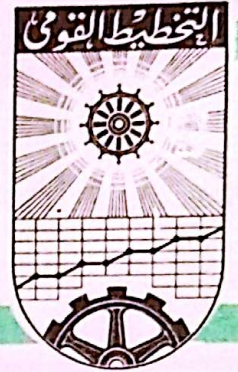


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Review and Appraisal of Economic
Co-Operation and Integration Efforts
In Selected Countries in The Middle East

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INTRODUCTION

The purpose of this paper is to assess the various efforts at economic co-operation and integration between the Arab countries as well as the prospects for such co-operation and integration.

The term economic co-operation is used here in a broad sense to embrace the different types of regional preferential arrangements, ranging from granting partial preferential treatment to full economic union. The term integration will be reserved to designate the relatively more advanced degrees of co-operation (free trade area, customs union, etc...).

The paper covers only seven countries, namely, Egypt, Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia and Syria, among which there were several attempts at co-operation and integration. Also the paper considers only co-operation and integration in the field of commodity trade.

The paper falls into two parts: Part I reviews the various Arab efforts at co-operation and integration and their impact on intra-Arab trade; Part II is devoted to a discussion of the problems and prospects of Arab economic integration.

I. REGIONAL ARAB CO-OPERATION AND INTRA-ARAB TRADE

The history of contemporary economic co-operation among the countries under review in the field of trade can be traced back to the early fifties when these countries embarked on the road of bilateral and multilateral trade and payments agreements, with a view to fostering intra-regional trade. Before reviewing these agreements and assessing their impact on intra-Arab trade, however, a quick look at the evolution of commercial policy in these countries since then seems necessary.

A. Evolution of Commercial Policy

In the early post-war period, the use of tariff and non-tariff barriers to trade was widespread in the countries reviewed, with the exception of Kuwait.^{1/} From the beginning of the fifties, the commercial policy of these countries evolved in different ways.^{2/} With the exception of Kuwait and, to a lesser extent, Saudi Arabia, these countries have been increasing the rates of import duties and widening the scope of goods on which duties are levied.^{3/4/}

A comparative study by the United Nations Economic and Social Office in Beirut^{3/} reveals that, as of 1969, the unweighted average of tariff duties and other charges were 57.34, 32.46, 31.15, 23.07, 21.50 per cent for Egypt, Syria, Jordan, Iraq, and Lebanon, respectively. The average rate seems to have declined considerably in Saudi Arabia. The rates of import duties in Saudi Arabia range, on the average, between 10 and 20 per cent of the value of imported products.

^{1/} Mursay, A. G., An Arab Common Market, Praeger, New York, 1969, pp. 58-62.

^{2/} Unless otherwise stated, the facts related to commercial policy are based on International Monetary Fund, Annual Report on Exchange Restrictions (various issues).

^{3/} United Nations Economic and Social Office in Beirut, Problems and Methods of Establishing Common External Tariffs for the Countries of the Arab Common Market February 1971, (in Arabic).

^{4/} International Trade Centre, UNCTAD/GATT, Saudi Arabia as a Market for Manufactured Products from Developing Countries, (Geneva, 1969), p. 23.

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However, many products such as foodstuffs, machinery, and pharmaceuticals are exempted from duties. As to Kuwait, a general ad valorem duty of 4 per cent is levied.

Turning to non-tariff barriers, one cannot fail to notice the tendency in Egypt, Iraq and Syria towards increased reliance on quantitative restrictions and foreign exchange control. To cope with balance of payments difficulties, and to provide protection for their new industries, such devices have been regarded as more effective than tariffs. To this end, licensing, quotas, prohibition, bilateral payments agreements, etc. have been increasingly practised to control foreign trade.

The foreign trade system in these three countries ended up by subjecting practically all imports, as well as a good number of exports, to licensing. Import licensing is often operated in conjunction with quota and foreign exchange control and is, therefore, usually selective in its incidence, depending on the availability of foreign exchange or on bilateral payments arrangements which do not involve payments in scarce foreign currencies.

From the beginning of the fifties, an increasing number of commodities have been prohibited from being imported to the three countries. In the case of Egypt, prohibition has been extended to cover eventually all goods that are considered non-essential commodities or that are competitive with local production. Iraq has been subjecting an increasing number of goods to outright prohibition. In 1963, for instance, Iraq prohibited the importation of over 65 items. Besides, there is a list of suspended imports that includes, as of 1972, 93 items. In Syria, the number of prohibited imports has increased from 64 tariff items in 1964 to 100 items in 1971. Syria also maintains a list of suspended imports which increased from 200 items in 1964 to 301 items in 1971. Prohibited imports are mostly goods that are produced locally. With respect to exports, prohibition is less frequent. A few commodities are subject to outright prohibition, while licensing has been used to regulate exportation of some commodities in the light of domestic needs.

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In the case of Egypt, Iraq and Syria, bilateral payments agreements became a main instrument for balancing their exports and imports. In 1970, about 70 per cent and 43 per cent of the exports of Egypt and Syria, and about 46 per cent and 27 per cent of their imports, respectively, were conducted through bilateral accounts. Trade with the CMEA countries accounted for 54 per cent and 16.5 per cent of Egypt and Syria's exports, and for 29 per cent and 17.4 per cent of their imports, respectively. Only a minor part, as we should expect, of Iraq's exports is conducted through bilateral payments agreements; however, a good part of its imports is from bilateral partners. Imports from the CMEA countries accounted for 21 per cent of the total (see table 1).

During the sixties, the foreign trade system of the three countries evolved to become effectively a state trading system. Pursuant to the nationalization of foreign trade in Egypt, the public sector became, as of 1961, responsible for all imports and for about 75 per cent of all exports. In Iraq, around 60 per cent of imports and almost all exports in 1969 were effected by state controlled organs. In Syria, state trading agencies accounted approximately for 43 per cent of total imports and 52 per cent of total exports in 1968.

It is to be noted that, in the case of the three countries, commercial policy is not the outcome of a comprehensive plan covering the whole economy and within which the level and composition of trade are the reflection of an optimum allocation of resources. Attempts at planning foreign trade per se, are still embryonic.^{5/}

By and large, the evolution of commercial policy in Jordan has been less restrictive than in the case of Egypt, Iraq or Syria. In shaping its commercial policy, Jordan resorted more to tariff barriers than to non-tariff barriers. It is, however, to be noted that though Jordan proceeded, from the beginning of the fifties, to raise the rates of customs duties on a large number of imports and extend the tariff system to cover new products, its average level of unweighted tariffs is still, as given above, lower than that of Egypt and Syria.

^{5/} United Nations Economic and Social Office in Beirut, Etude Comparative des Cadres Institutionnels du Commerce Intra-Marché Commun Arab, June 1971.

Table 1. Trade with major bilateral payments agreement partners in 1970

	Egypt		Iraq		Syria	
	Per cent of bilateral exports to total exports	Per cent of bilateral imports to total imports	Per cent of bilateral exports to total exports	Per cent of bilateral imports to total imports	Per cent of bilateral exports to total exports	Per cent of bilateral imports to total imports
CMEA ^{a/}	54.0	29.0	1.3	21.0	16.5	17.4
Other centrally planned economies	2.7	2.1	0.4	4.5	9.1	5.3
Some Arab countries ^{b/}	5.8	4.4	0.9	1.8	2.9	3.1
Other countries ^{c/}	7.6	10.5	-	-	14.3	1.3
Total with bilateral partners	70.1	46.0	2.6	37.3	42.8	27.1

Source: The Arab League, Report on the Foreign Trade of the Arab Countries, 1970.

^{a/} Council for Mutual-Economic Assistance countries (Albania, Bulgaria, Czechoslovakia, Germany (D.R.), Hungary, Poland, Roumania and the Union of Soviet Socialist Republics).

^{b/} For Egypt, Iraq, Tunisia, Algeria, Morocco, Sudan and Yemen; for Iraq and Syria, Egypt only.

^{c/} For Egypt, Greece, Turkey, Ceylon and India; for Syria, Ceylon and Spain.

Non-tariff barriers in Jordan are basically confined to licensing and foreign exchange procedures. Imports exceeding a certain value,^{6/} and some exports, are subject to the licensing system. Payments for imports are subject to the exchange control approval, but exchange permits are granted automatically once the import license is obtained. Prohibition of imports covers a small number of agricultural and industrial products that are produced locally.^{7/}

The evolution of commercial policy in Lebanon and Saudi Arabia ended up with trade being subjected to either relatively mild barriers or to the adoption of a rather free trade policy. Upon the break-up of the customs union with Syria, Lebanon liberalized its trade restrictions. Throughout the period under discussion, Lebanon has been resorting to tariffs as the main tool of commercial policy and the scope of quantitative restrictions has been diminishing. At present, import licensing and prohibition are used with regard to a limited number of products that are produced locally.

Saudi Arabia followed a more liberal commercial policy. From the early 1950's, and except for a short period,^{8/} Saudi Arabia has been dismantling non-tariff barriers which were effective during the early post-war period. Eventually, licenses are not required either for imports or exports. Exchange control is non-existent.

Except for a general import duty in Kuwait, equal to 4 per cent, trade barriers are non-existent.

B. Arab Preferential Agreements

From the end of the forties' onwards, the Arab countries embarked on the road to fostering their intra-regional trade relations within the prevailing quantitative and tariff framework. Fostering intra-regional trade has been sought through both bilateral and multilateral agreements, the provisions of which range from partial preferential treatment which provides for the elimination of some of the trade barriers which hamper the smooth flow of trade between the

^{6/} More than 50 Jordanian dinars.

^{7/} Cement, non-alcoholic drinks, cigarettes, liquid batteries etc. are subject to outright prohibition. Barley, lentils, olives, and olive oil are prohibited in good years.

^{8/} In November 1956, Saudi Arabia proceeded to license almost all imports and exports. From 1958 onwards, trade controls began to break up and in January 1960 it terminated practically all of its quantitative restrictions.

involved countries, to the complete freeing of commodities, capital and labour movements within the region and, thereby, to the establishment of an integrated market for products as well as labour and capital.

Throughout the period under examination, Arab economic co-operation has been mainly based on bilateral trade and payments agreements, the convention for facilitating trade and regulating transit trade between the states of the Arab League; and, the Arab payments convention and Economic Unity Agreement between the states of the Arab League. The last three agreements are of a multilateral nature.

1. Bilateral agreements

Bilateral trade agreements have been widely used as an instrument to promote intra-regional Arab trade. Though these agreements differ in content, they share some fundamental features.^{9/}

a) The scope of preferential treatment in bilateral trade agreements has been usually limited to tariff reductions and exemptions for particular trade flows between the contracting countries. Preferential treatment in the field of quantitative restrictions is not provided for except in a limited number of agreements wherein trade in certain commodities are exempted from export and import licenses.^{10/}

It is to be noted that provisions for the elimination of licenses are to be found in agreements between countries where the role of licensing in restricting trade, compared with that of quantitative restrictions and foreign exchange control devices, is rather perfunctory. The approach adopted in bilateral agreements with respect to quantitative restrictions is of utmost importance in assessing the impact of such agreements on regional trade. As mentioned earlier, the evolution of commercial policy in Egypt, Iraq and Syria, and to a lesser degree in Jordan, terminated in non-tariff barriers being more important than

^{9/} Some of these agreements do not contain, in substance, any preferential treatment, as they do not go beyond providing for the application of the most favoured nation clause and stating the intentions of the parties concerned to facilitate trade between themselves. Under this kind of agreements come the agreement between Jordan and Egypt on 5 August 1951; the agreement between Egypt and Syria on 20 August 1950; and the agreement between Egypt and Lebanon on 2 September 1951.

^{10/} The agreement between Jordan and Iraq on 30 September 1958; the agreement between Jordan and Syria on 18 February 1953, and the protocol concluded between Iraq and Syria on 20 August 1967.

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tariffs in their trade control systems. Thus the trade performance of these countries at the regional level must be mainly attributed to the discretion of the foreign trade machinery that determines, through different non-tariff means of controls, the direction and the composition of the country's exports and imports. Conversely, in the case of the remaining countries reviewed, performance of their intra-regional trade could be mainly attributed to market forces, influenced by the partial or total elimination of tariffs.

b) Most of the agreements under examination contain lists of commodities that are intended to enjoy a reduction of, or an exemption from, customs duties. A limited number of agreements provide for general exemption from customs duties for agricultural and animal products, with the exception of a certain number of commodities, and enumerates in a separate list manufactured goods that are to enjoy a reduction or exemption from customs duties.^{11/} Few other agreements provide for general exemption for all commodities to be exchanged between the two contracting countries.^{12/}

c) Recent trade agreements between Egypt, Iraq, Jordan and Syria stipulate an upper and/or lower limit for the total value of goods to be exchanged under the agreement.

Provisions stipulating an upper limit are usually motivated by the desire of the exporting country to secure particular goods for domestic needs and/or for export outside the region. On the other hand, provisions for a minimum value reflect the quest of the exporting country for an outlet to some of its non-traditional exports.

^{11/} The agreement between Jordan and Syria of 18 February 1953, and the agreement concluded between the two countries on 26 April 1965; the agreement between Jordan and Iraq of 9 December 1965 and the protocol of 20 August 1967 and the protocol of 29 April 1968.

^{12/} The agreement between Egypt and Syria (as the two Regions of the United Arab Republic) of 31 August 1958 and the agreement concluded between them on 1 May 1969; the agreement between Iraq and Syria of 3 November 1961 (with the exception of certain goods) and the protocol of 20 November 1967; the protocol concluded between Egypt and Iraq on 27 July 1967 and the protocol between Iraq and Jordan on 29 April 1968.

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d) As the agreements under study are concluded for a short period (one or two years) subject to renewal, the lists annexed to them have been frequently the subject of continuous changes with regard to commodities to enjoy preferential treatment. These changes have been mainly motivated by the change in the production structure, in particular the industrial structure of the trading countries.

Due to balance of payments difficulties, bilateral payments agreements have been frequently resorted to as a supplement to bilateral trade agreements. In this respect, Egypt comes out as the country that has been making most use of bilateral arrangements in order to regulate payments arising from its regional trade. Throughout all the period under examination, Egypt maintained bilateral payments arrangements with Iraq and Syria. Bilateral agreements between Egypt and the rest of the countries in the region either did not exist (Egypt-Jordan, Egypt-Kuwait) or were only concluded during the early fifties when most of the countries of the region were setting up foreign exchange control, (see annex 1). Aside from bilateral payments agreements with Egypt, Iraq and Syria have had similar arrangements among themselves and with Lebanon and Saudi Arabia. At present, Jordan, Lebanon, Saudi Arabia and Kuwait do not make use of bilateral payments arrangements in carrying out intra-regional trade.

In theory, the extent to which bilateral payments agreements contribute to trade expansion depends on the frequency of settlements and the size of swing credits. In recent bilateral payments agreements, settlement of excess balances is usually stipulated within six months upon the termination of the agreement; the latter being generally concluded for one year, which is renewable. This frequency of settlement is less than in payments agreements concluded during the earlier fifties.^{13/} Also the tendency in recent agreements is towards the enlargement of the size of swing credits.^{14/}

^{13/} For instance the agreement between Egypt and Syria of 29 January 1956 stipulates that excess balances have to be cleared every three months.

^{14/} The agreement between Egypt and Iraq signed on 27 July 1967 provides for a swing credit which represents about 50 per cent of Iraq's imports from Egypt in 1968 and about 65 per cent of Iraq's exports to Egypt in the same year.

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2. Multilateral agreements

Multilateral efforts in the field of Arab economic co-operation have been pursued within the framework of the League of Arab States and the Arab Economic Council. These efforts are mainly based, as was mentioned above, on three schemes:

- a) The Arab Trade Convention;
- b) The Arab Payments Convention; and,
- c) The Arab Economic Unity Agreement.

Of these three schemes, only the first and the third will be examined below.^{15/}

The Arab Trade Convention^{16/} was ratified by seven Arab countries, namely, Jordan, Egypt, Saudi Arabia, Syria, Iraq, Lebanon and Kuwait. The Arab Trade Convention is similar to the bilateral trade agreements concluded either before or after its coming into force, in that it does not provide for the elimination of quantitative restrictions on trade. The Arab Trade Convention has, however, over previously concluded agreements, two advantages as far as the freeing of intra-Arab trade is concerned. Firstly, the Arab Trade Convention extended preferential treatment to trade between some Arab countries that have not before embarked on the road of preferential treatment through bilateral trade agreements. Before the Arab Trade Convention, only six trade agreements were in effect to govern specific bilateral trade flows taking place between Iraq-Lebanon, Jordan-Lebanon, Lebanon-Syria, Jordan-Syria, Lebanon-Syria, Iraq-Jordan (see Appendix I). Secondly, the scope of tariff reductions and exemptions was wider in the Arab Trade Convention than in the previously concluded bilateral agreements. Originally, the Arab Trade Convention embodied two schedules, namely, Schedule A, providing for complete exemption from customs duties with respect to most items of section I to IV of the Revised (SITC) and Schedule B, providing for a 25 per cent reduction of the normal duties on some 150 items of manufactured products. Moreover, the Arab Trade Convention has been subject to four enlarging amendments of which only the first and the second were ratified by the member countries.

^{15/} The Arab payments convention did not embody concrete obligations on the part of the member countries in the elimination of payments restrictions and thereby the convention remained inoperative.

^{16/} The convention was ratified by Egypt and Jordan in 1953, Iraq, Lebanon, Saudi Arabia and Syria in 1954 and Kuwait in 1962. It came into force as of 12 December 1953.

According to the first amendment, Schedule C, providing for a 50 per cent reduction of the normal customs duties, in favour of a new list of nationally manufactured goods, was added. However, a good number of the items in Schedule C were already included in Schedule B and enjoying a 25 per cent reduction. As to the second amendment, it enlarged Schedules A, B and C, and added Schedule D providing for a 20 per cent reduction of the normal customs duties with respect to certain assembled manufactures.

It is to be noted, however, that the conclusion of the Arab Trade Agreement did not stop the spread of bilateral agreements. On the contrary, available information reveals that from 1954 onwards the partners of the Arab Trade Convention continued to make use of bilateral agreements. Thus it seems justified to state that the faith of Arab countries in bilateral agreements as a means of building up closer trade relations was not checked by the appearance of the Arab Trade Convention.

Comparing the Arab Trade Convention Schedules with the items listed in bilateral agreements concluded thereafter, one can see that the Arab Trade Convention in liberalizing trade did not go as far as some of the bilateral agreements. Though bilateral agreements continued reproducing many of the items included in the Arab Trade Convention and granting them the same tariff reduction or exemption, they provided, however, for a higher rate of preference than in the Arab Trade Convention for a good number of articles. Moreover, it is often the case that bilateral trade agreements provide for tariff reductions and exemptions with respect of new items not included in the Arab Trade Convention Schedules.

If the role of the earlier efforts in the field of Arab Economic Co-operation is to provide for partial preferential treatment in favour of intra-Arab trade, the agreement for the Arab Economic Unity^{17/} appears, as far as its stipulations

^{17/} The agreement came into force as of 30 April 1964 when it was ratified by five of the signatory states namely: Iraq (1964), Jordan (1963), Kuwait (1962), Syria (1963) and Egypt (1963). Thereafter the agreement was ratified by the Yemen Arab Arab Republic (1967) and Sudan (1969).

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entail, to be the framework for a far reaching advanced stage of economic integration. The agreement provides for the complete removal of barriers to trade and to factor movements at gradual stages. It provides also for the co-ordination of various national economic policies, with a view to achieving the objective of economic unity. Moreover, the agreement establishes the Council of Arab Economic Unity as an autonomous regional institution within which the representatives of the member states meet in order to elaborate the successive stages towards economic unity and to follow-up their implementation. The Council's decisions are to pass by a vote of two-thirds majority, but they are not binding on the member States until ratification by the national legislative authorities. The Council is to carry out its mission with the help of a permanent secretariat.

The first step towards the implementation of the Arab Economic Unity agreement was Decision No. 17, establishing the Arab Common Market and passed by the Council of Arab Economic Unity in August 1964. The Decision set the first of January 1965 as the starting date for moving towards the creation of a free trade area between the Council members. Only four countries, namely, Iraq, Jordan, Egypt and Syria ratified the Decision, and since the Council Decisions are not binding on the member States, except after ratification by their respective national authorities, the new free trade area was to be established only between the above-mentioned four countries.

Decision No. 17 set up a schedule for the gradual elimination of tariff and non-tariff barriers on trade flows among the participant States. Agricultural products and products of natural resources, livestock and livestock products, were to be completely liberalized over a period of five years, while ten years were envisaged for the complete liberalization of trade in manufactured goods. In scheduling its programme of liberalization, Decision No. 17 made use of the amended schedules of the Arab Trade Convention. A comparison between Decision No. 17 and the Arab Trade Convention as to the extent of trade liberalization with respect to the first group of products mentioned above leads to the following two comments.

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a) Decision No. 17 provided for the elimination of non-tariff barriers over a period of five years for all such products;

b) With respect to products listed in Schedule A of the Arab Trade Convention, Decision No. 17, did not introduce a new element of tariff preference since these products were already enjoying, under the Convention, full exemption from customs duties and other charges and since under Decision No. 17 the Member States were already abiding by the provisions of the Arab Trade Convention. As to the products that were not listed in this schedule, it is true that Decision No. 17 provided for their gradual liberalization from tariff and non-tariff barriers over a period of five years, but a look at these products reveals that they either did not figure in the production and trade of the countries involved or occupied an insignificant place.

With respect to manufactured goods listed in Schedules B and C of the Arab Trade Convention, and enjoying already a tariff reduction of 50 per cent and 25 per cent, respectively, these were to enjoy complete tariff exemption as of the first of January 1969 for Schedule B products, and as of the first of July 1974 for Schedule C products. Moreover, all other manufactured goods were to be freed gradually from customs duties at an annual rate of 10 per cent of the original tariff rate to reach complete exemption as of the first of January 1974.

As to quantitative restrictions all manufactured goods were to be freed gradually at an annual rate of 10 per cent of the number of products subjected to such restriction in the participant countries as of the first of November 1964.

Although, by any standard, the provisions of Decision No. 17 were ambitious, the Council of Arab Economic Unity decided, in its 12th session, to accelerate the rate of freeing manufactured goods from tariff and non-tariff barriers. According to resolution No. 372, dated 19/5/1968, all manufactured goods were to be completely exempted from both tariff and non-tariff barriers as of the first of January 1971.

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From a formal point of view the Arab Economic Unity Agreement, and Decision No. 17, have two main advantages over the previous bilateral and multilateral agreements: (a) the establishment of the Council of Arab Economic Unity as a regional machinery; and, (b) the scheme of liberalization embodied in Decision No. 17 is much bolder than the liberalization schemes of the previously concluded bilateral and multilateral trade agreements among the Arab countries.

The implementation of the free trade area, as envisaged by Decision No. 17 and amended by Decision No. 372, was met with reticence and reluctance from the countries involved. First, these countries made much use of the escape clause provided for in that Decision and according to which the participating States have the right, upon the approval of the Council, and for a period that does not go beyond the final stages of liberalization, to exclude particular products from tariff disarmament and elimination of "administrative restrictions" for serious and justified reasons. The application of the escape clause resulted, during the first stages of liberalization, in numerous lists of goods presented by the Member States for exemption from tariff reductions. Due to the numerousness of these lists and the difficulty of a careful check of their seriousness, the Council could not but accept temporarily the lists of the Member States and set up a special committee to study them.^{18/} It was almost two years after the establishment of the free trade^{19/} area that the member States agreed to withdraw the lists of exemptions. Jordan reduced its lists to 16 items for which exemption is based on the safeguarding of customs revenue.

The withdrawal of the exemption lists should not, however, be interpreted as reflecting a positive change in the attitude of Member States towards the implementation of the free trade area. Though the member countries did not refrain from drawing up and handing in the lists of products to be liberalized from "administrative restrictions" during the various stages of liberalization, as defined by Decision No. 17, they went on subjecting their trade with each other to various quantitative restrictions. Moreover, as mentioned earlier, there has been a tendency in three of the four member countries of the Arab Common Market, namely, Iraq, Syria and Egypt, towards a more comprehensive direct

^{18/} Decision No. 28 dated 4/11/1964 (the third ordinary session).

^{19/} Decision No. 239 dated 6/11/1966 (the ninth ordinary session).

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control over foreign trade. This is in outright contradiction with Decision No. 17 which states that member countries have to stabilize their tariff and quantitative restrictions as of 1 November 1964.

In justifying such attitudes, the Member States pointed out that the Council has not yet finished the studies concerning the co-ordination of economic plans and that in the absence of an Arab Payments Union they will be faced with transitional payment difficulties due to the freeing of intra-Arab trade.

These arguments, as will be shown later, point to an essential defect in the approach of the Council to the establishment of a free trade area. For the member countries to accept freeing of their regional trade, the programme of liberalization must constitute a part of an over-all programme based on the co-ordination of production and coping with the transitional difficulties to which freeing of trade must lead in the short run (see table 2).

Table 2. Intra-ACM trade liberalization schedule
(Percentages and reductions)

	Before 1965	1965	1966	1967	1968	1969	1970	1971
Exemptions from customs duties & other charges								
1. Products of vegetable or animal origin and minerals								
- Products in List A	100	-	-	-	-	-	-	-
- Unlisted products	-	20	40	60	80	100	-	-
2. Industrial products								
- Products in list B	25	35	45	55	65	85	100	-
- Products in list C	50	60	70	80	90	100	-	-
- Unlisted products	-	10	20	30	40	60	80	100
Liberalization from adminis- trative restrictions								
1. Products of vegetable or animal origin and minerals	-	20	40	60	80	100	-	-
2. Industrial products	-	10	20	30	40	60	80	100

Source: United Nations Economic and Social Office in Beirut, International Trade Unit.

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As it stands, there seems to be great doubt that the Arab Payments Union would help the member countries more than the existing bilateral agreements in overcoming regional payments imbalances arising from liberalization of regional trade. Firstly, the frequency of settlement dates and, consequently, the size of credit facilities furnished between these dates are shorter than what is prevailing under bilateral agreements. Secondly, if any one credit or country is entitled to receive at the date of settlement the full value of its net credit position, the provision of credit facilities to the net debtor will be in large part incurred by the Union's fund, small as it is.

The attitude of the ACM countries as to the implementation of the Council's decisions on the issues of freeing intra-regional trade and payments is a clear evidence of their reluctance to accept a degree of co-operation higher than what is embodied in bilateral agreements. No wonder that the emergence of the so-called Arab Common Market did not forestall the use of these agreements.

C. Preferential Treatment and Inter-Arab Trade

Tables 3 and 4 show that intra-Arab trade does not occupy but a minor place in the total trade of the Arab countries. For the seven countries given in table 3 as a whole intra-regional trade in 1968-70 accounted for less than 9 per cent. But the relative importance of the regional market is not the same for all these countries. Syria, Lebanon and Jordan channel into the regional market a good proportion of their exports and depend on it for a relatively high proportion of their imports. In the case of Egypt, Iraq and Kuwait^{22/} their dependence on the regional market is quite low for both exports and imports. The regional market is of insignificant importance to Saudi Arabia's exports. However, from the import side this country shows some dependence on the regional market.

^{22/} In table 3 Kuwait's total exports do not include petroleum. UNESOB estimates the share of regional exports to total exports of Kuwait (including petroleum) to be 2 per cent for the period (1961-1965)

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Table 3. Share of Intra-Regional Trade in Total Exports and Imports of Seven Arab Countries, 1968-1970 (averages)
(Millions of U.S. dollars and percentages)

Country	Total exports	Intra-regional exports	Ratio	Total imports	Intra-regional imports	Ratio
Egypt	702.8	33.9	4.8	696.8	21.5	3.0
Iraq	1060.9	66.7	6.2	450.8	39.1	8.6
Jordan	33.1	21.9	66.1	178.4	34.2	19.0
Kuwait	61.8 ^{a/}	23.1	37.0	627.6	49.9	7.9
Lebanon	239.0	112.9	47.0	642.8	83.1	12.0
Saudi Arabia	2155.1	18.7	0.9	676.8	83.1	12.0
Syria	196.4	73.0	37.0	349.1	48.9	13.0
Total	4449.1	350.2	7.8	3622.3	359.8	9.9

Source: The Arab League, Summary of Foreign Trade for Arab Countries, 1968 and 1969; Report on Foreign Trade for the Arab Countries, 1970. Statistical Centre.

^{a/} Excluding petroleum. Non-petroleum exports of Kuwait are mainly composed of re-exports.

Table 4. Share of Intra-Regional Trade in Total Exports and Imports of the Arab Common Market (ACM) Countries, 1968-1970 (average)
(Millions of U.S. dollars and percentages)

Country	Total exports	Intra-regional exports	Ratio	Total imports	Intra-regional imports	Ratio
Egypt	702.8	19.2	2.7	696.8	14.7	2.1
Iraq	1060.9	31.6	2.9	450.8	20.0	4.4
Jordan	33.1	8.2	24.7	178.4	13.5	7.5
Syria	196.4	21.3	10.8	349.0	32.1	9.1
Total	1993.2	80.3	4.0	1675.0	80.3	4.8

Source: Same as for table 3.

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Intra-regional trade between the four countries of the ACM was in the 1968-70 period at a level lower than the level registered for the seven countries as a whole (see tables 3 and 4). In 1968-70, trade among the ACM countries did not amount to more than 4 per cent of their total trade. A comparison of tables 3 and 4 reveals that Jordan and Syria are more dependent on Lebanon, Kuwait and Saudi Arabia than on the ACM countries as an outlet for their exports. Jordan and Syria, however, are more dependent on the ACM countries as source of regional imports. On the other hand, Egypt depends more on the ACM countries than on the other three countries with respect to both its regional exports and imports. As to Iraq, the two sub-regions are equally important as an outlet for its regional exports or as a source of its regional imports.

It is worth noting that the minor place occupied by regional trade in total trade of the Arab countries comes at the end of about twenty years of attempts at regional co-operation and integration. The issue now should be the roles played by the different types of preferential treatment in the performance of intra-Arab trade over the last two decades. For this purpose, table 5 traces the performance of intra-regional exports between the four countries of the ACM. It appears that the proportion of intra-regional exports in total exports of the four countries increased from 2.5 per cent in 1951-52 to 4 per cent in 1968-70. The growth of intra-regional exports at a rate higher than the rate of growth of the total exports of these countries is attributable, in part at least, to the different kinds of preferential treatments that intra-regional trade enjoyed throughout the period under review. In fact, at the beginning of the period preferential treatment was more or less non-existent in intra-regional trade. Thereafter, intra-regional trade benefitted from preferential treatment embodied in the many bilateral agreements concluded between the various pairs of countries, in the Arab Trade Convention, and in Decision No. 17 which established the Arab Common Market. In trying to explain the contribution of the various kinds of preferential treatment to the growth of intra-regional exports it seems reasonable to divide the period in question into two-sub-periods from 1951-52 to 1962-64, and from 1962-64 to 1968-70. During the first sub-period intra-regional trade among the four countries has been carried out within the framework

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Table 5. Total and Intra-Regional Exports of the ACM Countries
(Millions of US dollars and percentages)

Country	Year	(1) Total exports	(2) Regional exports	(2) As a percentage of (1)
Egypt	51 - 52	480.9	1.93	0.3
	53 - 55	410.9	2.24	0.5
	56 - 58	457.3	5.04	1.1
	59 - 61	489.8	13.19	2.7
	62 - 64	485.3	5.52	1.1
	65 - 67	606.0	11.12	1.8
	68 - 70	702.8	19.21	2.7
Jordan	51 - 52	3.25	2.26 ^{a/}	69.0
	53 - 55	7.3	2.48	34.0
	56 - 58	13.1	4.23	32.3
	59 - 61	11.8	2.68	22.6
	62 - 64	19.8	4.18	21.1
	65 - 67	24.7	5.84	23.9
	68 - 70	33.1	8.21	24.7
Iraq	51 - 52	243.8	6.2	2.6
	53 - 55	466.0	4.7	1.0
	56 - 58	467.7	4.2	0.9
	59 - 61	640.4	1.59 ^{b/}	.25
	62 - 64	765.3	7.95 ^{b/}	1.3
	65 - 67	885.7	12.18	1.4
	68 - 70	1060.8	31.63	2.9
Syria	51 - 52	80.5	10.56	13.1
	53 - 55	133.4	12.07	9.4
	56 - 58	141.2	16.85	11.8
	59 - 61	96.3	27.48	78.1
	62 - 64	176.3	15.74	9.1
	65 - 67	172.1	10.80	6.2
	68 - 70	196.4	21.25	10.8
Total	51 - 52	808.5	20.95	2.5
	53 - 55	1017.6	21.49	2.1
	56 - 58	1078.6	30.32	2.7
	59 - 61	1238.3	44.94	3.6
	62 - 64	1446.7	36.90	2.3
	65 - 67	1688.5	49.93	2.9
	68 - 70	1993.1	80.30	4.0

Sources: United Nations, Yearbook of International Trade Statistics;
The Arab League Summary of Foreign Trade for Arab Countries, 1968
and 1969; and Report on Foreign Trade for Arab Countries, 1970,
Statistical Centre.

^{a/} Includes exports to Lebanon.

^{b/} Excluding petroleum.

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of bilateral agreements and the Arab Trade Convention. During the second sub-period both bilateral agreements and Arab Common Market Decision No. 17 provided the rationale for preferential treatment in intra-Arab trade.

Table 5 draws attention to the fact that the proportion of intra-regional exports in total exports was about the same in 1962-64 as in 1951-52. Moreover, the share of intra-regional exports in total exports fluctuated during this period. It reached its peak in 1959-61 when Egypt and Syria merged into the United Arab Republic. After 1961, the year when the unity between the two countries broke up, intra-regional exports reverted to their previous low level. This fact is significant in the evaluation of the respective roles of bilateral agreements and the Arab Trade Convention in the expansion of regional trade.

The share of regional exports in total exports of the four countries during the second sub-period increased from 2.3 in 1962-64 to 4 per cent in 1968-70. With the refusal of these countries to abide by the provisions of Decision No. 17, it will be rather arbitrary to take the observed expansion in intra-regional exports as resulting from this Decision. On the other hand, a closer look at export flows during the second sub-period reveals that their expansion was in the years immediately following the conclusion of bilateral agreements between the various pairs of countries.

The above analysis alludes to a significant point in assessing efforts of co-operation among the Arab countries. Out of the various forms of co-operation, bilateral agreements stand out as the main instrument of co-operation among these countries. Though from the early fifties the Arab countries set up the Arab Trade Convention, providing for various degrees of tariff preferences, they continued to use trade agreements with a view towards expanding intra-regional trade. The same thing is true in the context of the Arab Common Market: the member countries were loath to the idea of creating a free trade area by the elimination of both tariff and non-tariff barriers. They continued on the path of bilateral trade and payment agreements.

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The favourable effect of bilateral trade agreements on intra-Arab trade should not, however, be exaggerated. The combined effect of both bilateral and multilateral agreements hardly led, as mentioned above, to a significant increase in the volume of intra-Arab trade in relation to the total foreign trade of the Arab countries.

On the other hand, if one accepts the premise that trade expansion among the countries of the region is a means of fostering economic development and is not an end in itself, bilateral agreements among the Arab countries did by no means fulfill this condition. In fact these agreements would not serve as an adequate framework for a profound transformation of the productive structures of the contracting countries to take advantage of the prospects opened by the regional market. Bilateral agreements are concluded for a short period of time and thereby the lists of goods benefiting from the preferential treatment are subject to continuous changes. Moreover, the conclusion and application of these agreements have been much influenced by the state of political relations between the contracting parties. Often bilateral agreements were suspended because of a deterioration in the political relations between the two partners.^{23/} Finally and importantly bilateral agreements have frequently been a tool by which the countries involved found an outlet for the surpluses of already existing production or an access to a particular commodity which is in a short supply because of scarcity of foreign exchange. In such cases, trade is carried out on an ad hoc basis with little attention, if any, to cost and price considerations.

^{23/} The trade and payment agreements between U.A.R. (Egypt, Syria) and Iraq that came into effect during 1958 and 1959 (see Annex table 1) were inoperative up to the early months of 1963. (See Mursay, op.cit., p. 94). Another example is that of trade and payment agreements between Saudi Arabia and Egypt, Iraq and Syria concluded during the second half of the fifties. These agreements were inoperative during periods of political tension.

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II. PROBLEMS AND PROSPECTS

The preceding discussion brought to the forefront the lack of will on the part of the Arab countries towards the achievement of an advanced degree of economic co-operation. There seems to be a widespread belief that political factors are lying behind the present attitude of the Arab countries towards integration. Though it cannot be denied that decisions on economic integration, and for that matter on other economic issues, are of a political nature, in the sense that such decisions are the concern of the political decision-making centre of the countries involved, it is important to explore whether the political reluctance of Arab countries is based on objective factors. To get a reply to this question, the rationale of integration in the case under study has to be investigated to see if attempts at integration by the Arab countries are compatible with the implications of such a rationale.

A. The rationale

In terms of the basic customs union theory, the main economic motive for forming a regional grouping is the possible benefits it would offer in the shape of a more efficient pattern of production and trade. In the conventional theory, the impact of a customs union on existing production and trade is analyzed by making use of the Vinerian concepts of trade creation and trade diversion. For each of the countries in the region, a customs union would lead to a more efficient allocation of resources, and thereby to a gain in income, if trade creation effects outweigh trade diversion effects.^{24/} The obverse is true if as a result of the formation of the customs union trade diversion effects predominate.^{25/}

Discussions of the relevance of the theory of integration to the case of developing countries, though not denying the importance of regional groupings in terms of a possible increased specialization within such groupings according to the principle of comparative advantage, point to the effects of regional groupings on the more fundamental determinants^{26/} of the rate of growth and structural transformation of these countries.

^{24/} If consumption effects are abstracted from.

^{25/} Viner, J., *The Economics of Customs Union*, Carnegie Endowment in International Peace, 1950, Excerpts published in *International Economic Integration*, edit. by Robson P., Penguin, pp. 31-47.

^{26/} Mikesell, R.F., *The Theory of Common Markets as applied to Regional Arrangements among Developing Countries*, in *International Trade Theory in a Developing World*, American Economic Association, MacMillan, London, 1965, p. 205.

Hence, in examining the relevance of integration to economic development, increased attention was paid to its effects on the process of industrialization. In this respect, integration among developing countries has the merit of making it possible for each member of the regional grouping to exploit economies of scale in a greater scope than is permitted within its individual market. By doing this, integration reduces, in comparison with protected national markets, the cost of industrialization and import substitution. Moreover, in the case of countries suffering from a "trade" gap, integration would help them in overcoming it in two ways. First, by enlarging the market, and thereby reducing the cost of production of manufactured goods, integration increases the capacity of the member country to export manufactures to the rest of the world. Second, by enhancing the process of import substitution, integration will have also favourable effect on the trade gap.^{27/}

It is because of these favourable effects on the process of industrialization that integration among a group of developing countries may be regarded from the standpoint of the integrated area and/or the individual member country beneficial even if, on balance, trade creation effects are outweighed by trade diversion effects.

Nevertheless, it is to be noted that, if trade diversion effects are predominant in the case of one or more members of a particular grouping, integration would not be attractive even if the aforementioned industrialization benefits are there. This is due to the fact that while trade diversion effects are to be felt in the short run and lend themselves to a relatively simple measurement, the possible favourable effect of integration on industrialization is of a longer-run nature and is more difficult to gauge.

To this qualification on the merits of integration from the viewpoint of individual countries contemplating to join a regional grouping, two others may be added.

^{27/} Mikesell, R.F., Ibid., p. 209.

First, if through the reallocation of existing resources within an integrated area one or more countries have to give up a special line of production, they have to balance the economic advantage accruing as a result of increased specialization against the complex economic and social problems of transferring labour to other occupations. A similar deterrent to liberalization of trade will arise from potential regional payments imbalances. Because of differences among the members of an integrated area with regard to the nature of specialization and to comparative rates of growth, some countries of the region will be, during a transitional period at least, in trade deficit with their regional trading partners.

Second, if integration takes place among a group of countries at unequal levels of development, the free interaction of market forces, following the elimination of trade barriers, may make of the more developed countries of the region a pole of development and, thereby, lead to the extinction of industries in the less developed countries. In such a case, the benefits from freeing trade will, in a large part, be reaped by the more developed countries in the region. The less developed ones may be even the victim of a backwash effect. Moreover, if integration takes the form of a common market and, therefore, the assumption of factor immobility is removed, the less developed will lose more because their capital and skills will be drawn towards the more advanced partners.

From the foregoing analysis one can conclude that the benefits of integration for individual countries contemplating joining a regional grouping are not of a straight-forward nature. The decision of a particular country to join a free trade area, a customs union or a common market must be the outcome of a difficult process of balancing the benefits and costs of integration. In view of this consideration, it appears that the success of a regional grouping, particularly among a number of developing countries, is greatly related to the nature of the act of integration. Such an act should not be identified with the simple elimination of trade and factor barriers. It should mainly consist of a set of institutions and measures aiming at giving the potential partners the opportunity to balance the benefits and costs of integration, and to be sure of the net benefits they would gain in joining the integrated area.

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It is, therefore, clear that in order to evaluate regional economic co-operation and integration efforts among the Arab countries, and thereby the prospects of Arab economic co-operation and integration, the following two basic questions that need to be examined:

- (i) the benefits and costs that a regional grouping would bring to individual countries; and,
- (ii) the nature of the integration act.

B. Benefits and costs for individual countries in an Arab regional grouping

According to the foregoing analysis the benefits accruing to an individual country from entering a regional grouping would be mainly in the form of a higher rate of industrialization in the future, along with the shorter run gains in terms of better allocation of existing resources resulting from trade creating effects.

Against these benefits a country trying to make a rational policy decision must take into account the cost of integration in terms of trade diversion effects, the social and economic problems due to a reallocation of resources, transitional payments difficulties and the possibility of being the victim of backwash effects.

Needless to say, the measurement of the benefits and costs of an Arab regional grouping on its individual members calls for a study of existing patterns of production and trade of the countries involved and of their future plans for development and industrialization. A thorough study of this kind lies beyond the scope of the present paper. It may still be useful, however, to give some evidence of the possible bearing of a regional grouping on the countries reviewed.

By and large, all the countries reviewed suffer, in varying degrees, despite their attempts at development and industrialization during the past two decades, from structural imbalance. In the case of Egypt, Iraq, Jordan, Kuwait, Saudi Arabia and Syria, the structural imbalance takes the shape of the predominance of the agricultural sector and/or petroleum over the manufacturing sector (see table 6) and a more or less dependence on few primary products for export. As table 6 shows, structural imbalance in Lebanon is characterized by the predominance of the tertiary sector, compared with the commodity sectors.

In this respect, it is to be noted that attempts by these countries at a more balanced production structure through industrialization will be seriously handicapped by the size of their individual markets. Available studies suggest that the separate national markets of the countries under study are not large enough to permit the operation of optimal units of production for a good number of industries. This is true not only for the countries in the region with relative

small domestic markets, such as Jordan and Kuwait, but also for the larger countries such as Egypt, Iraq, Lebanon and Syria. In the case of this last group of countries, specifically Egypt, industrialization based on import substitution of consumers goods seems to have run its course. Further attempts at industrialization have to be in the fields of intermediate and capital goods industries. The required size of market, measured by population and per capita income in the case of these industries, may be much larger than the national markets of any individual country.

Thus, in so far as industrialization remains the ultimate goal for the countries of the region, regional integration will remain for each of them the principal means to achieve a level and structure of industry at a cost which is not feasible within the framework of isolated national markets.

With respect to the possibilities of trade creation and trade diversion in an Arab regional grouping, these may be assessed on the basis of the degree of complementarity and competitiveness between the economies involved as well as of the height of their prevailing tariff walls.

In the case of primary commodities, the region is characterized by diversity in national resource endowments. If endowment in national resources is the basic condition for the enjoyment of a comparative advantage in the production of primary commodities, one should expect costs to be different within the region for a variety of primary products. The existence of such differences suggests that a grouping will be beneficial for the region as a whole in so far as it leads to better allocation of resources in the field of primary commodities production.

From the standpoint of an individual country, the extent to which a regional grouping will be trade creating or trade diverting will be best illustrated by contrasting: (i) the patterns of agricultural production in Kuwait and Saudi Arabia, on the one hand, and in the countries of the region with a wide agricultural base on the other; (ii) the pattern of production within the latter group of countries.

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Table 6. Industrial origin of gross domestic product at current producers' values

(Average 1968-1969; percentages)

Sector	Egypt	Iraq	Jordan	Kuwait	Lebanon	Saudi Arabia	Syria
Agriculture, hunting forestry and fishing	29.85	17.85	15.77	0.52	9.80	6.03	24.35
Mining and quarrying	1.81	30.90	1.58	56.14	13.15	47.60	17.84
Manufacturing	19.57	8.35	9.10	3.72		8.24	
Electricity, gas and water	1.57	1.55	1.10	3.51		1.19	
Construction	4.78	2.84	5.10	4.13	4.64	5.02	3.15
Services	42.42	38.51	67.35	31.98	70.12	31.92	54.66
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: United Nations, Yearbook of National Account Statistics 1971.

a/ At constant producers' values of 1963.

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Agricultural production is insignificant in Kuwait and Saudi Arabia. The two countries, as mentioned above, hardly impose any import restrictions on the agricultural goods produced by other countries of the region. Complementarity between the two groups of countries did not lead, however, to the penetration of Kuwait and Saudi Arabia markets by some major agricultural products produced in the region. As table 7 shows the proportion of intra-regional imports to total imports of live animals and rice of Kuwait and Saudi Arabia was not, during the period 1969-1970, of a significant importance. With respect to these products it is likely then that Kuwait and Saudi Arabia would incur a trade diversion effect in case they form a customs union with the other countries of the region.

Competitiveness is best illustrated by the production of wheat and vegetables within the countries of the region having a wide agricultural base. Within this group, Syria is the most important and efficient producer of wheat,^{28/} while the other countries maintain restrictions on their imports of wheat. Vegetables are produced in Egypt, Jordan and Lebanon.^{29/} The first two countries are in a better position with regards to the cost of production than Lebanon. With respect to such products, integration with a common external tariff is thus likely to lead to a more efficient pattern of production, though the country at a comparative disadvantage has to cope with reallocation problems.

Complementarity and competitiveness among the countries of the region in the manufacturing sector will give rise to problems similar to those which integration will lead to in the case of the agricultural sector. These problems are best illustrated by taking up the case of textile industries in the region. Textiles occupy a major place in the structure of the manufacturing sectors in Egypt and Syria and, to a lesser extent, in Iraq and Lebanon. On the other hand, in both Saudi Arabia and Kuwait these industries are relatively insignificant (see table 8).

^{28/} The FAO estimates the production cost of wheat to be 63, 80, 63, 82, US dollars per metric ton in Egypt, Iraq, Jordan, Lebanon, and Syria, respectively. UN, Indicative World Plan for Agricultural Development 1965-1985, Near East, Sub-regional Study, No. 1., Vol. II, Rome 1966., p. 176.

^{29/} FAO Agricultural Policies and Programmes and Needs for their Harmonization in the Near East Region, Joint Sixth Session of the Near East Commission on Agricultural Planning and Near East Commission on Agricultural Statistics, Nicosia, Cyprus, 24 April-4 May, 1972, p. 10.

Table 7. Share of Intra-Regional Imports in Total Imports of Live Animals and Rice of Kuwait and Saudi Arabia, 1969-1970 averages
(In thousand U.S. dollars)

	Kuwait		Saudi Arabia	
	Live Animals	Rice	Live Animals	Rice
Total imports	5,535.5	7,609	24,212.5	34,924
Egypt	9	118	-	95.5
Iraq	14	0.5	-	-
Jordan	1.5	-	2	-
Lebanon	88	1.5	123.5	4.5
Syria	1,011.5	-	-	-
Sub-total	1,124	120	125.5	100
Ratio to intra-regional imports to total imports (in percentage)	20	1.5	0.5	0.28

Source: Compiled on the basis of data appearing in the Arab League, Summary of Trade Statistics of Arab Countries, 1969 and Report on Foreign Trade of Arab Countries, 1970, Statistical Centre.

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Table 8. The Share of the Textile Industry in the Total Number of Persons Engaged in the Manufacturing Sector
(Numbers and percentages)

Country	Year	Textiles (1)	Total Manufacturing Sector (2)	(1)%(2)
Egypt	1968	221,700	551,300	40.21
Iraq	1969	13,479	82,680	16.30
Jordan	1968	2,031	32,805	6.14
Lebanon	1967	6,153	57,960	10.6
Saudi Arabia	1966	45	8,074	0.55
Syria	1968	29,460	103,170	28.55

For Source and notes: see Annex Table II.

Complementarity between the two sub-regions in the field of textiles did not lead, however, to the penetration of Saudi Arabia and Kuwait markets by textiles produced in the above-mentioned countries. As table 9 shows, the proportion of intra-regional imports to total imports of cotton textiles of Kuwait and Saudi Arabia did not amount in 1969-1970 to more than 3.5 and 6.5 per cent, respectively. Such an observation should be evaluated in the light to the fact that textile imports to both countries do not meet with serious barriers. Moreover, in bilateral trade agreements between Saudi Arabia and the other countries of the region, textiles have been always benefiting from a preferential treatment. It is then clear that for trade between the two sub-regions in these products to expand at the expense of imports from intra-regional sources a common high import duty in Saudi Arabia and Kuwait is necessary. With a higher external tariff these two countries would incur a trade diverting effect. The same analysis applies, though to a lesser degree, to Jordan, where the textile sector is small and the average import duties on textiles is less than in the case of the region's main producers.

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Table 9. Share of Intra-Regional Imports in Total Imports of Cotton Textiles of Kuwait and Saudi Arabia, 1969-1970 Averages
(Value in thousand U.S. dollars)

	Kuwait	Saudi Arabia
Total imports		
Egypt	7,648.5	5,538.0
Iraq	46.0	195.0
Lebanon	-	-
Syria	3.5	19.0
	219.5	153.0
Total	269.0	367.0
Ratio of intra-regional imports to total imports (percentage)	3.5	6.5

Source: Compiled on the basis of data included in the Arab League, Summary of Trade Statistics of Arab Countries, 1969 and Report on Foreign Trade of Arab Countries, 1970, Statistical Centre.

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On the other hand, integration in the field of the textiles industry will be trade creating as far as the producing countries of the region are concerned. In this respect, available studies point to possibilities of vertical and horizontal specialization among the region's main producers, namely, Egypt, Syria, Iraq and Lebanon.^{30/} However, given the importance of the textile industry in the manufacturing sectors of these countries, a change in its structure to cope with a more efficient regional specialization will entail a short-run cost in terms of employment and value added.

The foregoing discussion is an illustration of some of the possible benefits and costs resulting from the creation of a customs union between the countries of the Arab region. The gist, though by no means conclusive, is that for the various countries of the region, joining a customs union would entail a cost in terms of trade diversion effects, and/or in terms of employment and value added as a result of reallocation of resources following the freeing of trade.

Against this possible cost, the individual countries have, however, to balance the benefits of integration in terms of trade creation effects and a higher rate of industrialization. On this balance will depend the final decision of the individual countries concerned with respect to joining the future integrated area.

This conclusion points to the need for an integration act that reduces the cost of integration and gives the individual countries the opportunity to balance the benefits and costs of integration and thereby be convinced of its net benefits.

Closely related to the issue of the benefits and costs of integration is the evaluation of the possible polarization and backwash effects that would follow the elimination of barriers to trade and factor mobility. Such an evaluation is necessary in order to identify the methods needed to provide for an equitable distribution of the integration benefits among the countries involved. The identification of these methods will assure the less developed countries of the region that, by entering the integrated area, they would be better off than if they did not. It will also help the relatively more developed ones in knowing the limits of any assistance they could afford to give to the less developed countries.

^{30/} United Nations Economic and Social Office in Beirut, Studies on Selected Development Problems in Various Countries in the Middle East, New York, 1967, pp. 24-25.

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The reasons for polarization, as mentioned above, may be subsumed under the concept of external economies. The concept of polarization implies that if in one of the countries of a particular region sources of external economies abound relative to the other countries, the freeing of trade and factor movements will make of the former country a pole of development. Any assessment of the possibility of polarization in the case of integration between the Arab countries will be faced with the difficulty of identifying the availability of various sources of external economies in these countries. Any attempt at such an identification will meet not only with the difficulty of giving an exhaustive list of these sources, but also with the difficulty that some of these sources are of an institutional character such as cultural and social amenities.

Table 10, quantifies a few indicators of external economies in the countries involved. It compares between the countries under review with respect to the size of population and per capita income (as an indicator of the size of the market), the relative importance of the manufacturing and the distributing sectors, energy production, electricity production and arable land. The table reveals that sources of polarization are not concentrated in one of the countries of the region. On the contrary, the evidence suggests that these sources are spread out over these countries with the exception of Jordan. It is then likely that integration among these countries would lead to the emergence of more than one development centre.

It is worth noting, however, that because of the defects of the free market forces as a mechanism of development, the emergence of these centres could not be brought about by the simple elimination of trade and factors barriers. The fact that the region comprises more than one potential development centre reduces the extent of conflicting interests in any future agreement on integration.

C. The act of integration and the balance of individual benefits and costs

In the light of the preceding analysis, it would seem that the main defect in the relatively advanced Arab attempts at economic co-operation (the Arab Trade Convention and the Free Trade Area) lies in the approach itself. These attempts consisted mainly of the general elimination of some or all trade barriers

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Table 10. Some Indicators of Development Potentialities, 1970

	Egypt	Iraq	Jordan	Kuwait	Lebanon	Saudi Arabia	Syria
Population (millions)	33.33	8.66	2.31	0.76	2.79	7.74	6.25
Income per head (US dollars) ^{a/}	203	274	280	3880	487	350	244
Index	100	134.97	134.93	1911.33	239.90	172.41	120.2
Manufacturing in GDP (per cent)	19.31	8.39	9.09	3.65	13.58	8.54	16.31
Index	100	43.45	47.07	18.90	70.32	44.23	84.50
Distribution in GDP (per cent)	8.98	5.74	17.69	8.61	31.38	7.15	17.70
Index	100	63.92	196.99	95.88	349.44	79.62	197.11
Energy production (million metric tons)	21.89	100.43	-	184.08	.11	234.57	5.51
Index	100	458.79	-	840.93	.50	107.58	25.17
Electric energy production (1000 KW)	7134	2115	165	2213	1230	970	947
Index	100	29.60	2.30	31.02	17.26	10.79	13.27
Arable land (10000 hectares)	2725	10000	1132	0 5	240	765	5641
Index	100	366.97	41.54	0.18	8.80	98.07	207.01

Source: United Nations, Statistical Yearbook 1971.

^{a/} 1969.

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But such general elimination leaves the countries involved in complete ignorance about future mutual trade possibilities and, thereby, about the benefits and costs of being a member of a regional grouping. In the future, Arab attempts at integration, to have a reasonable chance of success, must be carried out within a framework that renders the countries involved aware of the net benefits to be reaped as a result of a certain pattern of regional specialization. To this end, attention should be directed towards the establishment of an adequate institutional set-up, comprising a regional machinery and a mechanism that would bring about an optimum regional specialization compatible with the national interests of the potential members.

1. The regional machinery

The need for a regional machinery to carry out the establishment and operation of the integrated areas lies, as mentioned above, in the nature of the process of integration itself. In theory, and in practice, such a process calls for the co-ordination of production and investment within the integrated area. This task of co-ordination is best undertaken by a regional machinery rather than by the individual national authorities concerned.

Though the function of a "regional machinery" can be conceived in various ways, contemporary experience in the field of integration reveals that the efficient functioning of such a regional machinery is not contingent upon its being a "supranational" body to which the individual governments delegate their national authority in certain economic fields. The regional institutions of the EEC do not possess supra-national authorities, nor does the Council for Mutual Economic Assistance (COMECON). These regional bodies are, for the most part, a forum within which the participating countries negotiate alternative common solutions to their national problems. Within these regional institutions different proposals are examined in the light of both national interests and the pursuit of some kind of balance among these interests.

This point is of pivotal importance in conceiving the set-up of a regional machinery for integration, specifically in the case of the Arab countries, as these countries would be particularly reluctant to give up authority in the economic field to a supra-national body. What is required for a successful endeavour in

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the field of Arab economic integration is a regional decision-making body which, without challenging the authorities of national governments, could still bring about their agreements on the main issues of integration.

It is beyond the scope of this paper to examine the constitutional details of a regional machinery that would fulfil the above-mentioned conditions, without possessing, at the same time, a supra-national character. Nevertheless, the organization of the EEC institutions^{31/} would, for the purpose at hand, provide some guidelines. The EEC regional machinery comprises two main organs: the Council of Ministers and the Commission. The Council consists of Ministers representing the individual governments and seeks to protect the interests of the Member States. By and large, all important questions are passed by unanimity. The Commission, on the other hand, though consisting of members appointed by the unanimous approval of the Governments of the Member States, is supposed to act independently as a representative of the Community. For the Commission to perform such a function its members are chosen for their "general competence". By and large, the studies and proposals initiated by the Commission and its staff constitute the basis of decisions by the Council.

The core of the decision-making process within the EEC lies in the fact that the collective decision is taken after a confrontation and a dialogue between the Commission and the Council of Ministers; the latter representing the interests of the member states, while the former being highly technical and independent, representing the common interests of the community. Decisions emerging from such a process do not require ratification by any national parliament.

The above remarks point to the inadequacy of the Council of Arab Economic Unity as a regional machinery to carry out the integration process. The decision-making process within the Council hardly provides for a forum within which individual interests of the Member States are examined with a view to finding a formula that reconciles individual and collective interests.

^{31/} David Coombes, Politics and Bureaucracy in the European Community, George Allan & Irwin Ltd., London, 1970, pp. 42-53, and pp. 77-81.

It is worth noting, in this respect, that the decisions of the Council of Arab Economic Unity are not binding on the Member States and need ratification by the national legislative authorities. But as the decisions of the regional machinery are, by their very nature, technically balanced compromises, leaving their final approval to the national parliaments would hardly guarantee the recognition of the various highly technical elements on the basis of which the "compromise" has been reached.^{32/} Should a national parliament fail to pass a regional machinery decision, the whole regional decision-making process has to begin again, and so on. Thus, it is clear that replacing the two-thirds majority voting rule (provided for in the Agreement of Arab Economic Unity) by the principle of unanimity, while not making the implementation of the Council Decision depends on the legislative approval of national authorities, would be a better solution as far as the adoption and implementation of the Council decisions are concerned. Such a modification has the merit that while the national governments remain the ultimate authorities for all regional decisions, the adoption and implementation of these decisions would not face difficulties that are not related to their objective content.

In addition, the decision-making process, within the Council of Arab Economic Unity, does not provide for the confrontation process with a view to arriving at a certain compromise between the national and regional interests, a process that represents in the case of the EEC the "soul"^{33/} of the decision-making process. The representatives of the Member States in the Council, cognizant of the fact that the Council's decisions are not binding on their governments, would attend the Council meetings without the will or even the intention of finding out the suitable regional compromise. For instance, Kuwait's representative did not miss any of the Council meetings, though his national parliament failed to ratify Decision No. 17. Furthermore, a striking feature within the Council Secretariat is the absence of adequate provisions for the study and elaboration of proposals at the working level. Moreover, few of the Secretariat proposals

^{32/} Linberg L.N.; Scheingold, S.A., Europe's Would Be Policy, Prentice Hall, Inc., London 1970, p. 86.

^{33/} Hallstein, W., L'Europe Inachérée, Editions Robert Laffont, 1970, p.

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have been translated into action plans. In fact, the Secretariat is hardly in a position to carry out the manifold tasks that an integration process involves. Suffice it to mention, in this respect, that at present the Secretariat staff comprises eight juniors of whom two are graduates in economics and the rest are clerical staff.^{34/} In 1968, the staff of the EEC comprised 4,882 members.

Finally, but importantly, in explaining the small role played by the Secretariat, is the fact that the Secretariat seems not to carry sufficient weight within the circles of the national governments. Transformation of the Arab Economic Unity Council Secretariat along the structure of the EEC Commission is a case to be considered.

2. The mechanism

Though co-ordination of production has been a common trait of contemporary integration experiences, the mechanism used in carrying it out differs widely according to the type of economic organization prevailing in the integrated area. Within the EEC, co-ordination of production takes place through a set of harmonization policies aiming at influencing the free play of market forces in a way that would lead to a set of effects, regarded as favourable from the point of view of the integration objectives. Contrary to this, co-ordination of production has been mainly sought within the COMECON through central co-ordination of the member countries production plans.

By and large, the literature on economic integration among the developing countries stress the importance of central co-ordination through the elaboration of a regional plan. UNCTAD,^{35/} for instance, points to the need for a regional planning effort, with a view to directing resources of individual countries towards particular sectors producing for the regional market. The need for regional planning in the case of developing countries is based on the inability of the market mechanism to bring about the structural changes needed for the creation of the integrated area. The main merit of regional planning is, however, that it assures that there would be no conflict between the process of integration

^{34/} This is based on discussion with Dr. Heidar Ghaibeh, Deputy Secretary General of the Council.

^{35/} UNCTAD, Trade Expansion and Economic Integration among the Developing Countries, New York, 1967, pp. 32-45.

and national interests of the participating countries. In other words, the importance of regional planning is that it reflects the agreement of the governments involved on the shape of regional specialization.

The necessity for central regional planning does not, however, exclude the need for an effort of harmonization, covering various national economic policies followed by the participating countries. Policy harmonization should be undertaken in the interests of accelerating the process of regional specialization and of eliminating deterrents to efficient resource allocation arising from the existence of different national policies. To this end, policy harmonization should cover different policy issues: commercial policy towards the rest of the world, fiscal policy, regional payments arrangements, etc.

The literature on Arab economic co-operation concentrates on the difference in economic systems among the countries of the region as the main obstacle to integration. But in the complete absence of attempts at regional planning and harmonization, such a stress may be misleading. The low level of intra-regional trade between the countries under study would be traced back, in the last analysis, to the lack of complementarity within the Region, or to the higher price of intra-regional imports relative to extra-regional imports, or to the payment facilities that the importing country receives from extra-regional exporters. If the ultimate goal of regional planning and harmonization is to arrive at an optimum regional specialization, the rationale for mutual trade dependence between the countries of the Region will have been established, regardless of the difference in the nature of their economic systems.

It is to be noted, however, that on both the economic and political side, the issue of optimum regional specialization is a greatly complicated one. It will be the responsibility of the regional machinery to study comparative advantages within the region in order to direct national resources towards most efficient lines of production. But the evaluation of comparative advantages in a dynamic sense involves complex technical issues.^{36/}

^{36/} For a critical appraisal of the different available criteria with respect to the application of the dynamic comparative advantage principle see, UNESOB, "Regional Co-operation and co-ordination in the field of industrial development", preliminary draft, December 1972.

The task of the regional machinery will become more complicated if it has to provide for a certain degree of politically balanced regional allocation of resources. In such a case, the regional machinery would have to modify the distribution of activities among the regional partners, as dictated by the principle of dynamic comparative advantage, in order to make room for the political desires of some or all partners to have on their territories some type of economic activities. Such a problem will particularly arise with respect to the locations of industries within the area - industrialization taken as the symbol of development.

In view of these considerations, the problem of determining what is the optimum regional allocation of resources appears to be too complicated to be settled by simple maxims. A tactical approach to the determination of regional specialization within the Arab Region seems, however, necessary. In this respect one would suggest the following two lines of action:

a) Any attempt at regional planning should be selective, in the sense that it should be confined to a small number of activities in the participating countries. Selective (partial) regional planning, as opposed to comprehensive regional planning, is likely to involve fewer national interests and is then likely to be more easily acceptable.

b) The coverage of regional planning should be large enough to give each of the participating countries the chance to get a share of regional specialization, specifically regional industries, and thereby to be able to appreciate the net benefits from integration.

With these two points in mind, UNCTAD^{37/} believes that an effort of regional planning confined to a "package deal", covering a number of various projects or various sectors, would be promising as long as there would be possibilities to give satisfaction to each of the members of a regional grouping.

In the light of the preceding analysis of the benefits and costs of a customs union between the seven countries under review, it seems that for a package deal to be accepted as a basis for regional specialization, it must meet with the following requirements:

^{37/} UNCTAD, op.cit., p. 35.

a) Regional specialization in the agricultural sector should be regarded as one of the main components of any package deal. Actually agreement between the Arab countries on the pattern of regional agricultural specialization is less likely to meet with as much technical and political difficulties as in the case of regional specialization in the industrial field. Within the agricultural sector, comparative advantage is determined by natural resource endowment that hardly change in the long run and is fairly well established. Moreover, the region is characterized by a diversity of agricultural resources.

b) For such a deal to be accepted by Kuwait and Saudi Arabia, it must include industries in which the two countries would have a comparative advantage. The rationale of integration in the case of these two countries is mainly better chances of industrialization that a large regional market would make possible. Furthermore, owing to the various factors mentioned earlier, a regional grouping involving an increase in the level of imports duties actually levied by these countries is likely to lead to trade diversion effects.

c) For such a deal to be accepted by the more industrialized countries of the region (Egypt, Lebanon, Iraq and Syria) a special arrangement should be provided for with respect to the already existing industries. These countries have gone through a long phase of industrialization within programmes and plans that were not based on the perspective of the regional market. The freeing of intra-regional trade with respect to existing industries would prove, as mentioned above, to be costly in terms of employment and output. To avoid such a consequence the regional specialization scheme should assure the above-mentioned countries that it does not imply the lock-up of the existing relatively inefficient industries. Rather it would imply an obligation on the part of the member country to stop expanding its less efficient industry to cater to the expanding domestic demand. The increase in this demand should be met by the more efficient producer until the complete obsolescence of the existing inefficient industries.

d) Special measures that will favour the development of Jordan and broaden its export market within the region and compensate for revenue losses seem necessary.

The outcome of the preceding analysis is that the success of future Arab attempts at integration depends on the elaboration of a regional specialization scheme that guarantees a share in the net benefit of integration for each of the countries involved. On the other hand, the analysis reveals the difficulties that the elaboration of such a scheme would probably meet because of the conflict of interests of the participating countries.

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Owing to these difficulties, it would be advisable that some projects of the specialization scheme should be carried out through the establishment of multinational companies wherein the participating countries share the capital and the profit in a way that guarantees an equitable distribution of benefits and costs of integration. To this end, I.M.D. Little^{38/} put forward a special status. The main provisions in this status are that the capital of the multinational company is to be shared among the participating countries in proportion to their consumption of the goods to be produced, and that the company should pay out quite high proportion of its profits to the shareholders. Such provisions would likely lessen the conflict between the countries involved with respect to the benefits and costs of integration. A country that would incur, for instance, a trade diverting effect in importing the goods to be produced by the multinational company would be compensated by the provisions related to the country's share in capital and profit.

^{38/} Little, I.M.D., "Regional International Companies as Approach to Economic Integration," Journal of Common Market Studies, December 1966, reprinted in International Economic Integration, op.cit., pp. 304-310. See also, UNCTAD, Current Problems of Economic Integration, Peter Robson, New York, 1971, pp. 26-29.

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SUMMARY AND CONCLUSIONS

As early as the beginning of the fifties, the Arab countries under review (Egypt, Iraq, Jordan, Lebanon, Kuwait, Saudi Arabia and Syria) embarked upon the road of economic co-operation, with a view to fostering intra-regional trade. The tendency towards closer Arab economic relations, however, was concomitant with the tendency in Egypt, Iraq and Syria to increase the use of trade control devices, specially non-tariff barriers. While the commercial policies of Jordan, Lebanon and Saudi Arabia have been evolving in the direction of lesser trade restrictions,^{39/} they still make use of import licensing and prohibit imports of goods which are close substitutes to those that are produced locally.

Fostering intra-Arab trade was sought through both bilateral and multilateral agreements. The stipulations of these agreements ranged from partial preferential treatment, providing for the elimination of some of the trade barriers, to the complete freeing of commodities, capital, and labour movements within the Region.

Throughout the period under study, bilateral trade and payments agreements were the main instrument in encouraging intra-Arab trade. Until the end of 1953, bilateral agreements were the only tool for preferential treatment. In 1953, the Arab Trade Convention, which is multilateral in nature, came into force, but its existence did not change the spread of bilateral agreements as a means of building up closer trade relations. The emergence of the agreement for Arab Economic Unity also did not change the previous picture. The first step towards the implementation of the Arab Economic Unity Agreement was Decision No. 17 of the Council of Arab Economic Unity (CAEU) for the establishment of the Arab Common Market (ACM). January 1, 1965 was set as the starting date for the creation of a free trade area between four of the Council members, namely, Iraq, Jordan, Egypt and Syria. The implementation of the free trade area, however, met with reticence and reluctance from these countries. Although the member countries paid lip service to the case of a free trade area, by accepting the CAEU schedule for the elimination of tariff barriers, they went on subjecting their trade with each other to various quantitative restrictions in contradiction to Decision No. 17.

^{39/} The situation in Kuwait is somewhat different; except for a general import duty of 4 per cent, trade barriers are non-existent.

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The attempt of the CAEU to establish the Arab Payments Union was unsuccessful because of Egypt's objection.

It is clear from the foregoing that the ACM countries are disinclined to accept a degree of economic co-operation beyond what is embodied in bilateral agreements.

An examination of the performance of intra-Arab trade, from the early fifties up to 1970, confirms the predominant role of bilateral agreements. Remarkable expansions in intra-regional exports of the four Arab Common Market countries occurred in the years immediately following the conclusion of such agreements.

It is worth remarking, however, that if regional trade expansion is to be regarded as a means of fostering economic development, bilateral agreements among the Arab countries do not achieve this aim. In fact, these agreements do not constitute an adequate framework for a serious transformation in the productive structures of the contracting countries in order to take advantage of the prospects opened by the regional market. Bilateral agreements are concluded for a short period of time and, therefore, the lists of goods which benefit from preferential treatment are subject to continuous changes. Moreover, these agreements have frequently been used as tools by which the countries involved found outlets for the surpluses of already existing production, or access to particular commodities which were in short supply because of the scarcity of foreign exchange. For these reasons, trade has been carried out on an ad hoc basis, and has hardly contributed to an optimum pattern of regional specialization.

This shows the lack of a serious effort on the part of the Arab countries for achieving an advanced degree of economic co-operation. An explanation of such an attitude calls for exploring the rationale of integration itself and if attempts at integration by the Arab countries are compatible with the implication of such a rationale.

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In terms of contemporary literature on economic integration among developing countries, the benefits of integration for the countries contemplating entrance into regional groupings are not of a straightforward nature. In fact, the decision of a particular country to join a regional grouping is the outcome of a difficult process of balancing the benefits and costs of integration. The benefits accruing to an individual developing country as a result of entering such a grouping is mainly in the form of a higher rate of industrialization, along with the shorter-run gains in terms of a better allocation of existing resources as a result of the trade creating effects. Against these benefits, the individual country must take into account the cost of integration in terms of trade diversion effects, the social and economic problems due to a reallocation of resources, transitional payments difficulties, and the possibility of being a victim of backwash effects.

This rapid enquiry into the effects of a regional grouping on the countries reviewed shows that Arab integration efforts did not take the proper form. The agreements on Arab economic integration profess to achieve beneficial results through the elimination of trade barriers. The crux of the matter is, however, if this approach makes the countries concerned aware of such benefits while the integration attempt crystallizes. It is not clear that this happens. True the elimination of trade barriers has, for the countries involved, favourable effects on their attempts at rapid industrialization. In so far as industrialization remains the ultimate goal for these countries, regional grouping will remain, for each of them the principal means of achieving a level and a structure of industry which, costwise, is not feasible within the framework of isolated national markets. Indeed, even some of the unfavourable effects of the elimination of trade barriers are so only to a very limited extent. The case of polarization and backwash effects are pronounced less than it is generally expected, for, as this study shows, the loci of polarization are spread over these countries with the possible exception of Jordan. Thus, integration among these countries is likely to lead to the emergence of more than one developed centre. Nevertheless, the main issue remains that, in the process of integration the countries involved are left in a position where they are unable to accurately gauge the attendant benefits and costs, however minimal they may be. This explains the reluctance of the Arab countries to implement the relatively advanced degrees of economic co-operation. Moreover, in explaining this reluctance

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one should not lose sight of the fact that, whilst the integration, with respect to some of its effects, is beneficial to some countries and detrimental to others, the agreements are silent on the mechanism guaranteeing equitable distribution of benefits and costs. In this respect, this study, though covering only few products, suggests that for some countries of the Region (Egypt and Syria) the formation of a customs union will be trade creating. For other countries (Kuwait, Saudi Arabia and, to a lesser extent, Jordan) the study illustrates that the formation of a customs union will be trade diverting.

For all the above reasons, it is clear that, in order to make the integration process workable, it is important to create a situation where the countries involved become aware of the net benefit to be reaped as a result of economic integration. This calls for the establishment of an adequate institutional set up, comprising a regional machinery and a mechanism that will make the countries concerned constantly conscious and aware of the net benefits.

As far as the regional machinery is concerned, the study asserts that the efficient functioning of such a machinery is not contingent upon its being a supranational body to which the individual governments delegate their national authorities in certain fields. What is required for a successful endeavour in the field of regional economic integration is a regional decision-making body which, without challenging the authorities of national governments, could still bring about agreements on the main issues of integration. In the case of the EEC, for instance, the collective decision is taken after a confrontation and a dialogue between the Commission and the Council of Ministers, the latter representing the interests of the Member States, the former being highly technical and independent, representing the common interest of the community. In the light of these remarks, it seems that the main defect of the Council of Arab Economic Unity as a regional machinery is that, within the Council, the decision-making process does not provide for confrontation, with a view to arriving at a certain compromise between the national and regional interests.

First, the decisions of the Council of Arab Economic Unity are not binding on the Member States and need ratification by the national legislative authorities. This seems to be due to the fact that the Council decisions are taken by a two-thirds majority and not by unanimity. However, the fact that the decisions of the regional machinery, which are by their very nature technically balanced compromises,

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are left, for their final approval, to the national parliaments, held separately, would hardly guarantee the recognition of the various highly technical elements on the basis of which the compromises have been reached. For this reason, replacing the two-thirds majority voting rule (provided for in the agreement of Arab Economic Unity) by the principle of unanimity, which thus will not make the implementation of the Council decisions dependent upon the legislative approval of national authorities, will be a better solution as far as the adoption and implementation of the Council decisions are concerned. Such a modification has the merit that, while the national governments remain the ultimate source for all regional decisions, the adoption and implementation of these decisions will not face difficulties pertaining to their technical content.

Secondly, it seems that the Secretariat of the Council is not formed in a way that permits it to appear as representative of the regional interest. The Secretariat should be comprised of those who are known for their technical competence and devoted to the regional cause. To this should be added the need for an adequate staff size to enable the Secretariat to carry out the manifold tasks which the integration process involves. Transformation of the Arab Economic Unity Council Secretariat along the structure of the EEC Commission is a case to be considered.

As to the mechanism which is needed to carry out the integration process, the study argues in favour of the need for regional planning and policy harmonization in order to arrive at an optimum regional specialization that assures the absence of conflict between the process of integration and the national interests of participating countries.

The achievement of such an optimum would, however, meet with both technical and political problems. The evaluation of dynamic comparative advantages within the region involves, as it is well known, complex technical issues. The issue appears more complicated if we have to modify the distribution of activities among the regional partners, as dictated by the principle of dynamic comparative advantage, in order to assure a certain degree of politically balanced regional allocation of resources.

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In view of these considerations, the problem of determining what is the optimum regional allocation of resources appears to be too complicated to be settled by a simple formula. In this respect, the study suggests two lines of action: (a) attempts at regional planning should be selective; and, (b) the coverage of regional planning should be large enough to give each of the participating countries the chance to get a share of regional specialization, specifically of regional industries, and thereby be able to appreciate the net benefits from integration. Regional planning, in other terms, should cover a package deal embracing a number of projects or sectors that would give satisfaction to each of the members of the Region.

In this study, the analysis of benefits and costs of a customs union between the countries involved suggests that, for a package deal to be accepted, it should meet the following requirements:

(a) Regional specialization in the field of agriculture should be regarded as one of the main components of any package deal. The fact that the Region is characterized by a diversity of agricultural resources, and that comparative agricultural advantages are mainly determined by national resource endowments, make the agreement of the countries concerned on the pattern of regional agricultural specialization less likely to meet with technical and political difficulties than in the case of regional industrial specialization;

(b) for such a deal to be accepted by Kuwait and Saudi Arabia, it must include industries in which the two countries have a comparative advantage. The rationale of integration in the case of these two countries mainly rests on the better chances of industrialization which a large regional market will make possible. Furthermore, owing to the various factors mentioned earlier, a regional grouping which involves an increase in the level of imports duties actually levied by these countries is likely to lead to trade diversion effects;

For such a deal to be accepted by the more industrialized countries of the Region (Egypt, Lebanon, Iraq and Syria), a special arrangement should be made with respect to the already existing industries. These countries have gone through a relatively long phase of industrialization within programmes and plans

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that were not based on the perspective of the regional market. The freeing of intra-regional trade with respect to existing industries would prove, as mentioned above, to be costly in terms of employment and output. To avoid such a consequence, the regional specialization scheme should assure the above-mentioned countries that it does not imply the shutting down of the existing relatively inefficient industries. Rather, it would imply an obligation on the part of any one member country to stop expanding its less efficient industry to cater to the expanding domestic demand. The increase in this demand should be met by the more efficient producer until the complete obsolescence of the existing inefficient industries is achieved;

(d) special measures which favour the development of Jordan, broaden its export market within the Region, and compensate for revenue losses appear to be necessary; and,

(e) in order to lessen the conflict between the countries involved, with respect to the benefits and costs of integration, it would be advisable that some projects of the specialization scheme should be carried out through the establishment of multinational companies where the participant countries share the capital and the profit in a way that guarantees an equitable distribution of benefits and costs of integration.

In view of the above analysis, it seems unacceptable to concentrate, as the contemporary literature on Arab economic integration does, upon the differences in the economic systems of the countries of the Region as the main obstacle to integration. In the complete absence of attempts at regional planning and harmonization, such a stress may be rather misleading. The low level of intra-regional trade between the countries under study would be traced back, in the last analysis, to the lack of complementarity within the Region or to the higher price of intra-regional imports relative to extra-regional imports or to the payment facilities that the importing country receives from extra-regional exporters. If the ultimate goal of regional planning and harmonization is to arrive at an optimum regional specialization, the rationale for mutual trade dependence between the countries of the Region will have been established, regardless of the differences in the nature of their economic systems.

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ANNEX TABLES

ANNEX TABLE I
CHRONOLOGICAL* LISTING OF INTRA-ARAB BILATERAL TRADE AND PAYMENT AGREEMENT

	Egypt		Iraq		Jordan		Lebanon		Saudi Arabia		Syria	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Egypt			P 12/10/58 T 15/11/58 P 10/2/54 Prot. 10/2/54 P 24/6/65 T 21/12/65 Prot. 26/2/67 Prot. 27/7/67 Prot. 1/5/63	(12/10/58)** (17/1/59)** (1/7/68) (10/7/65)	T5/8/51 T14/9/67 T29/8/70 Prot. 20/9/65	(5/8/51) (1/4/71) (1/10/70)	T&P 2/9/51 T&P 27/6/56 Prot. 20/10/65	(2/9/51) (11/6/57)	T&P 31/5/49 P 8/6/54 P 5/9/55 T 21/2/58	(31/5/49) (16/6/54) (5/9/55) (21/9/58)	T 20/8/50 T&P 29/1/56 T 31/8/58 P 8/6/66 T 29/1/67 Prot. 6/9/67 T 1/5/69 Prot. 1/5/69	(28/1/51) (23/10/56) (23/11/58) (1/7/68)
Iraq	See Egypt/Iraq				T30/9/53 T 9/12/65 Prot. 20/8/67 T29/4/68	(22/6/54) (1/3/65)	T&P 20/2/51	(11/4/52)	T&P 15/5/57	(20/12/57)	P 12/10/58 T 15/11/58 T 3/11/61 Prot. 20/8/67 Prot. 20/11/67 Prot. 20/8/69	(12/10/58) (18/1/59) (21/12/61)
Jordan	See Egypt/Jordan	See Iraq/Jordan					T 27/8/52	(9/3/53)	T 1963***	1963***	T 18/2/53 T 26/4/65 T 4/2/52 T 5/3/53	(29/4/53) (7/3/52) (28/3/53)
Lebanon	See Egypt/Lebanon	See Iraq/Lebanon			See Jordan/Lebanon		See Lebanon/S. Arabia				T 29/1/50 T 9/1/55 P 5/4/57 T 16/11/61 T 25/3/64	(29/1/50) (16/3/56) (15/4/57) (10/9/62)
Saudi Arabia	See Egypt/S. Arabia	See Iraq/S. Arabia			See Jordan/S. Arabia							
Syria	See Egypt/Syria	See Iraq/Syria			See Jordan/Syria		See Lebanon/Syria		See S. Arabia/Syria			

Sources: Diab, M.A. Intra-Arab Economic Cooperation, 1951-1960, Economic Research Institute, A.U.B., Beirut, 1960, p. 60.
Mursay, A.G., An Arab Common Market, Praeger, New York, 1960, p. 150; Different national sources.

Notes * The table contains only bilateral trade and payment agreements and protocols for which information is available.

(1) Date concluded.

(2) Date of entry into force.

(P) Designates payment agreement; (T) Designates trade agreement; (Prot.) Designates protocol.

** Agreements with UAR (Egypt, Syria).

*** Exact date not ascertained.

ANNEX TABLE 2
DISTRIBUTION OF PERSONS ENGAGED IN THE MANUFACTURING SECTORS

ISIC Classes	NUMBER Groups	(1)		(2)		(3)		(4)		(5)		(6)	
		Egypt 1000	%	Iraq No.	%	Jordan No.	%	Lebanon No.	%	Saudi Arabia No.	%	Syrian Arab Republic 1000	%
20-22													
23	Food, beverages and tobacco	105.4	19.14	20398	24.68	9511	28.98	15894	27.40	2423	30.10	31.97	30.98
	Textiles	221.7	40.21	13479	16.36	2031	6.14	6153	10.06	45	.55	29.46	28.55
	Footwear	3.7	.67	2141	2.50	1771	5.39	3843	6.6	76	.94	4.34	4.21
241,242	Clothing	3.4	.62	2925	3.53	2070	9.05			15	.18	2.85	2.76
243,244	Wood product except furniture	3.8	.69			314	.95	6707	11.6			1.94	1.88
25	Furniture and fixtures except metal	4.4	.80	1021	1.23	3783	11.53			622	7.90	9.42	9.15
26	Paper and paper products	13.3	2.41	2727	3.29	349	1.06	626	1.08	132	1.64	.16	.15
27	Printing and publishing	12.9	2.53			1397	4.25	3180	5.50	614	7.90	1.17	1.13
28	Leather and leather products	3.0	.54	836	1.02	283	.86	968	1.67	178	2.09	1.22	1.18
29	Rubber products	4.1	.74			186	.56	282	.55	70	.86	.72	.69
30	Industrial chemicals	17.5	3.17	5329	6.44	1216	3.71			439	5.53	1.66	1.10
31	Plastic products	5.9	1.07					2940	5.10	84	.10	.38	.36
	Other chemical products	25.3	4.59			958	2.92			230	2.83		
311,319	Petroleum refineries	8.5	1.54							942	7.83	.01	.01
321	Mixed products of petroleum and coal	1.4	.26									.14	.13
329	Pottery, china & earthenware	2.4	.44	19751	23.88							1.25	1.21
331,333	Glass and glass products	7.5	1.38			1876	5.71	6120	10.50	981	16.08	5.23	5.09
332	Other non-metallic mineral products	20.8	3.77										
334	Iron & steel basic industries	20.9	3.79	2634	3.25	3438	10.43			318	3.93		
339	Non-ferrous metal basic industries	2.6	.47					921	1.59	46	.56	1.12	1.08
341	Metal products except machinery	25.3	4.59	1382	1.67	33	.10			444	5.69	5.89	5.76
342	Machinery except electrical	10.8	1.96					10326	17.81	46	.56	1.72	1.64
35	Electrical machinery apparatus etc.	12.2	2.22	877	1.07	724	2.20					.48	.46
36	Transport equipment	12.0	2.17	8909	10.73	1091	3.32			62	.76	.10	.11
37	Professional photographic goods	0.5	.09										
38	Other manufacturing industries	1.9	.34	221	.25	893	2.76			107	1.42	1.93	1.88
39	Total of persons engaged in the manufacturing sectors	551.3	100.00	82680	100.00	32805	100.00	57960	100.00	2074	100.00	103.17	100.00

DISTRIBUTION OF PERSONS ENGAGED IN THE MANUFACTURING SECTORS (continued)

Sources: Column 1, 2, 3, 6, U.N., The Growth of World Industry 1970.

Column 4. United Nations Economic and Social Office in Beirut, Surveys of the Industrial Development Plans of Selected Countries in the Middle East, March, 1971, pp. 51-52.

Column 5. United Nations Economic and Social Office in Beirut, Some Aspects of the Manufacturing of Agricultural Machinery and Implements and of the Engineering Industries in Selected Countries of the Middle East.

a/ Persons engaged: The concept covers working proprietors, active business partners and unpaid family workers as well as regular employees.

b/ Employees: Include all persons engaged other than working proprietor active business partners, unpaid family workers and home-workers.

