals, and increasingly, for export in the form of liquified gas. Saudi Arabia and the other Gulf countries have already instituted, or are instituting, schemes for more complete utilization of gas.

Saudi Arabia:

In addition to its crude oil reserves, Saudi Arabia also possesses large reserves of natural gas, estimated on 31 December 1981, at 3,345.6 bn cubic meters representing 47.8% of the whole gas reserves of the sub-region (Table 1.8).

Considerable amount of gas are produced together with crude oil but most of the gas is presently flared. One of the major projects in the Second Five-Year Plan, estimated to cost between US $ 5-10 billion depending on its ultimate scope, is the development of a national gas grid system involving the gathering, transmission and treatment of some 3.5-5.5 billion cubic feet daily of natural gas.

Some gas will be used as fuel for planned large new domestic projects, including major petro-chemicals and other industrial ventures as well as an extended electric power network, and the remainder will be exported in the form of natural gas liquids (NGL). After the completion of this project in the 1980's Saudi Arabia is thought capable of supplying over 10 percent of the world market of NGL.(47)

Kuwait:

At the beginning of 1982, Kuwait's proven reserves of natural gas were estimated at about 981.2 billion cu. m., i.e. at about 1 percent of world reserves and 14.0% of the sub-region reserves (Table 1.8).

Natural Gas has so far been produced entirely in association with crude oil as the only non-associated gas field, discovered offshore in the neutral zone in 1972, has not yet been commercially utilized. Additionally non-associated gas fields may be discovered in conjunction with the deep drilling programme which is currently being conducted.

Natural Gas is used in Kuwait for reinjection into the oil fields to maintain their reservoir pressure, for water desalination, for electricity generations, and as raw material in the petrochemical and liquefied petroleum gas (LPG) industries. The remaining gas output is flared.

The ratio of utilized to produced gas is currently the highest in the Middle East.(48)

Qatar:

There are substantial natural gas deposits in Qatar, but until recently these have not been utilized. Associated gas produced in conjunction with oil, has for the most part been flared with only small amounts used for the operating companies power generation requirements, to power desalination, cement and fertilizer factories. But with the opening of the Natural Gas Liquids, NGL, plant at Umm Said in January, 1975, greater utilization of Gas has followed, including new electricity generating stations and a polyethylene plant.(49)

Gas deposits in Qatar were estimated to be on 31 December 1981, at around 1699 billion cu. m. representing 24.2% of the AGS reserves (Table 1.8).

U.A.E.:

The exploitation of gas began in May, 1977 with the commissioning

of the Das Island plant. Gas reserves were estimated on 31 December 1981 to be around 658.4 billion cu. m., (9.4% of AGS reserves).(50)

In February, 1975, an agreement was signed to build an LPG plant to utilize associated gas from Dubai's two offshore fields, this plant designed to produce 70 million cubic feet of LPG daily for domestic consumption and 700,000 tons annually for export, as well as providing dry gas (methane) for use in the aluminium smelter project and for electricity generation.(51)

Bahrain:

Bahrain has vast reserves of natural gas. The gas is of especially high quality as it has a low sulphur and moisture content and is not associated with oil. Initial estimates of the gas reserves ranged from 16 trillion cubic feet to as high as 24 trillion cubic feet. Gas reserves are estimated to last 80 years at 1974 levels.(52) First used for municipal electricity generation and in the refinery, gas has become the main energy source.(53)

In Bahrain it is this gas availability which made possible the Aluminium Bahrain (Alba) plant and which leads the state to hope for further heavy industrial development. It provides a cheap and constant source of energy for Alba's 300 MW power station and the Aluminium Company is now using 104 mm cubic feet per day of the 227 mm cubic feet daily production. The rest goes to run Bapco's LSFO Unit and the Government's 95 MW power station or is field injected.(54)

1.4.5 Flare Gas

> "Flare gas/oil ratio on the whole Arab Gulf countries may average somewhere between 600-700 cubic feet per barrel. This figure could be on the low side. For a crude oil production of 11 million barrels per day - and the quantity is still rising - this means more than seven billion cubic feet of gas per day. To put the figures into proper perspective, however, this is enough gas to provide more than the entire world fertilizer consumption of ammonia."(55)

Much of the AGS natural gas contains sizeable percentage of ethane

and heavier hydrocarbons. It thus provides a suitable raw material not only for Ammonia but also for such chemical building blocks as ethylene, propylene, butylene, butadrene etc. AGS also have large resources of sour gas from which sulphur can be economically recovered.(56)

Production Costs

The Middle East produces oil at a relatively low cost when compared with producers outside the region and consequently its price contains a certain element of economic rent.(57) The relation between different costs of producing oil and the creation of economic rent has been recognized by economists and, in a lecture, delivered in February, 1971, Mr. F.S. McFadzean, a Managing Director of Royal Dutch Shell said:

> "Where wells are prolific and shallow, costs can be less than 10 cents a barrel; at the other extreme, in the North sea and the USA for example, costs can be ten or twenty times greater: and there are all points of variation between these two wide differences in costs, which therefore have produced fairly substantial economic rents in certain areas."(58)

1.5 Mineral Resources

1.5.1 Ferrous Metal Ores

Iron Ore:

Inspite of efforts undertaken by some countries of the AGS, no commercially exploitable iron ore deposits have been found yet in the Sub-region and the problem of securing adequate domestic supply of iron ore for the existing and planned metallurgical industries remains unsolved. At the present time, established enterprises are oriented towards the utilization of imported iron ore or pellets.(59)

At present, the most promising areas for iron ore deposits of some economic value are located primarily in Western Saudi Arabia. Although exploration and investigation activities are continuing in some of these areas, no iron deposits of commercial value have yet been discovered.(60)

The following iron ore deposits in Saudi Arabia are worth mentioning:

- Wadi Fatima, according to some calculations, reserves of the iron ore in Wadi Fatima deposit amount to 48.5 million tons of 46.2% iron, 15.0 million tons of which can be mineable in an open pit operation to a depth of 200 m. Many factors, including the size of reserves and costs of underground mining prevent further development of this deposit, however feasibility studies of this deposit with a view to assessing it as a source of supply for metallurgical uses have been suggested.
- Sawawin iron ore deposit, total reserves amounting approximately 400 million tons of 42% iron grade and 0-6% phosphate. The deposit is suitable for open pit mining, but its high phosphate content prevent this deposit from being economically exploitable.
- Jabal Idsas, at the present time, reserves of this deposit are estimated at 80 million tons of 55-65% grade iron ore.(61)

Manganese Ore:

Manganese is mainly used in ferrous metallurgy, chemical and electro-chemical industries, and to a lesser extent in ceramic and paint production. At the present time, manganese deposits and occurrences are known to exist in Oman, UAE and Saudi Arabia.

In Oman, a manganese deposit which was discovered in Ras Al Modo, was studied and evaluated in 1969, 1973 and 1974 by experts, but results are not yet available.

In UAE several manganese oxide lenses were discovered in metamorphic rocks north of Asimah. At the present time, the commercial value of those deposits is not clear, but preliminary geological investigation showed that the discovery of manganese deposits of commercial grade is possible.(62)

In Saudi Arabia, analysis of two samples from Wadi Bidah show

12.5% and 12.9% content of manganese and 9.5% and 16.8% of iron.(63)

Chrome Ore:

At the present time, in the AGS, there are no exploitable chromium deposits although, mining operations for chromium ore took place earlier in Oman and Saudi Arabia.

In Oman, chromium mineralization is related to the large ophi olite belt and extends over 600 Km along the north-eastern coast. The Farfar area has been investigated in more detail, with five chromite deposits occurring within an area of less than 1 Km^2 in precipitous terrain to the east of Farfar village. Among many deposits identified, Farfar 1, where 160,000 tons of ore may be found, can be considered as one of economic value.

> "But the complex chemical composition of the ore and the location of the deposit in a particularly inaccessible part of the mountains would pose considerable problems to exploitation."(64)

The Jinah chromite deposit is easily accessible, but is small in size. A preliminary evaluation of this deposit indicated that the ore is of low grade.

Preliminary investigations for metallic and industrial minerals in Dubai, Ras al Khaymah, Ajman, Umm al Quawain, Fujarah and Sharjah led to the discovery of potentially rich chromite ores.(65)

1.5.2 Development of the ferrous industry

The development of the ferrous industry in the AGS area faces the problem of nonavailability of local mineral raw materials in general and of iron ore in particular. Since none of the AGS has economically exploitable iron ore deposits at the present time, establishment of metallurgical plants is mainly oriented towards the utilization of imported iron ore or pellets, as was previously mentioned.

One of the basic advantages of AGS is the availability of enormous cheap gas reserves which, when used in a direct reduction process for

iron production, would result, in saving US $ 10 per ton if iron produced. This method offers possibilities for establishing profitable mini-plants of a relatively small capacity, but which would be enough to meet local demand.

1.5.3 Non-ferrous metal ores

Copper:

Copper plays an important role in world economy, being second in value in world trade to petroleum.

In AGS, no copper deposits have yet been developed. However, some countries, notably Oman, are starting the exploitation of copper.(66)

In Saudi Arabia, several hundreds of copper occurences have been discovered in the area of the Arabian shield. Inspite of numerous copper ore manifestation only some of them can be considered as promising ones and are worthy of further development. Copper at Jabal Sayid, 300 m north east of Jeddah was discovered in 1965. The largest reserves of copper ore has been as certained in the fourth ore body grading 1.5%-2.5% copper, with total reserves (including probable) are in excess of 20 million tons. Insufficient data on the size, grade of ore, metallurgical concentration characteristics and economic evaluation, prevents immediate development of this deposit.(67)

North and south Nuqrah deposits have probable reserves of 175,000 tons each, but possible reserves in south Nuqrah reach 1 million tons with the following average grades of metals: Cu - 3.44%, Pb and Zn - 7.6%, Au - 5.86 glt, Ag - 235 glt. Further work will aim at the investigation of possible ore bodies between north and south Nuqrah and in the deeper zones of the known mineralized areas. Inspite of the small reserves of the north and south Nuqrah deposits they can be considered by world-wide experience as economically exploitable. The existing reserves in both deposits could be economically exploited for a period of 10 to 12 years at a rate of 100 to 140 thousand tons of copper ore per annum. Due to

small ore reserves smelting and refining are not advised.(68)

Sha'ab El Tare deposits have total ore reserves estimated at 4,000,000 tons containing 0.36% copper; 1.09% zinc, 0.55 grams of gold and 3.46 grams of silver per ton of ore.(69)

The Jadmah deposit has the following ore reserves: 0.2 million tons of 4.8% copper ore, 3.0 million tons of copper ore with 1% copper, and 1.0 million tons 2.3% copper ore plus recoverable amount of gold, silver and zinc.

> "At present, because of insufficient reserves of high grade copper ore and the complication of the mineralized zone by various intrusive rocks, additional drilling both in the main and in the western zone of the deposit, geophysical survey and geological mapping have been planned and some are under way aiming at economic evaluation of this deposit."(70)

S'afra deposit has been estimated to have ore reserves of about 2 million tons with 2% cu, without assessment of the economic value of the deposit.

In Oman, one of the most important results of geological investigations and prospecting was the discovery of a copper deposit near Sohar, comprising approximately 12 million tons of copper ore, with a 2.1% copper content. The deposit consists of four ore bodies, Lasail, Aurja, Bayda and Rakah.

> "It is strongly indicated that tributary peripheral deposits will be found. These will extend life or increase through put as the case may be."(71)

> "A treatment plant of 3,000 metric tonnes per day is planned, providing 11 years operation on the current reserves."(72)

Preliminary evaluation showed in some deposits a rather high content of copper (up to 6.25%) but no estimation of ore reserves was carried out for them.(73)

Lead and Zinc Ore:

In the AGS the most important lead and zinc mineralization occur

mainly in polymetallic complex ores in association with copper, gold and silver, but until the present time no lead and zinc deposits have been exploited.

In Saudi Arabia complex polymetallic ores of the Nuqrah North and Nuqrah South deposits can be considered as a lead-zinc ores as well since the total lead-zinc grade is much higher than the minimum required for commercial grade. The size of lead and zinc reserves in both of these deposits alone is according to international standards large enough to justify their mining.(74)

Al-Amar deposit, proven reserves are estimated at 3.75 million tons with 5% Zn in rich zones; probable reserves amount to 25 million tons with an average of 1.5% Zn in the whole stock work. The economic value of this deposit is not clear and further evaluation is required. The Samrah deposit, proven ore reserves estimated at 300,000 tons with 5% of Zn, 1% of Pb and 446 g/6 of silver potential reserves amount to 800,000 tons. Gold is also present in the ore but its average content was not determined. At Jabal Dhaylan the weighted average grade of all drilled intersections is 4.9% zinc and 1.39% lead. Further exploration will assess the feasibility of mining the deposits.

Nickel:

Nickel ore deposits are known to exist in Oman and Saudi Arabia. In Oman the economic value of the deposits is not clear. In Saudi Arabia nickel grades range from 0.5% to over 3%, the ore reserves have not yet been estimated but preliminary investigations and exploration indicated that this deposit may be economically exploitable.(75)

Rock Salt:

This mineral plays an important role in the life of human beings and are used in various branches of industry. Rock salt is not only used as a food product but is also used as a fodder and for the production of various chemical products. It is also used in soap and

paint production, oil and pharmaceutical industries and for at least 1500 other uses.

In Saudi Arabia, although a large rock deposit was discovered in 1969 in the Jizan area, with possible reserves of over 1 billion tons there are many factors which make it uneconomic, notably the low grade of salt rock (20% less than the desired quality) and the limited loading facilities at the seaport of Jizan. Given the geological background, salt deposits of economic value may also be found in Oman. (76)

1.5.4 Industrial Minerals

Magnesite:

No magnesite deposits have yet been exploited in the AGS:

> "However that during the next few years, mining may start and discoveries of new magnesite occurrences and deposits of economic value may be made."(77)

Some deposits of high quality magnesite have been located in Saudi Arabia containing reserves over 1 million tons of a good grade magnesite ($MgCo_3$ 7/95% and $Sio_2 \leq$ 2%). This is under detailed exploration by a private company.

Magnesite was reported to be found in Oman and UAE, but without commercial value till now.

1.5.5 Building mineral raw materials

Marble and Stone:

The mining and processing of marble has been conducted in Saudi Arabia for many years. About fifteen marble deposits in Saudi Arabia are now under operation, the most important located at Wadi Fathma, Jabal Farasan, Madragah and Bahra. Saudi Arabian marble is extensively used in public and private construction and occasionally exported to neighbouring countries. At the same time the country is continuing to import large quantities of marble.(78)

Oman is planning to produce about 1 million tons of marble blocks.

In the UAE a small plant, situated between Dubai and Sharjah uses

a mixture of imported and local materials in the production of small dimensional stones. All large blocks of high quality marble are imported. Ras al Khaymah produces aggregate from crushed igneous rocks.

In Bahrain, dolomite is the most commonly used and is quarried regularly at several sites on the east central side of Bahrain Island.

Gypsum:

Adequate gypsum for domestic needs and export is available in western Saudi Arabia along the Red Sea coastal plain, in the Gulf of Aqaba area, in central Arabia near Ar-Riyadh and along the Arabian Gulf coastal plain.

The National Gypsum company constructed in the early 1960's a modern plant in Riyadh for the processing of gypsum using rotary calciners to produce 200 tons of plaster per day. Part of the production is exported to other Arab countries. A market study is planned to determine the competitiveness of Saudi gypsum in the world markets of Mediterranean and East African countries before expanding its production.(79)

Clay:

Clay is found in many areas in Kuwait, Bahrain, and Saudi Arabia, further studies are being conducted to evaluate its feasibility and uses.

1.5.6 Mineral resources and development

(a) Inspite of the availability of relatively large potential reserves of mineral raw materials in the region, and their economic importance, inventorization and evaluation of these deposits remain a problem of first priority.

(b) "Unfortunately, the present situation in the field of mineral resources (other than oil and gas) in the AGS is not encouraging. Among all kinds of metallic raw materials, only copper is mined in Oman. Despite the existence of a ferrous industry in a number of countries in the region, all metallurgical plants still depend in their production on imported iron concentrates. Furthermore, the aluminium industry established in some countries of the Arabian Gulf is completely dependent on

imported bauxite. The demand of all kinds of metal is therefore met by imports of raw materials, semi-manufactured and manufactured products."(80)

(c) Exploitation of mineral resources, other than oil and gas constitutes an important means of economic diversification and an important factor in establishing a solid economic structure. However they seem to be of long-term nature.

1.5.7 Mineral resources : Summary

The above-mentioned review concerning the current situation relating to the mineral resources in the AGS proves that the richness in hydro carbon deposits in the Gulf area is in no way matched by wealth in other minerals.

With the proved feasibility of extracting copper in Oman, rock salts in the UAE and the probable feasibility of copper exploitation and some other minerals (iron, phosphates etc.) in Saudi Arabia and some other parts of the AGS area (including copper, sulphur, uranium in the UAE) increasing levels of exploration may reveal new deposits. Consequently the following joint activities seem to be of priority in the AGS:

(a) Sub-regional geographical and geophysical investigation mainly in the promising areas. This is needed because most of the territory still needs to be studied and surveyed before a proper evaluation of its mineral resources can be undertaken.

(b) Compilation of geological, structural maps.

(c) Using the results of previous studies and analysis, compilation of regional metallogenic prognostic maps should be carried out.

These activities will make sub-regional exploration work on a regular and scientific basis possible and efficient. Such activities require at the same time the establishment of sub-regional or regional machinery to assist member countries in the implementation of projects relating to exploration and investigation. This kind of work is very

costly and is too often not sufficiently profitable to be undertaken by private companies alone. Assistance from regional, international organisations, Arab funds are needed. (81)

Clearly the relative profitability of mineral extraction in the AGS will change over time and the value of the resources will depend on how and for what purposes they are utilized. The way in which relevant decisions are affected by the level at which decisions are taken, i.e. national, sub-regional, regional or international, will be examined in Chapters 9 and 10. The danger at the moment is that the availability of revenue derived from one type of extractive industry - oil and gas - will be used to subsidise the extraction of what are at the moment relatively high cost metallic minerals. This can happen both directly through strictly non-commercially viable mining enterprises - as with Oman copper, as well as indirectly through very low transfer prices of oil and gas energy charged to metallurgical industries.

1.6 Marine Resources

1.6.1 Introduction

The statistics on the fish resources of the Arabian Gulf compiled in the early literature published by F.A.O. were mainly based on assumptions that the fish density of Gulf waters should be the same as in other areas having the same oceanographic conditions. The information printed in F.A.O.'s Year Book of Statistics is also based on the official sources of various governments who until recently, have been quoting the old statistics or providing exaggerated figures collected through un-scientific means, i.e. on the activities of the local fishermen.

The fishery oceanographic surveys was conducted in the late 1960's by Kuwait Institute for Scientific Research and the Trucial

States were concerned with qualitative studies rather than quantitative estimates.

Gulland (1971) reported that the potential yield of demersal fish in Gulf waters is about 600,000 tons. Following this in 1977 Faidi compiled FAO and other information on the fish resources of Arabian Gulf and Arabian peninsular countries titled 'Arab Economic integration of Fisheries Wealth'.(82) Faidi's estimates of production capacity of the Arabian Gulf were as follows:

Optimum Yield	Maximum Yield	Potential Yield
78,000 tons	1,000,000 tons	200,000 tons

These statistics include various kinds of fish i.e. pelagic, demersal and crustaceans (shrimps) etc. Since however they were still based on the earlier oceanographic assumptions they have to be accepted with reservation particularly in the presence of the statistics provided by the more recent F.A.O./U.N.D.P. Survey mission.

1.6.2 Gulf-Regional Survey and Development Project

Resources Survey Results:

A joint programme between 8 Gulf countries and U.N. (F.A.O./U.N.D.P.) resulted in survey work which started in 1975 and ended in 1980. The survey covered the area from the head of the Arabian Gulf to Ras-el Had in the Gulf of Oman. (See Chapter 5.) We refer here to the results published in the reports of this survey.(83)

1.6.2.1 Demersal Resources

A biomass estimate of 1,000,000 tons of demersal varieties has been made of which 600,000 tons are commercially valuable (500,000 tons for the Arab Gulf and 100,000 tons for the Gulf of Oman) giving a potential annual yield of 216,000 tons (180,000 tons for the Arab Gulf and 36,000 tons for the Gulf of Oman) considering present exploitation and commercially exploitable concentrations.

1.6.2.2 Pelagic Resources

Small Pelagic Resources: The survey also indicated that the small pelagics which are made mostly of sardines, (Sardinella sp); anchovy, (Stolephorus sp); and chub mackerel, (Rastrelliger kanagurta) constitute the major resource. A potential yield of about 400,000 tons/annum has been considered to be feasably commercially exploitable. Some 110,000 tons from the North Western Gulf, 250,000 South Eastern Gulf and 15,000 from the Gulf of Oman. Upon consideration of the economic factors, a quantity of 200,000 to 250,000 per annum could alone be exploited from the small pelagic resources, of which it is estimated that nearly 60% would be sardines. The total biomass was estimated at one time during the survey to be as high as 4.6 million tons. The main problems in exploiting these resources are first, the limited local experience in large-scale harvesting, and secondly, limited use other than for fishmeal. Large fishing vessels are probably required which means that the need for technical assistance, training and management will become greater.

Large Pelagic Resources: The larger pelagics contribute less in tonnage than the small pelagics, but their commercial value increases their importance. The main species are king mackerel, (Scomberomorus commerson); lingtail tuna, (Thunnus tongol); and little tuna (Euthynnus affinis). The estimated potential annual yield from these species is about 20,000 tons/annum from the Arab Gulf and 20,000 tons from the Gulf of Oman.

1.6.2.3 Shrimp Resources

The industrialised shrimp fishery which started in 1959 has been mainly located in the Arabian Gulf. At the beginning the industry remained at a modest level but fishing intensified and developed faster from 1963. Shrimp catches increased from about 900 tons in 1963 to 9000 tons in 1968 due to increased fishing intensity by the local fleets and

foreign fleets which came into the area at that time, but has subsequently dropped.

Consequently, the catch per unit effort for the different areas of the Gulf declined steadily with varying degrees according to the number of shrimp boats and degree of fishing intensity. The situation has forced the Kuwait shrimp fleet to fishing grounds away from its traditional ones in the Gulf, and later cutting the size of its fleet to one-third. Therefore, any potential expansion of the shrimp resources at present are not feasible. However, management and conservation measures are needed to protect the resource in an effort to revive it again for the future.

In summary, the annual maximum yield from the project area from all fish species is estimated at about 631,000 tons per annum, divided as follows:

	Arab Gulf	Gulf of Oman	Total
Demersal	Tons 180,000	Tons 36,000	Tons 216,000
Small Pelagics	350,000	15,000	375,000
Large Pelagics	20,000	20,000	40,000
Total	Tons 550,000	Tons 71,000	Tons 631,000

It should be mentioned that the above quantities are given before subtracting the present catches from the area. In the absence of reliable statistics, it is not possible to give the actual additional quantities of catch from the Project area.

1.6.2.4 Mariculture

The possibility of introducing mariculture as one of the sources of fish is being studied by some of the countries of the project area. At present, however, whilst there certainly appears technical possibilities for mariculture in the sub-region, the economic feasibilities of such cultural activities still have to be demonstrated and proven. Studies of shrimp culture, for example, have been pursued

in the Gulf for several years, but as yet have not led to commercial application. In general, the biological and hydrobiological characteristics of the potential areas of coastal lagoons are not very well known and there has been little practical production experience with which to evaluate the nature and extent of the technical and economic problems which may arise.

At this juncture, therefore, any meaningful development does not seem possible. However, as experimental investigations are mainly at laboratory level, it is possible that the results from any of the project countries involved will be of direct benefit to other countries interested.(84) A UAE sub-regional marine research centre could be of much benefit. Already the value of integrated sub-regional resource surveys are apparent in the project survey results.

1.6.3 Gulf and Gulf of Oman and Arabian Sea Resources

There are indications that the Arabian Gulf is not nearly as productive as either the Gulf of Oman or the Arabian Sea, although its resources are probably sufficient to support small trawler operations operating from local bases.(85) As FAO/UNDP Project covered the Area from in the Arabian Gulf till Ras-el Had in the Gulf of Oman consequently, it is of special importance to explore the existing biomas in the area from Ras-el Had to the Oman border with PDRY.

To date, our knowledge about standing biomass (abundance of resources) of Omani fish wealth is available from three survey reports recently carried out in the Gulf and Arabian sea, inclusive of Omani coast. These are:

(a) M/S. Mardella and Associates (final report, 1975)

(b) R/V Frid of Nansen's LOP/UNDP survey of the Indian Ocean (final report, August, 1977)

(c) FAO/UNDP Regional survey (1975-1980) (as mentioned above)

M/S: Mardella and Associated failed to quantify the pelagic biomas of

the Omani Coastal waters, but provided an estimate of the demersal stocks. According to their findings high commercial value fish is available as standing stocks in the order of 48,100 tons to 100,500 tons off the south east coast of Oman and from 3,700 tons to 4,700 in the Gulf of Oman. The lower commercial value demersal fish totals in both regions from 26,000 to 51,200 tons. The total demersal biomass off the south east coast of Oman and in the Gulf of Oman is thus estimated at between 78,400 and 156,000 tons.

Dr. R.V. Fridjof Nansen's survey of the Indian Ocean, yields the following statistics for the Oman offshore zones:

Pelagic biomass:

Average 1975/76 ranges from 580,000-770,000 tons.

Demersal biomass:

Average 1975/76	130,000 tons to 348,000 tons
Gulf of Oman	10,000 tons to 168,000 tons
South east coast	120,000 tons to 180,000 tons

As information on the fisheries resources of Oman remains comparatively poor, despite its great importance relative to other AGS countries, we have supplemented it by figures of actual fish landings in Oman (see also Table 1.9).

Oman fish catches:

Two types of fishing are under operation, the artisanal fishery which still provides the bulk of the catches, and the commercial fishery (using modern trawlers) recently introduced into the country. The latter is being operated by the Government (3 trawlers), and with joint ventures with foreign companies in the concession area around the South east coast of Oman. The Government trawlers are being operated from a Muttrah base.

Total Landings

	tons
1976	36,000
1977	39,000
Total	75,000
Average 1976/77	37,500

The percentage proportion of the total landings excluding small pelagics such as Sardines and Anchovies is about 24%.

Commercial Fishery: The statistics on landings of this fishery are actual records at the port of landing or on board the vessels:

	1976	1977	1978
(i) Japanese vessels	6,301 tons	6,868 tons	-
(ii) Government vessels	23 tons	505 tons	105
(iii) R/V Darbat	480	600	-
(iv) Korean vessels	-	-	1,589 (before May)
Total	6,804	7,973	1,694

For a realistic analysis of the actual fish landing, one has to ignore the 1978 catches (as it is incomplete) therefore, the total landings through commercial fishery during 1976 and 1977 were 14,777 tons. According to the concession agreement the Government received 40% share from the Japanese company (about 5,264 tons), but how much out of this share was actually marketed in Oman is not accurately known.

Artisanal Fishery: The information on statistics of the catch efforts and total landings by artisanal fishery were collected in 1976 and 1977 by the Directorate General of Fisheries from six main stations along the entire coast of Oman.

It is difficult to make any comments regarding this data on the artisanal fishery because the estimates are more hypothetical than actual. However, these statistics were released through official channels and were referred to in FAO's year book volume 42 (1976) and by the Regional fishery survey and Development project programme (FAO/UNDP) carried out by Feidi and Anderson in 1977. The final analysis is as follows:

1. Pelagic catches including sardines and anchovies:

	1976	1977
Sardines	63,180 tons	60,000 tons
Anchovies	98,000 tons	80,000 tons
Total	161,180 tons	140,000 tons
Average 1976/77	150,590 tons	

Percent of the total landings excluding demersal and other larger pelagic fish about 76%.

2. Demersal and other large pelagic fish (tunas, barracudas and Jacks etc.): had average catches during the two years of 45,000 tons.

The best estimate available of the total catches during 1976 and 1977 is 391,277 tons, of which the:

(i)	Commercial fishery contributed	3.7%
(ii)	Artisanal fishery contributed	96.3%
(iii)	Fish other than sardines and anchovies	19.3%
(iv)	Sardine and anchovies	77.0%

AGS Fish Catches:

Table 1.9 indicates the relative importance of AGS fisheries within the Arab Regional circle and the world. Although the only comparative statistics available are for 1974 the general position has changed little since that time.

1.6.4 Fisheries Resources Summary

It is clear in the light of the preceding analysis on fisheries resources and available statistics on the size of catch that the catch from the marine fisheries of AGS area (206,500 tons in 1974) is below its apparent potential (Annual maximum yield from the Project area which does not include Oman waters from Ras al-Had to S. Yemeni borders is estimated at 631,000 tons). Higher catches could be obtained if the resources were adequately exploited and managed.

The development of these resources might follow two complementary approaches, the better management of these resources which are already over-exploited (shrimp fisheries) and optimum use of those resources which are presently under-exploited, the situation exists mainly in the pelagic fisheries and to a more limited extent in some demersal fisheries.

To some extent the spatial and mobility characteristics of fish resources encourage motivation for cooperation in resource exploitatin within the AGS sub-regional circle. Whilst mineral and water resources

Table 1.9

Annual Catches of AGS (1974) and other Arab Countries

State	Catches (000 tons)	%	% of Arab Catch
(a) Arab Gulf States			
Oman	100.0	48	11.2
S. Arabia	31.3	15	3.5
U.A.E.	65.0	31	7.3
Kuwait	7.7	4	0.9
Bahrain	1.5	1	0.2
Qatar	1.0	1	0.1
Sub Total	206.5	100	23.2
(b) Other Arab Countries			
Morocco	288.1		32.2
South Yemen	133.5		14.9
Egypt	96.2		10.8
Tunisia	42.7		4.8
Algeria	35.8		4.0
Mauritania	25.6		2.9
Sudan	22.6		2.5
Iraq	17.5		2.0
North Yemen	11.5		1.3
Somalia	5.0		0.6
Libya	3.8		0.4
Lebanon	2.5		0.3
Syria	1.3		0.1
Jordan	0.1		0.0
Sub Total	686.2		76.8
(c) Total Arab Countries	892.7		100.0
(d) Total World	69,844.6		

Source: Faidi, I.H. Arab Economic Integration of Fisheries Wealth, Seminar on Agricultural Aspects of Arab Economic Integration, Alexandrian 2-7 April 1977, FAO and CAEU. Table 1, p. 46 (Arabic).

are firmly located within national boundaries and are associated clearly with ideas of national sovereignty, the movement and migration of fish across marine boundaries and the case of physical access to this resource by fishermen from anywhere, makes the position more open. The consequences of this for cooperation are examined more fully in Chapters 3 and 12.

1.7 Human Resources

1.7.1 Population

The AGS population was estimated in 1978 to be 11.682 million corresponding to 7.6% of the total Arab countries population (Table 1.10). The population characteristics of the AGS can be characterized as follows:

(a) First, the small size of populations. Saudi Arabia is relatively the exception with a population estimated in 1978 at 8.229 million corresponding to 74 percent of the population of the AGS, followed by Kuwait with a 1.212 mn of population constituting 9% of the AGS population, Oman with 839 thousand of population (7%). The Government of Oman estimate the population at 1.5 million for planning purposes although no general census has been achieved.

Table 1.10

Arab Gulf States Population (1978)

Country	Population (million)	%
Saudi Arabia	8.229	74
Kuwait	1.215	9
UAE	0.811	6
Qatar	0.220	2
Oman	0.839	7
Bahrain	0.368	2
(a) Total AGS	11.682	100
(b) Arab Countries	153.280	
a:b	7.6%	

Source: IBRD, World Bank Atlas.

Table 1.11

Arab Gulf States Population Growth and Density

Country	Population % Growth 1960-75	1970-75	Density persons per square Kilometer
Saudi Arabia	1.8	2.4	40
Kuwait	8.6	6.2	58.0
Oman	3.1	3.0	4.0
U.A.E.	13.9	19.7	5.0
Bahrain	3.4	4.2	416
Qatar	8.9	12.7	9.0
Total	6.6	8	

Source: U.N., Demographic Yearbook, 1976, pp. 121-122.

(b) The rate of population growth in this region is comparatively high. Intraregional migration is largely accountable for the high national growth rates in the Gulf states although this rate is more moderate in Saudi Arabia and Oman. The rate of population growth in the Sub-region is estimated to be 8% during the period 1970-75 whilst the rate in Saudi Arabia was 2.4% and Oman 3% for the period 1970-75. In Kuwait the growth rate was 6.1 percent, 2.2 percent due to the inflow of foreign labour and 3.9 percent to indigenous growth.(86) In Qatar, the population growth rate was officially estimated in 1973 to be about 8 percent, 5 percent due to the inflow of foreign labour and 3 percent to indigenous growth (87), it is worth mentioning that the growth rate during 1970-75 was 12.7 although no census has been taken since 1968.

In the UAE, the population growth rate was estimated in the period 1970-75 to be 19.7%, 80% of which was attributable to immigration. In Bahrain the estimated population growth was 4.2% in the period 1970-75.

(c) Population composition in the AGS is characterized with a large percent of non nationals, as shown in Table 1.12.

Table 1.12

AGS Non-National Population Percentage

	%	Year Estimates
Saudi Arabia	25.4	1974/75 estimates
Kuwait	53.0	1975
Oman	N.A.	
U.A.E.	69.5	1975
Bahrain	23.9	1975
Qatar	61.9	1975 official estimate

Source: Askari, H. and Commings, J.T., Middle East Economies in the 1970s, (London: Praeger Special Studies in International Economics and Development, 1976) p. 286.

The inflow of immigrants into the Arab Gulf states has enabled them to save a large amount of effort and money needed to build up a labour force. However, it has its social integration problems, mainly when the language, religion and culture are different, in addition to the reliance on a source that might not be guaranteed.(88)

(d) The adult rate of illiteracy is comparatively high especially for females. While this percentage was 50% in the capital surplus oil exporters in 1975, it was 1% in the industrialized countries and 29% in the middle-income countries.(89)

(e) Very low crude activity rates. Table 1.13 details the population and indigenous work force of five AGS. Their combined indigenous work force which amounted to about 1.2 million in 1975 was reflected in a very low crude participation rate of 22 percent. The utility of this small number is further restricted by a limited level of educational attainment and a low level of motivation.(90) These factors additionally contributed to the heavy reliance of AGS upon migrant labour resulting from the small indigenous population, and the scale and rapidity of economic development upon which they have embarked.

Several factors are responsible for the very limited work force

generated by AGS indigenous population, namely, the low participation for women in the labour force, and recent improved access to health facilities contributing towards fast growing youthful populations. The indigenous communities are increasing at about 3% per annum with the result that large numbers are too young to enter the work force. Enrolment in higher education alsc delays their entering economic activity.(91)

1.7.2 Labour Force (Tables 1.13 and 1.14)

A shortage of skilled and unskilled labour is a feature of all oil producing developing countries. This is reflected in the massive immigration streams to these countries raising the proportion of the non-national labour force.

The total active non-nationals proportion in the AGS Sub-region was about 51.0% in 1975. In Saudi Arabia this was 43%, in the UAE 84.8%, Qatar 81%, Kuwait 69.4%, Bahrain 39.6%.

The number of persons engaged in technical skills and other key professions (engineers, doctors, teachers, accountants etc.) is very small in these countries. As an example in 1971, in Kuwait there were only 29 Kuwait doctors out of 581 and 56 Kuwait engineers out of 1211 and 79 percent of Kuwaiti civil servants were either illiterate or had completed only primary education.(92)

In fact, labour, skilled and unskilled, is a constraint on all AGS countries' development effort. This is reflected in the authorities' comparative liberal attitude toward immigration and their effort to encourage education and vocational training.(93)

The following further negative features can be identified in the AGS labour force:

(a) Actual deficit in the professions needed for economic and industrial development projects.

Table 1.13

Indigenous Population and Indigenous Work Forces of AGS, 1975

	Population	Work force	Crude Participation rate (%)
Saudi Arabia	4,592,500	1,026,500	22.3
Kuwait	472,100	91,800	19.4
Bahrain	214,000	45,800	21.4
UAE	200,000	45,000	22.5
Qatar	67,900	12,500	18.4
Total	5,546,500	1,221,600	22

Source: Birks, J.S. and Sinclair, C.A., Nature and process of labour importing: The Arabian Gulf States of Kuwait, Bahrain, Qatar and the U.A.E. (Geneva, ILO, Aug. 1978) mimeographed world Employment programme research working paper (WEP 2- 26/30 Wp)

Table 1.14

Employment by Nationality in AGS (1975)

	Active Nationals		Active Non-Nationals		Total Active
	No.	% of total	No.	% of total	
Bahrain	45,800	60.4	30,000	39.6	75,800
Kuwait	91,800	30.6	208,000	69.4	299,800
Qatar	12,500	18.9	53,800	81.1	66,300
Saudi Arabia	1,026,500	57.0	773,400	43.0	1,799,900
U.A.E.	45,000	15.2	251,500	84.8	296,500
Total	1,221,600	48.1	1,316,700	51.9	2,538,300

Source: Ibid.

(b) Preference given to office employment rather than technical work.

(c) Unbalanced participation in the labour force between males and females.

In the Sub-region, generally speaking, there is no unemployment and labour shortages exist in all areas of the economy. For example, in Qatar non-Qataris account for about 85 percent of private employment and somewhat more than half of the public sector employment.(94) The rising demand for labour coupled with supply bottlenecks and the lack of housing have created temporary labour shortages, especially with respect to skilled workers.

In the UAE manpower shortages, in the technical and managerial categories, are a major bottleneck; housing shortages and high rents compound the difficulties in the way of accelerated and diversified development.(95)

1.8 Resources Base - Summary

This necessarily brief and selective survey of basic resources in the Arab Gulf states has sought to bring out the very significant contrasts between an area over-whelmingly rich for the most part in crude oil and natural gas reserves but severely lacking in any other appreciable natural resources except fisheries.

By definition, these states have an extremely poor relative endowment of natural resources, other than hydrocarbons. Crude oil exports dominate their economies and it is to oil income that all other activities ultimately return for financial sustenance as will be illustrated in the coming chapters.

It follows from this that the creation of new productive assets by the oil-exporting states will be very considerably inhibited by the constraints of a difficult and hazardous environment and the lack of basic elements of development, water, mineral resources and manpower especially in skilled and managerial cadres. Oil wealth may be used to buy ways around some of the difficulties. Water can be produced from desalination plants at a price for domestic, industrial and agricultural use. Soils can be cultivated at the cost of high inputs of fertiliser, human skills and energy. Labour can be imported, however, with negative socio-political repercussions on societal structure and behaviour. It may be questioned however, whether these activities are appropriate to anything but an extremely capital-rich oil economy and whether any will survive the passing of oil wealth.

Moreover, the highly skewed resource base of the AGS clearly

limits the absorptive capacity of wealth generating sectors. This particular effect which is a fundamental determinant of development possibilities will be examined further in Chapter 8 in the context of motivation for cooperation in development.

In the following chapters on the development of AGS we will explore how these countries' resource base affects the whole process and how it creates structural problems.

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CHAPTER 2 - AGS DEVELOPMENT AND INDUSTRIALIZATION TRENDS

2.1 Introduction

Following the brief appraisal of the resource base of the AGS, we commence in this Chapter the review and evaluation of the main characteristics of development policies in the AGS, first by summarily describing the national planning machinery of each state. Secondly, we examine the implicit and explicit national development strategies as indicated by sectoral investment and expenditure. We note in particular the general assumption within the AGS that the planned development of manufacturing industry must be given priority among the production sectors and illustrate this trend by briefly analysing the approaches to manufacturing in Kuwait, Oman and Saudi Arabia.

This is followed in Chapter 3 by an examination of the second major production sector of agriculture and fisheries. Chapter 4 evaluates the development processes of the AGS countries acting individually. This treatment allows us to identify a joint strategy that the countries could aspire to through development cooperative effort. Such an effort would not only provide, generally, benefits through development cooperation but would also enable individual countries to make more correct individual policy decisions for achieving national objectives.

This approach to the identification of priorities allows us to view the proposed priorities in relation to the development plans of each of the countries and in relation to each other. The approach is therefore dynamic and based on the inter-relationship of the past and of the planned future.

Secondly, because this approach takes into consideration all sectors and all planned projects, not merely one industry or one project in isolation, it can better satisfy the criteria of reciprocity

and equal advantages for the participating countries. The importance of analysing development trends is also related to the process of identifying various components of development activities, thus helping to formulate a sound approach for development cooperation that takes into consideration, Sub-regional, Regional and International components.

This approach of identifying common elements in country development strategies through the analysis of countries development plans is consistent with the practical approach followed by this research to achieve development cooperation as it leads the way to elicit positive response and overcome the countries cautious attitude to programmes of Sub-regional or Regional cooperation. The knowledge that a proposed Sub-regional arrangement is constructed within the countries development plans objectives and policies would reflect mutual benefits and tend to ensure the cooperation framework was accepted by these countries.(1) The listing of main development priorities, problems and policies may also indicate areas in which unnecessary duplication of effort might take place which could be avoided through regional co-ordination.

Not all AGS countries have formal development plans, particularly in Bahrain, Qatar and to some extent the UAE, but we depend on varied available information on the development priorities, policies and planned projects for these countries.

The intention here is not to restrict the opportunities for development cooperation to those mentioned in the development plans of these countries, as we believe that there could be projects and opportunities other than those simultaneously appearing in the individual development plans of some countries of region that would if undertaken on a co-ordinated basis, be superior. Hence, secondary criteria such as market size relative to minimum efficient comparative costs, etc, have to be considered throughout the whole analysis.(2)

2.2 Development Planning Machinery

2.2.1 Qatar

There is no formal institutional arrangement for development planning in Qatar and no comprehensive development plan. Major projects are co-ordinated by the Council of Ministers, and the industrial Development Technical Centre assists with feasibility studies and provides technical assistance to various industrial and infrastructural projects.

By the end of 1973 a plan for development was drawn up and accepted by the government. The following areas of priority were emphasized(3):

1. Housing. By 1990s about 17,000 new houses were to be built, with the constructed houses to average annually 1100.
2. Education. Thirty-eight new schools were to be completed by 1985.
3. Health Activities and Projects.
4. Development of Doha, with two new industrial estates, several work shops, the construction of industry was to be greatly modernized.
5. Diversification of the economy. Substantial outlays were to be devoted to new non-oil industries such as iron and steel, aluminium, as well as petrochemicals and natural gas.
6. Revival of traditional economic sectors. The fishing industry was to be modernized through better boats and refrigeration warehouses, as well as agriculture to be encouraged by government.

Since the outline plan was produced, development policies have only been announced piecemeal in association with statements of projected annual budgetary expenditure.

2.2.2 Bahrain

No institutional arrangements for formal planning exist in Bahrain. Projects are evaluated individually by a cabinet sub-committee which formerly comprised the Minister of Finance and National Economy and the

Minister of Development and Engineering Services and to which, following a Cabinet reorganisation, three other Ministers (Foreign Affairs, Commerce and Economy and Information) have been added. This Cabinet sub-committee also has broad responsibility for approving budget estimates. The Ministry of Development and Engineering Services is responsible for the implementation of major projects while the Ministry of Public Works and Utilities is responsible for much of the work on infrastructural projects.(4)

2.2.3 UAE

Development Planning:

Planning in the UAE has been largely confined to annual investment programs; in general government investment has not taken place in the context of a medium-term macroeconomic framework. Development expenditures have been undertaken both at the Federal Government level and at the Emirates level. Federal Government investment has been mainly confined to infrastructural projects, including roads, communications, electricity, water, schools, hospitals and post offices, while the Emirates have been responsible mostly for local industrial projects and some infrastructural projects, such as intra-city roads, ports and airports. There is as yet no effective co-ordination in planning between the individual Emirates.

To a considerable extent this reflects the history of revenue availability in the UAE. Since the mid 1960's, before the UAE was created, the main oil derived wealth has flowed into and out of Abu Dhabi and it has become assumed that most Federal development expenditure will be met by Abu Dhabi contributions to federal budgets. As a result, the individualist tendencies of the component Emirates have become strengthened rather than weakened and no strong central control exists.

At the Federal level, each Ministry has the responsibility

for proposing projects within its domain. Project identification is usually done on the Ministry's initiative, sometimes, however, it is done in consultation with or upon the recommendation of the Emirates. The project proposals are forwarded to the Ministry of Public Works for engineering feasibility and cost studies. These studies are then sent to the Ministry of Planning which makes a recommendation based on its examination of the financial, economic and social aspects of the project and the past record of the initiating Ministry in implementing projects. The recommendation is submitted to the council of Ministers, which decides on the projects to be implemented. The responsibility for project execution varies depending on the capabilities of the Ministry concerned, some Ministries, such as those responsible for electricity and water, implement their own projects, while the projects of other Ministries are executed by the Ministry of Public Works.(5)

For annual development programs, the project selection process of Abu Dhabi is similar to that of the Federal Government; it starts with the submission of development expenditure requests for specific projects by the local departments to the Planning Department's Projects Committee. The Committee then discusses these requests with both the department executing the projects (usually the Department of Public Works) and the initiating department before formulating a plan for the approval of the Executive Council and the Ruler. In preparing the 1977 Three-Year Plan, however, a somewhat modified system was adopted. Some sectoral Surveys were conducted and formed the basis for the technical preparation of the plan, the responsibility for which lay with the administrative department and the Department of Planning. The final approval of the plan still rests with the Executive Council and the Ruler.(6)

Abu Dhabi's first five year development plan (1968-1972) was

drawn up under the direction of a planning council headed by its ruler Shaikh Zayed. This plan was not comprehensive. It neither considered private sector investment nor dealt with implementation problems.(7) Since this plan came to an end in 1972, no comprehensive further forward planning has been attempted as development was carried out through allocations in the annual budget on a project basis until the initiation of the three years development plan (1977-1979), but this plan had not been adopted officially.(8)

There is no co-ordination in the implementation of development projects among the seven Emirate. The Federal Government has not itself started any industries although the Ministry of Finance and Industry was set up in 1973 and seemed not to have any basic influence over the numerous bodies which are involved in actually setting up factories.

A Federal Ministry of Planning was established in 1978 and begun preparatory work for a 3-5 year plan starting in 1981. The Ministry of Planning however has not yet developed the power to stop individual Emirates doing what they choose, and the trend of locally and regionally uncoordinated investment continues. It is thought that the situation seems unlikely to alter until the federation matures politically, and in the meantime there is a danger that industrialization may take a course which could damage UAE economically and socially.(9)

Apart from the relative newness of the planning agencies and the lack of qualified staff to study and evaluate proposals, planning in the UAE is handicapped by the lack of co-ordination among the Emirates and is reflected in the duplication of projects such as the construction of four (and one planned) cement factories in four Emirates, and the development of four harbours and airports in close proximity on the same strip of the coast.(10) The absence of an adequately data base for planning purposes as well as the administrative system which is poorly

co-ordinated at the Federal level and extremely centralized within each Emirate, constitute two further problems. Thus the information and administrative base for decision making and long-range planning has been inadequate,(11) and resulted in considering economic development planning to be one of the major areas where UAE is extremely weak.(12)

In Dubai the Ruler has allocations for development expenditures but the exact amounts of these are not known. The Ruler's office handles the large projects while Dubai town planning is centralized in the hands of the municipality and other projects are handled by the government departments. Most of these projects are directed to the improvement of Dubai's trade and services facilities.

In Sharjah planning is mostly done from the Ruler's office but here the extent of the private sector's participation in the financing and execution of projects is considerable.(13)

Planning implementation has been least successful for agriculture and industrial projects and most successful for infrastructure and social overhead investments.

> "As in many other Opec countries, planning implementation is least effective in the productive sectors since projects in industry and agriculture are the most difficult to implement."(14)

2.2.4 Kuwait

Development planning in the form of a general guide for project preparation began in Kuwait in early 1976 when a Planning Board was created.(15)

This board has played an important role in influencing the course of development. It selected consultants, carried out background and macroeconomic studies, was involved in manpower planning and incorporated the central statistical services.(16)

A five year plan was launched covering the period from March 1967

to March 1972. The plan's implementation, however, was suspended after the 1967 Middle East War. In an effort to accelerate the development process in a co-ordinated and comprehensive manner, a Five Year Development Plan covering the 1976/1977-80/81 period was prepared and submitted to the Cabinet for approval. To expedite the implementation of the plan, a Ministry of Planning was established in early 1977 to replace the Planning Board.(17)

This first effort by the Kuwait Planning Board was not ratified by the National Assembly, however, and until 1975 no other official plan was considered. Increased oil revenues then prompted another attempt, for the period 1975/76-1979/80. Although the first plan was not legally enacted, its indicated priorities were reflected in the Kuwaiti budgets for 1967/68-1971/72.

2.2.5 Saudi Arabia

Saudi Arabia had no centralized authority until the early 1930's when the last of the major tribal rebellions was crushed by the House of Saud. Under King Abdul-Aziz ibn Saud (1902-1953) the first steps were taken to modernize Saudi Arabia's organizational structure. Ministries were established that expanded and institutionalized the role of the king and his advisors.

In 1953 the first steps were taken to establish a Council of Ministers. The Council's executive powers were expanded in May 1958. An Economic Development Committee was established in 1958, following the advice of the IMF, for evaluating Ministerial projects for the next five years (1959 to 1964); however, this committee was ineffective.(18)

In December 1959, when King Saud took over the government, he established a Supreme Planning Board with broader powers. However, it was hampered by the lack of autonomy from the Ministries, by interference from the king, lack of experienced staff and the absence of a statistical base for planning.

> "Moreover, because the government's attention was focused on the Saud-Faisal power struggle and the Egyptian-Saudi diplomatic and military conflict over Yemen, development planning was neglected."(19)

Four months after Faisal replaced Saud as King in November 1964 a Central Planning Organisation (CPO) superseded the supreme Planning Board. Long-term planning was improved by limiting CPO responsibility to the formulation of plans. However, CPO was undermined by the powers of Petromin which was established in 1962 to develop and utilize petroleum and mineral resources (including refining and internal distribution petrochemicals and fertilizers) and also in the initiation of industry and trade based on these resources. In particular the CPO had little influence over the country's oil and foreign investment policies.

Some extra attention must be paid to the series of formal plans which have emerged since 1970 because the scale of development investment in Saudi Arabia is incomparably larger than found elsewhere in the AGS and has tended to set the 'economic fashion' in the Sub-region.

The first Five-Year Development Plan (1970-1975) was submitted to the King but it suffered from a weak statistical and methodological base.

The following reasons contributed to hamper the implementation of the first plan in many areas(20):

(a) The 1973 jump in oil prices resulted in more revenues than Saudi Arabia could spend effectively and rapidly caused severe inflation.

(b) Lack of capable administrators and skilled labour.

(c) Insufficient infrastructural capacity.

The formulation of the second Five-Year Plan (1975-1980) started with a good deal of confusion and uncertainty. It was clear that Saudi Arabia would receive far more oil revenues than it could spend. At the same time the CPO had more proposed projects than it could analyse

and evaluate as each ministry made numerous proposals with little regard for the country's limited manpower and infrastructure. It is thought that the second Five-Year Development Plan is 'by far the least realistic development plan of any of the OPEC Countries'.(21)

> "It envisages a financial allocation of over $142 billion in 5 years, but it projects that labour demand will increase by 800,000 persons and non-oil GDP will increase by only 17 billion riyals ($5 billion). Given the low literacy and skill levels of the population, projected labour demand is far too low for the projected expenditure.
>
> Similarly, it is not credible to expect non-oil GDP of any country, even one as dependent on imports as Saudi Arabia, to grow by only $5 billion while spending $142 billion in the public sector. Finally, it is unrealistic to expect Saudi Arabia, with a non-oil GDP of less than $6 billion in 1975, to implement a $142 billion development plan in 5 years."(22)

Spending a development investment allocation 12 times greater during the second plan than the first plan, as illustrated in Table 2.1, seemed beyond the capacity of the country.

It is worth noting from Table 2.1 that under the second plan, mining and manufacturing were planned to receive over 40 times the investment under the first plan.

> "This is far more than one would normally regard as feasible."(23)

To summarize the situation relating to Saudi development planning efficiency, it seems that its statistical as well as capable organisational and administrative base is still extremely poor. Further analysis of more recent development is made in the context of the sample study of industrialisation and other trends in 2.3.3. below.

2.2.6 Oman - Organization Structure of Government(24)

Before 1970 there were no ministries in the modern sense and only a limited number of government units. Top priority was therefore given to the establishment of an administration to carry out the different administrative and executive functions of government schemes

Table 2.1

Saudi Arabia, Sectoral Planned Allocations under Five-year Plans

Sector	First Five-Year Plan (1969/70-1974/75)		Second Five-Year Plan (1975/76-1979/80)	
	Billion Saudi Riyals	Percent	Billion Saudi Riyals	Percent
Economic Resource Development	2.6	6.3	90.1	18.1
Agriculture	(1.5)	(3.6)	(4.7)	(0.9)
Mining and Manufacturing	(1.1)	(2.7)	(45.1)	(9.1)
Electricity	(-)	(-)	(6.2)	(1.2)
Water and desalination	(-)	(-)	(34.1)	(6.8)
Human Resource Development	9.3	22.5	111.1	22.3
Education	(7.4)	(17.9)	(74.2)	(14.9)
Social Programs and Youth	(-)	(-)	(14.6)	(2.9)
Health	(1.9)	(4.6)	(17.3)	(3.5)
Holy Cities and Hajj	(-)	(-)	(5.0)	(1.0)
Physical Infra-structure Development	12.1	29.3	107.9	21.7
Transport and Communications	(7.5)	(18.2)	(40.3)	(8.1)
Municipalities and housing	(4.6)	(11.1)	(67.6)	(13.6)
Government and Aid	17.3	41.9	179.9	36.1
Defence	(9.6)	(23.2)	(78.2)	(15.7)
Administration	(7.7)	(18.6)	(38.2)	(7.7)
Foreign and domestic subsidies	(-)	(-)	(63.5)	(12.7)
Other	0.1	0.3	9.2	1.8
Total	41.3	100.0	498.2	100.0

Source: Abul Fathi, F., et.al. The Opec Market to 1985 (Canada: Lexington Books, 1977), p. 245.

in particular. This organizational and administrative reform was effected gradually and in phases, keeping in mind the development of the country's resources. The outcome of this reform was the emergence of an organized administration which assumed the responsibilities and functions of a modern government.

The economic planning and development units have undergone several organizational phases since 1970. Following the accession to power of Sultan Qaboos Bin Sa'id the Development Board was dissolved to be replaced by the Department of Planning and Development and an independent Tender Board was formed. Thereafter a temporary Planning Council was created which was renamed as the Supreme Council for Economic Planning and Development in accordance with the Sultan's Decree No. 15/1972 issued on September 27, 1972. The Centre for Economic Planning and Development was responsible to this supreme Council.

All the above-mentioned and development organizations exercised both planning and executive functions. This was necessary in the absence of fully operational government executive units at that time.

On April 25, 1973 a Sultan's Decree was issued regarding the establishment of the General Development Organization, the functions of which included those of the Centre for Economic Planning and Development.

On November 17, 1973, in accordance with a Sultan's Decree, the General Development Organization became the Ministry of Development. In common with other units this ministry continued to exercise both planning and administrative functions. Under its executive jurisdiction it continued to carry out the activities relating to the economic sectors for which no separate Ministries existed. These were the sectors of agriculture, irrigation and fisheries, mining and petroleum, commerce and manufacturing.

On November 17, 1974 the Council of Ministers was reconvened and executive functions were separated from planning functions as a result of which the Ministry of Development was dissolved and its executive functions were distributed amongst other ministries, including two new ministries, the Ministry of Agriculture, Fisheries, Petroleum and Minerals and the Ministry of Commerce and Industry.

The Development Council was established to exercise planning functions in accordance with the Sultan's Decree No. 41/1974 issued on November 17, 1974. The Sultan is the President of the Council, the Minister of State for Foreign Affairs was appointed as Deputy President. A Technical Secretariat was formed to assist the Council and to follow up the implementation of its resolutions.

One of the first tasks which the Development Council performed was the preparation of the Economic Development Law 1975 which was issued in the Sultan's Decree No. 9/1975 on February 1, 1975.

The functions of the Development Council as defined in this law are as follows:

First, to set objectives and a strategy for economic development, to propose policies and measures to carry out these objectives and to lay down development plans in harmony with it. Such development plans will be subject to approval by His Majesty, the Sultan.

Secondly, to discuss and establish an annual development budget and to refer this budget to the Council for Financial Affairs.

Third, to set and approve priorities for development projects submitted by ministries and government departments before they are implemented, with a view to ensuring conformity with the approved priorities, and to achieving complementarity and consistency of projects in terms of time and substance.

The Development Council has produced two Five-Year Development

Plans which are briefly examined later in this Chapter.

2.2.7 Summary

In view of the preceding information on AGS development planning administration it was clear that the governments of Kuwait, Saudi Arabia, Oman and recently UAE have accepted planning, whether imperative or indicative, as an indispensable instrument needed to direct the economic and social development. The governments of Bahrain and Qatar have no planning machinery as yet and development activities in the public sector have been undertaken through periodic development budgets. However, these two countries seem to be following partial planning as reflected in the Five Year Industrial Development Programme (1970/71-1974/75) of Qatar. More recently, the need for a development planning body has been felt in Qatar and Bahrain. In all cases planning procedures have been nationally individualist although some reference is frequently made to the need for cooperation.

Although there are signs of the growth of established government planning machinery, especially in Kuwait and Saudi Arabia, all AGS development agencies embody weaknesses in their technical capabilities, with extremely poor statistical and organisation bases.

Deficiencies in public administration (viz. over-centralization, inadequate organization, procedures and methods, lack of coordination between planning and decision-making, poor staffing and others) have been largely responsible for inadequate formulation and implementation of development programmes and projects. It is increasingly recognized that administrative capabilities, as well as financial resources and technical expertise, are an integral part of planning. Consequently, the question of strengthening development planning machinery in particular and government machinery in general must become a priority and an essential pre-requisite for the sound development of AGS.

2.3 AGS - Development Trends and Sectoral Evaluation

This section and those following are devoted to an analysis of development objectives, and trends in the AGS in broad terms, illustrated sectorally. We begin with industrial development as industrialization has been the main instrument adopted to achieve development objectives relating to economic diversification.

The situation in the AGS is exemplified here through Kuwaiti, Omani and Saudi industrial development trends during the 1970's, ending this section with joint analysis to development objectives, trends and strategies.

2.3.1 Kuwait - Development and Industrial Trends

The state has long allocated a substantial part of oil revenues to the creation of social and economic infrastructure and the development of industry through allocations in annual budgets and in other ways. In industry, special emphasis was being given to projects assured of market outlets abroad and those which can substitute for essential imports.

A major goal of Kuwait, at least up until 1973, was the development of a comprehensive modern welfare state. The major non-social programs included oil-based industries and a modern transportation network. Light industries and fisheries, on the other hand, were not promoted as rapidly as might have been expected nor has the admittedly slight productive potential of agriculture been notably exploited.

Industrialization played an important part in Kuwait's planning for diversifying its economy and reducing the country's dependence on oil and gas resources. Since 1966, industrial output has been growing at a rate of 11% a year but by 1973-74 still contributed only 3.6% of the GDP, of which almost half was from oil refining. The major

constraints on this development were the lack of any natural resources apart from oil and gas, the limited size of the domestic market and the lack of trained manpower. The largest industries remain State owned or joint sector companies.(25) The State sponsored the formation in November 1974, of Industrial bank of Kuwait (49% Government and 51% State and public financial institutions) in order to provide long and medium term industrial finance.

In 1976, Kuwait's ministry of planning completed a five year development plan covering the years 1976/77-1980/81. This plan, provided for total fixed investments of KD 4.4 billion, of which more than 75 percent were to be made by the public sector. The plan called for a substantial increase in investments over the level of previous years. In an effort to broaden the country's economic base, the plan placed special emphases on industrialization; about 38 percent had to be spent directly on this sector (see Table 2.2). Priority had to be given to capital-intensive, export-oriented industries that use oil and gas as feedstocks and/or as a source of energy. In support of this industrialization programme about 30 percent of all planned investment was allocated to the expansion of such infrastructural projects as electric power generation, water desalination and the improvement of transportation, port and storage facilities.

To ensure adequate housing accommodation and to expand the educational and health facilities, 31 percent of investment was to be made in the construction sector.(26)

Planning Objectives:

The long-term economic objectives for Kuwait are based on the building of a society characterised by the following:

(a) Self-sustaining economic development.

(b) Maintaining minimum guaranteed standard of welfare for all citizens.

Table 2.2

Kuwait Five-Year Development Plan (1976/77-1980/81) Allocations
(In billion of Kuwait dinars, at 1975/76 prices)

	Amount	Percent
(a) Total investment allocations for fixed capital formation	4.441	100.0
Public sector	3.393	76.4
Private sector	1.048	23.6
(b) Allocations for the rise in stocks	0.444	
(c) Distribution of total investment by sector	4.441	100.0
Oil and Gas sector	0.765	17.2
Manufacturing other than oil	0.910	20.5
Transportation and communication	0.782	17.6
Water and electricity	0.537	12.1
Construction	1.377	31.0
Other	0.070	1.6

Source: Ministry of Planning and Central Bank of Kuwait

The Five-Year Plan (1976-1981) prepared to meet the above-mentioned objectives based on the following strategic factors:

(a) The development of the labour force through training, and planning so as to meet the needs for labour, encouraging the participation of women in production, increasing productivity especially in relation to wage rates.

(b) Economic diversification and the broadening of the productive base through the use of technology, setting up industrial plants, and creating a favourable atmosphere for the encouragement of local investment in productive sectors.

(c) Co-ordination and economic integration of different national sectors.

(d) Strengthening regional and Arab co-operation in joint development projects.

(e) Building of a non-polluting society within the framework of correct values.(27)

The explicit inclusion of item (d) is noteworthy here.

In Kuwait development planning there is also recognition of the vital importance of human resources. Owing to the small size of population and the country's need to import the needed labour force, the human being is the base for all social and economic plans, consequently the development plans are based on the long terms which considers a full generation (round 25 years).(28)

Industry:

Kuwait's industrial sector consists of a few large-scale, export-oriented petrochemical industries and a wide range of small manufacturing industries. In 1974 the number of industrial establishments totalled 2,985, employing 26,822 workers. Their contribution to Kuwait's non-oil GDP is estimated at about 11 percent in 1973/74. The traditional industries, such as those producing food, furniture and clothing, consist of a large number of small firms employing less than 10 workers each. In 1974, their fixed assets were valued at KD 4.4 million and their total output amounted to KD 24.2 million.(29)

In addition there were 25 firms employing more than 100 workers each, with total fixed assets amounted to more than KD 60 million. These larger firms jointly employed more than half of the total labour force and contributed more than 75 percent of the total value added of the industrial sector. While some new establishments have been added to Kuwait's industrial sector in recent years, its further expansion is hampered by the lack of suitable raw materials, the limited size of the domestic market, and the shortage and high cost of labour.

Among the major manufacturing industries, fertilizer plants are the most important and account for the major part of Kuwait's non-oil exports. Fertilizers are produced by Petrochemical Industries Company (PIC) in which Government has a 92 percent interest. The PIC operates the Kuwait Chemical Fertilizer's complex which emoloys a labour force of over 1,000. Its major products are urea, liquid

ammonia, ammonium sulphate and sulphuric acid. Ammonia and nitrogenous fertilisers are also produced by Kuwait Chemical Fertilizer Co. (KCFC) and Kuwait National Petroleum Co. (KNPC), the latter also handling KOC refined products and marketing refined products within Kuwait. Efforts are being made to modernize the fertilizer industry in response to changes in demand patterns, and the capacity of the urea plants is currently being increased.

Another large industrial concern is the Kuwait National Industries Company (KNIC) in which the Government holds a 51 percent share. The KNIC produces building materials such as bricks, cement, asbestos and prestressed concrete. Three companies affiliated with KNIC produce prefabricated buildings, metal pipes and cement.

Output of the wheat milling industry stabilized in recent years as the mills had reached their capacity limits, and there are plans to expand capacity in the near future. Output of public utilities, including generation of electricity and production of desalinated water, continued to rise sharply in 1975 and 1976 because of the installation of new and larger facilities to meet the increase in demand.(30)

Although statistical coverage of industrial products is incomplete, available data show that considerable production increases have taken place in recent years. Production of chemical products other than fertilizers witnessed sharp increases in 1974 and 1975; production is believed to have continued to rise substantially in 1976 as a result of strong demand.

Because of the heavy dependence on oil revenues (68.9 percent of GDP in 1979) the Government has ambitious plans to expand and diversify the industrial base. The most immediate areas of new activity are expected to be gas and petrochemicals. Thus, a liquified propane plant and a large petrochemical complex are in the planning

stage. In addition the Government intends to handle the marketing and shipping of LPG, petrochemicals and crude oil, and plans have been made to establish factories for, amongst other things, cement, air-conditioning units, industrial detergents and a solar energy company as well as atomic power stations for water-distillation purposes. Thus in the coming years, Kuwait will witness the start of many major industrial projects which together with large public schemes (housing, roads, schools, hospitals, etc.) should stimulate the economy as a whole. Business activity will also flourish in the service sectors especially airways, shipping and transport etc.

Nevertheless, against Kuwait's positive features (vast sources of capital, abundant supplies of natural gas, access to a great variety of refined petroleum products, a favourable geographic position, freedom to repatriate earnings and profits, duty-free imports of machinery and spare parts, tariff protection against foreign competition etc.), foreign investors must particularly consider the shortage of water, the absence of raw materials, other oil and natural gas, the smallness of the domestic market, high labour costs and a paucity of technical and organisational skills.

It is thought that petrochemical industries are the most convenient for Kuwaiti economy as they use local raw material and resources (oil and capital), enabling to make the advantage of selling industrialized oil instead of raw oil.(31 & 32)

2.3.2 Oman - Development and Industrial Trends

The Development Council was charged with preparing the first Five Year Plan (FYP) for 1976-80; this was approved in the second half of 1976.

The main objectives of the plan were:(33)

(a) To shift the concentration of investment from infrastructure to income generating projects in order to supplement and eventually

replace oil revenues.

(b) To develop local human resources with the aim of increasing Omanisation of the labour force to replace expatriates.

(c) While maintaining and developing the existing population centres to effect a wider geographical distribution of investment with the objective of improving the distribution of income and reducing the rate of migration to major centres.

(d) To achieve the basic requirements of a free market economy, with the private sector playing an increasing role through the provision of an appropriate legal and incentives framework.

(e) To pay more attention to the development of water resources.

(f) To improve the efficiency of government administration.

Industrial Development:

Although the first five year plan forecast very high growth rate, this was from a very low base in 1976. The major projects in the plan were the gas pipeline, oil refinery, copper mining, cement and flour milling. There is a much larger list of 51 projects (does not include the gas pipeline) in the Ministry of Commerce and Industry. However, most of the projects on this list are in preliminary stages of preparation or represent no more than project ideas for consideration.

A register of purely manufacturing firms recorded only 15 in 1975 but 339 in 1979. A separate survey in 1980 indicated that of the 570 active industrial firms which responded (out of an identified total of 930) 315 started during the First Plan period. Most of these were fairly simple processing plants, with small labour units and mainly concerned with building materials.

Of the major Government investment projects identified in the first FYP only the National Flour Mill at Muttrah and the desalination and power-plant at Ghubra were completed before 1980. Of the more than 50 projects listed by the Ministry of Commerce and Industry almost

all were only at preparatory and consideration stages in the first FYP period. As can be seen from Table 2.3, between 1976 and 1980 the bulk of actual Government investment was still in physical infrastructure (22% in transport and communications and 11% in electricity and domestic water supplies) and in social welfare (almost 10%), as compared with 0.5% in industry other than oil.

The second FYP ratified in November 1980 covers the period 1981-85. Planned Government investment in industry makes up almost 10% of the total, including,as major projects already completed or to be completed, by 1985 an oil refinery and asphalt plant to meet the main domestic demand, a cement plant, a copper mining and smelting complex at Sohar and a general industrial estate at Rusail. The energy for most industries will be supplied by the gas pipeline from the interior and a north coastal distribution system.(34)

Oman's manufacturing sector is still very small, however, the Government has taken a number of measures to encourage private sector industrial investments.(35)

2.3.3 Saudi Development Trends

The huge scale of Saudi development expenditure and the influence which this has had on other AGS attitudes requires a relatively lengthy analysis here.

The First Development Plan (1970-1975):

The first FYP (1970/71-1974/75) had three broad objectives: (1) the achievement of an average annual rate of growth in GDP of 9.8 percent in real terms; (2) the development of human resources through manpower planning and investment in social infrastructure; (3) economic diversification to reduce the country's dependence on oil production. Total Government expenditures in the plan period were initially estimated at SRLs 41.3 billion, of which SRLs 18.4 billion (44.6 percent)

Table 2.3

Sectoral Distribution of Omani Government Investment
(O.R. millions at current prices)

	1971-1975	1976-1980	1981-1985
Oil	31.1	215.3	588.9
Natural Gas	17.6	20.7	29.0
Mining	0.4	11.7	58.2
Agriculture	9.7	12.6	51.9
Fisheries	2.0	5.7	30.4
Industry	0.4	0.6	166.2
Transport and Communication	107.8	258.8	352.2
Electricity and Water	61.8	130.6	186.2
P.T.T.	13.5	16.0	66.8
Water Resources	N.A.	4.2	56.0
Commerce and Tourism	2.3	17.6	69.5
Housing	20.5	29.7	134.2
Education and Training	5.7	34.8	88.1
Health	20.1	22.1	34.4
Cultural, information, religious and social	20.7	15.7	58.8
Municipal	19.4	39.4	25.8
Finance and Banking	N.A.	6.2	59.0
Government Administration	62.7	55.7	99.4
Total	430.6	1203.6	2155.0

Source: Omani Second Five-Year Development Plan 1980-1985.

was for project expenditures and the remainder for recurrent expenditures. These estimates were made at a time when oil revenues had been growing at a relatively slow rate and the fiscal and balance of payments positions were in near balance. In fact, in the first year of the plan period the budgetary allocations fell short of the plan target because of a strained financial situation. As a result, the budgetary allocations were expanded far beyond the initial targets, and in the final year of the plan period the allocation for project expenditure was about six times higher than the target (Table 2.4). While actual expenditures fell short of the budgeted allocations in each year of the plan period, they exceeded the original plan target by 67 percent because of the rapid growth in the latter part of the plan period.

Table 2.4

Government Expenditures under the First Development Plan
(In millions of Saudi Arabian riyals)

Saudi Arabian Fiscal Years	1390/91 1970/71	1391/92 1971/72	1392/93 1972/73	1393/94 1973/74	1394/95 1974/75	Total
Project expenditures						
Planned	3.6	3.3	3.7	4.0	3.8	18.4
Budgeted	2.6	4.7	6.5	13.5	23.4	50.7
Actual	2.3	3.0	4.3	9.5	16.8	35.9
Recurrent expenditures						
Planned	3.5	4.2	4.6	5.1	5.5	22.9
Budgeted	3.5	5.7	6.3	7.9	14.7	38.1
Actual	3.4	4.1	5.0	8.0	12.4	32.9
Total expenditures						
Planned	7.1	7.5	8.3	9.1	9.3	41.3
Budgeted	6.1	10.4	12.8	21.4	38.1	88.8
Actual	5.7	7.1	9.3	17.5	29.2	68.8

Source: IMF, Saudi Arabia, An Economic and Financial Survey, SM/76/57, March 26, 1976.

Development Trends 1976-1980:

In this period Saudi Arabia, as noted earlier, moved very rapidly from underdevelopment and stagnation to economic dynamism and advanced technology. Total investment under the second Five-Year Plan (1975-80) was projected at more than $US 140 billion and the main emphasis was on the production sector. In order to diversify the economy, Saudi Arabia launched a broad drive towards industrialisation. The biggest investment has been in energy-based industries, where Saudi Arabia is at great advantage both because of the immense energy resources and an almost unlimited supply of capital, both long and short term.

The plan also emphasised agriculture, to reduce dependence on food imports from about 60 percent to about 20 percent by the end of the century. Gigantic irrigation schemes were planned, as well as dams to conserve run-off, and there was envisaged the biggest desalination programme in the world. In addition, Saudi Arabia was investigating

the possibility of importing fresh water in supertankers returning in ballast after discharging their oil.

Construction of roads, airports and the expansion of communication facilities also received a considerable share of project allocation since industrial development was hampered by the inadequacy of the infrastructure. Special emphasis was also given in the plan to education and other aspects of social welfare, such as health and low-cost housing, as to enormous defence expenditure.

The Government's new industrial policy aimed at encouraging the private sector in industrial projects, with foreign capital and experience participating in the development of the country. Business-men enjoy the full support of the Government during all stages of preparation, establishment and operation of industrial projects. In fact, no other developing country offers so many investment incentives (tax exemptions, provision of industrial zones, loans, etc.).

The weak points of Saudi economy remained an insufficiency of manpower and skilled labour at all levels, the existence of a relatively small domestic market and the inadequacy of infrastructure.(36)

Infrastructural Development:

Inspite of great progress over the last ten years, Saudi Arabia's infrastructure is inadequate for efficient implementation of its ambitious plans. Demand is expected to stay ahead of capacity in the areas of transportation and communication. This will cause delays, increase the cost of projects, and hinder the implementation of Saudi Arabia's huge development programmes. The scale of these programmes is so great that the economy will sustain a high growth rate even if only a fraction of the planned investment is actually implemented.(37)

Saudi Arabia's communication services, such as mail, telegraph, and telephone, are not adequate and several projects are under way to

correct this situation. These include a microwave system, a network of telephone cables, a satellite communication system with two earth stations and over 20 automatic telephone charges. Due to a severe shortage of skilled work force, the overall quality of communication services remained poor.(38)

Planned allocations for economic infrastructure under the second Five-Year Plan (1975-80) could have given Saudi Arabia one of the most modern infrastructure in the world.

> "It is unlikely, however, that it can be finished in the cause of only five years. Moreover modernization is not equivalent to increased efficiency."
>
> "The lack of skilled labour and other bottlenecks will hamper efficient operation and utilization of Saudi infrastructure well into the 1980s. A more serious problem is the short-run inadequacy of infrastructure, causing delays and leading to cost over-runs in construction projects for the development plans. However, these factors are not expected to prevent Saudi Arabia from experiencing a high rate of economic growth or continuing to increase imports rapidly."(39)

Saudi Arabia Third Development Plan (1980-85):

Within the same general strategy of development which was followed in the second Year Plan 1976-80, the third plan document has shown the same elements of priorities, policies and development projects adopted. However, there is a significant change of emphasis, in that 'strategic priority to structural change rather than to growth' as exemplified in the introductory statement of development philosophy.(40)

It is clear from the special interest directed to the problem of inflation, despite its expected lesser burden with the current plan period, that the Government realized the structural factors which remain controlling the economy and necessitate structural change and development.

'The strategy for Third Plan' contained an appreciation of all forces which reflect structural imbalances and the power of inflationary

pressures within the economy as follows (sub-section 3.5):

(a) '... the gap between Government-financed demand on the one hand and the required supply of goods, services and labour on the other.'

(b) '... a steep rise in the level of Government expenditure could generate serious inflationary pressures.'

(c) '... the danger depends not so much on the pressure of demand for goods and services as on that for skilled manpower.'

(d) 'Outside the Government, there could be inflationary pressures arising from the private sector's own autonomous development.'

(e) 'The rate at which imported inflation could affect the domestic cost and price levels remains subject to the efficiency of protective measures.' However, the author of this thesis does not believe that any feasible protective measures will tackle decisively the problem of imported inflation.

Despite the plan's statement to 'introduce new policies to limit expenditure and to reduce the inflation rate so that it will not exceed tolerable levels, which are considered to be between 7 and 10 percent per year' (section 3.1.2.4) however, such policies are questionable.

The adopted strategy of structural change has been reflected in the following indicators:

(a) Need for administrative change; as stated to be 'its primary objective, the introduction of basic changes to the Government's administrative organisation' the need was profoundly felt to the need for greater coordination and planning, budget and follow-up' (section 3.1.3.1).

This objective seems to face a real challenge as in the Kingdom's increasingly complex economy and society the role of spending ministries, of SAMA, of Petromin and of the Ministry of Planning can be only coordinated by the Council of Ministries and senior members of

the House of Saud.(41)

The other aspect recognises 'the need to plan for the private sector' (sub-section 9.2.3.1) however, while 'the Government has made it clear that its intention is to transfer a number of its interests to the private sector at the earliest possible time' (9.2.3.2) it seems very clear that as Bowen Jones rightly indicates:

> "It is equally clear for a number of structural and resource-base reasons, ranging from the opportunities for capital formation through the ineluctable dominance of the hydrocarbon-based industries in the manufacturing sector to critical need, by means of a National Water Plan, to co-ordinate and organise the activities of each of the implementing and operating Government agencies as well as those of the water-consuming private sector, that disengagement by the State from massive and pervasive activity and intervention is only possible in a few very limited fields."(42)

(b) The second key medium-term objective of achieving 'structural change of the economy' (1.4.3.1) is based on devoting less investment to physical infrastructure and more to production as reflected in the following Table 2.5:

Table 2.5

Total Government Civilian Expenditure on Development, 1980-1985

Function	Current Prices SR billion	Proportional Percentage
Economic Resource Development	261.8	37.3
Human Resource Development	129.6	18.5
Social Development	61.2	8.7
Physical Infrastructure	249.1	35.5
Total	701.7	100

Source: Saudi Third Five-Year Development Plan

The economic resource development share is 37.3 percent of the plan total expenditures, compared to the second plan (1975-80) percentage of 18.1 as shown in Table 2.1. However, when examining the expenditure components of this major sector one can realize the immense

amount of expenditure which is directly required still in the preparatory provision of production requirements as reflected in Table 2.6.

Table 2.6

Financial Requirements: Economic Resources Development
(SR billion, current prices)

Sector	Recurrent	Project	Total
Agriculture and Water	12.8	59.3	72.1
Energy and Mineral Resources	14.0	79.5	93.5
Manufacturing and Commerce	3.6	92.0	95.6
Total	30.4	230.8	261.2

Source: Saudi Third Five-Year Plan.

This situation tends to raise the question in relation to the accuracy of dividing priorities between productive projects and infrastructural projects. The above case tends to make it inevitable that expenditure on essential infrastructural requirement will remain high, Bowen-Jones concluding that real estimation of physical infrastructure becomes within 60-70 percent of the total allocations of the plan.(43)

(d) 'Against an employment increase of 725,000 during the Second Plan, the projected net growth in the Third Plan will be only 155,000' (3.4.2.1), with an annual growth of only 1,200 as reflected in the following Table 2.7.

Despite the clear trend towards lessening drastically the dependence on imported labour, however, even with a planned limitation of numbers, almost 40 percent of all those employed at the end of the plan would still be expatriates. Government concentration on substituting imported labour by increasing productivity of the Saudi workforce necessitates further stress on the need for education and training activities which are of medium and long term prospects.

Table 2.7

Projected Civilian Employment 1979/80-1980/85
(Thousands)

Nationality/Sex	1979/80	1980/85	Net change	Annual Growth
Saudi men	1,308	1,473	+ 129	1.9
Non-Saudi men	1,015	1,024	+ 9	0.2
Saudi women	103	120	+ 17	3.1
Non-Saudi women	45	45	-	-
Sub-total, Saudis	1,411	1,557	+ 146	1.9
Sub-total, non-Saudis	1,060	1,069	+ 9	0.2
Total	2,471	2,626	+ 155	1.2

Source: Saudi Third Development Plan.

Manufacturing Industry:

Outside the oil sector, the value of Saudi industrial production was only 1.75 percent of GNP in 1971. Out of approximately 9,000 industrial enterprise, only 4 employed 200 persons or more, and 13 employed between 100 and 199. Thriving non-oil industries were highly consumer oriented, namely tobacco, bottling, tires, furniture, and leatherwork.

The major drive for Saudi industrialization has come with the establishment of Petromin (General Petroleum and Mineral Organization), a public corporation involved in the domestic distribution and marketing of oil-related commodities, refining, petrochemicals, steel production, and the development of mineral and metal industries. The steel factory near Jeddah produced about 100,000 tons in 1971, and in the same year, the nitrogenous fertilizer plant in Dammam put out 92,000 tons. Moreover, sufficient capital to finance industrial expansion was available well into the foreseeable future.(44)

In 1973-74, manufacturing activity (excluding oil refining) accounted for around 1.5 to 2 percent of gross domestic product, while the production of crude oil and natural gas, and refining activity provided nearly 70 percent of GDP during this period.

Official pronouncements made in 1974-75, set down the following guidelines and goals for the development of the non-oil manufacturing sector.

(a) The establishment of a wide range of industries producing consumer and producer goods which can compete on both the domestic and the export market.

(b) The utilization of existing potentialities and external economies in the form of cheap fuel, petroleum refining by-products, mineral and agricultural resources.

(c) The extensive use of advanced industrial technology.

(d) Ensuring a regionally balanced pattern of industrial growth.

(e) The gradual reduction of dependence on expatriate labour and expertise through spreading technical education and on the job training of the native labour force.

A statement on industrial policy issued in 1974 outlined Saudi industrial strategy in clear terms. To quote.(45)

> "The Government realised that the goals of industrial development can be achieved most effectively if the private sector assumes responsibility over the long term for the initiation of industrial projects. For this reason, the Government will give full support to private investors in the design, construction, and operation of industrial enterprises which are of benefit to the Kingdom. The Government will also complement efforts in the private sector by financing or co-operating in the setting up of industries which require large outlays of capital or specialised skills and know-how, and which may be beyond the capabilities of the private sector on its own."

In the case of projects which are initiated by the public sector, the Government has indicated that private sector participation in such projects, or in some cases the complete transfer of ownership from the public to private sectors, will be allowed at the earliest possible and practicable date.

In March 1974, The Saudi Industrial Development Fund was established

with an initial capital of SR 500 million to provide medium and long term credit with no interest charges (but against a small fee to cover administration costs) for the setting up of new industrial enterprises in the private sector, or the expansion of existing ones. Loans are now provided for a maximum period of 15 years, and on condition that the feasibility of a project is established, and that the total size of the loan does not exceed 50 percent of the total capital required.

In addition to the various measures mentioned above, and by the end of 1975, around 30 industrial products ranging from chocolate to carpets and plastic sheets and tubes were being protected from foreign competition through a 20 percent advalorem tax on imported substitutes.

As Table 2.8 shows, new enterprises were established in most of the main branches of manufacturing industry. The largest capital outlay by far was made in the cement, marble and marble products industries, which produce a variety of construction materials (cement, tiles, polished marble, pre-cast concrete, prefabricated houses and parts thereof, etc.). In the early seventies, three large cement plants were completed in Jeddah, Riyadh and Dammam with a combined annual capacity of 3.13 million tons, and a capital outlay estimated at around SR 800 million. A relatively fast growth in the number of new establishments in recent years is also observable in the food processing industry, and in industries producing paper and wood products, basic chemicals and associated products, and metal products for construction and other uses.

From 1971 up to and including the second quarter of 1976, licenses were granted for the setting up of around 10 plants to produce simple glass and fibre glass products. In 1975, the Industrial Studies and Research Centre approved plans to set up for

Table 2.8

Main Characteristics of Saudi Arabia's Manufacturing Industry in 1972-73

	Number of establishments	Total number employed	Net value of fixed assets (mn Riyals)	Paid-up capital (mn Riyals)	Net value added (mn Riyals)	Gross value of output (mn Riyals)
Food processing, beverages, tobacco	2,526	10,601	91.0	18.2	119.1	320.3
Textiles, clothing, leather, leather products	3,563	5,959	14.3	2.8	41.6	88.6
Paper and paper products, printing and publishing	67	1,594	34.0	6.8	26.9	59.3
Wood and wood products including furniture	1,474	4,429	18.8	3.8	35.7	76.2
Chemicals, chemical products, petroleum products, rubber, plastics	38	2,042	103.3	20.7	47.8	170.8
Non-metallic mineral products (excluding oil)	793	6,065	364.7	72.9	155.5	253.0
Basic metals	33	1,022	62.9	12.6	19.2	35.8
Metal products, equipment, machinery	864	4,260	26.5	5.3	51.9	99.58
Other industries	2	40	0.5	0.1	1.0	5.1
Total	9,360	36,012	716.0	143.2	498.7	1,108.6

Source: Industrial studies and Development Centre, Manual of Industrial Investment in the Kingdom of Saudi Arabia, 1975, pp. 34-35.

the first time a sheet glass plant which will use domestically available raw materials and natural gas to produce a projected 130,000 tons of sheet glass annually.

The basic metals industries which have or are being set up, are licensed to produce a range of heavy metal products such as pylons, large metal structures, pipes, wrought iron products and cables. As an example, work started in 1975 on a copper wire plant which will produce 6000 tons of cables a year. Electrical and other types of machines which were being produced early in 1976 consisted of washing machines, air conditioners, water pumps and heaters, electricity and telephone switching boards, car batteries, and a number of other similar products. The vehicle industry has so far concentrated on the production of truck bodies. In 1974 and 1975, however licenses were granted to General Motors, Daim ler-Benz, the Japanese vehicle firm Hino, and Berliet of France for the setting up of four separate car and truck assembly plants in Saudi Arabia. The plants were scheduled for completion before 1980, and according to official reports were planned to have a combined starting capacity of 8000 General Motors cars, more than 4000 Mercedes lorries and buses, 400 Hino trucks, and 3500 Berliet trucks and lorries.

In line with the policy guidelines mentioned above, public sector investment in the development of manufacturing industry centres on a number of large scale projects in the petrochemical and basic metals industries.

Another important project which is expected to be completed during the third five-year plan period is a new steel plant at Jubail with a reported annual capacity of 3.5 million tons a year of raw steel. Upon completion the Jubail plant will supply the steel mill at Jeddah with its requirements of raw steel billets. The cost of this latter project was met from Petromin's budget under the second five year plan.

During the second FYP period, work also commenced on the huge industrial complexes at Yanbu' and Jubail. These complexes will take about 10-12 years with costs for each about 20-25 billion U.S. dollars.(46) In 1976 the Saudi Corporation for Basic Industries was set up to take charge of these two complexes which include some of the above-mentioned industries.

Industrial Development Trends 1981-85:

Saudi Arabia's third five-year plan which started in 1980 lays emphasis on building industrial production capabilities. The second five-year plan of $142 billion is thought to successfully laid the foundations to enable Saudi Arabia to become an industrialised nation. However, that reducing the country's dependence on oil exports for most of its income will be a very long-term process, and further heavy infrastructural outlays will be necessary.

The natural gas collecting system under construction by (Aramco) in the country's eastern province is now planned to be completed by the end of the third five-year plan to supply the multi-billion dollar energy intensive industrial complexes at Yanbu' and Jubail. The new third five-year plan aims at adding steel, petrochemical and fertiliser plants, oil refineries and natural gas liquification plants.

2.4 Development Strategies within the AGS : Conclusion

Development trends in the AGS in the 'seventies first gave priority to the buildup of the infrastructure needed for the second stage which gave more attention to productive sectors, particularly industry. However, the second stages, mainly during the period 1976-80 while concentrating on diversifying their economies through ambitious industrial programmes, continued infrastructural investment and remained giving special attention to social and welfare programmes. AGS development objectives during the 'seventies seemed to concentrate in

broad terms on the two objectives of (a) striving towards self sustaining economic development, whilst also, (b) maintaining relatively high guaranteed standard of welfare for all citizens. In other words the AGS countries remained committed to consumerism whilst also attempting to improve their production bases.

The components of national planning aims which are common to all the AGS could therefore be summarised as follows:

1. Economic diversification and a broadening of the productive base through the use of technology and industrialisation.
2. The training of labour forces and human resource development.
3. A greater emphasis on the quality of life and on the need for environmental safeguards.
4. Achieving the basic requirements of free, market economies, with the private sector playing an increasing role through the provision of appropriate legal and incentive frameworks.
5. The development of water resources.
6. The improvement of the efficiency of Government administration.

2.5 AGS Industrial Development : Conclusion

Available data on industrial activities in the Sub-region are inadequate for a comprehensive evaluation of the way in which the industrial sectors are developing, and studies of demand for the products of existing and planned industries remain limited. However, it is evident, from the preceding survey that among the key elements is an urgent need to diversify the structure of output in the AGS.

One of the basic requirements for accelerating the industrialization process in the Sub-region is still further improvement in infra-structural facilities, both physical and institutional. The former include the development of transportation, communications, power generation and the creation of industrial areas, whilst the latter

include the establishment of: industrial planning and regulatory bodies; institutions for training, research and quality control; financing and advisory services.

Furthermore, the dependence on imported technology, combined with shortages of skilled workers, technicians, specialists and managerial talents, often results in low capacity utilization of plant. To prevent aggravation of these shortages, immediate action at the National, Sub-regional, Regional and International levels is required, through more effective use of existing training facilities, including in-plant training, and through the intensive setting-up of vocational training centres to meet the projected needs of each branch of industry.

More generally, Governments of countries in the Sub-region will have to adopt specific long-term strategies of industrial development so that successive industrial development plans will fit coherently within the framework of long-term overall development strategy perspectives. The adoption of such strategies at the sectoral and overall levels will also imply a greater co-ordination between the sectoral plans and will allow better implementation rates of development plans which so far have fallen short of their targets.(47)

Although all AGS generally favour private ownership of manufacturing activities, the public sector in these countries has found it increasingly necessary to take the initiative, especially in export-oriented, energy related industries. The public sector role was very clear from the Kuwaiti example where 75 percent of the five-year plan (1976-80) development allocations were for this sector.

Industrialization in the AGS is generally of quite recent origin and is still at an early stage, though progress is being accelerated.

In recent years, while continuing to industrialize along import substitution lines involving light manufacturing processes, these

countries have almost all been giving increasing attention towards capital intensive and export oriented industries, notably in the field of petrochemicals and other energy intensive industries, fertilizers, steel, cement etc. Some of the latter also use natural gas as a raw material input. Light industries in food processing are restricted because of the generally low agricultural potential of the Sub-region. The private sector which is encouraged to play a more important role in the industrial movement has entered mainly the fields of import substitution, consumer goods and construction materials.

Oil and gas, therefore, today and in the foreseeable future, are generators of capital, and simultaneously, offer the physical base for viable industry in the Sub-region in the future. Moreover should petroleum lose its dominant place in energy consumption by the year 2000, the amassed capital could allow the continuation of large-scale financing of industrial development,(48) whilst the large gas reserves would remain as energy and raw material suppliers.

Major constraints on industrial development, as mentioned earlier, have been centred on the lack of natural resources apart from oil and gas, the limited size of the domestic markets, the lack of trained man power, high cost of labour, paucity of technical and organisational skills as well as the inadequacy of infrastructure. All this tends to encourage national industrial trends in the AGS which rely to a great degree on external economies. One further result has been to limit the movement towards inter-industry linkages within each of the countries. All these factors have contributed, also, to make industrial unit costs in, for example, refining, gas liquidation, petrochemicals, fertilizers, some 30-40 percent higher than are found in the industrialized countries.(49)

Some preliminary evaluation comments can be made at this stage

of analysis. The first is that whilst the principle of the planning approach to development has been formally accepted (to varying degrees) in individual AGS countries, this has been more nominal than real. Insufficient effort have been directed towards creating the necessary skilled administrative and technical machinery for effective planning and the necessity for a sound information and data base has not been appreciated. These two deficiencies have resulted in considerable gaps appearing between development itentions and achievements.

The second point is that individual AGS countries have given an exaggerated priority to industrialization in a gross quantitative sense. In other words industrial goals have been stated in simple terms of producing volumes and tonnages of e.g. fertilizers, aluminium, polyethylene, whilst the associated implications for industrial infrastructure, e.g. labour skills, technical and marketing research, communications, public utility supplies of water and energy etc. have been under-estimated. Too little appreciation has been made of the full range of requirements for successful industrialisation.

The heavily skewed resource base outlined in Chapter 1 creates some severe constraints for general as well as industrial development. This makes it even more than normally necessary for the AGS countries to provide highly developed infrastructural and management bases for development although, in practice, the States concerned have tended to assume that a rapid movement towards productive, income-generating activities - particularly in industry - can be rapid and easy. The result has been the creation of a large number of prestigious production projects and great volumes of programme documents, against which the number of actual viable achievements appear rather disappointing.

These points will be examined further in following chapters, and in Part 2 their relevance to AGS cooperation will be explored.

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CHAPTER 3 - AGS AGRICULTURAL AND FISHERIES DEVELOPMENT

3.1 Development of Agriculture

Introduction

This chapter illustrates the main features of agricultural and fisheries development of AGS, the sectors traditionally most productively important. A general review is made of the structure of AGS' agriculture, bearing in mind the resource base analysed in Chapter 1, and the efforts to develop agriculture, including various forms of Government assistance and encouragements. Constraints on agricultural development will be identified, the chapter ending by summarizing the features for agricultural development common to the AGS, and prospects for such development.

3.1.1 Qatar - Agriculture Development

As part of the diversification effort, the development of agriculture has been intensified. Agricultural production in Qatar is limited as noted in Chapter 1, by the scarcity of water and arable land. In recent years, however, several experimental programmes have been initiated and the production of vegetables, food grains and alfalfa has risen substantially. Agricultural production is based on private land ownership and is supported by substantial Government assistance; seeds, fertilizer and water pumps are provided free while grants are given in the even of damage to land or crops.

Animal husbandry is being considered as part of Qatar's long-range agricultural development programme and pilot projects have been undertaken in sheep raising (13,000 head) and dairy farming (300 head). A Government poultry project, which commenced operations in October 1975, is now producing 1 million broilers and 10 million eggs per year, providing 60 percent of domestic consumption.

Most important is vegetable production which in 1980 supplied 68% of the domestic demand in summer and 42% in winter. 50% of the local market for all fruit is supplied locally but 4/5 of this is made up of dates.(1)

However, the harsh environment makes the development of Agriculture, at best, a long term enterprise.(2) The government's greatest ambition is to achieve independence in food supply, at some times of the year. QR 5 mn ($ 1.3 mn) is being spent on a veterinary institute, and some QR 51 mn ($ 13.3 mn) on poultry production. Output from the dairy farm is expected soon to reach 1,000 tons of milk a year, and some 5,000 sheep and goats will be slaughtered from the planned 13,000 strong herd on which QR 19 mn ($ 4.9 mn) has been spent, although the latter project has fallen below expectation.(3)

3.1.2 Bahrain - Agricture Development

Agricultural production in Bahrain is restricted by the small land area, and as elsewhere the increasing salinity of the water supply and the movement of labour to the urbanized sectors. Efforts are now being made to increase the production of eggs (local output of which satisfies about one third of total domestic requirements), vegetables and milk. Bahrain is likely to continue to depend on imports of food commodities and has recently signed agreements with some neighbouring countries to provide for duty-free trade among them in agricultural products.(4)

3.1.3 Kuwait - Agriculture Development

The agricultural sector contributes less than 1% of the domestic product. The total area under cultivation was in 1976/1977 about 907 hectares (8 square metres per head), and was less than 0.3% of the total labour force workers in agriculture. These indicators emphasise the very small importance of agriculture in the economy of Kuwait.(5)

Potential for agriculture development is severely limited as only 5 per cent of the land is suitable for farming. Agriculture is concentrated on experimental stations and small-scale private farms. There is, however, a growing interest in livestock and poultry farming, commercial-scale production of vegetables in glasshouses, outdoor cultures, and hydroponics.(6)

In the first sectoral investment plan for 1967/68 to 1971/72 very little was budgeted for Agriculture and Fisheries.(7) Table 3.1 illustrates the weak progress which was achieved in agricultural development of Kuwait as well as its limited potentials. The paucity of data available is also an indication of the low status afforded to agriculture.

Table 3.1

Land Use in Kuwait

1970-75 (In thousands of donums) 1/

	1971	1972	1973	1974	1975
Total area	17,818.0	17,818.0	17,818.0	17,818.0	17,818.0
Cultivated land	1,369.5	1,370.8	1,370.8	1.372.1	1,372.0
Vegetable and Crops	(6.8)	(8.1)	(8.1)	(8.4)	(10.0)
Fruit and wood trees	(22.7)	(22.7)	(22.7)	(22.7)	(22.7)
Pastures	(1,340.1)	(1,340.0)	(1,340.0)	(1,340.0)	(1,340.0)
Unused Cultivable land	168.9	167.7	167.7	166.4	165.8
Total Cultivable land	1,538.5	1,538.5	1,538.5	1,538.5	1,538.5
Non-cultivable land	16,279.5	16,279.5	16,279.5	16,279.5	16,279.5

1/ One donum equals 1,000 square metres

Source: Ministry of Planning

3.1.4 UAE - Agriculture

Scarcity of water and poor soil limit the role of agriculture which employs about 18 per cent of the economically active population to (a proportion rising to 45 per cent in Ras Al Khaimah and Fujairah). The FAO sees considerable commercial potential in concentrating on fresh vegetables, fruit, livestock and integrated fishing. Actually, agricultural production is confined to a few oasis, experimental farming (notably successful for strawberries and flowers), and specially favoured localities in some parts of Ras Al Khaimah and Fujairah. In additon, Sadiyat Island houses the Arid Lands Research Centre, a joint project of the University of Arizona and the Government of Abu Dhabi, for vegetable growing in artificial environments and associated agricultural research. In fact, the output of Sadiyat is estimated to meet a large proportion of the requirements of the town of Abu Dhabi, although at very high cost.

There is a belief in the Union that developing agriculture and fishing is a good way of decreasing reliance on food imports, creating jobs, and broadening the base of the economy.(8) By 1978 the total gross value of agricultural production equalled c.20% of food imports into Dubai and Abu Dhabi.(9)

To counter the rising cost of farm labour and expand agricultural production, the UAE authorities have encouraged mechanization and provided financial support and various services to farmers. The Federal Ministry of Agriculture and Fisheries has sold seeds, pumps, and mechanical equipment to farmers at subsidized prices and has also given them grants and generous loans; these support programmes amounting to Dh. 6.7 million in 1974 and Dh 23 million in 1975. In Abu Dhabi, the Government has provided equipment and inputs free of charge and has further helped farmers financially by establishing guaranteed prices and undertaking crop marketing. The Federal Ministry of Agriculture and Fisheries has undertaken resource surveys and land

improvement projects as a result of which total land under cultivation has been increasing.

Between 1973 and 1975, the area under cultivation increased by over 50 per cent. The Ministry has drilled wells and repaired underground water tunnels in addition to the establishment of small irrigation schemes such as the one at Meleiha. It has also built earth dams to store rain water and prevent flash flooding.(10)

3.1.5 Oman - Agriculture Development

In agriculture, greater emphasis will need to be placed on increasing the yields on already cultivated lands, along with a limited programme for new land development in suitable areas, where water and appropriate soils can be found. One recommendation is that the major effort in increasing yields should be in dates and limes, in which little research has been done to control the incidence of pests and diseases. New land development should be largely devoted to high value fruits and vegetables, partly to replace imports and partly for exports. Efforts to raise agricultural production are essential not only to develop non-oil sources of income but also to increase the income of the 70% of the Omani population living in rural areas.(11)

Total cultivated area is 36,000 hectares, or 0.0012% of the total area, fruits occupy more than half the cultivated area of which palm trees occupy 70%, Alfalfa 15.4% of the cultivated area, onions 10%, wheat 2%.(12) It is estimated that about one million hectares are useful for grazing.

3.1.6 Saudi Arabia - Agricultural Development

Although relatively neglected in the second Five year plan there is considerable need and scope for productive investment in the development of the country's agricultural resources. The larger part of agricultural development expenditure has been on development

projects, including desalination plants, water networks and the construction of dams. Cash assistance is introduced to farmers for the purchase of agricultural machinery, fertilisers and other inputs with subventions to growers of wheat and rice. After nearly two decades of development effort, the Kingdom continues to be a net importer of food grains, meat, milk and milk products, vegetables and fruit, although it is claimed that self-sufficiency in wheat may be achieved by 1983.

The key to agriculture lies in the development of water resources, which is highly cost-intensive in Saudi Arabia. Up until now, the same Ministry, with the same budgetary controls, has dealt with both water and agriculture (other than desalinated water), but what is required is a national plan for the development of water resources, based on the 1965-1970 Resource Surveys and subsequent smaller scale investigation.(13)

To promote agricultural production in the long term the Saudi Second Development plan envisaged a number of schemes including increasing the efficiency in the use of water from underground sources together with improvements in water resource management and conservation. Agricultural credit was expanded and training facilities were provided by the establishment of five vocational training schools.

Research and study programmes were strengthened with the particular objectives of increased production and development of rapid and economic marketing facilities, especially for fruits and vegetables.

Greater use of improved seeds, fertilizers and insecticides were encouraged through enlarged extension services and continuation of subsidy programme. Extensive use of suitable farm machinery was encouraged for a more productive use of land and

labour. Agricultural output was planned to be adequately subsidized to protect domestic production against imports of food stuffs and livestock without raising their domestic prices through higher protective tariffs.(14)

Agricultural production:

As a result of certain non-financial constraints the actual growth of approximately 3.6 per cent per annum in the agricultural sector during the first plan period fell a little short of the plan target of 4.6 per cent. This sustained steady growth is nevertheless encouraging and raises hopes that with the gradual completion of the infrastructure, the removal of these constraints, and the various incentives provided by the Government, this sector will show higher growth rates in future.(15) It was envisaged that as a result of the above-mentioned programmes together with the distribution of fallow land and the extension of irrigated land, the real output of the agricultural sector was expected to show a sustained growth of at least 4 per cent per annum during the second plan period.

The subsidy programme basis are reflected in the following Table 3.2. This programme may be suitably enlarged when and where it is felt necessary in the larger interest of the country's agricultural development.(16)

Wheat production:

Total wheat production in the Kingdom rose by 68 per cent from 90,000 tons during 1973/74 to 93,000 in 1975/76 (table 3.3) to 400,000 tons during 1981/82. This significant increase in production may be attributed to the various incentives offered by the Government to wheat cultivators and to the higher yield of the Maxi-pak variety of wheat which is now being increasingly used in the Kingdom. By the end of the first plan period (1974/75) a total of 72,000 hectares of land was under wheat cultivation of which about 7,000 hectares was cultivated with the Maxi-pak variety. The Ministry planned to

Table 3.2

Saudi Subsidy Programme to Agriculture

Inputs:	Year of Introduction	Present Amount or %
Farm machinery	1973	50% of price
Fertilizers	1973	50% of price
Animal feed concentrates (36% protein)	1973	50% of price
Poultry equipment	1974	30% of price*
Dairy equipment	1974	30% of price*
Transportation of 200 or more dairy cattle	1975	total cost of transportation
Outputs:		
Wheat	1973	Rls 0.25 per Kilo
Sorghum	1973	Rls 0.25 per Kilo
Rice	1973	Rls 0.30 per Kilo
Sheep	1974	Rls 10 per head
Camels	1974	Rls 50 per head

* 20% if financed by the Agricultural Bank.

Sources: Central Planning Organization, Development Plan, 1975-80.

A Guide to Agricultural Investment in Saudi Arabia, M.A.W., 1979.

Table 3.3

Estimates of Production of Major Crops in Saudi Arabia 1975/76

Crop	Area (Thousand ha.)	Production (Thousand Tons)
Annual crops		
Wheat	74	93
Sorghum	302	154
Millet	33	17
Maize	9	7
Barley	9	12
Alfalfa	10	542
Water melons	13	248
Tomatoes	16	165
Dry onions	5	75
Other vegetables	8	43
Permanent crops		
Dates	60	257
Grapes	5	42
Citrus	4	21

Source: Saudi Ministry of Agriculture and Water, A Guide to Agricultural Investment in Saudi Arabia, 1979. Table 3.9 p.42.

extend the cultivation of this variety to the entire wheat cultivated area in the Kingdom by 1980.(17)

Livestock production:

The growth and expansion of poultry farms in the Kingdom has been highly encouraging. In 1964 there were only 34 such farms with

a production of 464 metric tons of chickens and 11 million eggs. By 1971 the number of farms rose to 104 and production reached 4,634 metric tons of chickens and 43 million eggs. Production rose again to an estimated 7,000 metric tons of chickens and 90 million eggs in 1974/5, and contines to rise.

According to the second plan projections, a total of 20,000 metric tons of chicken and 140 million eggs would be produced by the end of 1980. In fact, by 1982 projects approved had a 1 billion a year egg capacity. This increased production has had a salutary effect on the prices of chickens and eggs which remained stable in spite of the generally rising prices, particularly of fresh meat. The Government is also promising the establishment of livestock and dairy farms. Some such farms have already been established while others are expected to be established in the near future. It is hoped that as a result the supply of domestically produced meat and dairy products will expand, thus helping fulfil plan targets.

Land Reclamation and Distribution:

By the end of 1975 a total of 485,000 dunums of fallow land had been distributed by the Government to farmers in pursuance of the programme initiated in 1968/69. In accordance with the regulations governing this programme, individual cultivators are granted not less than 5 hectares and not more than 10 hectares of Government land while companies are granted a maximum of 400 hectares. The emphasis in the regulations was on the proper utilization of the land grant for agricultural development. A trial period of three years is prescribed during which the utilization is monitored. The Minister of Agriculture is empowered to withdraw the land granted to anyone who has failed to utilize it during the specified period. Transfer of land ownership does not in fact officially take place

until the trial period has been completed to the satisfaction of the Ministry.

Agricultural Development and Third Plan:

Third plan policy will maintain the large subsidy payments and incentives which have encouraged 'the farmers and ranchers who remained in agriculture, plus new investors in large-scale poultry and dairy enterprises who were attracted in' (section 4.3.2.1) and includes further disbursements of SR 5 billion in loans and SR 2.5 billion in subsidies (4.3.5.4). Along with this income large land development and improvement projects (increasingly involving the private sector), and the reinforcement of efforts to improve low productivity and inefficient resource use in that large section of traditional agriculture which can only be described as residual - partly because of out-migration to the cities.(18)

Agriculture, the major remaining producing sector, is and will remain the largest single employer (Table 3.4), even though the numbers involved will continue to fall by 11 percent and the percentage contribution of agriculture to the non-oil GDP will also fall from the 5.8 percent estimated in 1979/80, but rise in absolute terms by about 30 percent (constant prices) during the plan period.(19)

> "Plans for Agriculture, as in most countries in the throes of change, are complicated by the linkages between production and regional and rural policies, but in Saudi Arabia particularly by the critical relationships with other sector's demands for labour and the overall limiting factors of water supply."(20)

Table 3.4

Employment and GDP by Sector 1979/1980-1984/85

in the Non-Oil Economy at 1979/1980 prices

Sector	1979/1980		1984/1985	
	Employment (thousands)	GDP (SR bn)	Employment (thousands)	GDP (SR bn)
Agriculture	598.8	3.26	528.8	4.23
Mining	7.3	1.50	9.8	2.40
Manufacturing	104.2	6.75	164.2	16.00
Utilities	31.5	0.35	47.0	1.27
Construction	330.1	45.99	245.1	40.56
Trade	310.6	17.45	339.6	26.14
Transport	214.6	20.23	274.6	37.16
Finance and Property	34.8	13.14	44.8	18.68
Other Services	482.3	5.26	505.3	6.08
Government (excluding non-civilians)	321.0	21.04	421.0	29.72
Total	2435.2	134.97	2580.2	182.23

Source: The Third Saudi Arabian Five Year Plan (1979/1980-1984/1985)

3.1.7 AGS - Agricultural Development

Summary:

From the above-mentioned illustrations it was very clear that despite various forms of generous government's assistance, large and serious constraints on agricultural developments combined to weaken agricultural structure in all AGS, although to different degrees, and contributed to make agricultural contribution to their economies comparatively small. At the same time these factors also limit future agricultural development prospects. Government's assistance programmes included a wide range of forms, which included

as illustrated in the Saudi example, subsidies to all inputs (farm machinery, fertilizers, animal feed concentrates, poultry and dairy farms, transportation of dairy cattle) as well as outputs (wheat, sorghum, rice, sheep and camels). Despite some achievements in relation to import substitution in food production, however AGS after all continued to be a large net importer for all products.(21) The structure of agriculture and its development prospects seem to be comparatively better in Saudi Arabia, Oman and UAE than in Qatar, Bahrain and Kuwait. Agricultural development course has shown the importance of conserving and developing water resources on which agricultural development prospects depend extensively. At the same time a general trend towards commercial production of vetetables in glasshouses, hydroponics and specialised arid zone technologies is observable in the area.

Prospects for horizontal expansion are good in Saudi Arabia, while limited in all other countries. In Oman concentration is directed mainly to vertical expansion. In each case, unlike the other AGS, these two countries retain significantly sized agricultural communities.

3.2 AGS Fisheries Development

3.2.1 AGS Fisheries Structure

The total number of traditional, artisanal fishermen, including subsistence fishermen was estimated at 23,257 in 1977.(22) (Table 3.5).

In proportion to the total population, the number of fishermen in most cases are of course, highest in the countries where the great majority of population reside along the coast. The number of fishermen in proportion to total population is particularly high in Oman and UAE where fishing is the main way of life on long stretches of the coast.(23)

Among AGS Oman, with about 15,000 (64.5%)(24) fishermen, has the largest number followed by UAE with 4964 (21.3%), Qatar with 1200 (5.2%) fishermen, Saudi Arabia with 1,000 fishermen (4.3%), Kuwait 843 (3.6%) and Bahrain with 250 (1.1%) fishermen (Table 3.4).

It should be mentioned that in some countries, especially those with small total populations, (Kuwait, Bahrain and Qatar) there are fishermen from other countries in the region operating in their waters such as those from Oman and Iran. Due to the absence of complete, reliable statistics, the magnitude of such interchange is not clear. Similarly, there exists, an exchange at the points of landing fish. Fishing boats owned by a fisherman of one country may land his catch in another country. This practice is mostly induced by the proximity of the nearest landing point at the end of a fishing trip, or due to the prices of fish prevailing at the time.(25)

Table 3.5

AGS - Fisheries Labour Force and Population (1977)

Country	Number of Traditional Fishermen		Total Labour Force	2:3	Population	2:4
(1)	(2)	%	(3)		(4)	%
Bahrain	250	1.1	67,600	0.4	306,000	0.1
Kuwait	843	3.6	312,000	0.3	1,129,000	0.07
Oman	15,000	64.5	214,000	7.0	814,000	1.8
Qatar	1,200	5.2	89,000	1.3	202,000	0.6
S. Arabia	1,000	4.3	2,440,000	0.04	7,640,000	0.01
UAE	4,964	21.3	487,000	1.0	884,000	0.6
Total	23,275	100	3,609,600	0.6	10,975,000	0.21

Source: Feidi, I. Fisheries Industries Development in the Member Countries, Regional Fishery Survey and Development Project - RAB/71/278, Draft Final Report, Aug. 1979, Table 2, p. 48.

CAEU, Arab Countries Economic Indicators, No. 1, Nov. 1980, Amman, (Arabic).

As was seen earlier, many natives of the UAE, as of Kuwait, Oman, Qatar and Bahrain were traditionally seafarers, fishermen and pearlers. Although some activities have disappeared, fishing is still an important source of living for much of the population of some States. In Ajman, 27 percent of the working population are fishermen, and in Umm al Qaywayn its 460 fishermen correspond to 30 percent of the total work force.(26) Overall AGS fishermen constitute a small percentage of the total labour force, 0.6 in 1977. However, it was 7 percent for Oman (Table 3.5).

Fisheries Contribution to GDP:

The absence of statistics, the deficiencies in the data collection system in the Sub-region as well as the wide variety of operations of traditional fishermen and large-scale industrialised

ventures make it very difficult to evaluate, accurately the role of the fish industry in the economics of the AGS. In addition:

(a) Data on the costs and earnings of the fishermen is absent.

(b) The difference in prices between the main landing places and the smaller, more isolated ports and open beaches, apart from any other factors, results in substantial differences in net fishermen's earnings.

(c) The prevalence of various sharing systems is difficult to evaluate.

However, the following crude estimates give some indication of the position:

1. Earnings of fishermen seem to be higher in the larger points of landings and at least 50 per cent lower in the smaller villages and open beaches, where facilities are generally poor. In more remote areas with poorer market situations monopoly bargaining has reduced prices to a minimum economic, almost subsistence level.

2. If we refer to the Omani situation, as an example, despite the small percentage contribution of fisheries sector to GDP (estimated at 3 percent) this sector is stillof special importance for the following reasons.(27)

(a) Fishermen are estimated to constitute 7 percent of the total labour force.

(b) Fish is a basic component in the Omani diet and demand is increasing.

(c) Oman is wealthy in fisheries resources; this sector is considered to provide of the basic opportunities to broaden the economic base of the country.

3. Fisheries resources are renewable, while oil and gas are depletable resources. Thus fisheries resources play an important role in any long-term strategy for non-oil era.

4. Food security considerations necessitate giving special attention to this resource; this is discussed further in Chapters 9 and 13.

5. Investment in fisheries has some advantages over agriculture, above all because as noted in Chapter 1, and later, all agriculture in the AGS is dependent on irrigation water and all natural groundwater supplies are now seriously over-exploited. Compared with the problems of not only transforming agricultural methods to produce a stable water-use situation, the possibility of the sound management and conservation of fish stocks seems much less difficult. Although in both cases the development of human resources not only in production but all other sectors has to be integrated with technical improvements, this task is far more complicated in agriculture than in fisheries.

3.2.2 Recent Fisheries Development

3.2.2.1 Artisanal:

Although the AGS has considerable potential for development of fisheries in terms both of manpower and fish resources, it was the developments associated with the oil industry from the 1950's that provided the impetus to indigenous fisheries' change and development.

Oil-based development had two major effects on the artisanal fisheries. First, the wealth derived from oil allowed the financing of modernization both by the fishermen and by governments. Secondly, on the other hand there was a movement by fishermen out of active fishing to the other more attractive jobs provided directly or indirectly by the developing oil industry.(28) In each case these changes appeared from the 1950's onwards.

In Oman, in contrast to the other AGS the lateness of oil exploitation delayed the financial favourable framework needed to promote and modernize fishermen's activities until the late 1960's,

causing, at the same time, a pendular movement of fishermen from their home coasts to the other Gulf countries. These fishermen together with fishermen from the Yemen, South Arabia and from the southern coast of Iran, gradually replaced local Saudi, Kuwaiti, Bahraini, Qatari, Abu Dhabi and Dubai fishermen from the 1950's onwards, in meeting, to some degree, the increasing demand for fish in those centres.(29)

Human Resources and Fisheries Development:

This migration movement has been reflected in almost the whole fishing workforce in Kuwait being Iranian by 1978,(30), even though some vessels remained in Kuwaiti ownership.

> "In Bahrain, Qatar, Abu Dhabi and Dubai the active fishing force is almost wholly from the northern states of the UAE, from the Sultanate of Oman, and to a lesser extent from Iran, while in Jedda and other towns on the Red Sea coast of Saudi Arabia the active full-time fishermen are Yemenis almost to a man. Most nationals of these oil states who do still retain a link with fishing do so only as a part-time on leisure activity, or else as non-sea-going owners of fishing vessels with foreign crews."(31)

This migration movement had been directed by the demand pattern for fish, and this demand factor is of major importance to motivate artisanal fisheries development. Consequently the improvement of marketing systems has priority in the development of artisanal fisheries, especially in Oman and the UAE. These trends also imply that the improvement of the infrastructure of fisheries marketing activities as well as production occupy special importance within the framework of cooperation for the development of fisheries in AGS.

Fisheries Promotion Systems: The role of Governments -

(a) The governments of Saudi Arabia, UAE and Oman operate schemes to assist fishermen on the basis of easy conditions loans with grant components (grant-loan basis).

In the UAE the Government finances as a grant - fifty percent

of engine costs, subject to an upward price limit, currently standing at Dh 50,000, while from 1977 certain items of gear have also been included in the scheme. In Saudi Arabia, the Government programme aims to assist the fishermen to invest in larger boats and engines. The fishermen should pay immediately half of the cost of new investment whilst a quarter is a Government interest free loan repayable over one to five years.

The Sultanate of Oman applied the same grant-loan basis scheme, distributing boats and engines to fishermen through a fund for the encouragement of fishermen which was established in the Ministry of Agriculture, Fisheries, Petroleum & Minerals (now the Ministry of Agriculture and Fisheries) in 1976. The Government consider 25 percent of the boat or engine cost as a grant, the remaining 75% available as an interest-free loan for three years.

(b) Repair Workshops. Of greater potential help to the fishermen have been Government schemes to establish repair workshops. In the UAE about one dozen marine engine repair workshops have been set up since 1973.(32)

In Oman many servicing and repairing workshops were planned, but the administrative capacity of the Ministry of Agriculture and Fisheries could not allow the complete follow-up of implementation, establishing only 5 workshops up to 1980 out of about 10 workshops.

3.2.2.2 Industrial Fisheries Development:

Industrial fisheries enterprises are radically different from the artisanal sector in two significant respects. First, their technology is of a much more advanced order, their capital to labour ratio is high, and the basic unit tends to be a large public or private company rather than a family. Second, the primary object of all the large scale enterprises so far set up in the peninsula has been, or has

come to be, to produce a refined product for export (or at least for non-local consumption) and any supply of fish for local consumption has been a by-product.(33)

These characteristics impose three conditions on industrial projects. These can be viewed as follows:

(a) Regular and dependable supply of fish throughout the year as well as from year to year to justify the large capital investment needed.

(b) Markets should be found and products should meet consumer's taste as well as possible competition.

(c) Handling and servicing and spare parts guaranteed.(34)

Industrial Shrimping:

Industrial projects on a large scale first made their appearance, and are now furthest developed, on the Arabian Gulf side of the peninsula in the late 1950's, and were, at least initially, the result of private enterprise.

Bahrain and Kuwait have had large fishing companies since 1959. During the 1960's Gulf shrimp fishing grew and companies were set up in the eastern province of Saudi Arabia and in Qatar. Kuwait with its four shrimping companies retained the largest part of the total fleet with seventy of the total of about 130 vessels in 1967.(35)

From 1959 the commercial shrimp catch of the Gulf companies rose steadily to a peak in the 1968-69 season estimated by Ellis at 16,500 tons liveweight. At the same time the total shrimping fleet of the companies had risen roughly proportionally. The 1969-70 season however saw a large drop in the catch to only 11,000 tonnes, and in the period from 1970-71 season to that of 1973-74 the catch per season - averaged only 10,000 tonnes. Since then no detailed statistics have been found. However, there are signs that the catch has continued to fall, at least in Kuwait and Saudi Arabia. (Table 3.6.)

Table 3.6

Catches of shrimp by Gulf countries 1961-62 to 1973-74, as estimated by R.W. Ellis

Season (July to June)	Estimated total catch of Gulf in tonnes (live weight)
1961-62	1,300
1962-63	1,900
1963-64	4,000
1964-65	10,000
1965-66	12,000
1966-67	13,000
1967-68	16,200
1968-69	16,500
1969-70	11,000
1970-71	9,000
1971-72	9,500
1972-73	10,200
1973-74	11,500

Source: Donaldson, W.J. Fishing and Fish Marketing in Northern Oman: A case study of artisanal fisheries development (Ph.D. Thesis submitted to the University of Durham, 1979).

Fishmeal Factories:

The experience of fishmeal production in the UAE recently has been striking. As there existed no major shrimping or fishing operations, except for two Japanese boats operating under license on the west coast, the main commercial large-scale activity centred around the establishment of fishmeal plants.

Several plants were planned to be built to exploit the rich reported pelagic species, mostly sardines. The only plant in Ras-el Khaimah that reached actual production had the capacity of 250 tons/day raw material supplied by seven purse seiners of 80 tons hold capacity, and actual operations began in October 1976. The plant had to close down in 1978 due to insufficient quantity of raw material.(36)

This lead to the halting of the erection of an Ajman fishmeal plant, although the installation of the equipment was about 80% completed with a plant capacity supposed to reach 1400 tons of raw material per day. This was a joint project between the Ajman Government

with a 60% interest and a Pakistani/American consortium with 40%. All other fishmeal plants in the UAE were also then cancelled, both those under construction in Sharjah and Fujairah, and those which were under consideration.

These plants were projected against the advice of the Fisheries Development financing authorities of the UAE and FAO, and provide class examples of the incapability of individual small emirates to evaluate accurately heavily promoted initiatives by dubious foreign concerns.

3.2.3 Fisheries Development Constraints

In view of the present writer constraints on fisheries development are mainly structural derived mainly from the long period of gradual collapse of fisheries activities in the area and have been reflected into the following situation.

1. The lack of infrastructural facilities needed for traditional fishermen's activities. Few of these facilities have been established and then mainly to serve the industrialized shrimp fisheries and mostly centred in the major cities. Infrastructural facilities at the villages and smaller coastal towns have been inadequate to serve the traditional fishermen who carry out their activities on open beaches without shelter, and without ice or cold storage facilities to service the surplus. The fish markets are mostly inadequate, the majority being simply palm frond thatched shelters beneath which the retailers squat beside their fish displayed on the ground.

2. There is a low standard of literacy among the fishermen who may be experts at operating their traditional craft and gear, but lack the ability to comprehend the complexities of modern fishing vessels sufficiently well to operate them profitably. Moreover, men educated to a level suitable for fishing skippers and engineers are highly unlikely to choose a career in fishing when there are more rewarding

opportunities ashore.

3. The weakness and inefficiency of Government machinery has been responsible for poor fisheries development. This has been reflected, for example, in the inefficiency of projects' implementation during the First Five-Year Plan for Omani Fisheries. This weakness appears both in planning identification and the follow-up implementation of projects. To highlight the importance of strengthening the Government machinery, we would like to refer to the following facts from the Omani experience:

(a) The lack of needed staff for fisheries administration reduced the implementation ratio of approved projects in the First Five-Year Plan.

(b) Inefficiency of working staff including most ranks, contributed to delaying the implementation of many vital projects such as the Omani National Fisheries Company, at the same time preventing the country from benefiting from U.N. aid based on proposed projects.

4. Fishing activities all over the areas are believed to be suffering from a manpower drain as the accelerated growth of other sectors continues to attract fishermen to the urban areas.

5. The weakness of the statistical and information base. What is available is scanty, of doubtful reliability and subject to a wide margin of error. It should be stressed that the collection, analysis and interpretation of fisheries data is of special importance for assessing current development as well as in planning future development.

6. Financing. The key financing requirement of fisheries development is not of money resources, but rather of experienced credit officials who are well trained in credit evaluation and in extension techniques.

3.2.4 Fisheries Development Evaluation

We can summarize the current development situation of fisheries in AGS and prospects for this sector as follows:

1. Small scale, artisanal fishermen who have been responsible for supplying the largest part of the fish catch in the Sub-region should be given, in the opinion of the present author, top priority in the general development policies of fisheries sector, but within an integrated context which takes into consideration, production, handling and marketing facilities.

As in the artisanal fisheries of the area there is insufficient knowledge and experience of handling and preservation of the catch, of proper transportation methods, as well as of fish processing, to ensure acceptable products to the consumers.

Consequently the main objective for fisheries development should be improving economic, social, technical standard of all fishery activities - through the fishermen. In the AGS, Oman and the UAE, as with Kuwait, Bahrain and Qatar until recently, the traditional experience of seafaring fishing and pearling supports this direction. But as the general trend for fishermen is to drift away to other work, all efforts must be made to encourage them to continue in the fisheries sector.

2. The experience relating to industrial fisheries projects in the area suggests the need for a very conservative approach to the evaluation of the success of any industrial project either national or regional. However, the present author thinks that there is scope for some large-scale fisheries projects that could be viable, mainly off the south and south-east coasts of the Arab peninsula, but the following preliminary steps should be taken:

(a) Fishing exploratory tests should first be applied in the area, as it has not been included within the Gulf Project surveys.

(b) Smaller scale units should be chosen for any industrial project (fishmeal, canning of sardines, etc.) at the beginning until it proves to be feasible to add larger and more units.

3. Although the research and information base is being improved, more steps should be taken towards strengthening this base, mainly in the following areas:

(a) A standardised sub-regional statistical system to provide needed data for planning fisheries development and the evaluation of various activities.

(b) Up-dating the resource base information in the area from Ras el-Hadd on the Gulf of Oman to the Omani borders with South Yemen on the Arabean sea.

(c) Establishing socio-economic data on AGS fishermen on the lines of the proposed Omani Survey of fishermen. Although censuses in the UAE and Kuwait (1975) gave a number of fishermen, none of them, however, give a detailed socio-economic breakdown of the fishing population. Too little is known or understood about the human resources involved.

4. As fish prices are too high in the AGS, we recommend a short-term policy based on fixing the prices of fish caught by Government agencies or imported through Government channels, but in a way that does not damage the fishermen catch prices, which should be left to supply and demand forces. In the medium term the Governments are advised to withdraw gradually from price fixing policies as they are difficult and costly to administer, concentrating rather on providing inputs and other facilities needed to increase the size of catch, improve marketing opportunities and other conditions.

5. Fisheries education and training should be geared to include, in addition to teaching fishermen to handle modern gear and boats, the building-up of a cadre of managerial, technical and administrative staff at various levels.

Development Prospects:

In order to develop the artisanal fisheries in various fishing

communities, FAO, while following an integrated approach, proposed the establishment of fisheries development centres in the rural communities where most of the traditional small-scale fishermen live.(37)

> "Therefore, the general concept in establishing fisheries development centres which include the various facilities of fisheries development such as landing sites, ice plants, workshops, cold stores etc. are meant to build up the infrastructure for fisheries development which has so far been inadequate to a large degree. It is not enough to capture fish; passing the fish through the various steps until it reaches the consumer is equally important."(38)

We tend to support this direction in the light of the above.

The need for diversification of the AGS economies necessitates the continuing development of agriculture as well as the development of fisheries. However, the fisheries sector has some advantages over the agricultural sector as noted earlier.

3.2.5 A Framework for Fisheries Development Cooperation

On the light of the above-mentioned analysis cooperation for fisheries development between AGS should concentrate on building-up and strengthening the infrastructural base in broad terms which include the following activities:

1. Fisheries Development Administration (Planning, Information and Statistics base, Training and Educational activities etc.
2. More research work and surveys should be done on fisheries preservation and development. The U.N. seems to be of vital help on this direction.
3. Cooperation to face the dangers of pollution to fisheries wealth.
4. A joint marketing system could be designed in the light of the current activities; this is examined in Chapter 4 on current cooperation between the AGS.
5. Oman and UAE appear, in the light of this review to be the main centres for fisheries development in the Sub-region.

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(14) SAMA, Annual Report 1976, 'Agriculture and Water Resources' p. 57.

(15) Ibid., p. 57.

(16) Ibid.

(17) Ibid., p. 60.

(18) Bowen-Jones, H. 'The Third Saudi Arabian Five-Year Plan' The Arab Gulf Journal, Vol. 1, No. 1, October 1981, p. 67.

(19) The Saudi Third Five-Year Development Plan 1979/80-1984/85.

(20) Bowen-Jones, H. Op. cit., p. 65.

(21) More detailed analysis will be given on food security situation in AGS as well as in the Arab Region in Chapters 9 and 13.

(22) A break-down by full-time, part-time and occasional fishermen is not available at this stage, nor it is possible to indicate the extent of subsistance operations, but it is thought to be considerable. See:
Feidi, I.H. Fisheries Industrial Development in the Member Countries, Regional fishery survey and Development project - RAB/71/278. Draft Final Report, August 1979, p. 10.

(23) Ibid., p. 10.

(24) The author of this thesis believes that the number of Omani fishermen has not been more than 6000 fishermen on the light of the top confidential socio-economic survey for fishermen which was undertaken in 1978/79. However, official estimate will be followed in the analysis.

(25) Feidi, H.I., Op. cit., p. 10.

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CHAPTER 4 - EVALUATION OF DEVELOPMENT FULFILMENTS

4.1 Introduction

This chapter is dedicated to evaluating the main features of the AGS development process and achievements. Special attention will be directed to the main problems facing the development process in addition to the main constraints that were concomitant to the development achievements. The chapter ends with the identification of development prospects and priorities.

This analysis completes the preliminary part of this thesis, Part 1, in which we have reviewed the setting within which development cooperation between the AGS has grown and, hopefully, will continue to grow. This review of the background situation and the accompanying evaluations allow in Parts 2 and 3 the identification of those fields in which such cooperation could solve many current and recent development problems and the type of approach necessary.

4.2 General Development Achievements and Directions

In ambitious imaginative drives towards breaking the under-development cycle, in trying to win the race against time associated with the reliance of the whole basis of AGS current economies on depletable oil resources, AGS planners and top decision-makers have followed, as noted earlier, an approach which rejected both limitation of expenditure and a relatively low rate of economic growth. Instead the AGS have adopted policies that feature high rates of investment and expenditure in social and economic projects, aiming at providing rapidly rising levels of living and introducing a large number of new industries and enterprises. However:

> "When the gates of prosperity were opened wide for the oil producing countries in 1974, the fact did not escape their Governments that the prosperity could be flawed."(1)

Consequently, most plans for broadening the economic base of AGS started with a simple principle: to invest oil revenues today in such a way that tomorrow, when oil revenues may no longer be important, they will have an alternative base for generating the same standard of income and standard of living as achieved in the oil era.

This means the transformation of a temporary comparative advantage into a permanent comparative advantage in international economic relations and the AGS national interests will be optimally met if the oil resource is depleted only when the highest possible level of self-sustaining economic development has been attained.

The earlier review of structural development of AGS economies indicated considerable progress, this based on formal planning in Saudi Arabia, Kuwait and Oman, but in Qatar, Bahrain and UAE without comprehensive development planning. What then has been achieved?

The diversification policy of these countries has been based, mainly, on industrialization. The petrochemical industry has been the centre of this processing as do certain characteristics facilitating its establishment. These supportive features include particularly two of the chief input demands - natural gas and oil energy and hydrocarbon, raw materials and high capital requirements, both of which can for a period be relatively easily supplied in the Gulf. The petrochemical industry requires a very high capital/labour ratio, and investment per new job created is estimated at $20,000 to $100,000. The AGS appear as unique developing countries in which this scale of investment is no barrier to industrialisation. The feasibility of hydrocarbon chemical complexes is equally strong. In addition to present oil and gas production in the AGS, at present 87 percent of the natural gas produced is flared and presents an obvious production opportunity. Further, whilst natural gas liquids are in short supply throughout the world and are likely to remain so far into the

foreseeable future, the AGS proven and probable reserves are enormous (see Chapter 1).(2)

Import-substitution light industries have also received attention in the AGS, consisting mainly of F.D.T., clothing and construction material manufactures.

The service sector has also received the attention of planners in States such as Kuwait and Bahrain and there is some logic to this. Since the region has virtually no industrial tradition, it seems unrealistic to expect traders or nomads to respond enthusiastically to calls that they should become engineers or operatives in industrial plants. Despite clear evidence of this not all Governments in the Sub-region, however, have shown clear realization of its implications.

All the evidence shows that the bulk of the Sub-region's citizens will opt for some form of bureaucratic job if given the choice, and that many of the region's entrepreneurs will move from trading to property speculation to financial manipulation on a wide scale, given the opportunity. Kuwait and Bahrain present ample evidence of this trend leaving the less popular industrial processes to be carried out elsewhere. This may be a more sustainable strategy, in the medium term at least, than trying to turn societies such as these into centres of manufacturing which is alien to the Sub-region's experience. The long-term viability of dependence on highly specialised financial services does however, depend on many factors, not least a sound involvement in the Regional and International circles.

Evaluation of Development Achievements:

The growing value of oil exports, mainly since 1973 have greatly increased the AGS, financial resources. Oil revenues have enabled the Governments to forge ahead with the development of the countries' infrastructure, broaden the economic base by undertaking a number of oil and gas based projects and by encouraging agricultural activities,

and expand the scope of social programmes. Furthermore, the AGS, except for Oman and Bahrain, have provided substantial assistance to other developing countries, in the form of grants and loans, and at the same time have increased their external reserves (see Chapter 14).

However, the sharp expansion in public sector expenditure and the concomitant growth in private sector spending, have not been matched by a correspnding increase in real resources because of various supply constraints. Given the small population base and the paucity of skills, labour shortages have emerged despite a large inflow of foreign workers. Housing and utilities have been in short supply and port congestion reached its peak in 1976. Consequently, domestic prices, especially for housing, rose substantially, everywhere and inflation rose during the 1970's.

Kuwait and Bahrain also illustrate two relevant elements in these AGS economic trends. In Kuwait the foreign exchange income from the oil sector has provided Kuwait during the last 30 years with the means to develop the country's basic infrastructure and to provide the population with an extensive welfare programme. The dearth of natural resources, other than oil and gas, has limited the development process to a few oil-related enterprises, small industries and the service sector. That development which has taken place necessitated the importation of foreign labour on a large scale and Kuwait was the first of the AGS in which citizens became a minority. Because of the limited absorptive capacity of the economy, Kuwait has for many years followed the policy of saving a major part of its income for investment abroad.(3)

The economy of Bahrain grew at moderate rates in the years prior to the substantial rise in oil prices and income in 1973. Increased availability of financial resources in the subsequent years enabled

the Government to increase substantially both current and capital expenditures. Spurred by this expansionary fiscal policy, private investment rose rapidly, and the economy witnessed a considerable upswing.

As Bahrain's known oil reserves are limited as indicated in Table 1.7, the development strategy for over a decade has aimed at diversification of the economy mainly through expansion of the service sector, improvement of infrastructure and the creation of auxiliary industries. Increasing emphasis has also been given to social welfare programmes. The IMF Mission of 1976 advised the replacement of the current adhoc development arrangements with more formal planning machinery, to contribute to a more efficient management of public sector development spending and provide a framework for establishment of priorities in what is perhaps the most diverse as well as least capital rich of the AGS. The increased injection of oil receipts into the domestic income stream by the Government and the accompanying boom in private sector activity have put considerable pressure on domestic resources and with high import costs have led to sharp increases in prices in recent years.(4)

In general, it is fair to say:

> "the large scale funds passing through the treasuries of the Middle East oil exporters were not effectively used to accumulate real and productive assets within their domestic economics."(5)

The effects of the oil price boom since 1973 on the AGS have been extremely mixed, though on balance many of their Governments may look back on the period 1973-77 as a dubious blessing. Income on the oil account certainly rose rapidly, but so did price inflation, wage rates and reliance on imported labour. Above all, the growth of the oil sector as a contributor to national income tended to reduce the role of non-oil sectors to insignificance in most states

of the region.(6)

While oil revenues have played a very significant role in developing many aspects of the AGS economies, their impact differs greatly from one field to another. Whatever development intentions may have been the main stress has been on channelling oil revenues to consumer sectors rather than investing in productive activities. This has not only failed to solve some of the problems and overcome some of the obstacles facing the AGS but has even raised new problems which, if unsolved, will hinder structural change and sustained development.(7) Below, in section 4.3 some of these problems and obstacles are briefly discussed. Two preliminary general points concerning industry in the context of the foregoing must first be made, the first concerning import-substitution industries.

Import substitution industries particularly appeal to the entrepreneurs of the Gulf Sub-region, on the basis of their trading experience. However, there are no strong reasons for Gulf planners to put too much stress currently on import-substitution industrialization, which makes most sense when countries are faced with severe balance of payments problems or where employment generation is particularly pressing. Since none of the AGS are faced with either of these problems to any serious extent, they might be better advised to concentrate on other strategies, such as building up industries supportive to the oil industry or financial institutions. This possible trend is discussed in Chapter 14.

The second point relates to the basic chemical industry. The diversification policy of AGS has been adversely affected by the inability of the industrial sector to respond fast enough and on a sufficient scale to the incentives and the development measures of Governments. The successes which have been recorded lie mainly in the area of oil and gas-based heavy industry. However, even these

industries have their own dangers, as mentioned before, in particular as they transform liquid financial capital into fixed capital with a high capacity of construction materials, capital equipment and labour, in very large inflexible units which will carry a heavy cost if they proved unsuccessful after they are put on stream.(8) (See also Chapter 10.)

Those features of the petrochemical industry which pose some difficulties in the immediate future are particularly related to two factors. First, the industry is characterised by sophisticated technology, along with a high level of competition. Installations must utilise the most modern technology and highly skilled manpower. Moreover, the industry is exceedingly dynamic and research into new processes and products plays a crucial role. None of this sophistication and dynamism is created by the simple fact of the importation of plant.

Other considerations include the following:

1. Oil-based industrial development has suffered from considerable wastages, notably of massive wasteful consumption of all inputs which the volume of oil revenues permits and even encourages. Very common are exorbitantly inflated prices of and costs of contracts too rapidly signed to import machinery, without sufficient consideration for the suitability of the technology imported.

2. A misconception of the notion of development whereby concentration is directed to high rate of growth in some sectors remote from the needs and experience of most members of the communities. This arises from transplanting elements of fully operational and economically viable modern economies in the style of advanced countries into traditional societies still containing significant areas of poverty and economic backwardness.(9)

3. Insufficient resources and attention devoted to the development of science and technology <u>within</u> the AGS.

Most large-scale industries in the Sub-region suffer from

under-utilization of productive capacity. Given the scarcity of skilled labour, advanced management techniques, advanced technology and marketing know-how and, in some cases, the duplication of industrial projects, the inevitable result has been that productivity is low, from both capital and labour standpoints. The small size of the internal market itself limits development. Indeed, for five of the six Gulf states, with populations of round a million or less, there is no alternative to heavy industrialization except via export markets, and here of course competition is most intense and risks greatest.

The problems of heavy industries, generally based on petrochemicals, are acute, though disguised by the size of the schemes and the length of time they take to mature:

> "Put bluntly, most of the heavy industries now operating have been disastrous and there is little reason to suppose that new ones will be different."(10)

There can be no doubt that the future of large-scale industry in AGS rests heavily on world prices. Such prices are notoriously hard to predict, even for two or three years ahead, especially in a recession. AGS may have some comparative cost advantages in petrochemicals, but together with oil refining is suffering from a glut and severe competition. For example oil refineries in Britain during 1980 operated at only 62% capacity.(11) The argument in favour of current policies rest mainly on the fact that some of the AGS, Saudi Arabia for example, are of the few countries which can afford to take a genuinely long-term view. Thus, plants which are due to be operational in the early 1980's, may loose money at first, but may pay eventually. In the meantime, oil revenues carry the cost. Whether this is the best or only way of building a productive base for an economy is questionable, though it must be said that industrialization in many under-developed countries has been much more successful than was once thought possible.(12)

4.3 Main Negative Features of the Development Movement

In addition to the above mentioned development trends in the AGS, the development process has been characerized by the following features which have already briefly been mentioned.

- Concentration on prestigious development projects.
- Weakness of development planning machinery.
- Low rate of implementation.
- Unbalanced growth.
- Intensive dependence on international economic relations.

These features, of course, have to be set in the context of structural constraints which include the following:

- Small markets.
- Overwhelming dependence on oil revenues.
- Lack of manpower and managerial capacity.

The skewed natural resource base which constitute the main structural constraint on AGS development has been discussed in Chapter 1.

4.3.1 Prestigious Projects

Those which stand out supreme here are the petrochemical industries. Many of their characteristics are associated with all the problems associated with the introduction of large-scale advanced technology to under-developed countries.

1. The lack of experienced labour at all levels to run such projects affects production cost as much as restricting the range of products.

2. As the first national heavy industries in small countries the necessity of importing everything (except crude oil and gas) affects fixed as well as running costs and causes a considerable lengthening of lead-time. The high fixed cost for refineries, for example, appears from a capital investment need in OPEC countries, per daily barrel of intake of $676, while the corresponding cost of refinery facilities of a not too complex nature built by Shell in the same period was between

$250 and $350.(13)

3. The existing excess capacity of petrochemical industries in the major industrialized countries renders the export outlook less bright now than in 1974, especially with the protectionist attitudes of these countries against the enetry of foreign products. Such difficulties could, however, be overcome if world demand for petrochemical products picks up.

4. The exorbitantly rising costs of plant investments. It is estimated that the cost of petrochemical projects in the OPEC countries is generally more than 30%, and often 60% higher than in similar projects constructed in Western Europe. Inflated costs are partly due to the inadequacy of infrastructure, the lack of technical and managerial skills, etc., and partly to the discriminatory prices imposed by suppliers of equipment and technology.

5. The uncoordinated investment policies of the oil-producing countries in the face of powerful groupings of suppliers of plants, patents, equipment.

It is noticeable, that because of the unusually high cost of such investments the net return on invested capital is very low. The per barrel cost of producing one barrel of LNG is estimated to be in the order of U.S. $12, an amount which is marginally below its sale price.(14) To many energy experts and policy-makers, such investment represents a real loss compared with other types of utilization including gas re-injection for future use, and makes the developed energy-importing countries the real beneficiaries, since they acquire this highly efficient source of energy at a price close to that of crude oil, against huge investments incurred by the producers.

Moreover, the transportation cost of liquified natural gas is very high, due to very high capital outlay as well as high ship operating costs, including insurance, fuel and port dues. The estimated cost of

transporting one ton of LNG in U.S. $44, or more than 7 times that of crude oil. An alternative type of gas investment is to construct export-oriented LPG plants, whose costs are much lower in terms of both capital investment and operation and transportation costs.

4.3.2 Weakness of Development Planning Machinery

In common with other less developed countries the AGS have from an early stage had their eyes set on general development, although their approach has varied.

In some countries the early ways of thought have persisted and developments take place as the situation demands, largely as a result of individual initiatives, e.g. UAE, Bahrain and Qatar. Other countries have preferred to rely on a formal development plan. However, the development plans in themselves have tended to be of the type which professional planners refer to as aspirations rather than plans, consisting of a long list of the targets the Government would like to see achieved. There has been some theoretical assessment of the likelihood of fulfilment, of the interactions of the targets on each other, and of the availability of resources, but a sense of the practical has been lacking. With the far greater financial resources available in the mid-70's a new series of such plans appeared, but again showing a lack of realism regarding the availability of real resource inputs and viability.(15)

In UAE, the weakness of central planning machinery, noted in Chapter 2, is reflected in a very dangerous duplication of development projects. Apart from the differences between Abu Dhabi and Dubai over participation in the oil industry, these two main Emirates do not cooperate in the building of their hydrocarbon industries and other projects, and indeed there seem to be outright rivalry. When Dubai announced its plans in 1967 for a major industrial complex and special port in Jabal Ali, a few weeks later Abu Dhabi announced plans for

similar complex and port at Ruwais. The smaller Emirates also do not want to be left behind and as a result there is in the UAE as a whole already a surplus of international airports and an excess of cement plants.(16)

In Dubai Sheikh Rashid bin Said Al-Maktum ventures his own money on projects of which he agrees, and keeps only a small but competent staff to meet all Dubai's development plans and enable those approved to proceed without bureaucratic delays.(17) This highly individualistic approach however becomes more risky as investment units grow in size and other AGS also invest. Thus the large dry-dock built in Dubai as an independent venture has been consistently under-used and financial returns are negative.

Difficulties have traditionally been experienced by companies based in Sharjah but wanting to do business in Dubai and these show little sign of easing. Many import-substitution industries set up in the UAE were adopted without being studied or planned, creating mutual problems, and contradicting the long-term planning objectives for UAE.(18)

The duplication of development projects among the Emirates is also due to the existence of many investment bodies without any coordination between their activities. Recently six investment companies were set up, two in Abu Dhabi, one in Dubai, two in Sharjah, and one in Ajman. This has lead to competing projects and impedes the implementation of a development strategy.(19) This lack of sound planning machinery with the capability to control the identification and implementation of successful opportunities is evidenced by the failure of Ras El-Khaimah's fishmeal plant (see Chapter 3) which was closed down after only just over six months production.

Recently Sheikh Hamdan bin Rashid Al Maktoum, the Federal Minister of Finance and Industry and son of Sheikh Rashid of Dubai, publicly

criticised industrialization policies in the Gulf, saying:

> "All our industrial projects in the Gulf are running at an annual loss of not less than 10-15 percent of their capital."(20)

Nowhere has the private sector been adequately integrated into the planning process. Moreover in countries where an important role is played by the private sector in some sectors of manufacturing, trade, finance, and agriculture, the absence of accurate data on the private sector means that even those plans which are produced only really cover the public sector's level and direction of expenditure. Whilst the Omani First Five Year Plan (1976-80), for example, projected planned expenditure by the private sector, this was done without much basic information on the pre-existing private projects. It was therefore impossible to evaluate the achievements of the plan's objectives in this sector and all forward projections were essentially bland assumptions. This was particularly very clear in the agricultural private sector.(21) In Abu-Dhabi the five-year development plan 1968-72 was more a catalogue of many things that needed to be done to found a modern state than a settled orderly plan.(22)

In Oman planning as a separate exercise from the executive functions of Ministries started only in November, 1974 as noted in Chapter 2. Consequently, the planning staff both in the Technical Secretariat of the Development Council and in the individual Ministries is limited and needs strengthening. Together with limited data availability, the uncertainties on oil production and the short period over which the country has experienced rapid economic development, this has resulted in rather simplistic planning. The macro-targets of the plan were projected on the basis of simple assumptions taking into account the many projects already in the preliminary stages of preparation. Although efforts have already been made by the Government, partly with assistance from the World Bank, further emphasis

on project identification and preparation is needed.(23)

> "In a period when the prevailing political and social mood was to rapidly transform the society from the isolationist and conservative philosophy prevalent until 1970 and speed was a keynote in official Omani thinking, the introduction of planning and its concomitant discipline had to be a gradual process. Every effort should now be made to expand the technical staff in the Technical Secretariat and other Government bodies in order to gradually develop the process of planning."(24)

Saudi Arabia Industrial Development Fund (SIDF) problems further illustrate the situation in AGS Development bodies, four particular difficulties with SIDF being identified. Its staff are not up to the job; there is insufficient economic data to decide for example, whether another concrete block factory is needed; the role of SIDF is confused with that of other Government departments; and it does not know either how to present its own services or to teach others to market their products.(25)

4.3.3 Low Rate of Implementation

AGS implementation rate of development expenditure has been low. In the UAE, Federal Government development expenditures increased sharply from Dh 73 million in 1973 to Dh 748 million in 1976. Inspite of (or possibly because of) this sharp increase, the implementation ratio has remained relatively low, averaging about 40 percent during 1973-76, as the execution of projects was hindered by physical bottlenecks and administrative problems.

In Kuwait though Government sources claim that about 90 percent of development allocations have actually been spent in recent years, other observers place the figure much lower, estimating the implementation rates at 50 percent to 70 percent. In 1976 and 1977 several factors, including severe labour constraints and heavily overloaded port facilities, were combining to slow the rate of actual expenditures. The notably conservative Government was reported to be reassessing several

major projects already on the drawing boards.(26)

In Oman reports on the follow-up of the first FYD as illustrated in the following Table 4.1 show that the implementation rate was during the period 1976-79 comparatively low for the non-oil productive sectors, financial institutions and social infrastructure, (21.5% for industry, 52.3% for agriculture and fisheries, 47.7% for financial institutions and 64.1% for social infrastructure). Higher implementation rates were achieved for oil and minerals, trade and tourism, public administration (203.8%) and economic infrastructure. The higher implementation rate which exceeded 100% for some sectors reflects rather under-estimated expenditures than effective implementation.

Table 4.1

Planned and Actual Government Investment Expenditures Accumulated 1976-79

Sector	Planned OR mn.	Actual OR mn.	Implementation Rate
Oil and minerals	142.3	148.3	104.2%
Agriculture and fisheries	28.5	14.9	52.3%
Industry	24.7	5.3	21.5%
Trade and tourism	11.9	17.2	144.5%
Economic infrastructure	279.2	261.2	95.2%
Social infrastructure	89.2	57.2	64.1%
Public administration*	141.2	287.7	203.8%
Financial institutions	13.0	6.2	47.7%
All sectors	830.0	897.8	108.3%

* Includes civil expenditures on defence and national security.

Source: Oman-Development Council, Follow-up Report on the First Five Year Development Plan. Results of the first four years 1976-79. Table 8, p. 26 (Arabic).

4.3.4 Unbalanced Growth

Apart from the theoretical arguments concerning the relative values of balanced and unbalanced growth strategies (see Section 4.4.1), in practice many disadvantageous imbalances have appeared in the AGS. Other than the strong linkage between oil revenue and national budgets the petroleum sector has, so far, been deficient in creating significant

spread-effects in AGS economies, and has failed to supply significant production linkages. First, as we have noted, it involves highly capital and skill intensive technology which is highly divergent from domestic factor endownments. Secondly, there is only relatively modest domestic industrial capacity that uses petroleum and natural gas as feedstock and/or fuel. Because the oil sector technology has generally low labour demand, it has contributed little direct consumption linkages with the rest of the economy. Finally the education and training opportunities created by the petroleum sector were absolutely few.(27)

In Saudi Arabia one of two States with relatively large rural populations, coupled with a lack of policies designed to prevent an over-concentration of urban populations in the three growth centres of Riyadh, Jeddah and the Dammam conurbation there is a lack of policy for making it attractive for people to remain on the land. While the AGS generally acknowledge the importance of agriculture, they have been slow to devise plans and provide administrative support to make country life prosperous enough to attract back the shanty dwellers on the edges of the cities. It is far from easy and there are not many countries, developed or undeveloped, that can be satisfied with their achievements in this field. For the individual farmer to remain on the land it is clearly necessary that he can attain a reasonable degree of prosperity for himself, and Governments can assist by various fiscal policies to ensure this is so. On the social side, both for the farmer and for his growing children, it is also of importance that the small towns in rural districts should be pleasant places and offer services which are not totally inferior to those of the cities. Government action is needed since the 'spread-effects' and 'trickle-down' processes which are assumed by Hirschman and others

to operate in conditions of growth are not strong enough to counter all the concentration forces.(28)

4.3.4.1 Human Resources and Social Problems:

The AGS policies for developing and utilizing human resources have failed so far to create the skills and develop the talents most needed for economic development and have failed to utilize existing skills in efficient productive activity.

Indeed their policies have even resulted in a great waste of these resources, for they have resulted in some diversion of nationals from the most productive activities to well-paid disguised unemployment in the public sectors and they have caused some groups to be offered sources of income that make them reluctant to join the labour force.(29)

The AGS, with their capital-surplus economies and lack of varied natural resources, should concentrate on the development and full utilization of their human resources which are the most precious of all resources in any society. They are the only positive factor in production and hence their development and effective utilization in productive activities will be the precondition for structural change and sustained development. The development of these resources is so outstandingly important that Harbison concluded that:

> "A nation which is unable to develop and utilize its labour force effectively will be unable to develop anything else."(30)

The role of human resources in economic development is considered by increasing numbers of economists to be one of the most important factors. Singer, taking the view that the capacity to create wealth resides essentially in the people of a country, wrote:

> "The fundamental problem is no longer considered to be the creation of wealth, but rather the creation of wealth itself becomes almost incidental; it follows quasi-automatically."(31)

Disguised Unemployment: In the public sector disguised

unemployment of citizens is a very clear phenomenon in Kuwait, Qatar, Abu Dhabi and Oman, where every citizen is entitled to a job in this sector whether his work is needed or not. This problem was not serious to begin with but later, in addition to imposing a financial burden on the Government budget, it has diverted considerable numbers of citizens from the private sector to the public sector, where production is lowest.

Thus it is not strange that the Kuwaiti and Qatari employment percentages are very low in most production sectors, while they were highest in Government services.

The main reasons for this low proportion are:

1. The social conditions which prevent women from seeking economically active employment outside their homes. Women's illiteracy rate is high.
2. The high birth rate prevailing since the 1950's, has increased the sector of the dependent population aged under 20. Free education has also encouraged young people to continue their formal education and raised the school population.
3. Though unemployment in the strict sense is low another sort of unemployment exists; this includes many people who have left their traditional occupations and live on social security allowances, as well as members of the ruling families and considerable numbers of their relatives and dependants.

Education: Orientation and Motivation: The AGS until very recently have not been considered to be very successful in orientating education to and encouraging training for the skills most needed to promote economic development. The choice of subject and the type of study were left to the students who were assured, no matter what they studied, of a job, by right of birth, in the public sector (Bahrain excluded). This directed most students from science and technology to 'softer' subjects, which are not only easier to study

but may also secure white-collar jobs with high prestige later on. Thus most students choose to go into the general section of secondary education instead of going into the specialized sections i.e. teacher training, commerce and technical schools - even if they plan to leave school after this level. Such a preference is demonstrated by Table 4.2 which shows the pattern of education at the secondary level.(32)

Table 4.2

Selected AGS: Distribution Pattern of Students at Secondary Level 1970/71*

Level	Number		
	Bahrain	Kuwait	Qatar
General section	5,242	15,997	911
Commercial section	490	489	66
Teacher section	289	2,103	237
Technical section	439	1,656	59
Total	6,460	19,154	1,273
General Section as percentage of total	81.1	83.5	74.6

* Excluding religious studies.

Source: Ali Khalifa Al-Kuwari, Oil Revenues in the Gulf Emirates, Patterns of Allocations and Impact on Economic Development, (London: Bowker in Association with the Centre for Middle Eastern and Islamic Studies of the University of Durham, 1978), p. 190.

As Table 4.2 shows, about 80 percent of the students entered the general section of secondary education. Qatar had the highest percentage in specialized education at the secondary level, but even this has now fallen.

Social Problems arising from Side Effects of Development:

The region is beset by the possibility of environmental damage and pollution as its industrialization progresses. Similar problems are facing the countries of the region regarding industrial safety

and occupational health, traffic congestion, increasing tensions for the individual and on family structure:

> "Alleviation of these problems, which were of only secondary importance to us a decade ago, has now become one of the key problems facing us as planners."(33)

Social and Political Institutions: Although social and political institutions have undergone considerable change in AGS, changes quite remarkable over the short period they still in many respects require to be changed even more to provide the right conditions for development.

Economic development, being a complicated process and not a simple one, depends not merely on economic circumstances but on social structure and the attitudes to life as a whole. Thus the social and political structures are important factors which need to change progressively and continuously if they are not to form an obstacle in the way of progress.

Societies may be compared to individual human beings, their economic power may be compared to energy and the muscles of men, their political institutions and practices to man's brain power and experience. Thus, unless these important aspects are developed together, the society will face a bottleneck problem which will inevitably cause considerable waste.

Social and political institutions may promote economic progress in many ways, the principal ways being: (1) by associating effort with reward; (2) by maintaining respect for productive work, manual or intellectual; (3) by encouraging contempt for idleness; (4) by linking status with individual achievement rather than family connection; (5) by encouraging belief in cause-and-effect relationships; (6) by discouraging ways of life which put a great premium on current consumption rather than provision for the future; (7) by encouraging an abhorrence of corruption in general, and in the public administration

in particular; (8) by allowing scope and freedom for public participation in public affairs; and (9) by freeing economic policies from undue political considerations.(34)

Social Structure: Sayigh has illustrated this situation thus:

> "One can safely say that the most widely observable social characteristic of the region as a whole is traditionalism and tribalism. Social organization, loyalties and values even in a society as sophisticated by Arabian standards as Kuwait, the large urban centres of Saudi Arabia, or Dubai, still betray the clear underlying streaks of traditionalism and tribalism."(35)

He added:

> "Tribalism is a serious problem across the course of development in Arabia, furthermore tribalism need not, and indeed must not, be sought only among the 20-25% of the population still in a nomadic state; for tribalism dies hard even in old, established urban centres."(36)

4.3.4.2 Investment Opportunity and Land Speculation:

Increasing urbanization and AGS Government's expenditure on land purchase schemes have increased the price of land very rapidly. This increase, coupled with the lack of sufficient investment opportunities, makes the purchasing and selling of land the most profitable activity in the AGS. This activity has attracted much of the private money invested in the Emirates and diverted it from other fields of their economies. Many people have left their previous jobs and confine their activities to this field, and many merchants and Government employees, particularly in Kuwait and Qatar, have borrowed money and invested it in land.

This problem is a serious one. Firstly, it diverts effort and capital from productive activities to these transfer activities. Secondly, most of the proceeds of these activities go to the real-estate speculators who spend a considerable part of their profit on consumption, while reinvesting most of the remaining profit in the same activities. Thus the price of land is pushed higher and higher

and everybody else is attracted to the business of buying and selling it. Therefore, while trying to increase opportunities for investment in productive activities, AGS should at the same time restrict land speculation.

4.3.4.3 Lack of Incentives to Produce:

In the AGS there is a dangerous belief that because these countries are wealthy each individual is entitled, without contributing to the nation's development, to a large number of free benefits in many forms. Hisham Nazar, the Minister of Planning in Saudi Arabia illustrated this phenomenon in Saudi Arabia, but common in all countries of the Sub-region:

> "That is to say there is a very human tendency for people to take things for granted and to rely too much on welfare benefits in many forms without giving a thought to the obligations and contributions towards a society that the individual is expected to make. Whereas the older members of our society can feel entitled to a special measure of welfare benefits as they are the ones who lived under conditions of relative poverty and hardship with little opportunity for advancement for so long - this is not true of the younger generations who have unbounded opportunities before them."(37)

He added:

> "They must learn that their progress and advancement are dependent upon dedicated hard work and although the Government will extend to them every basic opportunity it can, it will not provide any healthy young person with a welfare programme so complete that it effectively discourages him from productive activity."(38)

In Kuwait it is felt that the new generation of Kuwaitis does not feel the urge to participate in work of such a nature (oil and related activities) and indeed the movement of labour away from the oil industry has been a notable feature of Kuwait employment statistics. Many of the existing well-trained and capable staff in the oil industry are approaching retirement, and how to replace them is a problem Kuwait and other Gulf Governments will have to face.(39)

4.3.5 Extreme Dependence on International Economic Relations

1. Imported Technology: AGS Governments, particularly Saudi Arabia, are importing advanced technology wholesale and on a large-scale. The population is hardly at all prepared for this sudden transformation, and very serious manpower problems already exist, and threaten in our view to lead to resource waste on a colossal scale, and to economic strangulation because of the manpower bottleneck. The populations are almost mesmerised by the impact of this vast exposure to the new technology, with its machines and tools, its organisation, and its power.

> "The scale of the technological importation and the almost total unpreparedness will necessitate the passage of some time for the first phase of acceptance to be gone through. The second and third phases, namely those of adaptation and indigenous creativity, and of profound transformation in attitudes to science and technology, are in this writer's view matters for the distant future."(40)

It can be said that the acceptance of technological change and the more profound technological transformation, which have a manifestly important role in the process of development, are still at an early phase of materialization. Their potential is great, but the present level is modest.

Existing financial resources could help in building a new generation which is not only able to know what imported technology to choose, what specifications and designs to make, what adaptations to introduce and what innovations to contribute. In other words, the spread of progress must reach the whole society, and Arab society must develop its internal capability to advance science and technology if development is truely to benefit from technology as a determinant.

In illustrating the implications of heavy reliance on imported technology and joint undertakings in Saudi Arabia, for example, Sayegh indicated that:

> "The implications of this structure are very serious. For although the pattern is supposed to lead to the richer inflow of technological innovation and know how, it is highly doubtful that it actually leads to the implanting in Saudi soil of the new technology and its acclimatisation. Furthermore, the leakage to the foreign partner in profits, salaries and payments for patents is considerable. Finally, the optical illusion of the speeded development effectively disguises the true slowing-down of real, home-based, home-manned and internally propelled development."(41)

Although the author of this thesis agrees with this concern, however, he believes that it is within the capability as well as being the responsibility of the AGS to direct their economic relations and joint undertakings in ways which secure the development of home-based technological advancement.

4.3.6 Structural Constraints

4.3.6.1 Small Markets:

The small size of markets is due mainly to the small size of populations reinforced by the fragmentation of national in the UAE.

For example, in Oman the limited domestic market size precludes the establishment of large plants, but there is market potential for developing simple food and consumer good indsutries e.g. soft drinks, soap, batteries, brick, nails and screws. The appropriate size of plant needed will have to be carefully studied.(42) In Kuwait the small local market has been considered to be one of the main constraints impeding economic development, ever since the IBRD published its study of the national economy in 1963 but many of the potentials then recommended, viz. batteries, detergents, paints etc. have been realised.(43)

4.3.6.2 Overwhelming Dependence on Oil Revenues:

The AGS high per-capita income, their prosperity, indeed every aspect of their social economic and administrative life, is mainly supported by these revenues. Thus, if anything happened to decrease

these revenues considerably, a possible prospect, the whole economic structure will inevitably, collapse completely unless new alternative sources of national income can be rapidly developed. That AGS growth and prosperity is overwhelmingly dependent on oil revenues is beyond dispute. The degree of this dependence is shown in Table 4.3, which shows that in 1979 the AGS oil sector share of the GDP was 63 percent, and the oil income contribution to public revenue was 89.2 percent, and the oil share of total exports was 92.5 percent in 1980.

Table 4.3

Percentage Contribution of the Oil Sector and Revenues to: GDP, Public Revenues and Exports

	Kuwait	Qatar	Oman	S.Arabia	Bahrain	UAE	Total
Oil sector share in the GDP (1979)	68.9	N.A.	61.5	62.9	N.A.	54.9	63.0*
Oil revenue share in Public Revenue (1979)	85.2	91.9	84.2	89.6	70.5	98.0	89.2
Oil and oil products share in total exports (1980)	89.8	94.9	99.6	99.9	80.7	93.8	92.5

* Four Countries only.

Source: IMF, International Financial Statistics Yearbook 1981. Central Banks and Monetary Agencies of AGS, Economic Bulletin, Vol. 2, No. 1, June 1981, Table 7 and 11. (Basic data.)

This overwhelming dependence constitutes a great danger, particularly when the temporary nature of this source of income is realized.(44) However, for the immediate future the oil and oil-based industries do create a demand for other supportive industries and services and some potential exists in these fields.(45) (and see Section 4.4.1)

4.3.6.3 Lack of Manpower and Managerial Capacity: (See also Chapter 9)

As we have seen there is little or no open unemployment in the region. Nationals seeking employment are guaranteed jobs (mainly in

Government service) and whatever unemployment occurs is usually of the frictional type. In fact labour, skilled and unskilled, is a constraint on the Sub-regions development effort. This is reflected generally in liberal attitudes towards immigration and efforts to encourage education and vocational training. In particular there is a problem of managerial and supervisory staff.(46)

Economically Active Population: The economically active population among the AGS nationals is the lowest in the world, as may be seen from Table 4.4.

Table 4.4

Economically Active Populations among AGS Nationals: Comparative data, 1970

Country	Percentage of total population
Kuwait*	17.2
Bahrain*	21.8
Qatar*	18.1
Libya	25.6
Iraq	39.6
USA	40.9
UK	46.7
Japan	49.8

* Excluding expatriate populations.

Source: Al Kuwari, A.K. Op. cit., Table 9.15, p. 180.

Today however, the appreciation of the high social costs and other dangers of a high proportion of imported labour in total labour forces, (82% in Qatar and UAE, 70% in Kuwait, 50% in Saudi Arabia), may require a complete review of the whole existing pattern of development.(47)

Imported labour occupies a very vital and sensitive position. The proportion is high in the science based activities, and senior positions, e.g. in Kuwait 76.7% in 1975, 65% in Saudi Arabia 1973, 85% in Oman 1975, 80.7% in Qatar in 1973.(48)

In the UAE it is estimated that non-nationals constitute over 90 percent of the labour force in the private sector and the proportion is about 70 percent in the public sector. The oil minister Al Otaiba has said that for some time Abu Dhabi will have neither the administrative nor the technical staff to run its own oil business, and industrial developments being planned will face similar difficulties. On a lower level most of the manual work is being done by Baluchis, Pakistanis and others and although it is hoped that there will be a turnover of individuals there seems no escape from dependence on foreigners in the foreseeable future.(49) It is thought that manpower and inflation are the main problems facing UAE.(50)

In Saudi Arabia domestic investment suffers from the lack of skilled technicians and management. The main problem facing the implementation of planned capital investments is not one of financial resources, but is the availability of human and natural resources.(51)

In Oman a major constraint in the development of manufacturing activities remains the inadequate quantity and quality of management and skilled labour:

> "Considering the high cost of expatriates, extensive training must be initiated paralleled to project preparation and implementation."(52)

Although the return of Omanis studying or staying abroad should help to relieve the shortages of skilled Omani manpower, the replacement of skilled foreign workers may take somewhat longer than anticipated and the reliance on expatriates is likely to continue at a higher level than assumed.(53)

To summarise, the dimension of the AGS dependence on foreign labour was outlined in Chapter 1. Here it is simply stressed that this dependence holds serious political and social implications. For these countries local Governments face a dilemma: they do not want to have such large numbers of foreign residents but at the same time

the present and future economic health of their communities would seem to depend on foreigners.

4.4 Development Prospects and Priorities

In the light of preceding sections here we attempt to crystallize development priorities for the future beginning with an outline of a conceptual framework for these priorities.

4.4.1 Conceptual Framework

All analysis of the development movement strategies and directions, of AGS indicates that the Gulf states are still in a kind of experimental period in which they are still finding out exactly what future their oil and gas sectors have, and which kind of industrial and other sectors diversification make most sense for their societies. At the same time various misconceptions regarding development seem to have become established in the AGS.

Misconceptions are particularly centred around a distorted meaning of the term 'development', reflected in a naive concept which consider scientific planning and high allocations of oil revenues to industrial projects as if they were in themselves able to buy 'development like a commodity'.(54) Here we should emphasise the points made in the Introduction including the fact that development involves more than material growth, as Galbraith has put it recently:

> "The test of social achievement is not the annual increase in output of a society, but how well the society addresses itself to the tasks which improves the lives of its members."(55)

In Section 4.3.4 we outlined some of the imbalances which have appeared in AGS economies and societies. Conceptually it is important that the AGS countries, individually and/or in cooperation, address themselves to the problem of balanced and unbalanced growth. This is not the place to review the many studies, particularly following the work of Myrdal and Hirschman, which have advocated one or the other

of balanced or unbalanced strategies but some relevant points need to be made here.

First, balanced growth in the literal sense of all sectors expanding at the same rate is impossible for individual AGS countries and unlikely even in the Sub-region as a whole, although this latter point will be discussed later. As appeared from Chapter 1, the highly skewed and quantitatively and qualitatively limited resource base of the AGS does not allow symmetrical multi-sectoral development. Secondly, the enormous size and dominance of the oil-industry both in production value and through its concentration of revenue in the hands of Governments, has produced many distortions which cannot easily be counter-weighed.

Earlier in this chapter we have also identified ways in which unplanned unbalanced growth has led to damaging and dangerous consequences, and it is clear that a 'laisser-faire' attitude to these will at least inhibit true development. Therefore, here and later in this thesis, it becomes necessary to identify ways in which the adverse consequences of unbalanced growth can at least be mitigated. As we shall see, without cooperation <u>within</u> the Sub-regional AGS circle, within the larger Regional Arab circle and even within the International circle, such efforts are unlikely to be successful.

This analysis tends to support the following proposed priorities:

1. Priority should be given, within the industrialization process to the development of research and of training managerial and technological capabilities in various fields of petrochemical industry, otherwise these huge projects will remain as imported factories without contributing to the build-up of a highly trained and qualified generation. Sub-regional cooperation seems to have an important role in this direction, as is demonstrated in Parts 2 and 3.

2. The development of the AGS should take a more independent line,

direction less concerned with conventional wisdom, because the Sub-region has its many unique features, structural problems and objectives. In the current stage of development in particular more attention should be directed towards the build-up of infrastructure in its broader terms (human resources development, Government machinery and planning, training and research, etc.). The conventional advice to move rapidly towards productive material income generation should be discarded with no sense of guilt, and the opportunity presented by the favourable finances of the AGS to spend more time on the preparation of the platform for sound future development should be siezed. In particular, the managerial and organisational capability for successfully running future projects in a changing world could be thus greatly improved beyond existing capacity.

3. As the role of Government necessarily expands in the public sector (including ownership of substantial productive assets, and the planning and execution of development works) there should be a parallel expansion in the capability and efficiency of relevant administration. Greater emphasis will have to be placed on merit and less on tribal or party loyalty, either for appointments or promotion.(56)

4. Another area where AGS Governments should redouble their efforts are to improve the developmental data base. The quality and quantity of data needs to be improved in all countries and fields since without good data, rational planning and implementation is very difficult. In Oman, for example, there are no accurate agricultural statistics on production and prices, labour utilization and the ownership of land. An improvement in Kuwait's statistical data in particular with respect to national accounts and prices, would help in formulating appropriate policies measures.(57)

5. A development oriented civil service is needed instead of a commercially oriented one. The author, from personal experience

realizes the existence of the phenomena of civil services in which personal commercial interests conflict with national interests, in some part of the Gulf area if not in all, and to a dangerous and detremental extent. This has emerged in the evaluation of development projects, both on a national and a Sub-regional basis, in which decisions were controlled by personal commercial views as against a development view.

For example, an IBRD project was proposed for Oman in 1974 for the development of small-scale fisheries, with its components directed mainly to improve the fishermen catch capabilities through suitable fishing vessels and supporting their marketing outlets through the provision of cold storage network facilities. Despite the support being obtained for the project from the technical staff working with the Ministry of Agriculture, Fisheries, Petroleum and Minerals, and other Government bodies however, the Minister insisted on replacing the project with a larger and more prestigeous commercial scheme; the project consequently failed. Additionally, from personal experience of work with the Omani Fund for the Encouragement of Fishermen, it became clear that many decisions which were taken in relation to the type of fishing boats provided to fishermen during 1978-79 were not being chosen for development suitability, but rather for motives of commercial self interests. Such examples could be multiplied from other AGS countries.

6. It seems justifiable to claim that many of the priorities listed above would be more easily achieved and more likely to contribute to sound development if set in the context of AGS cooperation. A better-directed and more successful development engine based on Sub-regional cooperation could better mobilize existing and potential resources and create the right setting for productive activities.

4.4.2 Sectoral Priorities

Industry:

Sayegh's words in describing industrialisation in the Arab world, seem to be applicable to the AGS:

> "What is witnessed is more an outward, mechanistic expansion in industrial investment and activity, than a deep and far-reaching process of industrialization. In the Arab world Algeria and to a lesser extent Egypt and Lebanon are to be exempted from parts of this judgement, but elsewhere the process is still slow and of modest volume. This is true even in such countries as Saudi Arabia, where huge investments are being made in industry."(58)

The degree of modernity is of special importance here, involving newness in the products manufactured, sophistication in the technology used, efficiency in industrial organisation, recourse to research and innovation, and the development of a good structure of management and labour relations. All this in such a way as to be capable of coping with modern industrial problems and requirements.(59)

Industrialization in the light of all preceding analyses requires first, qualitative rather than quantitative development activities. Such qualitative activities include strengthening the infrastructural as well as the structural platform for industrial development (industrial training, research, relations, managerial capacity in various fields, etc.).

Agriculture and Fisheries:

Comparatively speaking, in terms of population, area and resources, Saudi Arabia, followed by Oman and to a lesser extent by UAE seem to constitute the most promising areas within the Gulf Sub-region. However, as noted earlier, the prospects are not sufficient to solve the problem of food security within the Sub-regional circle. Specific priorities activities were identified in Chapter 3. For fisheries development, as recommended in Chapter 3, efforts should be centred around the development of traditional fisheries. A major

strategic consideration in this sector is the future role of traditional fishermen. Modern fishing methods, such as those employed in joint ventures now operating in Oman, will not produce widely distributed benefits to traditional fishermen or generate a significant number of new jobs. Without proper control, operations of this type could disrupt domestic markets for traditional fishermen and reduce their incomes. With careful planning, the simultaneous development of both systems could contribute to the country's growth and income distribution objectives. Joint venture arrangements in commercial fishing, which focus on export markets and are carried out over restricted fishing areas, seem appropriate in this regard.(60)

4.4.3 Development Cooperation

Recent developments have shown a growing interest among AGS to cooperate either within the Sub-regional circle, or within the Arab Regional circle. Their economic structures, resources, as well as the factual situation in international economic system seem to support this move. While motivations for and an approach to cooperation will be analysed in later chapters, at this stage of analysis it is reasonable to conclude this section with brief, relevant notes on three example country situations.

Qatar is an extreme case of an oil economy. It has limited human and very poor natural resources, however the Sheikdom is trying to maintain a separate identity and secure economic viability. To this end, it considers that it must identify with, and actively develop Sub-Regional and Regional institutions within the Gulf. Its absorptive capacity depends now, and will continue to depend for some time to come on the effectiveness of these efforts. It is not surprising therefore that Qatar has been taking a leading part, at the personal initiative of the Amir and the ruling family, in trying to secure, co-ordination in oil matters through the OPEC and the OAPEC (joined in January 1961 and

May 1970 respectively) the establishment of a Gulf currency, and the possible formation of a Gulf Common Market. Close economic ties have been established with a number of States, including Saudi Arabia, and Bahrain, and there is every indication that Qatar has realised that its decision not to join the UAE will necessitate greater co-operation with neighbouring States if it is to survive as an independent entity.

Qatar's surplus revenues have been flowing into (a) joint projects in the Gulf, such as the Bahrain dry dock, a joint shipping and a joint freight airline, (b) contributions to larger Arab causes, such as financial assistance to front-line Arab States, help in the construction of SUMED, subscriptions to the capitals of the Arab-African Development Bank and the Islamic Development Bank, etc., and (c) bilateral assistance to Muslim Countries, such as Pakistan, Sudan and the West African States.(61)

Saudi Arabia brings into sharp focus both the problems and the promise that massive oil revenue has brought to the Gulf. There is an embarrassment of riches. The country cannot possibly absorb in productive investment all its current oil revenues (estimated at $102 billion for 1980) and therefore, has little incentive, in an inflationary world to produce more. At the same time, however, because of its oil reserves, the needs of the consuming countries depend very largely on its production levels. This means that productive investment of Saudi Arabia's surplus oil revenue becomes a matter of joint concern and joint purpose for the Kingdom and the consumer countries alike. The situation presents a challenge in technological, economic, financial and banking terms.(62)

The above trends reflect the inter-related economic interests between Saudi Arabia and the world economy.

In Kuwait planners have clearly indicated that Kuwait regards

long-term investment in productive assets in the Arab world quite as safe as those in the West.(63) Given the basic date about the country, it is not surprising that Kuwait finds it difficult to absorb its current oil revenue (estimated at $ 18 billion for 1980), together with the already existing foreign assets of $6.7 billion, in productive investments. It is of importance to note in relation to Kuwait, however, that Kuwaiti investment, particularly private investment has become very sophisticated and qualified in finding profitable and sound investment outlets both at home and abroad.

At home the possibilities are somewhat limited at present, but good in capital intensive petrochemical industries and, given a growing population and educational and technical skill levels, also in certain other manufactures and semi-manufactures. Abroad Kuwait capital is moving towards real estate and equities, the Eurodollar market, and international and regional banking channels, often joint banks with Western interests.

4.4.4 AGS - Development Prospects and Priorities

Summary:

As the course of analysis has shown, the countries are seeking with increasingly enthusiasm and strength of political will, to drive development to the ultimate objectives, based on the available and potential natural and human resources. These countries seem to face, in the current stage of development, the need to achieve the following:

1. To deepen the role of planning with the needed strengthening of Government machinery and the statistical and information base.
2. Human resources development in an integrated sense should have the highest rank among development priorities.
3. A profound qualitative change in development capability is badly needed in the field of industrialization, rather than merely quantitative aspects.

4. The industry of finance which in some States seems to be emerging with many signs of an ability to play a strategic role in the future of AGS economies, should be deliberately adopted within development strategies (see Chapter 14).

5. Already the economies of these countries have become deeply interdependent with other components of the world economy. It is now necessary to obtain the optimum benefit from organised development cooperation, whether Sub-regional, Regional or International. By then, the desired image of the future has been defined, the objectives, qualitative and quantitative targets determined, the priorities established and the development strategy formulated within the context of various determinants and forces provided on Sub-regional, Regional and International levels.

Thus the whole analysis which follows will be directed to serve the above-mentioned prospects.

At the end of Part One of this thesis it is useful for the course of analysis which follows to refer to the main conclusions derived from analysing the AGS resource base, development achievements and constraints.

The preceding analysis has shown national development movements which have been hampered by common structural constraints, based particularly on the very limited resource base which has resulted also in limiting the absorptive capacity of AGS economies. Common problems which emerged during recent development in the AGS, such as the very weak development administration base, smallness of markets, the scarcity of needed labour force and low managerial capacity, tend to encourage these countries to pool their efforts in tackling these problems in order to pave the way towards diversification of their economic base, in preparation for the non-oil era.

At the same time, one of the common features of their development processes has been the concentration on those activities and projects measurable in quantitative, rather than qualitative terms, and as with most other developing countries regarding manufacturing industry as the main sector which could gear their development engine towards diversification. Unfortunately the AGS have mistakenly assumed that they have already built up the infrastructural base which could justify their proceeding towards income generating projects. This proposition is clearly unfounded as shown by their continuing pressing problems. Consequently, there now seems to be emerging a common need for joint efforts in completing the build-up of their infrastructural base, on one part and in proceeding with joint development projects and activities of a qualitative type, such as research, training, and development administration. This has become very clear in the fisheries sector. The AGS development movements have also exposed some competing activities, mainly in industrial projects which if left without a reasonable degree of coordination such trends could be extremely damaging.

The structure of AGS economies and development have also shown very special characteristics, strong financial-monetary based rather than diversified resource based economies which differ completely from those of any other region. This regional uniqueness makes it necessary to use all conventional economic indicators and assessment tools in the development literature with special care. This situation also makes it possible as well as necessary to choose unconventional approaches to their individual and/or cooperative development, different from any other previously followed either by developing or developed countries and groupings.

In other words, the particular and unique characteristics of AGS economies and development processes tend to shape common priorities

which would seem to encourage cooperation in translating these priorities into joint policies programmes and activities.

We turn, now in Part 2, to evaluate cooperation in its various degrees and forms, within the Sub-region, the Region as well as within the international economic relations circle in order to identify where these countries stand within the various types of regional cooperative movement and to lay down the basis for a pragmatic approach to their development cooperation.

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PART TWO

EVALUATION OF RECENT AND CURRENT SUB-REGIONAL, REGIONAL COOPERATION AND INTERNATIONAL ECONOMIC RELATIONS

CHAPTER 5 - EVALUATION OF CURRENT SUB-REGIONAL DEVELOPMENT COOPERATION

5.1 Introduction

In this study of the approach to and strategy for Sub-regional Development Cooperation between the Arab Gulf States, we started by examining in Part 1 the background to the present situation in terms of the resource basis and the main characteristics of national development trends. In Part 2 we review and analyse current Sub-regional, Regional and International economic trends and cooperation.

In this chapter is examined the existing Sub-regional institutional framework so far devised for development cooperation, as well as the achievements of the various institutions. This identification of the current stage of cooperation paves the way to evaluating the approach followed so far and the requirements for further progress. All the institutions established and their achievements cannot be examined in detail but their basic characteristics are outlined and some case-study Sub-regional cooperative projects are considered, mainly in the fisheries sector.

In general terms, the various aspects and forms of current cooperation can be classified basically into two groups. The first relate broadly to trade, planning and economic cooperation, bilateral, multinational and Sub-regional. The second group concerns sectoral cooperation including industrial, agricultural, fisheries, monetary, financial and marine conservation fields. Although arrangements are being made for cooperation in social affairs e.g. annual meetings of Ministers of Health, Ministers of Social Affairs etc. these are not studied here, most attention being directed to economic development cooperation aspects.

5.2 Historic and Political Background

Two major factors lie behind the current cooperation movement among the Arab Gulf States. The first factor can be related to the British Government announcement on 16 January 1968 of its decision to militarily evacuate the Arab Gulf area not later than 1971. The political and economic implications of this lead the AGS to discuss possible future independent structures.

The second factor can be related to the general framework of Arab economic cooperation and movements towards integration, involving most of the Arab Gulf States.

These trends, which faced and still face many problems, paved the way to Sub-regional approaches to cooperation and to integration between geographically neighbouring countries, such as, for example, the movement towards coordinating economic activities among the Arab countries in North Africa which began in 1963.(1)

5.2.1 The British Withdrawal and the UAE Experience

At the time of the British announcement of military evacuation the political situation in the Gulf area was characterised by general tension. This was caused by the Iraqi claim to sovereignty over Kuwait, the similar Iranian claim to Bahrain, Bahrain's claim on some islands near to Qatar borders and Qatar's counter-claims and Abu Dhabi's claim on an area in south-east Qatar.(2) In addition, the small and scattered Emirates realised that their wealth of petroleum resources, together with individual political weakness made them subject to real dangers which might arise from external threats. All these reasons were behind the strong feeling and motivation to unity among the Emirates.(3) These also lay behind the strong British encouragement in this direction.

On 18 February 1968 a statement by Sheikh Zaied Bin Sultan, Ruler of Abu Dhabi and Sheikh Rashid Bin Saied, Ruler of Dhabi, announced the

establishment of a Federal Union between the two Emirates and invited the other five Trucial Emirates to join them into this union. The statement called on Qatar and Bahrain for mutual consultations on the future of the area and the need for joint action to secure its stability and security.

In Dubai, after a meeting was held and attended by representatives of the nine Emirates on 25 February 1968, the Rulers issued a statement of a Dubai Agreement creating the United Arab Emirates, this agreement effective from 30 March 1968.

The trend towards developing cooperative relations among the Arab Gulf States which was dominated by the above-mentioned attempts to create a nine-state federation of the Trucial States, Bahrain and Qatar, culminated in the failure of the original scheme but in the establishment of the United Arab Emirates linking the seven southern Trucial States.(4) Essentially this was in the first instance a political movement:

> "The impulse to integrate clearly came from the desire (shared by the regimes themselves and by external forces with interest in the area) to protect the states and regimes from any instability which might arise after the withdrawal, not from a conviction that economic needs of the population could be catered for more effectively within a unitary framework."(5)

5.2.2 Arab Cooperation Experience

The Arab economic cooperation and integration movement which began in the 1950's was not very successful, although numerous agreements and proposals were published. The failure to achieve real progress towards pan-Arab economic integration, paved the way in the Arab countries to consider whether the large geographical area which comprised all the Arab countries and contained many different economic and political systems, was itself a basic obstacle to economic integration. Consequently, the idea of establishing cooperation

and integration movements, on smaller scales within Sub-regions in the Arab world appeared as worthy of application. The North African Arab countries took the lead in 1963, but this trend also helps to explain the motives behind the scattered current cooperation efforts among the Arab Gulf States. An evaluation of the Arab economic cooperation movement, and its effects on our proposed approach to AGS Development cooperation is made in Chapters 6 and 9.

5.3 Forms of Current Economic Cooperation

5.3.1 Broad Economic Cooperation

5.3.1.1 Bilateral Cooperation:

Many joint Committees or agreed cooperation arrangements were established during the 1970's, on an ad hoc basis, following top level visits among the AGS leaders. The main joint committees established are listed below and some are examined in more detail later.(6)

- Saudi-Kuwait transit arrangements in 1970.
- Saudi-Qatari transit arrangements in 1971.
- Kuwait-Oman arrangements for cooperation on economic, cultural and information affairs, in 1972.
- Kuwait-Bahrain cooperation arrangements on economic, cultural and information affairs (c. 1972).
- Kuwait-UAE economic cooperation arrangements in 1973 including:

encouragement of joint investments;
free movement for capital and profits of joint projects;
customs abolition;
follow-up Committees for: joint projects
labour and economic activity
investment and monetary affairs
trade and customs
information and culture.

- Saudi-Qatari economic agreement in 1973 including:

equal treatment of citizens;

equality of treatment of capital;

encouragement of joint projects;

customs duties abolition;

follow-up Committees.

- Saudi-Kuwait cooperation arrangements in March 1975 (memorandum of understanding).

- Oman-Qatar cooperation 1976

Following the Qatari Amir's visit to Oman in 1976, committees were established to discuss various aspects of cooperation among the two countries.

Three of these bilateral arrangements are examined in more detail in order to illustrate the characteristics of these early actions. First, the Omani-Qatari discussions in 1976. (7)

The following items were proposed by Qatar for discussion with the Omanis on matters relating to monetary and financial subjects:

1. Exchange of daily information on foreign exchange rates between the Qatar Monetary Agency and the Central Bank of Oman.

2. Opening joint accounts between both Central Monetary Agencies.

3. Regular consultations and coordination relating to the applied banking systems, in particular:

(a) Control of banking activity, lending and interest rate and licencing of new banks policies.

(b) Investment of each country's foreign assets.

4. Exchange of monetary and banking development's information.

5. Reviewing the latest developments of the proposal to establish a Gulf Monetary Union between Qatar, Kuwait, UAE and Bahrain and inviting Oman to participate in it.

6. Coordinating the tax system applied in both countries to avoid duplication.

7. Exchange of technical investment information on international financial markets and the coordination on the investment of their general reserves.

The following items were proposed, for joint discussion by the Omani officials of the Ministry of Agriculture, Fisheries, Petroleum and Minerals:

1. Petroleum exploration, marketing and industrial: the coordination of various policies relating to production, pricing, marketing and industrial oil products.

2. Mining and mineral production: Omani studies purported to show the existence of commercial quantities of copper and raw materials for fertilizers as well as the believed existence of wealthy underground water reserves. It was proposed to discuss the coordination of the exploitation of these resources.

3. Oman was thought to have relatively large livestock wealth potential mainly in the Dhofar area, as well as fisheries wealth, which could provide possible feasible joint ventures which could serve the two countries interests.

4. Monetary and Financial Needs: (a) Studying ways and means to create an atmosphere leading to monetary unification; (b) The establishment of joint banks for the development of both countries and the Gulf area.

When we examine both sets of proposals for discussion and consider what actually happened it becomes apparent that not only had no real foundation of mutual interests been laid but that the apparent enthusiasm of the rulers was not effectively translated into action by the bureaucrats. Some noteworthy points are:

(a) It was a strange decision to appoint the Minister of Agriculture. Fisheries, Petroleum and Minerals to head the Monetary and Financial Committee from the Omani side because he was not in charge of this sector. The Omani Ministry of Foreign Affairs merely passed the Qatari proposed

agenda to the above mentioned Minister, who in turn passed them to the Director General of Fisheries, to study them and arrange for the actual meeting which was held on 15 of October 1976.

(b) The agenda was prepared only four days before the Committee meeting, allowing no proper study of various items. This explains why they included false information e.g. in Fishery production, it was exaggeratedly premissed that annual catches could be some 14 million tons! No study was made or identification suggested of those subjects that were of national interest, e.g. water exploitation, those likely to be of multilateral interest, e.g. Fisheries and Mineral Production, as well as those of regional interest such as petroleum policies which would better be discussed within OAPEC & OPEC frameworks.

(c) The agenda included, as simple items, highly complex matters such as monetary unification, which needed to be studied very carefully to clarify the stages necessary for implementation even supposing that the countries accepted the idea. As a result of these and other defects the Committee failed to achieve any objective, neither was any kind of progress achieved on the subjects discussed.

Kuwait-Qatari Cooperation Agreement:

During the top level visit of Sheikh Saad El-Abdullah Al-Sabah, Deputy Amir and Prime Minister of Kuwait to Qatar on 9-12 December 1978, an agreement of cooperation on economic, education, cultural and information fields was signed by Qatar and Kuwait on 11 December 1978.

In the field of economic relations the two countries, proposed to coordinate their economic and monetary policies, their commercial, industrial, customs and financial legislations applied in both countries. The two countries decided to base economic and trade cooperation on the free movement and right of residence for citizens and capital ownership of land and share-equities. Companies were to be established in the light of determinants, restrictions, ways and measures to be agreed upon

later between their respective Governments. A special committee was to be established to submit its proposals and measures to the Governments within a maximum period of six months and was to meet within two months.

The agreement further stipulated unification policies relating to the systems and rates of customs duties, as well as commercial laws and systems of supplying food-stuffs. It included general approval of the principle of the unification of legislation relating to the protection of local industries, and the promotion of establishment of joint projects between citizens of both countries. Other items included were: exemption from customs duties on local agricultural products, natural resources and industrial production with local inputs of not less than 40%, transit facilities. In addition there were articles regulating scientific cultural, information joint activities. This agreement was subject to ratification by both sides and for five years.(8)

In practice there have not been any signs of success in the implementation of this agreement.

Saudi-Kuwait Bilateral Cooperation Agreement (December 1978):

The top-level Saudi-Kuwaiti bilateral talks which were held in Riyadh in December 1978 resulted in an agreement to strengthen political and economic ties between Saudi Arabia and Kuwait as part of a broader design to achieve greater coordination in all fields among the Arab countries of the Gulf.

As far as economic relations between the two countries were concerned, the communique was more specific:

- Agreement was reached on a set of general principles for partitioning the Neutral Zone offshore area between the two countries in a manner defining responsibilities and permitting the development of the offshore area in a way which safeguards the interests of the two sides.
- Agreement was reached on measures to be taken for the implementation

of the agreement between the two countries for the demarcation of the median (partition) line of the Saudi-Kuwait Neutral Zone (January 1970) as of the memorandum of understanding signed in March 1975.(9)

- The two sides reviewed the progress achieved in promoting economic relations between them since the signature of the Saudi-Kuwaiti Economic Agreement of 12 March 1975, and decided to broaden the scope of this economic cooperation in order to ensure a greater measure of economic complementarity, including the establishment of joint industries and the study of existing industries with a view to determining the feasibility of joint investments in them. Agreement was also reached to extend the list of goods exempted from customs duty by both Governments.

- The two sides decided to expand the scope of the joint follow-up committee set up under the 1975 Economic Agreement to include the Foreign Ministers of the two countries, their Ministers of Finance and Economy, Trade, and oil and mineral resources.(10)

In general we can say that whilst a greater understanding was achieved through this agreement, no actual practical measures or results can be identified.

Bilateral Cooperation Evaluation:

Most of the listed arrangements and established committees were not effective in the implementation of joint projects nor in themselves did they result in serious steps being taken towards practical aspects of cooperation. In all cases they suffered from the lack of preliminary studies and of advance arrangements, as is illustrated in the Omani-Qatari example.

5.3.1.2 Multilateral Cooperation:

A joint Economic Committee of Oman, Qatar, UAE and Bahrain was established after 5 June 1972 when it was first promulgated between Qatar and Bahrain and joined by Oman and UAE later in 1973.

This committee specifically studied a joint Gulf Marine Transport

Company. A feasibility study was prepared by a Canadian consulting company, 'Alcan Shipping Services Limited' and many technical discussions were held simultaneously in Oman and Doha. The Committee advised the four countries to sign the agreement establishing the company and the Foreign Ministers met in Bahrain in 1974 to discuss the final phase of the project agreement and to sign it. At the last moment the Ministers failed to agree because Bahrain, the host country, under a pressure from Saudi Arabia and Kuwait proposed the postponement of the signing of the agreement.(11)

This project in its original form was scrapped due to Kuwaiti and Saudi Arabian wishes to be involved. Later, the project was re-established in Kuwait involving participation of all the AGS but excluding Oman. This second agreement establishing an Arab Shipping Company was signed on January 19, 1976.(12)

The Economic Committee also discussed the situation in relation to airlines and the possibility of establishing a joint airline company. However, this idea has not been implemented.(13)

5.3.1.3 Sub-Regional Cooperation:

5.3.1.3.1 Development Planning Cooperation:(14)

The first Planning Conference of the AGS was held in Riyadh-Saudi Arabia in June 1979, and a memorandum of understanding signed on 12 June 1979 was ratified by all Governments concerned. The main items were as follows:

(a) Each State, if it wishes, can circulate through the technical secretariat of the participating countries, information on its projects, existing, under construction or at the final stage of feasibility study. If the State concerned welcomed the participation of other countries in its projects it should state conditions for such participation. Countries should exchange this information one month before the meetings of Ministers of Planning.

The Ministers' meeting will also decide upon their countries' formal attitudes towards proposed regional projects and identify the

steps which should follow.

(b) The study of and recommendations for action on:

1. Coordination between existing projects, whether either competing or integrated.

2. Joint efforts relating to the training on computer use with a view to spreading computer services through participating countries, this relevant to the problem of scarcity of skilled labour.

3. Current efforts to develop transport and communications infrastructures to connect the Sub-region with a single network.

4. Coordinating marketing policies for export-oriented industries which otherwise may seperately face dangerously competitive situations in world markets, these efforts to include coordinating policies towards developed countries.

(c) Institutional proposals included the following:

1. The setting up of a Council of Ministers of Planning.

2. Urging all countries to establish formal planning machinery within convenient institutional structures.

3. The establishment of a coordinating and follow-up unit, in relation to the Conference, in each country.

This 1979 memorandum of understanding in some respects was one of the foundation stones for the Gulf Cooperation Council.

5.3.1.3.2 Gulf Cooperation Council (GCC):

The decision to form the Council was announced at the beginning of February 1981 when Foreign ministers from Saudi Arabia, Kuwait, Bahrain, Qatar, the UAE and Oman met in Riyadh on February 14, 1981 to discuss questions relating to their joint interests on the light of the latest drastic international as well as regional political, security and economic developments. The following excerpts from the text of the AGS charter establishing 'the Co-operation Council for the Arab Gulf States' as released by the foreign ministers illustrate the philosophy behind

the formation of the GCC.(15)

> "In recognition of the special ties, common characteristics and similar institutions linking each of the United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait, and due to the importance of establishing close cooperation in all fields, particularly economic and social, the aforementioned States see a need for the establishment of an organisation aimed at strengthening the ties and cooperation between its members in all spheres."
>
> "This organisation, to be known as the Gulf Cooperation Council, shall have its headquarters in Riyadh, Saudi Arabia. It shall be a means of achieving a greater degree of coordination and integration in all fields and of forging closer relations between its members. To this end it will form corresponding organisations in the fields of economics and finance, education and culture, social affairs and health, communications, information media, nationality and passports, travel and transportation, commerce, customs and the movement of goods, and finally in legal and legislative affairs."

GCC Organisational Structure: The Cooperation Council shall be composed of(16):

(a) The Supreme Council of Heads of State. This will be followed by an arbitration body for solving disputes between States.

(b) The Ministerial Council.

(c) The Secretariat-General.

(a) The Supreme Council is composed of the Heads of the member States, the chairmanship of the Council to be alternated according to alphabetical order.

The Council will meet in two ordinary sessions every year but emergency sessions can be held.

(The first session was held on May 26, 1981 in Abu Dhabi.) Each member ruler has the right to call for an emergency meeting which will be convened after the invitation has been supported by another member.

Functions of the Supreme Council include: the laying down and issuing higher policies of the Cooperation Council; it will debate recommendations, laws and by-laws submitted to it by the Ministerial Council and the Secretariat-General before approval; it will form the

body for settling disputes.

The Arbitration Board will be attached to the Supreme Council and will undertake the settling of current disputes or those that might occur in future among the member States. It will be the authority to outline and interpret the laws of the Cooperation Council.

(b) The Ministerial Council is composed of the Foreign Ministers representing the AGS. It will lay down the laws of the Secretariat-General. It will prepare for the meetings of the Supreme Council and also prepare all studies, topics, recommendations, by-laws and laws that are to be submitted to the Supreme Council and set the agenda for the meetings of the Council. The Ministerial Council will hold six meetings every year - once every two months. Emergency meetings may be held at the suggestion of two member States. It will lay down the policies, recommendations, studies and draft laws that aim at developing cooperation and coordination among the member States in the varicus fields. It will encourage the means of cooperation and coordination among the various activities of the private sector. It will approve the reports and regulations and internal by-laws connected with the administrative affairs proposed by the Secretary-General and also approve the budget and the final accounts of the Secretariat-General of the Cooperation Council. It will equally encourage, develop and coordinate current activities among the member States in the various fields. Those activities will be considered binding on all members when approved by the Ministerial Council.

The Ministerial Council will make recommendations to the individual Ministers concerned with the laying down of policies aimed at realising the goals of the Cooperation Council.

(c) The Secretariat-General will be directed by a Secretary-General, appointed by the Supreme Council which will define the conditions and the period of appointment. The Secretary-General will be chosen from

the citizens of the States of the Cooperation Council. He will be directly responsible for the work of the Assistant Secretaries, the Secretariat-General, and for the good performance of its various sectors. The Secretariat-General will have an Information Department. The functions of the Secretariat-General are listed as follows:

1. To prepare studies on cooperation and coordination.
2. To follow up the implementation of resolutions and recommendations of the Higher Council and the Ministerial Council.
3. To prepare reports and studies as required by the Council of Ministers.
4. To prepare progress reports on the Cooperation Council's achievements.
5. To prepare budgets and final accounts.
6. To prepare administrative and financial draft laws commensurate with the required development of the Cooperation Council and its increased responsibilities.

The statutes of the Cooperation Council have been described as similar to those of the European Common Market. The Council's statutes called the Constitution, were prepared and debated by the six Foreign Ministers during the conference in Muscat on March 9, 1981 and were referred to the Supreme Council for final approval in Abu Dhabi on May 26-27, 1981.

The decision to form the Gulf Cooperation Council, can be described as the first solid institutional base for crystallising all the steps taken by the six member States towards Sub-regional Cooperation for development, the movement which began in a faltering way during the 1970's.

Despite the clear importance of security consideration, the motives that geared the creation of the GCC in particular the effects

of the Iraq-Iran war, the Iranian revolution, the Soviet invasion of Afganistan and the announcement of 'US President Ronald Reagan's Policy' regarding the deployment of US troops in the Gulf(17), the Council can be viewed as having a significant role to play in Sub-regional cooperation for the development of the Arab Gulf States.(18)

The newly established machinery for cooperation in particular seems to meet the framework of institutional requirements to gear all economic as well as other aspects of cooperation activities.

GCC Achievements:

The GCC Council has held two major sessions; the first was held in Abu Dhabi on 26 May, 1981, the second in Riyadh on 10 October, 1981. Many other meetings on various levels were held and attended by Ministers of Foreign Affairs, Ministers of Economy and Finance and Ministers of Planning.

The main achievements of the GCC so far in economic and financial fields, are as follows:

1. Economic Agreement: an agreement to a common market approach was approved between the six member countries at the Riyadh summit meeting (Appendix 1).

2. Establishment of seven sectoral committees to follow-up implementation of economic agreements:

- Committee on Financial and Monetary Cooperation
- Committee on Trade
- Committee on Planning
- Committee on Transport and Communication
- Committee on Labour and Labour Movement
- Committee on Industrial Coordination
- Committee on Petroleum.

3. Establishment of Joint Investment Organisation: The ministers of Finance approved the terms of reference and constitution of this

organisation, to be established with the capital of $ U.S. billion. The Finance Ministers were to sign the organisation agreement during 1982.

4. Arab Gulf Fund for Development: Established in April 1981 to provide assistance to developing countries, it provides annual assistance to UNICEF of 10 million US dollars and $ 50 million to other organisations.

5.4 Sectoral Economic Cooperation

5.4.1 Trade Cooperation

The first conference aiming at coordinating AGS imports, (excluding Saudi Arabia) of mainly the basic foods (wheat, rice, meat) and cement was held in Bahrain on 10 December 1973, attended by the main importing agencies and representatives of Ministries of Trade from some countries.(19)

The conference discussed a proposal to establish a joint committee to take charge of bargaining with the exporters of the above-mentioned items in order to guarantee the best conditions for the AGS countries in the light of their consumption needs. The conference was held without any information on AGS consumption needs, and it failed in achieving its objectives because of competing interests among bodies in charge of importing foodstuffs.

General Conference of Arab Gulf Trade Ministers:

Regular Conference Meetings have been held on ministerial level by the six AGS with the addition of Iraq. The main direction and decisions taken in the first conference are examined below, followed by a review of developments at subsequent meetings, including ideas discussed by the Technical Committee.(20)

The first conference was held in Baghdad during the period 2-4 October 1977. Its final official statement stated that its main

objective was to study various ways and means to develop and strengthen trade, economic cooperation and coordination between the AGS. The main points included in the conference statement were:(21)

1. The conference noted that its efforts did not begin in a vacuum, but followed many bilateral, multilateral and Sub-regional agreements covering various economic fields. However, these agreements' achievements were below their ambitions.

2. With full confidence in the existence of factors favouring cooperation among the States, the conference invited with confidence and optimism the study of the possibility of establishing a Regional Integrated Arab Society in the Gulf Area, a society which is one of the richest among the developing economies.

3. This proposed integrated society is considered to be a basic cornerstone for General Arab Economic Integration, and one of the main paths leading to Arab Economic Unity.

4. The conference was assured of the importance of developing cooperation among various bodies, including the private sector, in the participating countries.

5. The existing lack of information on possible joint projects made the conference recommend the strengthening of the Gulf organization for Industrial Consultancy to play a role in the coordination and cooperation and the setting-up of joint industrial projects.(22) (Also see Section 5.4.2.)

6. As the conference realized the shortage in supply of local labour it urges collective effort among the participating States to encourage the employment of the Arab labour force to secure homogeneous human resources that are uniform in cultural, historic and social aspects so as to guarantee social stability for the countries of this Sub-region.

Second Conference Statement of Decisions(23):

On 6 January 1979 a committee of Experts held a preparatory meeting for the second conference held in Riyadh-Saudi Arabia on 8 and 9 January and made recommendations that were reflected in its decisions.

(a) Trade.

1. The conference noticed the progress in trade relations among the participating countries during the last five years, noting at the same time that trade between these countries is composed mostly of re-export products. The conference invited measures to increase the size of trade based on the locally produced products.

2. The conference noted the steps taken to establish the Union of Chambers of Commerce, Industry and Agriculture in the AGS, and invited these Chambers to hold their second general meeting to discuss and approve the articles of association of the union to enable it to begin its activities.

3. The conference invited the countries to exchange information on their trade systems for study and evaluation. It urged the exchange of visits among responsible people in preparation to submit a general study to the conference at future sessions.

4. Concerning the proposed collective agreement on Trade and Economic Cooperation among AGS, the conference welcomed Saudi Arabian readiness to study a draft of a proposed agreement, this draft to be studied by the participating States through an expert committee established for this purpose.

(b) Supplies Field.

The conference decided to establish a committee composed of the responsible people in charge of supplies in the participating countries to study: the import prices of basic food products, mainly rice and wheat; exploring the possibility of pooling the countries' needs for importing basic foodstuffs; for supplying these latter on favourable terms on the

basis of joint shipments; and studying the possibility of formulating a general policy for the supplying of strategic stocks of basic foodstuffs for all countries of the Sub-region.

(c) International Relations Field.

The conference recommended the continuous coordination of the AGS attitude to international organisations and blocs, and coordinating attitudes towards international companies through the exchange of information about them.

(d) Organisational Field.

The conference decided to leave the follow-up process to the countries themselves, through a liaison officer to be appointed for this process.

5.4.2 Industrial Cooperation

A conference of AGS Ministers of Industry which was held in Doha/ Qatar on 25-26 February 1976 expressed its realization of the unity of regional interests among the Arab Gulf States, and the vital role for industry to be played in their economic development, in addition to the importance of industrial cooperation among the Arab Gulf States as a basic step on their road to achieve economic integration.

The conference agreed to establish an independent Sub-regional organisation called "The Gulf Organisation for Industrial Consultancy" to be located in Doha and serving the six AGS countries as well as Iraq.

The main duties for the organisation are to:

1. Collect and publish data and information on industrial projects and industrial development policies.
2. Submit proposals for the establishment of joint industrial projects.
3. Recommend ways and means to coordinate industrial development projects.
4. Coordinate and develop technical and economic cooperation between existing and future industries.
5. Provide technical assistance relating to the preparation and evaluation of industrial projects.

Gulf Industrial Consultancy Organization (GOIC):

The structure of the newly established and approved organization is illustrated in the chart overleaf.

Three projects that which some of the AGS agreed to participate in when proved to be feasible are(25):

- Bitumen (Saudi Arabia, Oman, Kuwait)
- Electric lamps (Saudi Arabia, Kuwait)
- Sheet glass (Saudi Arabia, Kuwait)

Kuwait, Bahrain and Saudi Arabia signed on 29 May 1980 an agreement establishing a Gulf Company for Petrochemicals, with a capital of BD 60 million. The petrochemical complex will begin with producing methanol and ammonia with plant capacity of one thousand metric tons a day for each commodity. The shares will be distributed equally between the Kuwaiti Company for Petrochemical Industries, Bahrain Oil Company and the Saudi Company for Basic Industries. Investments in the complex are expected to reach $ 400 million and production is expected to begin in Bahrain in 1983.(26)

A list of studies being carried out by the GOIC is shown in Appendix 2 in order to illustrate its activities.

The Approach to Sectoral Industrial Cooperation:

The organisation in achieving its main objective follows two main directions in its studies: first, studying and reviewing the countries' industrial development plans, identifying competing as well as non-competing integrating activities. Second, studying strategies and sub-sectoral plans of each industry, and identifying investment opportunities for joint industrial projects.

The organisation has centred its interest in the current stage on the three following industrial sectors:

(a) Chemical and petrochemical projects

(b) Mineral and engineering industrial projects (e.g. iron, steel and aluminium)

(c) Building materials.

Gulf Organisation for Industrial Consultancy Organisational Chart (24)

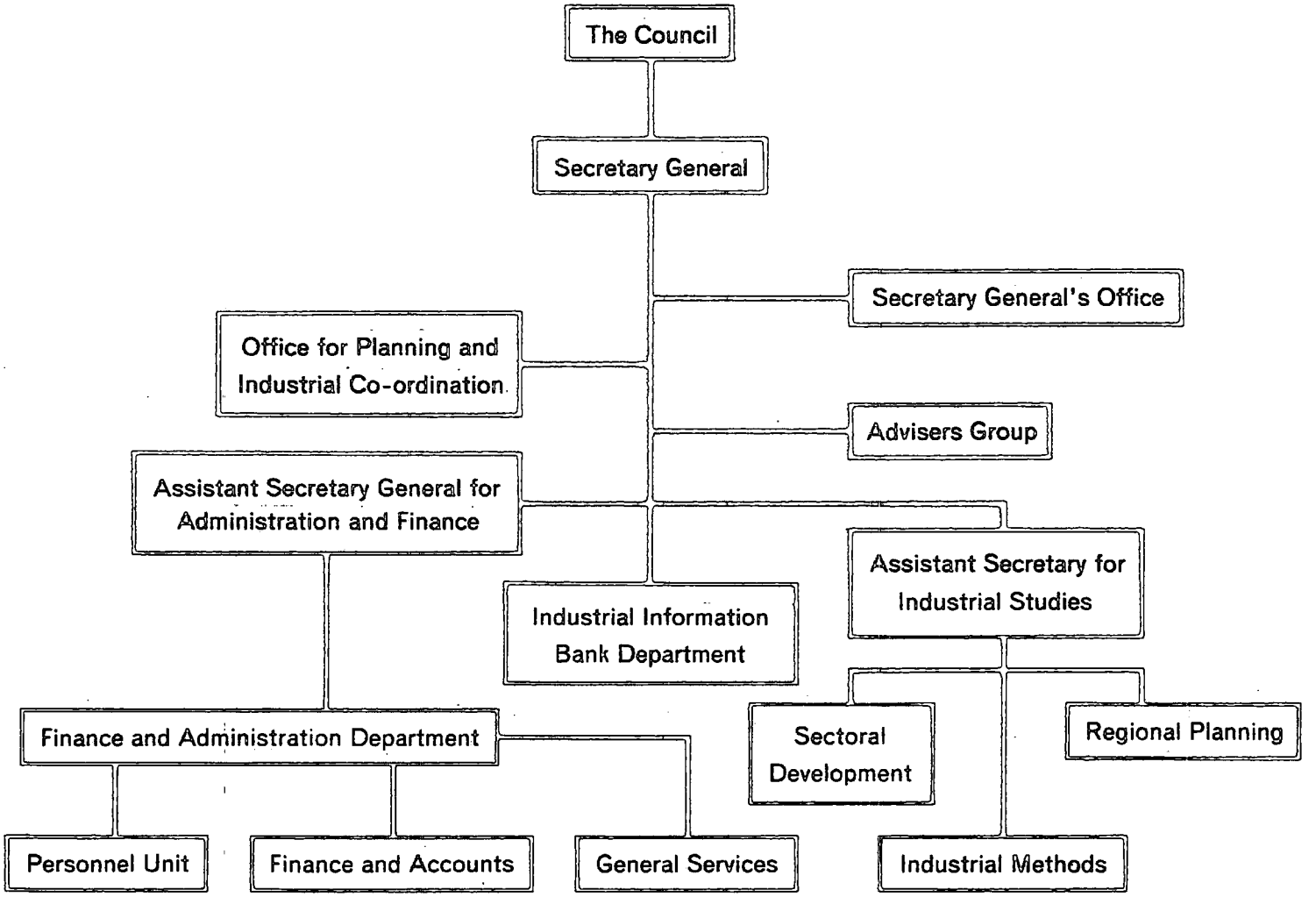


FIG. 2

General studies of these sectors are followed by feasibility studies for joint industrial projects on the light of concluded priorities, and the submission of proposals for the establishment of feasible joint projects.

GOIC Achievements:

The still youthful organization has reached various stages at the preparatory level for the implementation of joint industrial projects.

The project most near finalisation is Aluminium Extrusion Plant in Bahrain, in which Saudi Arabia, Bahrain, Kuwait and Iraq agreed to participate. The secretariat prepared constitution documents and the Council of the Organization established the preparatory committee for the setting-up of the project at its seventh meeting 20-25 May 1980 at Doha.

Coordination between the Existing Projects:

The organization studies special sectors of existing industries aiming at realizing coordination between these activities, relating mainly to the following:(27)

- Marketing
- Production
- Maintenance
- Laboratories and Research Centres
- Specifications and quality control
- Exchange of information and expertise
- Management, organizational, accountancy and financial systems
- Training

Industrial Cooperation, An Analysis:

Industrial cooperation at Sub-regional level took its first serious step after the conference of Ministers of Industry in the AGS ended its meeting in Qatar in 1976, when the Gulf Organization for Industrial Consultancy was established, and then began to study and propose various actions to be taken for industrial cooperation and coordination between

the AGS.

In the author's view, the organization's approach seems to be sound as it combines both the scientific method of exploring industrial cooperation possibilities, and the formulation of practical proposals for joint projects. It takes into account, when submitting its proposals, various factual aspects of political, social, as well as economic development in the area.(28) We note that the organization gave special attention at the current stage of exploring cooperation opportunities to three industrial sectors: chemicals and petrochemicals, minerals and engineering, and building materials. This selection is based on the current facts of industrial development in the Gulf Area.

The Organization's success in practice will depend largely on the real will of the participating countries for industrial cooperation as well as on available cooperation opportunities.

The question which remains to be answered, is to what extent the Organization's activities can affect basic structural changes of industrial development of the AGS, taking into account the actual opportunities and possibilities now remaining for cooperation. Taking into consideration the various fears expressed earlier in Chapters 2 and 4, and the fact that national actions have pre-empted many of the options hypothetically available the room for manoeuvre has become somewhat limited. Two particular sets of factors already affecting possible joint venture linkages are worth noting here.

First, Kuwait is the most active country in establishing joint pojects, for example, with Bahrain for petrochemicals (15% participation), with Oman and Ras El-Khaimah for cement 40% and 75% respectively.

Secondly, Saudi cooperation with Bahrain is particularly marked with the Saudi stake made in Alba (20% participation) instead of proceeding with its own project for aluminium, is notable as also a 20% stake in cement. It is also worth mentioning the joint project for

constructing a bridge-causeway between Bahrain and Saudi Arabia which is expected to cost about $ 1 billion with full Saudi financing. This link will contribute to strengthen economic as well as security cooperation prospects. Construction period will take five years and is expected to shorten the distance between the two countries to some 20 minutes by road.(29) The full socio-political implications cannot be discussed here but are bound to have wide repercussions in the Gulf.

5.4.3 Agriculture and Fisheries Cooperation

The Conference of Ministers of Agriculture(30):

Following a Saudi initiative relating to cooperation between Ministries of Agriculture in the Gulf and Arabian peninsula, the first conference of Ministers of Agriculture was held in Riyadh from 1 to 3 February 1976. This conference laid the basis for a periodic annual meeting. We refer below to the main trends observable in these Ministerial meetings.

The emphasis in all conferences, was on ways and means to improve agricultural production through horizontal as well as vertical expansion and productivity increase, to bring the Sub-region towards self-sufficiency in food. Periodic conferences, activities can be classified in relation to this objective, as follows:

(a) General agricultural activities including plant production (research and joint productive projects)

(b) Water resources development

(c) Livestock development

(d) Fisheries development.

5.4.3.1 General Agricultural Cooperation:

The following are the decisions and recommendations taken at the various annual Ministerial meetings:

1. Research and Information Base.

(a) In order to fulfill the above-mentioned objectives on regional

bases, due consideration was given to establish regional research centres, to cooperate and coordinate research activities and where possible avoid duplication of work.

(b) Encouragement of applied scientific research in order to solve the problems confronting agriculture and water, as scientific research was considered to be the corner-stone for the development of both. Exchange of information and available research results in each country. Coordination in the planning of research and scientific experiments in the member countries. Follow-up of scientific and research studies related to the increase of rainfall by cloud seeding.

2. The transfer of the existing Central Agricultural Research Centre in Riyadh Arabia into a Sub-regional Agricultural Research Centre.

3. Joint Projects.

Fertilizers: As agricultural inputs and especially fertilizers were considered to be the main basis for the development of this sector, the conferences promoted the adoption of the idea for the construction of one or more factories for the production of both compound and phosphate fertilizers.

The member countries were requested to submit their annual fertilizer requirements together with their expected needs for the coming five years to the General Secretariat. Member countries should also provide the General Secretariat with information of the possibility of the availability of the raw materials required for the establishment and operation of such factories. The conference called on the General Secretariat to follow up this recommendation and to submit reports to the following meetings showing the possibility of identifying the location of these factores with economic feasibility studies.

Joint production of cereals and fodder: The fourth Conference meeting which was held in Kuwait on 13-15 March 1979 requested the General Secretariat to call for a technical meeting for experts from

member countries in order to prepare a general outline and view on joint productive projects to be executed in the Sub-region, especially in the following fields:

(a) Production, storage and marketing of cereals (wheat, barley, sorghum).

(b) Production, storage and marketing of fodder.

(c) Utilization of plant and animal waste for fodder industries.

The general secretariat should contact specialized international, regional and Arab organizations or consultancy companies to conduct studies and prepare reports. As the Arab Organization for Agricultural Development is currently carrying out a study on food security in the Arab countries, the General Secretariat should give top priority to Arab consultancy companies and organization in proposed studies in order to avoid duplication. This is in line with recommendations taken by the meeting of the AOAD at Rabat, which concentrated on regional studies and gave them top priority.

The fourth Conference meeting urged each country to prepare immediate programmes for increasing the production of cereals and fodder according to their capacities and potentialities. The General Secretariat to participate with each country in studying and coordinating these programmes in order to achieve the objectives of the agricultural cooperation. Member countries shall endeavour to approve clearly studied policies for the storage of an adequate reserve of cereals and fodders within the framework of food security of the whole region as well as for each country. The outcome of such policies and actions should be communicated to the General Secretariat.

Training and other activities: The Conference meetings recommended the member countries having agricultural, veterinary or fishing training centres to give priority when recruiting the staff to those with proficiency in the Arabic language.

The General Secretariat was instructed to identify and unify laws on the protection of natural resources including pasture, forests and animals in the region, and prepare necessary legislation prohibiting commercial tree-cutting.

5.4.3.2 Water Resources Development Cooperation:

The recommendations dealing with water resources development ranged from the fundamental, viz. conducting more studies to strengthen and extend information data systems to measures for standardizing technical specifications and the construction of factories for water pumps and some equipment used in desalination plants.

In the field of water surveys and information collection system the Conference realizing the importance of underground water in the relevant countries established a technical committee. This is to study all aspects of underground water and surface water flows and their exploitation, together with plans directed to avoid the loss of runoff water flowing to the sea, or otherwise lost.

Since this committee would benefit from specialized international organizations in this respect the member countries were asked to suggest Arab and international organizations or consultants deemed necessary to assist such recommendations, to be submitted to the General Secretariat which would pass on approved selections to the Ministerial Follow-up Committee.

Joint desalination projects: The Conference called for the setting-up of joint committee to study cooperation in the field of establishing joint atomic energy desalination plants to produce water and electricity. These plants should be situated at justified locations in order to serve the joint interests of two countries or more. When constructing desalination plants the conference recommended that member countries should consider detrimental results that affect the sea environment from the waste of such plants.

Joint satellite station: The participating countries believing in the necessity of responding to scientific advances decided to transfer the Saudi Arabian satellite station into a Sub-regional project with the Saudi laboratory responsible for the analysis of information received through the station. This analysis includes the following:

- Geological studies
- Water discharge studies
- Conduction of hydrological studies e.g. springs
- Studies of the movement of locusts
- Making a statistical inventory of agricultural regions
- Studies of the mobility of sand-dunes.

5.4.3.3 Livestock Development Cooperation:

Animal wealth cooperation is concentrated in two fields. First, the development of livestock production on a Sub-regional basis including natural grazing areas and fodder production, through detailed surveys and feasibility studies. Secondly, the conservation of animal wealth, mainly through unified quarantine and research work.

To develop livestock in the region a committee was formed to carry out a survey of the potentials of the member countries in livestock production to study current projects, plans, constraints and the needs to solve such problems.

As the availability of information on natural grazing areas is of special importance its protection and development is of urgent necessity for all member countries. In order to prepare the systems and regulations related to the protection and development of natural grazing areas it became imperative to complete the information and data related to these areas. The conference, therefore, called upon the General Secretariat to take the following measures:

1. Collection of available information in the member countries and the identification and mapping of grazing zones in the member countries.

2. Contacting both international and regional organizations to complete all available information in the member countries.

3. The composition of a technical committee from member countries and of specialized organizations for the collections, classification and coordination of information, together with identifying the areas of information deficiency.

4. Having collected all information and data, the technical committee shall identify all pastoral problems in all grazing zones and drawing up of a map for the improvement, development and administration of these pastures. The technical committee shall monitor a unified pastoral policy and coordinate the mobility of herds between neighbouring countries.

The conservation of livestock wealth, on an integrated quarantine system consisting of standardized procedures to combat both animal and plant diseases was adopted, and a unified law was proposed.

A central veterinary laboratory with artificial insemination facilities was proposed to be established in Saudi Arabia, this to cooperate with all the member countries and coordinate its activities with the Animal Production Centre at Bagdad. The Research Centre at Al-Hofuf for animal and fodder production was recommended to be given a status of a Sub-regional centre with which all member countries would cooperate and coordinate their activities.

For establishing joint ventures to develop animal wealth, necessary information would be collected and reviewed by the technical committee which would finalize measures for further implementation.

To promote knowledge, special seminars, symposiums and training programmes will be arranged in member countries.

5.4.3.4 Fisheries Cooperation:

The Conference of Ministers reviewed reports provided by the member countries, detailed discussions were carried out and the following

measures were proposed(31):

1. Close cooperation and coordination of current activities to develop fish resources and implementation of all necessary measures to improve fisheries development among member countries.

2. Marine Laws: The formation of a 'Legal technical committee' to prepare a draft of marine laws. The General Secretariat would approach all countries concerned who have already prepared relevant draft laws and circulate these to the countries who are still in preparatory stages. It will also invite international experts to help in preparing joint marine legislation to be implemented by the participating countries. The 'Arab Union of Fish Producers' has a considerable collection of marine legislations from different countries: the conference posed that the general secretariat should cooperate with the Arab Union and all the AGS countries were urged to join the Union.

3. Statistics and Information Base: An integrated statistical system was considered as a priority for planning fisheries projects particularly in harvesting and marketing; the following recommendations were made to:

- Establish statistical units in respective countries to assess the magnitude of fisheries wealth.
- Ask the Gulf Regional Fisheries Project director to send fisheries statisticians to make regular field visits to the member countries and analyse the existing situation and report to the General Secretariat.
- Form a technical committee to study the reports submitted by fishery statisticians and similar reports prepared by the member countries in their statistical units, and to classify, analyse, compile and finally dispense these to member countries with proposed recommendations.
- Necessary measures to protect the marine environment from pollution were considered and it was recommended to establish a Sub-regional marine research centre, in UAE.

4. Joint Venture Projects:

- It was recommended that all the member countries should work out a joint venture programme to develop their fisheries wealth, the General Secretariat to prepare a work programme in this respect.
- The establishment of joint commercial projects in a number of cases always pose risks particularly in the absence of adequate information on the fish landings and storage facilities, therefore the General Secretariat should: persuade the member countries to recognize the importance of evaluating carefully the feasibility of new projects before their implementation; and not to establish any commercial (individual or joint venture) project unless accurate and adequate information are available together with any bottlenecks which could hamper the success of the project.

5. Training Programme: It was realized that a training programme in all technical fields in fisheries development is of considerable importance, and the citizens of the member countries be provided opportunities in this respect; the General Secretariat was to urge the Kuwait Sub-regional Training Centre to prepare a training programme particularly in planning, fisheries statistics, administration and in the operation of cold storage.

6. FAO/UNDP Gulf regional survey and development project (also see section 5.4.3.6): The members expressed concern over the delays in the completion and implementation of the project and the General Secretariat conveyed this feeling to the FAO/UNDP authorities. It was recommended that the General Secretariat should request the project authorities to prepare and submit a report for fish storage and preservation.

5.4.3.5 Machinery for Agricultural Cooperation:

The Ministers' Conference Machinery is composed of the following:

1. The Annual Conference of Ministers of Agriculture:

Six conferences have been held since the first conference in February 1976 as follows:

- First conference in Riyadh/Saudi Arabia from 1-3 February 1979.
- Second conference in UAE, Dubai from 19-21 February 1977.
- Third conference in Qatar on 6-8 March 1978.
- Fourth conference in Kuwait on 13-15 March 1979.
- Fifth conference in Oman in March 1980.
- Sixth conference in Bahrain in 1981.

2. A follow-up Ministerial Committee including the Minister of Agriculture and Water resources of Saudi Arabia, the Minister of Agriculture and Fisheries wealth in the UAE and the Minister of Public Works responsible for Agriculture in Kuwait.

The functions of this committee shall be as follows:

- Follow-up and execution of the conference recommendations.
- Selection of three persons constituting the general secretariat of the conference. Member countries shall be informed accordingly.
- Preparation of rules and regulations of the General Secretariat of the conference.
- Setting out of priorities for the execution and recommendations.

3. The Secretariat General is composed of three main members from Saudi Arabia, Kuwait and UAE, having a liaison officer from each participating country who is appointed by his country to represent in the preparation for Conferences and to follow-up his country implementation of the Conferences' resolution. The headquarters for the general secretariat is in Riyadh.

4. Technical Committees were established by the Conferences in the light of subjects to be studied. Four main committees were established to study and analyse activities relating to Agriculture, Fisheries, Water, Livestock with ad-hoc sub-committees established to cover special

subjects within the main four fields. Generally speaking, these committees are in charge of studying common problems, prepare solutions, exploring cooperation opportunities and technical follow-up of Conference recommendations.

The Saudi Government bears all necessary expenses of the General Secretariat and that of the technical committee meetings in its headquarters.

5.4.3.6 Sub-regional Cooperation with U.N. on Fisheries:

This topic is considered in some detail for three main reasons. First, the Survey and Development Project required joint action by the Gulf countries even before the formal Ministerial Conference was established (see 5.4.3). Secondly, it provided an important catalyst for later discussions over cooperation. Lastly, as noted in Chapter 3, it concerns a sector in which cooperation appears most 'natural'.

Two vital projects were established within the Gulf Sub-region in the field of fisheries development and were set up within a special institutional framework, earlier than and different from that of the Arab Ministers of Agriculture Conferences. The two project agreements following preparatory discussion between all Gulf States including Iraq and non-Arab Moslem Iran, were signed between these countries and FAO, by which the latter was appointed as executive agency for the two fisheries projects, first a Regional Fishery Survey and Development project, second, a Sub-regional Fisheries Training Centre.

Here we will examine the achievements of both projects.

The Regional Fishery Survey and Development Project(32):

The Gulf has abundant fish resources which could be economically beneficial to the countries in the Sub-region but decisions about investment in fisheries and the management of resources have so far lacked a basis of reliable information on the size of the stocks and their likely sustainable yield. Thus with assistance of UNDP and FAO

coordination, the Arab Gulf States including Iraq in addition to Iran came into agreement to execute a project to study and survey the amount of fisheries wealth, its geographical nature, its protection and its exploitation feasibility.

On 9 April 1975 the eight countries signed the agreement with FAO and UNDP. The main objectives of the project was stated as follows(33):

To develop all sectors of the fishery industries of the participating countries to a level of efficiency which will allow them effectively and rationally to exploit and utilize the demersal and pelagic resources of the Gulf and adjacent waters.

1. To achieve this purpose, the project is to conduct a survey of the fish resources in the project area, to identify the major pelagic and demersal fish resources, to determine the abundance of the stocks, their distribution and seasonal variation, and to estimate their potential annual yield.

2. To give early assistance to the participating Governments on measures required for the management of the shrimp resources in the project area which, in some cases, have reached the level of optimum exploitation.

3. In conjunction with the pelagic and demersal surveys, to carry out experimental and test fishing to identify the most suitable types of fish-finding and fish-catching equipment, and to estimate the probable initial catch rates (e.g. as tons/vessel/day) with such equipment.

4. To advise, on the basis of the resource surveys and stock assessment studies, on the rational development of the fisheries of the area, so as to ensure that the capacity of the fleets and scale of industry development remains in balance with the resources and the dangers of over-exploitation are avoided.

5. Within the period of the project and taking into account the assessment of survey, exploratory and other fishing data, to prepare

development plans for all fishery industries sectors.

Project Achievements: Resource Surveys; The two major programmes of the project were demersal trawl and pelagic surveys, and it was expected that they should be enough to fully evaluate the distribution, migration, density and abundance of resources. For the surveys the Gulf was divided into three main regions: Western Gulf Region which extends from the northern end of the Gulf to Qatar, Eastern Gulf Region from Qatar to the straits of Hormuz, and the Gulf of Oman Region from the Iran-Pakistan border to Ras Al-Hadd. The current catch from the marine fisheries of the project area was found below its apparent potential (see Chapter 1). Apparently higher catches could be obtained if the resources were adequately exploited and managed. The development of these resources might follow two complementary approaches - the better management of these resources which are already over-exploited, (shrimp fisheries) and optimum use of those resources which are presently under-exploited, a situation existing mainly in the pelagic fisheries and to a more limited extent in some demersal fisheries.

Fishery Industry Development Group: The second integrating contribution of the project related to industrial fisheries development which was the responsibility of a group consisting of five experts covering industrial fish processing, marketing, handling and preservation, and statistics. In summary, the group's work was as follows: (a) Industry and Institutional surveys; (b) statistical surveys and programmes; (c) conduct of sectoral surveys to determine the present state and potential of development in the participating countries; (d) feasibility studies; (e) preparation of development plans and (f) techno-economic advisory services to Governments.(34)

Project Assessment: Specifically, the project achieved the following, in relation to national and Sub-regional development:

(a) Assessment of biomass stocks of demersal, small and large pelagic resources. The project also referred to the potential commercial annual catch of fish and approaches to achieve that.

(b) Offering advice to the Governments relating to fishery development projects and policies, such as the Fisheries Development Company in Oman.

(c) Proposing a regional Fisheries statistics system for the participating countries.

However, we also must note the following deficiencies which appeared:

(a) The restriction of the area of survey north and west of Ras El Hadd on the Gulf of Oman was mistaken since it ignored the other waters bordering Oman in the north Arabian sea, waters wealthy in both demersal as well as pelagic fish. This area is in fact the most wealthy in fisheries resources and consequently the whole assessment of fisheries resources for the participating countries was inadequate.

(b) During the course of the project's operation not all the posts in the Industrial Development Group were filled, and this adversely affected the availability of much needed advice to participating Governments as well as other of the group responsibilities.

(c) The participating countries felt that the project management did not, in some cases, choose experts qualified to propose sound pragmatic development projects and policies.

(d) FAO delayed in the appointment of project experts, and did not choose the appropriate priorities in appointing others; it did not provide the necessary equipment for the operation of the vessels and experts.

(e) Experts were recruited and arrived in the project area intermittently: some posts were discontinued and others were cancelled. At any one time there were no more than three experts and then only for

short periods. Consequently, the work plan of the group had to be adjusted as the activities progressed to suit the prevailing conditions.(35)

(f) Participating Governments' responsibilities were, equally, not fulfilled. Counterpart personnel from the Governments part were not, in most cases, available and if available they acted only as companions during visits of experts, thus making future contacts and follow-up activities not possible. Some member countries' delays in communication severely affected offers of group services; replies to information requests; timing of experts visits, etc.(36) Information which could not have been obtained during field visits but only from Government policy makers especially to prepare relevant development plans, were not provided by several member countries. The participating countries did not pay their financial contributions appropriately nor did they provide equipment such as survey vessels on schedule.

(g) UNDP faced a financial crisis immediately after the signing of the project document and appeared not to be exerting enough effort in following up implementation (see section 5.4.3.4).(36)

Altogether these problems postponed the termination date of the project by nine months, to December 1979, and severely limited the value of the results achieved. It is a necessary reminder that operations of this kind which are rarely completely successful even when only one developing country is involved become even more difficult in a multi-national situation.

Sub-regional Fisheries Training Centre:

Background: The annual fish production from the area covered by the Sub-regional Fisheries Centre is estimated to be near 150 thousand tons against the survey estimated potential of one million tons (see Chapters 1 and 3). It is apparent that one of the factors which limit the exploitation of these fishery resources is the lack of trained

fishery personnel. In fact, most of the industrial fishing vessels operating in the region are manned by foreign crews.(37)

Consequently, and based on recommendations made at the 10th and 11th sessions of the FAO Near East Regional Conference for the creation of Regional Fisheries Training Projects, the AGS including Iraq and Iran requested the assistance of FAO in establishing one such centre in the Sub-region of the Gulf. The agreement establishing the Centre was signed in 1975, Kuwait offered to make available the appropriate facilities for the establishment of the proposed centre.

The initial four-year duration of the project was to be financed by contributions from the participating countries amounting to a total of US $ 2,325,700 with an additional contribution in kind made by the Government of Kuwait of US $ 500,000.

Table 5.1

Distribution of Contributions to the Project

Country	Distribution (%)
1. Bahrain	4.7
2. Iran	16.7
3. Iraq	16.7
4. Kuwait	14.3
5. Oman	7.0
6. Qatar	9.6
7. Saudi Arabia	16.7
8. United Arab Emirates	14.7
	100

Project Purpose and Objectives: The purpose of the project was to assist the participating countries in the rational and efficient development of their latent marine resources by training competent sea-going operators and shore-based fishery personnel.

To achieve this purpose, the project aimed at establishing (and operating during its initial years), a Fisheries Training Centre to train masters, mates and engine operators/mechanics required by the

locally owned fleets, as well as extension workers to improve the technological level of the existing artisanal fisheries. The project was at the same time to train national instructors and other personnel to assure the continued operation of the Centre after termination of assistance. Lastly, the project would grant fellowships to train administrators in various aspects of fisheries to provide this growing industry with appropriate local capabilities.(38)

Project Achievements' Assessment: It was noted from the very early meetings of the board of directors of the Centre that although the Training Centre was a basic prerequisite for meeting the requirements of the region, and although the eight participating countries were apparently prepared to take a regional view, both of which to the FAO fully justified the project, the fact remained that there was no local capability to organize a Centre at a national level, nor the capacity to provide students in sufficient numbers and quality. The project in other words was based on hope and in fact was not planned well and proceeded without any feasibility study.

The project began recruiting experts, assembling equipment and planning the curricula in September 1975. From that point onward the real problems emerged:

(a) Problems related to planning:

Many participating countries had difficulties in identifying students of suitable quality due to competing job opportunities, and the unattractiveness of the fisherman's lot. This became translated in a provision to accept students from either lesser endowed or non-Gulf Arab countries.

The Centre's physical and teaching facilities were geared for a full strength of approximately 70 students per year (35 first year and 35 second year trainees). It became apparent, however, that even at these low levels in the number of students, some of the participating

countries were finding it difficult to attract sufficient numbers of qualified candidates for training.

FAO evaluation mission doubted that "the flow of applications will continue at the present rates of national distribution to assure or even justify a permanent regional Centre such as the one envisaged in the project document".(39) See Table 5.2.

Table 5.2

Distribution of Trainees and Course

Country	Course	No. of Trainees
Bahrain	Mate	3
	Engine Operator	3
Iran		-
Iraq	Mate	1
	Engine Operator	3
	Extension Worker	3
Kuwait	Mate	3
	Engine Operator	2
	Extension Worker	2
Sultanate of Oman	Engine Operator	3
	Extension Worker	3
Qatar		-
Saudi Arabia	Engine Operator	1
United Arab Emirates	Mate	1
	Extension Worker	1
Palestine	Engine Operator	1

Source: FAO, Report of the Evaluation Mission on Regional Projects Executed by FAO in the Near East, Sub-regional Fisheries Training Centre, Kuwait, TEREM 11, GLE 1 Rome, July 1977, Appendix 2.

(b) High financial costs per trainee:

Even at the envisaged full capacity of the centre, costs per student were high comparative to other alternative ways of training. This lead the FAO evaluation Mission to believe that "training in existing institutions within the Arab world or outside it may prove more economical".(40)

(c) The unrealistic assessments by individual countries of their

actual needs with respect to training requirements in all segments of the fishery sector were reflected in the over-stringent entrance requirements stipulated by the project document, both in age and background. That limited the number of applications of potentially suitable students. This led the FAO Mission to recommend that:(41)

> "Greater flexibility be introduced in entrance requirements regarding age and background. In this respect a short period of sea-time prior to entrance, to ascertain availability and avoid possible attrition, would be appropriate."

However, reasonably high standards of selection should be maintained and, if adequate local candidates were not available, every effort should be made to attract students from other Arab countries or even to the admission of students from other developing countries, who would remain in the region to form part of a continuing fishing force.

The Mission further recommended that: arrangements be completed to carry out short-term courses and seminars to train extension workers and fishermen in simple technologies. These short-term training activities would permit a more efficient use of the teaching staff and the excellent facilities particularly during the holiday period of students, and also increase the standards and improve the performance of existing fishery committees.

(d) Language Problem:

A serious language gap existed between some of the teaching staff and the students. It was mentioned in the board meetings that some of the trainees were unable to grasp a number of lectures which were taught in English. The problem was compounded by Iran's membership of the project. Iran envisaged providing interpreters (from Arabic into Persian) but at early stages interpretation was required in three languages.(42)

Whilst the need arose for Arabic speaking instructors, the

problem was to find Arab speaking technically competent teaching staff.

(e) The lack of clarity in the definition of functions and responsibilities' limits of FAO, as the executive agency, contributed to a state of distrust between the participating countries, on one part and FAO on the other part.

As with the FAO/UNDP fisheries survey project, the Training Centre project's operation proved a salutory reminder that no development work is simple or easy but also, and more important, that if the AGS were to successfully cooperate in development then much more careful and practical preparatory foundations had to be laid. To some extent, one result has been the greater acceptance by the GCC of the need for much preparatory work as shown in the organizational structure of its General Secretariat.

5.4.4 Financial and Monetary Cooperation

This section illustrates that financial and monetary cooperation which has been developed by AGS Sub-regional institutions, leaving consideration of financial and monetary cooperation within Regional Arab and Islamic institutions to later chapters. Here again it is not possible to survey in detail all sub-regional institutions which can only be exemplified by an examination of some of the key institutions in this field. The growing phenomenon of financial and monetary specialization within AGS is also examined.

5.4.4.1 Financial Cooperation:

Current financial cooperation has largely been directed through various types of financial assistance provided mainly from the richer Arab Gulf States (AGS) to the poorer countries, as well as country cooperation within the Arab and Islamic development funds.

Bilateral Cooperation:

Kuwait Gulf Aid: Kuwait, through its Gulf and South Arabian

Authority has given funds to some of the Gulf States since the early 1960's for the construction of hospitals, clinics and schools, and this has become extended to the Yemens. This aid has taken the form of grants to finance human capital investment, but Kuwait has even paid for the operation of schools.

It is thought that Kuwait has been using its oil revenues as a principal tool of its foreign policy, lacking as it does the physical power of, e.g. Saudi Arabia or Iraq. Kuwait sees as one of the major objectives of its foreign policy the neutralization of potential opposition through a systematic foreign assistance programme. Despite this view, the author believes that Kuwait's sense of regional and international responsibility has been a stronger element in motivation.

Saudi-Omani Relations: Relations between Oman and Saudi Arabia, which has been very strained since 1955, thawed in December 1971 when King Faysal invited the new Sultan Qaboos to visit Riyadh. In May 1975, the Saudis, as a sign of goodwill offered to assist and ease Oman's financial crisis. It is probable that the geopolitical dangers perceived in the Dhofar War encouraged this change in attitude, which has been strengthened by more recent concern over the Straits of Hormuz and the Horn of Africa. The amount of Saudi aid had been reported to be at least 100 million U.S. dollars.

5.4.4.2 Monetary Cooperation:

Monetary cooperation has centred on joint banking institutions on bilateral and sub-regional bases, in addition to Sub-regional activities based on monetary authorities cooperation. Whilst bilateral cooperation has witnessed the creation of many joint banks and investment institutions, the following section concentrates on Sub-regional based institutions and activities.

Monetary Authorities Cooperation:

Since April 1978 when the first meeting of the executives of the

monetary authorities of the Gulf countries, including Iraq, was held in Abu Dhabi, they have continued to hold such meetings. General exchanges of view have concentrated on the following subjects:

1. Common economic and financial problems of the Gulf countries as well as means of cooperation between these States.

2. The question of the best currency denomination to be used in foreign contracts made by the public sector. This matter was viewed in the light of profit margins that foreign contractors keep as a hedge against the fluctuation of foreign currencies in relation to the local currency, a factor which has tended to inflate the overall cost of contracts. The other issues connected to this topic relate to the monetary, fiscal and exchange rate policy implications arising from the currency in which foreign contracts are denominated.(43)

3. The formulation of a new definition of foreign reserves that would give a true picture of the situation of Middle Eastern oil exporting countries. The IMF regards the role of foreign reserves as meeting the needs of the balance of payments. Gulf countries argue that this definition does not apply to them, given the special features of their economies.

For the capital surplus Gulf countries, foreign reserves are another source of investment. Moreover, foreign reserves are also held for budgetary purposes. The committee came to the following breakdown of foreign reserves. The first type, which is set aside for balance of payment purpose, includes the value of total imports for one year plus a given proportion of recurrent expenditure of Government budgets and a given proportion of its capital expenditure. This satisfies the proposed definition for IMF purposes. The second type entails deferred expenditure which would decline as the absorptive capacity of the national economies increases. The third type takes into account assets earmarked for foreign investment as a substitute for or complementary

income to oil.(44)

4. Issuance of common Gulf financial bulletin. The Gulf countries decided to issue a bi-annual bulletin to be published by the Central Bank of Kuwait, this to contain the most important statistical tables of each of the seven countries, in addition to new regulations and rules on monetary, financial and trade matters. It would contain studies, which could serve as a pool of an information on Gulf economics.

Meetings also discussed such matters as the exchange of human skills between the Central Banks and Monetary Agencies of the Gulf countries as well as arrangements for courses and seminars.

Gulf International Bank (GIB):

Established in November 1975, this Bank commenced its operations in 1976. The issued capital was put at BD 24 m ($ 60.8 mn), the authorised capital fixed at BD 100 million.

Its activities include the provision of banking services and facilities to finance investments abroad by the private sector in the bank's member countries. It also operates as an international merchant bank with the objective of financing Gulf trade.

Shareholders are Saudi Arabia, Kuwait, Bahrain, Qatar, UAE, Oman and Iraq.(45) The following indicators illustrate the rapid development which has been achieved in Bank activities.

Table 5.3

GIB Development Indicators (in $ thousand)

	For year ended 31.12.80	For year ended 31.12.79	For year ended 31.12.78
Net Income	12,405	6,601	3,621
Gross Revenue	295,140	115,668	50,290
Interest Expense	269,692	100,606	41,052
Other Expenses	13,043	8,461	5,617
Shareholders' Equity	125,127	119,534	79,831
Total Assets	2,893,257	1,444,947	769,186
Loans	1,130,401	542,373	325,557
Deposits	2,639,735	1,245,585	680,245

Source: Euromoney, May 1981, London.

5.4.4.3 Financial and Monetary Specialization:

In broad terms, some financial experts find it reasonable to categorize Kuwait as an investment centre and Bahrain as a money market centre.

Bahrain: is a money market centre with a wide range of banks represented in it, with properly equipped dealer rooms where money and short term securities can be traded, denominated in a variety of major international and regional currencies. It is essentially a wholesale market to serve banks and other financial institutions rather than private individuals or even Governments.

Bahrain with over 100 banks and financial institutions represented on the island, and an officially decreed status as an offshore-centre, seems well placed to play a money market role. Bahrain will probably be chosen the site for the proposed training centre for Middle East bankers, which is already needed despite the high quality training offered to Arab nationals at Citibank's Athens centre.(46)

Bahrain's Advantages as a Money Market Centre:

1. Bahrain's time zone position allows it to open for currency dealing after Singapore, the nearest money market to the east, closes, and before the European money markets open. Since the era of floating currencies began in the early 1970's, Bahrain helped in completing the circle of money centres that runs from London to New York, San Francisco, Tokyo, Singapore and finally via Bahrain round to Europe, in addition to opening on Saturday and Sunday.(47)

2. Bahrain is also fortunate in being in the same time zone as Saudi Arabia, as much of its financial business originates there. Dubai and Abu Dhabi, its main potential rivals, are one hour ahead of Riyadh's time, a distinct disadvantage.

3. Bahrain is a much better base for foreign exchange business than Beirut ever was even in its heyday, as there is a complete absence of

exchange control, not only on the island, but in all the adjacent oil exporting States of the Gulf, Hence transactions can be conducted with speed and efficiency.

It is worth noting that Bahrain has become the location of several Regional banking institutions. One of the greatest banking coups for Bahrain was to be chosen as the headquarters for the massively funded Arab Banking Corporation, (ABC) which was established in 1980 with an authorized capital of $ 1 billion of which $ 375 was paid up immediately. This inter-Governmental joint venture, owned by Kuwait, the UAE, and Libya had plans to have 150 staff in Bahrain by early 1982.(48)

Kuwait: has the pre-requisite for an investment centre, a developed bond market where shares are traded, as well as ancillary institutions.

From modest beginnings in the early 1970's when the Ministry of Commerce and Industry assisted the formation of a small stock market on which a few local stocks were floated, Kuwait has now emerged as the leading stock exchange centre for the entire Middle East. This is perhaps not surprising in view of the large number of wealthy middle-class families and the high level of financial awareness already achieved. Even before the Kuwaiti market was formed many Kuwaitis invested in the London market and gained much valuable experience.(49)

By 1980 Kuwait's stock market had become the eighth largest in the world in turnover terms with some 18,000 people owning shares. The total market capitalization of companies traded on the stock exchange was 4.5 billion dinars, and the daily turnover frequently approached 50 million dinars. This extremely high daily turnover in relation to the size of companies quoted reflects the buoyancy of trading activity and the keen interest in buying and selling.(50)

Chapter 14 on Money and Investment Cooperation within a trilateral

approach contains further case study analysis.

5.4.5 Cooperation on Environment Pollution Issues

One of the most attractive activities that began to receive Sub-regional and Regional interest during the 1970's is the problem of environmental pollution, arising from the development of coastal areas in the countries surrounding the Arab Gulf, mainly associated with the huge petroleum and gas-based industrial projects.

The United Nations, through an environment programme (UNEP) made a general evaluation of development projects and activities relating the coastal areas of all eight countries surrounding the Gulf in 1976 and studying their effects on pollution. In the light of the U.N. mission proposals, expert groups held many meetings in Kuwait in preparation for a conference held in Kuwait on 15-24 April 1978. This conference represented the first institutional and legal steps reflecting the countries' interest in cooperation to face the problems. In addition to the six AGS countries considered here Iraq and Iran also participated.(51)

In response to resolutions of UNESCO in the early 1970's there has been established a comprehensive system-wide programme under UNEP coordination to foster a cooperative approach to the opportunities and problems presented by the exploitation of marine and coastal resources and the use of coastal areas.(52) This system-wide programme was given impetus and support because the countries bordering the Arabian Gulf had expressed deep concern for common action to protect the marine environment from oil spills and other forms of pollution.(53)

Here we examine the basic environmental effects of on-going development of coastal areas on pollution and environment, and the action which was taken in Kuwait by the participating countries.

5.4.5.1 Development Activities - Physical Setting:

The geographical extent of the designated region, comprises not only the Arab Gulf but the entire coastline and nearshore of Oman in the

Gulf of Oman. The area west of the Straits of Hormuz however, is the most sensitive to pollution and subject to the most intense development, and is the focus of the U.N. programme.(54)

This region is witnessing the world's most rapid industrial development (U.N. expert team report 1967). Four of the countries concerned have an almost complete coastal orientation - Kuwait, Bahrain, Qatar, UAE - and while the other two, Saudi Arabia, Oman - have major development centres elsewhere, they too are heavily committed to major coastal development.

> "These countries in the short period from 5-20 years, are in the midst of coastal industrialization and urbanization comparable to that which required more than a century in Europe and North America."(55)

Investments on the Arabian coast from Ras-al-Khaimah to the Shatt-al-Arab, including Abu Dhabi and Bahrain Island, may reach US $ 40 million per km, while, on the Iranian coast, US $ 20 million per km was projected.(56) Extensive coastal development activities, including dredging of shipping lanes, harbours, harbour construction, heavy industries and commercial areas on coastal landfill, are underway. Vigorous programmes of industrial diversification in most countries are the fastest and most concentrated in the world involving such potentially heavy-polluting industries such as fertilizers, cement, steel products, plastic and various industrial chemicals.(57)

The physical reason for industrial concentration here are stronger than almost anywhere else: the large-scale agglomeration of petroleum and other large fuel processing and consuming industries is needed at the source of the petroleum; deep water harbours and channels are possible at only a few favourable locations; the large-scale need for water desalination and electrification plants at certain points along the coast; the concentration of housing and public facilities in the same areas; the absence of any widespread agricultural hinterland or

other population-supporting resources.

These factors combine to produce extreme pressure on limited resources and severe pollution vulnerability for marine and coastal environment. What worsens the situation is the shallow and relatively slowly circulating sea, which together with prevalent air temperature inversions, constitute a relatively poor pollution absorbing or diluting environment.(58)

Oil spill risk is particularly high. According to calculations made by Hayes and Grundlach in 1977 and presented at the Kuwait conference, the greatest volume of oil spilled into the Gulf (86% of the total) is the direct result of tanker transport. Offshore production and natural seeps make up the majority of the remaining losses, while the discharge of oil by coastal oil refineries and through waste water is estimated to be less than 0.1% of the total.

Taking a 5% annual increase in oil production over the next ten years, Hayes and Grundlach calculated that the annual spillage rate could rise to nearly 3 million tons of oil, depending upon a variety of disposal processes and oceanographic and meteorological conditions. Although as much as one-third of the oil will evaporate and some will sink, most will float on the surface for many days. Waves may have some effect on the dispersal of the oil but high seas are uncommon in the Gulf. Weather data shows a dominance of north-west winds in all but the eastern most sections which would tend to push any oil spilled in a general south easterly direction, i.e. along the long axis of the Gulf and towards UAE shores.(59)

5.4.5.2 Pollution and Fisheries:

Fishing activities have always been important in the region, as noted earlier. Although there has been a slow down of shrimping activity in the Gulf, following the over exploitation by commercial companies in Kuwait, Bahrain, Saudi Arabia and Qatar, there remains an

interest in developing new methods of shrimps exploitation. In addition, if we add Oman with its abundant resources (Chapter 1) to the Gulf proper, then the significance of oil pollution becomes obvious. Neuman summarized the issue as follows:

> "The conclusion is clear that oil spills have an enormous potential for causing extensive damage to extremely vulnerable and valuable coastal and marine environments from Kuwait to the UAE."(60)

Administration and Legislation Base:

Of the eight countries concerned, Iran and Kuwait have independent environmental departments empowered to handle all different aspects of environmental problems. Yet, environmental coordination between the various Governmental branches is less than fully successful, and overall environmental management remains, in many cases, ineffective.

In the other countries, environmental responsibilities may be ineffectively divided among many agencies, or are not assigned at all. The UN mission noted that:

> "Most marine phenomena are essentially regional. If cooperation between various national organizations and neighbouring countries be brought about through regional activities, the complex problems of marine environmental management could be brought under control."(61)

In several countries little or no national legislation exists for the control of the environment, either coastal or marine. Where the control exists, it is often an ad hoc response of doubtful continuity. Some pertinent articles may be found in fisheries laws and in legislation controlling the activities of certain industries. Oil pollution laws have been formulated in a few countries, however, their enforcement is weak in terms of marine scientific data and regional monitoring mechanisms.

The coastal areas within the project region are in a rapid stage of development with major changes in land use and sea use occurring. Disposal of waste from many sources has often ignored ecological

conditions, and now the serious nature of the pollution is beginning to be recognized.

> "Too little is known about the basic ecological and physical characteristics of the region and too little attention is being given to the prevention of ecological damage. If this continues, many plant and animal communities will be negatively affected."(62)

The Information Base:

Information pertaining to physical and biological sciences varies greatly from one country to another. The six States can be divided into the following two groups:

- States with separate environmental agencies (Kuwait and United Arab Emirates), where some environmental data have been systematically collected.
- States which divide environmental responsibility among various ministries and agencies (Bahrain, Oman, Qatar, and Saudi Arabia) where data collected are usually patchy, dispersed, and/or inaccessible.

In no country is the knowledge of coastal and marine environment sufficient for the development of effective coastal planning and management programmes. The serious lack of environmental information is not due to any lack of interest, but rather to the lack of adequate research facilities, particularly the serious shortage of scientists and trained technicians. Few of the countries have marine science programmes, marine scientists or marine ecologists.

There is a need for more specific quantitative data in order to demonstrate the effects of marine and coastal pollution, although there is already enough subjective evidence of pollution in the vicinity of centres of high population density and industry. Bearing in mind that a polluted area may be improved but never completely returned to its natural state, existing relatively undisturbed areas should be identified at once and carefully monitored. This means the protection of marine ecosystems along some population-accessible stretches of the coast.

These would be of great importance, providing not only healthy resort areas demanded by modern societies, but would also serve as baseline areas for research, monitoring and early warning of marine environmental problems.

5.4.5.3 Kuwait Action Plan:

The countries of the region generally recognize the development of their coastal areas must be accompanied by efforts to protect coastal and marine environments. The principal concern is undoubtedly the threat of massive oil spills and this was addressed as a priority item in the Kuwait Action Plan developed in close consultation between the U.N. and the eight countries over a period of more than three years. (63)

The first component of the Kuwait Action Plan was an assessment of the current state of the environment including socio-economic development related to environmental quality. The second component aimed at developing guide-lines for the management of those activities which have an impact on environment quality and the use of renewable marine resources on a sustainable basis.

The component which provided the legal basis for cooperative efforts to protect and develop the region included the Kuwait Regional Convention for Cooperation in the Protection of the Marine Environment from Pollution, and the associated Protocol concerning Regional Cooperation in Combating Pollution by oil and other Harmful Substances in Cases of Emergency, which provided for the establishment of the Marine Emergency Mutual Aid Centre.(64)

The Kuwait Convention(65) contains thirty articles covering general obligations to prevent, abate and combat pollution of the marine environment, resulting from land-based and sea-based sources; cooperation in dealing with pollution emergencies; liability and compensation; and the establishment of a Regional Organization for the

protection of the marine environment to be located in Kuwait. This Organization consists of a Council which should convene annually, a secretariat to service the Organization and a Judicial Commission for the settlement of disputes.

The protocol calls on the participating countries to cooperate in taking necessary and effective measures to protect the coastline from the threat and effects of pollution due to oil or other harmful substances resulting from marine emergencies in the Sea Area which includes ports, harbours, bays and lagoons. It also provides for the establishment of the Marine Emergency Mutual Aid Centre which will have primarily a coordinating role in exchange of information, training programmes and monitoring and which will also assist in the preparation of laws and regulations and the design of marine emergency contingency plans.

Each Contracting State agrees to require all appropriate officials to report the existence of any marine emergency to the national authorities who will, in turn, inform the Emergency Mutual Aid Centre, all other Contracting States and the flag or state of any foreign ship involved in the marine emergency concerned. The parties to the protocol further agreed to assist one another in responding to emergencies.

5.5 Current Development Cooperation - Analysis and Conclusions

It is important to note at the beginning that despite the fact that the joint development cooperation movement within the Arab Gulf circle actually began in the early seventies on bilateral as well as on multilateral basis, there is very little factual basis on which an adequate analysis can be carried out with respect to the efficiency of existing cooperation. However, there can be identified some general trends which highlight, to some extent, the nature of the movement towards

cooperation.

The current movement towards development cooperation among the Arab Gulf States can be described as designed with ambitious and attractive objectives of a type that characterized most Third World movements towards economic cooperation and integration in the period after these countries - including the Arab countries - won their independence. However, very modest achievements have been realized.

The generally unrealistic approach is reflected particularly in the many bilateral agreements, letters of intent and statements of cooperation which prevailed among the Gulf States. Most of these agreements had very modest achievements, largely because of the nature of the most common stated objectives, e.g.

- free movement of capital and labour,
- customs abolition,
- equal treatment of citizens,
- joint projects.

We may note that these are mostly derived from concepts associated with the ideal of a Sub-regional Common Market. The same ambitious tendency towards creating a Gulf Common Market, based on joint projects, monetary unification, free movement for factors of production, etc. dominated the multinational agreement as we see in the statement of the first conference of Trade Ministers in 1976. Similarly, the first conference of Ministers of Agriculture had on its agenda equally ambitious objectives, including the production of equipment used in the atomic-energy based desalination plants, and joint ventures in atomic based desalination plants.

The setting up of conference-type institutions, organizations and committees for cooperation is another noticeable trend in the cooperation movement of the 1970's, but very little action was taken to establish continuity, operational and follow-up capability. Similarly the

identification of precise patterns towards which the community should be moving, was never effectively carried out. The special importance of designing and creating the right machinery for cooperation geared toward practical activities relevant to planned specific objectives, was never appreciated. Some proposals for economic cooperation agreements were turned down because the proposals did not offer balanced benefits.(66) It is also notable that not only were the proposed free trade arrangements inconsequential in view of the limited range of domestic products which can be exchanged among the States, the joint committees concerned have not affected Government strategies.

Of the results which appeared from the conferences of Ministers (Industry, Trade, Agriculture and Planning) that started in 1976, the Gulf Organization for Industrial Consultancy, and the GCC can be considered to be the only genuine advances towards effective development cooperation.

Sectoral Achievements:

Agriculture:

The basic achievements in agricultural regional cooperation included agreements to establish joint research and training centres, desalination and power plants, and a joint satellite station for resource survey. Although the fourth Ministers' conference began to give special attention to joint productive projects beginning with cereal production and animal fooder, no fundamental studies were made for possible joint productive projects and priorities.

Fisheries:

The Ministers' conference succeeded in establishing a regional research centre in Dubai and in promoting a Regional Survey and Development project for building up a statistical system for the AGS. This project, for all its defects provided useful information on fisheries and marine resources in addition to submitting proposals for

fisheries development, on a national as well as a regional basis.

The Sub-regional Fisheries Training Centre, set up in cooperation with FAO(67) although providing a potentially useful institution for training staff needed for fisheries development in the AGS, proved, in the short term at least to offer not a good prospect for cooperation with FAO.

Industry:

The creation of the Gulf Organization for Industrial Consultancy seems to provide the right institutional body for Industrial cooperation. Its seeds of success appeared with the signing of agreements establishing many joint industrial projects. However, the following fact needs emphasising.

As each one of the AGS gained its full independence, it went its own way to develop its economy through building up economic infra-structure and planning development and industrial projects without giving any attention to neighbouring countries' plans. The consequent parallel directions of industrial development which prevailed raises some doubt about the extent of the industrial activities that remain open for cooperation. However, the AGS seem to be convinced now of the feasibility of cooperation in and the coordination of new projects, whilst, at the same time, in relation to plants already built or to which the AGS are committed, planning collaboration in:

- coordinating production policies and raw materials supply,
- coordinating training and research activities,
- coordinating market activities.

Planning:

Cooperation between Planning Ministries, which began in 1979, is on a very modest basis, leaving it open to each country voluntarily to inform any or all other AGS of any possibilities of cooperation in national development projects.

Monetary Cooperation:

In the light of the failure of previous attempts to coordinate exchange rate systems, particularly between Bahrain, Qatar and the UAE, in addition to Saudi experience with freeing the use of its national currency within the Gulf area, both in the late 1960's, the executives of Central Banks and Monetary Agencies began periodic meetings in 1978 for discussing and consulting over common monetary problems and policies. Proposals have been repeated from time to time inviting AGS to establish a Gulf Monetary Union, a Gulf Common Currency or Gulf Monetary Area.

Pollution and Environmental Protection:

This field of cooperation seems to be of urgent importance, given the existing and growing dangers of environmental damage resulting from development activities. It has proved also, the vital importance of U.N. inputs into the cooperation process.

Throughout the period and behind the activities surveyed up to this point, one problem in the way of cooperation has become apparent to close observers. The small size of AGS populations, coupled with the variation in oil wealth within them makes it possible for almost every citizen of each State to have a personal stake in the prevailing situation. Thus everybody becomes more interested in maintaining the benefits and opportunities within each State, and opposed to any real economic or political integration with other neighbours, for fear of losing some perceived advantage.

> "This opposition is common to virtually every citizen in the AGS, from the members of the ruling families down to the merchants and most of the ordinary citizens though of course, it differs in strength according to the interest of each particular group."(68)

This force running counter to integration and raising suspicions even of cooperation cannot be measured or quantified and is never

publicly stated. One form which it takes is that of the border disputes which remain a positive hindrance to some development of cooperation between Arab Gulf States. Despite the announcement from time to time, for example, of successful talks to end disputes between Qatar and Bahrain over the Howar Island and the border delineation between Oman and UAE, the border disputes remain a problem to development, directly as with resource exploitation or communications, indirectly through reinforcing jealousies over sovereignty.

All that can be said here is that to participants who are not directly partisan, the strength of separatist feeling appears remarkably strong even though almost invariably either expressed obliquely or off the record.

Summary:

There are clearly some signs of growing Sub-regional cooperation in various development activities. However, the ship of cooperation is still sailing in rough seas, subject to storms that could weaken its chances for a successful voyage. Above all what is needed is the right approach to jointly agreed destinations, i.e. objectives. But before considering these we should stand back to examine and evaluate the need for a continuing cooperative voyage and attempt to estimate how long it will take. In particular, it becomes necessary to widen the scale of this survey and place the movements already discussed in a broader context, first that of the Arab Regional scene. As we shall see, many of the constraints and opportunities for cooperation within the AGS circle become significantly changed when we enlarge the setting for development.

Notes and References

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(6) Ministry of Planning - Saudi Arabia, Information on Economic and Social Structures of Saudi Arabia, Arab Gulf States and North Yemen, 1979, Mimeo, (Arabic), pp. 28-30.

(7) Ministry of Agriculture, Fisheries, Petroleum and Minerals, Oman Official Files on Omani-Qatari Cooperation, Muscat. 1976, including the following: (Arabic)

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(b) Very urgent letter from the Minister to the Director General of Fisheries, No. Wz 14/W/1463/76 dated 11 October 1976.

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(d) Ministry Memo. on the proposed Omani Agenda for discussion. October 1976.

(8) Full text of Agreement Document in The Journal of Gulf and Arab Peninsula Studies, No. 18, pp. 23-26.

(9) MEES, 14 March 1975.

(10) MEES, No. 9, 18 December 1978.

(11) Personal sources.

(12) Kuwait News Agency, Documentation Dept. The Gulf Cooperation Council, Ninth Edition, May 1981, p. 51.

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(16) Centre for Middle East Information and Research, Beirut, APS Diplomat, 18-25 March 1981, pp. 5-6.

(17) EIU, Economist Intelligence Unit, Oman, The Yemens, 1st quarter, 1981, p. 4.

(18) Beseisu, F.H. Op. cit., pp. 39-40.

(19) Bahrain Govt., Documents of the First Conference on the Coordination of Imports between Arab Gulf States, 1973, (Arabic).

(20) Minutes of Meeting of Expert Committee to the Second Conference of Ministers of Trade in the Arab Gulf States, Riyadh-Saudi Arabia, 6 January 1979, (Arabic).

(21) Final Statement, Conference of Ministers of Trade in the Arab Gulf States, Baghdad, 1977 (Arabic).

(22) The conference members did not sign any formal agreement concerning the principles mentioned in the statement. It is to be noted that the terms in which AGS cooperation are usually described are often not accurate, for example, Niblock refers to an agreement between AGS laying down general principles for cooperation and coordination but more accurately this should have been termed a general statement of intent, see Niblock, T. Op. cit., p. 196.

(23) Saudi Arabia, Ministry of Trade, Documents and Recommendations of the Second Conference of the Ministers of Trade in the Arab Gulf States, Riyadh, 8-10 January 1979 (Arabic).

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(25) Gulf Organization for Industrial Consulting, Industrial Cooperation in the Arab Gulf, Vol. 1, No. 2, July 1980, pp. 26-27.

(26) Al Qabas (Kuwaiti Newspaper), 30 May 1980.

(27) Industrial Cooperation in the Arab Gulf, Op. cit., Vol. 1, No. 2. p. 5.

(28) Ibid. Secretary General Statement, pp. 1-2.

(29) Al Qabas, No. 3208, 18 April 1981.

(30) Conference Meetings' Documents, The author was appointed a Liaison Officer for the Government of Oman in its relation with the conference, and participated in the first four Ministerial meetings and some of their Technical Committees.

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(48) Ibid., p. 28.

(49) Ibid., p. 14.

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(54) Ibid., p. 5.

(55) Ibid., p. 6.

(56) Projected by U.N. expert team, Ibid., p. 6.

(57) Ibid.

(58) Ibid., p. 7.

(59) Ibid., p. 9.

(60) Ibid., p. 10.

(61) Ibid., pp. 4-6.

(62) Ibid., p. 4.

(63) Ibid., pp. 10-11.

(64) Ibid., p. 11.

(65) Ibid., p. 14.

(66) This applied to the Saudi offer to sign an economic cooperation agreement with Oman in 1974, Official files of the Ministry of Development, Muscat, Oman (Arabic).

(67) This project was really an FAO initiative which was taken up before being carefully studied and planned.

(68) Al-Kuwari, A.K. Oil Revenues in the Gulf Emirates: Patterns of Allocation and Impact on Economic Development. (London: Bowker Publishing Co. Ltd., Epping, Essex, 1978), p. 124.

CHAPTER 6 - AGS DEVELOPMENT COOPERATION WITHIN THE REGIONAL CIRCLE

6.1 Introduction

AGS have been playing an active role and constitute an integrative part in the recent development cooperation movement within the Arab Region. Their contributions have ranged from particular sectoral development activities in the fields of financial, banking and oil and gas related activities, to comprehensive political, economic and social activities, mainly under the aegis of the Arab League.

The result is that any examination of the strategy for and approach to development cooperation between the AGS necessitates also identifying the current situation with respect to cooperation within the larger regional circle. We therefore have to examine the relationship between the AGS and Arab regional cooperation in terms of cooperative machinery and related joint projects and activities, in addition to making a general assessment of the effectiveness of this machinery and of achievements and identifying the lessons to be derived from recent experience. To ignore such inter-related Sub-regional and Regional cooperative activities when studying AGS development cooperation can be most misleading.

Cooperation within the Arab Region has appeared in many forms but the most important have centred around recent OAPEC joint development projects; financial cooperation through joint development funds and banks; institutional forms reflected in the Arab Economic Unity Council and the related proposed Arab Common Market decision; and other regional sectoral development institutions and organisations under the auspices of the Arab league - such as the Arab Organisation for Agricultural Development, Arab Industrial Development Centre, etc.

In this chapter most concentration will be directed to the most successful forms of cooperation in which AGS have played an important role

and made basic contributions. These are OAPEC joint projects and financial cooperation within joint development funds and banks.

However, some examination and evaluation of the Arab Economic Unity Agreement and the related Arab Common Market will also be made in order to illustrate broader aspects of economic cooperation.

The term Region, while used here to mean, basically the Arab countries and members of the Arab league, occasionally has to be extended for purposes of analysis to include other parts of the Islamic world.

6.2 Partial Development Cooperation

6.2.1 OAPEC Joint Projects

OAPEC includes all the Arab Gulf States (excluding Oman) as well as Algeria, Iraq, Egypt, Libya and Syria, all countries in which petroleum constitutes an important source of national income. Established on 9 January 1968, OAPEC initiated the first institutionalized Arab Cooperation in petroleum affairs.

Arab equity joint ventures present on the whole a recent phenomenon. Despite repeated discussions among Arab economists and politicians since the early fifties on the relevance and importance of establishing such ventures for the strengthening of Arab economic integration, little was done before 1973.(1)

The tendency towards investing surplus Arab funds outside the Arab region began to be reversed in the nineteen seventies especially after the Arab-Israeli war of October 1973, the growth of some aspects of political solidarity and the great increase in oil prices which followed. The volume of net assets accumulating in the Arab oil-exporting countries increased to an extent where a new complementarity of interests emerged between these countries and the other Arab countries perceived to have large absorptive capacities for profitable investment. It also became politically inevitable that the former countries should invest an increased

portion of their assets in other "sister" Arab countries.

The sector first to benefit from this new trend was the financial sector. The second sector where immediate Arab joint action was possible was the petroleum industry.(2)

The utilization of the common resources and capabilities of OAPEC member States in the establishment of joint ventures is one significant means to achieve the main objectives of the organization as set out in its Agreement. During the decade of the '70s OAPEC sponsored four joint ventures in the Arab petroleum industry. These projects have started bearing fruit in the development of the member States resources and in supporting joint Arab action; a fifth project was established in 1981 and others are in the study or research phase (see below).

The future of the Organization and the joint venture Companies have been reviewed in the light of OAPEC's objectives, revealing many opportunities for coordination between the Organization's activities and regional projects, including information exchange, joint efforts in solving the problems encountered by the oil industry and training activities in the member States.(3)

We examine below the four currently operating OAPEC joint projects, the first of which was established before the Arab-Israeli War of October 1973.

6.2.1.1 Arab Maritime Petroleum Company (AMPTC):

Established on 6 January 1973; headquarters in Kuwait; activities include marine oil and hydrocarbon transport. Participating countries include, Saudi Arabia, Kuwait, Bahrain, Qatar, UAE and Algere, Iraq, Libya, Egypt.

Subsequent to two increases in AMPTC's subscribed capital in 1976 and 1977, both the subscribed and authorized capital were fixed at $500 million, at the end of 1980; paid up capital was $459.4 million.

The Arab oil fleet as a whole now totals approximately 11 million

dwt, compared with a world total tonnage of 312 million dwt. Even at full operational capacity, the Arab fleet can handle no more than 8% of Arab oil exports, which recently averaged 17 million b/d, despite the large relative increase in Arab tonnage between mid-1976 and mid-1977.(4)

AMPTC operates a fleet of 7 tankers totalling 1.7 million dwt. It has ordered two LPG carriers of 75,000 cu.m. each from the French yard Chantiers de l'Atlantique, and is also considering buying 2 crude oil carriers of 200,000 to 300,000 dwt and 2 refined products carriers of 30,000 to 35,000 dwt.(5)

AMPTC continues to send trainees to Arab and foreign maritime academies. Also a computer was installed and operational in 1978 to meet various AMPTC needs.

The Company is discussing with the member States the possibility of future development and expansion of its fleet to include other petroleum and hydrocarbon carriers, and has been studying a five-year (1978-82) investment plan.

6.2.1.2 Arab Ship-Building and Repair Yard Company (ASRY):

The decision was taken by OAPEC to establish the Arab ship-building and Repair Yard (ASRY) in June 1973. The shareholders are Bahrain, Saudi Arabia, UAE, Qatar, Kuwait from AGS and Iraq, Egypt, Libya. The main activities of the company include ship-building providing dry docking and repair services for crude carriers of up to 375,000 dwt with the possibility of future expansion to service crude carriers of up to 500,000 dwt.

On 15 December 1977, the $200 million dry dock of the Arab ship-building and Repair Yard Company (ASRY) was inaugurated by the Amir of Bahrain, in a ceremony co-sponsored by the Government of Bahrain and OAPEC. The ASRY dry dock, dimensions 375 m x 57 m and which was successfully completed on schedule, represents an important link in the

integrated oil industry, as well as an instance of actual entry into downstream operation.

ASRY has established a wide network of marketing agents and is investigating the economic feasibility of a number of projects required for the integration of the dry dock's tanker and maintenance and repair services. Most important is the incorporation of a subsidiary company to handle the repair and maintenance of tanker propellers (ASRYPROPEL) and another company to handle we lding works (ASRYWELD).

Ship-building is highly labour intensive and the project could provide employment to 2500-3000 workers. The bulk of managerial and skilled personnel will initially be foreign, but ASRY approved a $10 million training programme to train and Arabize top and middle-level management over the next ten years and opened its new training centre, at the dry dock site. The centre which can train up to 450 skilled workers at a time, comprises classrooms, an English language laboratory and modern equipped workshops. In 1977, 250 trainees enrolled in the centre's new training programme, consisting of 46 courses.

The ASRY General Assembly decided at an extraordinary meeting held in Bahrain on 23 July 1977 to raise the company's subscribed capital to $340 million.(6)

ASRY's contribution as a source of technology, training and skill is incalculable, and is likely to grow.(7) Moreover, ASRY reached 94% of actual operating ca pacity during its first year of operations. The company's board chairman, Shaikh Khalifa bin Salman bin Mohammed Al Khalifa who made this statement in the OAPEC Bulletin(8) added that new docks do not usually operate at such high capacity. ASRY's success, he stated was due to its accomplished record of repair work the high technical expertise and international reputation of Lisnave, the consultant company, the company's operating manager and the aggressive salesmanship of ASRY's marketing arm, ASRYMAR.

On the question of profit making in the light of then current market conditions, Sheikh Khalifa significantly pointed out that a resolution approved by the OAPEC Ministerial Council in June 1973 underlined that the dry dock project had an Arab national ethos and OAPEC member States were mindful that the project would not bring in a large return in the commercial sense. Although investment alternatives which could guarantee a higher return were available. OAPEC States opted for the dry dock project, on the basis that it is a national necessity with their plans for establishing downstream industries.

In the same keynote statement Shaikh Khalifa referred to the ambitious training programme started by ASRY in 1975 for Arabizing 90% of the staff by 1987, and costing the company about $2 million a year. ASRY's manpower, in 1978 numbered 1100-1200, of whom 43% were Arab nationals; Arab nationals accounted for 25% of the technical staff.

It will clearly be several years before one can say categorically whether the experiment is profitable. In the meantime ASRY has provided severe competition, particularly during the recession, for the neighbouring and rival independent Dubai dry dock completed in 1980.

The company's authorized and subscribed capital of $340 million was fully paid up in late 1980.

6.2.1.3 Arab Petroleum Investment Corporation (APICORP):

Arab Petroleum Investments Corporation: Issues and Loans, APICORP was established in Dammam, Saudi Arabia, on 23 November 1975 with a subscribed capital of SR 1,200 million (approximately $340 million).

Following its establishment, APICORP took preliminary steps to define its financial policies, set up an organization chart, create the technical and administrative staff organization, initiate local regional and international liaison with financial institutions, define and assess investment opportunities, and utilize such opportunities within its developing capabilities.

APICORP objectives aim at financing petroleum projects and industries as well as other activities affiliated to, ancilliary with, or integrated with such projects and industries. Priority will be given to joint projects within the member States, then to the other Arab States, in order to enhance their capabilities toward benefitting from their petroleum resources and investing their earnings to support their economic and financial potentials.

APICORP has participated in the following bond issues and loans:

- SR 7 million contribution to SR 100 million issue for the Samir refinery in Morocco.
- SR 16 million contribution to SR 150 million issue for the Compagnie Nationale Algerienne de Navigation (CNAN).
- US $20 million contribution to $100 million loan to CNAN. The loan will be used to advance the initial payments against the purchase of three gas carriers of 125,000 cu. m. each.
- US $16 million contribution to US $350 million loan to Qatar General Petroleum Organization for its LNG project.
- US $7 million contribution to US $100 million loan to Jordan Petroleum Refinery Company to finance the third expansion project.
- US $15 million contribution to US $100 million to Sonatrach to help finance the additional cost of the Arzew LNG plant. APICORP is presently considering possible financing or participation in a number of Arab petroleum and petrochemical projects.(9)

The company also participated in financing the Arab Drilling Company, which is one of the Arab joint ventures of the Arab Petroleum Services Company (see below). Arab joint ventures being implemented or planned are in the fields of chemical detergents, drilling rigs, lube oils, synthetic rubber, and carbon black. Other ventures still in the planning stage are for synthetic fibres, insecticides, and petroleum coke. The aim of these ventures is to provide regularly and at reasonable

prices the major intermediate chemicals required by Arab industry. Surplus production would be exported to neighbouring and other countries.(10)

The corporation's overall revenues in 1979 were SR 119 million, which was 32.2% more than in 1978. With operational costs and overhead deducted, the corporation realized a net profit in 1979 of SR 95.3 million, a 52% gain over 1978.(11)

Saudi Arabia, Kuwait, UAE, Bahrain, Qatar, Oman, participate in this company in addition to other Arab countries.

6.2.1.4 Arab Petroleum Services Company (APSC):

The OAPEC Ministerial Council held a meeting in Tripoli, Socialist People's Libyan Arab Jamahiriya, on 8 January 1977 in its capacity as APSC's Constituent General Assembly, and announced the final incorporation of the company and the composition of its Board of Directors. APSC is domiciled in Tripoli and has an authorized capital of LD 100 million and a subscribed capital of LD 15 million.

During the first year efforts were mainly devoted to discussing and following up the company's activities, statutes and organization. In setting priorities for APSC's investment activities, APSC has shown the utmost concern for drilling operations.

The APSC Board and General Assembly held two meetings for this purpose on 16 and 18 October 1977 respectively, during which the incorporation of the company's first subsidiary, the Arab Drilling Company, was discussed and approved. This company's activities are to centre on drilling oil gas and wells and associated services. It will be domiciled in Tripoli, Libyan Arab Jamahiriya, and will be initially capitalized at LD 10 million.

APSC is a holding company and as such can set up subsidiaries specialized in petroleum services particularly for drilling and well-testing, core analysis, computer application in petroleum operations

studies on reservoir engineering and petroleum geology, offshore and onshore petroleum facilities and structure, topographical surveys, various geophysical activities, and supply of materials and equipment required for petroleum services.(12)

The countries which participate in the company include Saudi Arabia, Kuwait, Qatar, Bahrain and Iraq, Algere, Libya, Egypt, Syria.

6.2.1.5 OAPEC 5-Year Plan:

Heralding a new stage for joint Arab effort in the oil sector, the Organization has laid down a working plan which spells out guidelines for its main course of activities over the period 1978 to 1983.(13)

The plan envisages:

1. The establishment of joint production projects such as lubricating oils, carbon black, detergents and synthetic rubber, all of which require both economics of scale and an integrated Arab market.
2. The achievement of full cooperation between and coordination of national projects through the exchange of information and documentation, the organization of specialized seminars, the utilization of common expertise for solving problems in the oil industry, as well as the intensification of cooperation in training and manpower development.
3. The establishment of joint activities for the benefit of the member countries in the fields of information, international relations, energy research, optimal utilization of hydrocarbons, and exploration studies. OAPEC has been studying constructing a dry dock for ship repair and maintenance in one of the member States situated on the Mediterranean coastline. Algeria is decided to be the project's location. Solid grounds are laid in the plan for ensuring the success of joint activities in refining and petrochemical industries.

In taking this step, OAPEC proceeded from its awareness of the need for enhancing the ability of joint Arab effort to realize the common aims of member countries. It also came at a critical juncture

in the development of the Arab oil industry, at which the producing countries, through their acquisition of oil companies assets, have to themselves shoulder most of the burden for the development of their natural resources in an industry that is highly capital intensive and subject to never-ceasing technological change.

> "The gravity of the shortage of technical expertise hence emerges in full force ... The urgent need for common and integrated effort among the member countries is all the more emphasiized by the industrialized countries monopoly of technology and know how and their power of imposing prejudicial terms on any country applying to them singly in this regard."(13b)

Another important element in formulating the working plan lies in the dependence of the choice of investments largely on the availability of markets, especially in downstream industries, warranting more cooperation and integration among projects in the member countries.

Finally, the nature of international relations at the present time calls for collective and concerted effort by the producers for facing the challenges in a world of political and economic groupings.

6.2.1.6 Arab Petroleum Training Institute:

The OAPEC Council of Ministers decided at its 19th meeting to establish an Arab Petroleum Training Institute in Baghdad.

The institute's goal is to qualify training instructors, managers and engineers, as well as technicians who will produce and develop audiovisual and other teaching aids, in line with the standard and quality of the technology possessed by the member States for the development of their oil sectors. This should enable the institute's graduates to convey high standards and up-to-date technology to their fellow instructors in national institutes and centres.

Among the other main functions of the institute will be monitoring variables and their impact on the economics of industrial operations well as on job descriptions at various skilled and administrative levels in all petroleum activities, and to define and continue to develop training

syllabuses and methodology.(14)

6.2.1.7 Arab Company for Engineering Investments and Designs:

The agreement establishing OAPEC's fifth joint project "The Arab Company for Engineering Investments and Designs" was signed in Abudhai on 22 March 1981 and work is now progressing in setting up the operation. This company represents the first Arab project aimed at providing engineering and consulting services relating to refineries, petrochemical projects and oil pipelines.

Subscribed capital is US $20 million distributed among the nine member countries equally, except for Algeria with 5 percent contribution and Syria with 4 percent.(15)

6.2.1.8 OAPEC Projects' Evaluation:

The most spectacular inter-Arab enterprises have been promoted by the Organization for Arab Petroleum Exporting Countries. Thus the Arab Maritime Company for Petroleum Transportation has, since the beginning of 1973 been prepared to undertake all types of maritime transport of hydrocarbons and all activities that help facilitate operations such as purchase and sale of real estate, commercial and financial deals and transactions. The Arab Ship-building and Repair Company commenced activity by constructing in Bahrain, the largest dry dock in the Gulf area to service tankers and ships. The Arab Oil Services Company provides Arab States with oil exploration and other services previously handled by foreign companies. The Arab Petroleum Investment Company invests oil revenues in oil refineries, petrochemical complexes and other basic industries.

These sectoral forms of economic cooperation seem to offer better prospects than have past efforts, because a new and more realistic investment climate is being created.(16) Although some of OAPEC projects are suffering from the operating losses in their early years of production, the OAPEC Board of Directors and policy makers in its

member countries consider these projects more as long term investments of economic importance rather than commercial projects being looked at from the classical approach of market forces which, in essence takes the profitability criterion and the reasonable return on capital invested as the only justification for such investments.(17)

Arab Maritime Petroleum Transport Co.'s (AMPTC) for example operating losses were estimated to be $4.4 million in 1977. As for the tanker market the company was expected to achieve losses in 1979 of between US $8 and 13 million (30-35%) because of recent changes in the market.(18) Nevertheless, OAPEC countries still aim at a greater share of the future world tanker fleet.

Similarly, the Chairman of the Board of Directors for Asry stated that the countries which established Asry knew from the beginning that it was rather an Arab national economic enterprise than a commercial one, and they preferred it to many other profitable projects.(19)

This deliberately accepted preparedness to accept, at least at the beginning , financial loss-making by joint projects is of course consistent with an 'infant industry' philosophy. Whether the full implications of this course are understood by OAPEC members is another matter and some aspects of this are discussed in later chapters. It is also not wholly clear how far member States are prepared to limit their individual activities in the common interest.

It is also noticeable in this respect that the establishment of the dry dock in Bahrain by OAPEC did not prevent Dubai from building its own(20) and it is not at all clear how far the various individual petrochemical projects being planned, for instance by Saudi Arabia, Qatar and Abu Dhabi, fit into a general OAPEC strategy.

OAPEC nevertheless has played a very vital role in initiating joint development projects by its members (among which the AGS have a comparatively large power leverage in petroleum related projects),

consequently contributing to the diversification of their economic base in compliance with OAEC's first objective which is as follows:

> "To carry out common projects that would achieve a diversified economic investment for the members. This, in turn would lessen their dependency on petroleum as a sole source of income and, consequently, would slow down the consumption of their petroleum and prolong the period of its investment for future generation."(21)

OAPEC projects also have the advantage of opening the road for the establishment of many other less directly oil related industries and services in the area. ASRY will participate, for example, with the other Gulf States in producing the structures needed for the causeway connecting Bahrain with Saudi Arabia.(22)

In illustrating OAPEC achievements by 1978, Sayegh stated:

> "In the brief period since the October war, OAPEC has - under new leadership - chiselled a new role for itself. This role is characterized by the initiation of studies concerned with the development of national and joint regional projects related to hydrocarbons, to manpower in the oil industry, and to other areas of interest; the strengthening of its professional staff in order to be better enabled to prepare studies of greater sophistication; the organising of training seminars for oil officials in member countries; participation in and initiation of international meetings centring around the areas of its broad interest; active interest in the Arab-European dialogue for economic and technological cooperation; and initiative in the establishment of joint projects in the oil sector."(23)

adding:

> "Nevertheless, OAPEC's present areas of activity are probably not less important basically than being able to be partly to the more glamorous political and strategic decisions of the Industry. And certainly, even within the present constraints, OAPEC is fulfilling a significant function in the drive for development, in the oil sector and the region as a whole."(24)

With the establishment of its Judicial Board in 1980 OAPEC will have formed all the Organs provided for in its establishing agreement. Thus OAPEC seems to have been well established and could prove itself through various competing developments which prevailed within its members.

"Many observers expected the conditions prevailing in 1980 - most prominantly the Iraq-Iran war and political disagreements between some member countries - would disrupt the Organization's activities at least temporarily. The cooperation and response of the member countries, however, plus the desire of the General Secretariat to go ahead with its work helped overcome these difficulties. As a consequence, OAPEC's achievements in 1980 rivalled those of previous years."(25)

6.2.2 Financial Cooperation

6.2.2.1 Development Funds:

The AGS Sub-region has been the scene of the establishment of many development funds, mobilizing financial resources derived from oil exports. Some of these funds were established within an Arab or Islamic framework, whilst others were established as national funds directed to finance development in both Arab and other developing countries.

Our main interest, in this section, will be directed to regional funds and their regional activities.

The first development fund in the Arab world was established in December 1961 as an autonomous agency of the Government of Kuwait. A decade later, Abu Dhabi established a similar, though smaller fund. At the same time members of the League of Arab States established the Arab fund for Economic and Social Development (AFEASD) as the first regional development fund.

The year 1974 witnessed the establishment of three more development funds; two in Saudi Arabia and one in Sudan. In addition to establishing its own fund, the Saudi Development fund, Saudi Arabia hosted, and pledged the largest share in, the Islamic Development Bank in which 34 Moslem countries are presently members.

A third type of development fund, the Arab Bank for Economic Development in Africa (ABEDA) was established by the League of Arab States and provides financial assistance exclusively to non-Arab African countries.(26) Operating in January 1975 with initial capitalization of about $ 230 mn, this was raised to $ 630 mn. in 1976 and another $ 115 mn. was authorised in 1977.

6.2.2.2 Arab Fund for Economic and Social Development (AFEASD):

The commencement of operations by the Arab Fund in 1972 and the subsequent increase in its authorized capital by 134% to $1.4 billion enlarged the financial resources that Arab countries, including the AGS, could utilize to step up their economic and social development. As the first regional Arab development fund, it underscored the awareness of member countries of the advantages of mutual cooperation and their willingness to promote such cooperation.

The Arab Fund has been established with the main policy rationale of promoting regional cooperation by "creating a motive force that will assist the Arab world in achieving the basic tasks needed for economic and social development". Thus the Arab Fund is by mandate the designated development financial intermediary for future regional policies and for financing regional projects. In the Articles of Agreement this mandate has been defined broadly as to give priority to vital and inter-Arab projects.(27)

AGS participation percentage is over 57% of the Fund Subscribed capital, their shares (in percentage) being as follows:

Kuwait 30.0, S. Arabia 18.8, UAE 5.0, Oman 2.04,
Qatar 1.0, Bahrain 0.5, Total: 57.34

Egypt, Libya, Iraq and Algera have the largest comparative share among the other Arab countries:

	KD million
Egypt	10.0
Libya	12.0
Iraq	7.5
Algeria	4.0
	33.5

There are certain features of all Arab and Islamic development funds which clearly distinguish them from other channels of traditional international assistance both from the West and from the East; these include low interest, minimal charges, substantial grant element and no

leveraging but only some control designed to successfully implement the projects financed. Generally speaking, loans are long-term with maturities typically ranging from 15 to 30 years with a 3-5 years grace period and carrying interest of between 1 and 4%.(28)

Regional Operation:

The Arab Fund operations have consisted mainly in country project lending for three reasons:(29)

1. The need for this conventional style of national project assistance still exists in the majority of Arab countries.
2. National projects are relatively easier to appraise and to finance than regional schemes.
3. The Arab Fund's basic operational objective in its starting period was more performance oriented than regionally oriented.

In order to fulfil its regional mandate, the Arab Fund has sponsored two different programmes which may become the cornerstones of and pilot cases for coherent investment policies in the Arab region.

The first is a cooperative effort with UNDP, the "Programme for Identifying and Preparing Inter-country Investment Projects and Related Feasibility Studies" in the Arab world. The programme is designed to lead ultimately to specific investment decisions primarily of regional projects. In this context the Arab Fund will assume the following responsibilities:

1. To provide assistance to Governments in the selection, preparation and submission of project documents to the Arab Fund and to other regional and international sources of finance.
2. To grant direct financial assistance to such projects through loans from its own capital or from other resources placed under its administration.
3. To arrange for the participation of other public or private financial organisations in those projects, through the establishment of consortia and other financial arrangements as required by the nature of

the project and the concerned Governments' interests.

It is also planned to convene co-ordination meetings of interested development finance institutions from within and outside the region to study the possibility of cooperating in the financing of inter-country and also national projects generated by the programme. Institutions which will be encouraged on a priority basis to affiliate themselves to the programme include the Kuwait fund, the Abu Dhabi fund, the Saudi Fund for Development, the Iraqi Fund for External Development, the Islamic Development Bank and possibly the World Bank.

The work plan of the programme envisages, among other activities:

1. The preparation of a basic manual for the identification and evaluation of inter-country investment projects. This includes the establishment of a methodology for defining inter-country projects and the incorporation of the criteria of multinationality and its corresponding variables in the traditional parameters of project analysis.

2. The identification of projects with a regional investment potential at various stages of preparation and to compile project information sheets; primary emphasis will be placed on projects in those sectors which have not yet been studied within a regional context.

3. A study of legal, financial and administrative issues relating to the establishment of inter-country joint ventures. The objective is to identify institutional problems relating to the setting up of regional projects and to make recommendations for policy changes; another purpose is to establish model agreements to facilitate the establishment and management of such regional ventures.

For those activities the Arab Fund is utilising the services of UNCTAD, in cooperation with UNDP.

The following project studies were selected for study in September 1971 and are listed as indicators of the field of AFEASD operations and

their relevance to AGS interests outlined in Chapters 9 and 12.

AFEASD/UNDP Joint Programme:(29)

(a) Project Studies in Progress:

- Inter-Arab/Telecommunication Links I
- Inter-Arab/Telecommunication Links II
- Inter-Arab/Pan Arab Shipping Company (PASCO)
- Inter-Arab/Equipment Study for the Arab Maritime Transport Academy (AMTA)
- Inter-Arab/Management Information system for the Arab Maritime Transport Academy
- Inter-Arab/Passenger Airlines Reservation System (APARS)
- Inter-Arab/Survey of Natural Resources
- Inter-Arab/Preliminary Study of the Status and Prospects of Agricultural Machinery and Equipment in the Arab countries
- Egypt and Sudan/Transportation Link
- Yemen (NY-PDRY)/Determination of Requirements for a Natural Resources Survey

(b) Project Studies under Consideration:

- Inter-Arab/Educational Television Programmes for children
- Inter-Arab/Educational Television Programmes on Children Practices in the Arab World
- Inter-Arab/Quality of Educational Children's Programme
- Inter-Arab/Sub-regional Comprehensive Transportation System for Western Asia

The second project with regional overtones initiated by the Arab fund is the "Basic Programme for Development of the Agricultural Sector in the Democratic Republic of Sudan, 1978-1985-2000". The main purpose of the basic programme is to pool and apply the necessary financial resources, primarily from Arab countries, but also from others, to exploit the rich agricultural potential of Sudan for the benefit of the whole Arab region. In this regional programme trilaterial cooperative arrangements could become a prominent feature, because the interests of all three circles, Sub-regional, Regional and International are affected:

1. The Arab Fund is initiating with the Basic Sudan Programme a comprehensive development effort which belongs to high priority areas of its mandates; to promote regional projects and to assist the poorest Arab countries. Since the agricultural programme is conceived to cover food requirements of the whole Arab region, it is definitely a project with a regional impact and character. Furthermore, the Sudan is not only one of the poorest countries in the Arab region but also in the world.

2. The Sudan, in its continuous effort to attract finance for the development of its large untapped national resources, is eager to cooperate with the Arab fund to organise the various external sources of capital, and to combine these with local efforts in a comprehensive plan and in an institutional framework which could ensure the implementaiton.

3. The Arab capital-providing countries are motivated both by the desire to ensure their food imports from an Arab source and to find rewarding investment outlets. A special feature of this programme is the 'dualistic' approach of commercial investment and development finance with the aim of achieving a balance between these two activities.

4. Private extra-regional sources from industrialised countries may be attracted to this type of programme; official development assistance may co-finance infrastructure. With this flow of funds, technology and plant will be required in large volumes and for a long time.

This programme is found to be in line with AGS motivation for cooperation within regional circle as analysed in more detail in Chapter 9 and also utilised as an applied case-study of a trilateral approach to AGS cooperation, in Chapter 13.

In cooperation with the Industrial Development Centre for Arab States (IDCAS), the Arab Fund has initiated a survey of the Arab countries' requirements of agricultural equipment and machinery and the preparation of a plan for their production. The fund will support the

international centre for Agricultural Research in Dry Areas (ICARDA).(30)

The Fund and the AGS:

While AGS are main contributers to fund capital (more than 57 percent) however, and as expected, these countries have received only a meagre proportion of the fund financing activities. For example, AGS (mainly Bahrain and Oman) received only 3.7 percent of the fund financing activities up to 31 December 1978 (KD 11 million out of KD 295.3 million). The first loan was provided to Oman in 1976 for a Gas Utilization project, KD 6 million out of total project costs of KD 27.27 million. The second loan was directed to a Bahrain power project, KD 5 million out of total project costs of KD 60.1 million.

The Arab Fund and Kuwait:

It is worth noting, for its implications for Sub-regional/Regional involvement that the Kuwaiti Fund for Arab Economic Development (KFAED) was active in the initiation of both the Arab Fund (AFAESD) and the Inter-Arab Investment Guarantee Corporation.(31)

6.2.2.3 Arab Monetary Fund (AMF):

The promotion of Arab regional economic cooperation was given much needed impetus by the establishment of the AMF in 1975. Headquartered in Abu Dhabi and capitalized at SDR 750 million, of which 25% has been paid up, the AMF provides short- and medium-term loans at concessionary interest rates to help its 21 member countries in financing their overall balance of payments management in facilitating steady economic growth, and endeavours to promote closer economic cooperation within the Arab region.

The AMF balance of payments support is conditional and depends upon the establishment of a requirement of need based generally on the overall deficit in balances of payments, members' foreign reserves and their economic and financial situation.

In applying its conditions the AMF gives due consideration to factors

that effect development in the real sectors of borrowing members' economies. Member countries will also be encouraged to adopt and implement appropriate balance of payments adjustment measures in accordance with stabilization programmes agreed upon. In this respect the AMF has a similar approach to that of the International Monetary Fund. Over a relatively short period of time the AMF made substantial progress in establishing an operational organization and made two loans amounting to $25 million.(32)

6.2.2.4 Other Regional Financial Institutions:

The Arab Investment Company, located in Riyadh, was established on 15 July 1974 by 15 countries with AGS participation of 58% of capital; its activities include mainly country development projects, evaluated on sound economic and commercial basis.(33)

Another regional institution with less AGS participation is the Arab Establishment for the Guarantee of Investment, established in 1979 and located in Kuwait. This insures the Arab investor against non-commercial risks. The Arab Investment Bank established in 1975 at Cairo has a capital of $100 million. Of the AGS, only the UAE, Oman and Qatar participate as shareholders (38% of capital). Other Arab shareholders include Egypt and Libya.

The AGS participate in the Arab Bank for Economic Development in Africa, established in November 1973 by 18 Arab countries with 45% participation for AGS. Its activities are directed to the development of Non-Arab African countries.

6.2.2.5 Islamic Development Bank (ISDB):

ISDB is an international financial institution established in pursuance of the declaration of intent issued by a conference of Finance Ministers of Muslim Countries held at Jeddah in December 1973. The inaugural meeting of the Board of Governors took place in Riyadh in July 1975 but the bank commenced its operations in 1977. The shareholders

are 41 Moslem countries including the Arab States, and the AGS share is 58 percent of its authorized capital, some $2.4 billion:

	S.R. million
S. Arabia	200
UAE	110
Kuwait	100
Qatar	25
Bahrain	5
Oman	5
Total	445

The distinctive feature of the Islamic Development Bank is that it operates in accordance with Islamic law. In particular, it does not charge interest but it finances itself by the proceeds of investment generated income. (34)

The Islamic Development Bank is alone among project-oriented development funds in providing loans tied to financing imports of essential goods or raw materials. Its other activities that help generate income include leasing and equity participation in projects or enterprises with high financial yield. The Bank reserves the option of recycling its resources through sale of its equity share to third parties.

Regional or complementary projects among Muslim countries tend to have high priority although national projects are also financed. Examples of the Bank's national-based activities (not all of which are directly income generating), especially within AGS Sub-region, include:

Oman, which received in 1979, to finance a vocational training centre, a loan of US $6.20 million, (total costs of the projects) for training employed primary school leavers, unemployed adults and employed workers. The anticipated annual intake capacity of the centre is 140 trainees for a 3-year full-time course and 280 trainees for evening part-time course.

UAE, on a profit sharing basis ISDB participated with the Dubai Islamic

Bank in financing Badr Housing Complex with the sum of US $5.13 million out of the total costs of US $18.12 in February 1978. The housing complex aims at accommodating 3480 families of the middle income groups to overcome the shortage of middle class residential accommodation.(35) Bahrain, equity participation in the Bahrain Islamic Bank's capital stock will provide it with an opportunity for sharing experience in banking operation and management based on Islamic principles.

Multinational Projects:

In line with the objectives set out in its Articles of Agreement according priority to projects which promote economic cooperation among member countries, the ISDB convened a meeting in Jeddah between 18 and 20 February 1978, in connection with the Trans-Saharan Road project. The meeting was attended by representatives of the following countries and institutions:

- Algeria, Mali, Niger, Nigeria; The Secratariate of the Trans-Saharan Committee
- African Development Fund; AFEASD; ABEDA
- Opec special Fund; Saudi Development Fund
- UNDP

The Bank agreed to participate in a joint appraisal mission in November 1978 for the Appraisal of the Mapti-Gaeo road which is an important component of the Trans-Saharian road project.(36) The Bank is also making its efforts to develop areas surrounding the Senegal River.(37)

Within its regional activities the Bank is planning to set up 23 Islamic banks in Moslem countries during the coming five years. Besides banks, thirty insurance institutions are to be established along with 18 investment companies.

The ISDB attempts to incorporate Moslem law in banking practices, and it is for this reason that it gives interest free loans. To

encourage this the bank has founded a college to teach the fundamentals of Islamic law regarding business practices and banking in particular.

The bank has also outlined a comprehensive and far-ranging economic development plan for its member countries. This includes an agriculture development programme, trade and indudstry development as well as the setting up of transport and communications facilities, hospitals and educational and technical training institutions.(38)

6.3 AGS Cooperation within the Region. The Comprehensive Approach

6.3.1 Introduction

Following examination of these AGS cooperation activities based on sectoral and partial development-oriented process, as reflected in OAPEC joint activities and joint financial institutions within the regional context, we now proceed to examine the more holistic approach to Arab Economic Unity. This general picture illustrates the main features and fulfilments of this recent and current movement, assessed in conceptual and practical terms.

Attempts at pan-Arab economic cooperation have taken many forms and have spread over several sectors. These include trade, payments, manpower and capital mobility across national frontiers, cooperation of and coordination in undertakings in the fields of industry, mining, land transport, shipping and aviation, administrative development, standards and measurements. It is not possible here to survey all forms of such cooperation, but a selective view of attempts at Arab economic cooperation reveals the breadth of the area and fields in which the AGS participate. Sub-regional cooperation between the AGS cannot ignore the realities created by their being part of regional comprehensive cooperative movements, however valid or invalid these approaches or the extent of success achieved from.

The full breadth and ambition of these attempts can best be seen

in the wide coverage of the Agreement of Arab Economic Unity concluded under the auspices of the Council of Arab Economic Unity (CAEU).

This Agreement in effect stipulates for the unification or else standardisation of all aspects of Arab economic life. Taxation systems, monetary and fiscal systems and laws, business laws, foreign exchange regulations, inheritance, equal rights to undertake business and to own property, and all other institutional regulators of economic activity are to be co-ordinated and standardised, to present a unified front towards the outside world, and to permit complete mobility and interaction within the Agreement area. Coordination of the strategies and policies of agricultural, industrial and commercial development was also to be undertaken and free movement of factors of production.

In trying to reflect their realization for the dictates of realism, the founders chose to begin their long march towards unity by taking the initial step of an Arab Common Market (ACM). Thirteen countries ratified the CAEU agreement. Up to 1981 before the suspension of Egypt's membership, these included Jordan, Syria, Iraq, Libya, Sudan, Somalia, Muritanya, N. Yemen, Palistine, Egypt, Kuwait and UAE. Six Arab countries ratified the ACM decision which was taken on 13 August 1964 by CAEU up to 1981. These countries included Jordan, Syria, Iraq, Egypt, Libya and Muritanya. However, four countries are fully pledged members of the ACM, Egypt, Syria, Jordan and Iraq.

First, we examine the achievements of ACM then turn to assess the CAEU approach and achievements.

6.3.2 ACM Achievements

CAEU took the decision on 13 August 1964 to establish the Arab Common Market, within a trade oriented approach aiming at approaching Arab Economic Unity through several stages, beginning with a free trade area, Customs Union, and Common Market, ending with Economic Unity.

Since January 1971 all tariffs have been abolished on trade

between the four countries of ACM, but qualitative restrictions such as quotas remained together with the non-convertibility of currencies, while foreign exchange rationing has been as tight as before the agreement. These continuing restrictions without doubt contributed to the low level of intra-ACM trade in relation to the total trade prevailing between 1965 and 1975 as seen in Table 6.1

The CAEU seemed to be attracted by the EEC approach but without a thorough and deep study of the existing economic as well as political differences among Arab countries. ACM began its activities when trade between its four members constituted only 2.7 percent of their total foreign trade (Table 6.1) whilst the EEC corresponding percentage was 30 percent. The trade approach to Arab economic cooperation and integration was therefore adopted by countries which were characterized by the comparative small importance of their inter-trade in comparison to their international trade. Their inter-regional exports constituted only 2.5 percent of their world trade in 1965 and only 2.9 percent for imports. Their exports were restricted to one or two raw materials and were directed mainly to other international markets. The non-oil exporting member countries in particular had a pressing need for foreign exchange to finance their import requirements. At the same time the political instability that prevailed in the region and in the member countries during the nineteen sixties, seventies (and which show little sign of abating), contributed directly and profoundly to the weak results achieved by the ACM.

Political differences between members in particular seem to have resulted from different attitudes towards the palestinian problem. The most striking of this were the closing of the border between Syria and Jordan (ACM members) in 1971 and the suspension of Egypt's membership in ACAEU, ACM and other Arab league bodies following the Camp-David accords and its signing a peace agreement with Israel in 1979.

Table 6.1

Inter-ACM Trade Percentage Importance (1965-1975)

In $ million & percentage (current prices)

	Exports to										Imports from									
	1965					1975					1965					1975				
	World (1)	Arab Countries (2)	ACM (3)	3:1 %	3:2 %	World (1)	Arab Countries (2)	ACM (3)	3:1 %	3:2 %	World (1)	Arab Countries (2)	ACM (3)	3:1 %	3:2 %	World (1)	Arab Countries (2)	ACM (3)	3:1 %	3:2 %
Egypt	605.2	41.0	18.3	3.0	44.6	1403.9	120.1	24.9	1.8	20.7	933.3	69.4	10.3	1.1	14.8	3933.6	278.3	36.3	0.9	13.0
Jordan	21.4	15.2	4.3	20.1	28.3	152.6	52.4	21.6	14.2	41.2	157.9	28.2	12.2	7.7	43.3	732.6	144.7	41.3	5.6	28.5
Syria	168.7	58.5	8.5	5.0	14.5	930.0	85.3	46.4	5.0	54.4	212.6	33.3	21.7	10.2	65.2	1685.5	148.3	60.7	3.6	40.9
Iraq	881.9	46.5	10.9	1.2	23.4	7414.0	398.0	66.0	0.9	16.6	450.3	22.9	6.6	1.5	28.8	4203.0	108.0	41.0	1.0	38.0
Total	1677.2	161.2	42.0	2.5	26.1	9900.5	655.8	158.9	1.6	24.2	1754.1	153.8	50.8	2.9	33.0	10554.7	679.3	179.3	1.7	26.4

Source: IMF, Direction of Trade Annual

All these factors contributed to the very weak achievements of ACM as reflected in Table 6.1. The proportional importance of trade between member countries in fact fell. Total inter-exports as a percentage to total world exports of members decreased from 2.5 percent in 1965 to 1.6 percent in 1975, and imports decreased from 2.3 in 1965 to 1.7 in 1975. The total intra-trade percentage within ACM decreased from 2.7 percent in 1965 to 1.6 percent in 1975: at the same time ACM countries trade with the Arab countries decreased in percentage importance from 9.1 percent to 6.5 during the same period (as computed from Table 6.1).

ACM, despite the number of decisions nominally taken and organisational and procedural steps made is: "still a very lame institution of limited coverage".(39) Of the seven member countries, Egypt, Syria, Jordan, Iraq, North Yemen, Moritanya and Sudan, three did not abide by its decisions and monetary administrative restrictions as well as political differences between the member countries destroyed ACM effectiveness.

There are no signs of success to ACM approach, as just referred to and as expressed by Soliman Damir when he said:

> "Generalized trade liberalization (as exemplified in the Arab Common Market) is not the appropriate strategy for Arab regional development. There are too many uncertainties about the benefits of such a scheme to make it workable in the Arab region. For example, the more ambitious aims of the Arab Common Market, such as the free movement of labour and capital, require an agreement on a wide spectrum of political and economic matters. Such an agreement may be difficult to achieve instantaneously."(39)

6.3.3 CAEU and Comprehensive Planning Approach

The limitations of the EEC type trade approach being demonstrated by the ACM, the CAEU launched a new approach derived mainly from COMECON experience.

It is important to note at this stage that the COMECON system

used as a comprehensive planning approach for cooperation has been developed through many and lengthy stages; beginning with bilateral trade agreements, multilateral trade agreement, leading up to coordinating foreign trade plans but leaving each country to organise its own national plan. COMECON lastly approached a stage of coordinated investment plans, intended, theoretically at least, to affect growth rates in favour of least developed among the group.(40) It must also be noted COMECON has also been dominated by one super-power member, whose role in maintaining political and ideological as well as economic cohesion was an integral element in the organisation.

In adopting the COMECON type of comprehensive planning approach CAEU assumed that:(41)

> "International experience shows that cooperation in planning which begins with coordinating country plans is the principal style for creating economic development among developing nations."

Consequently, CAEU issued Decision No. 700 of 4 June 1975 to the effect that:(42)

> "The General Secretariat of the CAEU shall make a developed and gradual programme in collaboration with planning institutions of member countries in order to overcome difficulties and obstacles that accompany experiments. This procedure aims at coordinating Arab development plans to create technical conditions that help in achieving a fairly good standard of coordination among these institutions on the regional level as from 1981."

The General Secretariat produced this programme which was approved by the CAEU in Decision No. 723 dated 4 December 1975. The programme includes, inter alia, regional, sub-regional and country studies, and a follow-up of country plans that came to an end in 1975. The CAEU began to discuss 1976-80 plans, evaluate growth effected in the first half of 1970's, scrutinize the proposed joint ventures, coordinate planning ways and means, construct models for Arab economies and make long-range forecasting.

The last mentioned resolution stipulated that the programme should be achieved at the end of 1980 so that coordination would flower in 1981. The period 1975-80 was to be devoted to the preparation and classification of statistics concerning industry in view to discover the elements of integration therein.(43)

The CAEU aimed at achieving the following objectives in its Five-Year Plan (1976-1980):

1. Lay-out of an Arab plan commencing in 1981.
2. Shifting from Free Trade Area to Customs Union stage.
3. Abolishing handicaps hindering the movement of capital and technical labour.

CAEU proposed other changes in the machinery for the Arab economic integration:

1. Transferring the CAEU into a Council for Arab Economic Integration including all Arab States.
2. Transferring the Arab Fund for Economic and Social development into a Bank for Arab economic integration.
3. Utilising the AMF (Arab Monetary Fund)as the monetary and commercial hand for Arab economic inegration.

Despite, or possibly even because of, CAEU's comprehensive approach its effectiveness has been low, as illustrated below:

1. The trade approach adopted by the Council proved a complete failure for some fundamental reasons. Trade between the Arab countries is a very small proportion of the total trade. Intra-regional trade among them was estimated at about 7 percent of their total trade in 1970 as compared with 50 percent in Western Europe and 30 percent in the European Economic Community. It is only in the case of Syria, Lebanon and Jordan where the share in each other's trade is significant. Furthermore, the ratio of foreign trade to gross national product is very high in most Arab countries (see Table 10.2). Imports in all of them are quite high

in proportion to gross national product whilst only a small fraction of those imports comes from the Arab world.

It seems, therefore, that according to orthodox theory the case for discriminating in favour of the outside world would be much stronger than that for discriminating in favour of the Arab countries. The exports of most of them also form a high proportion of gross national product. Hence abolition of duties and other restrictions on existing intra-regional trade could hardly have a marked effect on the level of economic welfare of the Arab countries. The benefits of customs unions will, according to this theory, be greater for industrialized countries than for less industrialized countries but will increase for the latter as they succeed in developing (see Chapter 11).

2. That success which has been achieved by CAEU has been centred around the initiation of joint projects such as the Arab Mining Company, the Arab Company for the Development of Animal Resources, the Arab Pharmaceutical Industry Company, Arab Company for Industrial Investment, in all of which the AGS have participated. However, although progress with these has varied, in no case have the projects reached the stage at which evaluation is currently possible; they remain unproven in effectiveness.

3. Another weakness of the CAEU appears from a consideration of Maghreb-Mashreq relationships (see also Chapter 10, section 10.5).

Maghreb countries come under the umbrella of the Arab League and have joined several League institutions, including the Organisation of Arab Petroleum Exporting Countries (OAPEC) and the Arab Fund for Economic and Social Development. However, they are not members of the ACM, a position which reflects the fact that trade between Maghreb and Mashreq countries is virtually non-existent.

Maghreb countries early attempted to concentrate on their own Sub-regional cooperative structure and formed a number of relevant

institutions. The body at the head of this structure is the Maghreb Permanent Consultative Committee (MPCC), formed in 1964 by the Ministers of national economy of the Maghreb countries, in order to achieve economic cooperation and coordination. This separatist development was not accidental, as, in explaining the weak economic exchange relations between the Mashreq and the Maghreb, Burhan Dajani emphasised:(44)

(a) Economic cooperation within the framework of the League was started before the Maghreb countries obtained independence and became League members.

(b) Mashreq countries developed inter-relationships during this period from which Maghreb countries were barred by the French and Italian colonial Governments.

(c) The French in particular had long tied their Maghreb colonies' economies firmly to their own, and these links continued under independence.

(d) The Arab countries, like other developing countries, tend to have more intensive economic relationships with the advanced industrial countries than among themselves.

(e) Transport and communication linkages, especially by sea, between Mashreq and Maghreb were and remain under-developed.

4. The Comprehensive Planning Approach: A considerable number of desk studies, based on a COMECON type comprehensive planning approach, have been prepared, but no signs of any coordination between Arab national plans are apparent and the comprehensive plan studies themselves are not clear.(45)

This approach can be expected to fail completely as it is totally premature at the current stage of Arab development and does not consider the prevailing realities, whether political, social or ideological, already illustrated in this thesis. Fundamentally, it has been a blind adoption by the CAEU of the socialist approach, modelled on the Communist

Bloc's COMECON, without realizing the drastic differences between this bloc and the Arab world, between their development priorities, constraints and objectives, as well as the ideological differences. Arab subjective conditions necessary for approaching economic cooperation and integration have not been considered.

5. AGS and the CAEU: Kuwait and UAE are nominal members of the CAEU, but none of the AGS have approved the ACM arrangements. The state of suspicion prevailing in the Arab world, which is particularly clear in the way these countries with rich oil resources suspect that any form of close cooperation would in effect lead to, if not aim at, depriving them of their wealth, this strengthened by the feeling of these 'haves' towards the superiority of many of the 'have-nots' in manpower skills, these together largely explain AGS' negative attitude towards any restrictive integrative form of cooperation within the region. Consequently AGS have not participated actively in the Agreement on Arab Economic Unity.(46)

6. The current state of the CAEU: The CAEU now seems to be approaching break-up. Its last meeting which should have been held in Amman in June 1982 failed to begin due to Syrian-Iraqi political tension over the Gulf War and many officials within the Arab Economic Cooperation circles look despairingly forward to the CAEU's unavoidable fate.

6.3.4 Arab Economic Cooperation - An Over View

Cooperation, as we have seen, has been approached via multiple avenues. Although this may seem to be sensible and appropriate, the distribution of emphasis among these avenues has been largely accidental and haphazard instead of being deliberate in the light of a prioristic perception.(47) When cooperative actions are examined, particularly within the CAEU it appears that they were not based on any deep appreciation of the real facts prevailing in the Arab world, in a way leading to a pragmatic avenue for development cooperation.

Most Arab economic cooperation activities have in fact been achieved without the involvement of the CAEU agreement and related ACM arrangements. For example, whilst the ACM lays great emphasis on the protocols necessary for free mobility of factors of production as well as commodities, such movements have in fact been proceeding without any formality. For instance there has been large-scale labour migration from countries such as Egypt, Syria and Jordan to the rapidly expanding oil economies as Kuwait, S. Arabia and UAE (see Chapter 9), and substantial capital movements have already been sponsored, as noted earlier, by both multi-national bodies such as the AFEASD and national institutions as the Kuwaiti FAED.

In other words, at a pragmatic level some of the key real activities associated with a Common Market have been taking place naturally without requiring the grandiose central planning intervention by a pan-Arab organisation. Where particular interests have appeared worth serving then mutually benefitting cooperation has taken place within different country groups.

Failure on a pan-Arab scale are largely due to political disharmony. This presents a serious problem because it is based on long historic traditions, and the art of living together peacefully takes a long time to acquire. In a group of countries where nationalist policies, as well as a state of continual tension among ruling bodies prevails, it is difficult, realistically, to imagine an integrative comprehensive planning process to have the seeds of successful integration.

This unavoidable political state of affairs which characterizes the Arab world of today, is reinforced by the state of instability which exists to varying different degrees within the Arab countries. Sayegh has expressed the position thus:(48)

> "Syria, Iraq, Sudan and to a lesser extent Jordan and Morocco, have suffered most from instability in the post-war or post-independence period ... In Algeria, Morocco, Tunisia, Sudan, Egypt, Iraq, Syria, Jordan, Libya and all Arab Gulf States to varying degrees, there is very little free political expression and less free opposition."

This state of affairs does not create the healthy atmosphere necessary for securing at the highest decision making level the needed political will towards an integratory movement as this element is a key pre-requisite, not only for integration but also for less-modest cooperation. Integration in this part of the world has tended to be "largely symbolic". There have been countless meetings and conferences, innumerable initiating of treaties, literally hundreds of pronouncements of good intentions and aspirations as well as many other expressions of fidelity to the principles of Arab economic unity. But all this activity has not resulted in the creation of positive contributions to the development of the region. The explanation of this lack of success would seem to lie, among other things, in the nature of the approach, as well as in history and politics.(49)

Among the newly independent Arab countries the desire for mutual cooperation is not deep and their foreign diplomacy is motivated more by political as well as ideological ambition than by long-term interests:(50)

> "Why do the Arabs quarrel so much? Right now Syria is supporting non-Arab Iran in its war with Arab Iraq; Syria and Jordan are growling at each other; Saudi Arabia and Libya do not even talk. Libya's expansionist aims in north-central Africa include doing its best to subvert Arab Tunisia. Algeria and Morocco are at war in the ex-Spanish western Sahara via Algeria's proxy Polisario guerrilas. North and South Yemen hover on the brink of war whenever they are not meeting to discuss their complete and immediate unity."

6.4 Summary and Conclusion

The emergence of the rapidly growing petroleum sector in the AGS and related financial surpluses have been shown to have given development

cooperation within the Regional circle a big push as it has contributed to create a solid and favourable institutional framework for cooperation. OAPEC related joint development projects and joint financial projects(particularly Arab development funds), seem to constitute the two basic elements of this framework.

OAPEC, established in 1968 (after the Six-Day War with Israel in June 1967), began to play its vital role in establishing joint development projects after the 1973 surge in oil prices and related income.

Within the OAPEC framework, in which AGS play a dominant role, important joint ventures have been established, including industrial, services, financial and petroleum related projects. OAPEC's relative success has supported the notion that Regional cooperation processes could succeed in a non-confined geographical area. OAPEC projects can be considered as the most spectacular inter-Arab enterprises, whilst at the same time contributing to the achievements of the diversification strategy adopted by AGS.

Arab and Islamic Development Funds, with the leading role in their creation taken by AGS in general and Kuwait and Saudi Arabia in particular, have been creating a motive force that assists the Arab and Islamic world in achieving the basic tasks needed for economic and social development, mainly through regional projects.

AFEASD and ISDB has sponsored different regional programmes which may become cornerstones and pilot cases for investment cooperation within the region, complementing as they do the OAPEC role which has been centred on petroleum-related development activities. This regional and multi-national direction is exemplified by the AFEASD 'Programme for Identifying and Preparing Inter-country Investment Projects and Related Feasibility Studies', the ISDB 'Trans-Saharan Road' and the development of areas surrounding the Senegal River, the efforts of establishing banking

investment and insurance institutions based on Islamic law practices in addition to the far-ranging development plan being drawn up for the Bank's member countries.

The AGS policy of expanding their financial activities is particularly appropriate in both Sub-regional and Regional contexts. Finance and banking activities form a capital-intensive industry requiring little outside labour and invclving minimal strain on the resource base - it is thus well suited to the Gulf. Moreover, financial policies could, in part, be geared towards developing Arab economies on a complementary and coordinative basis, which could provide the wider context within which Gulf economic self-sufficiency can be envisaged.(51)

Examining recent Arab Economic Cooperation Movement in general, and CAEU and ACM in particular showed drastic limiting factors facing their opportunities to success. These factors have been reflected inamisleading approach as well as economic, social and political reasons. In general, it has been doubtful whether one all-embracing strategy can be formulated for 21 Arab countries, differing in basic factor endowments (as reflected in their productive structure and natural resources), in size and quality of population, as well as in ideology and in political, social and economic regimes, and their respective targets.(52) Consequently much less has been achieved than aimed at or undertaken in agreements and arrangements under Arab League auspices. Political as well as socio-psychological impediments must be added to economic and misconceptions in leading to this end.

The few bright instances of success so far, as in the OAPEC example, have been characterized by partial rather than a comprehensive trade-oriented approach in addition to the large measure of autonomy possessed by the institutions concerned. Their freedom from the cumbersome bureaucracy which distinguishes the Secretariat of the Arab

League is backed up by:

> "The high quality of leadership enjoyed by these institutions, which combines motivation and drive, modern mindedness, innate capability and a broad Arab nationalist horizon."(53)

For successful Arab economic development cooperation, which clearly could be beneficial in depth and potential, there seem to be two contemporary requirements. First an approach based on programmes which are partial rather than comprehensive in their realisation of common interest, as illustrated by OAPEC's signs of success as well as the development of single-sector potential, e.g. the Arab Authority for Agricultural Investment and Development with its basic Sudanese programme. Case study examples of this type of approach are examined further in Chapter 13.

The second requirement is the emergence of a strong and sincere political will to cooperate.

This latter factor, as with the former, clearly cannot merely be examined in a falsely-isolated Arab region, any more than the AGS can be studied with validity purely on Sub-regional terms. In Chapter 7, therefore, we have to expand the scale still further by turning to the International Circle.

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(45) The writer of this thesis participated in the preparation process of the Jordan Five Year Plan (1981-85) and in preliminary background discussions of (some) other Arab national plans; no signs of planning coordination were found.

(46) Despite the participation of Kuwait and UAE in the CAEU agreement, they did not apply ACM regulations and concentrated only on participation in the provision of capital of some proposed Arab joint companies. In this way their attitude is similar to that of any other Arab capital-surplus country.

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CHAPTER 7 - AGS INTERNATIONAL ECONOMIC RELATIONSHIPS' STRUCTURE AND SUB-REGIONAL, REGIONAL AND INTERNATIONAL ECONOMIC RELATIONSHIPS

7.1 Introduction

Earlier analysis of the economic structure of and development trends in the AGS has showed the vital importance of AGS' external relationships. This chapter explores the structure of AGS' sub-regional, regional and international economic relations, beginning by reviewing and analysing AGS international, sub-regional and regional trade relations, and trade and payment systems. The chapter then proceeds to analyse the international economic situation of the AGS as reflected in their balance of payments accounts in order to illustrate structural characteristics such as dependency, income flow, financial surpluses and external investment.

7.2 AGS International Economic Relation's Structure

7.2.1 Foreign Trade

1. Trade Composition:

Exports - AGS exports are heavily dominated by the oil and gas and related industries; the exports of oil, gas and related industries constituted round 97.3% of AGS combined total exports in 1980 distributed between member countries as shown in Table 7.1.

Table 7.1

AGS Oil Exports Comparative Importance (1980)
(in $U.S. millions and percent)

Country	Oil Exports (1)	%	Total Exports (2)	%	(1):(2)
Kuwait	17,924.9	11.8	19,961.4	12.8	89.8
Qatar	5,387.2	3.6	5,671.8	3.7	95.0
Oman	3,280.5	2.2	3,294.1	2.1	99.6
S. Arabia	102,371.7	67.5	102,470.9	65.8	99.9
UAE	19,454.3	12.8	20,737.9	13.3	93.8
Bahrain	3,201.2	2.1	3,607.1	2.3	88.7
Total	151,619.8	100	155,743.2	100	97.3

Source: IMF, IFS Yearbook 1981.
Transferred from Country Currencies into $ U.S. by the author.

The few non-oil exports are composed mainly of agricultural and food items (dried limes, dates, flour) and a limited range of industrial products (aluminium, petrochemical fertilizers, building materials).

Re-exports directed mainly to neighbouring countries, especially in the Indian ocean region include construction and mining machinery and transport equipment. These manufactured goods of foreign origin are of significance in the non-oil export trade of AGS.

Imports - Due to the limited agricultural and industrial base of AGS economies, these countries are highly dependent on imports to satisfy rising local demand for consumer goods as well as intermediate and capital goods. Following sharp increases in petroleum prices and the resulting expansion in public and private sector income and expenditures during the last decade, AGS import demand has surged.

In Kuwait, over the years ended 1977 import payments (F.O.B.) rose nearly five-fold. In terms of relative shares consumer goods imports have continued to dominate the import basket, accounting in 1976 for 41 percent of total imports (c.i.f.) compared to 37 percent and 22 percent, respectively, for intermediate and capital goods.(1)

UAE total imports' value increased also more than five times between 1973 and 1977. While part of this growth was associated with relatively large increases in import unit values, particularly in 1974 and 1975 most of it was attributable to the expansion of import volume.(2)

The economic effects of rapidly rising and large-scale imports are important but this phenomenon also reflects social,psychological as well as economic factors which have geared an almost self-generating increase of imports.

The progressive increase of AGS imports and the forces behind it impede economic development through the following effects:

(a) They reduce the incentives to industrialize or the building up of import substitution projects.

(b) The process tends to direct oil derived revenue to current expenditure to an unbalanced extent compared with investment expenditures.

(c) They create continuous pressures and drains on AGS reserves and economic assets, periodically giving rise to cash-flow problems even in these wealthy countries.

Since the domestic consumption pattern established is one of social preference in favour of foreign products, domestic products' consumption can only be built up by some long-term programme of preference.(3)

The significance of imports in total expenditure emphasises the general dominance of the external sector in the economies of the AGS. Imports as a percentage of aggregate demand in the individual countries, as shown in Table 7.2 are extremely high (see also note in Table 7.2 referring to Bahrain).

2. Trade Balance:

It is noted that all the AGS have achieved trade surplus since the discovery and export of oil, except Bahrain which registered a deficit in 1977. Saudi Arabia is the largest foreign trader among AGS, contributing 66 percent of AGS exports and 54 percent of their imports in 1977, followed by UAE, then Kuwait (Table 7.3).

3. Foreign trade and Dependence of AGS Economies:

Table 7.2 illustrates the high degree of AGS economies dependence on international economic relations as reflected by the following indicators:

- The high foreign trade (imports and exports) proportion of GNP. This percent ranges from 383.3 percent in Bahrain to 91.4 percent in Saudi Arabia.
- A very high ratio of value of exports to GNP, which ranges from 73 percent in Saudi Arabia to 183 percent in Bahrain.

Table 7.2

AGS: Trade as a Percentage of GNP in 1975

	GNP (billions of US $)	Imports value billions US $	Imports percent of GNP	Exports value billions US $	Exports percent of GNP	Imports** as a percentage of aggregate demand	Foreign trade US $ billions	Foreign trade: GNP %
UAE	7.8	2.6	33	6.8	87	72	9.4	120.5
Bahrain*	0.6	1.2	200	1.1	183	171	2.3	383.3
Qatar	2.0	0.41	20	1.8	90	67	2.2	110.5
Kuwait	11.2	2.4	21	9.2	82	55	11.6	103.6
Saudi Arabia	38.3	7.2	19	27.8	73	41	35.0	91.4

* The reason for imports being greater than exports is due to large re-exports. This factor also makes it meaningless to calculate some ratios which are therefore indicated.

** Aggregate demand is GNP minus foreign trade surplus (deficit) calculated as follows: $\frac{\text{Imports}}{\text{GNP}-(\text{Exports}-\text{Imports})}$

Source: EIU, Quarterly Economic Review, Bahrain, Qatar, Oman and the Yemens, Annual Supplement 1980, p. 263.

Table 7.3

AGS Foreign Trade: Country Percentage Importance (1977)
($ million and percent)

Country	Total Exports	%	Total Imports	%	Trade Balance
Saudi Arabia	43,464.9	66.0	14,657.3	54.0	28,807.6
Bahrain	399.2	0.6	1,126.9	4.2	-727.7
UAE	9,525.5	14.4	4,652.4	17.1	4,873.1
Qatar	1,898.5	3.0	1,231.0	4.5	667.5
Kuwait	8,970.3	13.6	4,591.9	17.0	4,378.4
Oman	1,583.9	2.4	874.1	3.2	709.8
	65,842.3	100	27,133.6	100	+38,708.7

Source: Saudi Arabia, Ministry of Planning, Features of Economic Structure and Joint Work Prospects for Arab Peninsula, March 1981, Table no. 2, p. 11, (Arabic).

- Imports as a percentage of aggregate demand ranged from 41 percent in S. Arabia to 171 percent in Bahrain.

7.2.2 AGS Balance of Payments - Main Features

AGS Balance of Payments data base, vital as a basic tool in analysing this group's international economic relations, is generally deficient, qualitatively and quantitatively, and in the case of some countries is extremely poor.

In the UAE, for example, there have not been published any complete official balance of payments statements. The balance of payments estimates which have to be used are those prepared by the IMF and based on incomplete data of varying degrees of reliability. Most of the data in the services and private transfers account are based on very rough estimates and some of the other data are also subject to possibly large margins of error. No attempt has been made to estimate private capital flows separately but the errors and omissions entry is believed to reflect mainly such flows.(4)

Other examples of the deficiency of data include the Government reserve assets of Kuwait as they include an unknown proportion of medium and long-term portfolio and equity investments. Private sector investment income, remittances and capital are still inadequately known.(5)

The same situation tend, in broad terms, to be prevailing in other AGS. The data for some items such as oil sector transactions are considered quite reliable, but even estimates for other items, such as the large volume of unrecorded imports, non-oil income, other services, and workers remittances, (inward in the case of Oman and outward elsewhere), are subject to considerable margins of error.

However, data on AGS balance of payments are believed to be at least broadly representative of actual trends.

The structure of AGS balance of payments reflects the typical characteristics of an oil economy, i.e., a dominance of the oil sector

in financial activities and a limited home production base. The net surplus of the oil sector accrues almost entirely to the public sector in the form of Government oil revenues and is injected into the domestic income stream through Governments' domestic expenditures.

AGS current account has consistently been in surplus in recent years, except for Bahrain and Oman, as oil export earnings have been considerably in excess of current payments by the public and private sectors. Despite a high level of official foreign aid disbursements and a large outflow of private capital, the overall balance of payments has also been in surplus in recent years. The size of the current account surplus increased substantially particularly following the sharp rise in oil prices in the latter part of 1973 and the beginning of 1974(6), and later in 1979.

The large current account surpluses of recent years have been accompanied by substantial foreign aid disbursements and net outflows of capital by both the public and private sectors with the result that the overall balance of payments surplus in the UAE, for example, amounted to less than 40 percent of the combined current account surplus in the 1974-77 period (Dh 68.2 billion or $ 17.3 million).(7)

In Oman the balance of payment has been characterized by a large, although varying trade surplus, but also by large remittances of profits and expatriate workers savings, which have tended to put the current account into deficit. Official capital inflows and net oil-related capital movements have fluctuated considerably, but have generally offset current account developments, while there have been persistently large net unrecorded payments, attributable mainly to private capital outflows. The overall balance (as measured by changes in the banking system's net foreign assets) was persistently in deficit until 1977.

In Bahrain's open economy with imports and exports both substantially exceeding GDP the balance of payments was characterized

by a fairly large trade deficit, attributable to a heavy imbalance in non-oil trade, by a gradually rising current account deficit except for the year 1980. (Appendix Table 1.) The structure of the external accounts changed substantially in 1979, with the current account improving. As net oil exports rose due to price increases, and other exports also turned up, non-oil imports grew only slightly and the trade deficit narrowed.

Services and Private Transfers:

The AGS services' and private transfers' account has been characterized in recent years by deficit, except for Kuwaiti and Bahraini services' accounts (i.e. excluding private transfers).

In Kuwait, the services account has been marked by growing surpluses attributable for the most part to sharply rising income from official and private investments abroad. Although official and private net transfers abroad have been substantial, the current account surpluses have remained large.

In response, the authorities have pursued policies affecting the capital account that have contributed to the international adjustment process. In particular foreign loans and investments by the Government and the Kuwait Fund for Arab Economic Development (KFAED), as well as by the private sector, have been sizeable. Despite these capital outflows large overall external surpluses have been realized in recent years, leading to a substantial increase in net foreign assets of the Government and the Central Bank.(8) (Appendix Table 2.)

Bahrain's identifiable service transactions (Appendix Table 3) consist mainly of airline and port earning and corresponding payments (recorded under Transportation), expenditures by travellers, investment income, diplomatic outlays, and the local expenditures of the Offshore Banking Units (OBU). Total service receipts tripled between 1975 and 1979, with all components growing rapidly, particularly OBU outlays.

It is estimated, largely on the basis of nine-month bank data that earnings continued to rise sharply in 1980. Investment income, reflecting the growth of official reserves and high interest rates abroad, was the chief gainer. Total service payments, which are considerably smaller than earnings, have not grown quite as rapidly.(9)

The above indicators reflect the importance of the services' sector in both Kuwait and Bahrain.

Non-Oil Current Account:

While AGS' general current accounts tended to result in surpluses during recent years (1973-80), the non-oil current accounts have been witnessing continuing growing deficits as reflected in the Appendix Table 4 on Saudi Arabia. This reflects the fact that all positive surpluses achieved in AGS current accounts are due, mainly, to oil sector accounts.

Another important point emerging from Appendix Table 4 relates to the growing importance of investment income, a subject examined further below.

Overall Balance of Payment Account:

The AGS overall balance of payment account has tended towards surplus in most years between 1972-80. This is particularly true of four States, Saudi Arabia, Kuwait, UAE and Qatar.

The overall balance of payments surpluses of these countries have been associated with a growth in their foreign financial assets and investment activities abroad, as discussed further in Chapter 14.

This achievement of overall balance of payments surplus has been part of the related effects of a net surplus of the oil sector which accrues almost entirely to the public sector in the form of Government oil revenues and is injected into the domestic income stream through Government domestic expenditures. Part of the surplus goes to foreign

reserves accounts through the realized overall balance of payments surplus, the other part is recirculated into the world financial markets through investment.

7.2.3 Trade and Payments System

The trade and payments system of the AGS tends to be liberal and characterized by the following:(10)

1. Import licensing is not required in some countries, e.g. S. Arabia, and even when required is given easily, usually for one year for specified items.

2. Most imports are free of duty (mainly food items, raw materials and some equipment), and many others subject to very low duty - 2% to 3%. For example, in Saudi Arabia, 15 percent of all customs items are duty free, 48 percent are subject to 3 percent levy whilst only 1 percent of customs subjected to protective duty of 20 percent.

3. Imports of few items are, however, either completely prohibited, mainly for security and health purposes or subject to higher levies reaching 15%, as for alcoholic drinks in Qatar.

4. Selected protected items are subject to imports duty round 20 percent as in Qatar and Saudi Arabia.

5. Payments for and proceeds from invisibles are not restricted except that payments must not be made to or received from Israel, Rhodesia, or South Africa. Travellers may freely import and export AGS banknotes and coins.

No exchange control requirements are imposed on capital receipts or payments by residents or non-residents, but payments must not be made to or received from Israel, Rhodesia or South Africa.

6. Exchange systems are also liberal, the exchange rate system is pegged to SDR in Saudi Arabia, Qatar, UAE, and Bahrain, the Omani Riyal is pegged to $ US and the Kuwaiti Dinar is pegged to a special international currencies basket.

7.2.4 Financial Impact of Investment Income

An analysis of balance of payments accounts and national budget illustrates a growing importance of investment income as an item effecting the total sources of services' exports in balances of payment as well as the non-oil income in budgets.

In Kuwait investment income is proportionally greatest and constituted 299 percent of non-oil export's income in 1978 and 25 percent of the value of total exports (Table 7.4). This reflects the importance of such services activities in diversifying the sources of non-oil income.

At the same time the investment income contribution to national budgetary income increased from 12.8 percent in 1973 to 16.4 percent in 1978. Its value proportional to non-oil budgetary income increased from 463 percent in 1973 to 757 percent in 1978, non-oil income contribution to total income decreasing slightly from 2.8 percent to 2.16 percent (Table 7.5).

The growing investment income, as for example, in Kuwait, and mainly from foreign sources, must be set in the context of national accounts structures characterized by a high savings ratio, in Kuwait averaging about 77 percent of GNP over the four years ended 1975/76 (Appendix Table 5). Domestic utilization of these savings, i.e. the level of domestic capital formation, is low due to the inadequacy of profitable domestic investment opportunities and the attraction of higher yielding foreign assets. Over the 1972/73-1975/76 period only about 11 percent of total savings was invested domestically.(11)

In Saudi Arabia investment income represented 3,666 percent of non-oil exports in 1975 and 8% of total exports (Table 7.6). The importance of investment income in the Saudi budget grew in relation to total revenues from 2 percent to 8 percent between 1970 and 1975 and from 19% of non-oil revenues in 1970 to 87 percent in 1975, whilst the

Table 7.4

Non-oil Exports and Investment Income: Percentage Importance

	Saudi Arabia 1975 US $ mn.	Bahrain 1980 BD mn.	Qatar 1976 QR mn.	Oman 1978 OR mn.	Kuwait 1978 US $ mn.	UAE 1978 bn. dirhams
1. Exports	26,568	1,445.0	8,730.0	552.0	10,233	38.4
2. Non-oil exports	0,060	210.0	287.0	30.2	845	4.3
3. Oil, gas & related exports	26,508	1,235.0	8,443.0	521.8	9,388	34.1
4. Investment Income	2,200	181.1*	529.0	2.4**	2,529	4.5
Ratio of 2:3	0.226%	17.004%	3.339%	5.787%	9.000%	12.609%
Ratio of 4:2	3666%	86%	184%	8%	299%	104%
Ratio of 4:1	8%	12%	6%	0.4%	25%	12%

* Service receipts, largely investment income.
** Official Investment Income.

Source: IMF Consultations with AGS countries.

Table 7.5

Kuwait Investment Income and Budget Revenues
(in millions of Kuwait dinars)

	1973/74	1975/76	1976/77	1978/79
1. Investment Income	89.0	262.5	329.4	440.0
2. Oil Revenues	584.0	2,234.6	2,598.2	2,186.7
3. Other Revenues	19.2	37.4	58.9	58.1
4. Total	694.1	2,550.2	2,992.1	2,687.7
1:2	15.24%	11.74%	12.68%	20.12%
1:3	463.5%	701.87%	559.25%	757.31%
1:4	12.82%	10.29%	11.00%	16.37%
3:4	2.8%	1.46%	1.97%	2.16%

Source: IMF, Kuwait - Recent Economic Developments, SM/79/57, March 8, 1979.

non-oil revenue contribution to total revenues decreased from 14 percent to 9 percent (Table 7.6).

In UAE, investment income constituted 104 percent of non-oil exports in 1975 and 12 percent of total exports (Table 7.7). In relation to Government revenues, investment income increased from 30 million dirhams in 1972 to 1300 million dirhams in 1977, corresponding to a growing contribution from 1 percent of total revenue of 1972 to 4% in 1977 and from 19 percent of non-oil revenues in 1972 to 73 percent in 1977 (Table 7.7).

In Qatar, investment income corresponded to 184 percent of non-oil exports in 1976 and 6 percent of total exports (Table 7.4).

In Bahrain, investment income corresponded to 86 percent of non-oil exports in 1980 and 12 percent of total exports (Table 7.4).

In Oman a less important role has been played by investment income as it constituted only 8 percent of non-oil exports and 0.4 percent of total exports in 1978 (Table 7.4).

The Circulation of Financial Surpluses:

AGS surpluses in Kuwait, Saudi Arabia, UAE, Qatar have been committed on a continuous basis to grants and investments in Arab and other developing countries as well as to investments in the capital markets of the developed countries. Whilst to a considerable extent this has been conventional overseas aid, there is also a strong investment element:

> "It was hoped that income from such investments would in the long run provide Kuwait and AGS with adequate Government revenue to offset the possible loss of revenue when oil resources are depleted."(12)

More analysis of this issue will be done in Chapter 14.

7.3 National and AGS Trade Patterns within the Sub-region

In this section, the main characteristics of inter-AGS trade are identified, and the relative importance established of intra-Sub-regional,

Table 7.6

Economic Impact of Return on Government Investment: Saudi Arabia

	1970/71	1971/72	1972/73	1973/74	1974/75	Estim. 1975/76
1. Investment income	-	253	440	857	4,207	7,771
2. Oil Revenues	6,827	9,795	13,455	39,267	94,190	86,920
3. Other Revenues	1,127	1,321	1,870	2,438	5,913	8,877
4. Total Revenues	7,954	11,119	15,325	41,705	10,103	95,847
Ratio 1:2		2.57%	3.27%	2.18%	4.46%	8.94%
Ratio 1:3		19.07%	23.52%	35.15%	71.14%	87.54%
Ratio 1:4		2.26%	2.87%	2.05%	4.20%	8.11%
Ratio 3:4	14.17%	11.88%	12.20%	0.59%	5.90%	9.26%

Source : IMF, Saudi Arabia - An Economic and Financial Survey, SM/76/57, March 26, 1976.

Table 7.7

UAE: Investment Income and Budget Income
(in million of dirhams)

	1972	1974	1975	1977
1. External Investment Income	30	400	600	1,300
2. Oil Revenues	2,645	20,132	21,961	30,481
3. Other Revenues	154	772	1,204	1,744
4. Total Revenues	2,829	21,304	23,765	33,555
Ratio 1:2	1.13%	1.98%	2.73%	4.26%
Ratio 1:3	19.48%	51.81%	49.83%	73.28%
Ratio 1:4	1.06%	1.88%	2.52%	3.87%
Ratio 3:4	5.44%	3.62%	5.06%	5.28%

Source: IMF, UAE - Recent Economic Developments, SM/79/16, Jan. 12, 1979.

AGS-Regional and AGS-International trade.

7.3.1 National Trade with the Sub-Region

Kuwait's Trade with AGS:

Kuwait's trade with AGS occupies a very modest place in its total foreign trade. Its exports to AGS constituted only 6.6 percent of its total exports in 1977, however this made Kuwait proportionately the second largest individual AGS exporter to the AGS Sub-region, Bahrain being the first. Kuwait's imports from other AGS represented only 0.4 percent of its overall imports in 1977.

Saudi Arabia received 75.3 percent of Kuwait's exports to AGS in 1977, whilst the UAE received 15.1 percent (Table 7.8). Kuwait imported 57 percent of its AGS imports from Saudi Arabia in 1977 and 23.4 percent from Bahrain (Table 7.9).

Kuwait's trade balance was in surplus with all other AGS and achieved the largest single AGS surplus in inter-Gulf trade in 1977 (Table 7.10). 77.2% of Kuwait's non-oil exports go to AGS, 73.6% of which were re-exported products.(13)

UAE Trade with AGS:

UAE seems to rely almost completely on non-Arab countries for its export markets. For example its exports to other AGS in 1977 constituted only 0.35% of the total with 0.05% to other Arab countries (Table 7.11). UAE imports from AGS represented 5.3 percent of its total imports in 1977 (Table 7.12).

Most of UAE exports to AGS are directed to Oman and Saudi Arabia which received 38.9 and 33.9 percent of UAE exports in 1977 respectively, followed by Qatar with 17 percent and Kuwait with 3.5 percent. 55.6 percent of UAE imports from the AGS came from Saudi Arabia in 1977, followed by Kuwait's 33.7 percent (Table 7.9).

UAE trade with AGS achieved overall surplus in 1977, due mainly to its trade surplus with Oman and Qatar, although a deficit was realized in UAE's trade with the other AGS.

Table 7.8

National Inter-AGS Exports in 1977 as % of Total Inter-AGS Exports

Exports from \ Exports to	Saudi Arabia	Bahrain	UAE	Qatar	Kuwait	Oman	Total	%
1. Saudi Arabia	-	96.6	0.6	0.3	0.8	1.7	100	45.6
2. Bahrain	84.6	-	6.0	3.8	5.5	0.1	100	11.1
3. UAE	33.9	6.6	-	17.1	3.5	38.9	100	15.2
4. Qatar	65.0	17.9	16.4	-	0.7	-	100	0.6
5. Kuwait	75.3	2.7	15.1	6.2	-	0.7	100	27.3
6. Oman	5.0	-	95.0	-	-	-	100	0.2
7. Total	35.5	45.9	5.4	4.8	1.5	6.9	100	100

Source: Derived from Appendix Table 6.

Table 7.9

Inter-Arab Gulf Trade Imports 1977
(in US $ millions and percent)

Importing Country \ Imports from	Saudi Arabia	Bahrain	UAE	Qatar	Kuwait	Oman	Total
1. Saudi Arabia	-	216.0	108.0	9.1	652.4	3.0	988.5
%		22	11	0.9	66	0.1	100
2. Bahrain	8.5	-	21.8	2.6	6.0	1.1	40.0
%	21.3		54.5	6.5	15	2.7	100
3. UAE	134.5	23.5	-	2.3	81.4	-	241.7
%	55.6	9.7		1.0	33.7		100
4. Qatar	5.11	9.1	56.4	-	26.1	-	96.7
%	5.3	9.4	58.3		27		100
5. Kuwait	4.4	1.8	1.1	0.1	-	0.3	7.7
%	57	23.4	14.3	1.3		4	100
6. Oman	-	23.1	128.2	-	3.23	-	154.5
%		14.9	82.9		2.2		100
Total	152.5	273.5	315.5	14.1	769.1	4.4	1,529.1
%	10.0	17.9	20.6	0.9	50.3	0.3	100

Source: Saudi Arabia, Ministry of Planning, Op. cit., p. 16.

Transferred from SR into US $ by the author
Percentages calculated by the author

Table 7.10

Trade Balance between AGS
(US $ million)

1977

Country	Imports from AGS	Exports to AGS	Trade Balance	
			Deficit	Surplus
1. Saudi Arabia	988.6	990.1120968	-	1.5
2. Bahrain	40.0	240.874884	-	200.9
3. UAE	241.7	315.775908	-	74.04
4. Qatar	96.7	14.0155704	82.73	-
5. Kuwait	7.7	592.6259808	-	584.8
6. Oman	154.5	4.1706252	150.4	-
Total	1529.1	2157.5750652	233.17	861.2

Source: Ibid. Table 7, p. 17. In Saudi Rials.

Transferred into US Dollar based on official rates for exports and imports, published in U.N., International Foreign Trade Statistics.

UAE exports to AGS are composed mainly of re-exports.

Qatar's Trade with AGS:

Qatar imported from AGS 7.8 percent of its total imports in 1977, whilst exporting to them only 0.7 percent of its total exports. Qatari exports went mainly to Saudi Arabia which received 65% of its total exports to AGS in 1977; Bahrain took 17.9% and the UAE 16.4%. Qatar imports from AGS came mainly from the UAE and Kuwait which, respectively, contributed 58.3 and 27 percent.

Qatar had trade deficits with UAE, Bahrain and Kuwait but was in surplus with Saudi Arabia in 1977.

Bahrain's Trade with AGS:

Bahrain is notable as having the highest inter-AGS exports in relation to total international exports. Bahrain's exports to AGS corresponded to 60.4 percent of its total world exports in 1977. Bahraini exports went mostly to Saudi Arabia, 84.6% in 1977, followed by UAE, Kuwait and Qatar respectively (Table 7.8).

On the other hand, Bahraini imports from AGS constituted in 1977 only 3.6 percent of its total imports (Table 7.12) of Bahrain's imports from AGS in 1977, 54.5% came from the UAE, 21.3% from Saudi Arabia and 15% from Kuwait (Table 7.9).

Bahrain's overall trade with AGS achieved in 1977 a surplus of over US $ 200 million, but registered deficits with UAE and Oman.

Aside from aluminium exports, mainly to Japan, sales to neighbouring Gulf countries are mainly accounted for by non-oil exports, and, above all, re-exports.

Oman Trade with AGS:

Omani foreign trade with AGS constitutes a small percent of its total international foreign trade. 90% of its exports went to developed market economies in 1977, with 9.4 percent directed to developing countries (Appendix Table 7). Nevertheless, 93% of its non-oil exports was

directed to AGS in 1977 (Appendix Table 8). Omani exports to AGS are composed mainly of asbestos pipes, dried limes and dates, flour and fish.

Oman is the smallest contributer to total inter-Gulf exports, with only 0.2 percent in 1977.

Oman exports were mainly directed in 1977 to the UAE and Saudi Arabia with 95 and 5 percent respectively.

Most of Omani AGS imports came from UAE, followed by Bahrain and Kuwait with 82.9, 14.9, 2.2 percent in 1977 respectively (Table 7.9).

Oman registered a deficit overall in its 1977 trade with other AGS (Table 7.10).

Saudi Arabia Trade with AGS:

Saudi Arabia trade with AGS occupies a limited role in its international trade; its exports to AGS constituted only 2.3% of its total exports in 1977 (Table 7.11) whilst its imports represented 6.8% (Table 7.12).

99.6% of Saudi exports to AGS in 1977 went to Bahrain, and were composed of petroleum.

Saudi Arabia imported from Kuwait 66 percent of its imports from AGS in 1977, 22 percent from Bahrain and 11 percent from UAE.

Saudi Arabia registered a very small surplus in its trade with AGS in 1977, corresponding to some US $ 1.5 million (Table 7.10).

7.3.2 Inter-Gulf Trade

The existing volume of intra-Sub-regional trade is clearly very limited. The total inter-country imports of AGS constituted only 6 percent of total imports, with an additional 5 percent from other Arab countries (Table 7.12).

Oman is the largest AGS intra-regional importer taking 17.7 percent of its total imports from AGS. Qatar follows with 7.9 percent

Table 7.11

Inter-Gulf Exports, Regional and International 1977

(in $ mn and percent)

Country	AGS	%	Other Arab Countries	%	Other Countries	%	Total	%
1. Saudi Arabia	990.1	2.3	697.2	1.6	41777.7	96.1	43464.7	100
2. Bahrain	240.86	60.4	10.5	2.6	147.8	37.0	399.2	100
3. UAE	315.7	0.35	4.4	0.05	9205.3	99.60	9525.5	100
4. Qatar	14.0	0.74	1.1	0.06	1883.4	99.20	1898.5	100
5. Kuwait	592.5	6.6	669.1	7.5	7708.6	85.9	8970.3	100
6. Oman	4.2	0.3	-	0.0	1571.2	99.7	1575.4	100
Total	2157.3	2.9	1382.3	2.1	62294	95.0	65842.2	100

Source: Ibid. Table 3, p. 13.

Computed in $ US by the author

and Saudi Arabia with 6.8 percent (Table 7.12).

Total inter-country exports constituted only 2.9 percent of their total exports in 1977, with a further 2.1 percent to other Arab countries (Table 7.11).

Bahrain, the largest intra-Regional exporter, sent 60.4 of its exports (including re-exports) to the Sub-region (Table 7.11). Other AGS Sub-regional exporters were, in comparison, insignificant: Kuwait 6.6%, Saudi Arabia 2.3%, Qatar 0.7%, UAE and Oman 0.3% (Table 7.11).

Though the data on the detailed composition of intra-Gulf regional trade is scanty, it is clear that most of it consists of re-exports including construction and mining machinery, transport equipment (particularly from UAE with Dubai contributing 94% of UAE re-exports), automobiles and consumer durables.

Domestically originating non-oil exports include the following items: dried limes, asbestos pipes, dates, flour and fish from Oman; aluminium ingots and shrimps from Bahrain; fertilizers, agricultural inputs and handicrafts from Saudi Arabia; fertilizers, building materials and prefabricated houses from Kuwait; and fertilizers and steel from Qatar.

The AGS intra-Sub-regional trade balance indicates that Bahrain, Saudi Arabia, Kuwait and UAE achieved surpluses while Oman and Qatar met deficits in 1977. Kuwait achieved the largest surplus, with US $ 584.8 million. Though Kuwait is the major AGS exporter to the Sub-region, this is almost all of re-exports.

7.4 Summary and Concluding Remarks

The preceding analysis of the structure of and recent developments in AGS foreign trade and balance of payments has shown a high degree of AGS dependency on international economic relationships both in trade and investment. The structure of Sub-regional trade relations has proved to be comparatively very weak and the same has to be said of AGS-Arab

Table 7.12

Inter-Gulf Imports, Regional and International Imports 1977
(in million US $ and percent)

Country	AGS	%	Other Arab Countries	%	Other Countries	%	Total	%
1. Saudi Arabia	988.7	6.8	1114.2	7.6	12554.5	85.6	14657.3	100
2. Bahrain	40.0	3.6	4.9	0.4	1082.0	98.5	1126.9	100
3. UAE	241.7	5.3	56.2	1.1	4354.4	93.6	4652.4	100
4. Qatar	96.7	7.9	27.7	2.2	1106.6	89.9	1231.0	100
5. Kuwait	7.8	0.4	98.0	1.9	4486.1	97.7	4591.9	100
6. Oman	154.6	17.7	2.3	0.3	717.2	82.0	874.1	100
Total	1529.5	6.0	1303.3	5.0	2430.9	89.0	27133.6	100

Source: Ibid. Table 4.
Computed in US $ by the author

trade relations.

The balance of payments accounts are a very clear mirror reflecting the nature of oil-based economies, with a very weak non-oil base as illustrated in the non-oil balance of payments accounts.

AGS trade and payment system is shown to be, in broad terms, liberal with few restrictions, both reflecting and reinforcing the strength of wide-ranging international rather than Sub-regional or Regional linkages.

Inter-Sub-regional trade is very limited; total inter-Sub-regional trade constituted only 3.9 percent of AGS total foreign trade in 1977 (Table 7.13) with 6 percent for imports and 2.9 for exports. Saudi Arabia has the highest value and proportion of Sub-regional trade, 53.7% in 1977, and at the same time 62.5% of total AGS world trade (Table 7.14).

When reviewing Inter-Sub-regional trade developments one can perceive large variations over time, indicative of rather unstable trade relationships. For example, Bahrain imports percentages from Saudi Arabia change from 0.8% in 1970 to 63.4% in 1974, then dropped again to 0.9% in 1978, this the effect in the main of great variation in petroleum imports (Appendix Table 9). However, we also note that Bahraini exports to Saudi Arabia grew from 32.1 of total exports in 1970 to 51.1% in 1977, then dropped to 21.6 in 1978 (Appendix Table 9), a lack of stability resulting from the high proportion of re-exports in Bahrain's export trade and the volatility of Saudi demand for the associated goods.

Similarly, Kuwaiti exports to Saudi decreased from 18.9% in 1978 to 4.4% in 1977 (Appendix Table 10), a variation caused by the same factors as affected Bahrain.(see 14 and 15)

AGS trade within the Arab Region is also proportionately small. Total AGS trade with the rest of the Region in 1977 constituted only 3 percent of their total international trade (Table 7.13) with 5 percent

Table 7.13

Inter-Gulf Trade, Sub-regional, Regional and International (1977)
(in millions $ US and percent)

Country	AGS	%	Other Arab Countries	%	Other Countries	%	Total	%
1. Saudi Arabia	1978.8	3.4	1811.4	3.1	54332.2	93.5	58122.0	100
2. Bahrain	280.86	18.4	15.4	1.0	1229.8	80.6	1526.1	100
3. UAE	557.4	3.9	60.6	0.5	13559.8	95.6	14177.9	100
4. Qatar	110.7	3.5	28.8	1.0	2990.0	95.5	3129.5	100
5. Kuwait	600.3	4.4	767.1	5.7	12194.7	89.9	13562.2	100
6. Oman	158.8	6.5	2.3	0.1	2288.4	93.4	2449.5	100
Total	3686.86	3.9	2685.6	3.0	86594.9	93.1	92975.7	100

Source: Table 7.11 and 7.12

Table 7.14

AGS Sub-regional and International Trade
(in $ US millions and percentage importance)

(1977)

Country	AGS	%	Total World	%
Saudi Arabia	1978.8	53.7	58122.0	62.5
Bahrain	280.9	7.6	1526.1	1.6
UAE	557.4	15.1	14177.9	15.3
Qatar	110.7	3.0	3129.5	3.4
Kuwait	600.3	16.3	13562.2	14.6
Oman	158.8	4.3	2449.5	2.6
Total	3686.9	100	92975.7	100

Source: Derived from Tables 7.11 and 7.12

for imports and 2.1 percent for exports. This situation of very weak inter-Arab trade relations is further examined in Chapter 10.

As regards the international circle linkages of the AGS, the structure of foreign trade clearly reflects the current structure of their economies and their individually perceived development needs. The factors and forces which strengthen current trends and limit the expansion of intra-Sub-regional and Regional trade can be summarised as follows:

1. The availability of foreign exchange through high and continuously rising oil revenues, the limited agricultural and industrial base of AGS economies and thus the high average and marginal propensity to import, the vigorous efforts at economic diversification, social development and industrialization, all these factors can be expected to continue to encourage the growth of AGS imports from developed countries rather than through intra-regional trade. (Appendix Table 11.)

2. The AGS attempts to reorientate their economies towards petrochemical industries and other heavy industries are particularly directed more to world markets than to Sub-regional or Regional ones. This apparent path to the diversification of their economies and reducing dependence on oil imports is in fact leading to continuing heavy reliance of the AGS on international markets. There is little indication that the decrease in mutual economic dependence is about to be reversed; on the contrary current development plans show a marked similarity to each other in terms of priorities for productive investment with each State investing in petrochemicals, fertilisers, etc. (16)

The comparison may be unfair at this stage, but the extent of the undertaking which lies ahead for the Arab Gulf countries in creating an integrated economic unit can be assessed here with reference to the experience of the European Economic Community - where the member States accounted for about 35 percent of each other's trade before the Community's

inception, rising to about 50 percent within five years of the E.E.C.'s inception.(16) This is a rough measure of the degree of difference as indicated by trades between the real economic diversity of Western Europe and the lack of diversity between the AGS today and for years to come.(17)

3. The transit and re-export trade between AGS is expected to diminish as each country develops its ports and transport networks to handle and distribute more and more of its imports and exports.

However, against these trends and influences, the current industrialization cooperation movement leading to the establishment of joint industrial ventures directed to the Gulf as well as to international markets is of some significance. Already, some industrial products are directed mainly to Gulf markets, for example from the Qatari integrated steel complex. Opened in April 1978, with a total production reaching 440,320 tons of steel bars in 1980, exported mostly to Saudi Arabia, UAE and Kuwait,(18) this indicates some movement to increase the role of inter-Gulf trade. This movement, so far, has been slow and quantitatively less significant than increasing dependence on trade outside both Sub-regional and Regional.

> "The many agreements on economic co-operation and co-ordination among the Arab Gulf States, therefore have not succeeded in creating a greater measure of mutual economic dependence but have, rather, been accompanied by decreasing mutual economic dependence."(19)

Compared with the industrial sector, the services sector seems to have special importance in the future of diversification of income sources, mainly in the field of investment activities which have begun to play a clear role in Government external income. Cooperation between the AGS by pooling their financial surpluses and reserves, or part of them, with the strategic objective of economic diversification through financial and other services appears both feasible and viable. More detailed study of this subject is made in Chapter 14.

As a final note in this chapter it is worth emphasising the importance of improving the balance of payments' accounts of AGS, which best could be done in cooperation with IMF. Existing glaring deficiencies in the information at present available to decision-makers can lead to inefficient analysis and proposed policies.

Notes and References

(1) IMF, Kuwait-Recent Economic Developments, SM/79/57, March 8, 1979, p. 56.

(2) IMF, UAE - Recent Economic Developments, SM/79/16, Jan. 12, 1979, p. 46.

(3) Saudi Arabia, Ministry of Planning, Fratures of Economic Structure and Joint Work Prospects for Arab Peninsula, March 1981, (Arabic), pp. 67-68.

(4) IMF, UAE - Recent Economic Developments, Op. cit., p. 49.

(5) IMF, Kuwait - Recent Economic Developments, Op. cit., p. 53.

(6) IMF, UAE, Op. cit., p. 46.

(7) Ibid., pp. 50-51.

(8) IMF, Kuwait, Op. cit., p. 53.

(9) IMF, Bahrain - Recent Economic Developments, SM/81/38, Feb. 17, 1981, p. 46.

(10) From many sources of IMF consultations with AGS.

(11) IMF, Kuwait - Recent Economic Developments, SM/79/57, Feb. 23, 1979, p. 1.

(12) IMF, Kuwait - Staff Report for the 1975 Article VIII Consultation, SM/75/83, April 10, 1975, p. 6.

(13) State of Kuwait, Central Statistical Office, Ministry of Planning, Annual Statistical Abstract, 1978, Edition XV, pp. 292-293.

(14) U.N., International Trade Statistics, 1980.

(15) Ibid.

(16) Niblock, T. "The Prospects for Integration in the Arab Gulf", In, Social and Economic Development in Gulf States, (London: Croom Helm and Centre for Arab Gulf Studies, Exeter, 1980), p. 205.

(17) Ibid., p. 205.

(18) Local sales of Qatari Steel Company accounted for only 9% of total sales and exports in 1980, while AGS share was 79%, with 40% to S. Arabia, 24% to UAE and 13% to Kuwait. Other countries imported Qatari production included Iraq and Jordan. See: State of Qatar, Customs Department, Yearly Bulletin of Imports and Exports for 1980, p. 88.

(19) Niblock, T. Op. cit., p. 204.

PART THREE

MOTIVATION TO TRILATERAL APPROACH TO AGS DEVELOPMENT COOPERATION

CHAPTER 8 - MOTIVATION FOR DEVELOPMENT COOPERATION - THE GENERAL SETTING

8.1 Introduction

McClelland and Hagen, in their in-depth search to find a basic force behind development, came up with one answer: motivation through the 'need-for-achievement'.(1)

In this context Part 3 is devoted to an examination of the motivation for cooperation between AGS through the need for achievement of a joint development strategy in order to serve common objectives. Chapter 8 explores first in a general context the basis for cooperation motivation. Development determinants are used as the main tools of analysis, with some reference to quantitative results of cooperation among developing countries. However, the quantitative gains would not receive the basic attention when analysing the whole subject by this author, as non-measurable and qualitative changes are of special relevance to the achievement of development objectives, especially for AGS, where a high rate of aggregate as well as per capita growth of GDP was achieved during the Seventies (see Part 1 and Chapter 9).

This part of the research is considered as the backbone for the whole coming analysis of a pragmatic approach for the development cooperation of AGS (the Sub-regional circle) and for the case studies on cooperation within the regional circle, mainly on Agriculture , as well as case studies relating to cooperation on 'investment' within the three circles, including the international circle. 'Cooperation' as a term will be used to mean joint action in the Sub-regional group, within the Arab region, or international cooperation relations, that joint action which can be described to be development-oriented and motivated by development considerations and joint objectives.

Thus analysis will be conducted in the light of joint development objectives, that can be served either on Sub-regional, Regional or

International levels. Concentration will be directed mainly to those AGS interests which create a motivation for cooperation within the three circles, Sub-regional, Regional and International. These objectives for AGS will be supposed to be 'the achievement of equitable and secured real growth within the framework of Arab Socio-cultural and ideological construction'.

The term 'cooperation' within the three circles will have the following components:

1. Sub-regional cooperation (include AGS).
2. Regional cooperation (includes mainly the Arab world, but the Islamic and Developing world will be referred to from time to time within the regional framework, however within narrower space).
3. International cooperation (includes the developed world, mainly in the West and Japan, in addition to United Nations).

Although reference to the term 'Cooperation' in this chapter will have the above-mentioned meaning, which is wide enough to include various forms of partnership from adjustment, harmonisation, coordination, association to finally integration; however, chapter 11 will go further towards discussing which form of cooperation is suitable to AGS within the main objective geared towards a sound pragmatic approach for development cooperation.

8.2 AGS Development Determinants and the Need for Cooperation

8.2.1 Cooperation Movement Atmosphere as a motive for Cooperation

Free trade areas, common markets, economic unions, and other types of economic cooperation schemes (see Chapter 11) aroused hope that they would result in rapid economic progress in the countries involved. Despite difficulties encountered and the failure of many schemes to live up to these early expectations, cooperation, or regionalism remained a goal for many developing countries. More recently the formation of the

Caribbean Community and Common Market in 1973, and of the Economic Community of West African States in 1975, in addition to the most recent relevance to our subject is the establishment of the Arab Gulf Cooperation Council (GCC) in 1981, (Chapter 5), the formation of all these more recent schemes reflect the dramatic resurgence of interest in cooperation arrangements.

Various forms of cooperation are seen as ways of stimulating economic growth and development. As a United Nations report has recently stated:(2)

> "Deep and prolonged recession and severe inflationary pressures in the developed market-economy countries, the increase in oil prices, fluctuations in other commodity prices and the consequent financial and balance-of-payments problems, brought about dramatic changes in the world economy. All this gave rise to a greater awareness of the potentialities of collective self-reliance."
>
> "A desire to safeguard past advances and to assure future progress in the face of a very uncertain world economic situation is one very important stimulus to the movement for greater cooperation among developing countries."

The present state and prospects for economic cooperation experiments in the three under-developed continents strongly supports the proposition that such schemes offer one of the very few ways available to the 'Third World' to break the present vicious circle of social backwardness, economic stagnation, and parochial nationalism.(3)

> "Self Reliance and 'Unity' have been the principal rallying cries of the Third World in international bodies in recent years. The obvious policy corollary of these sentiments is regional integration, which has enjoyed renewed enthusiasm among statesmen, bureaucrats, and academics alike."(4)

8.2.2 <u>The AGS Development Movement and the Need for Cooperation</u>

1. Cooperation as a Path for Development:

Conceptual Background - The benefits of economic cooperation cannot be fully appreciated without the understanding of its relevance to the dynamics of development. Although present consideration is related mainly to economies of scale, the issue is more far-reaching. The impact

of cooperation on economies is intricately related to countries' capacities for sustained development.

The development impulse that would result from the impact of Sub-regional cooperation on the AGS economy is, moreover, not limited to inter-industrial relations in the strict sense. It operates at the foundation of the economy in virtually every sector. Thus structural changes in production ought to be paralleled by corresponding changes in trade, transport and other related activities. The lessening of dependence on primary production would have its counterpart in the re-orientation of trade towards closer relationships within the sub-region and a diminished importance of traditional overseas markets: it would likewise call for a restructuring of the transport network which would facilitate intra-sub-regional exhcnages as well as improve the location of economic activities.

A U.N. agency stated it thus:

> "The sum total of these structural changes not only reveals what development is all about but also supplies the motive power for development. Thus, the growth-generating influences of Sub-regional cooperation should not be viewed simply as providing economic activities which would otherwise not occur, but also as providing a framework more conducive to rapid development and less prone to structural imbalances. These imbalances are typical of traditional economies which lack harmonious development of the productive sectors and are burdened with bottle-necks."(5)

2. AGS Development; Constraints, Prospects and Cooperation:

The need for development strategy for non-oil era is one important element. Both optimistic and pessimistic projections which are made of the AGS economies leave absolutely no doubt of the impending end of the petroleum era. As shown in Chapter 1, the life of petroleum for the Sub-region will last some 56 years, ranging from 168 years for Kuwait to 58 years for UAE, 46 years for S. Arabia, while only 12 years in Bahrain and for 22 years in Oman and Qatar, on the basis of 1981 production level and proven reserves (Table 1.7).

During this period the AGS, if they are to establish reasonably prosperous futures for themselves will have to maintain extremely high levels of investment in the productive services sectors, whilst at the same time sustaining large expenditures on training and education; all this in addition to financing consumption expectations for goods and services.

Given the limitations of their resource bases, Governments have come to see diversification largely in terms of investment in:

(a) Capital intensive industries.

(b) Supporting industries.

(c) Infrastructures.

(d) Other income generating services (transport, banking, trade, banking, hotels etc.).

We turn, now, to examine how development determinants play a motivating force for cooperation, with some reference to sectoral needs, and how cooperation could help in tackling structural constraints facing development.

Structural Constraints and Cooperation:

Preceding analyses leads us to conclude that as the process of economic development of AGS has started to move, there have been identified the sectoral structural constraints which need to be tackled to enable these countries to approach comprehensive and profound development. In their drive towards diversification of economic base in preparation for the non-oil era, AGS have found themselves in a critical situation particularly in relation to the following development determinants:

(a) As noted in Chapters 1 and 3, agriculture, which is the normal backbone of economies the world over, is a very small sector in the AGS. Its development potentials and prospects are limited. The pockets of agriculture in Saudi Arabia, Oman and UAE do not even feed the populations, let alone produce raw materials or surplus capital (see Chapter 9 for

detailed analysis).

(b) Weak structural changes despite high GNP growth rates: Whilst a rise in real income per person in the population is often presumed to indicate a rise in per capita productivity, fundamental to real development achievements, the same indicator can not be applied to the AGS. Despite reaching a stage of growing real income per capita, as will be illustrated in Chapter 13, the AGS cannot attribute this to higher per capita productivity, but rather only to transferring the form of natural oil and gas assets into a money asset.

Consequently, the logical process, assumed in economic literature, of raising productivity through improved efficiency or technical progress in the use of economic resources already in hand and from the growing stock of real capital is a missing element in AGS development. It is the making good of this missing element that is necessary to lead to a healthy and meaningful association between growing per capita income and economic advancement in the Sub-region. This in turn requires structural change of a kind, which as will be seen, is best achieved through cooperative action.

(c) The achievement of real growth of national income in the AGS in the foreseeable and more distant future has therefore to be based on, among other things, on four foundations. (6)

(i) Obtaining the optimum rate and terms for converting oil and gas resources to a flow of financial and other real assets at home and/or abroad.

(ii) Obtaining the optimum rate of saving out of current income and of reinvestment of earnings.

(iii) Obtaining the optimum sectoral and geographical allocation of investment which contributes best to growth of the national economies and prevents the erosion of international investments by inflation and/or foreign exchange rates. This question is further discussed in Chapter 14.

(iv) The building up of human capital for the nation.

These four foundations seem to create a strong motive for Sub-regional, Regional and International cooperation, i.e. what is here termed the 'trilateral approach'. This approach is examined in the following chapters, to assess to how this approach could contribute to the achievement of optimum development process.

8.2.3 Low Absorptive Capacity as a Motivation for Cooperation

The recent increases in oil revenues accruing to the major Arab oil producers has created a novel and hitherto scarcely known phenomenon: economic development which could proceed with a virtually unlimited supply of capital. However, the very large financial resources of the Arab Gulf States have not been absorbed domestically for a variety of reasons largely related to a highly skewed resource base (large limited to oil and gas), and sheer smallness of population and physical size. All of these elements together have severely limited the domestic 'Absorptive Capacity' in ways which have proved to be serious constraints on the development of AGS.

The relevance of this low 'absorptive capacity' as a motive for cooperation needs examination in the light of the conceptual meaning of the term and its determination of the growth of the economies of AGS so far, and of the dynamic effects on absorptive capacity of working within larger cooperating areas.

Absorptive Capacity - The Conceptual Framework:

> "Absorptive capacity may then be defined as that amount of investment or that rate of gross domestic investment expressed as a proportion of GNP that can be made at an acceptable rate of return, with the supply of cooperant factors considered as given."(7)

To economists, traditionally, the contraints on absorptive capacity fall into four broad categories: (a) those related to the size of the demand and the markets; (b) impediments due to inadequate infra-

structure and shortage of complementary inputs; (c) planning and implementation inadequacies; and (d) political, institutional and socio-cultural restrictions. For our purposes, the bottle-necks in domestic investment resulting from the very limited AGS natural and human resource base are also regarded as fundamentally important, hence the survey made in Chapter 1 and later references. They form the background to the sections that follow.

This basic concept of absorptive capacity was first developed as an analytical tool appropriate to a generality of poor less developed countries with assumed potentials. Applied to 'mini-economies', such as those of the AGS the concept still remains of some value, especially in the context of scale. Any enlargement of the scale of consideration to include Sub-regional or Regional groups of economies raises other possibilities which, conceptually, can be regarded as one of the rewards of cooperation, collaboration and integration. This is the concept that the absorptive capacity given regional cooperation among the various States of the Sub-region is greater than the sum total of the domestic absorptive capacities of the individual States taken separately and in the absence of regional cooperation.(8) The validity of this claim, in broad terms, will be examined later while examining motives for cooperation within the three circles and the related applied case studies in Chapter 14.

One important aspect of the limits on absorptive capacity in individual AGS has been the direction of a large part of their monetary investment to the global scene, outside the Sub-region and Region. Cooperation within the Sub-region and/or Region can create the opportunities to rechannel at least a part of these investments. The creation within the Sub-region and Region of such wider opportunities also implies the creation of wider markets which are well known to affect positively the absorptive capacity of an economy and to increase

the quantitative, as well as qualitative potentials for development achievements. A bigger market could afford ampler opportunities for diversification and specialization with regard not only to industry, but also to agrarian and financial sectors, as well as enabling the creation of reciprocal trade which could enable each country to get some of the commodities it requires for its growth purposes at a high rate of productivity.(9)

Absorptive capacity is a very important determinant of AGS development. It has an effect on oil production policies, which take into consideration the absorptive capacity of their economies, Nationally, Subregionally, Regionally and Internationally. In affecting oil production policies, absorptive capacity affects, thereafter the extent of revenues achieved and surpluses derived from the total expenditure process, thus widening the circle of movement with which AGS can achieve optimum investment within all the above-mentioned circles. Ultimately, absorptive capacity, in the broader sense, seems very strongly to determine the extent and limits of economic diversification in the long-term strategy for the post-oil era Nationally, Sub-regionally, Regionally and Internationally.

In the AGS the oil revenue revolution which commenced in 1973 illustrates vividly the limits of absorptive capacities within national economic borders, and which resulted in the search for wider areas for investment of financial surpluses.

In Saudi Arabia, for example, oil production rose by about 12 percent from 1973 to 1974, while revenues went up 420 percent. The country was unable to absorb half this revenue. By mid-1975 international currency reserves had accumulated to over $ 20 billion, 31 times the 1970 level.(10)

In Qatar, throughout the 1970's, budgeted allocations consistently exceeded developmental expenditures. The recent increased commitment

to development is adequately reflected in expenditure data. However, the capacity to implement development programmes has not kept pace either with existing programmes or with increased revenues of the Government.(11) The same situation prevailed in the Sub-region as a whole as noted in Chapter 4.

AGS national economies are not expected to grow enough during the 1980's to absorb its oil revenues domestically. In the UAE, for example, 1977 forecasts showed the UAE's annual Government spending at about $ 6 billion in 1980 and $ 7 billion in 1985, while the oil revenues were projected to be about $ 8 billion during both years.(12) The same estimates projected that imports would increase from about $ 1 billion in 1975 to $ 2.1 billion in 1980 and $ 3.2 billion in 1985. Given the projected oil revenues the UAE was inevitably heading towards large annual surpluses in its balance of trade and cumulative financial surpluses.(13)

The strength of the constraint in finding domestic investment outlets is emphasised further if we expand the simple phrase 'shortage of complementary inputs' to cover the question of the very severely limited domestic physical resource base, as surveyed in Chapter 1. At the same time there is an urge to find remunerative outlets for the surpluses. All of this reinforces the positive relationship between absorptive capacity and the possibilities offered by cooperation. The realisation of low national absorptive capacity is becoming a vital motive to AGS cooperation within the Three Circles.

8.2.4 Development Strategy Variables and Cooperation

The outline of a development strategy for Kuwait drawn up by Biblawi and Shafey(14) seems to apply, with some modification, to the AGS collectively and the modified outline presented in Table 8.1 is used as the basis for further discussion. It refers to the main objectives of AGS development in its Sub-regional, Regional and International

context, resources, constraints and side effects.

Table 8.1

AGS Development Strategy Variables within Sub-regional, Regional and International Contexts

Objectives	:	Secured and equitable growth of real national income, within the framework of socio-cultural and ideological structures of AGS societies, extending into the post-oil era.
Domestic Resources	:	1. Natural Resources: Mineral (Petroleum, Gas) Agriculture (Planting, livestock, fisheries) Geographical location
		2. Human Resources
		3. Fixed Capital Assets: Infrastructure Productive capacity Claims on foreign assets
		4. Liquid Capital Resources
Constraints	:	1. National: Conservation of oil and gas Market size and absorptive capacity for national investment Population size and composition Paucity of managerial, professional and labour skills Paucity of raw materials
		2. Sub-regional: Gulf Security - Identity
		3. Regional: Arab Regional Needs
		4. International: Energy need of the outside world Stabilization of international financial systems International "political absorptive capacity" of investment
		5. Other: Various types of risks and uncertainties
Side Effects	:	1. Strains on domestic and social fabric
		2. World inflation, terms of trade and domestic inflation
		3. Attitudes towards work in rentier societies

The assessment of development resources and potentials, the evaluation of current conditions, the prospects for growth and the

obstacles to development as illustrated all over Part 1's four chapters lead to the following conclusions in relation to cooperation:

- The narrow 'window' (to borrow a space-age term) for the achievement of development objectives on national bases, given a natural resource endowments, rich in oil and gas, but very poor in other natural as well as human resources. In addition, a large number of powerful constraints relating to market size, population numbers and composition, and paucity of managerial, entrepreneurial and professional labour forces.
- A less narrow window for the achievement of development objectives within the Sub-region, if resources are pooled and constraints of markets and managerial capacity are lessened.
- A still wider and more vital opportunity window for development within the Arab Regional framework, with larger resources and potentialities, particularly for agriculture (see Chapters 9 and 13). as well as reducing the depth of constraints relating to markets, population and managerial capacity and absorptive capacity for investment.

Even more promising development achievements seem to be available within the International circle given the above-mentioned determinants. This circle is examined in Chapters 10 and 14.

8.2.5 Economies of Scale and Cooperation

Economies of scale are by no means limited to manufacturing industries; they extend to every branch of activity. Thus, in a relatively small economy it is uneconomic to construct a large hydro-electric plant because there are not enough users to absorb the power generated; it is not economic to engage in every aspect of agricultural research because there are not enough research workers to go round; it is uneconomic to train skilled workers of every kind because the numbers required of workers possessing a particular skill (for example system analysis) may be very small; it is uneconomic to provide every type of specialized medical facility (for example, for the treatment of

cancer) if the incidence of the disease among a small population is low. Examples of the wastefulness of attempting to ignore such diseconomies of scale abound in the Gulf area and some have already been noted e.g. the Sub-regional fisheries training centre at Kuwait (Chapter 5).

We will, however, commence with a consideration of some examples of manufacturing industries as industrial development has been the main motivating force behind most of the recent cooperation schemes.

8.2.6 Industrialization and Cooperation

The AGS have been establishing many industries, either of the import substitution type, or export oriented as analysed in Chapters 2 and 4. There are two important considerations to be taken here. First, manufacturing industry is everywhere still in the infant stage of its development despite the large capital inputs. This is reflected in various indicators to the manufacturing industry contribution to the national economy, as for example, that of Kuwait, the Gulf State in which industrialization has the longest history.

In terms of the degree of industrialization (defined as the percentage ratio of value-added in manufacturing to value-added in commodity sectors other than construction, commerce, transportation, and Government services), Kuwait's score of 6% in the early seventies was essentially 'pre-industrial'. Kuwait in the mid-seventies was still in the same stage - still short of its planned 8% target, and still way behind the 20% threshold of the stage of industrializing countries.(15)

Kuwait's petrochemicals occupied central importance, contributing 70% of value-added in manufacturing in the mid-seventies. Other branches were food and beverages 5%, wood products 4%, non-ferrous mineral products 5%, fabricated metal 6% and other industries 10%. Manufactured products accounted for over 70% of Kuwait's imports, and only around 8% of its (mainly Arab-region-oriented) total exports. Inter-industry transactions and linkages are relatively limited. The

manufacturing sector accounted for little more than 5% of total employment in the mid-seventies - over 90% of which were non-Kuwaitis.(16)

Secondly, industrialization is not merely the setting up of industrial plants. The industrial plants must be capable over time of recovering their costs of capital expenditure, plus a yield (in terms of commercial profits and/or other social benefits), otherwise instead of generating wealth they bleed the economy in a way which can in the long run destroy the whole complexes being installed.(17) The question of matching markets, either Sub-regional, Regional or International of sizes appropriate to the capacities installed, in addition to the efficient use of science and technology to assure continuous advances in the industrial movement are of direct relevance to this issue.

The growing appreciation of the extent and kind of problems impeding industrial development in the AGS contributes to the creation of an atmosphere favouring development cooperation. The main impediments which were analysed in some detail in Chapters 2 and 4 includes the paucity of raw materials, other than petroleum and natural gas, the relative lack of industrial skills and/or appetite for industrial employment among Kuwaitis and other AGS citizens; the relative narrowness of the national domestic markets in view of the small populations; and shortages of industrial know-how and skills in the identification, design and approaisal of projects.

In studying the future of Kuwaiti industry, its development, and the justification for support and connection with the Arab Common Market (ACM) the relevant Committee in 1979 concluded that:

> "Two facts are controlling the course of industrial development in Kuwait that urge the need to institutional reform efforts, these are: First, the technological, marketing and administrative know-how in the requisite quantities are available only from abroad. Second, there is the dilemma of an active Government role in a private enterprise environment. There is thus a need for greater classification of the respective role of the public, private and mixed sectors."(18)

> "In the absence of these two types of institutional reforms industrialization efforts in Kuwait would falter on account of insufficient or contradictory signals." (18)

The first needed institutional reform necessitates cooperation to meet marketing, building the administrative know-how and technological advancement. The author of this thesis thinks that the same situation is applicable within the Sub-region with different degrees and priorities.

Industrialization in Kuwait has really two facets: domestic facet concerned with industry within the national economy and the second facet is an external one in the form of joint ventures within the Sub-region or in the Arab Region in general, and the less developed world at large, in addition to some joint projects within the international circle.

The external facet expands the domestic absorptive capacity insofar as it opens up a broad secure linkage possibility for home-based Kuwaiti industry. This can take the form of backward linkage; e.g. agricultural and other raw materials. It can also take the form of forward linkages, e.g. subsequent stages in processing (for petrochemicals, steel etc.) and in assembly (possibly in some branches of engineering and in prefabricated construction projects abroad supplied by Kuwaiti Cement projects etc.).(19)

It must be emphasized that cooperation is essential, not only as a means for securing access to the wider regional market for the growing petrochemical industries, but also as a vehicle for coordination and harmonization of the oil producer's plans for the development of petrochemicals and other energy and capital-intensive industries, thus preventing duplication, waste, and harmful competition.

The general argument shows that an increase in the aggregate volume of production of anything will generally increase the size, and

therefore the internal economies possessed by such a representative firm; that it will always increase the external economies to which the firm has access; and thus will enable it to manufacture at a less proportionate cost of labour and sacrifice than before.(20)

Important economies of scale in production costs seem to prevail, not only in the more capital-intensive producer goods industries, such as chemicals and steel, but also in consumer-oriented industries such as textiles. Studies have shown, as illustrated in Tables 8.2 and 8.3, that economies in unit production costs vary from a maximum of about 56 percent for ethylene and isopropyl-alcohol, to a minimum of 20 percent for the spinning of coarse cloth in textiles. The highest economies are in a group of chemical products: ethylene, isopropyl-alcohol, PVC, carbon black, amonium nitrate and butane, all with economies greater than 40 percent. Cement and steel have economies of 46 percent and 40 percent respectively.(21)

If economies of scale in manufacturing are as widespread as seems to be the case then it could be expected that plants based on similar technologies for a given industry will tend to be of similar size in different countries.(22) It follows that if technical factors influence the size of typical or average plant, then the size of the market will influence the number of plants. As the developing markets tend to be small, this situation has important implications in relation to their industrial development. Consequently, given the existence of economies of scale, countries with large markets will be in an advantageous position in these lines of production requiring a minimum size of plant which is well above the market size of small countries.

Dynamic changes in scale economies arise as a result of past experience. Increasing the efficiency of both labour and management through gained experience gained over time is well known, and forms the basis for infant industries' justifiable requirement of tariff

Table 8.2

Economies of Scale in Production Cost in Selected Manufacturing Industries (Pre-investment or Engineering Data)

Product, capacity and cost	Unit	Variation in capacity and production cost				Maximum decrease in production costs (%)	Scale factor(s)
Alumina							
Capacity	Thousands of tons per year	60	100	165	330		
Cost per ton	1965 US dollars	82.30	73.45	67.45	59.00	28	0.804
Acetylene (from natural gas)							
Capacity	Thousands of tons per year	13.6	27.2	45			
Cost per ton	1960 US dollars	465	376	320		31	0.688
Ammonium nitrate							
Capacity	Thousands of tons per year	50	100	150	300		
Cost per ton	1957 US dollars	190.4	145.1	125.6	101.5	46	0.649
Beer glass bottles							
Capacity	Number of moulding machines	1	2	6	12		
Cost per ton	1957 US dollars	8.51	7.25	6.13	5.69	33	0.695
Butadiene							
Capacity	Thousands of tons per year	10	20	40			
Cost per ton	1960 US dollars	600	450	337.5		44	0.585
Carbon Black							
Capacity	Thousands of tons per year	10	25	50			
Cost per ton	1960 US dollars	300	208	160		47	0.610
Cement							
Capacity	Thousands of tons per year	100	450	900	1,800		
Cost per ton	1959 US dollars	26	19.8	16.4	13.9	46	0.517
Ethylene (from gasoline)							
Capacity	Thousands of tons per year	10	20	60			
Cost per ton	1960 US dollars	570	413	250		56	0.540
Isopropyl-Alcohol							
Capacity	Thousands of tons per year	6	12	30			
Cost per ton	1960 US dollars	242	167	107		56	0.493
Polyethylene (high pressure)							
Capacity	Thousands of tons per year	8.13	12	24			
	1960 US dollars	492	417	383		22	0.770
Polyvinyl chloride (P.V.C.)							
Capacity	Thousands of tons per year	6	20	40			
Cost per ton	1960 US dollars	285	170	129		55	0.529
Steel (rolled products)							
Capacity	Thousands of tons per year	50	100	200	300		
Cost per ton	1966 US dollars	162.6	130	103.3	97	40	0.711
Styrene							
Capacity	Thousands of tons per year	10	25	70			
Cost per ton	1960 US dollars	280	224	177		37	0.764
Cotton textiles (Coarse cloth, spinning)							
Capacity	Number of spindles/loom	2,000/90	6,000/270	10,000/450	18,500/830		
Cost per unit	Index	100	83	81	80	20	0.891
Cotton Textiles (Fine cloth, spinning)							
Capacity	Number of spindles/looms	2,000/43	6,000/130	10,000/214	18,500/396		
Cost per unit	Index	100	69	64	60	40	0.759

Tietal, S. 'Economics of Scale and Size of Plant'. In, The Journal of Common Market Studies, Vol. xiii, No. 1 and 2, 1975, Table no. 1, p. 98.

Table 8.3

Relationship between Production Cost and Scale of Output in Selected Industries

Item	Unit	Production capacity and cost			
Steel					
Capacity	Thousands of tons per year	50	250	500	1,000
Cost per ton	1948 dollars	209.4	158.8	137.5	127.2
Cement					
Capacity	Thousands of tons per year	100	450	900	1,800
Cost per ton	1959 dollars	26.0	19.8	16.4	13.9
Ammonium nitrate					
Capacity	Short tons per day	50	100	150	300
Cost per ton	1957 dollars	190.4	145.1	125.6	101.5
Beer bottles					
Capacity	Number of moulding machines	1	2	6	12
Cost per gross	1957 dollars	8.51	7.25	6.13	5.69
Glass containers					
Capacity	Number of moulding machines	1	2	6	12
Cost per gross	1957 dollars	8.66	7.77	6.78	6.33
Radial ball-bearings					
Capacity	Production index (1961=1)	1	2	3	
Cost per thousand	1961 dollars	220.6	185.5	174.4	
Tar					
Capacity	Tons per day	100	200	300	400
Cost per ton	1961 dollars	29.0	26.5	25.4	24.6

Continued ...

Table 8.3 (continued)

Item	Unit	Production capacity and cost			
Benzol					
Capacity	Tons per day	50	100	200	300
Cost per ton	1961 dollars	80.7	74.9	71.6	70.2
Aluminium plate					
Capacity	Tons per year	200	1,200	3,000	5,000
Cost per ton	1960 dollars	772.5	759.7	751.0	735.4

Source: Industrialization and Productivity Bulletin, No. 8 (United Nations publication, Sales No.: 64.II.B.6), p. 55.

protection during early periods of growth. From the point of view of dynamic scale economies (the learning by doing type) the country with the largest accumulated experience in production will be the most efficient, and thus enjoy superior technology.

From all the above-mentioned illustrations we see that developing countries apparently have good reason to pool their markets to face the challenge of economies of scale in industrial production and of size-biassed technical change (see Chapter 9, section 9.4).

The alternative is of course for individual countries to expand their markets through exports, and some small economies such as Hong Kong or Taiwan have been successful in this. However, given the other factors affecting the nature of industrialisation in the AGS, in particular the balance of domestic inputs available, the commodities which AGS industries have for export are mainly not consumer goods but semi-processed or processed materials destined for other industries e.g. basic chemicals rather than finished pharmaceuticals. There then appears a need for integrated and specialised marketing organisation to deal with specialised market outlets more limited in number and often more demanding than the mass-markets for consumer goods. If therefore all the AGS which individually export-orientate their manufacturing industries in order to find wider markets were to act collectively through coooperation, their chances of success could be increased.(23)

Such a move is also relevant to the AGS desire to build up those many industries, such as iron and steel, certain basic chemicals and engineering industries (e.g. automobiles), known to require high minimum scales of production for efficient operation, because they are strategically necessary to future industrial development. It is these industrialising industries which are generally regarded as vital to provide the economy with the necessary dynanism through their high growth potentials as the economy grows, and through the stimulating impact on the rest of the

economy through linkage effects.

In addition to export orientation import substitution is also seen as a method of deepening internal demand structures by providing employment to local labour and investment opportunities to local entrepreneurs. However, AGS economies are individually so small that the narrowness of the market prevents the establishment of large-scale plants and inhibits the possibility of effective competition with imports. The institution of cooperation systems with larger domestic markets is seen by many economists as making the strategy of import substitution industrialization a viable solution to the pressures for change.

8.2.7 Technology as a Motive for Cooperation

Many recent theories including those associated with the growth pole concept have led to the argument that since there is often a direct relationship between the size of a firm and its outlay on research and development that inducing the growth of industrial organisations improves their capability for R. & D. and therefore for technological progress. The full use of the benefits of economies of scale could accelerate technological advance and thus lead to higher rates of economic growth. In the Gulf area such a development is urgently needed.

Regional and international cooperation would seem to benefit the development and transfer of technological know-how in the petrochemical industry and other activities, raising the question of the feasibility of pooling research and technology transfers. This issue is examined further and more appropriately within the context of the International circle in Chapter 10 because in petrochemicals and associated fields in particular it has to be recognised that operating on anything less than a world-scale of technology and expertise is invalid today. The technological interdependence of even the USA, Western Europe and the

USSR, as has appeared over the building of Russian gas pipe-lines, is evidence of this.

8.3 Political and Security Considerations Motivation for Development Cooperation

AGS, which is living, figuratively, both with a dream and a nightmare. The dream is of emergence as a huge political power backed by the comparatively huge and growing petroleum reserves and production capacities that seem to affect the whole international economic order and development and stability, this a translation of the fact that they are important owners of the best ever known strategic product in recent history, with Saudi Arabia being the largest oil exporter in the world (17.6% of world oil production and 25% of oil reserves as reflected in Table 1.7, Chapter 1). The dream also relates to the growing financial force of the AGS, reflected in their huge investments and financial placements as well as their ranking among the leaders in assistance to the Third World, with Saudi Arabia as the world's second largest aid donor after U.S.(24)

The nightmare seems to be planted in AGS minds by a consciousness of their own weaknesses. Their individually small populations together did not exceed 11.7 million in 1978 (less than Iraq's population of 12 million) a fact which has led Saudi Arabia to refuse to disclose population census results and discouraged Oman and Qatar from having censuses. The realisation of the depletion of oil resources, the muscle behind all development achievement, the dangerous weakness in their own military and security capacities, is accompanied by fear of growing competing interests of the superpowers illustrated by the Soviet invasion of Afghanistan and the U.S. military presence in the Indian Ocean. All these nightmare weaknesses led Ghassan Salameh to describe, rightly, Saudi Arabia 'as a giant with feet of clay'.(25)

In such a state of affairs, cooperation among these six countries

with generally homogeneous economic as well as political systems, is seen as a means by which they hope to lessen gradually the strength of the nightmare. There is also a growing faith in the effects of cooperating in directing their oil-based development and the derived investment activities in secure real growth, which considers both the needs of their own, regional and world economy at the same time.

8.4 Benefits of Cooperation - Some Quantitative Illustrations

These attitudes to and perceptions of the benefits of cooperation have also been strengthened by regional cooperation efforts elsewhere in the world.

Despite the fact that not all the ramifications of economic cooperation lend themselves to quantitative appraisal, and many difficulties face attempts to project macro-economic variables derived from cooperation effects on development, there do now exist some quantitative indications of the expected cooperation effects on development.

One relevant study was made by an East African team of experts who, in 1971, compared two sets of macro-economic projections for that Sub-region which included eight countries.(26) Projections were made for two situations, first that in which there is cooperation and another where there is none.

The analysis was described as being:

> "Of a preliminary nature and is based on a number of simplifying assumptions. The calculations depend crucially on the allocation of the multinational industries among the countries of the Sub-region."(27)

The following projections are derived from Appendix Tables 12 and 13.

1. With economic cooperation, the projected output of secondary sector (industry) by 1980 would increase by 34 percent over the expected level without cooperation for the eight African countries, distributed as

follows:

Ethiopia 17%, Kenya 45%, Madagascar 22%, Malawi 118%, Somalia 70%, Uganda 36%, Tanzania 64%, Zambia 30%

2. Per capita GDP would rise with cooperation in 1980 by 27% more than without cooperation by 1980:

Ethiopia 10.4%, Kenya 8.3%, Madagascar 13.3%, Malawi 63.9%, Somalia 40.3%, Uganda 21.8%, Tanzania 37.0%, Zambia 49.3%

3. The projected per capita GDP growth rate would increase in the case of cooperation over the period 1970-1980 reaching 4.4 percent in comparison with 1.9 percent in the case of nil cooperation. This would give an increase in the growth rate of per capita GDP of 131.5 percent given cooperation.(28) (Appendix Table 14.)

The U.N. team obtained the same results from their projections of sectoral growth, marginal propensity to save and investment growth rates. In all analyses the probability of Sub-regional cooperation yielding significantly better returns than the nil-cooperation case was very strong (see Appendix Tables 15 and 16).

From this summary of the quantifiable projected results of East African Sub-regional economic cooperation some particular points emerge.

First, the qualitative and/or less directly measurable effects expected from cooperation were not projected in the East African case but for the purposes of this study of the AGS they are regarded as vital, as noted in Chapters 4 and 5 (see also Chapter 12.)

Secondly, although the approach adopted in the East African case may be applicable in general terms to the AGS Sub-region, we have to extend consideration to the wider Arab region in order to find real relevance. This is because of the enormous differences between the East African and the AGS Sub-regions in scale and quality of resource base, economic structure, population, income levels and development

priorities. For example, the proposed East African programme included many engineering industries such as vehicle, trailer and tractor manufacturing which in the Arab world could be appropriate or justified only on an Arab market basis as will be highlighted in Chapter 9.

Thirdly, we have to accept the fact that it is not possible to prove by the quantitative measuring of East African development achievements during the 1970's whether the U.N. projections of the results of cooperation were actually valid. Political instability, particularly in Uganda, had wide-ranging repercussions on all the countries in East Africa. What can be claimed, however, that the adverse effect of non-cooperation appeared clearly enough. It might also be held that if the programme for cooperation had included more foundation building of a qualitative kind and been less concentrated on the mechanics of production the ties between the East African countries might have grown more strongly, if slowly, and the adverse effects of local instabilities might have been lessened.

8.5 Summary and Conclusions

The preceding analysis of determinants, constraints and opportunities can be summarised and concluded as follows.

1. Whilst capital availability is the main positive determinant in AGS, their development processes are negatively affected by many other determinants which do not appear as critical in most other developing countries. The weakness of the resource base absolutely as well as in relation to demand, the extremely limited agricultural potential and the smallness of markets, all appear here as in earlier discussions as critical constraints.

However, the growing, if incomplete, appreciation of these constraints on AGS economies, particularly as they affect Sub-regional absorptive capacity and related potentialities for economic diversification

is tending to stimulate a movement towards wider circles of cooperation.

2. Economic considerations particularly relevant to industrialization and problems of economies of scale can be proved through empirical evidence to be of critical significance to the industrialization process. At the same time analysis of AGS industrial structure has shown the vital need for technological and management build-up. This latter appears clearly achievable only through wider circles than that of the AGS. Problems of economies of scale are by no means limited to manufacturing industry and are of special relevance to infra-structural projects (e.g. research and training). This supports the conclusions reached at the end of Part One of the need to direct special attention to AGS infrastructural and qualitative development activities but now to extend this to indicate the need here also for a wider than Sub-regional scale through a cooperative approach.

All economic considerations tend to confirm the rationality of the motivation to pool AGS development efforts within cooperative frameworks aiming at achieving optimum benefits from the three circles, Sub-regional, Regional and International.

3. The psychological effect on the AGS of a fear of socio-political weakness underlying financial strength, the concept of being 'the giant with legs of clay' given the current political and security serious dangers affecting the Middle East, tend to support strongly economic influences which favour a growing motivation to cooperation within a broader context than merely the Gulf Sub-region.

This particular theme is examined with some further detail in Chapters 9 and 10.

Notes and References

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(2) Renninger, J.P. National Cooperation for Development in West Africa (U.S.A.: Pergman Policy Studies - UNITAR, 1979), p. 18.

(3) Economic Cooperation in Latin America, Africa, Asia: A Handbook of Documents, edited by Miguels Wionczek (London: The M.I.T. Press, Massachusetts, Institute of Technology, Cambridge, 1969), p. 29.

(4) Ravenhill, J. 'Regional Integration and Development in Africa: Lessons from the East African Community', The Journal of Commonwealth and Comparative Relations Politics, Vol. xvii, Nov. 1979, No. 3, London: Frank Cass & Company Ltd.

(5) U.N., 'Development Implications of Cooperation', Cooperation for Economic Development of Eastern Africa, Report of the Eastern African Team, Part 3, ST/ECA/140, part III, New York, 1971.

(6) These four foundations were identified in relation to Kuwait. In view of the author of this thesis they are relevant to AGS as a whole. See also:
El-Beblawi, H. and Shafey, E. Strategic Options of Development for Kuwait, The Industrial Bank of Kuwait, The IBK Papers, Series no. 1, July 1980, p. 15.

(7) Adler, J.A. Absorptive Capacity: The Concept and its Determinants (Washington D.C.: The Brookings Institution, 1965).

(8) Kadim, M. and Poulson, B. 'Absorptive Capacity, Regional Cooperation and Industrialization in the Arab States of the Gulf', The Journal of Energy and Development, University of Colorado, Spring 1976, U.S.

(9) Sayegh, K.S. Oil and Arab Regional Development, (New York: Frederick A. Praeger Publishers, 1968) p. 258.

(10) Abolfathi, F., Kenon, G., Hayes, M.D., Hazlewood, L.A. and Crain, R. The Opec Market to 1985, (Canada: Lexington Books, 1977) p. 240.

(11) Ibid., p. 227.

(12) Ibid., p. 288.

(13) Ibid., p. 284.

(14) El-Beblawi, H. and Shafey, E. Op. cit.

(15) Shafey, E. 'Manufacturing Industry in the Arab World: Evaluation of Structure and Targets', The Journal of Social Sciences, Vol. vi, no. 1, April 1980 (Arabic).

(16) Hershlag, Z.Y. 'Industrialization in Arab Countries Patterns, Options and Strategies', In, Arab Industrialization and Economic Integration, edited by Roberto Aliboni (London: Croom Helm, 1979), p. 37.

(17) The author of this thesis has become personally strongly aware during his period in the U.K., coinciding with the economic recession which has built up since 1979, of the relevance of some recent and current trends in Britain and the industrialised West to industrialisation planning in the AGS. The particular trends noted here are those in manufacturing output and employment. In Britain manufacturing output switched from an annual growth rate of 1% early in 1979 to a negative rate of almost 11% during the 1981 traugh and is still falling at over 1% per annum during 1982. Over the same period unemployment rose from 1.3 million to over 3 million. An example of one particular industry's fate, that of I.C.I., is particularly relevant to the AGS. The number of payroll workers fell from 89,300 in 1979 to just above 70,000 by the end of 1981, with pre-tax profits slumping to their lowest since the 1930's with a drop from £366 million to only £73 million. (Times 5/9.11.1981, p. 17.) Watching all this happening, despite the long history of industry and industrialization in the U.K., despite the enormous diversification of its economy, and despite a great wealth of expertise and capability, one realises the much greater dangers which would confront the AGS if anything similar should happen. In particular, the huge industrial petro-chemical and oil/gas based industrial complexes at Jubail and Yanbo in Saudi Arabia and others in Qatar and the UAE come to mind.

In the context of what has already been noted of the limited diversification foreseeable in the AGS, without cooperation, the potential instability of large numbers of expatriate payroll workers, and the shortage of experienced organisation and management skills, the dangers from recession hitting the present and currently planned AGS industrial structure are all too obvious even if their implications are not appreciated in the Gulf.

(18) Report of Committee for the Study of the Future of Industry in Kuwait, its Development, Justification for Support and Connection with Arab Common Market, 1979.

(19) Ibid., p. 36.

(20) Tietel, S. 'Economies of Scale and Size of Plant', In, The Journal of Common Market Studies, Vol. xiii, No. 1 and 2, 1975, p. 93.

(21) Ibid., p. 97.

(22) Ibid., p. 103.

(23) Sa'ad El deen Abdullah, I. Problems of Economic Development in the Gulf States, The Arab Planning Institute, Kuwait, p. 15.

(24) Salameh, G. 'Saudi Arabia: Development and Dependence', In, Jerusalem Quarterly No, 20, Summer 1981, Jerusalem, pp. 109-122.

(25) Ibid., p. 109.

(26) Ethiopia, Kenya, Madagascar, Malawi, Somalia, Uganda, Tanzania, Zambia.

(27) U.N., op. cit., p. 16.

(28) 'Another quantitative study for Central America is that by Dagum (1972). The study estimates an econometric model of each country separately as well as for the Common Market as a whole. To examine the impact of integration on growth, Dagum calculates trend rates of growth for the two sub-periods 1950-61 (pre-integration) and 1961-68 (post-integration). He then conducts statistical tests showing that the trend of growth during the integration period is significantly higher than that prior to integration, for both the Common Market and for each individual member except Costa Rica. The author concludes that integration was responsible for higher rates of growth during the 1961-68 period in four of the five countries, and permitted Costa Rica to maintain its high rate of growth throughout the 1961-68 period.' See: Cline, W.R. and Delgado, E., Editors, Economic Integration in Central America, (Washington D.C.: The Brookings Institution, 1978), p. 461.

CHAPTER 9 - MOTIVATION FOR REGIONAL COOPERATION

9.1 Introduction

In the light of the preceding chapter's conclusions which point to the AGS' need for wider circles of cooperation, this chapter explores the supportive factors which jointly contribute to create motivation for AGS-Arab development cooperation within the Regional circle.

The concept of motivation is explored here primarily with respect to development determinants that are available within the Regional circle rather than the Sub-regional circle. Consequently, by motivation here is not meant a clear conscious desire expressed by the AGS for a regionally cooperating approach to development, but rather as expressed by the availability or use of the development determinants from the Region. AGS' real realization of the benefits which could follow from regionally more rational utilization of development determinants, whether of resources, capital, labour or markets will be examined in broad terms, in the whole of the coming chapters. Our main immediate interest is directed to examine whether and how potential motivation for cooperation is provided.

The central question is whether and how the main determinants of economic development are better satisfied within the Regional rather than only the Sub-regional circle.

Illustrations are drawn from selective sectoral analyses, particularly of manpower, industry and of agriculture.

9.2 Development Determinants and Cooperation

Four determinants are highly relevant to the process of development activities as supportive or environmental.(1) First, the presence of some resource base of commercial value which promises reasonable

returns to entrepreneurial effort. Second, a social and economic infrastructure above a certain minimum level which permits certain basic functions to be performed (in transport and communication, public utilities, urban facilities, housing, irrigation, health and education). Third, capital availability. Fourth, manpower with some skills. Although some substitution can be made among these determinants, all have to be present in quantities and with quality that do not inhibit activities.

It is very clear from the previous descriptive and analytical review in relation to the availability and existence of the above-mentioned determinants, that within the Arab region the resource base and manpower mainly exist in the non-oil producing countries, whilst capital is there in abundance in the oil-producing AGS. The infrastructure base in spite of large expenditures on physical infrastructure remains weak in other respects everywhere.

The Arab countries present a wide and diversified spectrum, geographically and economically, as well as in political, institutional and social aspects.

The analysis of the characteristics of the Arab economy, as will be illustrated in this chapter and Chapter 13 tend to assure near self-sufficiency in the major factors of production (capital, labour and natural resources). This indicates that the Arab countries are in possession of the elementary essentials for growth and development provided that the aforementioned factors are redistributed to guarantee the best utilization possible within the framework of cooperation.

> "The Arab World can become a weight, an economic power, not only via its financial surplus and monetary accounts, but also by means of its actual resources and the rapid growth of its economic sectors."(2)

9.2.1 The Resource Base

UNDP rightly evaluated the situation in saying:

> "From a regional perspective, one can perceive the Arab World today with a highly skewed distribution of differing and complementary resources - skilled and unskilled human resources, rich and poor in capital, and abundance and absence of natural resources - with its major natural resource being rapidly depleted, its capital subject to erosion; and with the necessity of a dramatic economic transformation within a generation."(3)

The resource and performance base of any economy is clearly of great significance for its growth. However, as earlier analysis has shown, nowhere in the six AGS are the natural resources of enough significance to form a solid base for development.

Achieving optimal exploitation of natural resources within a cooperative approach including processing, industrialization, marketing and distribution as well as the determination of volume produced and price demanded, depends to a certain extent on the performance base of the economy. This relates to the efficiency of manpower and institutions, their capabilities to solve problems and the level of per capita income, and the proportion of it used for investment purposes as well as the determination of the political management of the economy.

Resources by themselves are very weak in their relation to development prospects. Sayegh has noted to Lebanon's growth achievements and notable returns from its modest resources before 1975. In contrast, Iraq and Sudan with well-endowed resource bases produced returns far from commensurate with their resource, because of unsatisfactory performance and the poor political management of the economy. In Sudan,

> "the idleness of resources is attributable to inadequate infrastructure, insufficient investment capital, shortage of skilled manpower, plus weak motivation, low level of versatility between crops requiring different techniques, frequent change of Government."(4)

Consequently, even a widened resource base, which can be con-

sidered as a motivation for regional cooperation, cannot play its dynamic role in regional development unless it has been supported by the other determinants which collectively give 'the performance base'.

In Sayegh's words:(5)

> "The resources available constitute opportunities for development, which meet with serious constraints on the one side. The outcome determines how effective resources are as a factor in economic development as well as a factor in development cooperation."

9.2.2 Flow of Capital

Will an abundant supply of capital become a positive determinant of development? Empirical evidence suggests that where capital resources have become abundant, economic development has been promoted inasmuch as the capital constraint has been relaxed. But if capital sufficiency is a necessary condition for accelerated investment and the achievement of economic development, it is not a sufficient condition.(6) It also has to be supplemented by other major supporters like Government, manpower, seriousness of purpose, technological change and so on.

The AGS possess this basic determinant of capital availability whilst most of the other Arab countries, comparatively speaking, do not have it. This raises the question of regional cooperation. At present, owing to the limited inter-regional flow of capital (that is from the surplus oil producing countries to the capital thirsty countries and to joint Arab projects and programmes) (7) the region viewed as a unit is still short of investment capital.

> "Capital can be a determinant of economic development, but for the region it is still a potential determinant, one which has not yet been allowed full scope to operate. Nor have the supportive requirements, political, psychological, institutional and economic been sufficienty developed."(8)

Development Choices and Cooperation Possibilities:

It has been suggested that three types of choice of development strategy are open to developing countries,(9) i.e.:

(a) An industrial as opposed to an agricultural thrust.

(b) Capital intensive as well as labour intensive policies.

(c) Import substitution in addition to or instead of export-orientated activities.

What is relevant here is the way in which cooperation on an Arab Regional scale would increase the range of these choices open to the AGS as well as to other Arab countries. Thus:

(a) Development could be based on the factors of a more varied production endowment allowing benefit to flow from comparative advantage in its dynamic sense.

(b) Industrial development could follow or be parallel to agricultural development, once the Regional circle replaces the Sub-regional circle.

(c) Both import substitution and export oriented directions have advantages that could be achieved more efficiently through the Arab circle.

None of these can be viewed in isolation, as we see if we consider for example the dangers of export oriented industrial complexes in the AGS. Two major dangers may emerge in this respect. One, that the multinationals will leave to the LDC's, as they have done in the past, only simple technology processes with low value-added characteristics whilst shifting more complex and sophisticated processes to other areas, chiefly their own metropolitan regions. Second, closely linked to the first, an advanced export-oriented industrial sector may become again as it has done in the past - a non-integrated enclave, with little impact on the LDC's own production structure.

The Arab Industrial Development Conference recommended in its third meeting the adoption of an industrial strategy concentrating on industries which affect the economic structure of the Arab countries and lessening their dependence on external factors, by adopting industrial production based on regional raw materials, like agricultural

and mineral materials and applying the principle of physical interconnection between the agricultural and industrial sectors with an integral role being played by petroleum in this process, leading to the production of industries that serve the agricultural sector e.g. fertilizers, pesticides, agricultural machinery and equipment.(10) This would become a natural extension of the recommendations of the Gulf Industrial Consultancy (see Chapters 5 and 12).

Moreover, in view of the poor competitiveness of Arab industrial products on Western markets, recent Arab analysts support export concentration on African and Asian markets, in addition to import-substitution. According to these theories, export industries require an adequate division of labour, redistribution of markets, unification of market conditions and prices, coordination and association of partners. All these are more difficult to achieve satisfactorily in relation to markets in the industrialised countries than in others. Consequently, both strategies are recommended but successively - import substitution first (in the short and medium term and then export industries in the long run).(11)

This sophisticated strategy however, is only appropriate to a situation in which both production factors and domestic market base are extensive and diverse. In the Arab region this necessitates cooperation, in which the AGS would have the opportunity of more efficiently using its abundant capital determinant within the wider circle such a circle creating more opportunities for a strategy of diversification.

9.3 Manpower (see also Chapter 4, section 4.3.6.3)

The population growth common to nearly all the Arab countries increases the potential of their respective labour forces. If the present situation is projected into the future it is clear that a far from negligible supply of labour will be available in the coming

decades.(12)

Wage differentials between the Arab countries largely explain the fascination of emigration.(13) Two fundamental factors - the existence in some countries of surplus labour and the oil boom have led to the emergence on the Arab labour market of, first, host countries, that is nearly all the major oil producers plus Lebanon and, secondly labour suppliers which includes the others and again Lebanon.(14)

Table 9.1 calculated by Farrag gives the first more or less complete picture of inter-Arab migration in the early 1970's.(15)

Around the years 1972-73 there were at least 900,000 foreign workers in the Arab World, of whom 650,000 or 72.2% originated in other Arab countries. In other words roughly 72 percent of foreign workers in the Arab World were Arabs, whereas only 28 percent were non-Arabs: Pakistanis, Indians, Turks or European technical personnel. There can be no doubting the vitality of the Arab labour market.(16)

The AGS share was nearly 78 percent of inter-Arab immigration, Saudi Arabia alone received nearly 50 percent (Table 9.1).

The countries which provided the largest number of emigrants are Egypt, Syria and Palestine, each of which supplied between 90,000 and 100,000 workers to neighbouring countries. Each in other words supplied about 14 percent of total inter-Arab migration. Other studies cited later confirm this basic pattern.

9.3.1 AGS: Arab Joint Economic Interests

> "The migrants' role is not just to participate in a process which is already under way but to help set the process in motion and to give it new drive. The motivation, the social position and the psychological attitude of the inter-Arab migrant differs significantly from that of the emigrant from Europe."(17)

These significant cultural elements which are common to the Arab world as a whole make it relatively easy for Arab migrants to fit into and participate in the development activities of their host countries.

Table 9.1

Inter-Arab Migration

	Year	Yemen	Egypt	Syria	Palestine	Lebanon	Jordan	Oman	Other Arab Countries	Total Arab Countries	Other Countries	Uncertain	Total	%
Saudi Arabia	1970	200,000 to 250,000	n.a.	40,000	50,000	30,000	?	?	?	(345,000)	?	65,000	(410,000)	45.9
Kuwait	1970	6,898	17,714	12,659		8,419	41,299	10,299	24,467	121,755	53,925	-	175,680	19.6
Libya	1973	-	60,752	6,162	4,324	8,324	4,324	-	24,215	108,101	20,300	-	128,401	14.4
Lebanon	1970	?	4,500	33,800	8,100	-	?	?	?	46,400	?	21,600	68,000	7.6
UAE	1968	?	11,100	-	6,640	?	6,640	6,640	4,430	35,450	8,819	?	44,269	4.9
Qatar	1970	?	?	?	?	?	?	?	?	(24,000)	16,090	?	(40,090)	4.6
Bahrain	1971	2,000	?	?	2,000	?	2,000	5,600	4,000	15,600	6,000	751	22,351	2.5
Oman	1973	?	?	?	?	?	?	?	?	(2,000)	3,000	?	5,000	0.5
Total		(233,898)	94,066	92,621	71,064	46,743	54,263	22,539	57,112	(698,306)	108,134	87,351	(893,791)	100.0

Note: AGS share of total Arab Countries Inter-Arab Migration was 543,805 out of 698,306 which correspond to 77.9 percent.

Source: Boudiba, Abdel Wahab, 'Arab Migration', In Arab Industrialization and Economic Integration, edited by Roberto, Aliboni (London: Croom Helm, 1979), Table no. 3.24, p. 170.

Inter-Arab immigrants come from a wide range of social groups. In certain cases it can be shown that the majority consist of technicians and management staff. This reduces the difficulties involved in the integration of the migrant with the local population, whatever the social status of the former.(18)

Table 9.2

Level of Education of Arab Workers in Qatar and the UAE

	Qatar		UAE	
	Nationals	Non-Nationals	Nationals	Non-Nationals
Illiterate	15.7	84.3	49	51
Primary	24.3	75.7	34	66
Secondary and technical	13.7 25.7	86.3) 74.3)	7	93
Higher education	5.9	94.1	7	93
Total	16.9	83.1	43	57

Source: Boudiba, A. Op. cit., p. 178.

Table 9.3

Arab Workers in Bahrain (by level of qualification)

Level of qualification	Nationals	Non-nationals
Unskilled	57.6	42.4
Skilled and Semi-skilled	61.5	38.5
Liberal professions	80.2	19.8
Technicians	64.5	35.5
Management and supervisory staff	40.0	60.0
Total	43.0	57.0

Source: Boudiba, A., p. 179.

Emigration of this kind is no longer a short term economic phenomenon but rather a structural one that must be treated at a regional level.(19)

9.3.1.1 Arab Labour Force - Economic Importance for AGS:

From the following indicators foreign workers in general and Arab workers in particular seem to be of structural long-term importance to the development of AGS.

1. (a) 78% of total inter-Arab migration (including non-Arab nationals) is absorbed in AGS, distributed as follows: (Table 9.1)
Saudi Arabia 45.9%, Kuwait 19.6%, UAE 4.9%, Qatar 4.6%, Bahrain 2.5%, while only 0.5 percent for Oman.

(b) Total AGS share in the inter-Arab migration was 543,805 (77.9%) distributed among AGS only as follows: (derived from Table 9.1)
Saudi Arabia 63.4%, Kuwait 22.4%, UAE 6.5%, Qatar 4.4%, Bahrain 2.9%, while Oman only 0.4 percent. (Above item (b) excludes non-Arab nationals.)

2. The importance of migrant workers in the functioning of AGS was examined in Chapter 1 on the light of Table 1.15 which showed that the total active non-nationals percent in the Sub-region was 51.9% in 1975 with 84.8 percent for UAE, 81 percent for Qatar, 69.4 percent for Kuwait, 43 percent and 39.6 percent for Saudi Arabia and Bahrain respectively.

Immigration contribution seemed to increase in some of the AGS. In Abu Dhabi, for example, which had in 1968 a population of 46,000 of whom 26,000 or 56.5 percent were immigrants. However, immigrants' share increased in 1975 to two thirds.(20)(Also Table 9.4.)

3. The sectoral distribution of non-nationals is as follows:
In Kuwait, S. Arabia and Qatar agriculture has been almost entirely abandoned to non-nationals. Building work has been left to foreigners who make up 60 percent of the sectoral labour force in Kuwait, 48 percent in Saudi Arabia, 45.8 percent in Bahrain, 96 percent in Abu Dhabi and 82 percent in Qatar.(21)

Manufacturing industry has similarly been abandoned to foreigners who make up 81 percent of the sectoral labour force in Kuwait, 55 percent in Saudi Arabia, 67.1 percent in Bahrain (Table 9.4). What is more, the importance of this foreign labour force is not expected to decrease as the labour force is projected to continue maintaining recent growth rates.(22) (Also Table 9.5.)

Table 9.4

Distribution of Foreigners and Nationals by Economic Activity (% of total economically active population)

	Agriculture and fishing	Extractive industries	Manufacturing industry	Building	Electricity and gas	Commerce	Transport	Service and Others	Total
Kuwait									
Nationals	19.7	23.3	19.0	6.5	29.4	22.1	19.4	35.6	25.4
Arab non-nationals	52.2	57.1	57.1	53.7	59.3	54.4	49.3	47.4	51.7
Foreigners	28.1	19.6	23.9	39.8	11.3	23.5	31.3	17.0	22.9
Saudi Arabia									
Nationals	4	50	55	52	80	59	49	39	50
Foreigners	96	50	55	48	20	41	51	61	50
Bahrain									
Nationals	76.0	73.7	32.9	54.2	86.8	63.0	65.4	60.6	62.9
Foreigners	24.0	26.3	67.1	45.8	13.2	37.0	34.6	39.4	37.1
Abu Dhabi									
Nationals	63	19.5		4	-	9	28	16.2	17
Foreigners	37	80.5		96	-	91	72	83.8	83
UAE									
Nationals	93	34		18	-	43	47	36.2	43
Foreigners	7	66		82	-	57	53	63.8	57
Qatar									
Nationals	5	-	13	-	-	19	34	14	17
Foreigners	95	-	87	-	-	81	66	86	83

Source: Boudiba, A.W., Table 3.25, p. 172.

Table 9.5

Arab Economically Active Populations 1970-85

Country	Labour force ('000)				Annual growth rate		
	1970	1975	1980	1985	1970-75	1975-80	1980-85
Algeria	3,369	3,894	4,545	5,362	2.94	3.14	3.36
Egypt	9,174	10,357	11,741	13,426	2.46	2.54	2.72
Iraq	2,395	2,770	3,224	3,784	2.95	3.08	3.25
Jordan	564	641	737	857	2.59	2.83	3.06
Kuwait	282	431	637	911	8.85	8.13	7.42
Lebanon and Gaza	864	986	1,112	1,264	2.68	2.43	2.60
Libya	488	550	625	721	2.42	2.59	2.90
Morocco	4,161	4,782	5,543	6,526	2.82	3.00	3.29
Oman, bahrain, Qatar and United Arab Emirates	290	331	381	441	2.68	2.85	2.97
Saudi Arabia	2,109	2,355	2,649	3,025	2.23	2.38	2.69
Sudan	5,065	5,830	6,760	7,938	2.85	3.00	3.26
Syria	1,574	1,817	2,109	2,466	2.91	3.03	3.18
Tunisia	1,273	1,457	1,685	1,964	2.74	2.95	3.11
N. Yemen	1,689	1,911	2,178	2,512	2.50	2.65	2.89
PDRY	347	388	436	498	2.26	2.36	2.69
Total	33,644	38,500	44,362	51,695			

Source: ILO, Labour Force Projections, Parts I and II, Asia and Africa, Geneva, 1975.

9.3.1.2 AGS-Arab Joint Gains from Labour Exchange:

(a) "It seems clear that the annual rate of population growth in the whole region will remain at a high level: more than 3 percent. This will lead to an increase in the economically active population. Thus even a rapid rate of growth in GDP (7-8 percent) will lead to a per capita increase of only 4-5 percent. An analysis of the economically active population shows unemployment of 4.0 million in 1980 and 4.6 million in 1990. Between 1973 and 1990 the rate of unemployment in the Middle East should fall from 4.2 percent to 3.3 percent. In the Maghreb, on the other hand, unemployment will probably remain stationary at around 7.6 percent; conditions will in other words continue to be very favourable for emigration."(23)

(b) Labour force - supply and demand equilibrium:

The Arab Region thus possesses a large labour force reserve which is in excess supply for some countries, as reflected in the following indicators:(24)

1. Disguised unemployment in non-petroleum producing countries can be considerable, e.g. in Egyptian agriculture existing as a permanent phenomenon constituting 45 percent of the male labour force (e.g. 1.518 million unemployed).

2. The existence of disguised unemployment in the Government service sector, mainly in Egypt, Syria and to a less extent, in Iraq.

3. In Tunisia and Algeria unemployment is maintained in the secondary sector as labourers migrating from rural to urban areas accept low wages to wait for better opportunities in the modern economic sector.

4. Unemployment in Morocco is estimated at 11 percent of the total labour force, that is equal to 550,000 unemployed at the end of 1977; some estimates are as high as 1.2 million.

5. There are approximately one million Arab labourers in Europe, 80 percent of them are in France. With growing unemployment problems in Western Europe, they are expected to go back to their countries.

These recent trends illustrate the importance of achieving

equilibrium between supply and demand within a cooperative Arab arrangements for the countries' joint interests, and in the light of their real development needs.

If AGS choose to maintain high growth rates they cannot escape from importing labour in very large quantities.

For example, economic studies and forecasts indicated that Qatar's economic growth is very sensitive to the rate of import of foreign workers.

> "In the high estimate, with open immigration, GDP grows rapidly until 1978, then levels off at about $ 3.5 billion ... in the best run the higher immigration permits higher GDP when the oil industry begins to decline slowly after 1978."(25)

This relationship between imported labour and GDP seems to be applicable to the whole Sub-region, and provides a motive for regional cooperation to ensure the availability of needed labour for AGS development projects and activities. It seems logical that this sensitive factor of production should be regarded as an essential part of a regional cooperation framework.

Despite the necessity for importing labour, the question of viability of continuing the import of labour has, however, led some analysts, mainly when taking into consideration the negative social as well as political effects of such large importations of labour, to raise the point that

> "social costs of foreign labour, if added to their wages might, in some cases, exceed their contribution to GDP and therefore nullify the objectives of diversification."(26)

Given the fact that the migrant Arab labour force is now and will continue to be structurally vital to AGS development the relevance of both the negative and positive effects of inter-Arab labour emigration, to the question of cooperation becomes clear.

For the Arab labour exporting countries, positive effects have

resulted from exporting labour through the reverse flow of financial remittances. In Jordan, for example, these grew from JD 34 million ($ 98.3 mn.) in 1974 to JD 800 mn. ($ 2312 mn.) in 1980,(27), this in addition to a contribution to solve the problem of domestic unemployment.

However, this movement has also resulted in some adverse socio-economic effects as it contributed to create market bottlenecks in the labour exporting countries, particularly in relation to trained and highly qualified labour force. Their own development programmes have been affected, the whole productive capacity has been subject to negative effects. Selective labour shortages for example, in Jordan and Tunisia, have caused inflationary pressures. It is now seriously felt that the emigrant labour force has affected negatively the socio-economic advancement of the labour exporting countries as it resulted in the departure of the most efficient section of the labour force, i.e. a kind of brain-drain.

This situation creates a motive for these countries to re-evaluate the whole labour force export movement thus creating potential dangers for AGS.

At the same time the AGS have been moving more and more to import and use highly progressive technology for their development projects, technology as used in communications, for example, which is not within the capacity of the current Arab labour force. Unless special training and education schemes are adopted within joint cooperation understandings, Arab countries might face yet other dislocations.(28)

Consequently, whether the AGS decide to continue their import of an Arab labour force, or opt to export their capital for investment where labour is available, the motivation for cooperation, on a more solid basis, than the hitherto ad hoc basis, seems to be strong. Such cooperation could protect both sides from existing and potential dangers.

The Arab labour conference decided, in its eighth session in Baghdad in March 1980 to establish an "Arab Institution for Employment" to coordinate labour exchange between Arab countries in the light of supply-demand situation and development plans.(29) Such a step seems to be in harmony with the above conclusion.

9.4 Motivation for Regional Cooperation - Industrial Sector

Empirical Examination:

AGS inudstrial development has been facing many structural constraints which endanger its strategy of economic diversification, as examined in Part One, the economies of scale, marketing and technology have been found of direct relevance to AGS' chances of industrial success. Such constraints can only be avoided within wider circles than the Sub-regional circle, as indicated in Chapter 8 (Section 8.2.5 and 8.2.6).

Wider markets in particular constitute a vital factor in AGS and Arab industrial development, thus creating an incentive for regional cooperation.

In illustrating the benefits of wider Arab markets to Arab industrialization, the empirical analysis by Metwally "The Case for Arab Economic Integration"(30) must be considered. Metwally took Egypt as the largest individual Arab market and examined the technical considerations of industrial production capacity. He compared the existing capacities of many industries in the U.K. with the available capacity of the Egyptian market and applied the results to Arab industrial production situation.

In examining technical considerations of industrializations, Metwally came to the following conclusions:(31)

1. The scale of efficiently producing manufacturing products is not very much smaller in less industrialized countries than it is in

industrialized countries whose markets are much wider, for the same products, than the markets of the developing countries.

2. Technical factors determining the size of plant in manufacturing industries tend to play, more or less, the same role in determining the scale of operations in industrialized and less-industrialized countries. However, there are some factors that necessitate some difference in the designed capacities and optimum size for industries of less-industrialized countries. This is due to indivisibilities and discontinuities in the production process.

3. For very many manufacturing industries in the U.K. the medium size of plant, as measured by employment, is similar to that in other countries (see Appendix Table 17). Some factors tend to make the size of some industrial plants greater (e.g. sugar, textiles, paper, matches, petroleum, cement and fertilizers) in the less industrialized countries than in the U.K.

The above mentioned illustrations suggest that to industrialize on an efficient scale, an Arab country must possess a present market wide enough to justify the establishment of at least one plant of a size that is typical in industrialized countries.(32)

In comparing the present size of the Egyptian domestic market for a fairly large number of manufactures (measured by apparent consumption, i.e. domestic production + imports - exports over the period 1970-1973) and the typical size of plant in U.K., results contained in Appendix Table 18 showed that:

> "The market is too small to justify the establishment of even one plant of economic size in most categories of manufactures. Only in food and clothing does the Egyptian market appear to be large enough to justify the establishment of plants of a size that is typical in U.K."(33)

As was mentioned before, the Egyptian domestic market, with a population of 39.855 million in 1978, the largest population among the

Arab countries with 26 percent of the Arab world population, about 3.6 times the population of the AGS Sub-region and near the population size of the whole Maghreb sub-region (Table 9.6) measured by whatever criterion is, probably, much larger than the domestic market for any other Arab State.(34)

The problem of domestic market limitation in other Arab countries is an even more serious constraint on their industrialization. Metwally concluded that:(35)

> "The number of manufacturing industries that can be economically established (even if only one plant is established in any industry) within the present market limitation in any Arab Country is too small to provide employment opportunities for a large number of the unemployed and underemployed labour force."

Applying empirical analysis to the collective Arab market Metwally obtained the results shown in Appendix Table 19, in the light of comparison between the typical size of U.K. plant and the present size of Arab markets and estimated the number of viable plants possible within the present Arab market.

In comparing the number of feasible industrial plants in the Egyptian market and Arab market as shown in Appendix Table 18 and Appendix Table 19, the evidence shows that whilst in the largest number of cases no viable plant is possible based on the Egyptian market, taking the Arab market as a whole many plants operating at optimum scale became feasible.

> "Thus for Arab countries the argument for an aggregation of markets to provide an outlet for the products of even one efficient modern manufacturing plant is extremely powerful."(36)

Despite the absence of detailed information on the effective size of the AGS sub-regional market, without doubt one can conclude that the industries which were not viable within the total Arab domestic market are certainly not going to be feasible for the Sub-region

unless exports are implicitly or explicitly assumed. These include primary aluminium, ball and roller bearings, electric motors, electric transformers, typewriters, electric domestic washing machines, electric domestic vacuum cleaners, electric domestic refrigerators, agricultural tractors of all types, manufacturing and passenger cars.

Also, when only one or two plants are possible within the Arab market, it seems safe to assume the doubtful feasibility of plants for the AGS Sub-region, these include - pig iron, steel ships and strips, copper, agricultural tractors (40 to 50 H.P. - assembly only and passenger cars - assembly only).

The above mentioned examination has been directed until now on a static basis, however, industrial cooperation should be based, as mentioned before on dynamic and long-term period effects, e.g. on expectations regarding further market opportunities rather than on existing conditions. The Arab domestic market may widen sufficiently in the near future to justify economic production of those articles that cannot be produced efficiently at the present.

> "A still unpublished investigation of some 30 industrial sectors has shown that only 12-15 qualify for advantages resulting from economies of scale, while the remainder can reach optimal efficiency in smaller units. The total annual savings through eventual aggregation and integration are estimated at no more than 50 million-70 million dollars. Most of them are in chemicals, iron and steel, cement and car assembling. However, the order of magnitude will change radically under dynamic assumptions of a rapidly developing industry, modelled on modern technology and designed for both domestic import-substitutes and export-oriented products. This will require concentration of certain industries and even their relocation, according to the comparative advantage of the partners in the integrated area."(37)

A study of the expected size of Arab markets showed that in 1990 the size of market for which the present market is too small to justify economic production for such commodities as passenger cars, washing machines, domestic refrigerators, typewriters, ball and roller bearings

and aluminium will become large enough to justify the establishment of plants of economic size.(38)

Consequently it is of vital importance to pool the Arab markets as this will lead to the enlargement of industrial opportunities, as well as an increase in the efficiency of existing industries and hence initiate a higher continuing growth of productivity.

The implementation of such projects would need Arab capital and international technology, in addition to the other factors determining industrial development.

We can conclude that, first, the Sub-region market of the AGS seems to be too small by itself to sustain significant industrialization. Second, despite the huge factories and industrial complexes now on the ground and planned in some parts of the Sub-region mainly as export-oriented national ventures or within a policy of 'build and wait' based on the assumption of future justification of at present non-justified projects by an expected rise in the level of income as development proceeds, the possibility of securing successful industrialization through exportation is doubtful.

The building of plants and factories does not in itself mean an industrialisation process with all that implies in terms of organisation, skills, attitudes etc. Without the structural change, social, economic and technological, implied by true industrialisation, the viability of export dependent manufacturing plants in the AGS is at great risk in a world characterized by rapid technological change - and current recession.

This analysis has illustrated how Arab domestic markets seem to be too small to justify, at this stage, the establishment of some industries, a fact reflected in the export-oriented strategy adopted by the AGS and many other Arab countries. This same analysis shows the need for even wider cooperation to include the international circle

a need which is supported also by AGS and Arab requirements for external science and technology. This last question will be examined further in Chapter 10.

9.5 Motivation for Regional Cooperation; The Agricultural Sector

9.5.1 Introduction

The serious development constraints which face the agricultural sector in the AGS and which are particularly associated with its very weak resource base were noted in Part One. Already in Chapter 8 the general basis for the extension of AGS' cooperation to wider circles was established. Here we turn to examine how such AGS cooperation within a regional circle could assist in tackling structural constraints in agricultural development. The potential contribution of the agricultural sector to AGS development given Regional cooperation is also examined. In this way can be demonstrated the linkages between general and sectoral aspects of development cooperation and the strength of the underlying motivation for such development.

In its drive to achieve economic development, the Arab region, whilst achieving some success with industrialization has in general failed in the agricultural sector. This has been reflected in the growing 'food gap' in the Arab world, despite the very large potentialities for agricultural production in general, and food production, in particular. This question is examined further here in this chapter and in Chapter 13. The AGS Sub-region has witnessed an even greater and growing dependence of agricultural and food requirements on imports.

Whilst the crude facts of what has become known as the food security issue have increasingly become realised, little attention has been given to the role of agriculture in integrated development policies.

A pre-occupation with industrialisation as an integrating

influence has obscured the significance of the agricultural sector and led to the neglect of the contribution which agriculture could make to cooperative endeavours and vice versa.

Taking into consideration all these points it has been thought justifiable to explore in more detail agriculture in general and food production as an example of AGS cooperation within the Regional circle.

The discussion begins with reference to the problematic prospects for agricultural development in the AGS. The problem is then analysed within its regional context, identifying potentialities to solve it, ending with recommendations relating to coopeation in achieving Arab agricultural development and achieving food security.

It is important to mention at this stage that the following analysis does not intend to examine, in detail, various aspects of agricultural development within its regional context. It aims, rather to illustrate the factual position which constitutes the basis for considering agricultural development in general and food security in particular, one of top priority within the Regional circle of cooperation rather than the Sub-regional one. This regional stress does not conflict with the continuous and various efforts being followed within the Sub-region towards cooperation on various aspects relating to their agricultural development as examined in Chapter 5. It is the intention of the current analysis to show how food security for the AGS cannot fundamentally be achieved solely within the Sub-region circle, at the same time examining to what extent Regional cooperation as a basic determinant of Arab agricultural development can lead to profound changes in the current weak direction of agricultural development within the whole process of Arab economic development.

The Misleading Conceptual Base:

There is a widespread misleading belief in less developed countries that poverty is associated with agriculture; thus the drive towards development should ignore the agricultural sector and concentration should be towards industrialization. However, it is very important to note that

> "some of the regions with the highest average incomes, such as Nevada in the United States, Australia, Denmark and Argentina, are also preponderously agricultural."(39)

It is not the conviction of national leaders in the underdeveloped economies that a special effort should be directed towards agriculture in order to raise the standard of living and quality of life for the masses who depend on agricultural activities. There are many examples of such leaders, motivated by national pride, self sufficiency or purely non-economic motivations, take a contemptuous attitude towards agriculture and farming, in favour of gigantic industrial or public utility projects. Such irrational attitudes, have to be reckoned with as part of the general setting of the problem of economic development.(40) What continues to be needed is a reverse drive, objectively based on the material aspects and quality of the lives of rural populations, at the same time appreciating lessons to be learnt from the agricultural revolutions in Europe and Japan, which preceded the industrial revolution and were a basic prerequisite towards its achievements.

It is against this background that there emerges the question why countries that possess natural advantages in agricultural resources do not expand and improve these outputs.(41)

Observers often see enormous buildings, shining new factories, colossal airports and impressive sports stadiums alongside poor peasants and miserably equipped urban dwellers pitifully in need of the basic

amenities of life, immense personal riches alongside the abyss of rural poverty.

> "In brief, this contrast is the outcome of satisfaction with mechanistic, statistical development which neglects and remains silent about the real human beings in the urban slums and destitute countryside."(42)

Whilst this picture refers mainly to countries with large rural populations, such as Iraq and Syria, it is also relevant in some of the AGS, notably Oman and the eastern province of Saudi Arabia. This is a situation which, as we shall see, could be improved by a change in attitudes to the rural sector, a change which could happen more readily if the economic opportunities presented by Regional cooperation were seized.

9.5.2 AGS and the Arab Region: Mutual Interests and Agricultural Cooperation

Both the AGS and other countries in the Regional circle have much potentially to gain from regional agricultural cooperation, partly because their specific sectoral structures complement each other, partly because agricultural development through cooperation could bring valuable benefits in other socio-economic sectors. For the AGS regional cooperation seems to offer the only way round Sub-regional constraints particularly as regards food supply security.

The situation in Saudi Arabia which has the highest agriculture potential among AGS, is summarised below to illustrate the position with regard to agriculture development achievements in the AGS.

9.5.2.1 Saudi Arabia - Agricultural Self Sufficiency:

Despite all efforts taken, including technological innovations, during the nineteen sixties, agriculture witnessed a very low growth rate of two percent a year, and by 1970 it contributed only six percent of GNP. Its share fell because of the rapid growth of oil and industry.

While agriculture was treated with some enthusiasm in the first Saudi Five Year Development Plan (1970-1975) in an effort followed by the Saudi authorities to remedy this state of affairs,

> "Today agriculture is far from being foremost on Saudi Planner's minds."(43)

The Second Saudi Five Year Plan (1976-1980) allocated to it only 1 percent of the resources at its disposal.

> "The Kingdom thus has to import seventy-five to eighty percent of its food. Saudi planners speak of self-sufficiency in food production by the year 2000, but this assumption is barely credible."(44)

Food indeed comprises more than thirty percent of the overall import bill.(45)

The Saudi Third Development Plan (1980-1985) reviewed agriculture sector situation in relation to its development, food demand trends and constraints. In relation to the sector main developments the plan stated that:(46)

> "Despite the discovery and development of oil, and subsequently, rapid development in other sectors, agriculture has remained the primary occupation of the Kingdom's population. In 1394/95 (1974/75) it is estimated that about 695,000 persons, or 40% of the civil labour force, was engaged in agriculture. By 1399/1400 (1979/80) although agricultural employment declined sharply by about 96,000 persons, the sector still remained the largest employer, with about a quarter of the Kingdom's labour force."

Food Demand:

The demand for food has increased rapidly in response to both population growth and rising incomes. Projections of the Kingdom's food demand based on population growth, disposable income and elasticity of demand suggest a relative change in the per capita consumption as follows:(47)

1. Continued rapid increase in the consumption of eggs, poultry, fresh vegetables and fruit.

2. Modest growth in the consumption of fresh meat, fresh fish,

fruit drinks, milk, pulses and tinned fish.

3. Decreases in demand for rice, flour, melons and dates.

Agricultural Constraints:

> "The continued exodus of labour has made the labour input expensive and in short supply."(48)

This has particularly affected the traditional sector, where, for example, dates in some areas are only partially harvested. The small size of most farming units has impeded the replacement of labour by mechanisation. Other constraints in the Second Development Plan Period (1975-1980) included the lack of infrastructure, in particular roads and well-drilling. Wasteful use of water in traditional irrigation practices has led to early salination of the best oases' croplands.

> "The existing subsidy system, although increasing some farmers' incomes, did not always result in the desired production or improvement effect. In particular, the various livestock subsidies do not seem to have increased the domestic supply of meat, the date subsidy and guaranteed wheat price have been paid regardless of product quality."(49)

The above mentioned developments reflect a continued impeding of agricultural efforts by basic constraints despite the large financial allocations and subsidy policies adopted as shown in Chapters 1 and 3. At the same time the problem of labour raises again the familiar question of regional cooperation as examined in the preceding section.

9.5.2.2 AGS Interests and Regional Cooperation in Agriculture:

The prospects for substantial improvement in AGS food production cannot be viewed in the light of this and all preceding examinations as bright.

It is reasonable to assume that the food deficits which are faced by every nation in the Middle East, will continue to mount during the 1980's. Individual countries may achieve an increased degree of self sufficiency in some crops in some years, particularly if greater public investment is channelled to their agricultural sectors.(50)

The AGS, to varying degrees, have the capacity to set aside a large portion of their national wealth for agricultural activities, and to afford the prevailing international prices of food commodities, farm machinery and other modern farm inputs, and subsidising food for their citizens. However, investment in agriculture which faces drastic limiting factors whtin the AGS circle, is offered much larger opportunities in the Arab region, which has a driving motivation, and in turn provides a motivating force for cooperation within the Regional circle. This could lessen the perceived problem of high dependence on imports of food by a food deficit area with a high level of consumer income. Food security is perceived to be less problematic if it is associated with interdependence within an Arab context. The case for wider ranging productive investment also then becomes stronger.

This is of crucial importance as the large extent of reliance on food imports leave the region's policy makers uneasy. Neither foreign food trade, nor agricultural development assistance are viewed as reliable and too often they are perceived to carry explicit economic and implicit political pre-conditions.(51)

AGS interests in regional efforts towards agricultural development seem to be based on the following needs:

1. Ensuring a secure source for food and other agricultural products and minimizing dependence on non-Arab foreign sources for supply.
2. Creating a diverse production base that exports to agricultural countries many commodities used in agricultural production, such as fertilizers, chemical insecticides, agricultural equipment and machinery, materials and equipment needed for the infrastructure of agricultural production and marketing of agricultural products. By virtue of their cheap energy sources the Arab oil countries are expected to be in a position to set up many such industries on sound economic bases.

3. Expanding the range of opportunities for joint investment with reasonable returns in agriculture and agro-industries, transportation and marketing.

4. In addition to the previously stated benefits, financial investment in the Arab countries brings about mutual security. On the one hand, it contributes to minimizing the differences in income and standards of living between these countries, thereby preventing instability and susceptibility to fluctuations and crises caused by these differences in the region. On the other hand, it averts the dangers to which these funds are exposed if they continue to flow to or are kept in large quantities in the Western industrialized countries. In other words, the capacity in these latter countries to absorb Arab funds is not unlimited, and it is most probable that if they rise above certain amounts, their real return will fall to very low levels, whether because of fluctuations on the world market, inflation, involvement in unreliable side investments, or for all these reasons.

We must also note that the agricultural sector is a pivot for economic and social development in the Arab agricultural countries without exception.(52)

9.5.2.3 AGS-Arab Cooperation in Agriculture:

Food Security as a Motivation for Cooperation:

In the following section we will explore the general situation relating to the food gap as well as related food security problem in AGS and the whole Arab region.

Food Gap - World Vision:

It is understood from available indicators that the food gap is characterizing the world economy in general and that of developing countries in particular.

Growth rates of food production in relation to population in the periods 1952-62 and 1962-72 are reflected in the following Table 9.7.

Table 9.6

Sub-regionalism in the Arab Region
(Population, GNP & GNP per capita)

	Population mid 1978	GNP $ U.S. mn.	GNP - Per capita $ U.S.
1. AGS (GCC)			
S. Arabia	8,229	54,200	6,590
Kuwait	1,215	19,410	15,970
Oman	839	2,340	2,790
UAE	811	12,180	15,020
Bahrain	368	1,500	4,060
Qatar	220	3,310	15,050
Total	11,682	92,940	7,956
Percent to Arab	7.6%	42.2%	550%
2. ACM			
Iraq	12,212	22,540	1,850
Syria	8,102	7,820	960
Jordan	2,984	2,370	1,100
Egypt	39,855	16,890	420
Total	63,153	49,620	785
Percent to Arab	41.2%	22.5%	
3. Maghreb			
Morocco	18,914	12,890	680
Algeria	17,635	25,730	1,450
Tunisia	6,075	6,010	990
Total	42,624	44,630	1,047
Percent to Arab	27.8%	20.3%	
4. Other Countries			
Lebanon	3,012	n.a.	n.a.
N. Yemen	5,648	2,301	410
PDRY	1,750	780	450
Sudan	17,376	5,900	340
Sumalia	3,743	3,853	n.a.
Libya	2,748	19,820	7,210
Muritanya	1,544	420	270
Total	35,821	33,074*	
Percent to Arab	23.4%		
Total Arab	153,280	220,264*	1,437
Egypt : Arab World	26%		

* Without Lebanon
Source: IBRD, World Bank Atlas.

Table 9.7

Food Production and Population Growth

	World Population	Percentage Annual Growth Rates Food Production	
		Total	Per capita
	1952-1962		
Advanced countries	1.3	3.1	1.8
Developing countries	2.4	3.1	0.7
World Total	2.0	3.1	1.1
	1962-1972		
Advanced countries	1.0	2.7	1.7
Developing countries	2.4	2.7	0.3
World Total	1.9	2.7	0.8

Source: CAEU & FAO, Economic Integration and Trade Expansion among Arab States with Special Reference to the Agricultural Sector, Seminar on Agricultural Aspects of Economic Integration, 1977, p. 79.

If the population growth rate remains stable in developing countries then the per capita food share will continue to decline year after year, having dropped from 0.7% in one decade to 0.3% in 1962-72 due to the fact that population growth has far surpassed food production ratios.

The picture seems worse if we consider the gap between the food needs of these countries and their available food production which had been estimated by many at 85 million tons shortfall at least by 1985.(53)

AGS Self-Sufficiency (S-S) in Food Production:

This is far weaker than that of the Arab region as a whole as reflected in the following indicators:

While self-sufficiency average percentage for cereals was 18 percent for AGS during the period 1974-78 it was 64.2 percent for the Arab region (Table 9.8).

For vegetables it was 86 percent in AGS comparing to 101 percent for Arab region. For fruits it was 63.6 percent in AGS while it was 111 percent in the Arab region. In sugar it was zero in AGS while it

Table 9.8

AGS and Arab Self-Sufficiency in Food Production (%)
(1974-1978)

	Wheat	Barley	Rice	Maize	Other*	Total Grain	Vegetables	Sugar	Fruits	Eggs	Legumes** & Pulses	Fish	Meat	Vegetable Oils***
AGS	14.4	17.7	0	2.9	88.9	18	86	0	63.6	38.0	0	94.4	41.3	0
Bahrain	0	0	0	0	0		61.4	0	71.7	39.0	0	68.8	25.6	0
Kuwait	0	0	0	0	0		38.2	0	1.3	18.1	0	60	40.1	0
Oman	5.5		0	0	0		100	0	97.0	41.1	0	100	49.5	
Qatar	0	0	0				90.8	0	0	0	0	100	40.6	
S. Arabia	20.8	28.5	0	3.5	93.9		93.9	0	67.7	62	24	63.5	46.0	0
UAE	0	0	0	0			64.7	0	25.2	11	0	100	23.5	0
Total Arab	45.6	90.8	78.9	76.2	100.6	64.2	101.1	34.5	111	84.1	95.4	497.7	86.8	130.6

* Mostly Tobacco and Maize
** Mostly broad beans, chick peas, lentiles, peas and beans
*** Olive Oil only

Source: AEUC & FAO, Food Dilemma and Food Security in the Arab World, Part III on Fodd Consumption, Amman, March 1980, Many tables, (Arabic).

was 34.5 percent in the Arab world. In meat it was 41.3 percent in AGS compared to 86.8 for the Arab region. In oil seeds it was zero for AGS compared to 130.6 percent for the Arab region.

It is important to note that the move towards self-sufficiency has also been slowing down in the region during the period between 1970-1074 and 1974-1978. (54)

For the grains (S-S) decreased from 77.1 percent to 64.2 percent. Egypt, Morocco, Iraq, Sudan, Algeria and Jordan are the biggest producers, whilst the following countries achieved the highest degree of self-sufficiency (S-S) during the period 1970-1974; Iraq 94.1%, Algeria 92.0%, Morocco 82.6%, N. Yemen 85.8%, Syria 79.8%, Egypt 78.4%.(54)

For fruit (S-S) decreased from 130.7 percent to 111 percent. The countries responsible for most of the surpluses are Somalia, Algeria, Morocco, Iraq, Lebanon, Tunisia, Egypt and Mauritania.

For vegetables the S-S proportion decreased from 104 percent to 101.1 percent, with Jordan, Morocco, Syria, Egypt and Iraq achieving the highest S-S percentage.

For sugar S-S decreased from 42.8 percent to 34.5 percent. Egypt, Sudan and Somalia are in comparatively better situations.

For meat, the degree of S-S decreased from 94.3 percent to 86.8 percent, with Somalia, Tunisia, Muritanya, N. Yemen, PDRY, achieving surpluses. Saudi Arabian S-S in meat decreased in the same period from 69.3 percent to 46 percent.

The above trend reflects a continuing weakening situation in relation to self-sufficiency in food in the region, the degree of self-sufficiency and its decrease differing from one country to another.

This situation raises two main possibilities for cooperation within the region. First, through trade in food products the Arab region as a whole achieved surpluses during the 1970's in many food

items (mainly vegetables, fruit and oil seeds). Second, through joint action. Regional self-sufficiency in food would seem to be achievable in the light of existing situation and available potentialities relating to resource base.

Per capita food consumption is higher in the AGS than in the whole Arab region group. This applies to all items except for grains and fish as reflected in Table 9. 9. As an example, per capita consumption of eggs in AGS was nearly four times that of Arab world, nearly three times for milk, meat, fruits and vegetables.

However, whilst the AGS total area corresponds to 18.1 percent of the total area of the Arab world the AGS agricultural area correspond to only 2.4 percent of the total agricultural area of the Arab region (Table 1.2).

The AGS comparative deficit in trade balance of food commodities was especially high for some items during the period (1974-1978) such as milk, meat and eggs (Table 9.10).

9.5.2.4 The Arab Food Gap Situation and Development:

The whole Arab region is witnessing a serious food gap problem as reflected in the following indicators.

A growing trade deficit of food commodities during the period from 1960-1964 to 1974-1978 (Appendix Table 20) shows that the deficit index for most commodities ranged from 187.3 percent for sugar to 2175.9 percent for rice.

Agricultural production rates in the Arab world over recent years, showed fluctuating rates around 2.5% annually, and these rates scarcely kept pace with the high population increase; moreover, the per capita demand for many foodstuffs has increased as a result of higher income levels. Table 9.11 reflects this trend over the last ten years.(55)

For some sources estimate the average annual increase of food production in the Arab world to be round 2 percent, while the demand

Table 9.9

Per Capita Annual Consumption (1974-1978)
Kg/person

	Grains	Vegetables	Fruits	Fish	Meat	Milk & Prod.	Eggs
AGS	199.9	20.7	87.6	6.3	47.9	341.2	9.5
Bahrain	151.5	38.4	144.3	6.7	42.1	223.1	11.8
Kuwait	179.2	16.3	66.5	7.4	59.5	216.6	11.1
Oman	116.9	7.5	91.2		16.6	188.3	1.3
Qatar	349.5	33.7		6.5	93.2	1045.7	15.6
S. Arabia	146.5	9.6	63.1	4.7	22.9	98.6	3.0
UAE	255.5	18.7	72.8		53.0	274.8	14.4
Total Arab	231.2	7.6	42.2	7.5	16.6	117.3	2.4

Source: AEUC, Food Dilemma and Food Security in the Arab World, Food Consumption (Part III) Amman, March 1980, from Many Tables (Arabic)

Table 9.10

Balance of Trade Commodities (AGS & Arab Region)
1974-1978

Quantity in Ton, Average Annual

AGS	Grains	Sugar	Milk	Meat	Eggs
Bahrain	-46,222	-7,096.8	-62.2	-501.6	-10,298.8
Kuwait	-197,456	-69,739.4	-44.6	-5,741.6	-660
Oman	-89,812	-11,356.6		-276	-1,564
Qatar	-34,076	-6,465.6			
Saudi Arabia	-840,182	-124,865.4	-10,189.4	-5,635	-8,908.8
UAE	-145,646	-23,753.6	-1,208	-1,845.8	-8,217.4
Sub Total (1)	-1,353,394	-243,277.4	-11,504.2	-14,000	-29,649
Total Arab(2)	-13,000,259	-2,416,645	-32,441	-61,012.2	-55,466
1:2	10.4%	10.1%	35.5%	22.9%	53.5%

Source: Ibid., Part III.

Table 9.11

Percentage of Average Annual Growth (Production and Food) (1970's)

Country	Population	Food Prod.	Demand for Food	Difference Production (+) and Demand (-)
Saudi Arabia	2.4	2.9	5.0	-2.1
Iraq	3.3	2.8	5.2	-2.4
Egypt	2.3	3.4	3.8	-0.4
Syria	3.0	1.8	4.6	-2.5
Morocco	3.0	2.8	3.3	-0.7
Lebanon	2.8	5.0	3.1	+1.9

Source: Ali, K.T. 'Food Security and the Joint Arab Effort', Sources and Problems of Arab Development, Kuwait: OAPEC, 1980, p. 72.

for food increases annually by 5 percent.(56)

Table 9.12 shows that the Arab world in the mid-1970's imported the equivalent of 37% of its total cereal production, 175% of its total sugar production, 18% of its total oil seeds production and 15% of its total meat and egg production.

The general trend during the 1970's of food production in relation to existing and predicted consumption within th eregion can be further illustrated thus:

1. Whereas the overall ratio of the value of agricultural exports to imports exceeded 99 percent in 1970, tnis value began to fall rapidly until it reached a low of only 36% in 1975. Table 9.13 illustrates this trend.

2. While the trade balance of agricultural commodities was in favour of seven countries at the beginning of the decade, particularly for Algeria, Morocco, Syria, Egypt and Mauritania, by 1975 this balance showed a deficit in 18 Arab countries, with the exception of Sudan and Somalia.

3. In the ECWA countries as a whole there was a rising growth rate

Table 9.12

Production, Imports and Exports of the Arab World for Major Agricultural Productions in 1976

Commodity	Production (millions of tons)	Imports: Quantity (millions of tons)	Imports: Value (millions of $)	%	Exports: Quantity (millions of tons)	Exports: Value (millions of $)
A Food Productions						
I Cereals (1)	29.90	11.20	1.900	41.0	0.50	216
II Sugar	1.20	2.10	1,200	25.8	minimal (2)	28
III Oil seeds (3)	4.00	0.70	420	9.1	0.40	266
IV Fruits and Veg. (4)	27.00	1.00	206	4.4	2.20	777
V Meat and Eggs	2.00	0.30	400	8.6	0.10	92
Dairy Produce	7.50	0.40	515	11.1	-	-
Total for A:			4,641	100		1,379
B Other Agricultural Productions						
VI Crude Cotton		0.06	60		0.43	766
Wool		0.02	45		minimal	8
Jute		0.04	15		-	-
VII Tea		0.14	204		-	-
Coffee	minimal (2)	0.10	165		minimal (2)	8
Tobacco	0.06	0.06	287		0.01	16
Total for B:			776			898
Overall Total:			5,417			2,176

continued ...

(Table 9.12 continued)

(1) Mainly wheat, rice, corn, barley and legumes

(2) Minimal on this table = less than 10 thousand tons

(3) Also includes extracted vegetable oils

(4) Exports comprise 500 thousand tons of wine valued at 120 million dollars.

Source: Ali, Khalid. T. 'Food Security and the Joint Arab Effort', In, Oil and Arab Cooperation, OAPEC, Vol. 4, No. 1, 1978, pp. 17-49, (Arabic).

Table 9.13

Growth of Agricultural Imports and Exports in the Arab World for the Years 1970-75
(In billions of US dollars)

	1970	1971	1972	1973	1974	1975
Value of Agr. Exports	1.7	1.7	1.9	2.4	2.8	2.5
Value of Agr. Imports	1.7	2.1	2.4	3.3	6.2	6.9
Diff. between value of exports(+) and imports(-)		-0.4	-0.5	-0.9	-3.4	-4.4
Percentage value of exports and imports	100	81	79	73	45	36

Source: AEUC & FAO, Op. cit., p. 59.

for per capita consumption, and a decreasing rate of self-sufficiency. Whilst average self-sufficiency for wheat was 57 percent during the period 1970-1977 it was only 39 percent in 1977. The same trend has occurred in all food items, with the exception of legumes and eggs as shown in Appendix Table 21.

The contribution of agriculture to Arab GDP decreased from 18 percent in 1970 to 10 percent in 1975. This percentage is much less than the average percentage prevailing in the middle income group of countries, 15%, while the extraction industries' (depleting resources) contribution to Arab GDP increased from 25% to 46 percent.

The Arab region can be divided into three group of countries in terms of agricultural potential:

1. Group One: Oil exporting countries with poor agricultural resources (all AGS and Libya).

2. Group Two: Countries with relatively large agricultural reosurces (Sudan, Egypt, Iraq, Morocco, Algeria, Tunisia, Syria).

3. Group Three: Non-oil countries with relatively limited agricultural resources or poor exploitation prospects (Mauritania, Somalia, South Yemen, North Yemen, Lebanon, Jordan).

The first group is characterized by heavy dependence on imports for the supply of agricultural products, and thus has had a continuous negative trade balance. The value of such imports reached $ 1600 million in 1975, constituting 35% of the total trade deficit of the Arab countries, while the population of this group of countries was only 9% of the total population of the Arab world. The per capita net value of imports of these products reached around $ 120 in 1975.(57)

The second group has the highest proportion of agricultural potential in the Arab region with agricultural resources comprising (in cultivable land and supply of water) 90% of total Arab agricultural resources. Despite this the group's trade balance in agricultural commodities reversed from surpluses ranging from US $ 200 to $ 600 million during the late 1960's and early 1970's to a deficit of about US $ 2,400 million in 1975, more than half the total deficit for these commodities in the Arab world. The average per capita net imports of countries in this group was 21 US dollars.

The third group countries, either have limited agricultural resources, or agriculture potentialities which have limited prospects of exploitation. Excluding Somalia, which in the mid-1970's had a surplus agricultural trade balance, the countries of this group trade balance deficit rose from $ 300 million in 1970 to $ 470 million,

representing 10% of the net value of agricultural imports of the Arab world.

A serious growing gap is predicted for all food items in the Arab region because the needed increase of existing average production to close the expected gap between production and consumption in 1985 would be 121.5 percent of wheat production average in 1976 and 327 percent for sugar, 144 percent for meat, 144 percent for milk and 180 percent for vegetable oil (Table 9.14).

These indications of trends in production, consumption, trade and self-sufficiency all point to a critical situation in relation to food situation in the Arab region. It is even more critical in the AGS Sub-region.

Persistent regression in the agricultural sector in most Arab countries, whether in the form of unexploited resources or low productivity levels, constitutes a great challenge to the possibility of absorbing the financial resources available in the region, transforming them into material assets through investment in productivity projects, and preventing them from being eroded and wasted in the form of rapidly diminishing capital or unreliable investments in foreign countries.

> "It may, therefore, be said that the development of agricultural resources in the Arab countries during this period of history, is one of the best fields for Arab cooperation in joint creative efforts motivated by joint and mutual interests between the countries with financial resources and those with agricultural resources."(58)

Achieving Arab food security necessitates the emphasis to be directed to bridging the food gap by increasing production of strategic food commodities forming this gap, particularly wheat, sugar, animal products and vegetable oils. This increased production and productivity should ideally also meet the costs of other agricultural imports including production requirements (e.g. fertilizers, insecticides,

Table 9.14

Food Production and Demand and Gap in 1985 for the Major Food Products (million tons)

Commodity	Average Production	Net Average Imports 1973-76 (current gap)	Average Aggregate Demand	Forecasts of Demand 1985	Gap between Current Production and Demand in 1985	Increase in Production in % by 1985 to close the gap
Wheat	9.3	8.2	17.5	2.6	11.3	121.5
Sugar	1.1	2.2	3.3	3.7	3.6	327
Meat	1.8	0.2	2.0	4.4	2.6	144
Milk	7.0	3.0	10.0	13.0	6.0	185
Oil Seeds	4.0	(0.1)	3.9	-	-	-
Veg. oils	0.6	0.4	1.0	1.7	1.1	180

Source: Ali, K.T. Op. cit., Table 5, p. 73.

tools, agricultural machinery etc. The relationship between the development of Regional agricultural production and the Regional production of these required inputs and its relevance to non-agricultural sectors of cooperation is clear.

9.5.2.5 Political Aspects of the Food Security Question:

Many pragmatic indicators show the political importance of food problems as motivating AGS-Regional cooperation. Broadly these can be grouped as follows:

1. Food shortages and higher prices have led to popular demonstrations and political unrest in many parts of the Middle East.

2. The danger of cuts in the flow of food exports by the USA and the use of such trade as a political weapon.

3. Dangers of food boycotts.

Some examples serve to illustrate those perceived.

> "It is an overstatement to conclude that as long as city people have food in their stomachs, political leaders need not fear popular uprisings; but it is apparent that, in the absence of food security, no regime in the Middle East can have a firm grip on power."(59)

Both the rich and the poor nations of the region have a common over-riding concern that food prices paid by their citizens be kept from soaring and that food stocks are adequate. In both types of nations, any acute shortages of food are likely to increase national tensions by underscoring the economic advantages in the access of food of particular social groups. The economically weak and strong alike moreover face the possibility that during the 1980's and 1990's global food exporting countries will be increasingly unable, perhaps unwilling to cover the region's food deficits at any price.(60)

The U.S. to name one country has never shied away from exploiting agricultural exports to nudge consumer and recipient nations to modify international or domestic policies, although rarely is this done so pointedly as it was with Egypt in the mid-60s and the Soviet Union

following Afghanistan's invasion.(61)

Boycotts are better designed to bring about mass discontent through spot shortages and the creation of higher prices that erode confidence in ruling authorities and lay fertile ground for opposition elements.(62) Such boycotts were periodically enforced by Syria on the Syrian-Jordanian border during 1981 and 1982.

The withdrawal of food exports and concessionary financing might, nonetheless, be used in the hope of destabilizing a regime and indicates the often limited range of credible alternatives available in particular to the USA in trying to influence policies in the Middle East.(63) Recent moves by the USA to apply sanctions even to its Western European allies in the industrial trade sector only make Arab countries more dubious about American dependability.

Food is considered as an inescapable issue in the larger cities of the Middle East where consumption patterns serve as a measure of economic status. A high proportion of urban family incomes goes toward purchasing food; the regular enjoyment of meat, rice, fruit and other staple food is one conspicuous mark of well being. Food consumption is closely tied to a sense of overall security.

The near disappearance of onions and potatoes both conspicuous in the Persian diet, is considered to have sparked street riots in Teheran during the winter of 1976. The rise in the price of sugar of 33 percent in Sudan, together with food, fuel and transport prices brought mobs into the street of Khartoum and other cities. In 1977, following IMF advice to reduce the budget deficit running at $ 3.2 billion, Sadat cut or eliminated subsidies by about $ 700 million annually on a wide range of basic consumer items (rice, sugar, bread and bottled cooking gas). There followed violent street demonstrations, strongly anti-regime in tone, criticising Sadat for causing deterioration in economic conditions. The measures proposed had to be withdrawn.(64)

These and most other examples tend to reflect the dangerous food supply problem in the non-oil exporting Arab group. Such signs have rarely appeared in the AGS Sub-region which has been able to guarantee continuing supplies of food commodities at relatively low prices through being able to pay for heavy import bills and consumer subsidies. However, such potential dangers could arise, in the view of the author of this thesis, in the case of conflicts between this group and those countries which constitute the main source of their imports. What is as important as the likelihood of this eventuality is the fear felt by Governments in the Sub-region that it could happen.

Consequently, political considerations tend to strengthen economic ones in motivating the AGS to search for a regional solution to food dilemma.

We turn now, to examine how the regional agricultural resource base could be used to transform motivation into practice.

9.5.3 Gulf-Arab Cooperation in Agriculture-Resource Base Potentials

In the following section, we will summarily examine the extent and diversity of water resources (surface, underground and rainfall), land resources as well as animal wealth (including fisheries) of the Arab world and the potentials of agricultural expansion available through such resources. The question of agricultural cooperation from an integrated outlook dealing with its constraints and a proposed approach will be discussed in Chapter 13.

9.5.3.1 Resource Base - Water and Land Resources:

Water Resources:

Arab countries at present exploit around 55-65% of their surface and underground water resources, and even this volume is not utilized in a sound scientific manner or with adequate efficiency.

Current irrigation water use averages 115-125 billion cu. metres per year mostly drawn from rivers (105-115). This utilization of water

does not exceed 50% of the total annual potential supply of river water, some 195 billion cu. m. and expected to increase to 213 billion on completion of the upper Nile schemes which will cut losses from evaporation and wastage in the flood areas and marches of Sudan.

The volume of ground water annually utilized for irrigation is about 8-12 billion cu. m. with an additional 3-5 billion cu. m. of wadi water; these together may be more than doubled by the year 2000. Arab plans envisage additional utilization of 50-100 billion cu. m. flood water annually. This quantity could allow expansion of the irrigated area by 6 million hectares.(65)

On the basis of perennial or supplementary irrigation from underground sources we can expect the area irrigated by ground water will extend by the year 2000 (according to recent available data) from 0.7-0.8 million hectares (1975) to 1.0-1.2 million hectares 1985 and to 1.7-2.3 by the year 2000 on the basis of perennial irrigation. If all unexploited underground water was used solely for supplementary irrigation, it would be possible to expand almost threefold the irrigation area, i.e. to around 4.5 million hectares.(66)

The Arab world will depend for the future horizontal and vertical expansion of its irrigated agricultural areas mainly on the savings (approx. 45 billion cu. m. a year) realisable from rationalising and modernization of irrigation systems and methods of exploitation of unutilized water resources (50-60 billion cu. m. of surface and wadi water and 10-15 billion cu. m. of ground water) in order to get 10 million hectares under intensive agriculture.(67)

Rain-fed Area and Potentials: The rain-fed area in the Arab world is between 39 million and 44 million hectares. The lands suitable for rain-fed cultivation in Sudan alone are at least 30 million hectares and some sources estimate them at 70 million hectares or more. The Sudan is one of the three countries on which other Arab countries and

the rest of the world rely for solving future food problems particularly in grain. The average annual expansion in rain-fed areas in the Arab countries will be approximately 1% during the period 1975-85, with half the expected development will be in the Sudan alone and 35% in the Arab Maghreb.

It is worth noting that the Arab fund has its target of 8.5 million hectares rain-fed by the year 2000 (of which 2.1 million by 1985), under mechanisation for growing cereals (sorghum and corn) oil seeds (peanuts, sesame and sunflower) and various fooder crops.(68)

Land Resources:

Land under cultivation (rain-fed and irrigated) in the Arab countries is estimated at about 49-52 million hectares. Land available, but not exploited for agriculture certainly amounts to nearly 80 million hectares while some sources suggest a figure of 120 million hectares. However, even the lower figure includes lands (not less than 25%) of low or marginal quality or which have no access to water supply. More detailed survey information is needed for each country.

Water from any source remains the decisive factor for any expansion. During the period 1975-85 the additionalareas added to production are expected to be 6-8 million hectares at an average annual rate of 1.3%; the major development will be in Sudan (40%) Morocco (28%) and Iraq (16%). But this 6-8 million hectares still make up only 8% of the expansion potential in the Arab region.(69)

In illustrating the great potentials for food production in Sudan and Iraq it is worthy reviewing Table 9.15 which reflects the significance of potential expansion in Sudan and Iraq. The long term potentials of Iraq for wheat production are almost double the current wheat production in the Arab world as a whole, and Sudan's potential for crop production of oil seeds is equivalent to three times the current Arab production. Furthermore, Sudan's potentials for sugar

production could entirely bridge the gap between current production and projected demand in 1985.(70)

Table 9.15

Comparison of Present Production with Long-term Production Capacity for Main Crops in Sudan and Iraq

Crop	Present Production* (million tons)	Long-term Production Capacity (million tons)	Long-term Production as per Present rate
Sudan			
Oats	1.7	22	13
Other grains	0.2	5	25
Oil seeds	0.8	12	15
Sugar cane	0.1	2.7	27
Cotton	0.6	3.1	5
Meat	0.4	3.5	9
Iraq			
Wheat	0.8	16.0	20
Barley	0.8	2.7	3
Oats	-	6.0	-
Total Grains	2.0	25	12

* Represents production of 1972-73 for Sudan and average production at end of the 1960's for Iraq.

Source: Ali, K.T. Op. cit., p. 83.

The relative costs of cultivating new areas of land in Sudan are lower than in most other Arab countries. The potential returns on such development are high in the majority of cases even though investment includes improving and adding constructing infrastructures and the provision of supporting services.(71) Sudan great potentials for food production has motivated the establishment of the Arab Authority for Agricultural Investment and Development with a promising programme which is used as a case study for Regional cooperation in Chapter 13.

9.5.3.2 Summary - Water and Land Resources and Potential for Development:(72)

From this data water and land resources and agriculture development

potential seem to be considerable in the Arab region in aggregate. However, it is concentrated in few of the countries as indicated in the following notes:

1. Current irrigation water exploitation ranges from 115-125 billion cubic metres annually taken from:

105-115 cu. m. billion from rivers (87.1%-90.5%)

8- 12 cu. m. billion from underground

3- 5 cu. m. billion from wadis

2. It is possible to increase the supply of irrigation water by 50-100 cu. m. billion annually, to increase the irrigated area by 6 million hectares.

3. Arab countries, at present, exploit around 55-65% of their surface and underground water resources as the average drainage of surface water (rivers and wadis) is around 195 billion cu. m., while the current use of water is inefficient and can be used for more expansion.

4. The rain-fed area is estimated at 39 to 44 million hectares with the largest share being for Sudan with 30 million hectares.

5. While the total Arab area under cultivation ranges from 49-52 million hectares, 80 million hectares are available for cultivation.

6. Available water resources are expected to increase the agricultural areas within the range of 6.8 million hectares during the period 1975-1985 at an annual average rate of 1.3%. The major development will be in Sudan (40%) Morocco (28%) and Iraq (16%). The 6.8 million hectares forms only 8% of the expansion potential in the Arab Region.

However, when utilizing total available surface water (using 200 from the 227 billion cu. m. for irrigation and the remainder for other uses), an increase of the agricultural area could be brought about to 16.9 million hectares (equivalent to 60% increase). In controlling the use of irrigation waters by using 7,500 cubic metres instead of 12,000 cubic per crop hectare, an increase in the annual cropped area

could be achieved around 160% (from 10.5 to 26.7 million crop hectares).

7. The CAEU/FAO 1977 Symposium concluded that the countries with the greatest proportion of irrigated land, and the greatest potentials for and an increase in production are, in order of their future potentials: Egypt, Iraq, Sudan, Syria and Morocco. These five countries possess around 90% of currently available irrigation water and irrigated areas.

Some estimates suggest that Iraq could increase its irrigated crop areas by 5.7 million hectares, i.e. by 360%. The increase corresponds to 35% of the total potentials for increasing cultivated areas in the region. This could be achieved in Iraq through better exploitation and control as well as redirecting the waters of the Tigris, the Euphrates and their tributaries.

8. Sudan, with 50% of possible agricultural rain-fed area expansion in the Arab world, deserves special attention in the realm of Arab agricultural and food production. In addition the lowest relative costs of cultivating new areas of land with high returns exist in the Sudan, even though this needs large infrastructural and supporting services investments.

9. More than half the agricultural land is concentrated in four Arab countries: Sudan, Morocco, Algeria, Syria, which together with Iraq represents 68% of all cultivated areas.

10. The area of the land effectively irrigated (without fallowing) is expected to rise from 9 million hectares to 11.5 million hectares over the coming decade at an annual rate of expansion in the irrigated lands of 2.5%. The major part of this expansion (74%) could be in Iraq, Sudan, Egypt and Syria and 17% in Arab Mahgreb countries.(73)

11. By developing available but hitherto unexploited resources (horizontal expansion) both the Arab and foreign exports are in agreement over the possibility of more than doubling or trebling Arab

agricultural production by the turn of the present century, once the inherent obstacles within the structures, systems and organizations have been removed and positive steps taken for the modernization and intensification of agriculture.(74)

All above indicators show the great potential for agricultural expansion within the Region and the fact that the location of such potential is beyond the AGS Sub-region boundaries.

9.5.3.3 Fisheries Resources and Potentials:

The following Table 9.16 summarizes the situation in relation to production and potential of fisheries in the Arab world:

Table 9.16

Area	Production 1974 (000 tons)	Potentials (000 tons)
Atlantic	292	1000
Mediterranean	115	200
Red Sea	50	100
Indian Ocean	240	1000
Arab Gulf	78	1000
Total	774	3300

Source: CAEU, & FAO Seminar, Op. cit., Opportunities for Agricultural Integration as related to comparative advantage and production specialization, p. 76.

From the above table it is seen that the annual fish production in 1974 of 775 thousand tons represented 23% of the 3.3 million tons as a potential annual catch in the Arab world.

It reflects also the importance of the Indian Ocean, Arab Gulf, as well as the Atlantic area. It is proposed to concentrate development activities in the medium-term on the Indian Ocean and Arab Gulf Area and Atlantic which is wealthier than the rest of the areas with further study and surveys to be conducted on the less wealthy Mediterranean and Red Sea areas.

The following indicators and notes are of special relevance to

fisheries development within the regional context.

1. The backwardness of Arab fisheries in general is due to the inefficiency of investment aimed at this type of economic activity together with an inefficient fishing fleet and lack of expertise, training and fishing methods. This situation was illustrated for the AGS in Chapters 3 and 5.

2. All factors point to the under-exploitation of Arab fish resources, calling for effective solutions to the problems caused by the shortage of animal protein.

3. Marine resources in the Arab world are one of the major fields of development, of no less importance than oil if properly exploited renewed and replenished, while oil depletes and eventually dries up.

The economic importance of the Arab fish wealth lies primarily in that it could significantly improve the nutrition and protein levels of the population, as well as their income levels and employment opportunities. Investment returns are proportionately large due to low production costs, being mainly the fish harvesting operation.

4. 119,000 tons (1.2%) only are produced from fresh waters out of the total Arab production of fish in 1974. Arab production was 1.2% of world production of 70 million tons.

5. Morocco is the major producer with 288,000 tons in 1974 (32%) followed by South Yemen 134,000 (15%) Oman with 100,000 (11%) and Egypt 96,000 (10%).

6. The Arab region as a whole is self-sufficient in fish with 97.7 percent for the Region and 94.4 percent for the Sub-region (Table 9.2). 58% of fish produced in 1974 was consumed locally, 26% exported outside the Arab world. Thus fish products are important when added to the total consumption which comes to 669,000 tons or 75% of the general Arab production of 1974.

7. In 1974 with an Arab population of 141 million, per capita

consumption was 4.6 kg while the world average is 18 kg. Only four Arab countries surpassed this - Muritania, S. Yemen, Oman and UAE.

8. Sweet water fish production is restricted to six countries led by Egypt with 68,000 tons in 1974, about 58% of Arab production, Sudan 22,000 (18%), Iraq 13,000 12%, Muritania 13,000 (11%), Syria and Morocco 1% each.

9. The fish potential of the Arab world may exceed 3 million tons annually. It is possible to reach 2 million tons annually, of which 58% (or 11.2 million tons) would be for human consumption raising Arab per capita consumption to 6.5 kg by 1983.

10. 1985 Estimates: With a population of 185 million, consumption is estimated at 1, 017, 500 tons giving a per capita consumption of 5.5 kg, 50% of 2 million tons production for local demand, 26% for export and 16% for industrial uses.

11. The sources of anticipated 2 million tons production may be distributed over the Arab producing areas as follows:

- Atlantic Ocean area	260,000 tons
- Mediterranean	300,000
- The Red Sea	120,000
- The Indian Ocean	620,000
- The Arab Gulf	200,000

The Mediterranean and Red Sea area areas will have a deficit of 120,000 tons which could be met by imports from neighbouring countries.

To summarise the fisheries situation - the available and potential catch of fish from the Arab Region is considered to be abundant, allowing the needs to be met while leaving a good range for export.

Despite the wealthy potential, the current stage is characterized by under exploitation and low per capita consumption, reflecting a comparative weak protein nutritional situation in comparison to international standards.

The situation calls for cooperation to develop the fisheries sector, concentrating mainly on the Indian Ocean, Arab Gulf and Atlantic areas.

9.5.3.4 Potential For Developing Animal Production:

In order to provide integration of agriculture and livestock production this should be developed in those countries having some comparative advantage. Some important relative advantage in resources are natural pastures and carrying pasture land for growing green forage, feed grains, oil, seed cake, by-products for feeding animals, together with a capability for intensive livestock farming.

There are a number of Arab countries, such as Sudan, Somalia, Iraq, Syria and Morocco which have potentials for increasing livestock production through expanding irrigated areas as well as using rain-fed fallow lands.(75)

Specialization coupled with intensive feeding could increase the rate of production considerably and effectively by 60% in mutton and 68% in wool, the two major products of sheep, in addition to improving births by 40% and milk yield by 33%.

9.6 Summary and Concluding Remarks

The preceding analysis supports the proposition that the resource base in general, and the labour force situation and the size of markets in particular, provide strong motives for the AGS to extend cooperation to the Regional context and as illustrated by industrial and agricultural sectors needs.

Examining the agricultural sector in general, and food production, in particular, it was clear that the AGS had a very weak agricultural base which has been reflected in very weak production achievements despite the notable subsidy programmes, except for fisheries in which the Sub-region has an advantage. With such a situation prevailing it leaves these countries subject to food security problems in the long run, despite financial resources which enable Governments to provide their citizens with subsidized food: the current high standard of income and consumption is disguising the potential problem. The agricultural sector

problem in general and the food potential problem in particular, strengthens the AGS need to diversify their income sources through the productive investment of their surpluses and in the wealthy agricultural potentials available within the Region. Consequently, in considering the whole agricultural spectrum in the Arab Region and possible agro-industrial integration of the AGS Sub-region and the whole Arab region one should look at agriculture as providing a strong motivation for cooperation, supported by economic as well as political considerations.

In earlier chapters the efforts of the AGS to lessen their dependence on oil export revenue and economic domination by the oil-based sector as a whole have been outlined. The results to date have not been encouraging. Future developments, in particular, continue to rely heavily on foreign workers' availability, the very limited potential of new resources, the better exploitation of known resources and an investment of their financial surpluses. All these factors are associated with strong constraints within the Sub-region. However, the Arab Region has far fewer structural constraints and far greater potentials in terms of physical and human resources and investment possibilities.

All the evidence shows that, although some limitations would remain (which require an involvement in the International circle as considered in Chapter 10), the benefits which would come from Regional cooperation are very promising. In particular, the long-term objectives of the AGS in achieving profound development changes, changes of structure not merely the facade, seem to require Regional as well as Sub-regional cooperation. This ultimately provides the basic motivation for such a move.

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CHAPTER 10 - MOTIVATION FOR COOPERATION WITHIN THE INTERNATIONAL CIRCLE

10.1 Introduction

In Chapter 8 the question of cooperation for development was first raised in terms of cooperation not only within the AGS Sub-region but also within two larger 'circles', the Arab Region and the International. In Chapter 9 the opportunities for and benefits of such cooperation within the Regional circle were discussed as well as the limiation. In this chapter we explore the need for and the feasibility of adopting a development cooperation strategy between the AGS, both directly with the non-Arab world and indirectly through trilateral arrangements. Such a strategy deliberately involving the International circle must be based on a recognition of those basic development inputs and opportunities that are only available, or more efficiently available within this largest of the three circles.

Analysis is based both on conceptual and empirical evidence, thus it starts by examining current misleading concepts of dependency. The facts of international interdependence appear from an identification of these development factors obtainable within the third circle and the motivation for cooperation at this level emerges from considerations of labour, industrialisation, trade and finance, agriculture, and science and technology.

An assessment of AGS recent development and its objectives, as well as the facts of Regional and International economic relations, highlight the following key issues:

1. A high degree of dependency on international economic relations as reflected by the following indicators:

- AGS' non-Arab foreign trade constituted 93.5% of their total foreign trade in 1977.
- Sub-regional trade constituted only 3.4%.

- AGS-Arab trade corresponded to only 3.1 percent (see Chapter 6, Table 6.13).

2. AGS development is facing serious formidable constraints relating mainly to markets, labour force, managerial capacity and weak resource base. The preceding chapters showed the potential viability of AGS cooperation within a Regional context, in the light of opportunities available to tackle such constraints.

3. The regional circle also has its own constraints and limitations and this motivates the search, generated by development needs, for wider economic circles. Thus the international circle emerged with its potential contributions through development factors (markets, technical labour and management science and technology and wider resource base) of direct relevant to the cooperative movement.

As misleading concepts are prevailing in some parts of development literature circles with respect to the term 'dependency' we begin this chapter with its discussion.

10.2 Misleading Concept of Dependency

Economic literature discussing Arab international economic relationships has many misleading ideas relating to the application of the term 'dependency' to these relationships, for example, Douidar's description of the present situation as leading to the capitalist world's absorption of Arab economies' wealth.(1)

This not untypical evaluation is based on one type of interpretation of some particular phenomena, viz. the continually growing Arab imports from the 'West' and the increasing importance to Arab economies of trade; the growth of joint ventures involving the participation of trans-national companies and banking institutions; Arab investment in the 'West' in ways which are thought to lead to the depreciation in value of such investments.

These ideas in the view of the writer of this thesis, tend to reflect a preceding ideological judgement that ignore the structural facts of international economic inter-relationships and mutual interests. They also ignore the positive development inputs of such foreign participation activities for example, relating to management, technology and marketing. Consequently, such discussion looks to the question from only one angle of vision.

Whilst it is necessary to explore the statistical and quantitative aspects of the trade and financial relationships which are used to justify such value judgements, emphasis in this chapter will be mainly directed to the qualitative effects of questions of efficiency in the management of such relations to serve the countries' development objectives.

Some particular points serve to highlight various aspects of the concept of dependency in relation to Arab international economic relations.

1. The growing trend towards greater international economic involvement does not necessarily mean increasing dependency. Reducing dependency should not be reached through reducing the size of exports and imports, but rather should be achieved through better balanced trade conditions and when directing these to meet the development objectives of achieving self sustaining growth. It is impossible both to develop and to confine the circle of cooperation to the Arab region which is characterized by a similarity of products, the inability to consume petroleum and related activities' products and an inability to supply internally many of the requirements for developments, as noted below.

2. It has to be remembered that the recent great increase in trade and other international economic activity by the AGS resulted from their own independent decisions to increase oil prices from 1973 onward which in turn generated financial surpluses that enabled AGS to

expand their international economic relations.

3. In the current stage of development either within the Sub-region or Arab region, it is legitimate to believe that:

> "Any feasible course of economic development aiming at modernization and major increases in real national product and income would have the same effect of increasing reliance upon the foreign sector."(2)

4. Equally, in a development process which relies on huge imports for investments and consumption purposes.

> "Any disruption of the flow of imports, whether as a result of political or of economic factors, would be in turn disruptive to the economy." (2)

Consequently, their exist no signs of reducing the need to Arab-International economic cooperation in the eighties and the decade which follows.(3)

These points show the necessity of analysing the Arab-International economic relations from a wide angle of vision which takes into consideration mutual interests and the benefits of cooperation, as will be illustrated and analysed in various sections of this chapter. The two-way nature of the flow of benefits implied by 'mutual interest' and 'cooperation' has, of course to be remembered continually.

We proceed, now, to examine the importance of development factors and determinants that are available to the AGS only through the International circle, special reference first being given to the question of foreign labour, this followed by a sectoral survey.

10.3 Foreign Labour and Cooperation within the International Circle

In Part One were illustrated clearly the structural constraints imposed by the size and quality of the domestic labour force and managerial capacity which face AGS development. The facts relating to the contribution of Arab labour into AGS development process, its economic importance and mutual Sub-regional and Regional interests, and the way

in which these create motivation for cooperation within a regional context were examined in Chapter 9.

Despite this need for cooperation within the region the AGS have shown in their current development policies, illustrated in Part One, clear signs of trying to reverse the earlier trend of vast in-migration of expatriate workers, for understandable cultural and social reasons. Consequently, these countries have on the one hand tried to become more selective in labour importation and on the other moved towards an alternative option, reversing the procedure of bringing the labour to where the capital is located and embarking on much greater direct productive investment and capital placements where labour is located within the wider regional and international circles.

As many economic activities within the regional circle face problems of infrastructural and institutional weakness and the lack of needed skills, thus these investments have already found outlets within the international circle (considered further in Chapter 14).

At the same time, attempts are being made by AGS to substitute less dependence on foreign workers and managerial capacities by raising domestic labour forces' productivity, as illustrated in the Saudi Third Development Plan, 1980-1985, (see Chapter 2 of Part One). Special attention is therefore being paid to the training, education and build-up of local technical labour and managerial capacities, particularly important given present deficiencies.

Despite the large reserve of labour force in the Arab Region, as shown in Chapter 9, however when considered on the light of qualitative considerations of supply and demand (size, quality, incentives to work, health, experience, etc.) it is thought that a state of general deficit prevails in the region and necessitates AGS' orientation towards the international circle to meet important parts of their qualitative needs. At the same time a state of 'brain drain' exists in some parts of the

Region and this is not expected to decrease significantly in the foreseeable future.

10.4 Industrialization as a Motivation for International Cooperation

Despite the developing world's concentration on industrialization, available indicators showed very modest results in the seventies.

While developing countries decided at the Lima Conference (March 1975) to raise their share in world industrial production to 25 percent by the year 2000, their actual share in the 'seventies was only 6.9% in comparison to 6.2% in the early 'fifties. With the Arab Region's share less than 0.5% of world industrial production(4) the experience gained by the whole developing world, (including the Arab countries) in terms of currently achieved proportional industrial production seem to be very modest. Consequently, it is very difficult to expect any profound structural changes in the industrialization process in the Arab countries either within AGS Sub-region or the region without cooperation with the most industrialized world.

The very clear backwardness of Arab industry is reflected in the following indicators:

1. The proportion of per capita industrial production to per capita GNP is 3.3% in Kuwait and 17.6% in Egypt. The last percentage whilst being the highest in the Arab Region is far below the percentage in Latin America, Europe and U.S.A. Per capita industrial consumption in the Arab countries does not exceed $ 52 U.S. compared to $ 223 in Latin America and $ 279 in the world.(5)
2. The manufacturing industry's structure in the Arab world is weaker than any part of the world as reflected in the following Table 10.1.
3. The statistical evidence (Table 10.2) as well as other economic observations on the structure of Arab economy indicate that none of the Arab countries has reached Rostow's stage of "take off into self-sustained

Table 10.1

World Manufacturing Industry Structure

World	Industrial Structure (in percentage)		
	Non-durable consumer products	Intermediate products	Capital and durable consumer and mineral products.
World	34	29	37
Capitalistic countries	35	29	36
Socialist countries	32	29	39
Latin America	52	33	15
Arab Countries	58.5	26.7	14.8

Source: IDCAS Memo On: Arab Industrial Development Strategy, First Arab Ministers of Industry Conference, Algeria, 29-31 May, 1975. Document no. WS1/102, p. 13 (Arabic).

economic growth", although some of the Arab countries, (e.g. Lebanon, Egypt and Iraq)(6) are moving faster towards the achievement of the stage of self-sustained growth.

None of the Arab countries can really be considered as industrialized. (7) and Table 10.2.

(a) The net value of manufacturing production per head in none of them is more than $ 100 per year.

(b) The proportion of active population engaged in manufacturing industry in every one of them is less than 16 percent.

(c) The exports of finished manufactures of most of them is almost negligible.

But although they cannot be considered industrialized, they differ significantly in their degree of industrialisation. Egypt has already established a wide variety of industries and is regarded in the Middle East as the factory of the Arab World. In contrast, Libya imports over 80 percent of its requirements of manufactures.

Table 10.2 also reveals that the Arab countries are foreign trade oriented:

Table IO.2

Structure of the Arab Economy (Figures are average for 1970-1976)

Country	(1) Population in millions	(2) Rate of growth of population %	(3) Gross Domestic Product in million dollars	(4) Rate of Growth of G.D.P. %	(5) Per Capita Product	(6) Net investment as % of G.D.P.	(7) Industrial origin of G.D.P. %			(8) Active labour force %			(9) Net value of manufacturing production as % of G.D.P.	(10) Proportion of active population engaged in manufacturing	(11) Exports as % of G.D.P.	(12) Manufactured exports as % of total exports	(13) Exports directed to Arab countries as % of total exports	(14) Imports as % of G.D.P.	(15) Imports of Manufactures as % of total imports	(16) Imports originating in Arab countries as % of total imports	(17) Trade with Arab countries as % of total trade
							Primary	Secondary	Tertiary	Primary	Secondary	Tertiary									
PDRY	1.9	2.5	320	6.9	176	4.0	31	8	67	62	6	32	6	4	18.1	0.2	23.3	33.3	61.6	3.5	3.8
Algeria	14.8	2.0	5400	4.8	361	9.7	55	13	31	51	16	23	13	12	22.2	6	3.4	48.6	66.8	2.9	2.7
Iraq	9.5	2.4	3750	5.1	383	10.0	53	12	35	48	10	42	12	7	54.3	0.3	3.7	28.9	64.8	14.2	3.5
Jordan	2.3	2.5	650	2.5	280	5.0	29	8	63	34	7	59	9	6	16.1	3	61.0	48.2	56.7	25.4	32.1
Kuwait	0.8	2.0	4200	3.8	5250	8.6	68	4	28	2	5	93	3	1	60.2	0.02	0.9	83.6	72.4	7.1	2.9
Lebanon	2.8	2.5	1700	5.2	500	11.8	27	17	56	57	16	27	14	13	15.0	32	48.0	54.1	54.2	23.4	26.8
Libya	2.0	2.1	4350	4.3	2175	7.9	61	9	30	35	8	57	9	6	63.2	0.1	2.3	85.3	82.9	5.2	7.9
Morocco	14.9	2.3	4000	4.1	268	6.4	38	14	48	54	10	38	12	6	25.1	4	6.9	28.7	61.1	1.9	4.3
Saudi Arabia	7.0	2.4	4050	3.4	530	5.1	82	5	38	72	8	22	4	5	63.2	0.04	3.4	74.1	62.8	10.2	3.6
Syria	8.7	2.8	1650	4.6	274	8.0	32	19	40	56	12	32	12	10	17.2	17	38.3	30.1	66.7	18.9	23.1
The Sudan	10.1	2.9	1030	2.4	115	4.7	68	10	31	70	8	30	6	4	17.1	0.1	15.1	21.8	68.1	8.8	10.2
Tunisia	5.3	2.0	1480	3.8	273	8.2	29	10	68	68	7	33	9	4	25.2	0.2	8.6	28.4	69.0	4.7	8.9
Egypt (UAR)	39.0	2.8	7300	6.8	226	11.8	33	21	44	49	10	41	10	14	10.0	14.8	12.2	16.2	57.8	5.8	8.9
N. Yemen	6.3	1.1	190	2.1	163	3.1	31	4	65	63	2	0	3	1	22.5	0.01	14.1	18.5	68.2	16.9	5.1

Source: Metwally, M.M., 'The Case for Arab Economic Integration', In L'Egypte Contemporaine, No. 376, April 1979, P. 207.

(i) the proportion of exports to national income in these countries is not less than 15 percent, and in some of them it is as high as 80 percent;

(ii) most of them earn foreign exchange from the exportation of one or two staple products;

(iii) in some of them custom duties on articles imported amount to over 50 percent of total Government revenue.

Arab Industry Structure and Development:

Industrialization has made considerable progress in the Arab world, particularly in Egypt, Lebanon, Algeria, Syria and Iraq with signs of emerging industrialization in Saudi Arabia.

However, nothing like an 'industrial revolution' has occurred.

In describing the current industrial development stage in the Arab world, Sayegh rightly expressed the situation in the following words:(8)

> "What is taking place in the Arab world is, with hardly any exception, a mere transplanting of factories and industrial technology from developed to developing countries. The theoretical and applied research that goes with industrial innovation is still largely missing; factory organisation, institutionalised industrial relations and labour discipline are still in their first stages; industrial entrepreneurship, with all that goes with it in terms of innovation and adaptation, and adoption of the forms of organisation and the patterns of division of authority appropriate to industry, is still at its early stages of evolution; and finally, only a beginning has been made in the manufacture of producers' goods - the machines that make the manufactured products. It is painful, with respect to the last point, that a region that now claims some of the most modern and technologically advanced refineries and petrochemical factories cannot itself design and make a machine that can produce needles."

We apply the World Bank indicator on the degree of country industrialization(9). Sudan, Iraq, Libya and all AGS are considered non-industrial countries, while Jordan, Syria, Morocco, and Tunisia are in the state of industrializing. Only two countries are considered to be semi-industrialized (Egypt and Lebanon), while none of the Arab

countries are considered to be industrialized.(10)

The current industrialization programme in the AGS, with Saudi Arabia as the largest among them, is expected to take many years to complete, especially if we regard this programme as including a later stage less dependent on foreign manpower, technology and managerial expertise. One has to observe that any disruption of the flow from outside the Sub-region, and even the regior of goods and personnel, would jeopardise the whole industrialization programme.

For example, non-oil mineral exploitation of potentials in the Sub-region, mainly in Saudi Arabia, and to a less extent in the UAE and Oman is expected to be a contributary part of the diversification of foreign exchange earnings (see Chapter 1). Not only survey and exploration but the later stages of extraction and processing activities could not be achieved without international cooperation to fill the gap of needed elements in the whole process.

The Omani example in the development of cooperation of industry in the country through international cooperation is applicable here. Surveys were carried out by a joint Canadian and American group (Prospection-Marshall) and studies based on the exploratory activities proved the feasibility of extracting and smelting operations of copper. It was possible to establish a joint venture through the Oman Mining Company with Oman having 75% of the shares but virtually all the skill as well as equipment still has to be imported. Even broadening the range of extractive industries requires at least joint venture projects involving the international circle and what becomes important is identifying priorities and negotiating the best terms.

Investment plans for export-oriented industries in AGS often include joint investment with large international companies which, it is believed, will secure access to foreign markets as well as provide technical know-how and managerial capacity. Joint projects with

international companies have been committed to establish industries directed also to domestic and the regional Middle Eastern market. Examples include the proposed Saudi Arabian car assembly plant in collaboration with General Motors Corporation and Nissan Motor Company of Japan.

The establishment of the Qatar Fertilizer Company (QAFCO) illustrates the ongoing cooperation between Gulf States and international companies, based on joint interests. A feasibility study on the establishment of a nitrogenous fertilizer plant in Qatar was submitted to the Government by the appointed British Industrial Consultant 'Gibb-Ewbank' in April 1968.

QAFCO as a shareholding company was established in 1969 with the participation of Norsk Hydro of Norway (20%), Davy Power Gas Corp. British (7%), Hambros Bank, British (10%), while the State of Qatar shares are 63%.

Davy Power Gas and Costain Process Engineering and Construction of the U.K. were the main contractors and Chiyoda Chemical Engineering and Construction of Japan as the main engineers, Hambros Bank remained as the financial organiser for the project, while Norsk Hydro's Nitrogen Division in Oslo acted as QAFCO's sales department and carried out independent decisions on markets, prices and quantities. QAFCO produced 507,709 metric tons of Ammonia and 640,678 metric tons of Urea in 1980, very largely for Middle Eastern and Asian markets. At every level and at every stage there was and is international involvement.(11) One U.S. official has said that several U.S. companies were planning to produce everything from cars to fertilizers in the Arab countries.(12)

Both at a conceptual and at a factual plane, everything relevant to AGS' industrial development supports the need for cooperation within an international context. This judgement in favour of cooperation seems far more valid the misleading thoughts mentioned in the first

section of this chapter. Hershlag provides further historical support in his statement:

> "A close examination of past industrial history and performance shows that even during the 'indigenous' industrial revolutions in England, Germany, France and the U.S.A., imported technology, skills and capital significantly contributed to domestic industrialization. Political, fiscal and other measures were employed to accelerate and protect the process of industrialization."(13)

The last sentence is also important in its emphasis on the efficient management of the international flows involved.

10.5 Trade and Investment

AGS and Arab Foreign Trade Relations:

The emergence of AGS as oil and gas exporting countries has created a state of joint interest and high inter-related dependency between the Sub-region and the International economy. The world economy in general developed countries depend largely on these two strategic commodities, with Arab oil reserves constituting 53.3 percent of world reserves at the end of 1978 and 43 percent of world production (excluding the Eastern bloc) in 1979. Oil and gas are essential for the international economy.

The international economy has been subject to the effects of oil and gas availability and prices. Saudi Arabia occupies a pivotal position on future energy cost and availability as proved by events since 1973. Saudi Arabia has proved to be able, through its gigantic oil reserves, production capacity and large foreign exchange reserves, to affect oil prices and availability without slowing its own economic growth. This situation has in particular strengthened the interest of the major world economic power, the U.S.A. in Saudi Arabian economic policies.(14)

The above facts create very clear need for all world economic groups to cooperate, thus motivating conscious development cooperation

policies rather than relying on 'laisser faire'.

While the AGS, in particular, and the Region, in general experienced a very low level of inter-Sub-regional and inter-regional trade during the 'seventies, they witnessed a comparatively large and growing trade with the third International circle; at the same time their foreign trade sector significantly increased its contribution to their GNP. All these developments are reflected in the following trends:(15)

The foreign trade ratio GDP is not only relatively high in the Arab world, and even higher in the oil producing countries but has increased during the period 1970-1979. Whilst the foreign trade proportion of GDP was 73 percent in 1970 for the oil group, increasing to 88 percent in 1979, it was 43 percent in 1970 for non-oil countries, increased in 1979 reaching 55 percent (Table 10.3).

Table 10.3

Share of Exports, Imports and Trade Percentage to GDP in Oil and Non-Oil Arab Groups
1970-1979

	Oil group			Non-oil group		
	Exports %	Imports %	Trade* %	Exports %	Imports %	Trade* %
1970	47	26	73	19	24	43
1974	73	25	98	29	38	67
1979	57	31	88	21	34	55

* Exports + Imports

Source: Sadiq, A.T. 'Monetary, Financial Policies and Arab Development in the 'Eighties', The Arab Planning Institute Seminar 1979/80 on Arab Development Horizons in the 'Eighties, Kuwait, Jan. 1981, Table No. 6.

While exports of AGS witnessed real decrease in growth rate, the rate of growth of imports during the period 1970-1977 was high, e.g. in Saudi Arabia while the average growth rate of exports was -8 percent in 1970-1977, the average growth rate of imports was 38.5 percent. In

Kuwait, while the average growth rate for exports was -10.9 percent, the average annual growth rate for imports was 20.3 percent.(16)

The Arab foreign trade relationship has been growing as reflected in increasing foreign trade share in GDP from 59 percent in 1970 to 80 percent in 1979. From 34 percent to 48 percent for exports and from 25 percent to 32 percent for imports.(17) This increase reflects the Arab economy dependency on international economic relations (trade and technology and capital exchange) mainly as a developing economy. At the same time analyses presented in Chapter 9, of AGS' economic structure showed the Sub-region's structural indicators on AGS and the Arab Region's backwardness.

Current facts of Arab economic cooperation with the EEC and the benefits derived from this tend to strengthen the need to seize opportunities for further cooperation.

> "Among Arab states, Algeria, Morocco, Tunisia, Egypt, Syria, Jordan and Lebanon have preferential trade terms with the EEC through cooperation agreements. Sudan, Somalia and Mauritania have duty free access for 99.4 percent of their agricultural exports to the EEC through the 1975 Lome Convention, which is being renegotiated. Other Arab League states have asked for a regional cooperation agreement within the framework of the European-Arab Dialogue, but the EEC has repeatedly rejected this demand as most of the countries concerned are oil exporters. North Yemen and South Yemen are the notable exceptions."(18)

> "Bahrain enjoys some benefits under the EEC's generalised system of preferences, which gives reduced tariff rates on manufactured imports from developing countries. For example, a 7 percent duty is levied on Bahrain's aluminium exports."(19)

The historic economic relations of Maghreb countries with Europe which tended to make these stronger than with their Arab economic relations were illustrated in Chapter 6, section 6.3.3.

Finance and Investment:

Chapters 5 and 6 showed clearly the emergence of the speedily growing AGS financial and monetary systems. Such growth is reflected in the

emergence of Kuwait as a financial centre and Bahrain as a monetary centre for off-shore banking. Equally, the financial sector has been experiencing notable joint regional projects as the first signs of GCC showed the emergence of the Gulf Company for Investment (see Chapter 5).

The financial situation in the AGS and its relevance to our topic is examined in more detail in Chapter 14. Here we are concerned only with the general pattern emerging from AGS' motivation to drive into international monetary and financial markets to find new fields in which to invest their surplus capital.

In particular we should note how AGS' international financial investment is proving an effective way to diversify AGS sources of income and revenue.

Despite all the negative aspects relating to financial investments within the developed countries as will be examined in Chapter 14, income which is being generated from such investments, in addition to the related gained expertise from dealing within international monetary and financial markets, is proving to be of growing importance. As Chapter 7 indicated Kuwait investment income has been growing in its proportional importance to other total non-oil income from 463 percent in 1973 to 757 percent in 1978. The investment income contribution to the total Government budget increased from 12.8 percent to 16.4 percent during the same period, investment income constituted also 299 percent of non-oil exports in 1978. The same situation prevailed in most AGS, especially in S. Arabia, UAE and Qatar. This situation tends to motivate the planning authorities in the Sub-region to compare the benefits derived from the domestic investments with those from a foreign investments.(20)

AGS, particularly Saudi Arabia and Kuwait have become already a notable holder of foreign exchange reserves, with Saudi Arabia occupying

the sixth rank all over all countries of the world. (See Chapter 14.) This situation has enabled both S. Arabia and Kuwait to lend to the IMF and World Bank and play a vital role within the whole international financial markets.

With AGS financial assets being held throughout the world, they acquire a strong vested interest in international financial stability.

10.6 Agriculture and Motivation for Cooperation within the Third Circle

10.6.1 Introduction

While Chapter 8 illustrated the AGS' need for cooperation as generated by agricultural sector developments factors in general and food security considerations in particular, Chapter 9 showed that cooperation within regional circle seems to be more promising than cooperation solely within the Sub-region, motivated mainly by the resource base considerations and development determinants. However, as there remain many deficiencies in the structure and development determinants of agricultural sector even within the region as illustrated later, it becomes necessary to study how the International circle could serve AGS agricultural development objectives.

While the agricultural sector in general, and food production in particular can be shown to create a motivation for AGS cooperation within the Arab regional context, many factors result in very modest inter-Arab trade in agricultural commodities. Arab agricultural production backwardness and the widening of the gap between production and rising national income, and therefore consumption, and the similarity of Arab countries' raw-material based production, exporting these to international markets and importing both raw and processed agricultural and industrial goods, all these factors, in addition to the weakness of bilateral and regional trade agreements, contribute to inter-regional

exports constituting only some 5.1 percent of their total world exports during the period 1965-73.(21)

The EEC has become the Arabs' major trade partner. In 1970-73, Arab exports to the EEC ranged from 43 to 70 percent of their total exports. Arab imports ranged from 44 to 48 percent of their total.(22) Agricultural commodities play a large part in this flow.

In illustrating the strength of Arab agricultural trade relations with the Third International circle it is worth note mentioning that:

> "The Maghreb States still continue their traditional paths regardless of the Ministers' agreements to harmonise customs duties policies and give priority to imports originating in the Maghreb countries."(23)

10.6.2 Agricultural Development Determinants and Gulf-Arab-International Cooperation

Mosher has identified ten factors as being universal for agricultural development, of which, in his belief, five are 'essentials' including markets, technology, local availability of input supplies, production incentives, and transportation. "Without any one of these there can be no agricultural development." In addition there are 'accelerators' to development which are important but not indispensable in Mosher's opinion, including education, production, credit, group action by farmers, land improvement and development and national planning.(24)

Although the author of this thesis agrees with Mosher on the ten factors of agricultural development, and in considering markets and technology as being indispensable determinant factors which support our trilateral approach to development cooperation in AGS, however we do not agree to his division between the two groups of determinants, as it is difficult to think of agricultural development without education which is an integral part of technology, as well as of production.

Regional Cooperation for Agriculture and the International Input:

Intensified direction towards joint agricultural development

projects has directly and indirectly to include a wide range of international inputs into the Sub-regional and Regional cooperative activities.

Agricultural cooperation which depends on already existing infrastructure meets with many deficiencies, needing some international inclusion of expertise on the identification and undertaking of feasibility studies and design specification for the joint projects. In addition there is the need for importing equipment and machinery, technological expertise, as well as the need for international markets which is already consuming the larger part of Arab agricultural exports in comparison to the smaller percentage of intra-regional trade on agricultural commodities.

In spite of major Arab efforts in agricultural development it is still in various stages of production underdevelopment, due particularly to several factors relating to agricultural inputs, improved seeds, fertilizers, pest control, mechanization to raise productivity and research and training. Even resource information is lacking and can only be supplied by using international expertise. Data on Arab ground and wadi waters are still inadequate. It is proposed that the Arab centre for Arid Areas in cooperation with UNESCO should undertake a comprehensive hydrological survey.(25) It is also proposed that use be made of the techniques of areal photography and remote sensing to enable an integrated study of water systems and in selecting priority areas for their development; here again technological international dependence is clear.

Training Input:

The implementation of regional projects requires the training of specific types of technical manpower, identified as follows by the CAEU and FAO:(26)

1. A sufficient number of engineers specialized in land reclamation.
2. A group of economic experts and specialists in economic feasibility

of projects, especially as regards agro-industrial complexes, the modern trend being in favour of this type of integrated agriculture.

3. The necessary number of engineers qualified to cultivate newly reclaimed areas and select suitable crops.

4. A sufficient number of skilled workers to be trained in modern agricultural methods, mechanization, operation of farm machinery and modern transport equipment.

5. A high level of administrators capable of managing large scale farms, using an approach unaffected by traditional agriculture.

Management and Technology:

Effective institutions for agricultural development will require reinforcements, with both long-term staff and short-term interchanges from developed countries.

> "While technology often cannot be transferred from temporate to tropical climates, scientific competence can."(27)

Marketing:

This field, as with others which will be discussed, is a near-perfect example of the nature of AGS economic inter-relationships in the Sub-region, and with the Arab Region and the International circle, i.e. the three circles identified in the Introduction as the over-lapping circles in which cooperation for development becomes important. Although - even because of - the globally unique characteristics of the AGS collective economy, the AGS Sub-region is inextricably tied in with the larger circles.

For example, import restrictions imposed by the developed world on the flow of commodities from the developing countries are seen as a serious danger to the disposal of agricultural surpluses by the latter,

> "as illustrated in the protection of temperate sugar-beet production against cane-sugar which can be produced in tropical and sub-tropical countries at much lower costs."(28)

The AGS are not at the moment directly affected by such restrictions although fisheries and associated activities could face such a danger in the future. What is important is that the potential for cooperation within the Region, between the AGS and other Arab countries as described in Chapter 9, can only be fully realised if the increased agricultural production which could result found open outlets in the world as a whole. The linkages between Arab agricultural exports and non-Arab markets is already strong (see Table 10.4). As noted in Chapter 9, and referred to in the Sudan case-study in Chapter 13, Regional agricultural cooperation would involve the combining of AGS capital, other Regional resources and International technology and expertise. The potential exists for this Regional production of some commodities, such as cotton, oil-seeds, fruits, vegetables, and sugar, beyond the demand capacity of the AGS and the Arab Region. If such surpluses are prevented by trade restrictions from finding other markets and particularly in the more developed regions such as the EEC, then the basis for cooperation within the Region is weakened and the motivation for AGS involvement in such cooperation could be significantly diminished. This inevitably would mean that the chance of success for trilaterally based activities would be decreased, and all the evidence show that without such trilateral arrangements, the present fragmented situation would decrease benefits all round. It is in this context that the following statement is relevent:

> "The paramount threat to the green revolution is the availability of markets rather than production technology."(29)

It is also true that international marketing organisation and experience is of special importance to soundly based agricultural development. The historical experience of Europe and the U.K. support this assertion. For example, in England the main determinants which provided the driving force behind eighteenth and nineteenth agricultural

Table 10.4

Export of Food Stuffs from Arab Countries. Average 1971-1973, in tons

Commodity	A To World	B To Arab World	Proportion B of A
Wheat	200,991	19,714	9.8
Sugar	251,635	63,488	25.2
Oil seeds	333,208	44,563	13.4
Fruit	1,598,014	394,643	24.5
Vegetables	1,098,714	238,096	21.7
Meat & by-Prod.	13,136	6,957	52.9
Livestock	250,354	243,957	97.4
Milk & Dairy Prod.	22,511	20,681	91.9
Eggs	20,067	19,218	95.8
Fish	34,754	1,012	2.9

Source: CAEU & FAO, 'Economic Integration and Trade Expansion among Arab States with Special Reference to the Agricultural Sector', Seminar on Agricultural Aspects of Economic Integration Organs in the Arab World and the Role of CAEU, 1977, Table 6, p. 87.

revolution can be summarised thus:

1. The rise of a very commercially oriented group of entrepreneurs.

2. The expansion of domestic and foreign commerce with the entrepreneurial group exploiting the expanded market for established products as well as the creation of new markets for the new products.

This process was vital because, as Ellis and Buchanan have pointed out(30)

> "the eighteenth century improvements in agriculture ... are fundamental, for without them advances in industry could hardly have proceeded as they did."

The whole process created an environment favourable to a new class of energetic landlords who at the production end of the linkage found it worth investing capital and employing new technology in agriculture.(31) Some of this new technology was imported but even more became exported to other lands such as Denmark, North America etc.(32) This flow of expertise is similarly vital to AGS-Arab regional agricultural development

Technical knowledge needed for agricultural development in the region can of course be obtained not only from western countries of USA and Europe, as they may not be the sole reservoirs of technical knowledge as Japanese methods, for example, have constantly improved the land and the forests, while supporting the highest recorded density of rural population with a standard of living considerably superior to the rest of Asia. Japan would have much to offer in techniques applicable to many areas.(33)

Infrastructure:

The importance of infrastructure, including all services and facilities, without which all regional development efforts will be impeded has already been stressed in Chapter 9. It is clear that regional cooperation in agriculture is not expected to lessen the need for an international contribution of inputs to the regional development process through its various stages. To the contrary it will lead to

increased international inputs of an infrastructural type (management, expertise, science and technology, training, importing equipment and marketing, etc.). However, this does not mean increasing vulnerability and dependency since this direction would be taken within a designed movement towards agricultural expansion and self reliance on food production, and agro-industrialization.

The role of United Nations agencies which is included in our definition of the international circle is very vital as already mentioned in many parts of this thesis, spreading to include the Gulf Sub-region and many other Sub-regional and Regional groupings.

10.7 Transfer of Technology

It has already emerged in this study that the transfer of technology is vital to AGS development. Here we are concerned with the fundamental meaning of technology in this context, the basis for the successful transfer and application of technology, and the contribution offered by AGS-International cooperation in this field.

10.7.1 Science and Technology - Conceptual Framework

The material wealth of a country or a group of countries depends on the production of goods and services through the coordinated use of the available supplies of human skills, capital, land, and natural resources. Economic growth can stem from greater production through the use of more resources and from greater productivity through the more efficient use of resources.

Technology contributes to both aspects, through increasing the utility of available resources - as in allowing the productive use of land previously considered infertile, or by discovering an economic use for raw material previously thought valueless and by productivity improvements through increased skills, better methods, and better machines.(34)

Science is 'know why' while technology is 'know how'. Science produces knowledge while technology helps to produce wealth. Science provides the pool of basic knowledge and understanding on which technology increasingly depends. The transfer of technology:

> "can be viewed to cover the transfer of those elements of technological knowledge that are normally required in setting up and operating new production or service facilities or extending existing ones. In its broadest sense this process involves (i) transfer of materials; (ii) purchase of machinery and equipment; (iii) transfer of designs, blueprints, technical literature and/or (iv) transfer of a technical capability permitting production and/or adaptation."(35)

Science and technology could then be considered as the fuel needed for the engine of development in the Sub-region which does not suffer from a shortage of capital so often the key constraint on technological change. Thus a large part of success in the diversification strategy would seem to rely upon the sound application of science and technology in the utilisation of a skewed physical resource base and quantitatively limited human resources. However, as shown below, this is not a simple matter.

10.7.2 Technology and Economic Development

It is increasingly being realised that small isolated economies have been rendered non-viable by technical revolutions in production, transportation, marketing and administration. No large project can be successful unless it is backed by a large and complex technical base and served by highly sophisticated large-scale marketing.(36) Individual countries may attempt to build up individual capabilities for research and technology but although some Arab Gulf countries, such as Kuwait, have established special centres for this purpose, it is being realised that this approach is very limited. The AGS are aware of the fact that even Sub-regional collective efforts are insufficient to build up the needed scientific and technological institutions and they need to

become part of the larger international scene.(37)

Even States which are much larger than the AGS are also coming to recognise that in addition to the research and technology base, the successful application of technology to production makes vast demands on a great range of skills and understanding. For example, Iraq has found that the 'green revolution' requires far more than the simple sowing of High Yield Varieties (HYV) of grain. Since 1965 both imported and locally produced wheat HYV's have been used and even by 1972-73 35% of the cultivated area was under Mexipak.(38) However, as Jawad Al-Tahan has pointed out, there was no significant change in the yield of wheat between 1949-50 and 1975-76 and it is clear that

> "many socio-economic and institutional factors together with other technical factors, i.e. mechanization, irrigation and drainage facilities, certainly reduced the potential gains from the 'Green Revolution'."(39)

What was required but was not forthcoming was a whole range of effective technical and institutional back-up inputs through extension services, cooperatives, machinery and other supply agencies, marketing organisations etc. Even in a large country such as Iraq these could not be supplied satisfactorily from domestic resources; it seems that the full implications of the use even of HYV technology in agriculture were not realised.

Similar situations are found in other sectors. Even before the peak of the Japanese impact on the world automotive industries developed during the 1970's, the overall cost for manufacturing automobile products in developing countries was some 80% above the world market level and a significant part of this difference was not due to dis-economies of scale but to poor technological utilisation of imported plant.(40) Already in 1971 it was being pointed out that the varied and large supportive technological demands required for the effective utilisation of computers were insufficiently appreciated by developing countries.(41)

If science and technology are regarded as of vital importance to the AGS then it is crucial that the successful basis is established for their transfer and application.

10.7.3 Basis for Viable Application of Science and Technology

> "Arab countries have been securing the services of international firms for the execution of projects on a very large scale. The cost of projects is fairly high and the extent to which these projects are integrated in the national economies is also very limited. In fact most projects persist as isolated enclosures. The performance of many of them after completion is often below expectation."(42)

This is not an abnormal situation; Baranson has pointed out that

> "newly industrializing countries on the one hand are not able to influence the policies and practices of multinational corporations in transferring technology; on the other, they lack the indigenous capabilities to design and manufacture industrial products and production systems."(43)

What is the way out?

In broad terms, it is now believed that greater benefits would come from developing countries' expenditures if these were directed, firstly, within integrative approaches which secured the development of efficient and effective institutions, policies, values and manpower to plan and manage these processes.(44) Secondly, these measures have to be taken within a more deliberately organised framework of cooperation between countries at different levels of development and technology.(45) In the following we refer to the main elements needed to provide a favourable platform for the process of integrating science and technology into the development movement.

(a) Cultural and Social Change:

Some writers give economic and social factor higher weight than the lack of scientific and technological knowledge as a limiting factor in the application of science and technology in developing countries.

Economic and social factors include education, communication, acceptability of new ideas, administrative effectiveness, business enterprise and political leadership.

> "Social and cultural traditions are often positive barriers to change, and economic growth will require extensive and intensive changes in human values and attitudes, as well as in social and political structures. Only within the broader context of development, can science and technology make an effective contribution."(46)

While these factors are needed to developing countries, they are especially relevant in the case of AGS where those socio-economic and political factors inhibiting the effective application of science and technology need to be analysed and practical means for overcoming them devised.

(b) Education and Training:

The benefits of technical change are achieved at the cost of heavy investments in education and training, in research and development (R and D) and in capital equipment embodying the results of R and D. Such heavy investment sometimes implies a temporary reduction in the living standards of the people.(47) In the AGS there would appear to be ample scope for financial manoeuvring.

Education and training is needed at many different levels, as the application of new technical knowledge to production and manufacture requires trained personnel at all stages of the innovation process. In practice, innova tion may arise, not only from R and D, but also from operational improvements by managerial or production personnel.(48)

What is required is not simply formal mass education but education and training linked to R and D designed to achieve the optimum deployment of qualified technical and managerial personnel who are, often, in short supply.

Unselective and excessive expenditure on R and D can be counter-productive,(49) whilst at the same time a general broad-front growth in

the provision of further and higher education does not necessarily create directly the specialist skills required for development. Every one of the AGS will have at least one university by 1983 but the question has to be asked whether each national-based institution will or can contribute to the profound changes necessary for real technological process, viz.

- in social systems and human attitudes;
- in knowledge and human skills;
- in the physical elements in which technology is embodied.

The process of planting the values of fundamental and applied research work within AGS institutions and education establishments seems to be of direct relevance to their development.

It is relevant here to quote Sir Eric Ashby's words:

> "Higher education is unlikely to bring its full benefit to a country unless its content, emphasis, and balance between different fields of study, are adapted to the indigenous culture and the nation's economic environment."(50)

The heavy demands made by administration on trained cadres in the AGS, as well as the tendency to dedicate personal efforts to business and wealth generating activities weaken the motives for research and even make contact with research virtually difficult if not impossible. Such a situation calls for Governments and scientific institutions to mobilize their human potential in research and technology and create an atmosphere encouraging to cooperative work, Sub-regionally, Regionally and Internationally.

(c) Adaptation to Local Conditions:

International transfer of technology to the Arab countries needs to be viewed as a catalyst for accelerated growth and indigenous technological development as well as an instrument for attaining the general objective of reducing technological dependence.

A reduction in external dependence appears difficult to achieve if not impossible over the next several decades.(51) Consequently, AGS which need to rely almost entirely on imported technologies for a long time to come, should concentrate their efforts on adaptation of technology to local conditions, resources, labour skills and social institutions.

> "As development proceeds local resources can be increasingly allocated to R and D, and dependence on imported technology can be reduced."(52)

It is important to note that it would be wasteful to apply severely limited resources to reinvesting in technologies already in existence and available through copying or licensing. (See 10.7.4 Technology and Balance of Payments.)

> "The transfer of technology must be rather innovative than imitative process."(53)

Experience indicated many research centres in developing world were directing their activities towards developed world needs.

It is of similar importance to stress the need to adapt education systems to suit local needs, particularly as experience showed a tendency in developing countries' universities to follow the models of European universities, and out of touch with the local people and national needs.(54)

> "While the results of some of the developed world's R and D appears in less developed countries in the form of modern equipment and new processes, very little of it is specifically concerned with the problems of the developing world."(55)

The technologies of an advanced industrialized society have been developed in response to the needs and conditions of that society, particularly with regard to markets - normally large, and with comparatively high incomes - and to resources and their comparative costs - high labour costs, but an adequate supply of capital and strong managerial and technical skills.

In the developing world, where shortage of skills and capital (excluding AGS for capital) plentiful unskilled labour and small markets, a real adaptation of imported technology to local conditions as it is of the same importance to know how and which kind of technology to be imported.(56)

10.7.4 AGS and Cooperation on Science and Technology

In general, AGS economies are dependent on imported science and technology which are embodied in physical capital. The reasons are many, but the most important can be traced to the smallness of local markets, which do not often justify on economic grounds the creation of a capital goods industry, and the absence of a scientific and technological infrastructure normally required for a research and development-intensive industry. Despite the appearance of national will and the existence of abundant financial resources, which are two necessary conditions for the establishment of such science and technology-intensive industry, these are not sufficient by themselves to bring into being this type of industry.

Therefore, it would be fair to say that AGS are almost totally dependent on the International circle for foreign equipment, machinery and other forms of physical capital. International dependence appears to be less in regard to skilled manpower, however, the declining degree of dependence over the last decade has resulted from AGS' ability, particularly Kuwait and Saudi Arabia to attract Arab as well as non-Arab scientists, engineers, technicians and professionals in practically every field.(57) Thus it should be emphasised that lessening the degree of dependence on foreign human capital is one thing and claiming an end to the problem of a high-skilled manpower shortage is another. As was stated at the Kuwaiti Symposium report on Science and Technology for development in Kuwait:

> "What has actually happened is that the country has substituted foreign consultants with 'in-house' foreign consultants, that is, there is still a substantial supply shortage of Kuwaiti scientists and engineers."(58)

This problem is not projected to be solved in the foreseeable future. The Kuwaiti Ministry of Planning forecast that skilled manpower requirements will be 167.5 thousand by the year 2000 while domestic supply is not expected to exceed 67.5 thousand.(59)

Absorption as opposed to the importation of science and technology has been slow in AGS in part because of their abundant funds.

In all the AGS' private sectors, the entrepreneurial groups which exist tend to launch enterprises if potential markets are seen to exist. Given ample funds the result is the uncoordinated piecemeal importation of the tools of technology rather than the slower process of building up the basis of technology. As has been recognised in Kuwait,(60) which in this respect is typical of all the AGS, the public sector tends to operate in the same way. National industrial enterprises are total package imports based on heavily subsidised utilities and developed sites. Import duties are practically non-existent and always waived for Government projects. As a whole, therefore, there is no financial incentive to be selective about imported technology and little incentive to encourage cross-fertilisation.

If one then adds the problem of the small absorptive capacities of the individual AGS and the consequent limitation on the benefits obtainable from the application of large-scale technology then the need for cooperation becomes very clear.

The establishment of joint centres for research and development, e.g. in agriculture, either on a sub-regional or regional basis are justified on the light of the above discussion. Such centres could

be based on integrated research work that includes appropriate fertilizer use techniques, adequate means of pest and disease control, together with necessary planting, cultivation and animal nutrition, irrigation and management techniques. Economic Researches on production, marketing, food security and agricultural cooperation prospects would also be better carried out on a Sub-regional and Regional basis. Moreover, the qualitative and quantitative up-grading this would bring would enable the AGS to obtain far greater benefits from International cooperation.

The industrial movement is characterized, as shown in Part One, by importing most of the elements of its projects and factories, at the same time directing the bulk of investments towards petrochemicals. An example of the first tendency is the recent establishment by the American General Motors Company of a vehicle assembly plant in Saudi Arabia. What is needed here is the build-up of technology rather than the pseudo domestic supply of market need of cars.

The emergence of huge petrochemical industries within the Sub-region faces, as we have noted earlier, many potential dangers. We must add to these dangers the continuing technological advancement in developed countries which is expected to result in supplying the world markets with a competitive petrochemical product caused by adopting new methods of production and leading to cheaper products than the ones which will come on stream in AGS.(61) This obviously calls for attention to be directed to research and technological fields with respect to innovative rather than imitative AGS petrochemical industries.(62)

Technological Balance of Payments and Cooperation:

It is neither necessary, nor practicable to rely entirely on one's own research and development (R and D). The results of scientific research are available internationally through publications, and the results of most technological research are available in the market place -

in the shape of new machines or materials or through the purchase of patents and licences. Technical know-how is a standard commodity in international markets.

This is why despite the relatively high rate of R and D expenditure, in the U.K., it produces only about 10 percent of the world's technological discoveries, and relies heavily on bying from outside.(63) Japan has for many years had an adverse balance of trade in patents and industrial licences.

Jones has pointed out that while developing countries received 1% of the world total receipts from technology in 1964 they paid 8%. U.S.A. received 57% while paying for 12%, U.K. received 12% while paying for 25%.(64) U.S. has been the only country which achieved a positive technological balance of payment in 1964.

The AGS would receive greater medium and longer term advantages from the purchase of know-how through patents and licenses in order to create the foundation for home-based R and D than they get from merely buying the imported results of other nations'technological progress. This is not a simple matter. It requires a deep appreciation of the real implications of development and a recognition that cooperation of a full trilateral type is necessary.

This section on science and technology as a motivation for cooperation has shown that AGS need to apply science and technology in order to serve their objective of diversifying of their economic base. Effective use of science and technology necessitate socio-economic and administrative measures and activities which constitute a pre-condition for that effective application. At the same time the nature of science and technology application calls for joint efforts, sub-regionally or regionally towards the build up of research, training and education institutions. Their activities are proposed to be based on careful studies of the kind of problems to be tackled in appropriate sectors of

their economies.

As we have seen the international circle constitutes the main source for the transfer of technology and science. In the light of the examples given the question of science and technology demands cooperation within the international circle, such cooperation to be based on concrete and constructive policies.

10.8 Summary

This chapter examined the need for AGS cooperation within the international circle on the basis of fundamental development needs as well as facts characterizing AGS development. Analysing the need for cooperation on labour force, particularly with respect to technical labour, has shown that in addition to the necessity for cooperation within the regional circle, the third circle proves to be the main source for needed technical labour with its qualitative advantages.

Cooperation in industrialization requires securing a stronger foundation for AGS industrial development than the regional circle which has its own industrial deficiencies and backwardness can provide. Strengthening the research, training and technological base of AGS industry, which should have a priority in the current and coming stage, can only be supported effectively through the international circle.

In examining the role of cooperation within the third circle in supporting AGS and Arab agricultural development, it was clear that through training, technology, marketing cooperation could be of vital importance. The facts of AGS and Arab trade relations reflect a high degree of dependency on the third circle. Such dependency was explained and justified, and constructive dependency must be considered when formulating any strategy for development and development cooperation. AGS' dependence on the third circle as an outlet for investment of their financial surpluses and as a source of training, management and

technical capabilities in the rapidly growing industry of finance is clear and call for cooperation on constructive basis.

AGS' extensive need for the development of their science related activities (education, research and training) and technological capabilities in order to serve development in general and the diversification strategy in particular can only be met through the main international sources of science and technology. At the same time these activities necessitate the pooling of AGS efforts sub-regionally and regionally in order to make the best use of economies of scale and obtaining the most favourable conditions and returns from this trade in expertise.

In conclusion one can safely indicate the vital importance of cooperation within the International circle. Cooperation within the Sub-regional and Regional context does not weaken the need for this third circle involvement. On the contrary, since the first two circles have their own limits and difficiencies, they tend to create the motive to direct the development movement of AGS into trilateral paths.

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(9) World bank measuring indicator for industrialization degree of a country supposes that the share of manufacturing industry to the total commodity producing sectors (agriculture, manufacturing and extraction industry, electricity and water when between 0 and 20% country is non-industrialized, when between 29%-40% country is industrializing, when between 40%-60% country is semi-industrial, when more than 60% country is industrialized. See: IDCAS, Op. cit., p. 12.

(10) Ibid., pp. 12-13.

(11) QAFCO example reflects the pragmatic approach being followed within AGS on industrial development, in its micro level, analyses of the company's structure, development and various inputs which include Qatari Capital and raw materials with Arab and Asian labour with Western technology and expertise (management and marketing) illustrate a situation created by the AGS' real need to achieve industrial development. See: Al-Kubaisi, M.A. 'QAFCO: The Growth of Manufacturing Industry in Qatar', In, The Arab Gulf Journal, Vol. 2, No. 1, April 1982, pp. 81-93.

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PART FOUR

THE PRAGMATIC APPROACH TO AGS DEVELOPMENT COOPERATION

CHAPTER 11 - THE CONCEPTUAL BACKGROUND TO AND THE PRACTICAL BASIS FOR VIABLE AGS DEVELOPMENT COOPERATION

11.1 Introduction

Since the 1950s there has been growing discussion of the theoretical and conceptual principles involved in economic cooperation between countries. (The terms cooperation and integration are used interchangeably in much of the literature and, for the moment, will continue to be used in this way in this thesis.) Discussion has included debate on the value of various types or forms of cooperation and this section is devoted to this particular question.

For present purposes, the main types of cooperation/integration arrangements can be classified as follows. First, trade-oriented comprehensive integration in which can be included the free-trade associations, customs unions and common markets, as instituted in Europe, Latin America and the Arab League. Secondly, there are the development oriented, selectively partial approaches involving arrangements covering particular commodities, projects and sectors; these have been applied in some areas of the developing world.

Section 11.2 examines the theoretical and conceptual background to this typology of the formsof cooperation

Section 11.3 analyses the practical experience derived from some recent cooperation efforts utilising the two different approaches (Trade oriented and Development oriented). Within the context of relevant general experience of developing countries two case-studies, of the East African Community (EAC) and of the Me kong Project, are used to illustrate the salient differences between the two approaches.

At the outset we should stress the fact that economic cooperation is still regarded as a factor to be taken into account in efforts for socio-economic development in developing countries despite all past

disappointments. The need for and potential benefits of cooperation were amply illustrated in preceding chapters, whilst past and recent disappointments relating to cooperation schemes suggest not that the cooperation principle should be abandoned but that greater and more pragmatic efforts to secure these benefits have to be adopted.

11.2 Conceptual Background

Developed and Developing Countries:

The consequences of any cooperation movement depend on the characteristics of the adopted scheme and of its instruments directed to the mobilization of factors of production and trade.

Some of the effects have been classified as static and others are dynamic, the former relating mainly to the re-allocation of factors of production, to problems of consumption and to the terms of trade. The dynamic effects are related largely to the way in which cooperation alters the possibilities for economic growth in participating countries.(1)

It is generally agreed that integration does not have the same meaning for less developed countries as for advanced countries, and while the attention of the latter has been until very recently focussed on the static effects of integration, dynamic effects are the significant issue in the case of less developing countries. It is these dynamic effects which demand our attention while designing a pragmatic approach for AGS cooperation scheme.

Thus, cooperative programmes are seen here much more as an alternative path of economic development than as a way merely of allowing a better allocation of a given stock of factors of production.

> "With less developed countries, it is much more important to examine the opportunities that integration opens for the growth of diversification of their economies."(2)

Development strategies, moreover, are not only different as

between developing countries and developed countries, but also vary from one developing country to another as well as from one group of developing countries to another.

The long term targets of low-income and middle income developing countries will nearly always remain: population growth control, increase in per capita income through modernization of agriculture, industry and service, efficient management and greater domestic and international equality. A relatively recent addition is quality of life, more relevant to the middle income group than the low, implying a healthier environment even at the expense of rapid technological and economic progress, and particularly industrialization.

AGS' development objectives and socio-economic structure, as noted earlier, are different; as a result the AGS have to choose a different avenue to their development cooperation in order to achieve their objectives. Even so, as Abangwa has suggested:

> "It appears that any meaningful analysis of the strategy of economic integration must possess at least five basic elements:" (3)

(i) Objectives

(ii) Means

(iii) Constraints

(iv) Instruments

(v) Commitments

As we examine the possible forms of cooperation, we have to bear in mind these basic elements.

11.2.1 Forms of Cooperation

In theory and practice many forms of cooperation and integration have been known and applied as instruments to achieve certain objectives through cooperative efforts, types are theoretically limitless. For our analysis purpose we will distinguish between two forms of approach within each of which are contained many sub-forms.

The first approach includes what is termed the 'trade approach, while the second approach includes what recently has been called the 'development-oriented approach'. Despite the inclusion and interaction of trade and development activities within both approaches, (see Chapter 11, section 11.2.2), some important differences are identifiable:

1. Whilst integration movement requires, as we shall see, holistic cooperative measures in the trade-oriented approach, development-oriented integration can be directed through selectively partial sectoral or project cooperation.

2. The whole structure of the trade approach is based on trade as an instrument directed to achieve gains from cooperation through trade policy instruments, noting however the necessary distinction between trade-conversion and trade creation. The development approach is directed primarily to the structural changes necessary for the development of the economies of the participating countries, and looks at the trade instrument only as one of the contributory elements not the basic element in cooperation.

3. Development oriented cooperation can be understood as involving partial economic integration, with a planning or programming content through which negotiated divisions of labour or agreed specialization and complementary agreements can be made. This can work in two ways. First, agreements on a product to be jointly produced for a unified market or to be produced by one country for a unified market, this leading to liberalization of trade in these products with the possibility if the need arises, the imposition of a productive tariff against other countries.

4. The effects of trade-oriented cooperation may be felt in the short run and can lend themselves to relatively clear measurement. Development-oriented approach effects, deliberately aimed at structural change, are of a long-term nature and more difficult to measure within

the short and medium term.

11.2.2 The Trade Approach to Cooperation

This approach is based on the classical theory of economic integration based on creating different trade-oriented degrees of cooperative instruments ranging from free trade areas to economic uions. In this scheme, with its theoretical justification originating in the work of Viner and the evolution of the theory thereafter, cooperating countries attempt only to free trade among themselves, usually in gradual steps. The participating countries first liberate their inter-regional trade from all restrictions at the stage of 'Free Trade Area' and then erect a common external tariff wall at the 'Customs Union' stage. Behind this wall there is an extension of the free movement of goods to include the free movement of factors of production, this moving towards the stage of 'Common Market', which also implies achieving the harmonization and coordination of economic and trade policies. The stage of economic union includes, hypothetically and logically, in addition to all the above-mentioned measures, the unification of various economic components and the creation of a supra-national regional economic machinery to control the whole participating economies.

The real issue however must not be centred on whether intra-regional trade is relevant but rather:

1. How much of such trade is needed to sustain the cooperation process.
2. What are the policy requirements for promoting it and how such policies affect the rest of the economic system and its multiple objectives.
3. Whether trade will be the primary force of cooperation or whether it would be used in specific areas as one of the instruments which service other more significant policy options within the context of

regional cooperation. (4)

This issue and related questions will be analysed in Chapter 12 as related to the AGS situation.

11.2.3 The Development Approach

The 'Development Oriented Approach' to cooperation, as far as the writer of this thesis knows, has not been formally dealt with as such, either in the theory of international economic relations (within which economic integration studies lie) or in the theory of economic development. This term has been used to comprehend various cooperative approaches which deny the universal validity of the classic and trade oriented approach, and rather direct economies towards achieving specific development objectives through common policies in economic development, this based on planning or programming.

Recent literature's emphasis on the distinction between the static and dynamic effects of economic integration, mainly of developing countries, is especially relevant here.

The traditional theory of economic integration concentrates on the static effects. It is suggested that this treatment is inadequate, especially when economic integration is viewed from the standpoint of LDC's, (1) analytically because, taking the primary objective of LDC's to be economic development which is a dynamic process, economic integration should be treated in terms of its dynamic rather than short-run static effects; and (2) empirically, there are some estimates which show that the static gains or losses of economic integration as negligible. (5)

Deficiencies found in the trade approach concept resulted in Dosser's reinterpretation of the old idea of trade creation and trade diversion as development creation and development diversion.

> "Customs Union arrangements may lead to development outside the union, this is development diversion, if they are conducive to economic development of the member States, that is development creation." (6)

In general, the development-oriented selectively partial approach to cooperation can include many sub-forms, e.g. the multi-sectoral, the sector by sector and the project by project type. A variety of combinations of elements is possible, depending on the development aims of a particular group of countries, their socio-economic structures and intended structural changes. What is important is the deliberate recognition by the cooperating countries that, whether on the sectoral or project plane, some coordinated planning and management is necessary for the achievement not only of agreed specific objectives but for those mutually agreed structural development aims.

The Sectoral Approach:

Sectoral cooperation allows for reasonably good insight and control of the distribution of benefits within any integration scheme, certainly superior to those which follow from simple trade arrangements. There are of course some dangers. As Willgerodt has pointed out, for example:

> "Disintegration of other less integrated sectors may result if factors of production are attracted by the integrated sector from other export industries."(7)

Consequently, a joint planning unit is required to follow-up the process of cooperation in sectors subject to it, to avoid detrimental linkage affects on other sectors of the economy.

As the concept of coordinated planned cooperation for development has emerged, whereas formerly projects were viewed in isolation from the rest of the economy, they are now being viewed not only in relation to individual development plans of each country but also in relation to each other. Some large degree of harmonisation becomes essential. The merit of this approach is that the planned future is being looked at so as to facilitate an agreed scheme of specialization among the participating countries. Secondly, it ultimately has to take into consideration all sectors and all planned projects, not merely one industry

or one project in isolation. This approach can better satisfy the criteria of reciprocity and equal advantages for the participating countries.(8)

The evolution of cooperative organisations involving developing countries, cooperation bodies has shown that greater importance in cooperation between States has to be attached, not to trade exchange, loans or warding off payments imbalances, but rather to specialization and cooperation in production with the goal of realizing the economic integration of member States through a long term, comprehensive plan for joint economic activity. Coordination between planners is therefore the necessary springboard for integration just as long term planning is a pre-requisite to a general Arab economic blueprint. This requires countries to undertake their own plans. A limited approach to planning harmonization covers common interests (export prices, joint development and infrastructural links etc.).

Sub-regional or Regional joint planning coordination require strong political goodwill, infrastructural expansion, including highly efficient planning machinery at a national as well as Sub-regional and Regional level and a very efficient process of exchanging of information and ideas relating to possible areas of cooperation.

Planning coordination is divided into two broad types, the first of a holistic nature which includes all sectors of economies; the second is partial economic integration which means 'negotiated' division of labour or agreed specialization or complementarity agreements.

While the idea behind joint planning harmonization was created by the known interrelations between various development activities, as was noted earlier, there are many economists who are in favour of practical selective planning harmonization based on joint projects and activities, otherwise joint planning ideas will remain dreams. At the same time partial selective planning will have the advantage of time in comparison

to the needed waiting till consistent regional plan is formulated.

The Advantages of Joint Projects:

The concept of joint projects has a dynamic content and viewed in the light of difficulties encountered in coordination of plans, specialization and intra-regional trade, to be the best solution for Arab economic cooperation. Joint projects are considered also to have the following advantages:(9)

1. They avoid many of the pitfalls associated with multilateralism.
2. They can bring about a better allocation of resources and reduction in costs.
3. Are more acceptable from political point of view.
4. Provide a better opportunity for the application of reciprocity and joint justice distribution of benefits and costs, as illustrated by the 'Mechong Projects' in Section 11.3.2.

11.2.4 Conceptual Basis for Viable Cooperation

A large part of the economic literature on cooperation in the developing world has been characterized by non-practical approaches which design theoretical approaches based on either schemes being followed in the developed world, or the assessment in isolation of the means or instruments used (e.g. free trade and Customs Union, Common Market, etc.) rather than on how cooperation, as a determinant factor of development can be a means to achieve certain economic and social objectives within the development process. Such approaches tend to give little attention to the economic and political environment within which they are supposed to operate.

As Vaitsos has put it: (10)

> "As a general conclusion, we can state that a large part of the economic literature on integration is characterized by a high degree of fetishism."

In the following, we will examine the basic issues with respect to realistic concepts of successful cooperation.

Political Aspects of Development Cooperation:

Research reinforces the experience of the writer of this thesis that political determinants are of great significance for development as well as for development cooperation. Four major elements are most relevant to the framework: political stability in the context of a political system amenable to and welcoming planning; development orientation of the political leadership; an efficient civil service which is not an over-burdened bureaucracy with fragmented loyalties; and appropriate planning institutions and instruments. The political stability required is one which is seasoned with political participation; otherwise the stability would be the product of autocratic rule and would defuse potential popular enthusiasm for the plan and cooperation for its success.

A country can be said to be committing itself to an integration move if it is willing to mobilize its political, social, cultural, economic, technocratic and bureaucratic resources towards that goal.

A performance gap will be caused by frequent and sharp change in political authority and system, and therefore in the degree of stability and to unpredictable changes in the planning environment.

Confusion of terms and concepts frequently renders analysis and projections difficult. In discussing strategies and scenarios, it is important to draw clear dividing lines between extrapolated genuine trends and choices between realistic options on the one hand, and on the other, strategies recommended for the achievement of desired targets under optimal conditions. What should be avoided is a certain tendency in developing countries to mix up real-life-oriented options and wishful scenarios, which may or may not be rooted in realistic assessments of prevailing conditions and available, or at least prospective, resources.

Although the Arab world is wealthy in literature dealing with Arab economic integration and cooperation at several levels, however,

the quality of research on which it is based cannot provide the analytical and other material which will:

> "... be able to analyse objectively and dispassionately the technical case for multinational development and cooperation and have access to a platform and forum of such prominance that their wishes could be easily heard and assimilated within an international context."(11)

The result, has already illustrated and examined further in this and subsequent chapters has been both illusion and disillusion. It will be suggested below later how this can be minimised.

The Basis for a Viable Approach:

In carrying forward the search for a viable approach for AGS' development cooperation endeavours, further examination is required of the case for selective or partial cooperation as against the holistic comprehensive approach.

It is often held today that economic cooperation should concentrate on sectoral activities which involve functional fulfilment of specific goals and tasks (as cooperation is not valued as an end in itself). A non-holistic approach to integration implies that any policy harmonization undertaken needs to be selectively partial and specifically task directed. However, as all economic activities are inter-dependent, on the macro-level, inconsistencies might arise. Given adequate coordination and timing of programmes, the costs of such inconsistencies could have perhaps less negative implications for regional cooperation than would the disintegrating forces that will be present in attempts towards holistic types of cooperation integration.

In particular, cooperation needs to select and concentrate in areas where there are possibilities for significant expansion of the group's production, infrastructural and associated parameters. Major advantages of cooperation will stem from areas where separate market systems are in themselves neither responsive nor leading to beneficial outcomes.

The question of equal distribution of cooperation benefits occupies

a key position in the arguments concerning the conceptual basis for the successful design of cooperation.

> "Mytelka has argued that regional integration in developing areas will fail unless the problem of unequal gains is solved." (12)

Despite many methods proposed to treat such problems, as noted below, there exist some inherent difficulties which make adequate management of the distribution question difficult:

1. The concepts of costs and benefits of regional cooperation as well as their evaluation are different among member countries of the cooperating group and will differentially change over time.

2. Many of the benefits from integration are of a non-quantifiable nature, in the short or even medium term and this can give rise to disagreements which cannot be quantitatively resolved.

3. The difficulty of measuring the actual distributional impact due to:

(a) Limited analytical techniques.

(b) The problem of data availability during periods of rapid change in very fast movements which make even their recording, let alone the quantifying, of their implications rather difficult.

The tendency of integration to exaggerate economic imbalances within a region is well-known. Benefits arising from integration accumulate disproportionately in those areas that already enjoy higher levels of economic development - the 'back wash' effects of integration are far stronger than the counteracting 'spread' effects. Regional and Sub-regional cooperation can only survive in the long run if all partners make net gains and these gains are perceived to be distributed relatively equally between the participating States. (13)

Here we can note those compensatory mechanisms which are identified in the literature and followed in practice to counteract the 'natural' economic tendency towards increasing inequality.

1. As industry is usually considered to be the key indicator of equality of regional gains, through its location multiplier effects on employment, improved local skills, technology, infrastructure and for creating centres of attraction for new investments, programmed or planned industrial cooperation becomes particularly necessary, through which a set of viable projects are distributed between participating countries. Industry is not the main sector of interest to our analysis, as many other sectors and activities seem to occupy more attention within AGS' cooperation movement priorities. However, these proposed measures for achieving equitable distribution of benefits seem to apply also to such other activities.

2. Fiscal transfers to partners who fail to attract industrial investment, mainly through the trade-oriented and market-force based systems. Such transfers can be directed also to countries who lose a serious amount of their usual income from customs duties due to their application of trade instruments.

3. The idea of a 'Fund for cooperation' or a 'Regional Development Bank' has been created by which the financing of projects is to be distributed as equally as possible between parties and with special attention to the least developed among developing regions or sub-regions, to promote their development projects.

> "But the problem of backwash and the difficulty of ensuring that benefits resulting from integration are distributed equitably is more than simply an issue of debate among economists. It is a real life problem that has in one way or another influenced almost every economic integration scheme among developing countries. It was responsible for the failure of earlier integrative endeavours in West Africa such as UDAO, and affected similar efforts in the East African Community as well as in the economic groupings in Latin America and the Caribbean." (14)

It is generally agreed that distribution problems become more acute if certain members of a regional grouping are more advanced than

others prior to the formation of the grouping. It is interesting to note within this context the different judgements over the main beneficiaries from the East African integration process. While some writers calculated that Uganda lost through integration (although to a smaller extent than did Tanzania) others found Uganda's net position was positive. (15)

Other important concepts relate to the fact that economic integration creates opportunities and problems at the same time. It leads to new benefits and new costs and the member countries have to find ways and means of distributing them. (16)

The approach to sub-regional cooperation should avoid misleading and exaggerated expectation of too much gain arising from cooperation which is considered to be in the middle between the nationally-oriented and internationally-oriented (including Sub-regional and Regional) development. Thus it is not a substitute to either any of the two.

These associated problems, as seen below have led to the development of partial cooperation schemes which have the advantage of clearer distributionary effects, despite their apparently modest gains in comparison with those hypothetically offered by holistic integratory approaches.

11.3 Practical Framework for Development Cooperation - Lessons of Experience

In this section we analyse lessons of recent and current cooperation movement mainly in developing countries, as they provide a practical and sound pragmatic background for successful cooperation approach. This section concentrates on experience relating to key issues on cooperation, including trade and development approaches, with some examples from Arab, EAC and ECAFE regional experience. Some illustrations are also taken from the EEC as a capitalistic approach for cooperation as well as for some socialistic approaches in order to highlight the

distinctions which must be made in designing approaches for cooperation among different regions or sub-regions.

11.3.1 The Trade Approach in Practice

11.3.1.1 Arab Integration Movement Lessons:

The analytical review of the recent Arab economic cooperation and integration movement, which was made in Chapter 6 showed the complete failure of trade oriented approach as reflected in the ACM's declining fortunes. The CAEU experience has shown, also, no signs of success as the result of the COMECON type approach to comprehensive planning adopted. In broad terms, the evaluation of Arab economic cooperation movements is much more favourable to the partial development-oriented approach as was reflected in the OAPEC example.

We can add here the supporting evidence of Metwally who, in analysing the effect of a common market and trade oriented approach to Egyptian cooperation with the Arab world concluded that with Egypt better established, with a wide variety of industries and the ability to produce most manufactured goods at lower costs, she will be the main winner while other parts of the Arab world would be expected to pay higher costs and obtain less benefits from such cooperation. (17)

This would be expected to happen partly because of the "competition of relatively more efficient Egyptian industries in other Arab countries". Egypt could also exert an unfavourable influence on economic development in the other countries through its impact on the financial resources available for the Government for development expenditure which results from a loss of customs revenue. Despite the joint benefits expected to accrue to both sides, since the higher incomes will be generated primarily in Egypt, the resulting balance might be a seriously adverse effect on Government revenue in other Arab States. (18)

11.3.1.2 East African Community Lessons:

The Arusha Declaration establishing the East African community

between three countries, Kenya, Uganda and Tanzania was adopted in 1967. The East African Development Bank was established in Kampala in the same year, and many sub-regional institutions were established in addition to those inherited from the colonial period, particularly as joint services. The EAC ceased operation in 1977.

The EAC adopted trade approaches to establish common market and attempted to use specific instruments to secure an equitable distribution of costs and benefits.

Following the treaty, self-contained services provided by the EA Common Services Organization were consolidated under four autonomous corporations as commercial institutions equally shared and controlled; the East Africa Railways Corporations (EARC), the East African Harbours Corp. (EAHC), the EA ports and Telecommunication Corp. (EAP & TC) and the EA Airways Corporation (EAAC). The continuity of the services provided by these corporations constituted a very important part of economic cooperation among the member countries. Other categories of services included revenue collection, various economic and research organisations, mainly financed from foreign aid. However, the whole system, as Table 11.1 illustrates, started collapsing in 1971 since when the East African Authority ceased meeting. In the following we examine the key issues learnt from this experience.

Reasons for failure:

1. The Customs Union theory was adopted and failed: (19)

(a) Countries' intra-trade was very weak in comparison with their extra-regional trade which meant that changes had very large trade diversion effects, whilst the non-competitive production structure did not allow the appearance of trade creation effects.

(b) The free market forces, an inherent part of the operation, tended to benefit Kenyan industry to the detriment of the other two countries.

(c) Agriculture was excluded from cooperation even though it was

Table 11.1

Regional Integration in East Africa
A Timetable of Events since 1961

1961 - Tanganyika became independent as Tanzania (with the addition of Zanzibar)

- Talks on an East African federation started

1963 - Kenya and Uganda became independent

1967 - The treaty for East African Cooperation established the East African Community and the East African Common Market

- The East African Development Bank was established in Kampala

1971 - The East African Authority ceased meeting

1972 - Exchange controls and import restrictions were imposed individually by the three countries

1973 - The East Africans corporations started facing financial crises caused by restrictions imposed on inter-State transfer of funds

1975 - A commission set up to review the Treaty adjourned a year late with no recommendations

1976 - EAC workers in the General Fund Services (excluding those in Arusha) were asked to work in their own countries

- EAAC workers from Tanzania and Uganda returned home

- The headquarters of the Harbours, Railways and Telecommunications Corporations broke up

- The East African Railways became decentralised

1977 - Tanzania and Kenya set up autonomous harbour services

- Kenya established its own railway system

- The EA Airways Corporation collapsed

- Tanzania closed its borders with Kenya thus ending the Common Market

- Member countries could not agree on the General Fund Services budget

- Kenya announced its withdrawal and took over all EAC services operating in Kenya

- The EAC ceased operations

Source: Eken, S. 'Break up of the East African Community', In, Finance and Development, Vol. 16, No. 4, December 1979, pp. 38-39.

fundamental to their economies and offered many opportunities for cooperation and development.

(d) The measures planned to achieve equitable distribution of benefits, such as intra-regional taxes and the East African Development Bank proved to be failures.

2. Political and ideological differences between Tanzania, Uganda and Kenya became acute during the decade after the achievement of independence. Tribalism, which affected the cohesian of each State as well as the group, personality clashes between leaders, differences in pre-colonial and colonial cultural and economic experience, as well as basic geographical differences, were strengthened by suspicions of unequal benefitting from trade cooperation.

3. The trade approach: During the initial years the existing trade patterns were reinforced and certain increases in trade flows took place, particularly in the share of intra-regional exports of manufacturing products as compared to the total manufacturing exports of the member countries (see Table 11.2) (in Central America this relationship in the manufacturing sector reached above 80%).

Yet, the member countries soon reached a plateau in their intra-regional export performance with limited opportunities for expansion. This was the result of two primary causes. First, no significant production and technological changes were introduced in the domestic capacities of the member countries. They achieved, primarily, some import substitution activities, which the individual countries could, anyway, have undertaken some years later on the basis of their national markets. Secondly, the new trade patterns proved not to be strong enough to be irreversible either for individual economic reasons (as intra-regional import-substitution advanced in each country) or as a result of political discrepancies and conflicts.(20)

It is true that the three countries were competitive in the sense that they produced the same range of primary products but they could hardly become complementary except in the long term because their economies had a low level of industrial development. The removal of trade barriers could not have led, and did not lead, to substantial changes in patterns of production (Table 11.2 and ref. 21).

Table 11.2

Indicators
Significance of intra-community Trade (1967-76)

Exports to and Imports from EAC as a percentage of:

	Total Exports of			Total Imports from		
	Kenya	Tanzania	Uganda	Kenya	Tanzania	Uganda
1967	30.8	4.6	16.1	11.3	17.0	27.4
1976	19.3	6.3	0.5	3.2	12.5	44.6

Distribution of Intra-community Trade (1967-76)

	Exports			Imports		
1967	61.4	9.4	29.2	31.5	32.2	36.3
1976	83.1	15.9	1.0	16.9	42.9	40.2

Source: Eken, S. 'Break up of the East African Community' Finance & Development, Vol. 16, No. 4, December 1979, Table 1 and 2, p. 48.

4. The East African Community - A non-Developmental Approach: The Treaty for East African cooperation was at the time one of the most comprehensive and far-reaching efforts at Sub-regional integration, but its approach to strength and regulate industrial, commercial and other relations was mainly through the Customs Union policy.

However, the EAC did not produce free movement of labour and capital, nor did the provisions of the Treaty extend to agricultural products. (22)

5. Ideological Differences: The Arusha Declaration in Tanzania was adopted in 1967 before the Treaty came into effect. In this

statement the ruling party, the Tanganika African National Union, set out its policy on socialism and self-reliance, involving a growing public sector under Government control.

> "The effects of the different ideological orientations of the partner States affected trade relations and the general scheme of investments and industrial policies, the situation in Tanzania contrasting with a clear emphasis in Kenya on private and largely foreign investment."(23)

5. Agricultural Cooperation: Agriculture was an area where great potential for coordination existed: but it was excluded from the common market and agricultural prices were matters of national political sensitivity.

6. The Failure to Achieve Balanced Growth (EAC): The Treaty included the establishment of two instruments to ensure the industrial development. The first was a transfer tax on intra-community trade to protect industries in the less industrially developed members against those of the more developed. The second was the establishment of the East African Development Bank (EADB) on December 1967 in Kampala with equal contributions from all countries.

Even so, the benefits of a customs union were not distributed evenly among them. Owing to their different levels of economic development, market mechanisms tended to increase inequalities. Kenya is generally thought to have benefitted more from the Union, particularly from the enlarged market for its already developing manufacturing industries, while Uganda and Tanzania lost revenues from foregone import duties since Kenyan industrial products were imported tariff free. They Paid higher prices for Kenya produced commodities, more than they were paid.

7. Political Conflicts: The major factor contributing to the breakdown of the Community was the deadlock in the Community's highest body, The East African Authority.

Although cooperation in the EAC was encouraging in the initial years, relations between the member countries started to deteriorate in the early 1970's. The community's highest body, the East African Authority, which consisted of the three presidents, did not meet after 1971 because of Tansanian President Nyerere's refusal to meet with Uganda's President. (24)

Perhaps not unsurprisingly, given the emphasis placed on newly-won sovereignty and the sensitive nature of economic issues, African Governments have been unwilling to delegate authority to regional institutions. This reluctance is compounded by the fact that intra-regional economic activity constitutes but a small proportion of most African States' total external economic transactions. Governments will not undertake policy harmonisation for the sake of furthering regional cooperation if there is a possibility that this may adversely affect what are perceived as more important relations with extra-regional partners.

In all, the EAC illustrates the weakness of the assumption in the trade-oriented approach that trade-liberalisation will in itself confer so many benefits that the other difficulties of cooperation will be negated.

11.3.2 Development Approach

11.3.2.1 Partial Development Cooperation - Case Study Me-kong Project:

As a case study in partial integration, the Me-kong Project implemented in ECAFE region suggests a number of valuable conclusions. It is recognized that the experience in regional cooperation gained in developing and implementing the Me-kong project largely influenced the attitude of ECAFE towards the problem of regional integration and has led it to adopt the partial integration approach as a more feasible solution than full integration. (25)

It is clear that during almost twenty years, first of study and

then of progressive implementation, that the potential of this approach began to be realised. Unfortunately the international component of this project collapsed during the 1970's with the growth of political instability and conflict. Our interest on this project is centred rather on its main features and lessons as a Sub-regional and partial development oriented project than on its detailed development. Political instability, in this case exacerbated by external forces, which affected the final outcome of the project is excluded from our examination as this factor could lead any form of cooperation into complete failure.

The Mekong Project - Main Features:

The ECAFE Bureau of Flood Control published the first preliminary report relating to flood control and water resources development of "The Mekong - An International River" in 1952. A second study, the "Reconnaissance Report - Lower Mekong River Basin" was prepared by a United States group in March 1956 under the auspices of the United States International Cooperation Administration. ECAFE appointed a group of consultants to survey the river basin and to report on its development possibilities. This group which published its report in 1957 stressed the international character of the project and recommended the establishment of an international coordinating authority.

In accordance with the above-mentioned group's recommendation, the Committee for Coordination of Investigations of the Lower Mekong Basin was created in 1957. The following year, a high-level technical advisory board of engineers was appointed to assist the Mekong Committee, and in 1959 the Committee appointed an executive agent to act as the general manager of the project. (26)

As a result of extensive measurements and surveys conducted over the years by various international working parties organised by the Mekong Committee,

> "the possibility of constructing thirteen major dams has been established, and the possibility of constructing dams on twenty tributaries was investigated." (27)

The Mekong Committee, however, gave high priority to three major projects, namely the Pa Mong, the Sambor and the Toule Sap projects. Two tributary projects were completed in 1966 and put under operation (Nam Pong and Nam Pung in Thailand) construction was in progress on three other projects up until 1970, (28) these projects are: Lower Se Done and Nam Ngum in Laos, and Lam Dom Noi in Thailand. Construction was scheduled to begin in 1968 on the Nam Dong project in Laos, and finance was secured for the Prek Thnot project in Cambodia. The other tributary projects were at various stages of investigation up to 1970.

> "The activities of the Mekong Committee are organised under eight headings, namely basic data collection, basin planning, main stream projects, tributary projects, navigation improvement projects, ancillary projects concerned mostly with economic and social studies and economic planning and development problems, training projects and supply programmes." (29)

Twenty-three non-basin countries provided the staff, materials and money to help in carrying out the investigations and pre-investment studies; ten United Nations bodies and seven private organisations and business firms also provided assistance. The total amount made available up to 1970, $ 156 million. (30)

Mekong Project Lessons:

1. Favourable Timing: Despite the non-emergency of productive activities in the modern sense in the case of the least developed countries, the Mekong Project case showed the existence of new development opportunities within the regional cooperation.

> "This consideration points to the urgency of the attempt to develop regional projects before vested interests grow or take deep root. Once a national project is underway, however unjustifiable or irrational it may be, it becomes extremely difficult to harmonize it into a regional scheme or to achieve any degree of regional integration." (31)

2. Reciprocity: One of the important lessons that was learnt in implementing the Mekong project is the very significant role played by the principle of 'reciprocity'. This principle proved to have much greater success and force in this partial integration effort than in other full, comprehensive attempts at integration.

> "The priorities established by the Mekong Committee in developing the various components of the project were guided by this principle (of reciprocity). Thus, among the mainstream projects, equally high priority was given, as was mentioned earlier, to three projects, namely, Pa Mong, to benefit Cambodia and the Republic of Vietnam. Similarly, in carrying out the tributary projects, an effort is being made not to diverge too much in the completion dates. Thus, two projects in Thailand and one in Laos having made greater progress than any in Cambodia, it was decided to declare 1966 Cambodia Year so as to accelerate the progress of the Cambodian Prek Throt project." (32)

To add here the importance of institutional arrangements as it contributed to no small extent in the project success.

3. Additionality: ECAFE experience suggests one important principle for the choice of joint projects to be chosen, the principle of 'additionality' which has the basic idea that a regional project will be acceptable to sovereign States only if it does not injure any national interest but rather contributes to its fulfilment. Thus regional projects must not replace or compete with whatever projects already exist on their own, but only to complement them. This principle has been adopted in the ECAFE region by the Asian Development Bank.(33)

4. Programmed Joint Projects: As the construction phase of some of the projects drew nearer, the need to create a market for the water and electricity was felt more urgently and attention by 1967 was directed to the problems of economic development in the region. A lag in developing a market for water and power through education of the farmers, modernization of the farming methods and development of an

industrial base, could create a serious problem of idle capacity in the projects, upsetting their profitability expectations. The need to integrate a regional project into the national development plans of the participating countries and to harmonize the plans of the countries with each other, at least for the more important sectors connected with the project, was given a high priority by the Mekong Committee.(34)

5. Role of the U.N. in the Mekong Project: The Mekong Committee was primarily concerned in the early stages with gathering the technical and engineering data necessary for constructing the multiple-purpose projects. Rudimentary work on experimental farms and a survey of forestry resources were undertaken by the Food and Agriculture Organization of the United Nations (FAO) as early as in 1958. A manpower survey was conducted by the International Labour Organisation (ILO), and the World Health Organization (WHO) also undertook some health work.(35) The active participation of the premier international bodies was important politically as well as technically.

> "The belief that economic coooperation can transcend political animosity has received repeated vindication in the operation of the Mekong project. The project has progressed in spite of the cool relationship between two of the countries, which at times almost reached breaking point. Common interest in the long run, however, permitted progress despite these differences; though, here again, the availability of massive foreign aid was certainly a help."(36)

We should note here that limited political disagreements had no serious effects as has been also the case with OAPEC (see Chapter 6). The Mekong experience suggests that partial development-oriented cooperation is less liable to negative effects of political conflicts than the holistic and trade-oriented approach.

6. The Piecemeal Approach: In evaluationg regional cooperation in ECAFE area, in various fields, noting experience elsewhere and differences between ECAFE region and other regions with regard to economic, historical and political conditions, the ECAFE commission abandoned efforts to form an 'overlord' regional organisation similar to EEC or LAFTA. Instead it had accepted the philosophy of a piecemeal solution to the question of cooperation and rather identified a number of areas of potential and suggested a number of projects in which a piecemeal approach to developing regional cooperation could be adopted.(37)

11.3.3 A Practical Basis for Successful Cooperation

We refer here to the basic lessons derived from the cooperation experience of the developing world in the light of past analysis, in such a way as to provide a practical framework for a proposed pragmatic approach for AGS cooperation.

11.3.3.1 The Trade Approach:

1. The laissez faire model, which is implicit in the trade approach, is clearly inappropriate for developing areas, and it is not surprising that integration schemes of this type have not lasted long. This is because a free trade area, or a customs union with free trade policies, is inevitably bound to lead to uneven growth and development.

> "Simple market integration has in many cases shown itself to be a strong disintegrating force."(38)

Thus the integration of markets approach has proven to be the approach which has contributed least to the solution of development problems.

> "Rather it has often contributed to an accentuation of under-development and dual productive and income structures as well as to the present disillusion with integration itself."(39)

The limited intra-regional contacts at the beginning of cooperation schemes imply that effective regional cooperation based on trade blocs is to a large extent, because of its protectionist nature, trade diverting and is not necessarily trade creating. The latter would involve, in specific sectors, mechanisms for either de-linking with the industrialized countries or for redressing their relations with them.

> "The types of regional transactions induced by simple trade liberalization mechanisms, despite initial high growth rates, could end up stagnating or even being reduced. This is the result of import substitution among the member countries." (40)

As individual countries grow, their market size allow them to substitute domestic production for their imports from the rest of the group. Actual observations from Central American integration movement support this trend. By 1975 the Guatemalan GNP was equal to the total Central American GNP in 1955. This has enabled Guatemala to build up its own production and reduce imports from the rest of Central America. Whilst this may appear to be a development success for Guatemala, its partners have lost. Similar phenomena have been noted for the East African community. Trade flows do not create in themselves intra-industry specialization.(41)

2. Distributional Effects - General Experience (see also 11 below): In the Andean Pact, in the first four to five years when the enhanced trade relations became applicable, while the newly programmed industries needed time for negotiations and plant construction,

> "the resulting trade flows basically reflected and benefitted the already more advanced Colombian industry."(42)

Despite the existence of many policy instruments which can be used for redistributional purposes, most of them, in practice, proved unable to prevent polarization effects created through market forces.

All the main instruments of regional cooperation in East Africa

(i.e. common market policies, common services, East African Corporations and the East African Development Bank) as well as distributional system instruments (i.e. transfer taxes, industrial licensing system, the financing of General Fund services, the disbursements of the East African Development Bank).

> "All of these instruments were, to a large scale, inadequate in correcting distributional imbalances in East Africa." (43)

All this evidence, with respect to the trade-oriented approach, strengthened by the experience of schemes, such as the ACM, support the contention of the non-viability of this approach for developing countries.

3. Multi-sectoral and Project by Project Approach: It does seem possible to devise jointly accepted formulae for the allocation of multinational projects in various sectors based on the comparative cost advantage principle, as in the Mekong case. This minimizes the problem of sharing gains from cooperation because negotiations for the allocation of multinational projects among the member countries would generally involve a wide range of such projects.

The relative simplicity of such arrangements is itself attractive and appears to work in the ECAFE region and elsewhere. It is more difficult to make calculations, in advance, of the gains derived from holistic integration. (44)

4. Political Motivation: The driving force behind the European attempts at integration, as represented by the EEC and EFTA, was the political imperative to seek a role for Western Europe, independent of both the United States and the Soviet Union. The birth of the CMEA owed much to the cold-war tensions of the early post-war years. Likewise, in the Arab world, in Africa and in Latin America, the initial impetus for integration was provided by the drive for ideas of regional and continental unity, the need to consolidate newly-won independence and to enhance bargaining power. Economic considerations were, of course, always

present, but it is doubtful that they played a leading role in the establishment of these schemes. The GCC example as was illustrated in Chapter 6 is relevant here.

Lizano has touched on most of the economic and political obstacles that have hampered the working of integration schemes among developing countries.(45) There is, however, an important source of difficulties that is not reflected in his discussion. Reference is made here to the issues that arise when countries with different economic systems come together in an integration scheme. Many of the regional groupings among developing countries incorporate members with significantly different economic systems. This is the case, for example, with the East African Community, the Permanent Consultative Committee of the Maghreb, and the Arab Common Market; and was the case with the Andean group until the overthrow of the Allende regime. The coexistence of ideologically diverse States within a single trading bloc raises issues relating to the role of foreign private investment relationships with third parties, and a number of other aspects of social and economic policies. Sovereign States can always abrogate cooperation instruments if they consider that the process does not fulfil their desires.

5. Comprehensive and Partial Regional Planning: Although comprehensive planning on a regional scale has not been applied so far, in a number of schemes regional sectoral planning has taken place particularly in the services sector: transport, communication, energy production, etc. In isolated cases regional planning of industrial sub-sectors has been attempted, such as the steel industry in Latin America.

> "On the whole, specialization agreements have been more frequent and appear a more acceptable approach to industrial planning in an integration scheme." (46)

6. The Industrial Approach - Indicative Planning: The LDC's rigidities

are much less liable to be overcome and streamlined by market forces alone. The control of the market mechanism, which became indispensable also in industrialized economies, seems to be imperative within the framework of, preferably indicative, planning.

A careful and unbiased collection of basic and relevant data, study of their significance and inter-relationship, examination of the power and limitations of international market forces, scrutiny of the industrial linkage inside industry and with other sectors, and adaptation of technology to the prevailing domestic production factors (see Chapter 10), consumption patterns and feasible export prospects, all these belong to the fundamental requirements of reasonable industrial planning. The latter's efficient and flexible execution is decisively dependent on the quality, integrity and competence of the Government and its agencies, a major development issue per se in the LDCs. (47) Consequently, there exists room for the need for indicative planning to substitute the LDC's weak markets forces in relation to development.

7. Economic Independence and Cooperation: The major lesson which has been emerging from developing countries experience is that cooperation between developing countries will be very difficult to achieve unless, and until, the countries have achieved a certain measure of economic independence, particularly for ex-colonies.

> "If such countries are too closely tied to the former metropole, the establishment of meaningful economic relationships with neighbouring countries will be slow to develop. Certainly this has been the case in West Africa." (48)

8. Commitment: A strong political commitment is vital, channelled through avenues that can serve the purpose, such as indicative planning built on a solid statistical and information base, and association with civil service adequacy, political stability within the whole sub-region.

A strong general commitment and policies and measures, however, will be insufficient unless there is a large measure of motivation

directed towards development cooperation and unless motivation is supplemented by strong economic and social mobility. In addition to all of this the strength of the entrepreneurial spirit governed by the motive, real will and ability to participate in the cooperative process, mainly in systems working within the frame of private enterprise, all of these constitute pre-requisites for successful cooperation. It is important to involve various social forces and forces of entrepreneurship, otherwise they will work to break the whole system of cooperation. Further, it can be maintained that cooperation needs to concentrate, mainly in the beginning of the process, on issues which cannot be dealt with by market forces, and thus call for Government intervention.

9. The Issue of Timing: When programming economic cooperation it is important to take into consideration the stage of cooperation already reached and prospects for further advancement being affected by that stage. Since the validity of regional cooperation is dependent on the achievements of cooperation in specific development areas, the factor of time plays a key role in various ways.

As regional cooperation in developing countries starts from a very low base of economic and non-economic inter-relations, a long gestation period is needed to build up such interactions; gains accruing from economic integration are often less obvious and longer run than the costs and constraints.(49)

As this situation might cause a state of frustration to the countries involved in the cooperation process.

> "It thus becomes important to programme and select certain policies and projects which periodically will keep alive the interest and character of integration in anticipation of the longer-run benefits."(50)

In the Andean Pact, when the first stage of its life was over, it became fundamental to inject a second impetus to integration through the approval of common industrial programmes. The most important adopted was

of the automobile industry.

Political leadership usually faces pressure from some other political and social groups, which for various reasons oppose cooperation. It is important to the cooperative leadership therefore to proceed with projects and policies which lead to reasonably balanced distribution of such benefits, remembering the explicit identification of the allies or pressure groups which are in favour of integration is a part of the strategy for successful cooperation.

> "It is important to stress that it was not that the selection of policy instruments led to the poor performance of LAFTA. Instead powerful social groups, which would have been affected by integration, pressured their Governments to adopt measures and policies which were consistent with the group's interests." (51)

10. The history and experience of economic integratin, either in the East or in the West proved that the most successful measures applied recognise the following critical points:

(a) Staged and graduated change. It is thought that through this principle most differences could disappear gradually within a reasonable limit of time, controlled by the extent of differences between the economies of the participating countries. This way, also, leads to required changes without negative side effects or repercussions.

(b) It is advisable to begin cooperation movement with the most simple subjects and interests which are of common agreement between them by all participating countries. The establishment of appropriate joint bodies and institutions, the coordination of measures and systems and the continual contacts among the executive agencies in the participating countries; ensuring the common interests of the subject-level participants is more important than setting up one central authority.

(c) The changing nature of benefits and costs as well as the different evaluation criteria used over time by each partner become critical for the viability of a process, and the accumulation of frustrations must be avoided.

(d) Significant political changes, which are endemic in many development processes, set certain limits on the prospects and evolution of regional cooperation.

11. The Requirements of Inter-country Distributional Considerations: As indicated in general terms of 2 above, a large number of the most serious crises in the diverse experiences of regional cooperation centre around the issue of inter-country distributional effects and it is necessary to examine how these can be minimised.

The issue of the distribution of benefits and costs of integration among the member of countries remains one of the most complex and difficult problems of integration. In all the integration schemes there have been some countries that have considered that the costs that they have to bear are excessive in relation to the benefits that they obtain. This fact gives rise to permanent tensions and conflicts and to so-called distributive crises.

Economic integration creates opportunities and problems at the same time. It leads to new benefits and new costs and the member countries have to find ways and means to distribute them. The benefits and costs that accrue to a country depend on its own economic conditions as well as on the specific measures that the integration programme contemplates. The conditions comprise the amount and the degree of utilisation of the factors of production, the economic policy that a country follows in relation to matters such as monetary affairs, exchange rates, wage policy, foreign investment, and the type of social organisation that the country has. The disparities that arise from the specific measures of integration relate particularly to the freedom of trade in goods (changes in trade flows, price levels, the allocation of factors of production, and fiscal revenues), mobility of factors (supply and demand of factors), financial arrangements, and possible agreements regarding the geographical distribution of industries. These

conditions and disparities determine the way in which the member countries take advantage of the new opportunities that integration offers, and, to a large extent, the way in which the benefits and costs of integration are distributed among them.

Nevertheless, the difficulties do not stop there. The concept of benefits and costs of integration is, in itself, a very elusive one. A benefit for one country may be a cost for another (for example, the migration of labour under conditions of labour shortages as against a situation of unemployment). Not all of the countries participating in an integration programme have the same objectives, and each one will judge subjectively the benefits it receives. The costs that each country is prepared to accept depend upon the alternatives available to it.

These conceptual problems make it difficult to have a clear idea of the distribution of benefits and costs of integration and their true meaning. Leaving aside some methodological points, this is the main reason why the several attempts that have been made to measure the benefits and costs of integration and their distribution have been of little use. It also helps us to understand why, though all integration schemes have recognised the necessity of securing an 'equitable' distribution of net benefits (benefits less costs), very little progress has been achieved.

This is why solutions to this complex problems should not be sought primarily for the purpose of improving the measurements of the total benefits and costs of integration, but rather for helping countries to negotiate integration treaties that take account of the interests of all parties involved. The crucial need is not so much to measure the benefits and costs of integration and their distribution, as to adopt a set of measures that make each of the countries feel that it is obtaining net benefits. The fact that none of the integration programmes has yet been able to find the right solution to this problem means not that the

problem should be abandoned but that more thought should be given to it. (52)

12. The Role of Hegemonic Powers:

> "It is not surprising then that Governments of developed countries which have had various types and degrees of hegemonic presence in the less developed parts of the globe, had a definite interest and played a part in shaping the processes of regional economic cooperation in the Third World." (53)

Throughout history, Governments of hegemonic powers have shown, in many cases, marked opposition to effective regional and economic cooperation among less developing areas. In other cases there have been multiple attempts to formally integrate less developed economies in customs unions, free trade zones (or other special trade arrangements) with certain hegemonic powers.

> "Such efforts had the dual objective of both increasing the dependence of the former on the latter as well as excluding other powers from interfering in established zones of influence."
>
> "The case of US interference in central America represents one of the most severe foreign influences in the integration processes in recent times. One might even question the 'external' status of the US in this regional system." (54)

The USA up to 1960 opposed Latin American regional integration on the grounds that it was against its own economic and political interests. (55) However, in the early 1960's the USA reversed its position on Latin American integration movements in general and in Central America in particular. This arose from the newly created economic, political and security interests following the Cuban revolution, the inclusion of development as part of the military and political issues of continental security. Development was needed to prevent drastic revolutionary changes and subversion. As a result a case was made for US economic interests in substituting exports to Latin America of final goods by American foreign direct investment and by the export of intermediate and capital goods. Also foreign private investment reinforced by official aid, could counter the increasing interference of the newly-

built and growing economic power of Europe and Japan into the Continent.

US through its influence could shape the Central American Common Market through various stages of its formative period, mainly through its aid programme reaching 50% of the budget of virtually all regional organisations or institutions in Central America, including Central American Development Bank. US intervened continuously against regional industrial planning in Central America through multiple pressure to nullify the scheme of 'integration industries' as included in the General Treaty of CACM.

> "The central American experience demonstrates how a hegemonic power took over an integration movement which was thought of and initiated by others, restructured its policy instruments and functioned to fit that powers own interests and, in so doing, created a non-viable process of integration."(56)

It might be suitable to refer to current experience derived from Israeli Occupation to the West Bank and Gaza Strip, with which Israel, as controlling power has designed a customs union that is working from one side only. The markets of occupied territories are open to Israeli industrial production, the Arab labour force has been attracted to Israel, while occupied territories are not allowed to market their products freely into the Israeli markets or to import freely from the outside world.(57) The captured markets of West Bank and Gaza in 1967 became the largest market for Israeli exports.(57)

The hegemonic role of the USSR within COMECON is similarly apparent.

13. The Role of Transnational Enterprises (TNE's) in Economic Integration:

> "The TNE's are not neutral vis-a-vis the process of economic integration among developing countries. They become, in fact, one of the strongest sectors in regional cooperation. They influence policies, participate in or even dominate policy implementation and can become critical integrating or dis-integrating forces in the pursuit of their corporate objectives." (58)

The following factors reinforce TNE's power -

Their size and worldwide expansion, their command of company-specific strategic assets (technology, managerial skills, corporate planning and control) their international commercial presence (advertising, trademark, extensive distribution outlets) their access and possibility to tap resources and enter markets internationally.(59)

11.4 Summary and Concluding Remarks

This chapter has been devoted to establishing the conceptual as well as the practical basis for establishing a viable approach to AGS Cooperation. In order to achieve this objective, various forms and conceptions of cooperation were examined, generally classified into two types; that is of trade-oriented and development oriented approaches.

The main findings of this part of analysis have shown the non-viability of 'trade-oriented approach' for the Developing Countries Case, and support, at the same time, the greater viability of selectively partial-development oriented cooperation for these countries. The trade-oriented approach can be regarded as a mistaken universal application of conventional wisdom relating to the success of larger units such as the EEC within the western capitalistic world. The basic concept relies on the effects of opening of markets to free trade while allegedly Adam Smith's invisible hand obligingly took care of the rest. This situation has proved to be inapplicable to the developing countries' case.

Various elements were identified as necessary for successful cooperation. Among these, political aspects of cooperation appear as especially relevant. Political conditions include stability in the context of political leadership, efficient administration and appropriate planning and institutional instruments.

The literature dealing with approaches to development cooperation and integration between developing countries is extremely blinkered in extolling for general adoption either the trade approach followed by EEC, or comprehensive planning approach followed by socialist countries. Arab literature relating both to Arab and AGS economic cooperation is not excluded from this criticism (see Chapter 12).

Developing countries experience in, for example, the EAC examined in this chapter and the ACM & CAEU in Chapter 6, illustrate why the trade-oriented approach has resulted in failure.

Pragmatic evidence tends to support the conceptual conclusion that

> "partial development-oriented and programmed cooperation with integratory harozions"

are more appropriate to developing countries. A case study of Mekong Project within ECAFE region illustrated the viability of this approach in securing many of the key factors needed for successful cooperation. Particularly important factors included reciprocity and additionality.

The practical lessons from experience also illustrated the vital importance of the issue of time (stage of cooperation reached, prospects for further advancement being affected by that stage and the political, economic and social structure including pressure groups prevailing at the time when cooperation begins). This analysis further confirms the relevance of the phenomena and issues examined in Parts One and Two of this thesis. Reference has been made also to the role played by hegemonic powers and transnational enterprises in shaping or trying to shape cooperation movements in developing countries, with respect to the former and continuing interests. This factor is of special relevance to the question of cooperation within the international circle as motivated by science and technological needs of developing countries.

We now turn to apply our findings to the AGS case in order to

design a pragmatic approach for this sub-regional development cooperation.

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(11) Abangwa, G.C. Op. cit., p. 128.

(12) Ravenhill, J. 'Regional Integration and Development in Africa: Lessons from the East African Community', In, Journal of Commonwealth and Cooperative Politics, Vol. XVII, No. 3, Nov. 1979 (London: Frank Cass and Company Ltd.), p. 230.

(13) Ibid.

(14) Abangwa, G.C. Op. cit., p. 56.

(15) Robana, A. The Prospects for an Economic Community in North Africa, (U.S.: Praeger Publishers, 1973), p. 749.

(16) Lizano, E. Op. cit., p. 280.

(17) Metwally, M.M. 'The Case for Arab Economic Integration', In, L'Egypte Contemporaine, No. 376, April 1979, p. 135.

(18) Ibid.

(19) Eken, S. 'Break up of the East African Community', In, Finance And Development, IMF World Bank Quarterly Publication, Vol. 16, No. 4, Dec. 1979, pp. 36-40.

(20) Viatsos, C.V. Op. cit., p. 745.

(21) Eken, S. Op. cit., p. 40.

(22) Ibid., p. 37.

(23) Ibid., p. 38.

(24) Ibid., pp. 37-38.

(25) ECAFE, 'Towards Integration in Asia', Journal of Development Planning, No. 2, 1970, U.N. Department of Economic & Social Affairs, New York, p.146.

(26) Ibid., pp. 145-146.

(27) Ibid., p. 145.

(28) It should be noted that available information on the Mekong project is based mainly on ECAFE above-mentioned report which was published in 1970. Consequently, developments of the project after 1970 were not surveyed.

(29) ECAFE, Op. cit., p. 145.

(30) Ibid., p. 146.

(31) Ibid., p. 146.

(32) Ibid., p. 147.

(33) One of the major achievements of the project approach to regional cooperation has been the establishment of the Asian Development Bank, which was first proposed by the First Ministerial Conference on Asian Economic Cooperation in 1963. The charter of the Bank was approved by the Second Ministerial Conference in 1965. The inaugural meeting of the Board of Governors was held in 1966 with an initial membership of thirty-one countries, of which nineteen were from the ECAFE region and twelve from outside. The authorised capital was set at $1,100 million, of which $ 965 million was subscribed by the member countries: $ 615 million by those in the region and $ 350 million by those outside. The Bank will grant loans for any feasible development project, but projects with regional implications will enjoy priority over national projects. In addition there is provision for the creation of a trust fund for granting 'soft' loans. (ECAFE, Op. cit., p. 141.)

(34) Ibid., p. 142.

(35) Ibid., p. 36.

(36) Ibid., p. 149.

(37) Ibid., p. 140.

(40) Ibid., p. 741.

(41) Ibid., p. 741.

(42) Ibid., pp. 748-749.

(43) Ibid., p. 749.

(44) Mutharika, S.W.T. Towards Multinational Economic Cooperation in Africa (New York: Praeger Special Studies in International Economics and Development, 1972), pp. 39-44.

(45) Lizano, E. Op. cit., p. 298.

(46) Economic Cooperation in Latin America, Africa, Asia. A handbook of Documents, Edited by Wionczek, M. The M.I.T. Press, Massachusetts Institute of Technology, Cambridge, London, England, 1969, p. 89.

(47) U.N. The Rationals and Mechanisms of Planning Harmonisation. Document No. E/CN, 14/ERS/22, p. 18.

(48) Renninger, J.P. National Cooperation for Development in West Africa (U.S.A.: Pergman Policy Studies- UNITAR, 1979), p. 23.

(49) Viatsos, C.V. Op. cit., p. 744.

(50) Ibid.

(51) Ibid., p. 723.

(52) Lizano, E. Op. cit., p. 281.

(53) Viatsos, C.V. Op. cit., pp. 626-627.

(54) Ibid., p. 727.

(55) Viatsos refers to many examples from history that reflect this situation of shaping regional cooperation systems by hegemonic powers. Examples are mentioned for US first proposal for an inter-American economic system designed to exclude the European interests in favour of those of US. Recently, the Republic of South Africa was using a customs union scheme with its black neighbours in ways to reinforce certain dependence structures of the latter (see Viatsos, C.V. Op. cit., p. 755).

(56) Ibid., p. 729.

(57) Beseisu, F.H. Economic Impact of Open Bridges Policy - East Bank and West Bank under Israeli Occupatioh, Central Bank of Jordan, 1971, and see also: 'Israel and the West Bank', In, The Times, 12 October 1982, p. 6.

(58) Viatsos, C.V. Op. cit., p. 729.

(59) Viatsos referred to Chrysler efforts in impeding the sectoral programme in the Automobile Industry of the Andean Pact, Viatsos, C.V. The Role of Transnational Enterprises in Latin American Economic Integration Efforts, UNCTAD, 1978.

CHAPTER 12 - A PRAGMATIC APPROACH TO AGS DEVELOPMENT COOPERATION

12.1 Introduction

The purpose of this chapter is to set forth an operational approach to development cooperation between AGS. Such cooperation is directed to maximize the benefits and minimize the costs of cooperation, limitations, accepting the existence of individual sovereign States and various other practical limitations. The suggested approach has the models best suited to cooperation and complementarity, has the best chance of being transferred into reality, and the most relevance to key issues relating to the development movement of the AGS.

Here we apply to the Sub-region the conceptual framework and analysis made in Chapter 11, relating to the two main types of development cooperation. On the basis of this and the experiences of other developing countries an approach to development cooperation which is both pragmatic in itself, and pragmatically arrived at, is proposed.

This chapter begins with reference to Sub-regionalism within the Arab-Region in order to place AGS Sub-region within context, and to identify the main attributes of this Sub-region. Examination is made of the two main approaches being followed towards cooperation and assessing which of them seem to be of most relevance and benefits to the AGS case, this in the light of preceding analysis and conclusions.

This analysis ends by exploring, in broad terms, and on a sectoral basis, the key opportunities for AGS cooperation, opportunities the siezure of which could transalte into practice the proposed approach to cooperation and contribute, at the same time, to the achievement of needed structural development changes within the Sub-region.

12.2 The AGS as a Sub-region within the Arab-Region

Four cooperative groupings which in some sense can be regarded as

'Sub-regional' can be identified in the Arab Region, and their characteristics and membership were examined in Chapter 6. Two of them, it will be noted, are Sub-regional in locational terms by accident or coincidence rather than by design. Thus, the CAEU and associated ACM were conceived of in comprehensive Arab Regional terms. Withdrawals from or failure to ratify membership have left the CAEU and AMC as less than Regional in scope and with only some partial locational Sub-regional interests. For example, in the ACM, before the expulsion of Egypt in 1981, four of the six members were neighbours with some degree of common interest, Egypt, Iraq, Jordan and Syria.

Similarily, OAPEC was designed as a sectoral organisation which also, coincidentally, was seen as important to the interests of neighbouring oil-producing States in and around the Gulf.

The Maghreb Permanent Consultative Committee (MPCC), on the other hand, was a conscious expression of the need for cooperation by neighbouring North African Arab countries which also have very different political systems.(1) Libya, never traditionally part of the cultural Maghreb, has effectively withdrawn and the MPCC maintains only a nominal rather than active existence.(2)

Most recent is the Gulf Cooperation Council, the GCC, which is very strongly an expression of locational Sub-regional common interests (see Chapter 5).

It is considered by some that an emergence of multiple Sub-regional groupings with the Arab Region is dangerous:

> "The multiplicity of organisations in one region with broadly similar functions and identical ultimate objectives may result in competition, duplication of efforts, inconsistencies and fragmentation. As a consequence, the effectiveness of the organisations is reduced."(3)

In the writer's view, on the other hand, the actual emergency of these groups was contemperaneously justified and they do not constitute a danger to any long-term regional interests, the real dangers still

appearing at a lower level in potentially competing sectoral activities, mainly in industry and agriculture. Rather than suppress new Sub-regional movements, for the sake of hypothetically attractive but actually extremely dubious Regional Arab coordination, care should be directed to driving relations between the Sub-regions and the Region in such a way by which available opportunities should be exploited optimally on the light of Chapters 6 and 9's findings. This is also necessary given the external impact on the Sub-regions and the Region of the superpowers and transnational companies, as noted in Chapters 6 and 9. (4)

AGS Common Characteristics and Cooperation:

The AGS satisfy the orthodox criteria of capability to cooperate much better than do other Arab groupings. They are contiguous countries with great cultural and political affinities. They also, today, possess relatively more stable Governments than do most other Arab countries. Their sizes, populations, and levels of economic development do not make them vastly unequal, except for Saudi Arabia with a considerably larger area, population and economic power which gives her a pivotal role within the AGS Sub-region (see Table 12.1). Their political and ideological affinities also are not dissimilar. Advantage has been taken of these circumstances to form the Gulf Cooperation Council in order to overcome the basic common security and economic problems that are facing them (see also Chapter 5).

Timing for Cooperation:

The per capita income differences among the 'AGS' has not lead to basic differences in the productive structures in these countries. They all produce and export mainly one commodity group, oil and gas, and have found cooperation within the framework of OPEC and OAPEC to be generally viable and fruitful. All this facilitates the development cooperation movement at present and is an argument against delay.

Table 12.1

The Saudi Arabian Pivotal Role Indicators within GCC (%)

	(1) Total AGS	(2) Saudi Arabia	2:1 (%)
Area (000 sq. km)	2,459.597	2,150.000	87.4
Agricultural land (000 ha.)	1,162	1,110	95.5
Population (mn. - 1978)	11.682	8.229	74
Foreign trade ($ mn. - 1977)	92,975.7	58,122	62.5
Oil Production (000 b/d. - 1981)	13,215	9,827	74.4
Oil Reserves (bn. barrels)	273.9	167.8	61.3
GAS Production (cu. m. mn. - 1981)	88,896	54,082	60.8
Gas Reserves* (cu. m. bn.)	7,003.3	3,345.6	47.8
Accumulated Revenues (1973-1980 in $ mn)	492,983	324,884	66.0
Financial Assets** $ billion (1980)	106.974	94.385	88.2
Foreign Reserves** $ billion (1980)	31.550	23.437	74.3

* Estimated in 1981
** In December

Differences resulting from the current and individual industrial developments might make cooperation at a later time more difficult.(5)

One observer suggests that collective self-reliance can be implemented in the following circumstances:

> "Among the members of the Third World as a whole; among the regional components having geographical proximity; among countries having similarities in levels of development and problems among countries having common commodities to sell; among countries having common problems sharply posed - for example, the incidence of debt servicing."(6)

Ideological and political divergence which has threatened the feasibility of continued functional cooperation among developing countries as illustrated in Chapters 6 and 11(7) does not exist at this stage among AGS which are 'like minded' States; ideological and political general similarity is in favour of AGS cooperation. This also explains the AGS's present reluctance to have Iraq within the GCC. The analysis of motivations behind the establishment of the GCC leads to the identification of two main dangers which they perceive to constitute common problems, these are security problems and the dangers of economic dependence on depleting oil and gas resources.(9) Behind these lie the other and varied socio-economic and political motivations, explored in Chapter 8, which constitute a strong incentive towards development cooperation between them.

It is, also, in practical terms, easier to reach agreement and to harmonize policies among six countries than among twenty-two partners (as the situation within the Arab League).

AGS long term development objectives are directed to achieve real and secured income growth within their socio-cultural and ideological framework. The diversification of their economic base and resource income is the process necessary for generating their development directed to face the non-oil era. We have to examine these processes having in mind at the same time both conceptual and practical frameworks

derived from other developing countries' experience, as examined in Chapter 11. It is important to note the following before proceeding to design a pragmatic approach for AGS' Sub-regional development cooperation.

1. While the AGS Sub-region is one of the most wealthy global Sub-regions in relation to monetary GNP and per capita GNP, however, it remains, at the same time one of the poorest world's Sub-regions, in its human and natural resources (see Part One).

2. The Sub-regional economy of the AGS is one of the most limited in the whole world, in terms of development achievements in real economic terms and indicators (see Chapter 4).

3. The AGS seem to have one of the highest Sub-regional proportions of foreign economic inputs in its development activities as reflected clearly in their international economic relations (see Chapter 7). Sub-regional cooperation has therefore to be handled very delicately, otherwise it might be disruptive instead of being constructive.

4. The AGS Sub-region whilst being characterized by common economic development needs, constraints and prospects is distinctively different from any other Sub-region of the Arab region or region within the third world. For example, whilst economic integration in LAFTA could be only achieved through the maximum absorption of foreign capital, minimal participation from Governments with integration mainly based on private initiative, this associated with the use of tariff instruments as the most effective for regional cooperation, none of these principles, or instruments nor the whole approach of cooperation being followed seem to be of relevance to AGS development needs.(10)

5. AGS constraints on development are more or less uniform in the Sub-region. Without potential new resources and because major industrialization programmes other than petrochemical can only be of relatively limited range and strength in the absence of any sound base for

extensive integrated industrial complexes, the expected development achievements within the Sub-region are expected to be relatively modest, and not to affect fundamentally the key strategic development activities. A proposed viable approach for Sub-regional cooperation must therefore not be cast in exaggerated terms as will be seen in Section 12.5 of this Chapter.

12.3 AGS and the Trade Approach to Cooperation (see also Chapter 11)

Since any AGS Sub-regional cooperation operates in an environment quite different from that of Western Europe in which the EEC was established in 1957, we might expect that the integration process would also be different. For example, the European assumption based on earlier experience was that integration would commence at a low level through free trade and then by the process of politicization, gradually move through higher levels until a final stage of complete economic union has been reached. For many reasons such a progression is unlikely to occur in the AGS Sub-region, one primary reason being that the least advanced form of integration, a free trade area corresponding to the laissez-faire model, cannot promote development in an area where the base for intra-regional trade is very weak. It can also be held that free trade area, or a customs union with free trade policies, is inevitably bound to lead to spatially uneven growth and development. If market forces are allowed to operate freely they will tend to strengthen the advantages of the more developed activities sectors or projects (although in the EEC regional development policies to some extent counteract this). However, market forces are not the main engine for the development of AGS economies in the current stage but rather State planned or programmed development-oriented policies.

The irrelevance of the trade approach to the development of AGS cooperation can be demonstrated as follows:

1. As is accepted in the literature on economic integration:

> "the smaller the existing external trade with non-union members, the smaller the trade diversion effect will be. Whether integration is beneficial or not depends on the balance between the trade creation and trade diversion effects of the arrangements."(11)

There appears to be little reason for expecting benefits from trade approach through a customs union between the AGS, as the trade between these countries has not been impeded by tariffs, but rather by the structure of their economies which produce the same primary products, and have a low level of industrialisation.

The following foreign trade structure reflects this analysis and shows the weakness of trade approach by AGS Cooperation Movement (see also Chapter 6).

- AGS inter-Sub-regional trade was 3.9 percent of their foreign trade in 1977.
- AGS inter-Sub-regional exports was 2.9 percent of their total exports in 1977.
- AGS inter-Sub-regional imports was 6 percent of their total imports in 1977.

We can summarise the position as follows:

(a) AGS inter-Sub-regional trade is composed mainly of re-exports (commodities originally produced abroad).

The same conclusion can be drawn from an analysis of why Saudi Arabia relies on some other AGS in importing parts of its needs, in particular illustrating the fact that most of Saudi imports from the Gulf States are of origins external to the Sub-region for the following reasons:(12)

- Historic trade relations with AGS.
- Continuing deficiency of Saudi-Gulf Ports in handling the bulk of imports.
- Most shipping companies prefer to unload their shipment into the

most efficient ports with the best facilities provided.

- Most importing, trade, shipping and insurance companies are very well established in other AGS, thus Saudi traders are encouraged to arrange their imports through them.
- Imports from countries with which Saudi Arabia does not have trade relations are implemented through AGS.
- Inefficiency and lack of trade information among Saudi traders.

(b) Low production capacity and its limited range lead to the weakness of trade relations. The Gulf countries need more to create trade opportunities rather to free existing trade.

(c) The agricultural base is formidably weak, thus agricultural production and trade in agricultural or food products seem to have very little growth opportunities, despite the existence of limited trade exchange in fisheries.

(d) The basic drive towards industrialization has been shown to be centred on export oriented industries directed to international markets, rather than to Sub-regional or Regional markets.

(e) Industries planned on the basis of import substitution are similar in nature and designed to meet national needs.

(f) There is very little complementarity in the production and trade structure of AGS at present.

All above mentioned reasons tend to support the conviction of the non-viability of trade-oriented approach to AGS case.

The trade approach moreover implies, even if not explicitly stated, necessarily comprehensive cooperation. Common action over external and inter-regional trade, inevitably invalues a group in tariff protection and common action in finance, prices and factors of production movement. A development oriented partial approach can exclude parts of the economies of the participating countries while concentrating on these sectors, activities or projects of strategic development importance. Such partial

cooperation may include anything from cultural agreement to joint ventures or projects, and does not necessarily demand (although it will allow and encourage) more and more comprehensive integration activities.

Thus, whilst trade plays the basic role in a comprehensive approach, it plays a subordinate role or may not even be present in the partial approach.

The comprehensive approach, which depends on market forces to increase efficiency and specialization potentials among industries and other activities of the participating countries through the play of relatively free competition, is most appropriate for such developed Regions or Sub-regions as the EEC where industrial development had already achieved a progressive stage with the existence of active enterpreneurship that could make the best use of the opportunities created by larger markets.

In the developing countries, and this is particularly applicable on AGS where Governments and the public sector are the leading force behind development activities through the planning and programming of dominant State revenues, and where the private sector is characterized by a hesitant and non-adventurous drive within the national economies and with a particular reluctance towards productive investment within the Sub-regional circle, (given other more immediately profitable outlets) it is not logical to assume the applicability of the trade approach to the AGS' situation.

It can also be held that backwash effects are stronger than spread effects with a trade oriented approach in developing countries, as illustrated by the EAC example (Chapter 11).

The value of cooperation in trade-relationships is more likely to appear in the Regional and International circles, with mutual benefit to the AGS Sub-region and its partners. Comprehensive trade cooperation will only be feasible and beneficial when structural development changes

are achieved within the Sub-region and Region although the path to such achievement may necessitate some selective and partial cooperative trade policies (see Chapter 11).

12.4 The Development-Oriented Approach

Cooperation or Integration for AGS:

As we have noted, many relevant development studies have warned of the disintegrative effects of premature or over-ambitious integration. The use of the term 'integration' might therefore be misleading especially as it inappropriately portrays the great range of areas of meaningful and feasible cooperation open to groups of developing countries.

This seems to be borne out by the many actual examples of Sub-regional or Regional economic attempts at integration, whether in Africa, Asia, the Caribbean or Latin America now found in various degrees of serious crisis, of stagnation or in the process of disassociation.(13) The Arab Region seems to have had several unfortunate experiences with this type of approach, as became clear in Chapter 6.

More feasible arrangements for implementation Sub-regionally are those which are selective or even experimental in nature, without total or permanent commitment especially at early stages of cooperation. The cooperation rather than the integration approach seems to lend itself best to these demands, particularly because integration involves the surrender by member States of individual discriminatory general powers and the creation of supra-national central group institutions. Two particular factors in the AGS Sub-region tend to strengthen this approach; the first relates to the tribalism which prevails strongly within the Sub-region and by its nature and spirit stands against solid group commitments. The second can be described as psychological; that is the fear felt by the smaller countries of the dominance of larger

ones. The Saudi Arabian 'pivotal role' indicated earlier, and the greater developmental experience and financial power of Kuwait has led in other countries to a state of suspicion. This explains, for example, the Omani disinclination to sign any firm economic agreement with Saudi Arabia or any other AGS, as illustrated in Chapter 5.

AGS Governments are not expected to be willing to delegate national authority to supra-national institutions. This reluctance is compounded by the fact that intra-Sub-regional activity constitutes but a very small proportion of most AGS total external economic transactions. Governments will not undertake policy harmonisation for the sake of furthering Sub-regional cooperation if there is a possibility that this may adversely affect what are perceived as more important relations with extra Sub-regional partners. Furthermore, the newly independent AGS are naturally hesitant about any regional arrangement that implies a permanent restraint on their recently acquired sovereign rights.

There is therefore a more positive response to partial Sub-regional cooperation, rather than to comprehensive integration schemes. The cautious attitude towards regional cooperation caused by the perception of many failures in other developing regions as well as in the Arab world seems to be creating a general trend in the AGS welcoming Sub-regional arrangements that do not imply a permanent general commitment. Without any previous long experience in cooperation at Sub-regional or Regional level appears to make it necessary for the AGS to go through a learning phase during which the advantages of economic cooperation are clearly demonstrated through practical achievements on a sectoral basis. It seems that only after this phase will more comprehensive and permanent integration policies have a chance of acceptance.

That acceptance of quite far-reaching and comprehensive cooperation, of a kind which could be termed integration, will be ultimately necessary if AGS's development aspirations are to be satisfied, seems unavoidable in the light of our earlier analysis. At present, something much less comprehensive and more pragmatic is possible and desirable. Specific goals have to be relatively modest and achievable, despite their longer term significance in that as beneficial results are obtained there would be positive feedbacks encouraging moves to more ambitious cooperative involvement.

In this setting, and henceforth in this thesis, the term 'cooperation' with regard to the AGS will be held to mean 'partial development-oriented cooperation within an integratory realm'. 'Integratory realm' implies that pragmatic, selective cooperative activities, and their implementation policies and instruments, will not be an 'ad hoc' assortment but have a significant content of integratory effects and increasingly be selected to strengthen a movement towards even more beneficial, more comprehensive cooperation for development.

This approach also allows cooperating countries to use integratory instruments of policy, usually regarded as appropriate to comprehensive cooperation, at this partial and selective level. For example, the liberalisation of trade, of the movement of factors of production and a variety of fiscal or other economic instruments can be used partially and selectively for limited specific purposes to encourage the success of joint development projects.

There is no great urge towards political unity among the AGS and, has noted in Part One, these countries are in many different stages of economic growth and economic strength. Saudi Arabia and Kuwait, in different ways, are the current leaders, whilst Bahrain and Oman are the weakest. However, the course of development history proves that this position could change over time, leading to different relative

economic growth achievements. Such situation calls for cautious programmed cooperation instead of integration as more likely to achieve equitable benefits, and thus pushing the drive of cooperation movement further towards a later integratory movement. Such collaborative endeavours could provide valuable learning experiences for national leaders and training grounds for the administrators and technical staff needed for joint institutions.

12.4.1 Planned or Programmed Cooperation

There is a strong theoretical base behind the idea of comprehensive planning harmonization, as an instrument by which many of the key issues of cooperation can be treated efficiently, and for securing equitable distribution of costs and benefits. The balanced inclusion of all inter-related sectors, it is maintained, is how regional development can be realized. However, the lessons of experience, illustrated in the preceding chapter, in addition to the specific situation relating to development planning in the AGS, seem rather to justify partial planned or programmed activities for the following reasons.

1. At the planning level it has to be admitted that the AGS has an inadequate technical capability for overall planning (see also Chapters 2 and 4):

- AGS performance in intermediate and long range development planning is poor.
- Plan implementation is rarely followed up seriously.
- The technical base for development planning remains poor. Feasibility studies are frequently delayed or incomplete, and project supervision is often inadequate.
- Existing statistical compilations are not adequate for good planning.
- The private sector and strategic investment sectors are excluded from planning control in Kuwait and Saudi Arabia.

- Various deficiencies in the AGS planning machinery should be treated as of top priority efforts to enable them to handle matters of Sub-regional or Regional nature in the future.

2. At the strategic policy level as Dell in discussing the situation in Latin America, which also seems to be applicable on AGS, argued:

> "It would be an error to wait upon the elaboration of a fully consistent set of goals for all sectors within a comprehensive framework. It would be much better to begin immediately by setting targets for the strategic sectors and by adopting the measures required for their achievements. This should not prevent work on more thoroughgoing lines from being initiated." (14)

Abdellatif El-Hamd also recognised the problem:

> "We should be realistic, what is required is not the coordination of economic plans, but we need to create the opportunities for cooperation." (15)

Although AGS planning capability is at present limited, because as noted earlier there is in AGS preparedness to carry forward some cooperative activities, and because as argued in this thesis there are grounds for believing that a partial and selective approach is most appropriate in any case, it is not therefore necessary to wait until hypothetically ideal overall planning machinery is ready. Discussion of joint projects can even now be examined by joint sectoral committees involving national planning groups. (16) Project harmonisation with national development plans can and must begin, one of the lessons to be learnt from the Mekong project (see Chapter 11, section 11.3.2 and Ref. 17). As with ASEAN planners, those technically responsible for national development plans in the AGS would obtain considerable benefit from regular discussion of such harmonisation. In other words, the practice of cooperative planning should be just as pragmatic and practical as the type of approach being outlined.

12.4.2 Summary to Approach

Based on preceding analysis and argument the approach proposed here for development cooperation within AGS Sub-region is a 'Programmed,

Partial, Development-oriented approach within an integratory realm. Although aims at the beginning should be modest and centred in specific areas or projects in the short and medium term, these should be designed and chosen for their contribution to long term development perspectives as well as to the cooperative movement itself. Such an approach is totally antithetical to the theoretical demands to establish a Gulf Common Market,(18) as mentioned in many studies, or calling for Gulf Economic Union as proposed by El-Naggar.(19) Although El-Naggar accepts the unsuitability of a trade approach to AGS cooperation (including only five AGS, without Saudi Arabia) thus dismissing common market and customs Union instruments of policy, he proposes economic union ignoring the fact that Union is the last stage of economic integration in, and which demands a trade-oriented approach.

The author of this thesis finds the trade-oriented approach misleading and unviable for developing countries including the AGS Sub-region. The GCC economic agreement as documented in Appendix I has been formulated, nominally at least, on the basis of trade-oriented approach. Despite the GCC interest in various development activities which were included within it, there is still no agreement on the type of joint development activities which should occupy priorities within the whole cooperative process. The GCC agreement as it stands tends to guide AGS towards common market type objectives and policies, partly because of the misunderstanding of the common market approach which prevails among top senior GCC officials. This is reflected in the Assistant Secretary General for GCC economic affairs, Dr. Abdullah El Quwaiz's statement to the UAE newspaper, Al-Bayan: On replying to a question about the possibility of following EEC approach in the GCC's economic agreement's aim of achieving Gulf common market he said that:

> "We don't like to follow the EEC because it is complicated, has a long regulations and because competition prevails between its member countries."(20)

At the same time Quwaiz paradoxically approves of these measures within the GCC which reflect the process of following the same EEC approach.

> "A study is being undertaken to build up a unified customs wall towards the outside world, in implementation of the GCC economic agreement."(21)

The writer of this thesis believes that such misjudgement is at the root of the GCC agreement and is convinced of the AGS' need to reshape their economic agreement. As is later emphasized, this must be within the trilateral approach referred to in this study, and be partial and selective in listing the priorities for cooperation in a thoroughly pragmatic and realistic way. The opportunities are there, as examined in the next section.

12.5 Sub-regional Key Opportunities for Development Cooperation

Theoretical and practical lessons of cooperation experience, the facts relating to current development achievements, structural constraints, and the basic AGS drive towards creating a sound base for the post-oil lead logically to the identification of these opportunities for creating such a base. Before we examine these mainly on a sectoral basis, two key opportunities which are not usually recognised should be noted.

First the 'Finance Industry', through which AGS could, formally, in cooperation, gain more than it is now doing of profound experience in the play of money - short term financing placement activities, as well as in the play of capital - long term financing and investment. Taking Regional as well as International circles as the field of operations two main objectives could be achieved. First, the building up a strong development base through acquiring and gaining highly technical expertise in the financial sector, which already has a central but uncoordinated role in the development of AGS. Second, contributing much more effectively than at present to the creation of a diversified base of economy and

income through the promising investment opportunities for AGS within the Regional and International circles.

Secondly, much greater coordinated attention could be directed to qualitative joint activities including the infrastructural base in its broad sense (e.g. administration, environmental, research, science and technology and other human affairs). This direction is motivated by the following:

1. The heart of the development movement must be the human being who is the objective of and the means to development. Such joint activities on a Sub-regional scale could improve the quality of life and opportunities for AGS inhabitants. At the same time such activities make a vital impact on the provision of the needed highly motivated class of leadership and entrepreneurs to energise the development movement whilst also creating the needed productive base for all development, human capability.

An emphasis on non-material, non-directly productive activities, in the AGS appears to be, at the present time the greatest real need for given Sub-regional development objectives, opportunities and limitations.

Whilst within the Sub-region a qualitative approach is being recommended, a complementary quantitative approach for development could be applied to the Regional circle as analysed in Chapter 9 and will be applied in Chapter 13. The quantitative approach means here basically joint productive activities.

This approach is in disagreement with the fundamentally, and we believe, mistaken approach made by many attempts to promote integration among developing countries though concentration on industrialization as the main driving force for development. Patel rightly indicated, there is a:

> "tendency to think too much in terms of economies of scale in relation to industrialization - as distinct from agriculture, development of common resources such as rivers, or of facilities such as scientific research, training, transport, power generation and financial institutions."(22)

Patel is certain as is the present author that the pooling of demand and resources applies to all these latter areas as much as to industrialization, and a healthy and rapid development of other sectors and the efficient utilisation of resources are necessary anyway if healthy and rapid industrialization process is to be sustained.(23)

Potential Sub-regional cooperative activities for development do not, of course, end there. In Section 12.5.1 some examples are given of a range of joint activities which should have priority in AGS development, in its long-term perspective and in harmony with the adopted approach.

These illustrations include sectoral activities relating to industrial development, science and technology, fisheries resources development, human resources development, development administration machinery and financial and monetary activities.

12.5.1 Cooperation in Industry

The direction which has been followed by the Gulf Organisation for Industrial Consultancy, as sectoral partial cooperation machinery, seems, in principle, to be one of the encouraging examples characterising current development cooperation among Arab Gulf States. It is also wholly in tune with the pragmatic partial development oriented approach of this thesis. Industrial development of the Arab Gulf States even with Sub-regional cooperation is still likely to have modest results, as noted earlier; however, the Organisation for Industrial Consultancy could optimise these results given certain directions:

1. It should undertake more and more programming of AGS industrial development by a concentration on possible strategic joint industrial projects.

2. More concentration should be directed by the organisation towards qualitative activities linking industrial development with related human resources development, that is strengthening the base of industrial science and technology, research and training facilities in the light of preceding analysis in Chapters 8-10. International cooperation rather than Regional cooperation seem to be needed in these fields. Studying and surveying the AGS needs in these areas should be given urgent priority, as they are not seen in the list of the organisation's studies. It is important to stress here, that whilst opportunities for industrial development even in the aggregated Sub-region are limited by small markets and scanty resources, the continuing parallel and competing trend of nationally establishing similar projects as steel plants, petrochemicals, fertilizers, cement and other industries effectively make this Sub-regional circle even more limited. Present trends are economically suicidal.

3. The organisation if it is to be directed to serve more effectively the drive towards the industrialization of Arab Gulf States must not ignore the wider potential offered by the Regional approach for cooperation, as illustrated in Chapter 9. Thus it could study the feasibility of joint agro-industries directed to meet the region's needs, in the light of a regionally integrated approach to development (see also Chapter 13). Coordination between this organisation and the centre of Arab Industrial Development within the Arab league is vital in this respect. A Special section dealing with coordination between the Sub-region and the Region is proposed within the (GOIC) organisation structure.

The above proposed direction for Sub-regional industrialization necessitates also, cooperation within trilateral approach.

12.5.2 Cooperation in Science and Technology

The current situation in the AGS is characterized by two main features, the first relating to the basic structural constraints examined

in Chapter 4; second, to a stage of development in which an emphasis on qualitative development is required instead of on quantitative development as has prevailed in the past two decades.(24)
In such a situation science and technology seem to play a key role in meeting future aspirations in diversifying AGS economies, improving the quality of social services and reducing the extent of dependence on foreign manpower (see Chapter 10).

Technology as an important input and determinant for the development of AGS has been reflected in science and technology based sectors such as petrochemical industries, sea water desalination plants, oil refineries, agriculture, telecommunications and solar energy.

According to a report compiled by the Kuwaiti Ministry of Planning, the contribution of science and technology during the period 1970-75 accounted for around 10-15 percent of the overall increase in national income, the remainder being attributable to the increased employment of labour and capital.(25)

Despite some application of science and technology in all countries of AGS to varying degrees, there remain some problem areas in which there has continued to be limited application of scientific techniques, for example, water resources and the management of fishery resources.(26)

The establishment of national and Sub-regional scientific and technological centres still is an urgent requirement. Sub-regional intensive programmes in applied research and development seem to be one of the most feasible cooperation activities centred on resource evaluation, management and monitoring, e.g. of oil, natural gas, solar energy, fresh water and water desalination, fishery resources and nature conservation including pollution. Despite Sub-regional need for these activities, efforts should not be confined within it but extend to the Regional (e.g. OAPEC) as well as the International circle (OECD countries and U.N.). This is one reason why Oman, the only AGS not a member of

OAPEC, should formally participate in OAPEC activities.

12.5.3 Fisheries Cooperation

The potentials for fisheries development cooperation in the AGS are considerable as noted in Chapters 1 and 5. Whilst the waters adjacent to the AGS are wealthy in fish including three groups of high value in international markets, shrimps, tuna and cuttlefish, the fishery resources has been subject to intensive over exploitation, as seen in Chapter 5.

For this reason especially, cooperation in fisheries should be centred on infrastructural research and development activities rather than immediately on productive activities for the following reasons:

Oman which nationally has the wealthiest fishery resource has shown slight interest in joint productive projects, regarding fisheries as lying within sensitive areas of sovereignty involving security. Many proposals submitted for establishing a joint fisheries fishing fleet, mainly by Kuwait and the Arab Union for Fish producers (Baghdad) were not accepted by Oman which preferred to establish its own national fisheries joint stock company. Oman even preferred to have contracts with Japanese and foreign companies on an ad-hoc but national controllable basis rather enter a firm Sub-regional commitment.(27)

A study of the results of the UN fisheries survey and development project (see Chapter 5) to estimate the feasibility of exploitation within the project area by a joint trawling fleet found that:

> "the operating profits calculated were very small even although the costs of shore installations and of the marketing of catches, have not taken into account ... the operation seems to be not attractive commercially."(28)

Also the study recommended that:

> "The most promising choices could be tested on a small scale (four or five vessels) for two or three years before a final decision is made on a large programme of investment."(29)

The same report concluded that:

> "Consideration of investment in large scale trawling on the Gulf should await the results of closer studies than have been possible up to now on the extent to which demersal trawling operations will interfere with existing artisanal methods of capture, and to what extent the one is likely to replace the other."(30)

What is clear is that whilst one promising area is the strengthening and modernization of the artisanal fleets, cooperation in fisheries development should be centred around research, training and development of artisanal as well as commercial fisheries. The establishment at Dubai of a Sub-regional Marine Research Centre is consistent with the needed approach (see Chapter 5 - Complementary proposals).

12.5.4 Cooperation on Human Resources Development

The development of all the AGS faces a severe constraint due to scarce labour force supply in relation to demanded needs of development activities (Chapters 1 and 9). Investment in human resources, particularly in education and training should therefore have top priority in AGS' development cooperation. Joint efforts should be directed to build up skilled manpower within joint programmes directed to meet the development needs of AGS in various fields.

Investment in human capital receives less attention in the economic literature on absorptive capacity in comparison with material investment.(31)

Given the state of under-development of human resources and given abundant capital in the AGS, one can safely say that additional investment in human capital is likely to yield high returns.

> "The distinction between material investment and investment in human capital is unsatisfactory because it tends to compartmentalize the economy by not taking a comprehensive approach to the problem of investment. If such a view of investment is adopted, namely one that includes investment in human capital, the general absorptive capacity would be significantly larger, for not only more funds would be channelled into the development of human resources but also the scope for the productive application of capital would rise in the commodity sectors themselves."(32)

Largest investment in manpower, thus, comes to be consistent with other

demands on finances, not only to meet real long term needs of the post-oil era, but also in the short and medium term.

> "Given the frugality of natural endowments outside the oil sector, man is the only resource that can be developed substantially,"(33)

and creating high-level skills is probably the soundest direction that development could take.

Attention is already beginning to be paid to the question of human resources development (HRD) within AGS. The Saudi Third FYP, for example, stated in the preamble to Chapter 5, 'Human resources Development' that:(34)

> "the development of Saudi human resources stands at the heart of the development process."

Education and training are seen to be valuable in their own right, but the objective of improving quality is accompanied by another which stresses the need to make the system more responsive to the needs of the economy (5.2.3.1). The expansion and improvement of the work at general education level by the Ministry of Education and the Presidency for Girl's Education will take almost 60 percent of the expenditure on human resources development, and higher education a further 33 percent of a total of SR 130 billion.(35)

Despite such evidence of the realization of the importance of HRD, there is however, some question of the extent and depth of real will existing within AGS circles. Field experience illustrates continuing inadequacies and difficiencies which exist within the current structure and need to be tackled.

1. While very high percentage of general illiteracy still prevails (see Chapters 1 and 4) concentration is directed mostly towards higher education including prestigeous and westernized universities.(36) The Sub-regional Fisheries Training Centre in Kuwait is a good example on a misplanned project which is directed to serve non-existing middle

class fisheries trainees (Chapter 5), whilst the other groups which are in dire need of training, artisanal fishermen and fisheries development administrators, were ignored.

2. Despite the nominal inclusion of training inputs into joint ventures' agreements, the AGS seem not to follow up effective implementation and consequently missed many opportunities put before them.

3. Female participation rate in the AGS labour force is one of the lowest in the world and more serious efforts should be directed towards the development of women's inclusion into the development movement.

4. Trade-oriented attitudes widespread among AGS citizens as well as the preference which is given to prestigious Government jobs, several are a basic constraint towards HRD. Several opportunities which have been put before AGS Governments and private institutions for training and education are missed because these attitudes.

5. The phenomenon of idleness also widespread particularly within AGS Government bodies, applies especially to national citizens and is caused by a reliance on imported labour and skills to run operations, while citizens tend only to maintain the prestigious seniority titles and exercise only the "act of signature". This also lessens the effectiveness of HRD intentions. Special measures and means should be adopted to make the best use of and transferring capabilities from imported expertise to the local citizens.

In all, HRD is not merely a matter of nominal realization and subsequent expenditure, it is an act of real will based on the deep evaluation of the needed structural changes in the human behaviour, attitude and quality followed by patient and serious efforts.

12.5.5 Cooperation for Marine Environment Conservation

Cooperation on marine environment conservation which began between the AGS and two other countries bordering the Gulf (Iraq and Iran) and

the Kuwaiti Plan of Action seem to apply to one of the most needed joint activities. The nature of various parts of the marine pollution problem is Sub-regional if not Regional as the extent of the problem is determined by all countries which are jointly liable for and to the threats of polluted areas and it is these countries who should stand together to tackle the problem, otherwise their individual efforts will turn into complete failure.

A joint programme of action is one of top priority within the Gulf Sub-region considering that the threat of pollution to the marine environment from deliberate or accidental release of noxious material from cargo ships and tankers has become more serious and critical every day. Other contributing factors to the pollution problem include the increasing discharge of untreated sewage and industrial effluents and the use of the seabed for oil and mineral exploration and exploitation. It should be stressed, furthermore, that harmful effects of pollution extend seriously to human health and wellbeing including industrial establishments, and the general pollution effects on the marine ecosystem.

Joint effort covering the integrated needs that constitute a Sub-regional coordinated effort should be enforced in the light of the recent efforts which have been taken by these countries in cooperation with the UN (see Chapter 5, section 5.4.5).

The Kuwait plan of action call for the setting-up of a Sub-regional Marine Pollution Centre (Chapter 5 and Ref. 37) is found to be of necessity and is in harmony with the needed qualitative development activities within the Sub-region. Such joint effort will contribute to improve the human quality as well as the productive quality within the Sub-region and preserving the marine resources which are badly needed for a Sub-region that dependsnearly completely on a developing oil and gas resource.

The proposed centre should include various components of needed activities such as the collection and distribution of information concerning oil spills to all participating countries, coordinating the monitoring of spills and location of them, the use of satellites and remote sensing devices could be made available for such work. The development and encouragement of technological cooperation and training programmes for combating oil and industrial pollution are of special relevance to the proposed centre activities; Sub-region seminars to stimulate cooperation in the implementation of Sub-regional proposals are also needed.

It is very clear from the above needed activities that the accumulated experience and expertise of developed countries is needed and UN machinery's direct involvement in this process has been a vital fact. This situation emphasises the role of cooperation at the international level in Sub-regional activities.

12.5.6 Cooperation on Development Planning Administration

It is this weriter's belief that inefficient Government machinery, in all AGS, constitutes one of the most important problems that are facing both cooperation and development. This, in addition to the severe lack of statistics and information as examined in detail in Part 1, requires that a Sub-regional programme is established to develop planning machinery in particular and Government administration in general and to build up a strong statistical information base. The proposal to establish a Sub-regional data bank falls within this context:

> "where the State apparatus is too weak to control ... the operations of productive activities, in accordance with the stipulation of an integrative move, the basis for cooperation may be safely said to be lacking."(38) (and see Chapters 2 and 4)

The following measures are proposed for the AGS aiming at coordinating the base for formulating plans and strengthening planning machinery at the same time. It should be stressed that the proposed

measures are taken to mean essentially a preliminary effort towards planning coordination which could be adopted in future stages of cooperation. Such measures in any case make possible the harmonisation of Sub-regional activities within individual countries' development plans.

1. To work out a common starting date and duration for their development plans; this situation is already followed, unintentionally, by S. Arabia, Kuwait, Oman and as announced in the UAE for the current FYD plan (1980-85).

2. Unifying the system of data and national statistics tabulation and in a periodic manner, preferably through a specialized statistical organ in the GCC or one of its affiliate organizations.

3. To establish the broad skeleton and sequence of basic information to be contained in development plans in order to facilitate future comparisons and coordination of plans.

4. To give attention to project evaluation, to provide detailed information about future projects, to standardize the data concerning these projects, and to indicate whenever possible in the plans to what extent a future project would be dependent on Sub-regional Arab and international markets for inputs or output.

5. To train and develop the skills of planners in general and of project evaluators in particular, to support and enhance the activities of institutes of planning and management development, and to increase their professional contacts with international competent institutions and consultants.

6. To prepare constitutional and planning studies necessary to reconcile the national sovereignty of each State with the interest of the Sub-region and Arab region as a whole.

The urgent need for the build-up of a strong data and information platform for the Sub-region has been emerging all along from this

research analysis. Many basic gaps still exist involving various activities from weather studies, marine studies, resource surveys on water, agriculture to industrial, human resources and labour force and balance of payments statistics.

This results, therefore, in the need to adopt a joint programme within the Sub-region to be directed to achieve a strong data and information platform which will improve the quality of needed studies for sound planning, sound policies, and Sub-regionally based feasibility studies would be vastly improved both for national and Sub-regional needs. The proposed approach to achieve this objective begins with a common assessment of the existing data and information base, identifying existing gaps in each of the economic, social and technical sectors, identifying needed information and surveys for each country and for the Sub-region. The drawing up of a joint programme to build up the needed base, including various components of the process, could end with the establishment of a Sub-regional data bank, staff and training in addition to the needed expertise. UN, international as well as Regional bodies could be of special help in this process. A final note should be mentioned here; despite the severe lack of available information and data within the Sub-region, however, there are a large amount of studies, surveys, maps, reports and researches that exist but are kept unavailable and unused in the drawers of national as well as international institutions. This matter necessitates an intensive effort that could be done by the GCC secretariat and other sectoral bodies, within individual countries as well as other Sub-regional bodies, to collect all existing available data and information, thus bringing to light these studies which have disappeared into darkness.

12.5.7 Cooperation on Financial and Monetary Affairs

As we have already noted the financial and monetary sector is the

main engine and driving force behind national development within AGS. Here we refer to the main elements of this sector's cooperative role, while some more detailed examination of its role and supporting factors within a trilateral approach will be made in Chapter 14.

At the beginning it is of vital importance to remember that the current stage of AGS development necessitates directing cooperative investment strategy with special priority to be given to joint qualitative activities and projects within the Sub-region. Such investment strategy need to be conducted rather with a view to long-term projected effects than to short-term effects. This is applicable to all that has been noted above and examined in Chapter 5 (human resources development, research, training, environment preservation, etc.).

The emergence of abundant financial resources has been reflected in the rapid development of financial and monetary activities in the AGS, with national, bilateral and multilateral projects involved. The GCC decision to establish Gulf Investment Authority (GIA) seems to be particularly important. The success of GIA depends to a large extent on the viability of the approach followed through its investment strategy.

In the light of all preceding findings it can be concluded that the GIA should follow a trilateral approach that gives special priority to productive activities in agriculture and food production in the Arab Region for the reasons mentioned in Chapters 8 and 9 (see also Chapter 13). At the same time GIA's main interest while investing within the international circle, should be centred on activities which contribute to the effective transfer of technology as is laid down in Chapters 10 and 14, as well as strengthening various qualitative changes needed within Sub-region development. This, of course, subordinates the question of rate of financial returns in its narrowest and most immediate sense

to a wider investment vision that considers socio-political as well as economic long-term aspects and effects of investment.

The Emergence of Kuwait as a Sub-regional Financial Centre (Chapter 5):

Qualitative efforts are strongly needed to build up a solid financial expertise which will be capable of managing efficiently the Kuwaiti financial market. Despite the vast development achieved in financial and monetary activities, one can describe it rather as quantitative than qualitative growth. Concentrated attention should be directed towards the latter, otherwise many dangers will appear. Current trends as in the Souq Al-Manakh and post-dated cheque system in the stock market encourage speculation rather than serious placement or investment. (39) The Kuwaiti stock market could play a vital role, also, within the proposed trilateral approach through the mobility of financial resources needed for Sub-regional, Regional as well as international activities.

Within the Sub-region, the Kuwaiti growing stock market has extended its activities to include some Arab Gulf Companies. Two such companies have been licenced since 7 March 1981 to operate within the Kuwaiti stock market, the Gulf Company for Estate investment (Ajman UAE) and the Gulf Company for Agriculture Development. Both companies have been approved by the Securities Committee. (40)

The Securities Committee has recently approved the conditions by which AGS companies can be licenced to operate their activities within Kuwait stock market and these conditions are worth noting: (41)

1. The company has to be established in any of the Gulf Cooperation Council States.
2. The company should be at least two years old.
3. An achievement of minimum profits in the Company's last budget of 10 percent.
4. The registered companies should apply all regulations issued by

the Kuwaiti Ministry of Commerce and Industry and Stock Committee.

A Consultative Committee has been established to regulate the application of these regulations.

Further notes on Kuwaiti's regional and international role is given in Chapter 14.

It is important to refer here to the newly-emerging phenomena of Islamic banking, in which S. Arabia has taken the leading role (Chapter 5). While many challenges face it there have been many signs of the movement's growth and the Islamic Development Bank is playing an active role in the development of Moslem countries - a Regional as well as international approach. The same trilateral approach and investment strategy which was proposed for GIA are applicable also to the ISD case.

Bahrain has shown a trend towards specializing in offshore banking services, which can be defined as:(42)

> "Places - whether countries, areas, or cities - which have made a deliberate attempt to attract international banking business (non-resident foreign currency denominated assets and liabilities) by reducing or eliminating restrictions upon operations as well as lowering taxes and/or other levies."

Bahrain is one from 21 international centres which qualify under this definition.

This striking offshore banking development has been necessarily integrated with international financial and money markets over the last two decades. Bahrain's offshore banks assets doubled between 1977 and 1978 in an international monetary environment within which offshore banking centres share in the total euro currency market increased drastically.

In 1965 the total euro currency market was estimated at $ 9 billion (net) offshore centres accounting for a negligible share of this total. By 1978 the euro currency market has grown to $ 375 billion

of which the offshore share was $ 45 billion.(43)

Within the Sub-region Bahrain should be given its opportunity for more development and specialization in off-shore banking. There are some signs, on international level, of little unsatisfied demand for new offshore centres. There are even some signs at present of an excess supply.

> "If one looks at the existing geographical coverage provided by offshore centres, virtually every area of the world has a selection of offshore centres readily accessible."(44)

From a Sub-regional viewpoint it would be wise for AGS even to discourage the appearance of other centres within the area, proliferation could lead to destructive competition and the misuse of scarce banking expertise.

Bahrain's emergence as a Sub-regional offshore banking centre has depended on monetary activities derived mainly from the Gulf area and directed to international markets, this made possible by the off-shore banks' international experience and cooperation. Here again, one observes a linkage between the Sub-region and the Third Circle, part of its success due to the international inputs - placements, opportunities and expertise.

Monetary Cooperation:

Within the context of our proposed pragmatic approach for development cooperation, 'A programmed partial development oriented cooperation' the question of monetary cooperation seems to fit best in the shape of joint banking projects, leaving monetary policy matters, exchange rates and currency unification etc. at the present stage of consultation only, for the following conceptual and practical reasons:

1. As Dag Hammars Kjold, the Swedish economist suggested, in monetary matters in some respects complete freedom is more binding than agreements.(45)
2. A survey of literature on monetary and fiscal integration conveys

the impression that differences of opinion are more pronounced on questions of monetary integration than on matters of trade and development integration.(46)

> "It is quite clear the economic profession has not reached a consensus on monetary integration."(47)

3. Meade, in discussing issues relating to a European Monetary Union, warned that a monetary union

> "set up as an objective in its own right would make the basic objectives of economic union more difficult to attain."(48)

The successful operation of currency integration presupposes a centrally integrated monetary and fiscal policy, coordinated wage flexibility, and a highly developed regional policy. Since wage rates are not flexible downwards, it would be foolish and disastrous

> "to try to fix exchange rates, either within the union or between it and countries outside and thus submit to the necessity of monetary deflation to adjust to a variety of conditions."(49)

4. Unified exchange rate which was followed by Qatar and Bahrain for only one year, 1977-78 proved the difficulty of maintaining such a system. As Fleming warned:

> "That if adherence to a unified exchange rate area were found to lead to excessive hardships, reactions might ensue leading not only to the abandonment of exchange rate unification but even to a rejection of other forms of economic integration among participating countries."(50)

Research, training and technological activities of banking system seem to be of direct relevance to AGS development needs. Cooperation within the international circle (OECD and UN) seems to be important here.

In the light of the above considerations, it may advisable to concentrate at this stage on modest achievable proposals for monetary cooperation in the Sub-region; the following activities are suggested:

1. Exchange rate coordination: It may be useful to introduce a

system of exchanging information and ultimately adopting ground rules for movements in exchange rates and the coordination of joint positions with regard to the major international monetary issues and arrangements.

2. Introduction of a Clearing System: steps could be taken to introduce a clearing system between the Gulf countries to enable mutual transactions to take place in national currencies and to settle balances periodically, also in national currencies. Though these arrangements will have modest effects in the medium term, they can be justified by long term benefits.

3. Coordination in Central Banking: the Central Banks may take steps towards the evolution of a common strategy to develop banking in the Sub-region and coordinate central banking policies and practices.

4. Joint Banking (see also Chapter 5): Recent joint banking ventures have proved to be successful, despite the short time which has passed since they were established. The Gulf Bank, referred to in Chapter 5, rapidly established itself in international monetary and financial markets and raised its capital from BD 40 million to BD 100 million. Assets in 1980 exceeded 3 billion dollars, realizing profits estimated at $ 15 million (14% of capital). During 1980 the Bank's total loans reached round $ 1,132 million. The share of Gulf public and private sector companies was $ 286 million in addition to Bank subscription's in securities of $ 5 million. The Arab countries received 33.7 percent of the Bank's loans in 1980.(51)

Such activities lie within the Industry of Money and Finance which is emerging in the Gulf as one of the most promising activities which should be supported and further developed.

The adoption of the above first steps in economic coordination among AGS could help create conditions that may ultimately make it possible to consider adopting a more progressive approach to monetary cooperation.

We may conclude that in on-going cooperation between financial authorities, the same practical and pragmatically modest approach is advised at this stage of development. At the same time more attention should be given within these authorities' joint discussions and consultations to the following subjects:

1. An evaluation of Gulf-Arab and international financial joint activities during the seventies and the first part of the eighties in order to formulate a new future strategy towards cooperation with optimum benefits.
2. The build-up of financial and monetary expertise in cooperation with the regional as well as international institutions.
3. The strengthening of research, training and technological activities within the Sub-region financial and monetary system.

12.6 Summary and Conclusions

We have seen in this chapter how all the factors relevant to AGS development cooperation, combine to reinforce the application of the partial development-oriented rather than trade-oriented approach, as examined in Chapter 11. Given the particular characeristics of the AGS, identified earlier, it becomes appropriate to adopt a pragmatic cooperation approach within an integratory realm. Such pragmatism implies a degree of programming which could enable future movement towards a more comprehensive involvement to be more successful.

Key cooperative activities for development include considerable emphasis on qualitative rather than immediately materially productive sectors within the Sub-region. This is not to exclude the latter sectors, as shown in Chapter 5, but rather to insist that priority of effort and in time has to be given to those activities vital for structural change. For example, although formal recognition is made by some countries of the need for human resource development, actual

achievements are small, and could be vastly increased by vigorous Sub-regional cooperation.

Moreover, what appears from this argument is that the right approach for the AGS is not Sub-regionally introverted but deeply involves wider cooperation at Regional and International levels. This is especially true in relation to the qualitative activities which are seen here as most crucial to AGS' development at this stage.

Notes and References

(1) Robana, A. The Prospects for an Economic Community in North Africa, (U.S.: Praeger Publishers, 1973), p. 5.

(2) Ibid., p. 3.

(3) Renninger, J.P. Multinational Cooperation for Development in West Africa, (U.S.A.: Pergman Policy Studies - UNITAR, 1979), p. 62.

(4) An example of this is the Petrochemical Industry as some giant American-based trans-national companies begin to develop new petrchemical production systems which could lead to unbalanced competition with the on-going AGS projects due to costs of production considerations. Such a situation might lead to the drastic failure by AGS export-oriented projects in penetrating into the international markets. See: El Zaieem, E. 'An Attempt to Evaluate and Predict Technological Relations between Backward and Developed Countries', In, Arab Preparatory Symposium for U.N. Conference on Science and Technology for Development, Union of Arab Scientific Research Centres, Baghdad, May 1978, pp. 16-23.

(5) Robana, A. Op. cit., p. 21.

(6) No. 21, p. 64.

(7) Illustrations of how inter-State conflicts have undermined functional regional cooperation are the withdrawal of Mauritania from OCAM following the admission of the Tshombe regime in May 1965, and the disintegration of the Organisation of Senegal River States as a result of the recriminations between Guinea and Senegal after the 'Portuguese' invasion of Guinea in 1970. See: Ravenhill, J. 'Regional Integration and Development in Africa: Lessons from the East African Community', Journal of Commonwealth and Comparative Politics, Vol. XVII, No. 3, November 1979, (London: Frank Cass and Company Ltd.), p. 232.

(8) Beseisu, F.H. 'The Gulf Cooperation Council and the Horizon of a Strategic and Balanced Arabic Regional Cooperation', In, Al-Mostaqbal El-Arabi (Arab Future), Published by the Centre for Arabic Unity Studies, Beirut, Vol. no. 4, No. 31, Sept. 1981, (Arabic).

(9) Ibid.

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(12) S. Arabia, Industrial Studies and Development Centre, A Study on the Possibility of Developing Some Local Industries, Exports to Arab Gulf States, 1974, p. 11 (Arabic).

(13) Viatsos, C.V. Op. cit., p. 719.

(14) Dell, S. A Latin American Common Market, (New York: Oxford University Press, 1966), pp. 142-143.

(15) CAEU, Seminar on the Arab Joint Projects, Cairo 14-18 December 1974, First Edition, 1976 (Arabic).

(16) While there are planning ministries in S. Arabia, Kuwait, UAE, and Oman, Bahrain is used to be represented by Ministry of Industry and Development and Qatar by Ministry of Industry and Agriculture.

(17) ECAFE, 'Towards Integration in Asia', Journal of Development Planning, No. 2 (U.N., Dept. of Economic and Social Affairs), New York, 1970, p. 141.

(18) It is interesting to note that part of these studies which call for Gulf Common Market justifies it by referring to the uncompetitive trend of development activities based on oil and petrochemical activities, despite the growing competition among progressing industries was an important motivation to adopt Common Market in the EEC. See: Eken, S. Op. cit., p. 12.

(19) El-Naggar, I.M., 'Gulf Economic Relations in the Twenty-One Century', In, Oil and Arab Cooperation, Vol. 6, No. 3, 1980, p. 152.

(20) Al-Bayan - UAE Newspaper, 14 May 1982.

(21) Ibid.

(22) Lizano, E. 'Integration of Less Developed Areas and of Areas on Different Levels of Development', In, Economic Integration World Wide, Regional, Sectoral - Proceedings of the Fourth Congress of the International Economic Association held at Budapest 1974, Edited by Machlup, F., 1976, p. 309.

(23) Ibid.

(24) ECWA, Summary of the Kuwaiti National Paper on the Application of Science and Technology to Development, Second Regional Preparatory Meeting for the U.N. Conference on Science and Technology for Development, 12-14 September 1978, Amman, Jordan, p. 1.

(25) Ibid., p. 1.

(26) Ibid., p. 2.

(27) The terms of agreements reached were based on the provision of fishing fleet by the foreign partner as well as running fishing activities with some training input to the Omanis, in exchange of share of catch to be delivered to the foreign partner, ranging from 60 to 70 percent (author's own sources).

(28) FAO, Gulf Fisheries Survey and Development Project. A Preliminary Study on a Joint Trawling Enterprise in the Project Area, Based on the Work of Feidi, H.I. Part One: Background, Results, Conclusions and Recommendations. RAB/71/278, dated 21.8.79, p. 10. Operating profits were estimated at $ 520,000 comparing to total investment required of US $ 120 million which means less than 0.4 percent rate of return.

(29) Ibid., p. 10.

(30) Ibid., p. 3.

(31) Due to the rate of return on investments of this type (material) may be ascertained with a reasonable degree of accuracy.

(32) Kadim, M. and Poulson, B. 'Absorptive Capacity, Regional Cooperation and Industrialisation in the Arab States of the Gulf', The Journal of Energy and Development, University of Colorado, Spring 1976, US, p. 257.

(33) El-Nashashiby, H. 'Investment Policies of Arab Assets and the Future of Development in the Arab World', Arab Planning Institute, Sixth Seminar on Issue of Oil and Development in the Arab World in Relation to World Economic Developments, 19 March 1979, p. 241.

(34) Bowen-Jones, H. 'The Third Saudi Arabian Five Year Plan', In, The Arab Gulf Journal, Vol. 1, No. 1, Oct. 1981, p. 68.

(35) Ibid.

(36) Nothing should be understood to lessen the vital importance of cooperation with western universities which is favourable on the light of Chapter 10's findings. The question is rather related to the identification of Sub-regional real needs and adapting cooperation and imported knowledge to them.

(37) Newman, L.D. The Protection and Development of the Marine Environment and Coastl Areas of the Kuwaiti Conference Region: The Programme of the U.N. System, Ocean Economics and Technology Office. Department of International Economic and Social Affairs, U.N., New York 10017 Paper 281, 1979.

(38) Abangwa, G.C. 'Systems Approach to Regional Integration in West Africa', In, Journal of Common Market Studies, Vol. XIII, No. 1 and 2, 1975, p. 131.

(39) In an attempt to ease Kuwait's stock market crisis, which has been resulting from the speedily spreading speculation activities within the market, the Kuwaiti Government adopted many measures, among them encouraging the creation of a KD 200 mn ($ 691 mn) stock trading company with Kuwaitis having 51 percent shareholding and the remainder to be owned by companies in other Gulf States. Another measure was taken when the Ministry of Commerce announced a two-year ban on deferred payment deals in 'Gulf' shares. These shares belong to companies registered in Bahrain and the UAE and

not listed on the official Kuwaiti stock exchange, which is restricted to 100 percent Kuwaiti-owned companies. They are traded on the unofficial exchange, 'The Souq al Manakh'. See: Financial Times, September 2, 1982.

(40) Al Qabas, Kuwaiti Newspaper, No. 3164, 5 March 1981.

(41) Kuwaiti Ministry of Commerce, Personnal Contacts.

(42) McCarthy, I. 'Offshore Banking Centres: Benefits and Costs', In, Finance and Development, Dec. 1979, Vol. 16, No. 4, p. 45.

(43) Ibid.

(44) Ibid., p. 48.

(45) Buchanan and Allis, Approaches to Economic Development, (U.S.: The Twentieth Century Fund, 1958), p. 293.

(46) Ibid., p. 282.

(47) Ibid., p. 299.

(48) Ibid., p. 284.

(49) Ibid., p. 284.

(50) Ibid., p. 295.

(51) New Gulf, Qatari, Magazine issued by the Ministry of Information, No. 64, June 1981, p. 23, (Arabic).

CHAPTER 13 - A CASE STUDY OF REGIONAL COOPERATION - FOOD PRODUCTION

13.1 Introduction

In Chapter 9 we saw how agricultural factors in general, and food security considerations in particular, prompt motivation for AGS cooperation within the Regional circle. In Chapter 12 an appropriate approach for AGS cooperation within the Three Circles was proposed, a 'Programmed development-oriented and partial approach'. The question, however, which remains to be answered is whether the proposed approach is in fact applicable to the agricultural sector which proved to be of special importance within the Regional cooperative movement, and whether the present and on-going cooperation movement shows evidence of being in harmony with the proposed approach.

In replying to these questions this chapter examines a case study on food production cooperation within the Region, in which AGS participate significantly. Two main issues have to be covered in order to establish the relevance of this case study to the central theme of Regional Development Cooperation. The first to be examined is the situation with respect to the broad income gap which exists between the two Arab groups, oil exporting countries and the non-oil group. The second, is the relevance of the proposed approach of development cooperation to the agricultural sector, in the light of various options available within the Arab Regional circle. Then we proceed to examine a case study with respect to the Arab Authority for Agricultural Investment and Development's (AAAID) programme.

13.2 Regional Cooperation and the Income Gap

The development gap between two groups of the Arab World is one of the basic challenges facing the Arab Rregional development in the eighties(1) and for the foreseeable future.

The following indicators illustrate this gap:

1. Changes in the petroleum situation which occurred during the 1970's were chiefly responsible for the increase in real National Product of the Arab Region. In the 7 Arab member countries of OPEC oil production increased from 5,05 billion (thousand million) barrels in 1970 to approximately 7,61 billion barrels in 1979, accompanied by an increase in the average price of oil from $ 2.285 per barrel in 1971 to $ 24 at the end of 1979. These developments explain, to a large extent the achievement of a real rate of annual GDP growth of 12.54 percent during the period (1970-79) with real per capita income growth of 9.34 percent. These achievements are higher than the rates achieved either in the developed world or Third World countries. In the developed countries the annual rate of GDP growth was between 3 and 5.5 percent, while it was between 5 and 7.5 in the developing countries (excluding the petroleum countries).(2)

2. Whilst the real annual growth rate of GDP of the Arab oil group was 17.3 percent during the seventies, it was 5.7 percent in the Arab non-oil group. The percentage contribution of the oil group to the total Arab GDP has increased from 48.8 percent in 1970 to 70.9 percent in 1979, whilst its population proportion increased slightly, from 27.10 percent in 1970 to 28.6 percent in 1979 (Table 13.1).

Table 13.1

GDP Distribution between Oil and Non-oil Arab Countries (1970, 1979)

	1970	1979
1. GDP (Arab) in $ million	41,190	119,267
- Oil group contribution (%)	48.8	70.9
- Non-oil group contribution (%)	51.2	29.1
2. Arab Population (million)	127.78	157.88
- Oil group population (%)	27.10	28.6
- Non-oil group population (%)	72.90	71.4

Source: El Beblawi, H. 'Petroleum Financial Surpluses and World Economic System (setting)', In, Oil and Arab Cooperation, No. 4, 1978, (Arabic), Table no. 10, p. 345.

3. The income gap between the two Arab groups is larger than the average gap between developed and developing countries. Whilst the income ratio was about 12:1 between developed and developing countries it reached an extreme of 74:1 between the two Arab groups.

4. While real per capita GDP increased from $ 610 in 1970 to $ 1876 in 1979 (+207.5%) in the petroleum group, it moved from $ 237 in 1970 to $ 308 in 1979 (30%). The per capita GDP in the petroleum group was 2.6 times that in the non-oil groups in 1970, and increased to 6.1 times in 1979. (Table 13.2.)

5. The average per capita GDP for all Arab countries of $ 755.43 in 1979 was higher than that of any of the non-oil countries. The highest per capita GDP in 1979 was in the UAE with $ 7092, 74 times that of Somalia with a per capita GDP of only $ 96 (Table 13.3).

Table 13.2

GDP and GDP per capita in 1970 prices

	1970	1975	1979	1970-1979
Oil countries				
GDP ($ mn)	20,108	62,535	84,588	
Average growth rate		25.5	6.2	17.3
Per capita GDP ($)	610	1,590	1,876	
Average per capita GDP growth rate		2.1	4.2	
Other countries				
GDP ($ mn)	21,082	29,834	34,679	
Average growth rate		7.2	3.8	5.7
Per capita GDP ($)	237	294	308	
Per capita GDP growth rate		4.4	1.2	
Per capita GDP (oil):(Non-Oil)	2.6	5.4	6.1	

Source: Sadiq, A.T. 'Monetary, Financial Policies and Arab Development in the Eighties', In, The Arab Planning Institute, Seminar 1979/1980 on Arab Development Realms in the Eighties, Kuwait Jan. 1981, Table no. 8, p. 418 (Arabic).

These indicators show the very large wealth-gap which exists between two groups of Arab countries. The development of the poorest

Table 13.3

Per Capita GDP at 1970 Prices in $ U.S.

	1970	1975	1979
AGS			
Bahrain	1,100	1,965	1,479 (5)
Kuwait	3,588	6,835	6,998 (2)
Oman	387	1,483	1,015 (6)
Qatar	3,683	7,324	4,067 (3)
S. Arabia	625	2,663	3,108 (4)
UAE	5,463	7,029	7,092 (1)
Other Countries			
Algeria	324	664	769
Iraq	380	904	1,232
Libya	2,007	3,917	4,896
Egypt	277	251	289
Jordan	212	193	266
Lebanon	602	743	586
Muritanya	167	224	200
Morocco	225	363	359
Somalia	76	81	96
Sudan	144	133	148
Syria	269	423	413
Tunisia	281	600	681
N. Yemen	75	119	103
S. Yemen	99	107	116
Arab Per Capita	338.2	656.7	755.4
Average Annual Growth rate	1970-75	1975-79	1970-79
GDP	17.5	6.6	12.5
Per Capita GDP	14.2	3.6	9.3

Source: Sadiq, A.T. Op. cit., Table 9, p. 419.

countries within the Arab region conforms to the general international economic strategy of narrowing the gap between the rich and the poor. The AGS are certainly relatively rich at the moment and, as noted earlier, already give considerable development assistance especially though not only to poorest countries in the Arab region. The extension of this into Regional cooperation for development would not only increase

the effectiveness of this assitance but would significantly multiply mutual development benefits, directly in economic terms and indirectly through improving Regional and Sub-regional socio-political stability.

13.3 A Regional Cooperation Approach for Agricultural Development

13.3.1 Arab Agricultural Situation - Background (and see Chapter 9)

In Chapter 9 it became clear that there were joint interests between AGS and the rest of the Arab world in promoting together the process of agricultural development. Motivations were supplied by: the wider resource base available within the Arab Region; the need to gear economic development on the basis of integrating agro-industrial activities as the backbone for the whole development process; the need for achieving a secured degree of self-sufficiency of food. The fact that the oil and energy crisis has been accompanied by the emergence of a food crisis all over the world, has brought strongly the concept of 'food security' to the attention of policy makers and planners in the Arab Region as well as everywhere in the Third World.

Agriculture plays an important role in the economy of Arab countries, and particularly in the non-oil exporting countries which are inhabited by over 80 percent of the Arab population. Agriculture is the most important single field of labour for the Arab population, for approximately 50 percent of the total labour force in Arab States are engaged in agriculture.(3)

The Arab countries import of food is estimated as being 50 percent of the total needs and is estimated to increase by the end of the current decade to 70 percent. Costs of agricultural imports similarly continued to grow during the 1970's.(4)

The growing needs of the Arab population which reached 157.88 million people in 1979, from 76 million in 1950 and projected to be about 208 million in 1985, the growing needs for food commodities in particular

and agricultural products in general, all have been causing worries in various circles within the Arab World. This situation has been resulting from the following factors: (5)

- increase in prices of many of the imported commodities;
- increase in rates of population growth, in spite of the fact that some countries have decreased their rate of population growth (e.g. Egypt);
- increase in per capita consumption of food in a number of countries (e.g. Egypt rice, Sudan wheat);
- no parallel increase in agricultural production with increase in population growth.

However, the Regional potential for agricultural expansion, as illustrated in Chapter 9, seems to be promising and pavesthe way to a possible real Green Revolution in agriculture and food production.

It is generally accepted that the agricultural area does not exceed 4% of the total area of the Arab World, some one thousand million feddans, of which 250 million is arable land. The actual cultivated area, however, is only about 126 million feddans, leaving 124 million feddans as the natural domain for horizontal agricultural development.(6)

Althogh agricultural and rural development is an area of major economic activity it has never occupied priority in Arab development programmes, and even when listed in them, has not been followed up by insistence and a real will to achieve real development of a sector which has wealthy potential in proportion to other sectors of the economy. Agriculture has been especially neglected relative to industry, as Sayegh has pointed out:(7)

> "Industrialization has a glamour which agricultural development does not possess, and shining new factories seem to rank higher than efficient farms as show-pieces in the eyes of ministers of information and of national economy alike."

The ignoring of the real economic significance of rural society

and agriculture has had drastic results, reflected on food shortages and huge food imports.

It is the belief of this writer that given the relatively greater attention being directed towards the industrial sector and finance in the Sub-region, the agricultural sector should be considered to be the cornerstone and main engine for the development of the Arab Region, in the light of both groups joint interests. This sector should, therefore, occupy a higher rank within the Regional cooperative activities.

13.3.2 An Approach for Regional Agricultural Cooperation

As has been established in Chapter 9 the Arab countries are not immune to the dangers of what many see to be an impending world food crisis. The AGS, as noted in Part One and in Chapter 9 are especially vulnerable. At the same time it was noted that the agricultural production potential of the Arab region is considerable. What is needed therefore is more than concern but a cooperative defining of their needs and of the ways in which these could be satisfied through sound pragmatic approaches.

The heart of the agricultural problem is a structural one (see Chapters 2 and 9) and therefore a common market or trade-oriented approach cannot successfully produce the degree of structural change necessary to obtain successful exploitation of the potential. In Chapter 6 the very modest results obtained by the ACM approach were noted, particularly with regard to intra-regional trade in agricultural commodities; even these would seem to have only short term influence on production structures.

We can emphasise therefore that a development oriented approach is the primary need, trade and markets playing an integral but secondary part. Further, a development oriented approach to agriculture requires a Regional rather than a Sub-regional emphasis, for reasons mainly

concerned with the resource base. If however the Regional potential is to be successfully developed to the mutual benefit of AGS food-security and other Arab countries' development then, as already noted in general terms and in other sectors, the qualitative inputs obtainable from the International circle are equally crucial.

Against this established background, this chapter examines two particular aspects of current actual cooperation. First we evaluate the possible choices of approach as considered by the CAEU. Second, we will illustrate the on-going approach for regional agricultural cooperation followed by the Arab authority for agricultural development and investment.

The Approach to Regional Agricultural Cooperation in the Light of Various Alternatives:

Whilst agreement on the usefulness and essentiality of agricultural cooperation among the Arab States seems to be apparent, there does not appear to be a consensus of opinion on the form that this cooperation should take. Our main line of thinking, while proceeding to explore the approach for regional agricultural cooperation will be concentrated on food production and within the context of achieving the optimum benefit derived from considerations of comparative advantage.

Alternative Approaches:

Theoretically, integration-cooperation could take one of the following forms in the Arab World (see also 8):

1. Total integration and merging all agricultural activities and placing them under a single executive authority. This could only be through political agreement at the highest level, as it entails the renunciation of national supervision of countries' economic activity. This is inconceivable outside the framework of a comprehensive integrated economic unit.

2. The second form merely requires freeing trade in agricultural commodities from all restrictions, giving each country's products free access to the aggregate market. Integration would be achieved through the law of supply and demand. This form is practiced in capitalist systems.

3. A third approach calls for agricultural cooperation based on comprehensive Regional planning aimed at achieving definite production targets with each country being responsible for playing a specific role towards the achievement of this objective. Trade exchange between members of the region, according to this approach, would play its natural role to complete the circle of cooperation and benefit all the countries of the group.(9)

This approach has been considered by the CAEU to be ideal for Arab agricultural cooperation, accompanied by a realization that it is difficult to achieve. However, CAEU has called for agreement on general goals and the design of joint actions.

4. The fourth approach is based on selected groups of agricultural commodities, joint activities within the regional framework to be undertaken in the light of comparative advantage considerations. The approach is known within the terms used in economic cooperation literature as the 'piecemeal approach'.

In pursuance of Chapters 11 and 12 findings which led to the proposed adoption of the 'partial development-oriented approach for cooperation' we can proceed to examine the validity of these various approaches.

None of the first three approaches seems to be valid for the following reasons:

(a) In addition to the various considerations mentioned in Chapters 6, 11 and 12 which called for the adoption of a partial rather than comprehensive approach, the lack of practical experience, the social

and technical backwardness of this sector, the national political considerations which drive Governments to consider it their political duty to provide food for their own people, mainly from their own territories or by independent policies of importing and subsidizing food; all these considerations tend to support the same piecemeal, partial approach.

(b) The second approach, based on the freeing of trade seems at first glance to appear appropriate, enabling the needs of countries suffering shortages to be met and reshaping production specialization through market mechanisms and competitiveness. However, the AGS experience, as well as the structural deficiencies mentioned above, and the results of analyses in Chapters 11 and 12 show that trade liberalisation must be regarded only as a supporting element in rather than the prime base for agricultural cooperation in development.

It became clear from the evaluation of the Arab Region's food problem in Chapter 9 that any regional activities should be centred upon tackling this problem, directing food production processes towards a more secure end. It is, therefore, logical to choose the piecemeal approach, with regional activities based at this stage on commodity groups representing specific food gaps in the Arab world, viz. wheat and cereals, rice, maize, sugar, sugar products, animal products (meat, milk, eggs, poultry and fats) and vegetable oils. The Regional cooperation thus directed could spare the region the expected famines that could occur in the view of some projections within the coming decade.(10)

> "If the Arab region aims at achieving self-sufficiency, then agricultural production should increase by 1985-1990 to the following order of magnitude: wheat 150 percent, sugar 330 percent, animal production 150-180 percent and oil seed crops 150-180 percent."(11)

General Outlines for Arab Agricultural Cooperation and Specialization:

General proposals for Arab agricultural specialization have been

drawn up, based on costs of production, as well as on comparative advantages. In the following table of specialization (Table 13.4) we can note the absence of AGS. This arises because the only production sub-sector in which AGS have a comparative advantage is fisheries.

Table 13.4

List of the Arab countries in ascending order according to the cost of production per hectare and per ton of agricultural crops

Rising Costs →

Rainfed

Wheat	: Syria - Jordan
Sorghum	: Sudan - Syria

Irrigated

Wheat	: Sudan - Jordan - Syria - Iraq - Egypt
Corn	: Somalia - Syria - Jordan - Iraq - Egypt
Sorghum	: Sudan - Syria
Peanuts	: Sudan - Somalia - Syria - Egypt
Sesame	: Syria - Somalia
Sunflower	: Somalia - Syria
Potatoes	: Syria - Egypt - Jordan
Tomatoes	: Syria - Egypt - Jordan

Main direction of specialization on comparative advantage

Wheat	: Syria, Iraq, Morocco
Sorghum	: Sudan, Somalia, Mauritania
Corn	: Syria, Somalia
Sesame	: Sudan, Somalia, Syria
Sunflower	: Sudan, Somalia, Morocco, Algeria, Tunisia, Syria
Sugarcane	: Sudan, Somalia
Sugarbeet	: Morocco, Syria
Potatoes, Tomatoes	: Syria

Source: CAEU & FAO; Ref. 12.

13.4 The Arab Authority for Agricultural Investment and Development (AAAID)

The establishment in November 1975 of the Arab Authority for Agricultural Investment and Development followed an initiative based on intensive studies relating to the potentialities and prospects for agricultural development within a regional context. These studies were conducted in 1975 by the Arab Fund for Economic and Social Development to survey Sudan's agricultural potential.(13) This

study indicated that Sudan has great potentials in land and water and could produce within a few decades the following:

- 27 million tons of grains (14-fold increase);
- 12 million tons of oil seed crop (15-fold increase);
- 2.7 million tons of sugar (27-fold increase);
- 3.5 million tons of meat (10-fold increase).

These figures are based on 1975 levels of production in Sudan and are evidence that the potential is here. Thirteen Arab countries participated in the establishment of the Authority with capital fixed at K.D. 150 million. These countries include four of the AGS, Saudi Arabia, UAE, Kuwait, and Qatar with 64.5 percent capital participation (capital) in addition to Iraq, Syria, Egypt, Sudan, Somalia, Libya, Algeria, Morocco and Mauritania.

Libya finally did not sign the constitutional agreement establishing the Authority. Other Arab countries subscribed to its capital as shown in Table 13.5.

Table 13.5

AAAID Participants' Contribution

Country	Total Contribution KD	%
AGS	64,500,000	64.5
S. Arabia	22,500,000	22.5
Kuwait	19,500,000	19.5
UAE	15,000,000	15.0
Qatar	7,500,000	7.5
Other Countries	35,300,000	35.5
Algeria	1,500,000	1.5
Sudan	15,000,000	15
Iraq	15,000,000	15
Syria	50,000	-
Egypt	3,000,000	3
Morocco	600,000	1
Somalia	50,000	-
Muritania	100,000	-
Total	99,800,000	100

Source: AAAID, Third Annual Report 1979, (Arabic).

The two main groups involved include the most wealthy capital exporting countries as well as the most promising countries in regard to agricultural development potentiality. It expresses a joint effort by both groups, where the countries having most promising agricultural development potentials are encouraged to follow-up programmes translating their development aspirations on the one hand and contributing to the food requirements of the Arab world on the other hand, and whereby the capital exporting countries are obliged to provide financial support for Sudan and other countries in their drive towards agricultural development.

We examine here the applicability of the Authority's approach in its first 'Basic Programme for Agricultural Development in Sudan 1976-1985', in the light of our proposed approach for development cooperation.

13.4.1 Basic Programme for Agricultural Development in Sudan 1976-1985

Programme Component Aims:

1. An ambitious programme, aiming at increasing the irrigated cropped area by 0.6 million hectares, was designed to make use particularly of unused water resources to allow an increase of the irrigated cropped area to over 2.5 million hectares.(14)

2. The programme aims at settling and cultivating a further 2.0 million hectares, out of a potential cultivated area of 25 million hectares.

3. In livestock production, the programme aims at increasing meat production by 400,000 tons, as against a potential increase of more than 3 million tons.

To achieve these objectives the whole programme comprises 100 projects, with a total investment estimated at 2.3 million Sudanese pounds (at 1976 prices), and which can be categorised as follows:

1. Infrastructure:

- Projects designed to expand the potentials of Sudanese ports, to develop a railway network, a network of passable roads, airports and means of river transport.
- Projects for harnessing Nile water for full utilization of the Sudanese portion. Projects for generating electrical power, building grain silos, meat and livestock marketing and export installations and well drilling for the supply of drinking water for humans and cattle in areas remote from rivers.
- Various educational and vocational training projects to supply trained specialists and skills, in addition to other supporting services such as agricultural research, advice and credit, along with cooperation and marketing organisations.

The total investment directed to infrastructure projects is estimated to occupy 29% of the total investment programme.

2. Commercial Projects:

31 projects in the sectors of vegetable crops, livestock, agro-industries, secondary industries and services were expected to need 46% of the total investment.

3. Prjects suitable for Sudanese investors:

Agricultural and industrial projects with an attractive economic return, were identified as being only suitable for the Sudanese investor and producer. 25 projects, representing 25% of total investments, were directed to modernize traditional agricultural production and developing a number of agro-industries.

The balanced distribution of projects was regarded as important. Special attention was given to the interests of the overwhelming majority of the people in Sudan's rural areas, through investments directed to modernise and develop traditional sectors of production.(15) In an effort to achieve social justice among the Sudanese people, the

allocation share of the western and southern regions should account for 40% of total investment, while the share of northern and eastern regions account for the remaining 60%. It is thought that

> "the proposed investments for the western and southern regions are the first serious attempt at development for these remote areas of Sudan."(16)

Implementation Stages:

With such an ambitious and large programme, it was unavoidably necessary from a practical point of view, to harmonize the stages of implementation as well as the design of the basic programme's successive investment plans, with the economic objectives of the host country, and to review and modify them in coordination with the host country's development plan. This has occurred with the Sixth Sudanese Economic Development Plan (1977-1983). In addition, special attention is directed to what experience and practical considerations feed in from subsequent stages.

First Investment Plan and Follow-up:(17)

The Authority prepared its first investment plan which was approved by Sudanese Government and the Authority Board of Directors in April 1980. This plan includes 13 projects with total costs of about US $ 2.1 billion. After preparing feasibility studies for four projects the Authority established four companies to implement these projects:

1. Arab-Sudanese Company for milk products
2. " " " " dairy products
3. " " " " fruits and vegetables
4. " " " " starches, insulin and glucose

The capital of these companies has been distributed principally as follows:

- 25 percent for the Authority
- 20 percent for the Sudanese Government
- 12.5 percent for Saudi Arabia
- 12.5 percent for Kuwait
- 12.5 percent for Iraq
- 17.5 percent was left to other countries wishing to participate.

Total costs of these four projects are estimated to be about US $ 220 million. The preparatory work and feasibility studies are expected to be ready for implementation in April 1983.

Six projects are in the stage of feasibility study by international consulting companies or are having their studies reviewed:

1. Legume and pulse production in Northern Province with a proposed agricultural area of 60 thousand feddans.
2. Animal feed production.
3. Mechanized production farm in the south west part of Sudan, with a project area of 216 thousand feddan. The project aims at building an agro-industrial complex.
4. The evaluation of existing oil seeds production and industries and the possibilities of increasing agricultural production.
5. Rice production.
6. Animal production.

The Programme's General Effects:

It is intended that this programme will lead to the achievement of the following objectives:(18)

- Animal growth rate for the agricultural sector of Sudan of not less than 6.5% by the mid-1980s. Whilst achieving this growth rate, and necessary investment rates will depend initiallly on the flow of funds from abroad, such flow is expected to be replaced by growing national savings, thus lessening Sudan dependence on foreign financing.

> "By 1995 national savings will be sufficient to finance these investments."(19)

It is difficult to envisage how Sudan could escape from the cycle of continual and increasing dependence on foreign financial assistance without such a programme.

- Sugar production is expected to increase by more than 700% and wheat by over 500%, other major agricultural commodities increasing within the range of 100% to 150%. This will be reflected in a changing structure of Sudan agricultural exports, as the proportional contribution of cotton is expected to decline from 60% to 25% of such exports.
- Sudan will be able to expand exports of oil seeds, grain, meat and fish. The value of these exports in 1985 will have tripled over their 1973 value (at 1975 prices).
- With the exception of cotton and gum arabic, all the other commodities will be needed by the Arab countries:

> "It is expected that these exports in 1985 will supply 20% of projected sugar imports into the Arab world, 50% of meat imports and 40% of oil seed imports."(20)

The value of these exports would represent two thirds of the total value of Sudanese agricultural exports in 1985.(21)

Programme Finance:(22)

The first investment plan calls for an expenditure of KD 780 million to be distributed and raised as follows:

KD 75 million, Sudanese contribution to agricultural projects

KD 295 million on infrastructural projects -

KD 44 million from commercial loans

KD 240 million in the form of concessionary loans

KD 11 million in grants

KD 410 million in joint ventures to be financed -

40% by the Authority (KD 164 million)

40% by Sudanese Government (KD 164 million)

20% by commercial lenders (KD 82 million)

To implement this investment plan, the (AFAESD) planned to contact a wide range of possible lenders from Governments and private commercial institutions.

13.4.2 AAAID Programme, the AGS and the Regional Cooperation Approach to Agriculture

Four of the six Arab Gulf States participated as main shareholders of the Authority with 64.5% participation. AGS appear here in the role of investors and not merely as aid donors.

The approach followed in the Sudan programme seems to be in line with the findings of this study relating to the sound pragmatic approach of cooperation for development of AGS within the Three Circles - the Trilateral approach. The approach reflects the adoption of programmed partial and sectoral cooperation within an integrated context which means:

1. Whilst the programme is integrated with the economic development of the host country (dealing primarily with one sector but repercussions on many others) the programme aims, at the same time, to satisfy the interests of the investing countries (non-agricultural oil exporting group) mainly through improving the availability of food stuffs and as an outlet for profitable investment of their surplus funds. This is the mutual benefit aspect within the Region.

2. Making the best use of the agricultural potential of Sudan and of Arab surplus capital, as well as of existing organisational capacities (the Arab Fund), for achieving real and equitable growth for the Sudanese economy and the Arab Region. This covers considerations of relative advantage and developmental aspirations.

3. The striking of a balance between investment-oriented projects to achieve a commercial rate of return and development-oriented projects, such as infrastructure, research and training services within the same programme. This principle applies both to large scale as well as small scale projects.

4. Agro-industrial bases have been built in the project.

5. Opening the road widely towards progressive self-sufficiency in food.

Project Assessment:

It is not our intention to assess in details the possibilities of success for such a newly-born and ambitious seeming project. This will not be possible for many years. We can however, identify some of the factors necessary to guarantee its success.

1. Utmost cooperation from the Sudanese Government Part.

2. Political stability of Sudan.

3. Availability of financial resources in and contributions by the Sudanese Government as well as by the Authority and international and private financial institutions.

4. Managerial as well as technical cabilities.

5. Protection of the programme from political disturbances, of the kind which recent Arab history has unavoidably been witnessing, e.g. withdrawal of investment from Egypt.

It is worrying to note that while the Authority was established in 1976, the administrative structure and the management posts in AAAID were not settled as of April 1978, which may induce delay in implementing the plan. More urgency is required in establishing these basic elements.

Nevertheless, what can be said is that all the problems associated with these factors would imperil any development activities. We can safely assume that associated uncertainties will have less serious effects in a framework of institutionalised pragmatic cooperation between partners who all have much to gain than they would have in an individualistic, laisser faire situation.

Two final notes can be added: First, it is very clear that

unless cooperation includes inputs of the needed elements that are only available within the international circle as was illustrated in Chapter 10 (financing, expertise markets, equipment and technology) one cannot expect complete success for the project. We see, therefore, that even cooperation within the regional context inspires dynamically the need for cooperation within the international circle.

Second, the AAAID programme in following a piece-meal development-oriented approach for cooperation has a sound basis on conceptual as well as practical considerations. Moreover, in practice, all participating countries and institutions are committed to mobilise their joint efforts in order to make the programme succeed, and in so doing pave the way to motivate extension to include some other Arab-agricultural countries.

13.5 Summary

In illustrating and examining practical aspects relating to the development cooperation within the regional context, the study of the existing cooperation platform, through the assessment of income structures and economic development cooperation evaluation has produced two main results:

1. The existence of a wide income gap between the oil producing and non-oil producing groups. Productive efforts, mainly in agriculture, on a joint cooperation basis are of vital importance within the movement to narrow this income gap.

2. The assessment of possible approaches within the Arab-Development Cooperative Movement, with respect to agricultural cooperation, has proved the non-viability of the trade-oriented approach and tend to support the same conclusions arrived at earlier viz, the viable approach for Sub-regional cooperation is one that is 'Development Oriented, Partial and Programmed'. This approach has been proved to be operational

through OAPEC as shown in Chapter 6 and AAAID projects as examined in this chapter.

FAO, on reviewing the recent situation with respect to food security situation in the Near East proposed many measures which could be adopted to achieve food security within the regional cooperation context, and in doing that, FAO stressed the importance of AAAID programme in increasing food production within the Arab Region:

> "As regards joint efforts to develop production within the region, a principal example is the Basic Programme of Agricultural Development in Sudan (1976-1985). Sudan is considered as the potential bread basket for the whole Arab World."(23)

In examining questions relating to cooperation in agriculture, conclusions include the following:

- The viability of a piece-meal, partial approach, based on commodity group production, with basic food commodities occupying the priority within regional activities in the light of food security problem.
- The AAAID programme seems to support the above-mentioned approach and could contribute fundamentally to solving of food security problems and narrowing the income gap within the Arab World at the same time. The same programme, despite directed within the Regional circle also created the need for cooperation within the third 'international' circle.

Notes and References

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(3) CAEU & FAO 'Economic Integration Organs in the Arab World and the Role of CAEU', Seminar on Agricultural Aspects of Economic Integration, Cairo, 1977, p. 75.

(4) Badran, O. 'Agricultural Business Cooperation: A Plan for Action', In, Partnership: Challenges and Opportunities - With Special Reference to the Arab and European Regions. Second Arab-European Business Cooperation Symposium. Edited by Zuhair Mikdashi, Montreux, 1978, p. 182.

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(6) CAEU & FAO, Op. cit., p. 75.

(7) Sayigh, Y.A. The Economies of the Arab World, (London: Croom Helm, London, 1978), Vol. I, p. 670.

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(20) Ibid., p. 91.

(21) Ibid.

(22) Damir, S. Arab Development Funds in the Middle East, (U.S., UNITAR, Pergman Press: 1979), p. 54.

(23) FAO, 'Some Aspects of Food Security in the Near East', In, The State of Food and Agriculture 1978, p. 2-51.

CHAPTER 14 - INVESTMENT STRATEGY WITHIN A TRILATERAL APPROACH

14.1 Introduction

It is the financial surpluses that have been achieved by the AGS, especially during the nineteen seventies which have shaped the type of development that prevails within the national economies of AGS. It is also these same surpluses and their developmental impact, Sub-regionally, Regionally and Internationally, that now necessitate the adoption of a trilateral approach to AGS development cooperation.

In Part One as well as in Chapter 5 of Part Two examination of the resource base and development achievements and cooperation within the Sub-region has shown the emergence of a rapidly growing financial sector with strong indications of a growing movement towards financial and monetary specialization within the Sub-region. At the same time it is due to this sector that there have emerged some most successful partial and sectoral development cooperation schemes, as reflected in the joint development projects initiated by OAPEC as well as the joint financial institutions within the region (Chapter 6). The abundance of capital as a determinant factor for AGS development has been found to stimulate cooperation within the regional context, where capital is joined with other development determinants available within the region (mainly labour, national resources and markets). This illustrates the wide opportunities for Regional cooperation on sectoral bases as industry and agriculture.

Earlier analysis has shown, also, the direction of large portions of AGS' financial surpluses towards the international markets in which investment and placement opportunities exist which are not available within the AGS' national or Sub-regional economies, or even within the Region. Income from investment abroad has been emerging as an important substitute to oil income (Chapter 6) and this process has, therefore,

motivated AGS to establish joint financial institutions with the participation of regional and western financial institutions.

To summarise, we can say that it is financial surpluses, derived from the oil export process, that make the trilateral approach particularly relevant to AGS development. It is to these surpluses, also, that the emergence of the industry of finance owes its existence.

All such preceding analysis assumes the existence of abundant financial surpluses in the AGS. It becomes important, therefore, to analyse quantitative aspects of the financial surpluses and to examine the type and geographical distribution of their deployment within the three circles. At the same time the need emerges to identify problems that face investment of financial surpluses within regional and international circles.

This chapter begins with a quantitative analysis of the financial surpluses using data derived from balance of payments, particularly current account surpluses, foreign financial assets and reserves, in addition to the Governments' public budget. This is followed by examining the framework inter-relating oil production policy and the investment of derived financial surpluses. This is succeeded by an analysis of the type and geographical distribution of financial surpluses investments abroad. Since the issue of financial cooperation within the Sub-region was already discussed in Chapter 12, we proceed to examine the situation with respect to regional and international circles, whilst bearing in mind the need within the Sub-region for pooling their financial surpluses and the rational trend of financial and monetary specialization.

14.2 Quantitative Aspects of Surpluses

It is impossible, given the available information, to arrive at very precise or accurate estimates for the financial surpluses that have been invested by AGS all over the world. This result, to some extent,

comes from the high degree of confidentiality which is given to such activities, and also because the bases for computing these surpluses are different from country to country, this resulting in very wide margins of difference between the various estimates that have been made.

The only safe approach is through analysing the balance of payments estimates, particularly the items representing current account surpluses and derived reserves in addition to the public budgets of the Governments. This does not enable us to conclude precise figures for financial surpluses that are available for investment but has the advantage of highlighting the contribution of current account surpluses. It is these surpluses in particular which have found their way abroad through loans, grant assistance and investments or are reflected in changes in the size of foreign exchange reserves.

14.2.1 Current Account Analysis

Registered annual current surpluses for the four richest AGS during the period 1973-79 increased from 5.727 billion dollars in 1973 to 34.891 billion dollars in 1979 (Table 14.1). The AGS current account surplus reached its first peak in 1974 with 34.335 billion dollars, growth thereafter slowing down but climbing to a second peak in 1979 (Table 14.1).

Accumulated current account surpluses for three AGS (S. Arabia, Kuwait and UAE) during the period 1973-80 reached 189.719 billion dollars with 47.3 percentage for Saudi Arabia, 35.8 percent for Kuwait and 16.9 percent for UAE (Table 14.1).

This growth of surpluses is explained mainly by the price revolution that raised petroleum prices by more than four times during the period from last quarter of 1973 and the beginning of 1974; and the second big rise occurred in 1979.

As a result AGS oil income in current terms increased by 17.3 times in 1980 over 1973 from 8.551 billion dollars in 1973 to 148.196 billion dollars in 1980 (Table 14.2). This development was reflected

Table 14.1

AGS Balance of Payments Current Account Surpluses (Goods, Services and Transfers)
(In US $ millions)

	1972	1973	1974	1975	1976	1977	1978	1979	1980
S. Arabia	1,748	2,595	20,405	14,752	16,110	15,489	3,895	13,053	3,439
Kuwait	1,527	1,967	8,220	6,598	6,971	5,546	7,075	15,193	16,488
UAE	632	828	4,151	3,190	4,111	2,735	1,694	5,332	9,972
Qatar	323	337	1,559	1,064	1,218	718	958	1,313	n.a.
Total	4,230	5,727	34,335	25,604	28,410	24,398	13,622	34,891	29,899*

* Excluding Qatar

Source: IMF, Balance of Payments Year Book, Vol. 31, Dec. 1980.
Central Banks and Monetary Agencies of AGS, Economic Bulletin, Vol. 2, No. 1, June 1981.

Table 14.2

AGS Financial Surpluses' Related Indicators
$ US millions

	1973	1980	1980:1973
Oil Income	8551.5	148196.3	17.3
Budget Surpluses	2292.4	29116	12.7
Current Account*	5727	34891**	6
Foreign Assets	7594.9	106937.3	14
Reserves***	4423.5	31550.6	7

Notes: * Four Countries (S. Arabia, Kuwait, UAE, Qatar)
** 1979
*** Reserves minus gold

Sources: Appendix Tables 22 and 27.
IMF, International Financial Statistics.

in the total AGS accumulated oil revenues reaching 492.983 billion dollars at the end of 1980 (Table 14.3). S. Arabia received 66 percent of total AGS accumulated oil revenues followed by Kuwait with 15.8 percent, UAE with 11.7 percent, Qatar with 3.8 percent, Bahrain with 2.1 percent and Oman with 0.6 percent (Table 14.3).

Available estimates indicate that the cash surplus available for disposition from 1975 to 1980, exceeded the current account surplus because of substantial net external borrowing by some of the oil exporting countries.(1)

14.2.2 Foreign Financial Assets

Total foreign assets of the AGS increased between 1973 and 1980 by 1308.5 percent. Saudi Arabia is responsible for 89.8 percent of the total increase ($ 89202 mn. out of $ 99378 mn.). Saudi Arabia has the greatest volume of foreign financial assets volume. Its proportion of AGS holdings increased from 68.2 percent in 1973 to 88.2 percent in 1980, followed by Kuwait, but whose proportional importance decreased from 21.8 percent in 1973 to 6.3 percent in 1980. Saudi Arabia and Kuwait had 95 percent of AGS total financial assets in 1980 (Appendix Table 22).

The economic importance of the growing AGS financial assets (the most

Table 14.3

AGS Accumulated Financial Surpluses and Related Indicators 1973-1980
(In $ US millions and percent)

	Accumulated oil revenues 1973-1980	%	Budg. Surplus (1980)	%	Accumulated current account 1973-1980	%	Reserves (1980)	%	F. Assets (1980)	%
S. Arabia	324,884	66	6,285	21.6	89,738	47.3	23,437	74.3	94,385	88.2
Kuwait	77,879	15.8	16,409	56.4	67,968	35.8	3,928.4	12.4	6,773.8	6.3
UAE	57,606	11.7	3,679	12.6	32,013	16.9	2,014.7	6.4	2,713.7	2.5
Qatar	18,720	3.8	2,216	7.6	n.a.	-	343.4	1.1	928.7	0.9
Bahrain	3,224	0.7	125	0.4	n.a.	-	953.4	3.1	1,184.3	1.1
Oman	10,670	2.1	402	1.4	n.a.	-	873.7	2.7	987.8	1.0
					189,710*	100				
Total AGS	492,983	100	29,116	100			31,550.6	100	106,973.7	100

F. Assets : Accumulated Oil Revenues (22%)

* S. Arabia, Kuwait, Qatar

Source: Tables 14.1, Appendix Tables 22, 23 and 27.

Table 14.4

Foreign Assets and GDP 1980

	(1) GDP	(2) Total Net F. Assets	(2):(1) Ratio
AGS			
S. Arabia ($ bn.)	106.333	94.385	88.7
Kuwait ($ bn.)	25.677	6.774	26.4
UAE ($ bn.)	13.454	2.714	20.2
Total ($ bn.)	145.464	103.873	71.0
Industrialized Countires			
U.S. ($ US bn.)	2576.6	56.3	2.2
U.K. (£ bn.)	223.05	3.777	1.7
W. Germany (DM. bn.)	1494.7	115.6	7.7
Japan (Yen. bn.) (1979)	219058	-720	-0.3
France (F.F. bn.)	2754.9	413.2	15.0

Source: Appendix Table 22.
IMF, IFS Yearbook 1981.

satisfactory basis for estimating AGS financial surpluses) is reflected in their ratio to total GDP. Joint foreign assets of S. Arabia, Kuwait and UAE constituted in 1980 nearly 71 percent of their total GDP with the highest percentage (88.7) for Saudi, followed by Kuwait with 26.4 percent and UAE 20.2 percent.

In the Western industrialized countries this percentage was comparatively much lower with 2.2% for U.S., 1.7 for U.K. and 7.7 for W. Germany, -0.3 for Japan and 15.0 for France (Table 14.4).

It is worth mentioning within this context that Ghalib estimated that total OPEC identified accumulated financial surpluses between 1974-80 reached $ 322.74 billion.(2) This estimate included official as well as private sector and based on a variety of sources noted under Table 14.8.

Total financial surpluses are often estimated on the basis of identified foreign assets for OPEC countries. It is worth noting that AGS foreign assets constituted 65.5 percent of total OPEC foreign assets in 1980 as reflected in the following Table 14.5.

While it is impossible to know with any degree of precision the breakdown of these assets between the official and private sectors of the OPEC nations, the private and quasi-private sector is believed to account for 20% of OPEC's total foreign assets.(3)

On this basis one can estimate AGS's total accumulated financial surpluses including those of the private sector to reach $ 211.4 billion at the end of 1980. This means that the value of registered foreign assets as shown in Appendix Table 22 ($ 106.9 bn.) represents only some 50 percent of the above estimated financial surpluses.

14.2.3 Reserves

Total AGS reserves (minus gold) increased in 1980 by 613.3 percent over 1973, while total world reserves increased by 184 percent during the same period. Saudi Arabia is responsible for 73 percent of the total

Table 14.5

AGS and OPEC Foreign Assets (1980)
($ billion)

S. Arabia	101
Kuwait	63.0
UAE	28.0
Qatar	9.0
Oman	0.987
Bahrain	1.184
1. Total AGS	203.171
2. Total OPEC	310.000
1:2	65.5%

Sources: - Appendix Table 22.
- Ghalib, S. 'OPEC's Gross Foreign Assets and their International Deployment', In, Arab Financial Markets, edited by Peter Field and Alan Moore, London: Euromoney Publications, 1981, p. 10.

increase of AGS reserves (US dollar 19,690 million out of $ 27,127 mn. dollars).

Saudi Arabia reserves represented 74 percent of AGS reserves in 1980, followed by Kuwsait with 12 percent then UAE with 6 percent (Appendix Table 22).

AGS' aggregate reserves (including gold) have grown in proportional world importance, constituting 2 percent of total world reserves in 1973 and 7 percent in 1980.

Saudi Arabia occupied the sixth rank among all countries' reserves in 1980 (5.2 percent) following West Germany (11.5%), France (6.8%), U.S. (6%), Italy (5.8%), Japan (5.7%). Saudi Arabia world comparative percentage increased from 2 percent in 1973 to 5.2 percent in 1980 (Appendix Table 25).

AGS total reserves bring them collectively to the second rank among all world countries after W. Germany in 1980.

If we compare the AGS reserves situation with the total world situation in general and industrialized countries in particular, the following results are arrived at, derived from Appendix Table 26 .

1. Total Reserves: GDP

While AGS' (four countries) total reserves constituted 20 percent

of their total GDP in 1980 the corresponding percentage for the four top industrialized countries was only 4 percent, Saudi Arabia occupied the highest rank, reaching 22 percent. (Appendix Table 26).

2. Total Reserves Ratio to Imports:

While AGS aggregate reserves proportionately come to 59 percent of the value of total imports in 1980, the corresponding percentage for the total world was 23.8 and was 27 percent for the four industrialized countries.

In analysing the development of oil exporting countries' comparative importance, the IMF Annual Report of 1981 indicated that the median ratio of oil exporting countries' reserves to their total imports has risen from (0.26) in 1971-73 to (0.47) in 1979-80, while in contrast the same ratio had fallen for industrial and non-oil developing countries to (0.15) and (0.23) respectively.(4)

The reserves of oil exporters, as deflated by world export prices, increased from SDR 18 billion (≙ US 21.7 billion) in 1973 to SDR 47 billion (≙ US 59.9 billion) in 1980 (176%) reflecting the sharp increase in their current account surpluses.

> "Holdings of real reserves have thus increased significantly only in the oil exporting countries." (5)

In illustrating how AGS foreign reserves are held, we can refer to the example of Qatar. Data as of the end of fiscal year 1974 (ended January 14, 1975) indicates that about 55 percent of total reserves assets was in the form of foreign currency bank deposits while more than 37 percent was in the form of bonds and other fixed income securities; the rest consisted of gold, real estate, and claims on regional organizations. (6)

14.2.4 Budget Indicators

AGS total oil revenue is estimated to have reached US ≙ 94.33 billion in 1980, while their joint budget accounts resulted in a surplus of US ≙

29.116 billion, corresponding to 30.8 percent of total oil revenue with Kuwait budget surplus, notably, reaching 80 percent of oil revenues (Appendix Tables 23 & 24).

In reviewing Kuwaiti financial indicators development exemplifying the general situation for AGS, Appendix Table 24 indicates that Kuwait budget surpluses represented 54 percent of total revenues during the period (1973/74-1979/80) and 95 percent of these surpluses were transferred into foreign assets, while this ratio was 63 percent in 1973/74 (Appendix Table 24). 83 percent of total investment income in 1977/78 was derived from external financial assets. Investment income which reached KD 384 million in 1977/78 grew by nearly 45 percent annually on average between 1973/74 and 1977/78. (7)

In addition to the points made in Chapter 6 on the growing comparative importance of investment income as an alternative to oil income, which averaged 82 percent of public income in Kuwait during the period between 1969/70-1980/81, we can note that investment income now occupies the leading rank among non-oil income sources. According to some sources investment income in 1981/82 is even predicted to exceed oil income in Kuwait. (8) One may seriously doubt the accuracy of such prediction in the light of what is known of recent ratios between investment income and oil income, however, such prediction illustrates the importance of investment income to current and changing overall income structure.

14.2.5 Real Value of Oil Revenues

Some final qualification of the value of oil revenues is necessary in order to make more meaningful this quantitative analysis of AGS' financial surpluses. The real value of financial surpluses can be arrived by deflating the nominal value of surpluses in accordance with the rate of inflation of import prices during the relevant period. The depreciation of US dollar against other currencies is also involved.

Such correction explains the continuing declining trend of AGS

current account surpluses between 1974-78 (Table 14.1).

This decline in AGS surpluses was not only the result of real increases in the value of imports, it was also because the rise in nominal oil prices averaged less than the general rate of inflation.

> "In fact, the dramatic change in world income distribution brought about by the oil price increases in 1974, have been reversed by a continuous deterioration in the OPEC countries' terms of trade since 1974." (9)

According to some sources the annual decrease in the real value of AGS financial surpluses is estimated to be about 13.7 percent during the period 1972-80, this in relation to trends in the import prices during the same period. (10)

The nominal value of oil prices increased during the period 1974-80 by 200 percent, however, as the Secretary General of OPEC has indicated:

> "While oil prices has increased, by an annual nominal rate of 20 percent between 1974 and 1980, these prices had been deflated by the annual rate of inflation in the industrialized countries to 9.2 percent, then deflated again by the depreciation of dollar against other currencies to 7 percent.(11)

Special care should be directed to avoid the illusion of the existence of exaggerated accumulated financial surpluses in the AGS and careful judgement has to be applied to the real rate of oil prices increases. These lost almost a quarter of their oil purchasing power in the period 1974-79, as Table 14.6 shows.

Table 14.6

OPEC Terms of Trade
1974 = 100

	Oil Prices	Import Prices	Terms of Trade
1970-73	20.3	70.3	29.5
1974	100.0	100.0	100.0
1975	98.4	112.8	87.2
1976	105.7	114.6	92.2
1977	113.9	125.2	91.0
1978	116.6	144.0	81.0
1979	116.6	151.5	77.0

Source: Willet, T.D. 'Structure of Opec and the Outlook for International Oil Prices', The World Economy, Vol, 2, No. 1, Jan. 1979.

In spte of OPEC's accumulating nominal savings, there has therefore been no parallel rise in real investment. The rise in OPEC's savings increased the flow of financial assets, rates of interests went up and a general increase in prices followed.

> "OPEC surpluses are being continuously eroded,"(12)

and the same has been true for the AGS.

14.2.6 Summary Quantitative Analysis

That analysis which is possible of the financial surpluses proves the growing phenomenon of the AGS' mounting financial and foreign assets. These certainly can contribute to the development of the industry of finance in the Sub-region. However, this and other development, seems not to be realisable without cooperation based on a trilateral approach as is further examined in this chapter. The basic factual position for this examination can be summarised thus:

1. AGS oil revenue increased by 1980 over 1973 by 17.3 times, (from 8.551 billion dollars to 148.196 billion dollars, and total accumulated oil revenues reached 492.983 billion dollars in 1980. Saudi Arabia had 66 percent, while Kuwait had 15.8 percent and UAE had 11.7 percent. As a result current account surpluses during the period 1973-79 increased from 5.722 billion dollars to 34.891 billion dollars. Accumulated current account surplus for Saudi Arabia, Kuwait and UAE reached between 1973 and 1980 nearly 189.719 billion dollars with 47.3 percent for S. Arabia, 35 percent for Kuwait and 16.9 for UAE.

2. AGS financial assets grew between 1973 and 1980 by 1308.5 percent with S. Arabia responsible for 90 percent of this increase. Saudi Arabia and Kuwait constituted 96 percent of total AGS foreign assets in 1980 (88% for S. Arabia). The economic importance of AGS' foreign assets is reflected in their value proportional to total GDP, which for Saudi Arabia, Kuwait and UAE collectively reached 71% of their joint GDP in

1980. This compares with 22% for US and 27% for the UK.

3. AGS total reserves increased by 613.3 percent between 1973 and 1980 while world total reserves increased by 184 percent.

Saudi Arabia is responsible for 73 percent of AGS increase and constituted at the same time 74 percent of total AGS followed by Kuwait 12 percent and UAE 6 percent.

AGS collectively reached in 1980 the second rank among all world countries in their volume of total reserves following West Germany. Saudi Arabia alone occupied the sixth rank.

AGS total reserves constituted 20 percent of their total and GDP while corresponding percentage for industrial countries was 4 percent.

AGS total reserves percentage to total imports was 59 percent while the corresponding percentage for total world was 23.8 percent.

4. Budget Indicators: AGS joint surplus which reached 29 billion dollars in 1980 corresponded to 30 percent of total oil revenues with the Kuwaiti budget surplus reaching 80 percent.

Kuwaiti accumulated budget surpluses constituted 54 percent of total revenues. 95 percent of Kuwaiti surpluses were transformed into foreign assets. 83 percent of investment income of Kuwait was derived from foreign assets.

It is in this context that we have to examine the foreign investment activities of the AGS, clearly of critical importance to their development, and to consider how trilateral cooperation is relevant.

14.3 Investment Strategy - The Broad Conceptual Setting

In this examination of the conceptual basis for investment strategy, special attention is directed to illustrate, in broad terms, the economic role of financial activities, the real meaning of financial surpluses, the close interrelation between oil production policy and investment policy, in addition to defining the key terms, 'investment' and 'placement'.

14.3.1 Economic Effects of Financial Activities

It is important to illustrate the economic importance of financial activities of AGS in relation to their strategic development objectives.

On a national basis, and in any economy, the financial sector plays a vital role in fulfilling the function of intermediation between supply and demand. It is also well established that economies of scale are as relevant to financial intermediation as are economies of scale in factors of production in other sectors. The recent development of the role being played by the financial sector is shown very clearly in its initiation of development activities as well as the financing of implementation. Cooperation in the financial sector could make even more effective than on a national basis the whole development process and there are signs of this appearing already.

Moreover, financial activities, particularly those relating to investment as has appeared many times earlier, can themselves play a wider developmental role as a sector nominated to lead the whole development process in economic diversification on the road to build up a non-oil era development base.

The conscious utilization of the export of capital exports and of associated investment activities as a means in itself to promote economic development seems to be rarely discussed both in the literature on economic development in general, as well as in relation to AGS and capital exporting countries in particular.

The many signs of the growing importance of income earned by AGS Governments and private investors from their foreign assets were illustrated in Chapter 7 and earlier in this chapter. It is expected that

> "In a few years income on investment receipts may be a major factor in their current account."(13)

Despite the direct relevance of foreign investment to the

development process designed to diversify the non-oil resources of income, such foreign investment as such is never stated as an integral part of the development plans of AGS. This absence is probably due to jurisdictional considerations within AGS' Governments and the desire to maintain the confidentiality of investment policies and decisions. However, nothing can justify the parallel absence of programming such activities and policies.

In analysing the basis for investment strategy within a trilateral approach two important conceptual issues have to be considered. The first relates to the interrelation between the investment of oil revenues' surpluses and oil and gas production policies. The second issue relates to the real meaning of the term 'investment'.

14.3.2 Economic Framework for Investment and Oil Production Policies

The economic criteria that are proposed to be used in formulating oil production policies in relation to investment activities are:

1. The real rate of return (i.e. net of inflation) that the Government making the decision can earn on investing the proceeds of selling extra oil that it takes out of the ground.
2. The rate of increase that it expects in the real price of crude oil (again, net of inflation).

This means that AGS should, in the light of purely economic considerations, substitute investment in the oil and gas industry by national, Sub-regional, Regional or International investments, only if the return on these other assets is higher than the appreciation of oil in the ground. Otherwise the AGS would be well-advised to conserve oil for the future.

Similarly when considering national internal, current and development financial requirements, policy makers of AGS should only produce oil and gas over and above these requirements if real rate of return on non-national investments is greater than real rate of increase

in oil prices.

However, wider and more pragmatic considerations prove to play a vital role in directing oil production policies. The size of AGS' oil revenue surpluses which have resulted (in the recent period during which the countries rather than oil companies have made the decisions) from the difference between revenues derived from oil and gas exports and those countries domestic needs have been determined not only by economic desires for Regional and International investment but also by a wider sense of AGS responsibilities towards Arab development as well as to the international economic community.

In other words itseems that the AGS oil production policies have been adopted for broad commercial reasons strongly influenced by socio-political factors, political inputs, rather than conceived in strict economic terms. Current oil and gas production and development in AGS is not even determined by a depletion policy.

Oil and investment policies are therefore better described within two general parameters:

> "An upper limit on the rate of extraction and monetization of petroleum is set jointly by the expected rate of real growth (i.e. yield) of international investments and of real capital formation in AGS domestic activities. A lower limit on the extraction of petroleum will be the irreducible energy needs of industrial clients abroad and domestic needs." (14)

Since AGS' petroleum production policies can be observed already to be taking into consideration wide international economic needs, it would be logical to set the related financial surpluses and the linked potential development within a similarly wide regional and international context, i.e. the trilateral approach to development cooperation.

A cooperative strategy for oil and gas production could then appear, based on AGS development needs, recognising the present facts of international involvement, and consciously programming a trileral approach. In order to pave the way for such an operational strategy joint under-

standing is vital between the highest policy makers among the three circles, based upon the enormous potentials to translating trilateral interests into development reality in an equitable manner.

Saudi Arabia and Kuwait seem to play jointly the pivotal role in oil production policies within the international responsibility considerations and their reflections on oil revenue surpluses and investment activities.

> "If Saudi Arabian policy remains committed to meeting the world's rising import needs fully, it alone will have to bear most of the burden of expanding supply from the middle or even early eighties onwards. The Saudis, in such circumstances, might look for some assistance from elsewhere in supporting further growth - in the world economy, and in its imports of crude oil.
>
> If so, the first fellow-member to whom Saudi Arabia might turn to seek such burden-sharing might logically be its neighbour Kuwait, with its greater potential to expand production and even capacity more readily than any other exporter except the Kingdom itself." (15)

(See also Chapter 1, Table 1.7.)

The political factor international responsibility appeared very clearly in the Saudi oil output increase following the Gulf War as reflected in Table 14.7.

Table 14.7

Oil Production
(Million barrel/day)

	1978		1979	
	First half	Second	First	Second
Saudi Arabia	7.7	8.9	9.2	9.8
Kuwait	1.9	2.9	3.3	3.5
Iraq	2.4	2.3	2.6	2.5
Sub Total	12	14.1	15.1	15.8
Iran	5.6	4.9	2.5	3.7

Source: Sadiq, A.T. 'Monetary and Financial Policies and Arab Development in the Eighties', Arab Planning Institute, Seminar 1979/80 on Arab Development Realms in the Eighties. Kuwait, Jan. 1981, p. 324.

14.3.3 Concept of Financial Assets and Surpluses

In assessing the real economic value of accumulated financial assets it is very important to avoid the misleading used meaning of surpluses in the case of AGS.

1. The accumulated large financial assets of AGS are not a reflection of industrial and technological power and productivity as is the case with most of developed OECD countries. It is rather the product of the depletion of natural assets and their conversion into financial assets, which must then be used to create real assets, both physical (infrastructure, industrial capacity, etc.) or human (education, training and improved health conditions).

2. Investment and Placement: The term investment has been used in the economic literature to describe both activities relating to either financial portfolios and direct investment or those relating to the process of addition to capital goods. However, this use seems to be misleading, as it is of vital importance to identify the difference between two different kinds of activity. The first type essentially means no more than the growth of financial assets in a broad spectrum including all liquid money and quasi-money, less liquid securities, as well as the still more illiquid claims and debts. Such activities should logically be called 'placement'. By contrast the second type of activities are directed towards the use of financial surpluses to add to capital goods should be termed 'investment'.(16)

Although, the term 'investment' will be taken to mean both types, examination of the strategy will clarify both types.

Kuwait has now the most sophisticated financial sector in the Gulf area and it occupies also an important place in the Regional and International market.

The Kuwaiti Dinar is thought to have been emerged as the third

most important bond market in 1978 after those in Dollars and Deutchmarks.(17)

The financial sector in Kuwait comprises the Central Bank, seven commercial banks,(18) three specialized banks, nineteen investment companies and five insurance and reinsurance companies.

Kuwait as a Trilateral Financial Centre:

The role of Kuwait as a Sub-regional, Regional, as well as International financial centre has received the main attention so far of financial specialists. Kuwaiti financial institutions also play a growing role within the Gulf and broader Arab circles as well as the International circle through their financial reserves and assets being invested abroad. The consolidated balance sheets of the Kuwaiti financial institutions, show that whilst investment companies hold as much as 60% of their total assets in foreign assets, about half of the commercial banks' total assets are in foreign holdings, which also represent a quarter of the assets of specialized banks which have a special domestic mandate.(19)

14.4 Finance and Investment Cooperation in the Sub-region

As we have seen, the AGS, with their considerable financial surpluses have been able to build up their financial sector. This is not only one of the leading sectors in their national economies but also is playing now and will in the future a vital role in the Sub-regional, Regional and International circles. Some specialization has been emerging as noted in Chapters 5 and 12, Kuwait as a capital market, Bahrain as a money market, whilst Saudi Arabia is promoting the growth of Islamic banking and associated financial activities. The case of Kuwait in particular illustrates the growing financial maturity which is now developing.

The State of Kuwait, the first Gulf oil producing country to take full ownership of its oil sector, leads the other Gulf countries in establishing the necessary financial institutions capable of directly

dealing with its petro-dollars. Currently Kuwaiti investment institution agencies manage more than 50% of such funds, while at the same time instructions are given to foreign agencies on how to invest their money. (20) Abudhabi, Saudi Arabia, and even Oman are following the lead of Kuwait towards managing their own oil funds, whilst Qatar and Bahrain also are pressing for greater control.

The process of gaining control over assets is accelerating as money filters down to private Arab investors.

They now hold according to some estimates, about 17 percent of the $ 350 billion of external assets held by oil producing countries, i.e. some $ 59 billion and they are prepared to use these funds externally and aggressively.

> "Just like their demands for larger shares of the profits in refining of crude oil, the Arabs are now talking about 'refining' their petro-dollars through their own financial institutions to increase the profits from their 'crude capital'." (21)

says Nichol Krul, general manager of Gulf and Occidental of Geneva, a money management company for UAE and other Arab countries.

In Kuwait in particular there is a new breed of aggressive and outward-looking Arab money managers, who are prepared not only to be present in foreign transactions but to participate in them. (22)

In discussing the possibilities of the Kuwaiti Dinar playing a larger international role that might reflect positively on its development, El-Beblaw$ believes that the Kuwaiti Dinar can, successfully, serve as an international unit of account, even if it could not fulfil any reserve asset function because:

> "Not only because the Kuwaiti economy is extremely small and hardly diversified, but it is also because it is technically difficult to make the K.D. available for international transactions." (23)

El-Beblawi believes that if Kuwait succeeded in establishing the Kuwaiti

Dinar as an increasingly acceptable unit of account, this followed by an ability to insist on lending only in K.D. this would remove the first danger of the erosion of her financial assets.(24)

This evolving situation illustrates what has been achieved outside the national circle already by Kuwait and what other potential development of the financial sector is open to the AGS as a whole.

14.5 Investment Within the Regional Circle

14.5.1 Background

The preceding analysis in Chapters 9 and 13 on motivation for regional cooperation illustrated the potential for wider and more efficient productive investment activities for Arab Gulf States that are available through regional cooperation. Examples of sectoral cooperation opportunities have been examined with respect to agriculture and industrial sectors.

From Chapter 13 economic considerations as well as a sense of regional responsibility and international circles calls for efforts to be directed towards lessening the gap among rich and poor countries, together appear to strengthen the incentive for AGS to invest within the Arab region.

In this section we discuss some important issues fundamental to a sound understanding of the operational aspects of cooperation within the Regional circle.

Although the Regional circle mainly includes the Arab region, in this discussion, it does not necessarily exclude other developing countries in general and the Islamic world in particular.

Many economists and financial specialists in the Arab world consider the Arab region to be the most suitable outlet for Arab financial surpluses. Nashashibi strongly supported this belief for the following reasons:

> "The only reasonable outlets for Arab oil producers to achieve a meaningful degree of direct productive investment lie within the Arab region itself. A strong economic consideration emerges, besides the political and social, to

> harmonize the long-term investment interest of the oil producers with the development needs and potentials of the capital-needy countries in the region." (25)

However, a sound approach to regional and international investment activities should rely heavily on practical economic as well as political considerations which influence the investor's decision in relation to his sense of regional identity and the type of investment considered. The investor compares both political and economic dangers to and expected real returns on his ventures when deciding to invest in either or any of the available circles. What then, in broad terms, are the conditions which tend to encourage AGS investment within the Region.

14.5.2 The Basis for AGS Investment within the Region

By and large oil surplus funds have been, as will be seen in the coming analysis, hitherto placed in OECD countries, even though some maintain that the Regional circle provide joint-directed investments of AGS with the best comparative advantage in relation to profitability and security.

However, there remain many constraints facing such investments. In the Arab countries a draft general agreement for the encouragement of the flow of Arab capital into the Arab world was prepared by the General Secretariat of the Arab League and was submitted to the Economic and Social Council in its session of February 1980. However, ratification was delayed for more studies and consultations. The general reluctance to sign such agreement, does not necessarily reflect the absence of an Arab will to invest within the region, it rather reflects a dislike of holistic binding agreements and a greater preference for specific projects and partial joint development activities, as illustrated in Chapter 6 and characteristic of the approach proposed here for cooperation.

With preference being given to profitability and security with a low risk element, a minimal necessity for managerial and technical experience, the Arab capital exporting countries have found it sometimes

rationally attractive to invest in mortgages and real estate. These, unfortunately, encourage financial speculation which diverts resources to non-productive activities. This has harmed Arab economies and economic development and created a parasitic group of speculators. (26)

A deficient knowledge of investment opportunities and the weakness of investment bodies within the Region and, above all, the negative and polluted political atmosphere prevailing between the Arab countries, have led the AGS to recycle a basic part of investments and placements which were channelled to Arab Investment banks and companies into OECD countries.

The Arab institutional framework necessary for the achievement of active inter-Arab investment activities is considered to be insufficient, for coping with the increased accumulation of surpluses. The negative aspects of Arab financial institutions can be summarised thus: (and also see 27)

1. Most of these institutions are relatively under capitalized, and therefore have a limited capacity to extend financing.
2. Arab commercial banks, relatively under-capitalized have been largely involved in short-term trade finance, to the neglect of medium and long-term project finance.
3. Many Arab financial institutions involved in investment concentrate on 'placement' as opposed to 'real investment', and this predominantly in Western financial markets.
4. Little effort has been spent by Arab financial institutions to identify, and develop Arab investment opportunities to the point of ready-financing. Instead these functions have been mostly undertaken by foreign houses.
5. Arab financial institutions in general suffer from a lack of sophistication in their managerial and technical capabilities in international finance and investment.

6. Many of the Arab financial institutions work under anachronistic irrelevant restrictions and regulations.

The CAEU itself has stated:

> "Arab financial mechanisms are as yet not only too rudimentary but also extraverted, i.e. essentially oriented towards the outside world."

and

> "Arabs must then begin by evolving a legal, economic and financial milieu that is reasonably homogeneous and offers scope for the movement of capital, men and products to take place with the sort of fluidity that has been achieved, gradually and not without difficult, inside the EEC." (28)

The only way in which public and private Arab finance can develop along this path involves Regional cooperation.

Investment in the Developing World:

Investment in other Third World countries of AGS surpluses is theoretically backed by the advantage of finding wider absorptive capacity and more opportunities for investing in productive projects. Nashashiby also considers that the very process of administering AGS development assistance as an integral component of commercial investment would produce complementary benefits from development and investment outlays:

> "The combined return on the total investment can become attractive for Arab direct investors on commercial criteria."(29)

In many countries in the Far East, in Brazil and Argentina, for example, there are hardly any restrictions on investment, and very few restrictions on the repatriation of funds. Unlike most countries, there are no obstacles to foreigners owning more than 50 percent shareholdings. (30)

However, recent experience showed that direct investment in the developing countries has been associated with the following problems: (31)

1. Direct productive investment in these countries very often implies that the related infrastructure also has to be supplied by the investor; this is hardly possible for the AGS.

2. The shortages of local skilled labour and managerial capability can be great and sometimes represents an unsurmountable bottleneck; this already is a constraint within the AGS.

3. The investor in most cases has to depend on export oriented projects to achieve successful operating levels; again the AGS has its own problems in this respect.

4. As Arab direct investment in these countries is obliged to lean on foreign technical collaboration much of which has to come from Western enterprises and multinationals then the role of Arab direct investors in many cases has been diminished to that of a silent capital provider only.

5. Financial markets in developing countries are often rudimentary, and direct investors would have to secure their working capital financing, as well as other required financing from their own resources.

6. Foreign investment regulations, in addition to monetary and fiscal regulations, can be very unstable and sometimes unpredictable, whilst Government intervention in foreign-owned enterprises is on the increase in most of these countries.

7. Finally, published regulations with respect to foreign investment do not, in many cases, accurately reflect the true state of prevailing conditions.

Despite the many convincing arguments for Third World direct investment by the oil producers, there are considerable economic and non-economic obstacles and risks. These have been, and will continue to be, a limiting factor to large-scale Arab direct investment in these countries.

Analysis of investment within the broad-Regional context gives two important results. First there are many hindrances to and constraints on successful investment, including economic, social, organisational and legal frameworks prevailing within the Region. Unless, therefore, serious efforts can be made to tackle such constraints, and these may be within the regional capacity, the effective operational aspect of the

proposed regional approach to cooperation will be hindered.

The second relates to the need for the International circle's cooperation, even for investment at the Regional level. The Regional activities' need for international technology, managerial capacity, marketing and sometime financing is especially significant. The effectiveness of regional cooperation is determined to some extent by the cooperation provided from the international circle, this again supporting the adopted trilateral approach. We turn, now, to discuss situation with respect to cooperation within this third circle.

14.6 Investment Within the International Circle

14.6.1 Background

In this section we will discuss the incentives for AGS to practice investment activities within the International Circle, using examples to illustrate both the opportunities for cooperation and problems that face such cooperation, ending by identifying the basis for successful cooperation. In so doing it will be valuable to refer to our earlier conclusions on the motivations for such cooperation as we examine the type and geographical distribution of AGS investment in the International circle.

Potential motivation for cooperation within the third circle, both for Sub-regional and Regional investment purposes is created by:

1. The technological gap: as the technological gap between all Arab countries and the developed world is great, cooperation between both sides cannot be evaluated solely in terms of commercial gains. Evaluation of returns must also recognise social and qualitative benefit flows from investment on the development process, and this could provide good, lasting and strong relationships.

2. The current national based erection of industrial plants is not leading to viable enterprises, and is doubtful whether they meet the

crucial test of being able to sell profitably. Here lies a field for genuine partnership rather than pseudo-commercial contract relationalism between western enterprises and those of AGS. The dubiousness of the present huge expenditures on imported petro-chemical plant and labour suggest that wise external investment is sometimes better than so-called domestic investment.

3. Many analysts recognise that investment even within the Arab region as a whole does not offer obvious rates of return, to the active AGS' investor, comparable to portfolio and real estate investment in the industrialised countries.(32) Within the AGS Sub-region, opportunities are too limited; implemented expenditure in development projects, even in long-established sectors such as social infrastrucural provision, tends to fall short of investment allocations (see Chapter 4, section 4.3.3).

Moreover, and as expressed by the Kuwaiti Minister for oil:

> "I can't imagine that Saudi Arabia, Kuwait or any other oil producing country in a similar situation would undertake industrial projects merely for the sake of providing employment. The truth is that every additional job provided by a project will have to go to a non-national, and this will in turn entail considerable added investment in services and infrastructure ... Locals constitute less than 10 percent of the labour force." (33)

4. Recent experience of AGS investment activities shows that the Arab investor, whether Government or private, has been forced to look abroad for financial opportunities,

> "as openings for investment in the Middle East were limited, and the sums involved were, and still are, simply too large for a single region to absorb, whether the opportunities and expertise available locally." (34)

5. The following reasons tend to support investment cooperation with Western industrialized countries: (35)

1. Western economies have achieved, during a prolonged period of development and innovation, outstanding technological breakthroughs from which direct investors can benefit indirectly. Such technology is

greatly demanded by the relatively under-developed oil-exporting countries (see Chapter 10, section 10.7).

2. Direct investments in developed countries will undoubtedly contribute towards the growing need for final products that are imported by the oil-exporting countries, committed as they are to ambitious development plans which require a wide range of producer and consumer goods primarily exported by Western countries.

3. Western economies represent large marketing outlets for most products as compared to such outlets in developing countries. The average demand of one European city may well exceed that of a whole African state. In addition, Western economies have advanced infra-structure (transportation, communications, and so forth) which improve the quality and profitability of these markets (see Chapter 10, section 10.6.2).

4. The financial markets of the West cater efficiently to working capital needs as well as to the diverse financial requirements of Western corporations.

Given this situation and the unsatisfied demand for capital in the industrialised developed countries the mutual benefits which would come from international cooperation are clear. Many cases of collaboration between financial institutions are already known.

Joint Arab-European banking institutions have proved to be of vital importance in motivationg the creation of financial initiative in the Arab world.

> "In fact, once the European-Arab consortium banks such as UBAF, BALL and European Arab Bank have fulfilled their training purpose and produced a new generation of experienced middle managers with the aim of rising to the top of world banking, the scope of action of western financial institutions will be limited since the field will be clear for the private commercial banks of the Arab world."(36)

Joint Arab-foreign banks have been playing a vital role in advising the Arab Investor towards various fields and types of investments abroad

in addition to their role as a mediator in chanelling the Arab surplus money into viable investments. (37)

14.6.2 Types of Recent Investment of Financial Surpluses

In the following we will illustrate recent trends of investments by their types and financial market areas. Information on the disposition of the current account surpluses of the oil exporting countries including AGS continues to be uncertain, as noted in the IMF Annual Report of 1981, due to the lack of complete balance of payments statistics for some members and similar gaps in the coverage of other data for AGS.(38) (See also Chapter 7.)

It has already been made clear that AGS' financial resources surpass the capacity of most AGS efficiently to absorb them in the form of physical capital formation. As a result surplus financial resources were channelled abroad, invested in various forms and have been distributed within many international financial circles. A substantial volume of petro-dollars have flowed to non-Arab Muslim countries and other developing nations, as well as to the industrialized west in one form or another, e.g. bank deposits, fixed interest securities, shares, property, direct financial, commercial or industrial ventures and joint companies and banks. As information on the deployment of AGS' financial surpluses is not available in much detail, we have to rely mainly on the available information on Opec investments. (39)

International Deployment of OPEC's Financial Surpluses:

Estimates of the deployment of the Opec's financial surplus identified in 1980 and during the years 1974-1980 are shown in Table 14.8 and Table 14.9 . The salient points are these:

- 60% of all financial surpluses have been deposited with U.S., U.K. and other industrial countries' banks (W. Germany, Switzerland, France and Japan), with U.K. euro-currency deposits taking up 42.4% of total surpluses, U.S. with 16.6%.

Table 14.8

Deployment of OPEC's Identified Financial Surpluses 1980 and 1974-1980
($ billion and %)

	1980		1974-1980	
	$ billion	%	$ billion	%
- U.S. (domestic)	14.5	(16.1)	59.74	(18.5)
Bank deposit and other portfolio	13.0	(14.4)	53.54	(16.6)
Other	1.5	(1.7)	6.20	(1.9)
- U.K. (domestic)	3.3	(3.7)	12.90	(4.0)
Sterling Bank deposits	1.4	(1.6)	3.80	
Other	1.9	(2.1)	9.10	
- Bank deposits in other countries	45.9	(50.9)	137.0	(42.4)
U.K. euro currency bank deposits	14.8		54.2	
Other industrial countries	31.1		82.8	
- International organisations and gold	4.9	(5.4)	14.4	(4.5)
- Other	21.6	(23.9)	98.7	(30.6)
Investment in other industrial countries	16.5			
Loans to developing countries	5.1			
- Total Identified	90.2	(100)	322.74	(100)

Source: Ghalib, S. Op. cit. Based on World Bank, OECD, U.S. Board of Governors, Federal Reserve Statistical Releases and U.S. Department of Commerce Survey of Current Business.

Table 14.9

OPEC's Identified Financial Surpluses: Bank deposits vs. other investments and flows 1979-1980
($ billion)

	1979	1980
Identified financial surplus	60.9	90.2
Bank deposits	40.0	46.1
Other	20.9	44.1
U.S. (domestic)	2.0	15.7
Portfolio investments	(3.3)	(14.2)
Other	(-1.3)	(1.5)
U.K. Investment	1.0	1.9
Other Industrialized countries	8.7	16.5
Loans to LDCs	9.6	5.1
International Organisations and gold	-0.4	4.9

Source: Ghalib, S. Op. cit., Exhibit 1.10, p. 16.

- Other portfolio placements including Treasury bonds, notes and private notes, domestic stocks totalled only 5 percent.
- International organisations and gold totalled 4.5 percent.
- Investment in other industrialized countries, constituted 30.6 percent of OPEC's financial surpluses.
- 1980 changes over 1979 witnessed a noticeable increase of placements in U.S. with direct investment rising nearly five fold from $ 35 million in 1979 to $ 173 million in 1980.

After the U.S. (non-bank deposits) investments in and loans to other industrial countries notably W. Germany and Japan also rose remarkably by $ 7.8 billion. (40)

Consequently, a change towards non-bank deposit investments, mainly direct investment seem to be emerging.

Of this major part of OPEC financial surpluses which have been channelled into western countries, a considerable percentage has been placed in highly liquid forms, but this is beginning to change.

The main forms of AGS investments abroad now include:

1. Equities: Insisting on getting a better return on their cash, both Governments and wealthy individuals have been showing readyiness to invest far more money in equity and equity related investments, thus moving toward longer-term investments and away from their normal, short-term investments of weeks or months. In addition, they are seeking more balanced diversification. (41)

Recent moves into stock ownership entails greater involvement in control and management entails. Kuwait has pioneered the way in managing their own money, the most financially sophisticated of the AGS and always more inclined towards equity and property. It is thought that:

> "the days of passive investment in Government bonds and notes will very soon be over." (42)

Almost as a rule, Arab Governments limit their equity participation

in Western companies to small, unobtrusive holdings which are easily disposable. Thus Kuwait the most sophisticated investor, owns 4.9 percent of the equity of hundreds of leading American coporations - a level just below the level at which full disclosure is required by the securities and exchange commission. (43)

Indeed major acquisitions have been very rare considering the amount of funds available. Some of these rare deals that are known are Kuwait's 1974 takeover of Britain's St. Martin's Property Corporation and a 15 percent stake in Daimler Benz, along with shareholdings in German Steel Companies and in Japanese Corporations. (44)

2. Bond Market: This traditional short-term investment with no less than 30 percent of Arabs' Petro-dollars Assets, is becoming less popular because of the depreciation of some currencies and the eroding of profits because of inflation.

3. Stock Market: It is noticeable that stock markets are attracting more attention, with high technology industries expected to exert a growing attraction to Arab money in spite of the heavy development costs involved. This type of investment is often welcomed by the major industrialized countries, as Arab money has been investing in such industries as petro-chemicals, electronics and pharmaceuticals. (45)

The Distribution of Investment:

In broad terms we will explore the general distribution of Arab financial investments between various finanncial centres.

United States of America:

The United States has been receiving important components of all Arab capital exporting countries in the form of financial investments, since it has a tremendous capacity for absorbing finance and great flexibility in its money markets. As shown in Table 14.8, 18.5 percent of OPEC financial surpluses (1974-1980) were invested in the U.S.

Type of Investment in the U.S.A.:

Mark Liland, Assistant Budget Secretary for International Affairs announced that OPEC total investments in the United States reached at the end of June 1981, 69,790 million dollars, distributed as follows:(46)

U.S. million 34,910 in Government Financial liabilities represented 50 percent

" " 6,150 in company bonds)
) 21 percent
" " 8,470 in company shares)

" " 13,870 deposits with banks 20 percent

" " 617 in direct investment 1 percent

" " 5,773 other forms

The very small cumulative share of direct investment is obvious. However, as information relating to foreign investments is of special confidentiality, it is difficult to get the accurate information of flows other than these shown in the published figures. However, David Mizrahi Editor in Chief of Middle East Report, New York, thinks that official statistics of U.S. financial authorities disclose only between one third and one fourth the actual figures. He said that Saudi Arabia investments in the U.S. might have reached 100 billion dollars, Kuwait 55 billion and UAE 45 billion.(47)

Other Areas:

British markets are well known to most Arab investors, but there is general recognition that the pound sterling is over-valued and many investors move away from investment in British industry as a result of its recent poor productivity record.(48)

Within the 'free financial zone' whose activity lies outside the frontiers of countries, three main instruments of debt has been known ranging from short to medium and long term; London dollar Certificates of Deposits (CDs) represent the most important of short term instruments while eurocredits are medium term and eurobonds long term. Since all these are exempted from withholding taxes and foreign exchange

restrictions, the international investor, including the Arab investor has taken a special interest in these outlets.

> "After surveying actual conditions prevailing in these markets, we can safely conclude that they have always been rather limited in capacity, particularly with regard to medium and long term investments."(49)

Japan with a relative strong economy and currency (Yen), within OECD countries, a large absorptive capacity and industrial development, is thought now to be attracting more Arab investments. The limits of U.S. and Europe financial markets to continuing absorption of oil countries' financial surpluses, and Arab investors' outlook to get acquainted with the other part of OECD, are also motivating factors to invest in and with Japan.

14.6.3 Broad Aspects of International Investment Cooperation

Three basic issues are considered here in order to illustrate the types of and basis for viable cooperation. These include first some examples on potential cooperation fields; second reference is made to some problems facing such cooperation and the third includes the broad basis for successful cooperation. The last two issues are formulated jointly under the basis for successful cooperation.

14.6.3.1 Examples on Potential Cooperation:

1. One of the most important areas for cooperation between financial institutions in both groups include interchange of technically qualified staff between these institutions. In certain particular financial fields where there is a shortage of people with adequate experience exchange of staff as well as the training of Arab staff in western institutions would greatly improve efficiency, for instance as foreign exchange operations.

2. Assistance from foreign institutions and organisations may be needed at several stages of investment of projects' development. Initially, foreign organisations may be involved in undertaking feasibility studies. The next stage is the cooperation in the supply of plant and technical know-how. When the project is completed, however, there

remains ample need for cooperation, especially in management and marketing; development of management know-how is an essential ingredient of long term cooperation. Such interaction also helps to extend the frontiers of knowledge and, in turn, the quality of goods and services thus produced.

3. Within the trilateral approach, AGS-Arab and international joint investments in development projects within the region in conjunction with technology supplied with western countries represent one of the major avenues to true financial recycling in the Arab region and the rest of the world.

> "The modality envisages that AGS would provide a substantial part of the capital funds for joint projects, while the non-oil producing country furnishes land and infrastructure facilities. Western countries would provide the needed technology and equipment and would possibly take part in financing." (50)

In this way, absorptive capacity in the region could be increased significantly through the effects of cooperative process on some of the most important factors covered by this concept; entrepreneurial and managerial capabilities, technical know-how, marketing and demand opportunities.(51)

14.6.3.2 The Basis for Successful Cooperation:

In the light of recent experience on Euro-Arab cooperation, some specific points need to be tackled before any honest long term successful cooperation can be established within the third circle.

The first point relates to business behaviour. Businessmen in developed countries are, until now, thought to have been largely trade minded, concentrating on selling. It is becoming realised that in both sides' longer term interest they must become development-minded also.(52)

European companies have been critized to have too often in the past looked at development in the Arab world from a purely

> "short term profit point of view to the detriment of the Arab economies concerned. It cannot be a coincidence that the vast majority of feasibility studies prepared for the Arab world have grossly underestimated the cost of the project and, at the same time, grossly overestimated market demand. Moreover, these studies are too often ill conceived and incomplete in their technical details. Such experience leads to a lack of trust between us and is in nobody's interest in the long run."(53)

The second point relates to discrimination in pricing. Imported inflation to AGS is perceived by them to be a growing danger and in this context a comparison can be made between the rise in the weighted consumer price index of the ten most important industrial countries with the increases monitored by OPEC in the prices of commodities imported.

> "The combined consumer price index of the industrial countries showed the following rises: 12.5 percent in 1974; 10.9 percent in 1975; 7.9 percent in 1976. The price rises of commodities imported into the OPEC countries appear to be much higher: 55 percent from 1973 to the end of the first quarter 1975; followed by another 21 percent to the end of the first quarter 1976 and a further 30 percent between mid-1976 and mid-1977."(54)

Although the two price series are not fully comparable for a number of technical reasons, the OPEC study concluded by saying:

> "When we observe the consistently large difference between the price increase charged to OPEC countries and the price increases in commodities traded between the industrialized countries, we are bound to conclude that an element of price discrimination in trade between the industrialized countries and OPEC countries as a group has existed for some time."(55)

This trend led Hisham Nazer, the Saudi Minister of Planning, to advise that:

> "Suppliers, and those who provide finance to manufacturers and exporters, should seek to establish longer term positions rather than attempt to cream off high profits on a 'fast bulk' basis."(56)

The third point covers the question of European concern as to the potential economic and political influence that might accrue to the Arabs

through the investment of their petr-dollars. This concern is understandable, but there are many signs providing that the behaviour of Kuwait, Saudi Arabia, UAE and Qatar Governments in the international markets and the extent of aid given by Arab countries to developing countries, reflect a full commitment to international responsibility rather than to purely selfish interests.

> "Total resources have multiplied tenfold to $ 25,000 million, and lending by Arab funds now covers the entire developing world, with loans for projects now functional in 78 countries of Africa, Asia, Latin America, southern Europe and the Caribbean. In the UAE, disbursements for foreign aid comprise 10.2 percent of the gross national product, in Kuwait 5.3 percent and in Saudi Arabia 5.2 percent. This compares to the recommended OECD percentage for its member countries of 0.75 percent of GNP. Surely this aspect of Arab investment must be given the attention it deserves, for it is this that can contribute in a truly meaningful way to the development of Arab-European cooperation." (57)

The fourth point relates to the recent emerging state of uncertainty for international investments which has resulted from many restrictions on international capital transactions. The changing balance of payments situation, especially for the major industrial countries have been significant factors in determining capital controls. This experience has been accompanied, also with the imposition, against foreign investors, at any time, of controls or limits on investment returns. The adverse impact of controls can be seen to operate by affecting both risk and rate of return for the investing countries. By distorting investments patterns, these controls could have an adverse impact on the countries in which investments could be made as well as the investors themselves. Examples of national laws that affect the rate of return on international investments are seen in terms of special taxes on foreign-owned investments, limitations of repatriation of profits and interest. These include equalization taxes on foreigners' investments and special withholding taxes on interest and dividends paid to foreigners that are not applied

to citizens. These taxes reduce the rate of return to investments (see Chapter 9) and discourage investment itself.

The above situation creates certain limits on investment and joint cooperation within the international circle and, therefore, necessitate a joint effort to reform the framework, particularly the legal aspects, of investment activities.

To summarise, it is of vital importance, on the light of recent experience of Euro-Arab Cooperation aspects, that discrimination in pricing for imported commodities or, technology, should be avoided and seen to be avoided. Coopeation should be based on long term and development-oriented viewpoints which take into consideration AGS socio-psychological development. Legal reforms are needed to remove the present state of uncertainty and mistrust. Otherwise it will be very difficult to create a healthy environment for investment cooperation.

14.7 Investment Strategy within a Trilateral Approach

Assuming the continuation of the build up of oil revenue surplus to the actual financial needs of AGS local economies, as well as payments for goods and services, the following objectives for AGS' investment strategy are proposed:

1. The build up of technological know-how, managerial and marketing experience needed to strengthen the base for the post-oil era.
2. Establishing real income generating projects within the three circles to substitute for the comparatively weak productive opportunities within the Sub-region. Medium and long term investments are necessary here.
3. Investment returns that can continue to be available to finance AGS' Government expenditures, either developmental or current.

The following directions are proposed for investment activities in order to achieve the above objectives:

1. Priority should be given for long term investments located in the Arab region while benefitting, at the same time, from international inputs mainly in technology and management of these projects. Special attention should be given to agriculture for the reasons outlined in Chapters 9 and 13. The Sudan project is typical of the projects that seem to be reasonable within this context (see Chapter 13). The pre-requisites in the field of infrastructure must be satisfied before successful and long term regional investment activities for AGS can be guaranteed.

2. AGS investments in the developed world, particularly Europe, USA, and Japan, should, for medium and long term benefit, be designed to tap, firstly, technological managerial and marketing experience and marketing outlets, and be less concerned at achieving immediate profit. Even in the medium term genuinely profitable opportunities would be more likely to be created in this way.

Consequently, it seems justifiable to concentrate on direct share-holding, but within certain limits, for instance up to 10%, appropriate to AGS' existing administrative capacities. Choice should be centred on activities with larger inputs of technology, including managerial skills, and research, particularly for those activities which match with AGS' needs.

3. General investment principles should nevertheless be maintained with different priorities allotted accordance with the balance of objectives associated with each type of investment. These three principles are security, profitability (return) and liquidity.

In maintaining the principle of security for the financing of imports of goods and services, some financial resources should be directed to placements primarily assuring liquidity and security and only secondarily the rate of return.

The remaining resources can be invested on a medium and long term basis, geographically distributed for reasons of security and in the light

of considerations mentioned above.

AGS investment ventures jointly with developed world but to be located in the developing world seem to be justified by the facts of availability of labour forces and of markets, particularly for industrial ventures.

An up-to-date example can be given of this. Nomura Securities, Japan's largest securities house, is working on a plan to 'recycle' Arab oil money into Japanese investment projects to establish joint venture light industries in China. The main idea behind such a trend is

> "to combine petro-dollars with Japanese technology and Chinese resources and labour. Nomura and its think-tank subsidiary would provide the financing expertise and carry out studies on the feasibility of joint ventures."(58)

The industries being considered include plywood, textiles and light machinery such as sewing machines.(59)

14.8 Summary and Conclusions: The Trilateral Approach for AGS Investment Strategy

Part Four of this thesis has been devoted mainly to exploring a pragmatic approach to functional aspects of AGS cooperation i.e. what can be termed 'vertical' aspects. Practical and operational elements in functional development cooperation were considered and some examples were included. In Chapters 13 and 14 in particular there was defined a pragmatic approach judged to be viable and appropriate to the AGS' case when designed on the basis of 'piece-meal, development-oriented and programmed cooperation'.

Part Three concerning the geo-economic, spatial aspects of development cooperation, i.e. the horizontal plane of cooperation led to the need to examine operational aspects of the proposed approach.

Chapter 13 concentrated on the sectoral operational characteristics of the proposed approach with special reference to agriculture and from which it was demonstrated how development cooperation through a deliberately

selective approach to specific problems - i.e. the piece-meal approach, and, for example, food production for food security, but also through medium or long term programming, could operate.

The particular example of the application of this approach to food production also indicated that it could lead more valuably to structural changes, rather than merely commercial changes, both in the Sub-region and the Region. The AAAID programme is a striking applied example of the pragmatic approach proposed, illustrating the 'vertical' functioning aspects and the Trilateral 'horizontal' elements.

Such programmes and operations require key inputs through investment. The argument therefore, proceeded to lay-down the basis for a rational and practical strategy for AGS investment as the main driving force for the whole cooperation movement.

As investment strategy constitutes the cornerstone for the application of the proposed approach, it was important to examine quantitative aspects of AGS finances, in particular the oil-exporting countries' financial surpluses. A conceptual framework of inter-relations between oil production policies and the process of investment of derived financial surpluses was outlined and an important and highly relevant distinction was drawn between 'placement' and 'investment' are built.

Within the Sub-region successful cooperation can include the trends towards both the coordination of its financial industry and its internal specialization. The trilateral based components of the AGS' emerging industry of finance, were also seen to be necessary for future progress.

Investment activities within the Region were analysed in terms of their advantages and constraints, the region understood to extend to non-Arab developing countries in some respects. Reference was made to the basic conditions for successful AGS investment activities within the region, but analysis also proved the need for AGS investment coopeation within the International circle.

In exploring the key conditions for successful AGS investment activities within the International circle, current investment trends were identified together with the incentives for cooperation as well as the associated problems.

We can conclude that the AGS' financial surpluses that have been created and are likely to continue in the foreseeable future have been the driving force behind the creation of a strong financial industry within the AGS, based on investment activities. This industry in itself has its own direct and indirect vital effects on the economic development of AGS and their post-oil era strategy. The further development of this industry should make the optimum use of and benefit from the Three Circles. Continued Sub-regional cooperation and specialization is beneficially compatible with cooperatively pooling financial resources for investment in productive activities within the Region. At the same time the AGS need to rationalise their placements and direct investments within the International circle, in particular for Sub-regional and Regional technological advancement. A pre-condition for all this is a healthy politico-contractual-legal atmosphere, and if this is to be achieved then serious high-level efforts in Trilateral cooperation need to be made.

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CHAPTER 15 - CONCLUSION

The research on which this thesis is based was dedicated to an exploration for the most viable approach to and for Arab Gulf States' development cooperation. In order to establish a sound research methodology it was found necessary to discard a great part of recently expressed and published opinions relating to this and associated subjects as being founded on prejudice, lack of realism and blind imitation of approaches to cooperation designed for other purposes and other regions.

The topic relates directly and indirectly to the heart of the most important and fateful question facing the AGS in their development drive. This drive necessarily involves the diversification of their economies, in order to achieve the optimum benefits during what is essentially a transition period between the pre- and post-oil eras. This in turn means the build up of self-sustaining economic growth and development which, founded on a solid and diversified economic base, can be maintained even when oil and gas derived wealth declines.

In order to establish whether and how cooperation can significantly contribute to such a development process, it was important to lay down the basis on which a secure and meaningful take-off could occur. Part One of this thesis was therefore dedicated to the examination of the structure of AGS' resource base and their development achievements to date. It is an obvious and fundamental fact that the various aspects of a development cooperation movement as well as the design of a viable approach to such a movement should be based on the structural characteristics as well as the structural needs of these countries.

As analysis proceeded it was found that the AGS development movement and its structure already involves a wide range of development cooperation, activities which have been directed to three 'geo-economic

circles', the Sub-region, the Arab region, and International. This situation necessitated examining the main features of development activities and economic relations within these three circles in order to establish where the AGS stand. This examination and evaluation, conducted in Part Two was of special relevance to the process of identifying and designing a proposed approach to AGS development cooperation.

During this phase of analysis, many signs emerged of the existence of strong potential motivation to cooperation, based on a 'trilateral' approach involving all three geo-economic circles. The examination of the scenario of recent cooperation development within the three circles also established the basic facts about the kind of approach which would seem to be most viable for the AGS and showed also to what extent economic relationships actually necessitate a trilateral strategy for cooperation.

The above findings motivated further analysis of the real needs of the AGS for development cooperation, in the light of recent economic theories and literature relevant to the question of cooperation. Thus, Part Three was devoted to explore more fully the potential motivations for AGS cooperation within the three circles, based mainly on their development needs and the availability of development determinants. Selective sectoral analysis, was carried out, especially of agriculture, industry in addition to an examination of some key development determinants such as labour and markets. Questions relating to absorptive capacity and economics of scale were discussed in their relevance to AGS development needs and constraints.

It appeared therefore from the analytical sequence of Parts One to Three that not only is there strong potential motivation for AGS cooperation but there is also evidence that the AGS are in some respects transforming into reality this potential motivation to cooperation within the three circles.

Up to this point an emphasis had appeared on the 'horizontal' basis for development cooperation, i.e. on the spatially defined geo-economic circles of the Sub-region, Region and International. Attention needed to be turned to what can be termed the 'vertical' aspect, i.e. the functional and morphological characteristics of development cooperation. Relevant questions include: which, if any, of the already known forms of economic cooperation or integration are appropriate to the AGS?; what may be learnt from the functioning of actual examples of economic cooperation or integration that will help to design an operationally successful approach for the AGS?

Part Four was devoted largely to an examination of these subjects and the need emerged to discuss the basic aspects of investment strategy. In the case of the AGS the field of finance and investment is especially important, both in the context of trilateral cooperation, and of the structure of AGS economies. Thus the structure of the arguments developed in this thesis became completed.

It should be noted that this research has concentrated, in the main, on only one decade, that of the nineteen seventies. It is the author's belief that this period of time has been of critical importance as it witnessed the most dramatic and meaningful development achievements in the AGS; it has witnessed also the application of many forms of development cooperation, either within the AGS Sub-region or within the Arab-region. During this period of time there have also occurred the most dramatic developments with respect to AGS' international economic relationships particularly with regard to petroleum trade and investment. Political international relationships have had no less significant characteristics. Consequently, from the point of view of time, the period of the 'seventies can be held to have probably shaped the whole of the AGS development prospects for the foreseeable future. This shaping of the future, directly, and indirectly through affecting relevant

attitudes, must be appreciated in proposing an approach to cooperation as it provides the basis for analysing the stages of cooperation already reached and the prospects for further advancement.

Each chapter of this thesis ended with a summary and preliminary conclusions. We turn now to establish the key findings without necessarily restricting examination to the previous sequence of analysis.

1. AGS economies are characterized by many common features. In particular there is almost complete dependence on oil and gas and related activities, without any serious indication of this sector's decreasing importance relative to other sectors, even within the framework of a deliberate diversification movement. This diversification movement has had but modest achievement and it is still at an infant stage. However, there are significant signs that the financial sector is becoming the driving force in a development cooperation process based upon investment strategy. Such a strategy reflects the growing ability of what can be termed the 'industry of finance' through the financialisation of their economies, to translate AGS financial surpluses into 'industrial money' instead of 'funny money' (see Chapters 5, 10 and 14). AGS have a strong financial position with considerable public budget and financial surpluses and a stable balance of payment with continuing current account surpluses. Kuwait and the UAE rank among the countries with the highest per capita incomes in the world.

This wealth however, has not resulted from the same processes of wealth creation found in the history of economic development and advancement of the wealthy industrialized countries. Those processes involved the growth of real productive capacity and inter-related technological advancement which generated national savings that in turn stimulated sustained economic growth. The AGS could be said to have had financial wealth thrust upon them.

Nevertheless, AGS development by the end of the 'seventies had some

noticeable fulfilments in a variety of economic and social sectors. A wave of industrial projects, export-oriented and for import-substitution has been spreading all over the Sub-region and even agricultural development has some achievements. Deeper examination and evaluation of these achievements in real terms, however, has shown that within these development movements there appear drastic deficiencies, characteristically in the qualitative aspects of both industrial and agricultural development. Illustrative analysis of both sectors has shown the true nature of development direction and achievements.

In AGS industrial development, despite the 'showy' big push reflected in the many huge industrial complexes mainly in the field of petrochemicals constructed or planned all over the AGS Sub-region the indispensible qualitative base (including training facilities, research, technical expertise and managerial capacity) is not being given sufficient attention or effort. Agriculture is constrained by structural limitations associated in particular with the severely limited resource base and the whole growth in agriculture is heavily subsidized from oil revenue. Agricultural development has, in fact, achieved very modest and somewhat distorted results as illustrated by Saudi Arabia (see Chapters 2 and 9). The large scale and intensive use of imported labour at all levels up to managerial capacity in addition to the importation of almost all other factors of production except those relating to capital, energy and one group of raw-materials - hydrocarbon - particularly for industrial plants but also in agriculture, all this tends to negatively affect the development process. What is happening, very largely is <u>development diversion</u> rather than <u>development creation</u>.

This distinction, recently made in economic integration theory, is between on the one hand, a creative situation in which economic activity leads to a growth of mutually supportive and growth stimulating inter-linked operations <u>within</u> a system, and on the other hand, where economic

activity is associated with few internal linkages, remains dependent on uncoordinated inflows of key factors from outside the system, and therefore can do more to encourage development outside than inside the system-diversion.

The emerging priority for the AGS, therefore, is to close the existing gap within the area of qualitative development activities in order to ensure the ability to build up real development creation rather than development diversion. Structurally limiting factors to AGS development represented by the smallness of markets, the very weak physical (except for oil, gas and fisheries) and human resource base can be shown to play a vital role in fuelling the potential motivation for development cooperation.

2. Exploring the potential motivation for AGS' development cooperation, in the light of development determinants and with reference to particular sectors including agriculture and industry, it showed that a combination of economic and political factors tend to encourage AGS Sub-regional cooperation. The Sub-region has many attributes favourable to cooperation such as relative similarity of economic, social and political structures geographical proximity, political and security dangers. The emergence in the Sub-region of the industry of finance increasingly inter-linked as well as specialising, creates a further vital opportunity to the Sub-region for pooling their efforts relating to their financial surpluses and to follow up a strategy of investment that could contribute to needed development structural changes, mainly of qualitative nature within the Sub-region (see Chapter 8).

However, AGS cooperation within the Sub-region is found to be subject to much the same development constraints which limit the development opportunities in the individual countries even though the same is enlarged.

Although the Sub-regional circle tends to widen the area for diversifying the AGS economic base, however, the Sub-region's common

structural needs for development diversification has been found in fact to stimulate a move towards cooperation on a yet wider scale, in Arab-regional circle. The Arab region offers, in particular a larger and more diversified resource base. The analysis of development determinants within the regional context, such as labour, the agricultural and raw material resource base, markets and absorptive capacity, and economics of scale, showed the great opportunities - and need - for cooperation within the Region. The possibilities for enlarged and new productive activities, given some pooling of Sub-regional pooled investment capabilities and the linking of such investment with the Arab region's labour and available diversified resources are very considerable. To some extent, a flow of investment from the AGS to the Region is already happening, but cooperative coordination of development rather than simply commercial projects within the Region could bring greater quantitative and qualitative fulfillment (see Chapters 6, 9 and 13).

3. AGS cooperation within the Regional circle can be shown to have many potential opportunities for joint productive activities, which would also be development oriented. However, the countries of the Arab region still have their economic development characterized by an infant stage of industrialization and many other structural constraints. The most important group of these constraints includes inadequate technical expertise, weak managerial capability and experience, and poor science and research capabilities. Hence, even the Regional circle has severe limitations as illustrated by the limiting factor imposed by the Regional market on many industrial sub-sectors (see Chapters 9 and 10). All these factors tend to extend the motivation to cooperation outward to the wider international circle which constitutes the main source for tackling Regional constraints on development. This circle is defined as including the OECD developed countries and the U.N. agencies (see below).

Arab regional dependence on this International circle as defined here has been growing during the 'seventies as reflected in the region's foreign trade relations (see Chapters 6 and 10).

From the above analysis, with respect to motivation to cooperation, it has become clear that the facts of AGS-Sub-regional, Regional and International relationships, and the opportunities given by cooperation, in association with forcible development determinants, tend to support a development-cooperation approach which is trilateral.

Two brief points of explanation and qualification have to be added here. The exclusion from the present definition of the International circle both of the 'Eastern bloc' (the COMECON countries) and of the non-Arab Third World, is justifiable on practical grounds in the context of this study. It does not imply that economic relationships between the AGS and these two 'geo-economic' zones will not be maintained or grow. It is however a fact of life that the realistic possibility of close economic and financial cooperation, let alone even partial integration, between the AGS and the totally differently organised structures of the Communist countries is extremely remote compared with the possibility of such cooperation with OECD countries. Further, given the importance attached in this study to the AGS' qualitative (in the wide sense) needs, it has to be recognised that most other developing countries and regions have comparatively little to offer. These balances of advantage are of course relative rather than absolute and refer essentially to the specific subject of development cooperation.

The second point refers to dependence. All that need be stated here is that the author regards the economic interdependence of the AGS and the Regional and International circles not only as inevitably the result of the economic structure of the AGS (as examined earlier) but also as necessary to AGS' development. Such interdependence on the basis of cooperation is the only feasible path away from unbalanced and

harmful dependence.

4. One of the main objectives of this research has been to explore a pragmatic approach to development cooperation within the Sub-region. The appropriateness of both the trade-oriented and development-oriented approaches to AGS development strategy has been examined, on the basis of theory and experience relating to forms of and approaches to cooperation, and the facts relating to Sub-regional, Regional and International economic relationships. The conclusion is that a 'development-oriented approach based on selective but on piece-meal and programmed joint activities' for the Sub-region has proved to be more relevant and viable than the trade oriented and holistic approaches.

The lessons of experience support the viability of the above-mentioned development-oriented approach first based on conceptual analysis. These lessons were derived from developing countries' experience with respect to development cooperation and integration in general, and illustrated by analysis of recent Arab economic integration and cooperation activities, the EAC experience and the Mekong project in ECAFE region in particular (see Chapters 11 and 12).

Events in the Arab world have proved the complete failure of attempts to use the trade-oriented approach which was imported from other developing countries and from the EEC system, as reflected in the ACM fortunes. The CAEU approach of comprehensive planning which was derived from the COMECON model, equally appears of little use in the Arab region.

In considering the comprehensive planning approach and the factors which prevent its successful implementation within the AGS, it was, however, found that 'programmed and partial planning', of 'the selected and agreed development activities' is more viable for the Sub-region than anything more comprehensive (see Chapter 12). The individual countries' weakness in planning and development administration was one

important reason behind favouring partial rather than comprehensive planning. The structure and inter-relationships of AGS Sub-regional and Regional trade which have found to be very weak, intra-Sub-region trade comprising 2% of total trade, while 5% for the Region, their trade and payment systems and their development needs, all of these basic factors favour a non-trade-oriented approach (Chapter 12).

Examples of partial development-oriented cooperative activities were drawn from the Arab-region and ECAFE region. OAPEC with its joint development projects and joint financial institutions, which were adopted within the Region during the 'seventies, as well as the AAAID programme for food production in Sudan, are examples of relatively successful joint development activities and thus support the case for the viability and operationality of a partial development approach. Sub-regional involvement in these activities, moreover, was a key contributing factor to their establishment. The ECAFE Mekong project has shown how key elements in such successful cooperation, such as reciprocity and additionality, could be provided.

The relative simplicity of such joint activities, compared with more ambitious and comprehensive integration combined with their development importance, appears to neutralize all but the greatest political conflicts from affecting their basic operations. The Mekong project and AAAID programme also illustrate the inter-related activities that arise from such cooperation and which necessitate some degree of planning coordination to ensure the harmonisation of basic inputs into the cooperation activities. This is far easier to achieve, within a 'partial, piecemeal, development-oriented programmed approach', than are the highly complex institutionalised arrangements necessary for comprehensive planning.

The author concludes that attempts at full economic integration have too often led to disintegration, as developing countries' experience

suggests. It is therefore proposed that 'cooperation within an integratory realm', a process which is not fragmentary or ad-hoc but designed to establish a firm basis on which increasingly greater viable and acceptable integration could be later built in the right approach to be followed, this argument is developed in Chapter 12, Section 3.

5. In linking these findings with those relating to the proposed 'horizontal' trilateral approach to cooperation for development interest must centre on the medium- and long-term and structural changes needed for true development rather than on short-term rapid and obvious material returns from cooperation.

In this respect the author disagrees with many development specialists who appear to exaggerate the urgent need of developing countries to feel the blessings of cooperation at a very early stage in order to secure their commitment to cooperation. The author's view is that this could distort the selection of joint activities towards the choice of apparently quick yielding production projects which would not produce the structural changes needed for development or reconcile competing interests within the cooperation movement's relevant circle. There are some signs of such misleading pressures within the Sub-region as reflected by the big-push with industrial, national and collaborative projects (see Chapters 4, 9 and 10) and also reflected in parts of the on-going Sub-regional cooperation movement (see Chapter 5).

The AGS, in their urgent desire to establish a post-oil prosperous future are now in some danger of under-estimating the time-span during which oil and gas revenues will continue to be considerable and which can be used for sound developmental preparation for the future. It is not necessary for them, unlike many developing countries, to seek for immediate material returns from cooperation.

6. The establishment of the GCC seems generally to be relevant to and in harmony with our proposed approach. However, priority seems at the

moment, reflected in the GCC's proposed economic agreement, to be given to the trade-oriented approach, concentrating on the free movement of trade and other factors of production. The same trend, as was shown in Chapters 5 and 12, characterises some other recent aspects of AGS' bilateral, multilateral and Sub-regional cooperation movement. However, it is worth noting, firstly, that the GCC's decision to establish the Arab Gulf Investment Authority, with capital of one billion US dollars subject to annual increase, seems to be of special relevance to our proposed approach. The Authority's main objective has been stated as the transfer of AGS financial power into economic power through greater contributions to regional and international economic development.

In the industrial sector it is suggested that to integrate the GCC's Gulf Organisation for Industrial Consulting's feasibility studies of joint industrial projects within the Sub-region with those studies directed to explore feasible joint agro-industrial projects within the Arab region. This illustrates the fact that joint industrial cooperation within the Region can be proved to serve AGS development in better ways and within more promising potentials. AGS, in this context, could be the location for many agro-industries such as pesticides, fertilizers, tractors and agricultural equipment, this based on their comparative advantage.

Cooperation to meet AGS structural needs for qualitative changes and advancement such as on human resource development, science and technology activities and environment preservation were found to occupy highest priority as providing key opportunities for Sub-regional cooperation. Consequently 'qualitative' joint activities directed to create and develop AGS infrastructure, in its broad meaning, including, the industry of finance, human resource development, research, science and technology as well as physical infrastructure, is regarded as highly relevant to our proposed approach and could be decisive in shaping the

outcome of Sub-regional cooperation for development.

6. The AGS' agricultural resource base, in general, and for food production in particular, is very weak and agricultural development faces many structural constraints represented in scarce water, soil and other development determinants. These severely limit agricultural potential and make prospects for lowering the dependence of the AGS on food imports most unpromising.

Given the serious food security problem which is expect to affect the whole world and the great weakness of the AGS position, consideration was given to how food production and development needs could be met within the Regional rather than the Sub-region circle. Perception of the food security problem is already stimulating AGS national interest in this direction.

Special attention was directed to the resource base within the Region as a whole and the food security problem was found to be most easily tackled by cooperation to develop Regional food production potentials, on the road to achieve basic self sufficiency within the Region.

The Sub-regional fisheries resource base was found to be relatively rich and to provide a basis for joint cooperation activities, especially in non-directly productive activities. These include infrastructural areas (research, development administration base, training etc.) directed to artisanal rather than to commercial industrial fisheries development.

In both agriculture and fisheries; the need to involve the cooperation of the Third, International circle, especially at the 'qualitative' level is also important.

7. While the examination of AGS' Sub-regional, Regional and International economic relationships and cooperation has shown many signs of realization in the AGS of the benefits which could be derived from such cooperation, it cannot be said at the moment that there are many actual

activities based on a solid platform of development cooperation. Movement in this direction so far has rather reflected the emerging compartmentalised needs which are being met on an ad-hoc basis, this associated with many deficiencies of performance, deficiencies which could be less severe and ultimately eliminated through a more solid and fruitful cooperation movement. The Regional movement of labour provides a clear example (see Chapter 9, Section 9.3). Freedom of action is to some extent limited by commitments already made. Within the Sub-region the scale and number of installed or planned industrial plants raise the question of what opportunities remain for joint industrial projects? Despite the emergence of some joint productive industries within the Sub-region, two main proposals can be suggested. First, Sub-regional industrial cooperation should give more attention to the needed qualitative aspects of the industrialization process, as opposed to the mere construction of plants, such as industrial management, marketing and technological, training and research. A joint programme directed to achieve this objective is already proposed to be implemented by the (GOIC) in coordination with GCC secretariat and various relevant bodies within the individual countries.

Secondly, the GOIC is not advised to limit its interest entirely within the Sub-region. Although its terms of reference refer mainly to the AGS, there should be at least some further development of communication with the Regional Industrial Development Centre in order to coordinate various studies in the light of the general broad frameworks laid down by the Regional bodies. Agro-industries for example could be of special interest both to the AGS and the Region as a whole. The GOIC can proceed in this way to extend its already established lines of interest as indicated in Appendix 2.

The cooperation movement within the Sub-region has shown some encouraging signs of realising the need to improve the capability of its

human resources by establishing many Sub-regional research and training centres, so far mainly in agriculture and fisheries. Not only is more careful planning for such projects need as, discussed in Chapter 5, but the principle should be extended to other sectors.

The establishment of the GCC should not encourage the AGS to become self-isolating collectively within the Sub-region.

The proposed trilateral approach calls for AGS to balance their Sub-regional interests with those of the Region on the solid basis of mutual benefit. For example, analysis has shown that many potential dangers to both Sub-region and Region could arise out of unresolved questions of the movement of labour (see Chapter 9). The vulnerability of AGS and the Arab region in relation to food security creates a strong need for cooperation, for economic as well as political reasons (Chapters 8, 9 and 13). AGS would be wise, therefore, not to lessen their regional interest and to create within the GCC secretariat a special agency to maintain coordination between Sub-regional and Regional activities.

8. In examining operational aspects of the proposed approach for trilateral AGS development-oriented cooperation, the AAAID regional programme directed to meet food security needs was given particular attention. The attainment of food security, through the development of the promising potentials within the Arab region is found to necessitate cooperation within a trilateral approach. The AAAID programme which combines the investment capability of these Arab countries with financial surpluses with the potential agricultural resources of other countries in the Arab region also needs the expertise in technology, finance, organisation and marketing which is only available from the third circle (see Chapter 13). This illustrates the geo-economic implications of operational aspects of the proposed approach which is directed carefully through trilateral cooperation and could lead to another OAPEC type of

joint agricultural activities within the Region.

9. Despite the failure of the many integratory efforts based on the trade-oriented approach, there are some successful examples of Regional cooperation, most noteworthy being the OAPEC joint projects and the AAAID food production programme. Efforts to ease the movement of some factors of production, mainly of capital and labour in both directions are also encouraging. It is apparent that the growth of oil derived financial wealth in the 'seventies, (see Chapter 14), has enabled the petroleum-exporting countries including AGS to play a fundamental role in shaping development in the Arab region. The demand for labour, the flow of aid and direct investment, and the initiation of joint Regional projects through OAPEC and AAAID are all creating some motivational momentum to Regional development cooperation. At the same time they tend to reduce the institutional disparities between Arab countries and increase their openness to one another and to the rest of the world.

However, these activities, so far, have been more accidental than deliberate in their selection, fragmented and hazardous, rather than on the solid grounds needed for regional inves tment strategy. Such a strategy, as opposed to tactics of short term investment, would be directed towards large-scale programmes on an Arab regional scale and development and problem orientated. All this requires a favourable investment atmosphere and a sophisticated approach to investment, as discussed in Chapter 14.

To summarize our conclusion in a few words, one can say that following research concerning the approach to and opportunities for AGS cooperation, given the primary objective of strengthening the AGS for the post-oil era, a particular approach is proposed, characterized as: trilateral, partial, piecemeal, development oriented and following a cooperation movement within an integratory realm.

The cooperation movement should be directed above all to tackle

structural constraints and so strengthen the foundations for development. On these foundations the AGS can then build self sustaining economies for the post-oil era. This emphasis on the building of foundations also requires a particular pattern of investment:

1. Top priority should be given to 'qualitative' aspects of development activities.

2. Locating investments in productive sectors within the Region, and giving priority to Regional agricultural and agro-industrial activities with the inclusion of International inputs in order to build up the science and technological base within the Region.

3. Investments located within the International circle should be directed to benefit the Sub-region and the Region through the transfer and acquisition by experience of technical and technological expertise.

4. All above cooperation activities should be based on the principles of reciprocity, additionality and equitable distribution of costs and benefits, this is applicable particularly to the third circle. Special attention should be directed to utilise the machinery and dialogue of cooperation in the third circle so as to diminish the hegemonic super-powers and giant transnational companies' pressures directed to divert cooperation activities to serve their own interests rather than those of both parties (see Chapter 11).

Within the Sub-regional and Regional activities AGS are invited to give special attention to ways in which development cooperation could meet the needs of less developed and poorer areas to lessen the current large income gap. Within the Sub-region, Oman and Bahrain have the weakest economic structures and prospects, whilst in Egypt for example within the Region, the bread subsidy alone swallows up the whole of the $ 700 million the Suez Canal generated last year (The Observer, 10 October 1982 and see Chapter 13). There is a mutuality of interests involved.

Ultimately, the success or failure of any cooperative movement which involves, as here, more than one country, will be decided by the political determinant. This appeared very clearly in the examination of many issues such as the movement of labour, markets and the flow of investment. From a dynamic point of view, political relationships and changes in them, within the Sub-region, Region and International circles, have critical effects on the opening up or limiting opportunities for cooperation.

The Palestinian problem in particular is crucial in its direct and indirect affects on the creation of a healthy or polluted atmosphere, both political and economic, for cooperation. The recent suspension of the Euro-Arab dialogue and the Arab petroleum boycott in 1973 of countries seen as supporting Israel, are recent incidents demonstrating the effects of the Palestinian problem involving the third circle. Within the Region, the decision to suspend Egypt from Arab League activities following the Camp David agreement, destroyed the progress made to Regional cooperation for arms production.

This is not the place to discuss the nature of the Palestinian problem. Nevertheless there is ample evidence that if development cooperation of a viable kind is to succeed, even for the AGS, it requires a Trilateral approach. This in turn is only possible on a sound basis if all the parties involved, including the OECD contribute with a strong will and enthusiasm to the resolution of the tragedy of Palestine.

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- Hani, M.B. Causes of Failure of Previous Arab Attempts to Integrate.
- Kaddori, F. The Agreement on Arab Economic Unity and its Role in Inter-Arab Economic Cooperation.

APPENDICES

APPENDIX I : THE GULF COOPERATION COUNCIL ECONOMIC AGREEMENT

In order to co-ordinate and unify the economic, fiscal and monetary policies of the Gulf States as well as the commercial and industrial laws and customs regulations in force within them, the governments of the member-states of the GCC have agreed on the following:

Art. 1: The member states will allow the import and export to each other of their agricultural, animal, industrial and natural resource products of national origin. All agricultural, animal industrial and natural resource products of national origin of any member state will be treated as national products of all member states.

Art. 2: All agricultural, animal, industrial and natural resource products of national origin of the member states will be exempt from customs duties and relevant fees. Charges collected for specific services, such as storage, transportation or unloading fees, will not be viewed as exempt dues if they are collected on local products.

Art. 3: An industrial product will be considered to be a product of national origin only if the value added to this product within a member state is no less than 40 percent of the final value of the completed product, and only if citizens of the member states own no less than 51 percent of the industrial facilities producing it. Every commodity enjoying exemption from customs dues in accordance with this agreement must be accompanied by a certificate verified by the government authority concerned.

Art. 4: A minimal joint customs tariff will be drawn up and applied with regard to the outside world. One of the objectives of the unification of the customs tariff will be put into effect gradually within a period of five years beginning on the date this agreement goes into effect. Agreement on the gradual steps to accomplish this shall be reached within a period of one year from this same date.

Art. 5: The member states will provide all necessary facilities for the transit of the goods of any member state to any other member state, free of dues and taxes of any kind, except those collected for specific services, such as storage and unloading fees.

Art. 6: The transit between the member states of goods banned from entering any one state under local regulations, shall be prohibited. Customs authorities of the member states shall exchange lists of such goods.

Art. 7: The member states shall co-ordinate their commercial policies and relations with other nations and regional economic groupings and associations in an effort to come up with conditions for equal treatment in the trade between the member states and these nations and groupings. In pursuance of this objective, the member states shall take the following steps: co-ordinate policies regarding the creation of the strategic food stockpile; conclude joint economic agreements with other nations in situations which serve the common interests of the member states; seek to create collective bargaining power to back up the bargaining position of member states with foreign authorities with regard to the import of basic needs and the export of principal products.

Art. 8: The member states shall agree on such executive principles as will ensure treatment by any member state of the citizens of all other member states as if they were its own citizens without any differentiation or discrimination.

Art. 9: The member states shall encourage their respective private sectors to embark on joint ventures to link up the economic interests of all citizens in all possible domains.

Art. 10: The member states shall cooperate and coordinate their development plans to attain full economic integration.

Art. 11: The member states shall seek to co-ordinate their policies in all phases of the oil industry, including extraction, refining, marketing, export, pricing, exploitation of the natural gas resource and development of alternative sources of energy. The member states shall seek to develop common oil policies and positions vis-a-vis the outside world as well as within specialised international agencies.

Art. 12: To accomplish the objectives set forth in this agreement, the member states shall: co-ordinate industrial activity and formulate policies and methods conductive to industrial development and diversification of their respective productive bases on principles of integration; draft uniform industrial laws and regulations and intensify guidance of their respective local productive facilities to satisfy their respective needs; distribute industrial capacity among themselves on the basis of relative merit and optimum economic return and promote the development of basic and complementary industries among them.

Art. 13: In the context of co-ordination efforts, the member states shall attach special importance to launching and supporting joint projects in the fields of industry, agriculture and services, using public, private or mixed funds so as to accomplish productive integration and joint development on sound economic principles.

Art. 14: The member states shall co-operate in developing areas of technical co-operation with a view to acquiring a genuine ability to support and promote applied research and science technology and adapt technology brought from abroad to the needs of the region and its progress and development aspirations.

Art. 15: The member states shall prepare ways and means to bring in new technology, adopt its most suitable elements or adapt them to fit

the diverse needs of the member states. The member states shall whenever possible conclude joint agreements with the appropriate foreign governments or scientific or commercial institutions to achieve these objectives.

Art. 16: The member states shall draw up policies and carry out co-ordinated programs of technical, professional and vocational training on all levels of specialisation and shall develop educational programs on all levels so that education and new technology shall be tied in with the needs of national development.

Art. 17: The member states shall seek to co-ordinate their efforts in the field of manpower resources, and shall draw up uniform standards and classifications for the various types of vocations and professions in the various sectors of the economy, so as to avoid harmful competition and draw optimum benefit from human resources.

Art. 18: Each member state shall accord means to transport of passengers and goods belonging to the citizens of other member states that same treatment it accords its own transport resources. This includes exemption from all dues and taxes of any kind, but does not cover means of local transportation.

Art. 19: The member states shall co-operate in the fields of land and maritime transportation and communication, and shall seek to co-ordinate and carry out infrastructure projects such as seaports, airports, water and electricity stations and roads in a manner suited to the common economic interest and conducive to the integration of economic activity; the member states shall seek to co-ordinate their air transportation policies, and develop areas of possible joint effort on all levels in the domain.

Art. 20: Each member state shall allow the ships and boats of all other states to use the various facilities of its seaports and shall give them the same preferential treatment accorded to its own ships

and boats when they stop or anchor in its seaports, with regard to dues, services, guidance, loading and unloading, maintenance, repairs, warehousing and other similar services.

Art. 21: The member states shall seek to draw up joint law and regulations affecting investments so as to accomplish the laying down of a common investment policy aimed at directing their foreign and domestic investments in a manner which will serve the interests and aspirations of their peoples for progress and development.

Art. 22: The member states shall co-ordinate their fiscal, monetary and banking policies and shall develop co-operation between monetary funds and central banks, including efforts to establish a common currency to complement the desired economic integration among them.

Art. 23: The member states shall seek to co-ordinate their foreign policies with regard to the granting of assistance to international organisations or on a regional basis for development.

Art. 24: Differences in the levels of development of the member states and local development priorities shall be taken into account in the implementation of this agreement and the formulation of measures based thereon. Any member state may be given a temporary exemption in cases of necessity dictated by temporary local situations or circumstances. However, any exemption shall be for a limited period of time according to a decision of the Supreme Gulf Co-operation Council.

Art. 25: A member state may not grant a non-member state any preferential treatment in excess of such as is provided for in this agreement.

Art. 26: This agreement shall go into effect four months following its approval by the Supreme Council; this agreement may be amended with the approval of the Supreme Council.

Art. 27: Provisions of this agreement shall take precedence over local laws and regulations in the event of any inconsistencies arising in the course of implementation.

Art. 28: The provisions of this agreement shall take the place of similar provisions of bilateral agreements of the member states.

Source: The Arab Economist, Vol. xiv, No. 150, March 1982, pp. 63-67.

APPENDIX II - INDUSTRIAL CONSULTANCY ORGANIZATION

Studies 1978-1980

The following is a list of studies being fulfilled by the organization, that highlight its current activities relating to industrial coordination.

A. Chemical and Petrochemical Sector

- Study no. (1/1-1978) Demand-Supply Forecast and market strategies for petrochemicals in the 1980's.
- Study no. (2/1-1978) Construction, Production and distribution costs for petrochemicals.
- Study no. (3/1-1978) Prefeasibility study for joint project for Carbon Black production.
- Study no. (4/1-1979) Prefeasibility study for producing intermediate and finished petrochemical products.
- Study no. (5/1-1979) Prefeasibility study for producing (lube oil) jointly.
- Study no. (6/1-1979) Prefeasibility study for joint project on combined fertilizers N.P.K.
- Study no. (7/1-1980) Economic feasibility of some intermediate and finished petrochemical products.
- Export-oriented joint projects.
- Local-marketed joint projects.
- Study no. (8/1-1980) The Economics of Aromatics production in the Arab Gulf Area.
- Study no. (9/1-1980) Possibilities for natural petroleum gas utilisation.
- Study no. (10/1-1980) Investment opportunities of Silicon Industries.

B. Mineral and Engineering Sector

- Study no. (1/2-1979) The development of the iron and steel industry in the 1980's and a pre-feasibility study for joint ventures.
- Study no. (2/2-1979) The development of the Aluminium industry in the 1980's and a pre-feasibility for joint ventures.
- Study no. (3/2-1979) Technical and feasibility study for the aluminium joint project to be established in Bahrain.

C. Building Materials Sector

- Study no. (1/3-1978) Technical and Economic feasibility for the setting-up of fibre glass joint projects.

- Study no. (2/3-1979) Technical and economic feasibility of glassware.

- Study no. (3/3-1979) The feasibility of cement production-expansion during the 1980's in the UAE.

D. Technical and Economic Studies

- Study no. (1/4-1978) Industrial cooperation among the Arab Gulf States (types, forms and its encouragement).

- Study no. (2/4-1979) Measurements and specifications in the AGS.

- Study no. (3/4-1979) Contracts and industrial licenses.

- Study no. (4/4-1979) Technological aspects of the iron and steel industry.

- Study no. (5/4-1980) Incentives and forms of industrial development.

Source: Gulf Organization for Industrial Consulting, Industrial Cooperation in the Arab Gulf, Vol. 1, No. 1, April 1980, pp. 5-6 (Arabic).

Table 1

Bahrain: Summary Balance of Payments Estimates, 1975-80
(in millions of Bahrain dinars)

	1975	1976	1977	1978	1979	Est. 1980
Merchandise trade	-3.2	-63.3	-76.0	-69.1	-17.6	100.0
Exports, f.o.b.	475.8	600.5	731.5	737.3	928.3	1,455.0
Petroleum	(391.8)	(463.9)	(573.9)	(589.8)	(751.3)	(1,235.0)
Other and re-exports	(84.0)	(136.6)	(157.6)	(147.5)	(177.0)	(210.0)
Imports, c.i.f.	-479.0	-663.8	-807.5	-806.4	-945.9	-1,345.0
Crude oils	(-240.9)	(-272.2)	(-357.8)	(-338.8)	(-476.0)	(-758.2)
Other imports	(-232.9)	(-387.6)	(-444.9)	(-453.4)	(-469.3)	(-586.6)
Non-monetary gold	(-5.2)	(-4.0)	(-4.8)	(-14.2)	(-0.6)	(-0.2)
Services and private transfers (net)	-77.1	-79.7	-91.3	-102.5	-44.6	-22.2
Service receipts	47.6	70.4	89.0	128.8	146.8	181.1
Service payments	34.7	-50.1	-61.4	-81.1	-85.0	-100.3
Private transfers (net)	-90.0	-100.0	-118.9	-150.2	-106.4	-103.0
Current Balance	-80.3	-143.0	-167.3	-171.6	-62.2	77.8

Source: Bahrain Monetary Agency and IMF staff estimates

Table 2

Kuwait: Balance of Payments, 1975-78
(in millions of U.S. dollars)

Year Ended December 31	1975	1976	1977	Est. 1978 (1)
Trade balance (net)	6,083	6,424	5,040	5,216
Exports, f.o.b.	8,479	9,607	9,523	10,233
Oil sector	(7,893)	(8,885)	(8,722)	(0,388)
Other (including re-exports)	(586)	(722)	(801)	(845)
Imports, f.o.b.	-2,293	-3,074	-4,305	-4,703
Non-monetary gold (net)	-103	-109	-178	-314
Services (net)	823	1,064	971	1,252
Service receipts	1,768	2,230	2,627	3,215
Investment income	(1,282)	(1,631)	(2,007)	(2,529)
Service payments	-945	1,166	-1,656	-1,963
Other investment income	(-73)	(-103)	(-192)	(-250)
Travel	(-204)	(-249)	(-307)	(-368)
Other services	(-128)	(-175)	(-286)	(-342)
Unrequited transfers (net)	-1,069	-538	-1,247	-1,253
Government	-793	-223	-877	-820
Private	-276	-315	-370	-433
Current account balance	5,837	6,950	4,764	5,215

Source: Central Bank of Kuwait and IMF staff estimates

Table 3

Bahrain: Services and Private Transfers, 1975-80
(in millions of Bahrain dinars)

	1975	1976	1977	1978	1979	Est. 1980
Service receipts	47.6	70.4	89.0	128.8	146.8	181.1
Transportation	10.0	14.2	20.0	15.2	15.7	26.6
Travel and tourism	18.1	23.9	26.1	50.2	53.2	40.4
Investment income	18.0	26.4	30.2	41.4	45.2	75.7
Government and BMA	(6.9)	(14.6)	(15.6)	(18.0)	(19.9)	(35.6)
Commercial banks	(9.1)	(9.8)	(12.1)	(21.2)	(23.4)	(37.6)
Other	(2.0)	(2.0)	(2.5)	(2.2)	(1.9)	(2.5)
Foreign government missions	1.0	1.2	1.5	1.7	3.1	3.4
Other services (OBUs)	0.5	4.7	11.2	20.3	29.6	35.0
Service payments	-34.7	-50.1	-61.4	-81.1	-85.0	-100.3
Transportation	-3.8	-5.3	-7.5	-3.9	-8.1	-3.2
Travel and tourism	-18.0	-23.0	-25.6	-46.4	-35.6	-42.6
Investment income	-11.7	-20.3	-24.9	-28.9	-35.1	-51.0
Government and BMA	(-1.1)	(-7.3)	(-7.8)	(-6.1)	(-5.7)	(-12.6)
Commercial banks	(-6.7)	(-7.9)	(-10.3)	(-17.7)	(-25.3)	(-33.1)
Other	(-3.9)	(-5.1)	(-6.8)	(-5.1)	(-4.1)	(-5.3)
Government missions abroad	-1.2	-1.5	-3.4	-1.9	-6.2	-3.5
Other services	-	-	-	-	-	-
Private transfers (net)	-90.0	-100.0	-118.9	-150.2	-106.4	-103.0
Receipts	-	-	1.2	0.3	-	-
Payments (workers' remittances)	-90.0	-100.0	-120.1	-150.5	-106.4	-103.0
Total	-77.1	-79.7	-91.3	-102.5	-44.6	-22.2
Memorandum item: Freight and insurance on imports	-27.9	-58.1	-53.4	-49.9	-46.9	-58.7

Sources: Bahrain Monetary Agency and IMF staff estimates

Table 4

S. Arabia: Non-Oil Current Account
(in millions of U.S. dollars)

	1970	1971	1972	1973	Prov. 1974	Prel. Est. 1975
I. Merchandise and non-montetary gold	-794	-801	-1,163	-1,941	-3,702	-6,530
Exports, f.o.b.	7	7	15	32	38	60
Imports, f.o.b.	-783	-799	-1,168	-1,960	-3,723	-6,570
Private sector	(-556)	(-614)	(-819)	(-1,579)	(-2,804)	(-4,732)
Government	(-227)	(-185)	(-349)	(-381)	(-919)	(-1,838)
Non-monetary gold	-18	-9	-10	-13	-17	-20
II. Services (net)	-143	-149	-139	-309	-94	-431
Receipts	193	214	316	547	1,818	2,964
Investment income	(61)	(68)	(105)	(205)	(1,218)	(2,200)
Other	(132)	(146)	(211)	(342)	(600)	(764)
Payments	-336	-363	-455	-856	-1,912	-3,395
Freight and insurance	(-79)	(-80)	(-117)	(-196)	(-372)	(-920)
Other private	(-148)	(-177)	(-221)	(-352)	(-453)	(-575)
Other government	(-109)	(-106)	(-117)	(-308)	(-1,087)	(-1,900)
III. Private outward transfers	-160	-186	-228	-324	-420	-588
IV. Total (I+II+III)	-1,097	-1,136	-1,530	-2,574	-4,216	-7,549

Sources: Saudi Arabian Monetary Agency, IMF, Balance of Payments Yearbook and IMF staff estimates.

Table 5

Kuwait: Estimates of Investment and Saving 1972/73-1975/76
(in millions of Kuwaiti dinars at current prices)

Year ended March 31	1972/73	1973/74	1974/75	1975/76
Public investment	102	93	113	140
Private investment	52	54	63	106
Increase in stocks	1	-1	7	9
Gross domestic investment	155	146	183	255
Net export of goods and services	841	1,329	2,440	1,911
Total savings	996	1,475	2,623	2,166
Total savings in per cent of GNP	(18.3)	(83.4)	(82.7)	(61.8)

Source: IMF, Kuwait - Recent Economic Developments, SM/79/57, Feb. 23, 1979, Table 1, p. 2.

Table 6

Inter-Gulf Exports (1977)
US million

Exports to / Exports from	Saudi Arabia	Bahrain	UAE	Qatar	Kuwait	Oman	Total	%
1. Saudi Arabia	-	056.1	6.2	2.9	7.7	17.2	990.1	45.6
2. Bahrain	203.9	-	14.3	9.1	13.3	0.3	240.9	11.1
3. UAE	111.8	21.8	-	56.4	11.3	128.3	329.6	15.2
4. Qatar	9.1	2.5	2.3	-	0.1	-	14.0	0.6
5. Kuwait	446.2	16.3	89.4	36.6	-	4.0	592.5	27.3
6. Oman	0.2	-	4.0	-	-	-	4.2	0.2
Total	771.2	996.7	116.2	105.0	32.4	149.8	2,171.3	100

Source: Saudi Arabia, Ministry of Planning, op. cit., Table no. 5, p. 15.

Table 7

AGS Exports Percentage World (1977)

To \ From	Bahrain	Kuwait	Oman	Qatar (1878)	Saudi Arabia	UAE
Developed Market Econ.	18.0	58.5	90.1	75.9	70.6	82.6
Developing Mkt. Econ.	75.9	37.0	9.4	24.1	23.9	16.5
Centrally planned Econ.	3.9	2.1			0.0	0.9
Not distributed	2.2	2.4	0.5		5.5	
Africa Developed Mkt.						
Africa Developing Mkt.	0.1	0.8		3.7	0.7	1.0
North Africa	0.1	0.6			0.3	
America Developed Mkt.	2.3	1.0	15.4	8.6	11.0	15.1
America Developing Mkt.		5.9	9.1	5.2	7.5	8.6
LAFTA		5.8		0.5	3.0	0.3
CACM						
Asia Developed Mkt.	14.9	22.2	51.2	23.4	19.0	26.0
Asia Developing Mkt.	75.8	30.3	0.3	15.2	15.4	6.9
Middle East	72.9	8.5	0.3	1.0	3.6	3.7
Asia Cent. Plan.	3.0	0.8				
Europe Developed Mkt.	0.7	32.5	23.5	43.8	39.5	41.2
EEC (Nine)	0.7	29.2	16.1	39.4	33.0	35.0
EFTA	0.0		7.5	0.7	2.1	2.6
Eastern Europe USSR		0.3				0.9
Spain						
Netherlands						
Saudi Arabia	51.1	3.7				
Kuwait						
UAE	3.6					
Oman						
Bahrain						
Qatar						
U.K.	0.2	8.2	1.1	2.8	4.2	5.9
Japan	14.9	22.2	51.2	23.4	19.0	26.0
France		4.2	3.8	18.0	9.6	12.7
U.S.	2.3	31.2	15.4	8.6	9.5	15.1
Germany		4.8			2.9	6.4
Italy		3.7		6.3	7.3	2.5
Korea Rep.		6.6				

Source: U.N., Yearbook of International Trade Statistics, 1978.

Table 8

Oman: Recorded Non-Oil Exports, 1974-78 (1)
(in millions of rials Omani)

	1974	1975	1976	1977	1978
Composition (total)	0.4	1.1	1.4	1.5	6.1
Dried dates	0.1	0.2	0.1	0.1	-
Dried limes	0.3	0.6	1.3	1.1	1.3
Flour	-	-	-	0.3	0.8
Fish	-	-	-	0.1	0.5
Other	-	0.3	-	-	3.5 (2)
Direction (total)	0.4	1.1	1.4	1.5	6.1
Gulf Emirates (3)	0.2	1.0	1.3	1.4	-
India	-	0.1	0.1	0.1	-
Iran	0.1	-	-	-	-
Iraq	0.1	-	-	-	-
Saudi Arabia	-	-	-	0.1	-
Other and unstated	-	-	-	-	-

Sources: Customs Department and Directorate General of National Statistics

(1) Does not include re-exports.
(2) Mainly asbestos pipes (approximately RO 2.8 million) and domestic tobacco.
(3) Mainly United Arab Emirates, but including Bahrain, Kuwait and Qatar.

Table 9

Bahrain Foreign Trade with AGS (%)

	Imports									Exports								
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1970	1971	1972	1973	1974	1975	1976	1977	1978
Saudi Arabia	0.8	37.4	40.2	40.8	63.4	51.0	41.2	0.8	0.9	32.1	7.5	11.7	10.4	5.4	7.4	14.6	51.1	21.6
UAE										14.8	1.9	3.5	4.2	3.4	6.3	7.1	3.6	11.9

Source: U.N., International Foreign Trade Statistics.

Table 10

Kuwait Exports to Saudi Arabia as Percentage of Total Exports

1970	1971	1972	1973	1974	1975	1976	1977
18.9	0.7	1.2	1.7	0.7	1.3	3.7	4.4

Source: U.N., International Trade Statistics.

Table 11

AGS Imports Percentage World (1977)

From \ To	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Developed Market Econ.	72.8	73.3	66.6	81.6	67.3	68 5
Developing Market Econ.	21.4	20.9	32.1	16.8	23.1	21.0
Centrally Planned Econ.	5.9	5.8	1.3	1.6	2.2	3.3
Not distributed	0.0	0.0	0.0	0.4	7.5	7.2
Africa Developed Mkt.	0.0	0.1	0.9		0.1	0.0
Africa Developing Mkt.	0.4	0.5		0.4	1.1	1.4
North Africa	0.1	0.4		0.1	0.6	0.0
America Developed Mkt.	12.2	14.5	7.1	9.6	19.3	10.9
America Developing Mkt.	0.5	1.0	0.3	0.5	0.2	
LAFTA	0.1	0.7	0.1	0.5	0.2	
CACM	0.4	0.2			0.0	
Asia Developed Mkt.	15.5	19.8	13.6	26.7	11.9	20.2
Asia Developing Mkt.	20.1	19.4	30.8	16.0	21.7	19.6
Middle East	5.0	3.0	19.7	10.7	14.3	7.1
Asia Central Plan. Econ.	5.5	2.7	0.9	1.2	1.5	1.8
Europe Developed Mkt.	39.9	37.4	43.3	44.5	35.4	36.5
EEC (nine)	35.8	32.0	40.0	38.8	30.8	34.7
EFTA	3.2	2.8	2.4	4.9	2.6	1.6
Eastern Europe USSR	0.3	3.1	0.4	0.4	0.7	1.5
Japan	15.5	19.8	13.6	26.7	11.9	20.2
U.K.	19.6	9.9	23.1	18.9	6.2	16.0
U.S.	12.0	13.6	7.1	9.6	19.1	10.9
Germany, F.R.	5.9	9.3	6.5	7.1	8.6	9.2
India	3.1	3.8	4.9	2.2		4.4
France		3.0	2.1	5.7	3.4	2.9
Italy	3.3	5.0		2.8	6.3	3.5
Netherlands		2.1	4.7	3.4	4.5	3.0
Kuwait					4.6	
Saudi Arabia						2.7
UAE			14.7	4.6		

Source: U.N., Yearbook of International Trade Statistics, 1978.

Table 12

Projected output of secondary sector with and without economic cooperation, 1970, 1975 and 1980
(Millions of 1960 dollars)

Country*	Secondary output without cooperation			Increase in Secondary Output with Cooperation				Percentage increase of output in 1980 when cooperating
	1970	1975	1980	1975	1980	1975	1980	
Ethiopia	224.5	307.9	442.6	52.0	71.7	359.9	494.3	17%
Kenya	145.0	192.3	253.8	42.6	113.7	234.9	367.5	45%
Madagascar	148.5	164.1	180.1	17.8	39.2	181.9	219.6	22%
Malawi	26.1	36.0	49.7	22.4	58.9	48.5	108.6	118%
Somalia	9.0	11.8	15.7	6.2	11.0	18.0	26.7	70%
Uganda	101.0	142.3	200.7	53.3	73.2	195.6	273.9	36%
United Republic of Tanzania	98.8	127.2	163.2	47.5	105.0	174.7	268.2	64%
Zambia	520.0	647.4	793.4	172.3	239.9	819.7	1,033.3	30%
Total, above	1,272.9	1,629.0	2,079.2	414.1	712.6	2,043.1	2,792.1	34%

Source: U.N., Cooperation for Economic Development of Eastern Africa, Report of the Eastern African Team, Development Implications of Cooperation. ST/ECA/140 Part III, New York, 1971, Table 3, p. 7.

* See next page

Table 12 (continued)

* Botswana, Lesotho and Swaziland are not included because no multinational industries serving the Sub-regional market can be identified for these countries. For Mauritius, the outcome will depend very much on the possibility of diverting exports of sugar from the United Kingdom and other European countries to the Eastern African market. For Burundi and Rwanda, though multinational industries have been identified, the available national accounts are not sufficiently reliable to yield meaningful projections.

Table 13

Projected gross domestic product with and without economic cooperation, 1970 and 1980

Country	Without economic cooperation Gross domestic product				With economic cooperation Gross domestic product				Per capital GDP percentage increase in 1980 in case of cooperation
	Millions of 1960 dollars		Per capita (dollars)		Millions of 1960 dollars		Per capita (dollars)		
	1970	1980	1970	1980	1970	1980	1970	1980	
Ethiopia	1,558.9	2,491.4	63.2	82.8	1,558.9	2,750.2	63.2	91.4	10.4
Kenya	990.2	1,552.3	92.5	109.9	990.2	1,962.7	92.5	139.0	8.3
Madagascar	679.7	845.3	100.7	95.0	679.7	957.6	100.7	107.6	13.3
Malawi	206.0	342.0	45.2	56.3	206.0	561.2	45.2	92.3	63.9
Somalia	109.5	166.8	39.0	48.6	109.5	233.9	39.0	68.2	40.3
Uganda	683.9	1,135.4	81.2	109.5	683.9	1,383.3	81.2	133.4	21.8
United Republic of Tanzania	829.5	1,251.7	64.9	74.5	829.5	1,715.3	64.9	102.1	37.0
Zambia	971.1	1,507.9	225.3	259.0	971.1	2,251.1	225.3	386.7	49.3
Total, above	6,028.8	9,292.8	80.4	97.2	6,028.8	11,815.3	80.4	123.6	27.0

Source: Ibid. Table 4, p. 7.

Table 14

Projected rates of growth of gross domestic product with and without economic cooperation, 1970-1980

(Percentage per annum)

Country	Without economic cooperation		With economic cooperation	
	Gross domestic product	Per capita gross domestic product	Gross domestic product	Per capita gross domestic product
Ethiopia	4.8	2.7	5.8	3.8
Kenya	4.6	1.7	7.1	4.2
Madagascar	2.2	-0.6	3.5	0.7
Malawi	5.2	2.2	10.5	7.4
Somalia	4.3	2.2	7.9	5.7
Uganda	5.2	3.0	7.3	5.1
United Republic of Tanzania	4.2	1.4	7.5	4.6
Zambia	4.5	1.4	8.8	5.6
Total, above	4.4	1.9	6.9	4.4

Source: Ibid. Table 5, p. 8.

Table 15

Projected rates of growth, by sector, with and without economic cooperation, 1970-1980
(Percentage per annum)

Country	Primary		Secondary		Tertiary	
	A	B	A	B	A	B
Ethiopia	3.6	4.1	6.5	8.2	6.2	7.7
Kenya	3.9	5.2	5.9	9.7	4.8	7.6
Madagascar	2.6	3.3	2.0	4.0	1.9	3.4
Malawi	4.3	7.0	6.7	15.3	6.0	12.9
Somalia	3.3	5.1	5.7	11.5	5.8	11.5
Uganda	3.8	4.9	7.1	10.5	6.5	9.4
United Republic of Tansania	3.7	5.4	5.1	10.5	4.6	9.2
Zambia	4.8	9.4	4.3	7.1	4.7	10.7
Total, above	3.7	4.8	5.4	8.4	4.6	8.4
	29.7%		55.5%		44.6%	

Source: Ibid, p. 9, Table 8

Note: A = without economic cooperation; B = with economic cooperation

Table 16

Projected investment with and without economic cooperation, 1970 and 1980*

Year	Investment					
	Without economic cooperation			With economic cooperation		
	Millions of 1960 dollars	Annual rate of growth, 1970-1980 (percentage)	Investment/ income ratio (percentage)	Millions of 1960 dollars	Annual rate of growth, 1970-1980 (percentage)	Investment/ income ratio (percentage)
1970	831.0		13.8	1,325.3		22.0
1980	1,289.8	4.4	13.8	2,729.9	7.5	23.1

Source: Ibid. p. 13, Table F

* Based on the eight countries in Eastern Africa listed in note no. 26 of Chapter 8.

Table 17

A Comparison between 'Typical' Size of Plant in Different Countries (Size Measured in Terms of Numbers Employed)

Industry	Median employment in U.K.	Median employment in corresponding industries in specific countries as a percentage of median employee in U.K.						
		U.S.A. %	India %	Egypt %	Spain %	Pakistan %	Iran %	Iraq %
Canning & preserving of fruits and vegetables	354	52	51	89	56	57	31	74
Grain mill products	206	74	68	58	42	115	56	62
Sugar	805	98	136	252	262	246	62	N.A.
Beer	273	170	68	87	112	68	39	N.A.
Soft drinks	76	57	134	180	94	116	102	106
Tobacco and cigarettes	2038	101	118	126	130	124	98	110
Cotton spinning	331	82)	718	668	N.A.)	214	296)	N.A.
Cotton weaving	197	402)			N.A.)		143)	
Woollen & Worsted	243	106	512	508	134	318	379	N.A.
Rayon, Nylon, etc. & Silk	560	408	N.A.	263	356	N.A.	108	N.A.
Leather footwear	241	143	281	82	98	78	N.A.	123
Made-up textile goods	95	87	82	86	N.A.	56	72	89
Sawmills and Plywoods	81	108	102	556	62	82	89	106
Wooden Containers	71	106	116	87	76	N.A.	91	92
Manufactures of furniture	145	162	67	71	36	68	67	72
Paper and board	527	82	201	142	87	146	N.A.	N.A.
Leather tanning	123	262	146	105	82	82	73	94
Rubber	1027	98	79	98	96	45	36	N.A.
Paints and Varnishes	260	67	121	101	N.A.	36	39	N.A.
Soap	1211	43	76	65	16	12	11	46
Matches	227	212	418	106	108	296	107	N.A.
Petroleum refining	2200	118	N.A.	142	N.A.	125	N.A.	166
Glass	750	102	78	102	56	106	46	N.A.
Cement	658	54	172	185	106	179	109	N.A.
Fertilizers	240	69	418	689	370	398	N.A.	N.A.
Iron & Steel	2340	201	697	134	178	118	N.A.	N.A.

continued ...

Table 17 (continued)

1. Where the median size is indeterminant because of open ends, the average size of the largest class was taken as an alternative.

2. N.A. = not available.

Source: Metwally, M.M. 'The Case for Arab Economic Integration' In, L'Egypte Contemporaine, No. 376, April 1979, pp. 212-213.

Table 18

A Comparison between Size of Egyptian (Domestic) Market and Typical Size of Plant

Article	Typical Size of Plant in U.K.*	Present Size of Egyptian Market
1. Rubber tyres and tubes (th.)	1200- 2000	377
2. Steel (th. tons)	600	200
3. Pig iron (th. tons)	700	220
4. Steel sheets and strips (th. tons)	206	98
5. Primary Aluminium (th. tons)	40- 80	3.2
6. Copper (worked) (th. tons)	15- 30	7.5
7. Zinc (tons)	8600	5500
8. Ball and Roller bearing (th. dollars)	10000-20000	557
9. Electric Motors (th. dollars)	19000-46000	2086
10. Electric transformers (th. dollars)	17000-43000	1233
11. Typewriters (thousands)	150- 450	7
12. Electric domestic washing machines (th.)	203- 509	2.7
13. Electric domestic vacuum cleaners (th.)	192- 546	2.5
14. Electric domestic refrigerators (th.)	240	14.7
15. Agricultural tractors (50 to 50 H.P.) (assembly only)	2650	1500
16. Agricultural tractors (all types) manufacturing (th.)	60	2.5
17. Passenger Cars (assembly only) (th.)	60	6
18. Passenger Cars (manufacturing) (th.)	300	6

* The typical size of plant is defined here as the average size in the range in which 50% or more of the industry's employment is concentrated.

Source: Metwally, M.M. Table 4, p. 215.

Table 19

A Comparison between Size of Arab Market and Typical Size of U.K. Plants*

Article	Typical Size of U.K. Plants	Present Size of Arab Market	No. of Plants Possible within Present Arab Market
1. Rubber types and tubes (th.)	1200- 2000	3200	two or three
2. Steel (th. tons)	600	1650	two or three
3. Pig Iron (th. tons)	700	1600	two
4. Steel sheets and strips (th. tons)	206	298	one
5. Primary aluminium (th. tons)	40- 80	10	none
6. Copper (worked) (th. tons)	15- 30	20	one
7. Zinc (tons)	8600	10000	one
8. Ball and roller bearings (th. dollars)	10000-20000	3500	none
9. Electric motors (th. dollars)	19000-46000	6000	none
10. Electric transformers (th. dollars)	17000-43000	8000	none
11. Typewriters (thousands)	150- 450	30	none
12. Electric domestic washing machines (th.)	203- 509	40	none
13. Electric domestic vacuum cleaners (th.)	292- 548	14	none
14. Electric domestic refrigerators	240	60	none
15. Agricultural tractors (40 to 50 H.P.) (assembly only) No.	2650	4700	one or two
16. Agricultural tractors (all types) manufacturing (th.)	60	12	none
17. Passenger cars (assembly only) (th.)	60	66	one
18. Passenger cars (manufacturing) (th.)	300	65	none

* The present size of Arab market is measured by domestic production + imports - exports. An average for the period 1970-1973 was taken.

Source: Metwally, M.M. Table no. 5, p. 219.

Table 20

Development of Trade Balance of Basic Food Commodities in the Arab World for the Years (1960-64) (1970-74) (1974-78)
Quantity in tons - Base year (1960-64) = 100

Food Group Commodities	Average (1960-1964) Trade Balance	Average 1970-1974 Trade Balance	Index	Average (1974-1978) Trade Balance	Index
Cereals (grain)	3,374,032-	7,072,577-	209.6	13,000,258-	385.3
Wheat	2,620,680-	6,377,783-	243.4	10,770,116-	411.0
Rice	29,160+	63,268-	317.3	605,348-	2175.9
Other	782,512-	631,426+	80.7	1,624,794	207.6
Sugar	1,290,100-	1,437,503-	111.4	2,416,645	187.3
Goats & sheep (head)	627,260-	1,599,545-	255.0	3,356,869-	535.2
Meat (fresh & frozen)	26,302-	50,601-	192.4	254,615-	968.0
Eggs	7,653-	21,844-	285.4	55.466-	724.8
Animal fat	69,008-	105,639-	153.1	179,169-	259.6
Butter	21,231-	49,033-	230.9	98,857-	465.6
Cheese	22,462-	37,167-	165.5	68,127-	303.3
Oil seeds	110,943-	240,782-	217.0	384,136-	346.2
Tobacco (not manufactured)	18,960-	34,541-	182.2	54,160-	285.6

Source: Arab Economic Unity Council, General Secretariat, Food Dilemma and Food Security in the Arab World, Part I, Amman, 1980. Table No. (4-74).

Table 21

Self-Sufficiency and Per Capita Consumption Annual Changes of Basic Food Items in ECWA Area (1970-1977)
(In percentage & kg)

Item	Self-sufficiency				Consumption	
	Average 1970-1977	1970	1976	1977	Growth Av. 1970-1977	Growth Av. 1970-1977
Wheat	57	69	54	39	-4.2	4.0
Rice	20	24	13	15	-13.6	2.6
Legumes	92	92	90	98	-0.7	6.0
Sugar	6	8	6	5	-6.2	4.6
Oil seeds	51	50	64	37	-1.7	-0.3
Meat	54	58	55	50	-1.8	1.3
Poultry meat	64	81	36	38	-4.7	16.1
Eggs	74	78	67	74	-1.5	3.8
Dairy products	61	65	60	56	-2.3	2.4
Fish	102	101	99	99	-0.6	-0.4

Source: ECWA, 'Regional Food Security, In, Agriculture and Development No. 2, May 1979, Table 1, p. 78.

Table 22

AGS Financial Assets and Reserves
(1973-1989)
(In U.S. million dollar)

	S. Arabia				Kuwait				U.A.E.				Qatar				Oman				Bahrain				Total AGS			
	Foreign Assets (net)	%	Total Reserves - Gold	%	F. Assets	%	Reserves	%	F. Assets	%	Reserves	%	F. Assets	%	Reserves	%	F. Assets	%	Reserves	%	F. Assets	%	Reserves	%	F. Assets	%	Total Reserves	%
1973	5,193	58.24	3,747	84.70	1,655.9	21.80	380.8	8.61	380.28	5.01	91.7	2.07	115.9	1.53	33.6	0.76	144.2	1.90	106.4	2.41	115.6	1.52	64.0	1.45	7,594.88	100	4,423.5	100
1974	20,129.6	81.00	14,153	87.14	2,806.9	11.30	1,249.2	7.69	1,376.9	5.54	452.9	2.79	188.3	0.76	63.7	0.39	109.1	0.44	191.4	1.18	238.1	0.96	131.3	0.81	24,848.9	100	16,241.5	100
1975	39,323	86.10	23,193	88.20	3,154.1	6.91	1,491.5	5.67	2,405.5	5.27	987.9	3.76	326.0	0.71	96.7	0.37	104.2	0.23	237.8	0.90	356.7	0.78	298.5	1.10	45,669.5	100	26,296.4	100
1976	52,255	87.04	26,900	85.72	3,128.7	5.21	1,701.8	5.42	3,719.3	6.20	1,906.5	6.08	431.5	0.72	129.3	0.41	91.5	0.15	307.0	0.98	409.4	0.68	436.4	1.39	60,035.4	100	31,381.0	100
1977	61,400.9	90.90	29,903	86.25	4,371.8	6.47	2,883.1	8.32	533.6	0.80	800.3	2.31	505.5	0.75	161.7	0.47	311.2	0.46	418.9	1.21	421.2	0.62	503.9	1.46	67,544.1	100	34,670.9	100
1978	61,668	90.71	19,200	81.34	4,866.5	7.10	2,500.4	10.59	583.4	0.85	811.8	3.44	632.8	0.92	210.7	0.89	215.1	0.32	387.4	1.64	546.1	0.80	493.4	2.10	68,511.9	100	23,603.7	100
1979	64,838	89.04	19,237	76.89	5,191.6	7.13	2,870.0	11.47	911.3	1.25	1,432.3	5.73	711.7	0.98	288.0	1.15	544.3	0.75	577.0	2.31	619.7	0.85	613.9	2.45	72,816.6	100	25,018.2	100
1980	94,385	88.24	23,437	74.28	6,773.8	6.33	3,928.4	12.45	2,713.7	2.54	2,014.7	6.39	928.7	0.87	343.4	1.09	987.8	0.92	873.7	2.77	1,184.3	1.11	953.4	3.02	106,973.3	100	31,550.6	100

Source: IMF, International Financial Statistics, Annual Report 1981 and Vol. XXXIV, No. 8, August 1981

Table 23

AGS Basic Financial Indicators 1980
(IN US $ billion)

	Oil Revenues (1)	Budget Surplus (2)	Trade Balance (3)	Current Acc. Surplus (4)	2:1	4:1
Saudi Arabia	52.095	6.285	+59.966	32.315	12	62
Kuwait	20.410	16.409	+12.850	15.495	80	76
UAE	13.236	3.679	+12.408	9.371	28	71
Sub Total	85.741	26.373	+85.224	57.181	30.8	66.7
Qatar	5.221*	2.216	+ 4.043	n.a.	-	-
Oman	2.531	0.402	n.a.	n.a.	16	-
Bahrain	0.540	0.125	+ 0.117	n.a.	23	-
Total AGS	94.033	29.116	-	-	30.8	-

Notes: * Total revenues

Source: Central Banks and Monetary Agencies of AGS, Economic Bulletin, Vol. 2, No. 1, June 1980.

Transferred into US dollars by the author.

Table 24

Kuwait Financial Indicators
(In million of KD)

	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	Total 1973/74-1979/80
(1) Total Revenues	694.1	2726.6	2550.2	2992.7	3050	3647	6923	22583.6
(2) Oil Revenues	584	2534.8	2234.6	2598.2	2399.6	2186.7		
(3) Investment Income	89	152.1	262.5	329.4	384	522	880	2619
(4) Overall Surplus*	162.4	1587	1509.6	1513.8	1134	1753	4545	12204.8
(5) Financing	-162.4	-1587	-1509.6	-1513.8	-1134	-1753	-4545	-12204.8
(6) Domestic & Change in cash balances	-59.7	-199	-84.7	-29.9	-66.0	-16	-191	-646.3
(7) External loans, investments and other assets	-102.7	-1388	-1424.9	1483.9	-1068	-1737	-4354	11558.5
7:5	63						96	94.7
4:2	27.8					80.2		
4:1	23.4						65.6	54
7:2	17.6					79.4		

Notes: * Total Revenue - (total expenditure and net domestic lending)

Sources: - IMF, Kuwait - Recent Economic Development, SM/79/57. Feb. 23, 1979, Table 13, p. 31.
- IMF, International Financial Statistics Yearbook, 1981.
- IMF, Government Finance Statistics Yearbook, Vol. V, 1981.

Table 25

AGS and Selected Developed Countries Total Reserves Including Gold
(Millions of SDRs)

	1973	%	1980	%	%	1980:1973
All countries	152,413	100	354,495	100		250.7%
U.S.	11,919	8	21,480	6		
Japan	10,152	7	20,165	5.7		
France	7,070	5	24,302	6.8		
W. Germany	27,498	18	40,975	11.5		
Italy	5,335	4	20,477	5.8		
AGS	3,520	2	25,036	7	100	611 %
S. Arabia	3,215	2	18,536	5.2	74	
Kuwait	45	0.02	3,169	0.9	12.6	
UAE	76	.04	1,600	0.4	6.4	
Qatar	34	.02	286	0.1	1.1	
Bahrain	61	.04	753	0.2	3.0	
Oman	89	.05	692	0.2	2.8	

Source: IMF, IFS - Yearbook 1981.

Table 26

AGS and Total World Reserves and Economic Indicators (1980)
(In US billion dollar)

	(1) Total Reserves	(2) GDP	(3) Imports	1:2 Ratio	1:3 Ratio
S. Arabia	23.437	106.333	30.151	22	77.7
Kuwait	3.928	25.677	7.054	15.3	55.7
UAE	2.015	13.454	9.074	15	22
Qatar	0.343	n.a.	1.311	-	26.2
Oman	0.874	4.877	1.692	17.9	51.6
Bahrain	0.953	n.a.	4.003	-	24
Total four AGS	30.254	150.341		20*	
Total AGS (six)	31.550	-	53.285		59
Total World	452.126		1898.7		23.8
U.S.A.	27.396	2576.6	253	1.1	10.8
U.K.	21.492	531.9	123.2	4	17.5
W. Germany	52.260	762.9	174.2	6.9	30
Japan**	75.719	913.8	101.2	8.3	74.8
Total four industrialzed countries	176.867	4785.2	651.6	4	27

Notes: * This proportion is for the aggregate of four AGS only, S. Arabia, Kuwait, UAE and Oman. (Their total reserves are $ 30.254 billion, their GDP is $ 150.341 billion.)

** Japanese statistics are for 1979.

Source: IMF, International Financial Statistics Yearbook 1981, from many tables. Percentages are computed by the author. Rates used are SDR = 1.27541 US dollar.

Table 27

AGS Oil Income (1973-1980)
(In $ U.S. million)

	1973	1974	1975	1976	1977	1978	1979	1980	Total	%
Saudi Arabia	5100	22600	25700	33500	42400	35800	57522	102262	324884	66.0
Kuwait	1900	7000	7500	8500	8900	9200	16863	18016	77879	15.8
UAE	900	5500	6000	7000	9000	8000	1862	19344	57606	11.7
Qatar	400	1600	1700	2000	2000	2000	3643	5377	18720	3.8
Oman	177.5	843.9	1080.2	1316.4	1396.1	1325.1	1837.3	2693.3	10670	2.1
Bahrain	74	262	280	395	437	495	777	504	3224	0.6
Total AGS	8551.5	37805.9	42260.2	52711.4	64133.1	56820.1	82504.3	148196.3	492983	100

Sources: - IMF, Government Finance Statistics Yearbook, Vol. V, 1981, p. 449.

- Central Banks and Monetary Agencies of AGS, Vol. 2, No. 1, June 1981, Table No. 7.

- Dr. Khasaal El Gasem, 'Income and Financial Surpluses of Arab Oil Producing Countries', Al Bayan File, Petroleum Issues, Centre for Middle East Researches, No. 3, Dec. 1981, Table No. 1, p. 35. (Arabic)