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REVIEW OF ARAB INDUSTRIAL STRATEGIES AND POLICIES: PREPARING FOR THE 21ST CENTURY

by

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Contents

I. Introduction

This study addresses issues relating to trends in the industrial sector in the Arab countries in general and the ESCWA region in particular, in light of the effects of the rapidly changing global and regional environments.

Despite some positive achievements, the industrial sector in the Arab countries as a whole, including the ESCWA member states, remained in the late 1990s unprepared to meet the challenges of globalization. As aspirations of consumers and firms alike soared during the closing years of the 20th century, due in part to globalization, the region's industrial development stagnated.

Increasing socio-economic pressure, induced in part by the information and communication technology (ICT) revolution, is imposing on Arab countries the necessity to review their industrial strategies and policies to take into account the main implications of rapid technological change. The latter, interacting strongly with other global and regional developments, continues to have an increasing impact on ESCWA countries' industries in particular, as well as those of the Arab countries in general.

The new rules laid down by the World Trade Organization (WTO) are a particularly important aspect of this process. The WTO agreements have greatly expanded the reach of multilateral rules and disciplines. The effective implementation of the agreements on Subsidies and Countervailing Measures, Antidumping, Safeguards, Trade Related Intellectual Property Rights (TRIPS), Customs Classification, and Technical Regulations and Standardization, among other measures, are leading to increased competition in the world economy with major implications for the region. Recent developments concerning the WTO, pre- and post-Seattle 1999, will also have an important impact on some industries in various countries of the ESCWA region.

Some in the region have reacted by perceiving such developments purely as threats instead of seeing the opportunities in them, calling on the state and others to provide protection and similar measures to preserve the old status quo.

Such a situation is proving to be increasingly untenable, leaving the region wrestling with some of the greatest economic challenges it confronted in the past few decades. Among the pressing questions facing the region are: Why has industrial development lagged in the Arab region? What are the basic explanatory factors of this slow growth? What is needed to reverse such negative trends? Can a collective, pan-Arab industrial strategy contribute to a brighter economic future for the ESCWA region, or should more emphasis now be placed on non-Arab countries (neighboring or otherwise) and on subregional development? It is one of the aims of this study to examine such questions and help contribute to establishing a framework for industrial strategies for the ESCWA member countries and for the region. To do so, the study will address three major themes:

One: The changing international environment including prospects of peace and its impact on the region, including

A. The WTO and the new global market and their impact on the region, within the context of recent developments in, among other things, issues concerning technical barriers to trade (TBTs) and environmental constraints

B. The challenge of large regional economic groupings such as the EU, the expansion of the partnership with the EU through the Euro-Med process as well as the enlargement of the EU itself, and formation of other non-Arab regional economic blocs

C. International standardization and related issues including ISO 9000 and 14000, and the application of such standards for accessing world markets

D. Advances in the application of industrial technology and innovation, and its impact on industrial strategies and policies in Arab countries, with particular reference to the ICT revolution and such issues as ICT and other knowledge-based industries, as well as innovations in production management, outsourcing, marketing alliances, etc

E. The economic implications of the peace process on the manufacturing sectors of ESCWA member countries, which are less prepared to enter the international market than more advanced Israeli counterparts, various constraining factors limiting the development of relations between firms, and the threats to and opportunities in manufacturing activities in the region, including not only Israel but also other countries such as Turkey

F. The growing role of transnational corporations (TNCs) that, with their enormous resources and huge bargaining power, are playing a crucial role in foreign direct investment (FDI) in the region.

Two: The changing regional trade environment, including

A. The Arab Free Trade Agreement (AFTA) and other developments regarding pan-Arab economic and industrial co-operation

B. Subregional arrangements, including the Gulf Co-operation Council (GCC), as well as bilateralism

Three: Developments in industrial strategies and policies, the role of the state, and new options in the region under conditions of major change

A. The new role of the state in formulating an outward-looking industrial strategy, and challenges confronting it including tapping regional and neighboring export markets, as well as helping to develop an adequate business environment. The latter in particular is connected with the regime for FDI and adopting a new policy towards TNCs, as well as other aspects of the legal and policy framework for industry and the issue of transparency of the economy.

B. Privatization as a key reform, constraints facing privatization, and trends in privatization in the countries of the region

C. The new roles of the private sector and its institutions, as well as of international organizations, focusing on selected areas where private institutions together with official bodies are taking action to assist industrial firms to cope with the new challenges

D. Gender mainstreaming and the role of women in the industrial sector in Arab countries

E. Industrial Modernization Programs (IMPs) and the provision of entrepreneurial encouragement, advisory services, and training.

II. Overview of the Arab Industrial Sector at the End of the 20th Century

A. Introduction

While a few positive achievements have been recorded in some Arab countries, sustainable industrial development has remained elusive in most of the region. In any case, and looming behind this problem as well as interacting with it, during the 1990s the Arab region's economic growth continued to lag behind the world average. A combination of an average annual rise in population of close to three per cent, falling real oil revenues, weak exports, the cost of the Gulf crisis that began in 1990-1, civil wars, massive military expenditure, and other factors have undermined economic prospects for the Arab countries. More than most other developing regions, the Arab economies remain unprepared to meet the challenges of globalization.

This impression is strengthened when looking at the industrial sector of the ESCWA region in particular during the second half of the last decade of the 20th century. Taking as a benchmark the study prepared in 1995 on "Industrial Strategies and Policies in the ESCWA Region within the Context of a Changing International and Regional Environment," (1) we find that many of the region's problems of the 1991-5 period were still severe at the dawn of the 21st century. These include general issues as well as ones specifically related to the manufacturing sector.

B. Some general problems of Arab economies

The economies of the ESCWA member countries today, as in the early 1990s, lack diversity. Oil exports are still the main economic engine of the region. Rentierism is a widespread phenomenon and is not restricted to the oil-rich countries, and there remains a secondary dependence on oil revenues throughout the region.

Regional co-operation is a slogan without any economic pressure from the private sector or a genuine political will behind it. External indebtedness is massive and continues to sap the energies of the region. Domestic savings are inadequate to finance investment, and high consumption levels still exist in most ESCWA and other Arab economies. Particular problems include:

1. Heavy reliance on revenues from oil

Though falling, the continuous direct and indirect heavy dependence on oil revenues among the countries of the region is symptomatic of economic failure. This dependence continues to expose ESCWA economies to the wide fluctuations of the world market for oil, as was dramatically manifested in the sharp swings in prices of crude in the late 1990s, from under ten dollars a barrel in early 1999 to around thirty barely a year later.

This was also true for the Arab economy as a whole. For example, it declined by 1.7% in 1998, as total Arab GDP fell from $599 billion to $589 billion. This largely reflected the sharp drop in oil prices that year, leading to a fall in total Arab oil income from $118 billion to $82 billion. (2) Arab government revenues as a whole, like those of the ESCWA region, continue to depend heavily on oil and gas exports.

2. Income inequalities

Income inequalities between and within Arab countries have helped to undermine various efforts at reform and development. Inequalities between ESCWA states have hampered regional integration and caused various other serious economic problems. Taking the United Arab Emirates, the region's richest economy in terms of per capita GDP at constant dollar prices, we find that this was in 1992, 1995, and 1998 respectively 17325, 19370, and 19758. The comparable figures for the second richest, Qatar, were 14818, 14850, and 16672. At the other extreme, for Iraq, the poorest, the figures were 247, 136, and 181; while those for Yemen, the second poorest, were 499, 246, and 306. (The average for the region was 2084, 2276, and 2379.) (3) The gap between rich and poor was thus growing larger during the 1990s. At the same time, inequalities within countries have sometimes helped to cause delays in reforms such as privatization or overhauling the tax system.

3. Heavy reliance on external sources of finance for investment

ESCWA member countries were in the early 1990s and remain today the recipients of the highest per capita official development assistance (ODA) in the world. For example, in 1998, net ODA for Yemen was 7.9% of GDP, as opposed to 7% in 1993, and for Jordan in 1998 the comparable figure was 7.1% of GNP, as opposed to 5.8% in 1993. Figures for 1998 also indicate that bilateral aid is still very high, with Egypt at $1,471 million being the second-highest aid recipient in the world; Jordan at $277 million is also a very high per capita aid recipient. (4) External debt as a ratio of exports or GNP also remains very high, yet FDI is still low compared to other regions.

4. Large military expenditures

Though these have fallen for some ESCWA countries over the last few years, military expenditures are still very high in the region in general. For example, Egypt's defense expenditure for 1994 was $2.2 billion, and its defense budget for 1996 $2.4 billion, close to 9% of total government expenditure; comparable figures for Jordan were $0.4 billion and $0.5 billion, and 21%, and for Syria $2.1 billion, $1.8 billion, and 28%. (5)

5. Low and unstable GDP growth

For the ESCWA countries as a whole, real growth of GDP has fallen from an annual average of 4% in 1992-5 to 1.9% in 1996-9. One of the main reasons for this was the drop in oil prices and the consequent major declines in the incomes of the oil-rich GCC economies. Saudi Arabia's comparable figures for these periods are 0.8% and -0.2%, Lebanon's 5.4% and 3.3%, and Egypt 3.8% and 5.2%.

Instability is also a characteristic of GDP in most countries of the ESCWA region. Only two ESCWA region countries, Egypt and Lebanon, did not record any contractions in annual changes in real GDP in 1991-9. (6)

6. High public sector consumption

Though now falling, after previously growing at unprecedented rates supported by revenues and aid from oil-rich countries, the percentage of final government expenditure to GDP in ESCWA countries is still high. Another problem is that while the regional average has shown an impressive fall, from 26.6% in 1992 to 21.1% in 1995 and 20.9% in 1998, the rate of decline has been slowing. Comparable country figures are 23.9%, 20.9% and 20.8% for Bahrain; 10.4%, 10.5%, and 10.1% for Egypt; 22.4%, 24.4%, and 26.7% for Jordan; 14.3%, 9.9%, and 10.9% for Lebanon; and 32.3%, 25.7%, and 28.4% for Saudi Arabia. (7)

7. Stagnant exports and high import levels

Merchandise exports in the region are stagnant, but imports, while dropping, remain high. The overall percentage of merchandise imports to merchandise exports in ESCWA countries was 98.9% in 1992, 91.5% in 1995, and 99% in 1998.

The percentage of merchandise exports to GDP in ESCWA countries is falling, from 44% in 1992, to 42.6% in 21995, and 38.5% in 1998. The comparable figures were 70.8%, 69% and 67.4% for the UAE; 26.3%, 31% and 33.8% for Syria; 45.1%, 43.7% and 43.4% for Saudi Arabia; and 51%, 44.3%, and 44.1% for Qatar. At the same time, while the comparable ratio for imports has also dropped, its decline has been slightly less marked. For the region, this figure went from 43.5% in 1992, to 39% in 1995, and 38.2% in 1998. Comparable figures for Kuwait were 54.2%, 43%, and 46.7%; Oman 35.6%, 35.6%, and 46.1%, and the UAE 57%, 63%, and 67.4%. (8)

8. Limited upgrading of technology

Except in a few isolated sectors, little upgrading of technology has taken place in the region during the 1990s. Even where this has occurred, it has been limited.

A glaring example of the region's weakness in this respect has been the electronics sector, with Syria providing a case in point. For example, electronics production began in Syria over thirty years ago, at the same time as it started in Israel, with the assembly of television sets. At that time, the two countries' activities in this respect were similar, and at roughly the same level technologically. By the 1990s, the Israeli electronics sector had taken off to become an excellent, competitive activity, while its Syrian counterpart remained virtually as it had been in the 1970s, but becoming inefficient and obsolescent. During the mid-90s, the production of TV sets in Syria was revamped and new technology introduced, but even this change was limited; in any case, Israel's electronics industry has now progressed to world leadership in some areas, with its highly sophisticated equipment becoming a major export.

9. Low diffusion of ICT and other advanced technologies.

The ICT sector and other advanced technologies are not properly diffused in the region. In the case of ICT in particular, this is especially true of the non-GCC ESCWA and other Arab states. For example, though the estimated teledensity for ordinary telephone lines in 1999 in the GCC subregion of ESCWA is about double the world average, but half of it for the rest of the region. In addition, for the Arab world as a whole, Oman, Jordan, Tunisia, Egypt, Algeria, Morocco, and Syria were in 1999 among the countries with personal computers (PCs) per capita far below the world average. Lebanon and some of the GCC states have high averages, but in the case of the latter in particular this is felt to be partly due to the presence of many foreigners in the population. (9)

C. Structural problems in manufacturing

Manufacturing industry in the Arab countries remains characterized by a number of chronic problems. The more important of these are listed below; some of them have been exacerbated over the past few years, while others have become slightly less severe in various places. However, whatever the degree of improvement or deterioration, most of these problems still exist in almost all Arab countries and contribute to the underdevelopment of manufacturing industry.

1. Low levels of research and development

R&D spending as a percentage of GNP in the Arab world remains very low. Figures for 1997 from Kuwait (0.2%) Syria (0.2%) and Tunisia (0.3%) are typical of the Arab countries as a whole and the ESCWA region in particular. By contrast, Israel in the same year spent around 2.4% of its GNP on R&D. Even Egypt, still the one Arab country that has mounted a credible R&D program, underperforms much of the Third World and is far below the developed countries. R&D output in the region also remains low, though a slight improvement is apparent. For example, the number of registered US patents originating from some ESCWA countries has increased over the past few years, albeit at a modest rate. Thus, though Egyptian patents thus registered were 3 in 1992, 7 in 1995 and 3 in 1998, the comparable figures for Kuwait were 1, 2, and 6, and for Saudi Arabia 10, 11, and 20. In any case, the number of international patents being registered by these and all other Arab countries is still extremely low. By contrast, the comparable Israeli statistics were 392, 489, and 920. (10)

At the same time, even the meager fruitful results of Arab research that do exist have not been commercialized. Meanwhile, new factories continue to be mainly turnkey projects, with little local technological input; and even where the latter is introduced, it consists of low, traditional technologies.

2. Lack of established clusters of firms

Though it has become recognized that over the long run, clusters of linked industries may provide conditions necessary for sustainable growth, the industrial structures of ESCWA member countries typically remain fragmented and weakly articulated. There have been some successful attempts at creating large industrial cities (for example, Yanbu and Jubeil in Saudi Arabia), but much more is needed than building on technical or other affinities. At the same time, though attempts to apply cluster methodologies to assess the performance of various sectors that include important manufacturing elements in countries such as Jordan and Lebanon are still in their early stages, they are nevertheless fast coming to practical recommendations to develop cluster models in these economies.

3. A shortage of large manufacturing firms with a home base in the region

Other things being equal, smaller firms undertake less R&D and are too fragile to compete in globalized world markets, among other disadvantages. However, the Arab countries larger firms are typically not manufacturers. The Saudi Basic Industries Corporation (SABIC) was the only manufacturing firm in the top ten publicly quoted Arab companies in term of market capitalization ($9.2 billion) in the years 1999 and 2000. The very largest firms in the region are mainly in the bank and other services sectors, though in terms of companies whose shares are quoted on stock exchanges, manufacturers made up 30% percent of the top 500 firms in 1999. However, they constituted less than nineteen percent of the total market value. Nevertheless, some of the faster-growing companies of the Arab region are manufacturers, including the Hilal Cement Company of Kuwait (with a market capitalization in 1999 of $71 million), the Torah Portland Cement Company of Egypt ($525 million), Societe des Eaux Minerales d'Oulmes of Morocco ($61 million), Nasr Clothing and Textile of Egypt ($123 million), Societe Frigorifique et Brasserie de Tunis of Tunisia ($258m million), and the Saudi Cable Company ($227 million). That these six manufacturing firms all ranked among the top ten companies in terms of growth in market capitalization in the Arab states in 1998-9 is encouraging, but even the biggest of these would be classified as a very small company in international terms. (11)

4. Problems in education and training

Though most Arab countries are allocating a large share of GDP to education and training, they are still far from adequate to serve the needs of the modern manufacturing sector. Those who complete vocational training are often ill prepared to meet the knowledge and skill requirements of modern manufacturing. It is still true that supply-rather than demand-driven training programs do not correspond to the realities of labor needs in manufacturing. At the same time, there is a near total absence of authentic accreditation systems for knowledge, skills, and competencies, though Bahrain and Oman have recently started the introduction of national vocational qualifications as part of the training programs effort in each country.

5. Inadequate financing for technology-and export-oriented companies

While some attempts have begun in Egypt and Jordan over the past few years to support the financing of technology- and export-oriented companies, the vast majority of such firms do not have meaningful access to funding from traditional financial institutions or from local financial markets.

6. Relatively modest manufacturing activity in most Arab countries

The region still depends strongly on primary production, and manufacturing activity has remained limited though its share is slowly growing. The percentage share of manufacturing industries in GDP for all Arab countries in 1992, 95 and 98 respectively was 10.2, 10.5, and 11.3, and for the ESCWA region 9.2, 9.9, and 11.5. Except for Iraq, Qatar, Lebanon, and Egypt, ESCWA countries in the late 1990s had larger manufacturing sectors relative to their economies than at the beginning of the decade. However, non-ESCWA Arab countries did better in this respect, and no ESCWA economy even approached the 25-32% figure of Tunisia in the 1990s. (12)

7. Low manufacturing value added

Manufacturing value added per worker in the region remains modest, stagnant, and below the average of low-and middle-income countries. In Syria, average annual value added per worker in manufacturing in 1995-9 was around $9,900, barely up from about $9,600 in 1980-5. Even worse were the comparable figures for Jordan of $16,300 and $11,900. Egypt ($3,700 and $6,000) and Morocco ($6,300 and $9,100) did better, but such productivity is still poor in comparison with other developing countries in absolute terms. For example, 1995-9 average annual value added per worker in manufacturing in Bolivia, the poorest country in South America in terms of GNP per capita, was $26,300; and in Chile, a country at the level of the ESCWA economies in terms of R&D application, $33,000. (13) The 1995 ESCWA baseline study noted that the region's manufacturing value added per capita was below that of Latin American countries (14) still the case at the end of the 20th century.

8. Domination of the region's manufacturing sector by a limited number of industries

For net oil-exporting countries, manufacturing industry at the end of the 20th century was still concentrated in energy-intensive products including fertilizers, steel, and petrochemicals. For the more diversified economies, manufacturing activities remained concentrated in traditional industries such as food processing and textiles. Machinery and transport equipment manufacturing show very low shares by all standards.

On the other hand, the share of intermediate goods such as chemicals; rubber, plastic, other non-metallic items; iron; and investment goods including electrical machinery has increased in counties such as Saudi Arabia, Kuwait, Jordan, and Egypt. This shift in production and value added in favor of intermediate and capital goods - although slow in most countries - is the expected result of maturing industrial performance and the increasing level of backward linkages developed over time.

D. New issues with an impact on manufacturing industries

In addition to the general economic weaknesses listed in Section B above, as well as the particular chronic problems of manufacturing industry given in Section C, new overarching issues have emerged over the past half decade, further complicating the development of this sector. These, especially WTO membership, the European Union-Mediterranean (Euro-Med) Association Agreements, and the Middle East peace process, must be taken into account in a study of regional industrial development. These factors are not necessarily problematic per se and, in the end, benefits from them should appear for whole economies as well as individual sectors - including manufacturing - and industries. However, the short- and medium-term impact of the WTO, Euro-Med, and Arab-Israeli peace has tended to complicate the picture regarding manufacturing industry, and problems of adjustment to new realities or to looming changes have arisen in many cases. A short presentation of these three important issues will be given here; they will then be dealt with in detail and in their broader context in the next part of this study.

1. WTO membership

The Arab region as a whole is entering the 21st century with some of its economies not yet acceding to the WTO and accepting its conditions for membership in the New Global Economy. Though Jordan finally joined the WTO in the year 2000, along with Oman and Yemen, Saudi Arabia, the largest Arab economy, is still not a member, and its negotiations for entry have now gone on for several years without a close end in sight. Other Arab countries seeking to join include Algeria, as well as Lebanon, which obtained observer status to the WTO in 1999; but Iraq and Syria are still far from doing so.

Although the trade liberalization that will come through WTO membership will enhance competitiveness in the end, it is likely that it will produce negative repercussion on the competitive position of Arab industries in the short run. The severity of these will depend in part on issues related to market access under WTO Agreements. Examples of this include problems related to TRIPS in Jordan, as well as in Lebanon. (It is significant to note that the latter country has already started to confront complications in various manufacturing industries due to WTO-related issues without even being a member.)

2. Euro-Med

The economic pillar of the Euro-Mediterranean Partnership, launched in Barcelona in 1995 contemplates among other things the implementation of free trade agreements between the EU and each of the twelve Mediterranean non-EU countries by the year 2010, the majority of which are Arab. However, this target is starting to appear unlikely. This is partly due to problems of the speed of ratification on the European side, as well as to diverse issues of economic adjustment in the Arab countries. While some of the latter questions have to do with agricultural exports to the EU (notably in the case of Egypt's so far unsuccessful Euro-Med negotiations) others are related to manufacturing industry. These include the call by the EU for the Arab countries to respect trade-related intellectual property rights (as in the case of Jordan's pharmaceutical industry) though the application of environmental measures and other technical barriers to trade by Europe is also becoming a more important issue.

In 1995, Morocco and Tunisia signed Euro-Med Agreements with the EU, but for various reasons, these have encountered obstacles. In Tunisia, lagging institutional reform was responsible for the weak response of industrial investment following the launching of the

Euro-Med Association Agreement. For Morocco, similar delays have led to postpone from 2010 to 2012 the final date set for achieving industrial free trade. In 1997, Jordan signed an Association Agreement with the EU as contemplated in the Barcelona Declaration. However, the pact has not yet been ratified and therefore has not entered into force because of delays in passage through some EU parliaments. Although originally it was expected that by 2010 there would be free trade between Jordan and the EU, it appears now that this will not be the case in all likelihood until 2012 at the earliest. Other Arab countries are still varying and sometimes considerable distances from concluding Euro-Med agreements.

In any case, it is noteworthy that agreements are being negotiated and signed between individual Arab countries and the EU, leading to a "hub and spokes" arrangement that leaves Mediterranean countries at a disadvantage to Europe. This is supposed to be accompanied by an intra-Mediterranean process of trade liberalization, but this has not yet moved with any speed, even among Arab countries. In this respect, it is interesting to contrast the Euro-Med process with US attempts to promote intra-regional integration. These most notably include the qualifying industrial zone (QIZ) methodology for boosting Jordanian-Israeli co-operation in manufacturing, as well as the Eizenstat initiative, which attempts to bring closer the Tunisian, Algerian, and Moroccan economies for purposes of doing business with the US.

3. The peace process

Though moves in the peace process are forcing the pace of change in the Arab countries in general and the ESCWA region in particular, the result so far has been to create more uncertainty than prosperity. This has been particularly true in the manufacturing sector, where Israel is generally far ahead of its neighbors. Though now into the third decade of peace with Israel, Egyptian industries in particular have not benefited notably from Israeli technology or from the large market of the Jewish state. The case of Jordan is slightly different, with a proportionately greater volume of trade with Israel and a higher level of co-operation achieved in the few years since the signature of the Jordanian-Israeli peace treaty, though this has slowed since the Aqsa Intifada. This has been especially true in the garment and textile industries, where various forms of partnership now exist between the firms of the two countries.

In general, however, co-operation between Israel on the one hand, and Palestine, Jordan and Egypt on the other remains limited; and Israeli business activity with some other Arab countries is still clandestine and extremely modest. In the cases of Israel's neighbors with whom peace treaties exist, Israeli barriers to trade as well as serious political and cultural problems between Jordanians, Palestinians, or Egyptians on the one hand and the Jewish state on the other have led to modest peace dividends. Competitive business in the New Global Economy is usually built on foreign technology linked to TNCs. These links, if well negotiated, not only bring with them technical knowhow, but also capabilities in marketing exports. The long-term success and growth of firms in the New Global Economy frequently depends on development of alliances among companies across states. Israel is a leader in forging such connections; and though Egypt and a few other Arab countries are catching up in this respect; the Arab states are still considerably behind. The old habits created by oil wealth windfalls have become constraints for Arab economies trying to come to terms with the New Global Economy, into which Israel is becoming more integrated. It has had free trade with the EU since 1989, and is a WTO member. However, for various reasons related to weaknesses among Arab manufacturers as well as to attitudes on both sides, meaningful links between Israel and her neighbors have still not been forged in the manufacturing sector.

4. The Arab Free Trade Agreement

With certain notable exceptions such as Jordan and Lebanon, intra-Arab trade, including trade in manufactured products, remains limited and compares unfavorably with other regions. At the same time, several attempts had been made by Arab states to lower trade barriers among them. The most recent of these has been AFTA. To date, fourteen of the Arab League's twenty-two member states have acceded to AFTA, the implementation of which came into effect at the start of 1998. Since then, AFTA members have adopted measures to reduce tariffs on their imports from each other; cuts were to have been instituted at an annual rate of ten percent, with the aim of achieving total elimination by the year 2007. In fact, this has not happened in the desired systematic fashion, though some progress has been made. The main body entrusted with following up the implementation of AFTA is the Economic and Social Council of the Arab League, and it remains to be seen if the political will exists to allow it to pursue this matter effectively.

Though it is still early to assess the impact of AFTA, through it Arab countries have shown awareness that global economic developments necessitate serious joint action and a more aggressive promotion of integration. Thus, though still not an important practical factor influencing trade in manufactured goods for the region, AFTA is now beginning to loom as a potentially significant issue. What seems increasingly clear is that the establishment of AFTA constitutes a more realistic response to the challenges posed by changes affecting international trade. These of course include the WTO, Euro-Med, and peace issues described above. Indications so far are that despite some negative developments, AFTA represents a more serious approach to Arab economic integration. At the same time, some have called for speeding up the AFTA process to reduce the period before the removal of tariffs among Arab countries.

E. Conclusion

The problems of the mid 1990s and the two decades prior to that continue to weigh on Arab manufacturing industries, sometimes more severely, as we enter the 21st century. At the same time, new problems have arisen as the region is subject to various currents of the globalization process. As in earlier years, ESCWA member countries have retained the tendency to pursue turnkey technological projects with limited or no transfer of technical knowledge to the local labor market. There is also in several ESCWA member countries continued slowness in adopting new technologies. The meager activity of TNCs has often resulted in poor development of local skill and fewer spin-off industries than in other regions of the world. Exports of manufactured renewable commodities still contribute very modestly to the external sources of finance of all Arab countries. Manufacturing activity outside oil remains limited, disarticulated, traditional, inward looking and technologically dependent on outside sources. Only limited technological capabilities have developed within the region.

Expenditures on research and development are still very modest if not absent. The ESCWA region is still gambling on "sunset" industries and old, smokestack manufacturing activities. There is little evidence of the New Economy in the industrial structures of most ESCWA countries. Industrial policies are either too stringent or absent altogether.

Nevertheless, the ESCWA region is attempting to move away from the economic systems that emerged from the increase in oil revenues, if only because these are now so much lower in real terms than they were in the 1990s. However, such change remains slow and the economy of the region is still not anchored in a more diversified, industrial structure and on high-productivity activities sustaining renewable production. The process of building capabilities for innovation, as well as fostering entrepreneurial and technical skills, and promoting a full-fledged and deliberate entry into the New Global Economy remains weak in most Arab countries. Moving into higher value added still requires a great deal of emphasis on technological capabilities, in which a fundamental structural weakness continues to exist in the regional economy.

The appropriate economic environment for entrepreneurial development is still lacking, as is sufficient knowledge about the New Global Economy and adequate local technological capacities that would help in strengthening the region's technology. FDI is still weak in most places. Arab companies have not engaged in widespread co-operation with TNCs, and few linkages have been established across borders for marketing or technology transfer.

These are serious problems, but setting a satisfactory industrial policy framework can begin to deal with them. At the same time, an appreciation of what went wrong and the acknowledgement that simplistic and borrowed solutions will not suffice is critical for reversing the regional manufacturing sector's continuing underdevelopment. The following chapters will attempt to analyze these issues in greater depth before suggesting possible courses of action for Arab manufacturing industry in the new millennium.

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14. ESCWA "Industrial Strategies and Policies in the ESCWA Region within the Context of a Changing International and Regional Environment," in ESCWA ERF, Friedrich Ebert Stiftung *Selected Proceedings, Expert Group Meeting on Industrial Strategies and Policies, Managerial and Entrepreneurial Skills, under Conditions of Global and Regional Change* (ESCWA, ERF, Friedrich Ebert Stiftung; 1996)

A. III. The Changing International Environment

A. The WTO, the new global market, and their impact on the region, within the context of recent developments, including issues concerning technical barriers to trade and environmental constraints

Although the trade liberalization coming to an increasing number of countries in the ESCWA region through WTO membership will enhance competitiveness eventually, it is likely to produce negative repercussion on Arab industries in the short run. The severity of these will depend in part on issues related to market access under WTO agreements. (1)

The WTO has contributed to liberalization of international trade by reduction of tariffs and quantitative restrictions. However, further liberalization might be handicapped as developed countries create obstacles to international trade by obligatory technical requirements that claim to safeguard safety and the health of consumers or to protect the environment.

While the trend towards the gradual abolition of traditional barriers to international trade, such as customs duties and quotas, is deepening, non-tariff barriers to trade are growing in importance in the form of various technical regulations. The need of exporters in ESCWA countries to comply with different foreign technical regulations is entailing significant costs for such businesses, which could discourage them from exporting. This serious problem needs to be addressed as exporters in ESCWA countries are facing various kinds of non-tariff barriers to trade.

The problem of technical barriers is assuming growing significance with the combined impact of globalization and the rapid pace of technological development. Specifications and technical regulations are important to foster production efficiency, increase market transparency, facilitate communication, and reduce transaction cost. They are also significant as public policy instruments that are used to protecting the health and safety of people and preserve the environment. The significant growth of national regulatory policy in these areas may thus be seen as the result of improved standards of living, growing awareness and concern of modern societies for the environment, and increased consumer demand for safer, higher-quality products. However, the success or failure of exporters depends greatly on their familiarity with such regulations in export markets.

In this context, with the increasing liberalization and globalization of markets, ESCWA region and other Arab industries are faced with serious challenges as they try to compete with manufacturers of other countries in export and local markets. This is particularly true of issues related to technical barriers to trade (TBT) and to environmental measures.

1. Technical Barriers to Trade

International trade in general and the export of developing countries in particular can be penalized by the disparities in national and regional regulations, for instance insufficiency of information related to complex specifications and time limits on their application, which do not allow producers time to adapt production systems. To ensure that such measures do not create unnecessary obstacles to international trade (e.g. as local industry protection) the WTO Agreement on Technical Barriers to Trade affirms that, in respect of technical regulations, members should be accorded treatment no less favorable than that given to like products of national origin or originating in any other country. The agreement recognizes and recommends that establishment of norms on a scientific basis and their harmonization is an objective to prevent technical regulations becoming disguised protection instruments. The agreement's ultimate purpose is to promote an international trade system based on qualitative, environmental, rational and harmonized norms. The agreement on TBT institutes a multilateral legal framework where the members have to respect certain obligations in order to prevent the use of unnecessary and excessive norms and technical prescription as part of protection of national production. This agreement is important to exporting countries, particularly to developing states that do not set norms but conform to ones established by developed states.

The most important provisions of the agreement are:

- Non-discriminatory interpretation and application of technical regulations
- Transparency in publishing information on technical regulations
- Establishment of norms on a scientific objective basis
- Standardization and facilitation of evaluation of procedures related to conformity to technical regulations and norms.
- Reciprocal recognition of certification and of evaluation of conformity
- Differentiated and preferential treatment in favor of developing countries and the technical assistance offered by the WTO, to permit to them to adapt production systems to technical and norm-regulation requirements

Despite this positive context, the issue of TBT is growing more serious, with intensified competition on international markets because of trade liberalization under the WTO. There are also fears in Arab countries that governments and companies in developed states might promote the use of more stringent norms and standards as technical barriers to protect their domestic market from more competitive imports, especially those originating in developing countries.

TBT may arise when countries apply different technical regulations and conformity assessment procedures. Such difference between countries, however, may have legitimate foundation, such as different levels of income or tastes or geographical and other conditions. For that reason, provisions of the TBT agreement allow high flexibility to members in preparing an applying their national technical regulations. Countries with higher standards of living usually demand higher quality products and apply higher safety measures. However, when governments are preparing their technical regulations to achieve a certain objective, Article 2.2 of the Agreement stipulates that they "are not prepared, adopted or applied with a view to, or with the effect of, creating unnecessary obstacles to trade." In this connection, the WTO TBT Agreement recognizes that developing countries may face special difficulties - institutional, infrastructural, and financial - in the preparation and application of technical regulations and conformity assessment procedures. The TBT Agreement eases the impact of the full implementation of certain provisions, granting developing countries, upon their request, specified time-limited exceptions from obligations under the Agreement.

Box 1 Moroccan exports and constraints of conformity to EU norms

The principles and rules of the TBT agreement are meant to give great support to countries such as Morocco, engaged to update their production systems to enhance their competitiveness in international markets. In practice, however, a great deal remains to be done by major importers of Moroccan products. For example, many notifications are either vague or difficult to understand and some are not precise. In addition, not all WTO member countries are respecting their obligation of sending notifications under the TBT agreement. Internationally, about 800,000 technical norms exist, 10% of them applied by EU countries. (2) Moroccan exports to EU economies constitute most of the country's total export of goods. (3) A large part of these is affected by requirements to norm conformity. However, to sustain exports to the EU and increase them by diversification necessitates a continuous effort of adaptation to diverse European institutes' regulations. Before 1985, 74,500 norms were computed only for five members of the then European Common Market. This number was not reduced even by the efforts of the European Commission to harmonize technical regulations on as a wide a basis as possible among members. (4) Establishing and updating norms in the EU countries is faster than the adaptation capabilities of exporting firms. The difficulties of conformity to European norms faced by Moroccan exporting firms are non-recognition of certification, the differentiation of norms from one country member to another and the lack of information about norms and their revision. Fresh food products in particular are penalized by the discriminatory treatment and slowness of control at borders, which has a negative effect on perishables. In extreme cases, not conforming to technical prescriptions forbids access to markets and exposes exporting firms to heavy fines and penalties. Problems in this connection become even more serious when WTO members sometimes do not respect their obligation to send notifications under the TBT agreement.

Sanitary and Phytosanitary (SPS) measures can be an important type of TBT. Like the TBT accord, the WTO Agreement on the Application of Sanitary and Phytosanitary Measures was also introduced to ensure national treatment of international trade when it comes to world standards. The Agreement on SPS Measures addresses rights and obligations not previously taken up in detail under GATT. It is concerned with the rules for the safety of traded food and the health standards of traded animals and plants. The fundamental objective of the agreement is to facilitate market access, ensuring that standards and related activities used in international trade do not create unnecessary obstacles to such trade. However, many exporters and others in the ESCWA region are still not well aware of the provisions of the Agreement, their rights and obligations, and how to interpret these provisions and resort to them in trade disputes arising in the export and the domestic markets.

Particular to SPS are provisions on emergency procedures: when governments take emergency measures in response to unexpected disease outbreaks, notification must be made upon implementation of such measures. Eventually, emergency measures must be supported by an appropriate risk assessment.

Transparency is also supposed to be ensured through the WTO's SPS Committee, representing a forum for discussions and exchange of information, and for the resolution of relevant issues. This allows WTO members the possibility of consulting on any matters relating to the implementation of the Agreement. The Committee holds two to three meeting per year and establishes working parties to carry out certain jobs.

Upon the request of a member country, the Agreement provides for compliance with requirements (except for transparency) to be delayed for a grace period for least developed countries following entry into force of the Agreement. This exception is given to allow such countries to adopt international standards or develop their national SPS regulatory systems based on scientific principles. During the grace period, technical regulations and SPS measures affecting trade cannot be challenged.

Regarding the SPS Agreement, ESCWA country members of the WTO, like other member developing countries, can request technical assistance from industrialized members or from the WTO Secretariat, on terms and conditions agreed by the country concerned. However, this has not been happening on an extensive scale, partly because of lack of initiative from some parts of the region, but also because developed countries have not in many cases offered or given the levels of help expected.

Both the TBT and SPS agreements are subject to unified WTO dispute settlement procedures. A trade partner may challenge a certain requirement under the SPS agreement if it is not based on enough scientific evidence. However, the agreement encourages trade disputes to be solved first through consultation and discussions. In case trade partners fail to reach such a solution, the complaining country may request, following a sixty-day formal consultation period, the establishment of a panel to a look into the case. (5) The panel may seek advice of technical experts on scientific or technical issues, as deemed appropriate. As in all WTO dispute settlement procedures, the decision of the Dispute Settlement Body is binding.

Unnecessary obstacles to trade may arise when a regulation is more trade restrictive than necessary to achieve a given policy objective or when it does not fulfill a legitimate objective. A regulation could be more restrictive than necessary when its effects on trade are disproportionate with the risks involved in the non-fulfillment of the objective. Alternatively, the objective pursued can be achieved through less trade-restricting measures. In the SPS Agreement, this provision is included under Article 5, qualifying the process of risk assessment in the achievement off appropriate levels of SPS measures.

ESCWA countries can benefit from the TBT and SPS Agreements by taking appropriate advantage of provisions concerning information and technical assistance. Making efficient use of existing networks of information, including, where possible, the Inquiry point system linking all WTO members together through the Internet will keep the Arab business community up-to-date on developments in the export market in terms of their standards and technical regulations and conformity assessment procedures. In this regard, concerned bodies even in non-member countries of the WTO can follow up on notifications and duly send relevant information to their exporters.

Private sector representatives have an important role to play in initiatives to create awareness among industrialists on the importance of resorting to professional sources of information concerning the export market, particularly with the presence of the Internet, which facilitates such access to credible sources of information. However, though the situation has improved in the past few years, in some Arab countries the private sector is still not allowed to play an effective role; at the same time, Internet access is still restricted in some areas.

Using the media and outreaching universities, colleges, and vocational schools and high schools could partly help in achieving cultural awareness on international standards and their growing importance in the light of globalization. However, the lack of dynamism of some official organizations in the ESCWA, including state media and educational organizations, has meant that this is not happening on a sufficient scale.

2. Environmental Constraints

Most ESCWA member states have undertaken economic reforms that favor the production of exportable manufactures in order to benefit from the liberalization of international trade. Such an orientation can necessitate major rationalizing of costs to remain competitive, and this often means using the environment as a free or relatively inexpensive input. The trade-off between environment and development could therefore affect the ESCWA region, as countries strive to catch up and achieve competitiveness in increasingly harsh global markets. This climate may drive some in the region to jeopardize the quality of their environment for short-term economic gain. Increasing relocation of polluting industries from developed states to some countries in the ESCWA region might thus take place to make use of various natural resources, cheap labor, and relatively lax environmental standards and regulations.

However, this competitiveness can be short-lived if environmentalists and concerned NGOs - local and international - succeed in persuading the international community to adopt environmental regulations that are more stringent. Environmental constraints imposed through multilateral environmental agreements (MEAs) and national regulations may serve to increase the costs of production in the short-run and could adversely affect the short-term growth prospects of the region's industries. Careful consideration of the environment is therefore necessary in the formulation of effective industrial policies in the ESCWA member countries as environmental concerns are becoming more urgent at the regional and global levels. The Committee on Trade and the Environment is the WTO body looking into these issues, but as yet without a formal mandate to deal with them on a formal basis (as is the case with the relevant provisions of the Agreements on SPS and TBT). "Mainstreaming the environment" or bringing environmental measures into the WTO agreements on a formal basis is becoming an even more important issue, particularly after the abortive meetings in Seattle in 1999.

Meanwhile, the environmental positions of major trading economies, especially the US and the EU, are becoming more significant with respect to the ESCWA region. The EU is the largest trading partner of most ESCWA region states, providing much of the region's imports and also in several cases being a major customer for exports. At the same time, the US is becoming a more important trade partner throughout the Arab world in general and the ESCWA region in particular.

There is concern in the Arab countries that environmental issues are letting American "interest-group patrons hijack" (6) the US trade agenda. US protectionist pressures are hardly new. However, though the WTO's strengthened dispute-settlement mechanism has reduced

US ability to retaliate unilaterally, and has also provided a fairer playing field, new participants besides NGOs are jumping into the US trade-environment policy debate. Some local and state governments, as well as quasi-governmental institutions such as public pension funds, have applied economic sanctions or boycotts of their own against. However, will provisions addressing environmental issues encourage improvements abroad or just promote protectionism against imports from developing countries? The impact of these factors on ESCWA region exports to the US in general may become considerable as trade rises. An example of this trend came up in negotiations for the Jordan-US Free Trade Agreement, where environmental issues were specifically mentioned in the pact. (7)

The EU's position on the environment is not dissimilar from that of the US, but with less emphasis on the role of NGOs and special interest groups. On the whole, however, the position of the EU and its individual states seems to be more accommodating than the US to ESCWA countries in general. This is partly because of the EU's closer links with the region and the need to promote the Euro-Med process. There is also the feeling that no matter what the EU's position is, restrictive or otherwise, it will be more stable than the US and less subject to sudden changes due to domestic environmentalist pressures.

At the same time, in many ESCWA countries, industry still uses rather old technologies with little concern for the environment. Nevertheless, limited access to environmentally friendly activities has been gradually introduced through a cleaner, more resource-efficient production approach. This aims at continuous improvement of industrial processes and products through less consumption of raw materials and energy, thus reducing pollution. Cleaner production approaches are being applied in newly established industrial complexes in particular. However, most ESCWA countries have not yet widely adopted the approach of cleaner production widely because of the lack of financial resources, the difficulties of obtaining new technologies, and weak enforcement of norms and standards of emissions.

Box 2 Environmental challenges to ESCWA region industries: the case of Jordanian potash

Jordan has ratified most of the major MEAs, and the move towards globalization means that some environmental policies have been adopted in response to countermeasures applied by countries with stringent environmental regulations. If Jordan chooses not to enforce environmental laws, regulations and standards as strictly as it should, the country might attract export-oriented foreign investment, but the goods produced may not be accepted in countries with stricter standards. Jordan's accession to the WTO and Euro-Med Partnership require the application of more effective environmental policies in order to enhance exports.

Jordan has taken some steps to institutionalize environmental control and protection. However, environmental issues are still dealt with on a basic level; environmental institutions must be further developed to enable them to address the environmental issues highlighted in MEAs, especially pollution, waste reduction, and resource conservation. (8)

Jordan produces close to five percent of total world production of potash through the Arab Potash Company (APC). The company is an efficient, modern producer, but its increasing expansion into downstream industries is creating new sources of possible environmental hazards. For some of these activities, APC is proposing to develop industrial facilities at Safi, on the shores of the Dead Sea next to APC's existing potash production plant, and at the Gulf of Aqaba, in the industrial zone adjacent to APC's existing storage/export facility.

Safi is located on the Dead Sea, a unique body of water with protected environmental status. As well as its unparalleled chemistry, it also supports a unique biological community of algae and bacteria. Species present in the Dead Sea are found nowhere else in the world. There is a major concern over discharging waste into the Dead Sea as it could lead to harmful nutrient enrichment, the elimination of species, and other forms of ecological imbalance.

On the other hand, a principal environmental sensitivity of the Aqaba area relates to the Red Sea and in particular the coral reef communities. These support a rich fauna and are of significant ecological value, and damaging them is illegal under Jordanian law. International treaties also protect the Red Sea. Because of this sensitivity, there is a prohibition on the discharge of liquid waste into the semi-closed Gulf of Aqaba.

As local and foreign environmentalists and concerned NGOs succeed in persuading the Jordanian government and the international community to adopt regulations that are more stringent to protect the environment, APC could face growing problems with developments at these two sites. The relatively slow pace of economic development in the Dead Sea and Aqaba regions has helped to minimize the importance of this issue, but changes in this situation may cause problems. In particular, the imposition on the Aqaba region of a Special Economic Zone regime could lead to strong economic expansion around the Gulf of Aqaba. This in turn could result in the need for growing environmental sensitivities to be taken into consideration by APC and others, with possible impacts on costs of production.

The respect of quality and other norms is not only a simple technical procedure but affects the structure of the enterprise. The exporting enterprise must adapt its management and production systems in order to respond to quality norm requirements. However, SMEs do not have necessary human resources or technical capabilities to succeed in this. Exporting SMEs are often not informed in time of new norms, which prevents them from updating production systems in accordance with revisions. Conformity to required norms is an instrument of export promotion because it ensures the credibility of the product image and facilitates facing international competition to diversify export markets.

On the other hand, ESCWA region and other developing economies complain that industrialized countries in many cases continue to ignore their part of positive implementation, which entails granting financial and technical assistance, providing capacity building, and disseminating environmentally sound technology on favorable terms. This has raised important reservations in Egypt and other ESCWA country WTO members in relation to mainstreaming the environment in the WTO agreements.

Box 3 The environmental dimension in Egyptian industry

Within the Arab world, Egypt is among the countries best prepared to negotiate and discuss WTO environmental matters. Egypt has been an active negotiator at the CTE meetings. *Ministry of Foreign Affairs negotiators have considerable experience in negotiating these issues, and the Ministry of Economy and trade also has some staff members working on the issues of the environment. Nevertheless, Egypt still requires more trained personnel on the environment issues from both the public and the private sectors. The need for trained people stems from the need to inform enterprises, especially SMEs, about the important of environmental issues.*

Egypt's first trading partner is the EU. Since EU countries practice stringent environmental regulations, apply strict standards, and have a number of voluntary ecolabeling schemes, Egypt's exports are vulnerable to EU environmental policies and measures. Consequently, Egypt has to take necessary steps to match the European standards. (This also applies to Egypt's exports to the US.) Egypt might thus face problems concerning its exports and so resist the mainstreaming of environment in the WTO agreements.

EU imports from Egypt include textiles, which are highly sensitive to environmental standards and regulations. In textile production, there are many environmental concerns that might influence consumer preferences. Concerns about textiles could start from the raw material stage to packaging. Questions arising could include: What type of dye was used in the coloring process? How much water was used and wasted? What kind of bleach was used? In addition, what packaging was used when the product was exported? (9) Some ecolabeling schemes include all these facts and others go as far as reporting under what conditions the labor were working to produce the product and of what age group where they. Ecolabels for garments could pose problems for Egyptian exporters.

Egypt realizes the importance of clean production but it is not ready to accept the addition of the environment as a subject for negotiations unless industrialized countries extend financial and technical assistance to developing countries to enable them to turn production green. However, despite Egypt's right to claim financial and technical assistance promised under several MEA, it still has to have a program that reflects its willingness and is inclination towards cleaning the production and the handling processes of its exports. This program could raise resources from the different institutions, private and public, that deal with export promotion. Only when such a program is institutionalized, the industrialized countries will feel that Egypt is serious about sustainable development and that it is not just opposing the mainstreaming of environment and calling on developed countries to extend assistance. Egypt, therefore, needs to prepare a blueprint of what it intends to do in the area of the environment thus encouraging developed countries to extend technical and financial assistance.

Notes

1. Examples of this include problems related to TRIPS in Lebanon. It is significant to note that the country has already started to confront complications in various manufacturing industries due to WTO-related issues without even being a member of the organization.

2. Kingdom of Morocco, Ministry of Industry, Trade and Handicrafts, Foreign Trade Policy Department. Working Paper on "Liberalization of International Trade and Technical Barriers to Trade" presented at the seminar on Effects of Technical Barriers on the Export of Mediterranean Countries, members of the Development Islamic Bank, Cairo, Egypt, 27-9 September 1998

3. For example, Morocco exported $741 worth of goods to Spain in 1999, up from $563 million in 1995. (IMF *Direction of Trade Statistical Yearbook*, 2000)

4. Kingdom of Morocco op cit

5. Although this sixty-day period has been criticized in the ESCWA region as insufficient. (See for example the paper on "The Experience of Egypt" in the seminar on Effects of Technical Barriers on the Export of Mediterranean Countries, members of the Development Islamic Bank, Cairo, Egypt, 27-9 September 1998

6. Noland M "Learning to Love the WTO" in *Foreign Affairs* September/October 1999, p. 78

7. On how the US and Jordan introduced environmental issues into their Free Trade Agreement, see Sawalha F "Officials convinced FTA with US will create golden opportunities" *Jordan Times* 1 November 2000

8. al Khouri, R "Implications of the Recommendations of the WTO Committee on Trade and the Environment and Issues Under Negotiation on Trade in the ESCWA Region: the Case of the Mining Sector in Jordan" in ESCWA *Trade and Environment in ESCWA Member Countries* 1999

9. For a discussion of the packaging issue as it concerns the environmental aspects of Egyptian exports, see Genana, T " Implications of the Recommendations of the WTO Committee on Trade and Environment and Issues under Negotiation on trade in the ESCWA Region: the Case of Packaging Practice in Egypt" in ESCWA *Trade and Environment in ESCWA Member Countries* 1999

B. THE CHALLENGE OF LARGE NON-ARAB REGIONAL ECONOMIC GROUPINGS

Foreign economic initiatives in the Arab economies most notably include major recent attempts by the EU and the US to forge links with individual countries in the region. On the European side, one of these initiatives is the Euro-Med or Barcelona process, which since 1995 has sought to bring southern and eastern Mediterranean countries, mostly Arab (including the North African states, Jordan, Lebanon, Palestine, and Syria) into free trade relations with the EU. (See Section II, D, 2 above for a description of the economic aspects of the Euro-Med process.) Another is the continuing dialog between the EU and the GCC.

However, in different ways and varying degrees, these two initiatives have not necessarily been markedly successful. The EU's attempts to engage the Arab Mediterranean Countries (AMCs) of the Maghreb and the Levant as well as the GCC have not been very fruitful, insofar as these countries' industrial exports are concerned. The EU can help with solutions to the problems of Arab industry, though this has so far proved difficult through Barcelona or dialog between the EU and the GCC.

1. Euro-Med

The economic dimension of the Barcelona process is based on the development of trade between the EU and partner states, including AMCs, in the Mediterranean region. The Barcelona initiative also involves transfer of resources from the EU to the partner countries, noteworthy for many states at a time of diminishing strategic significance implying less aid. (1) Nevertheless, the Barcelona process has not had notable success. (2)

As for trade, although the EU remains the largest importer from most Arab countries, its purchases from them are mainly raw materials and semi-finished goods with limited value-added. Manufactured products are less important, as illustrated by the cases of Syria and Algeria in the two tables below.

Table 1 – EU imports from Syria by Harmonized System (HS) Section (in millions of ECU; selected items as percentages of annual total are in **bold**)

SECTION	1992	1998
TOTAL	1,511	1,470
I	14	13
II	8	10
III	0	0
IV	0	3
V	1,348 **89**	1,179 **80**
VI	0	1
VII	0	1
VIII	13	21
IX	0	0
X	0	0
XI	95 **6**	219 **15**
XII	0	0
XIII	0	1
XIV	0	1
XV	0	4
XVI	6	8
XVII	19	1
XVIII	1	3
XIX	-	-
XX	0	0
XXI	2	3

Source: Eurostat

Table 2 – EU imports from Algeria by HS Section (in millions of ECU; selected items as percentages of annual total are in **bold**)

SECTION	1992	1998
TOTAL	6,882	6,745
I	3	4
II	18	17
III	0	0
IV	6	6
V	4,935 **72**	4,767 **71**
VI	56	98
VII	1	1
VIII	0	9
IX	3	7
X	6	0
XI	1	1
XII	9	0
XIII	0	0
XIV	1	5
XV	53	55
XVI	11	19
XVII	35	44
XVIII	2	3
XIX	0	0
XX	0	0
XXI	2	2

Source: Eurostat

Though not a major oil producer, 89% of Syria's exports to the EU in 1992 consisted of fuels (HS Section V), mainly petroleum products. However, the trend for this item is down, as in 1998 only 80% of Syrian exports to the EU were fuels. By contrast, six percent of Syria's exports to the EU in 1992 were textile products (HS Section XI) increasing to fifteen percent in 1998. The latter includes more local manufacturing value-added than fuels, but the bias in Syrian exports to the EU is still strongly towards raw materials and semi-finished goods.

Algerian exports to the EU show a similar composition, with 72% fuels, including oil and gas, in 1992, about the same as the 1998 level (71%). No other Algerian export to the EU by HS Section was much more than one percent of the total. The most important of these minor items were chemicals and base metal products (HS Sections VI and XV respectively). Both include some manufacturing value-added, and they showed increases between 1992 and 1998.

Neither Syria nor Algeria has a Euro-Med Free Trade Agreement with the EU, though the latter has started the negotiating process. However, the pattern for most other AMCs (with or without a Euro-Med accord) is similar, with their exports to Europe heavily biased in favor of raw materials or goods including a low manufacturing value added.

2. Qualifying Industrial Zones

Another model proposed recently to link an outside economic power with Arab economies is the Qualifying Industrial Zones (QIZ) scheme associated with the Middle East peace process. QIZ involves boosting Jordanian-Israeli co-operation in manufacturing. (3) QIZ involves duty-free exports from Jordan and potentially other countries to the US under specific conditions, including a certain level of value-added from Israel in the product. An amendment to the United States-Israel Free Trade Area Implementation Act of 1985, signed into law in 1996, granted the US President additional proclamation authority to extend the United States-Israel free trade area to include products from QIZs between Israel and Jordan. The measure proposed to provide the US President with additional proclamation authority to extend the US-Israel free trade area to cover articles manufactured in the West Bank, the Gaza Strip, or a QIZ between Israel and Jordan or Israel and Egypt. The House Committee on Ways and Means stated in its report on the bill that "duty-free treatment for goods produced in the added zones could assist in supporting the peace process, increase employment, and stimulate the economy of the region." According to the rationale of the legislation, extending the free trade area to QIZs would also produce tangible economic benefits for Jordan and Egypt, the two Arab countries that had signed peace treaties with Israel, "thereby broadening support for the peace process within these countries." (4)

Egypt has yet to take advantage of this measure. (5) However, the case of Jordan is somewhat different. This has been especially true in the garment and textile industries, where various forms of partnership now exist between the firms of the two countries, partly based on QIZ. Jordan's older free zones have declined in importance as far as industrial production is concerned, with most activities remaining there related to traditional types of commerce. The country's private FZs are concentrating on heavy industry. Recent indications are also that light manufacturing will become more the domain of QIZs, under which projects have been multiplying in Jordan since 1998.

The QIZ offers duty-and quota-free access to the US market for products manufactured by "qualifying" enterprises located in enclaves designated by the USTR. Products must meet certain criteria to qualify under the program. These include a 35% minimum content rule, 11.7% of which must be of Jordanian origin and 7-8% from Israel; the remainder to reach the 35% requirement can be from US, Jordanian, Israeli, or West Bank and Gaza sources. Current practice is to grant overall QIZ status to an industrial estate, leaving it to individual manufacturers to seek approval for their products. The QIZ idea is attracting strong attention from US, Israeli and, increasingly, South Asian and Far East investors.

The heaviest QIZ investment so far is in manufacturing clothing, including jeans and other sportswear, as well as in luggage manufacturing, destined for major US retail chains. In 1999, about $2.4 million of QIZ products, mainly luggage (HST code 4202.12) were exported. Exports of similar products in 1998 - pre-QIZ - were only $380,000. (6) In the year 2000, $1.8 million worth of such products have been exported in the January-July period; at an annual rate, this would yield luggage exports of close to $3.1 million. These figures represent a large increase on the country's previous capacity in this product, as well as in relation to Jordanian exports to the US in general. This amounts to the introduction of a new export industry into the country, which creates jobs and, though not a higher-tech activity, does involve some transfer of technology to Jordan.

In the first seven months of 2000, according to certificates of origin issued by the Jordanian authorities, QIZ exports were close to $4.7 million, equivalent to an annual rate of about $8 million. Apart from the $1.8 million of luggage, the rest was in garments, about $2.2 million of which were products classified under HST 61 (knitted or crocheted apparel or clothing) and the rest under HST 62 (apparel or clothing not knitted or crocheted). Jordanian exports of these items in 1998 were about $1.5 million and $45.4 million respectively. (7) QIZ exports of garments thus represent a considerable addition to the country's total exports of these goods.

Jordan's exports to the US are stronger due in part to the growth of QIZs. QIZ exports in January-July 2000 made up 21% of Jordanian exports to the US. Exports during that period were 67% up on the figure for all of last year, as well as 338% above the $5 million of the same seven months in 1999. (8)

3. Free Trade Agreement with the United States

An even more advanced form of economic co-operation proposed by the US is the conclusion of a Free Trade Agreement (FTA) an individual country, along the lines of the accord existing between the United States and Israel. Among Arab countries, only Jordan has signed an FTA with the US.

Through the QIZ model, Jordan is being invited into the network of global trade connections. Taking this a step further, Washington and Amman have now negotiated a FTA (which the two countries are committed to ratifying it as quickly as possible) that would bring Jordan even more benefits. Under the pact, US tariffs on Jordanian imports will come down almost immediately, while Jordanian tariffs will be eliminated over ten years in four stages, with US products not covered by the FTA being cigarettes, alcoholic beverages, and cars. The pact also includes safeguards to allow industries that can prove they are being harmed by the FTA to invoke protection for a ten-year grace period, renewable for successive five-year terms.

The FTA allows the kingdom's businesses to profit greatly by exporting from Jordan to the US free of duties and restrictions, eliminating duties on and commercial barriers to exports of Jordanian goods to the US provided they are "goods originating" in Jordan. This mean that they have undergone a "substantial transformation" in the country, thus preventing the possibility of imports by Jordan from other countries entering the US under the FTA without having undergone a certain amount of value added in the kingdom. The FTA defines "goods originating" in Jordan as articles for which the sum of the cost or value of the materials produced in the kingdom plus direct costs of processing in Jordan "is not less than 35% of the appraised value of the article" at the time of export. (9)

Such rules of origin imply that the QIZ model will continue to exist under the FTA. Though the new pact will eventually make QIZ irrelevant over the long term, there will still be room for the latter for some time. This is because the FTA calls for the imposition of a relatively high 35% minimum on the Jordanian content of value-added in order for a product to enter the US duty-free. QIZ mitigates this by allowing Israeli and Palestinian inputs to contribute cumulatively to the required Jordanian value added. QIZ allows for the inclusion of 7-8% Israeli content, with as little as 11.7% Jordanian value added. Insofar as a 35% level will not be easy to achieve, the easier terms of QIZ will prove more advantageous for Jordanians wishing to sell their products in the US. At the heart of QIZ lies a US attempt to bring Israel closer to her neighbors, including Jordan, Palestine, and Egypt. In fact, the QIZ model remains robust, and approval came shortly before the FTA was signed for the establishment of two more QIZs in Jordan.

4. The EU and the GCC economies

The position of the EU in the GCC, though different than in the AMCs, has also had its problems in recent years. Since 1988, the EU (at that time as the European Community) has been linked with the GCC by a co-operation pact. This agreement established a framework for many joint activities in fields including industry, private investments, science and technology, and environmental protection. The accord is supposed to strengthen industrial diversification of the GCC economies, enhance market access for both sides, and improve trade in petrochemicals and other downstream oil manufactures. However, free trade negotiations beginning in 1990 have not progressed and fruits of co-operation remain meager. One problem is petrochemicals: the two parties have committed themselves not to endanger EU petrochemical producers, and at the same time, the EU purports to guarantee non-discrimination against GCC oil product imports. These points remain unresolved, and the EU is particularly sensitive when it comes to access for more sophisticated petroleum products from downstream activities in the GCC. The GCC feels that the EU tariffs and quotas placed on the imports of the primary industrial output of the GCC are unfair; on the other hand, the EU questions the feedstock prices that the GCC provides for its petrochemical industry. Whatever the merits of both positions, the issue remains unresolved.

On the other hand, there have only been small successes for the EU in the GCC, namely in customs co-operation, some progress in the field of standards, and a joint report on energy and the environment.

The EU is a very large producer of petrochemicals, and a huge consumer. The EU complains that its exports are on average subject to higher tariffs imposed by GCC countries than EU tariffs on GCC exports, almost eighty percent of which enter the EU duty free. The GCC complains about EU tariffs on petrochemicals and the high level of tax on hydrocarbons that discourages petrol consumption. The petrochemical issue has also come up in Saudi Arabia's negotiations to join the WTO, but the EU and US say their tariffs are justified as the kingdom's producers receive a range of subsidies, notably low-cost feedstock. The six percent tariff that the EU imposed on aluminum imports from the smelters in Dubai and Bahrain has also been a matter of controversy, and in November 1999 the GCC proposed that this should be suspended. No action was taken however, again because some EU members alleged there were subsidies on the energy used. There was support for the tariff suspension proposed by Britain in March 2000, but France objected because of its own aluminum interests and Germany, Spain, and Greece abstained. These and other important trade issues remain unresolved.

5. Conclusion

US economic influence is being strengthened in the Arab world as EU initiatives there continue to move slowly. Whether in the AMCs or the GCC, EU economic policy towards the Arab world is subject to problems that are not especially faced by the US. EU initiatives for partnership with AMCs and overtures to the GCC are sometimes met with skepticism by governments and business alike. The EU claims to promote free trade on the one hand and takes protectionist stands on the other - against the petrochemicals of the GCC states. Thus, sensitive" GCC manufactured goods competing with EU output are still subject to major restrictions.

Among the best examples of increasing United States economic links with and influence in the Arab world are the application of QIZ in Jordan, and the country's FTA with the US. By contrast, the kingdom's partnership accord with the European Union languishes, still unratified by some EU national parliaments. The Jordanian case is just one illustration of how EU attempts at partnerships in the Arab world are not having notable success. By contrast, US influence in the AMCs in general, including Jordan, is growing.

Looking over the next few years, EU enlargement to include countries of Eastern Europe is an important factor that is likely to influence the Euro-Med process in a negative sense. This is especially significant given the rapid progress in the transition economies of Eastern Europe in the field of basic and light manufacturing.

Another problem is that the EU preferential rules of origin in textiles and clothing are designed to suit the interest of the textiles and clothing industries in that market without giving due regard to the interest of Arab and other partner countries under the Euro-Med initiative. The issue of rules of origin is significant in this respect because of the importance of cumulation. Applying cumulation under these rules helps to establish backward and forward industrial linkages in the Arab region, enhance the potential for intra-regional trade, and possibly offset some of the hub-and-spokes nature of the EU web of agreements. QIZ provides an interesting contrast in this respect.

Notes

1. For a typical EU aid project to an ESCWA region country in the field of manufacturing industry, see for example details of the Industrial Modernization Program (IMP) for Lebanon in Part V Chapter E below.

2. ESCWA "Euro-Mediterranean Partnership Agreements: a Critical Assessment" 1999

3. As well as the Eizenstat initiative, which attempts to bring closer the Tunisian, Algerian, and Moroccan economies for purposes of doing business with the US

4. As expressed during the passage of the QIZ measure through the US House of Representatives in 1996

5. Tabler A "A window of opportunity? Qualifying Industrial Zones offer Israel's "Peace Partners" a back door into the US market. Jordan has jumped at the chance, but Egypt hesitant" in *Business Monthly*, the publication of the American Chamber of Commerce in Egypt, May 2000 on their website. Despite Egypt's consistent reluctance, other Middle East countries seem eager to use QIZs. For example, Turkey has announced its desire to establish QIZs in impoverished, strife-torn southeastern Anatolia, in order to foster peace and economic development through improved market access to the US.

6. Jordan Department of Statistics *External Trade Statistics, Part One,* 1998, p14

7. Ibid p. 15

8. Central Bank of Jordan, Department of Research and Studies *Monthly Statistical Bulletin,* October 2000, pp 66-7

9. Sawalha F "Officials convinced FTA with US will create golden opportunities" *Jordan Times* 1 November 2000

C. INTERNATIONAL STANDARDIZATION AND RELATED ISSUES

With increasing international economic liberalization accompanying the globalization of markets, Arab industries are faced with serious challenges as they try to compete with manufactures of other countries, in exporting and locally. In the new economic environment, Arab industries need to enhance competitiveness based on good support in the areas of standards, quality, metrology, testing, certification, and accreditation. This increases the importance of international standardization and related issues including ISO 9000 and 14000, and the application of such standards for accessing world markets.

In most Arab countries standardization infrastructure is still plagued by chronic problems from which the science and technology sector as a whole suffers, such as lack of qualified staff, migration of trained personnel to other sectors and countries, lack of testing facilities, and weakness of certification and accreditation bodies, due in part to scarcity of financial resources. However, though the existing infrastructure in these areas in the Arab countries is still in many cases either not fully developed or partly applied for other objectives that are no longer a priority, the situation in this regard has improved recently.

Box 4 - Upgrading standardization bodies in ESCWA member countries: Lebanon and Saudi Arabia

Under the pressures of globalization ESCWA countries are increasingly adapting their national standards to international ones, upgrading the capabilities and capacities of their national standardization bodies, and developing their national conformity assessment infrastructure. Two examples where such changes are taking place are Lebanon and Saudi Arabia

Standards and technical regulations in Lebanon are the responsibility of the Measures and Standards Organization (LIBNOR), which is the exclusive institution entrusted with the elaboration of standards and technical regulations. The Industrial Research Institute (IRI), an independent public institution, has the function of controlling the quality of goods, to ensure that specifications conform to international export standards, and to control the conformity of imported products with national standards and technical regulations. There are around 160 national standards in Lebanon, and the objective is to conform national regulations to Arab standards as provided by the relevant regional body in the context of the Arab League. Both LIBNOR and the IRI are currently in a process of rehabilitation and reinforcement. Technical controls for Lebanese exports take about two to four days.

The Saudi Standards Organization (SASO) is the sole body charged with the preparation, adoption and application of standards for Saudi Arabia. Saudi Arabia is a member of ISO and other international organizations. Certain Saudi standards have ISO equivalents, indicated in the list of SASO standards. SASO refers most standards to technical committees; parties concerned with the subject matter of draft standards are normally represented on the relevant committees, include pertinent government, academic, industry and trade sectors. Saudi standards cover sanitary requirements for food products by means of measures following the standards and guidelines of Codex Alimentarius or, if not covered by the standards and guidelines of Codex Alimentarius, based upon scientific studies or other measures consistent with WTO practice. All SASO standards are notified to all relevant international bodies. A high percentage of SASO standards use international standards and other widely accepted national standards as references. (1)

These Lebanese and Saudi standardization bodies, among others in the region, are attempting to upgrade their performance. Nevertheless, much remains to be done in this respect. For Lebanon and Saudi Arabia in particular, the former having obtained observer status to the WTO and the latter at an *advanced stage of negotiating accession, such upgrading is particularly important to comply with international standards.*

Apart from efforts made locally or through bilateral technical assistance, this situation of weakness in the area of standards may to some extent be remedied in the context of international trade agreements, especially in the case of the Arab states that are part of the Euro-Med process. In the case of Tunisia for example, its Euro-Med Agreement states "the Parties shall, when the circumstances are right, conclude agreements for the mutual recognition of certification." The Agreement also mentions that "the Parties shall co-operate in developing: i. the use of community rules in standardization, metrology, quality control and conformity assessment, ii. the updating of Tunisian laboratories, leading eventually to the conclusion of mutual recognition agreements for conformity assessment, and iii. the bodies responsible for intellectual, industrial and commercial property and for standardization and quality in Tunisia." (2) However, the actual application of this and other aspects of Euro-Med agreements related to standards is not taking place quickly.

While it is true that standardization, quality assurance, and conformity assessments are important elements to foster market access and ensure sustained export expansion, with increased liberalization of international trade, standards could be used as effective non-tariff barriers to trade. Laws and regulations may be designed in a way that could be more easily complied with by domestic producers than by foreign firms.
Developed countries are becoming increasingly stringent in the application of standards and specifications, particularly those relating to quality of the environment. This is making it harder for suppliers in developing areas, including the ESCWA countries, to meet such requirements, particularly with the generally inadequate support they receive from standardization-related bodies in their countries. These bodies are sometimes unable to cope with changes worldwide in this field.

In principle, there is a commitment of industrialized states to grant technical assistance, especially to developing countries, on the preparation of technical regulations and in the establishment of national standardization bodies. The assistance also extends to the participation of developing countries in international standardizing bodies, and in helping firms to manufacture products in accordance with specific technical requirements existing in the importing country. Technical assistance is sometimes extended in the form of seminars and visits to standardizing bodies. These activities are often undertaken jointly between the WTO and other international and regional organizations, such as Codex Alimentarius Commission, the International Organization for Standardization (ISO), and the International Trade Center (ITC). Such assistance also includes supporting national standardization bodies; establishment of national standards in conformity with international standards; preparation off technical regulations; establishing food safety measures; and helping firms to manufacture products in accordance with specific technical requirements in the importing country. In practice, much remains to be done by the industrialized states in this respect, though the fault also sometimes lies with developing countries that do not make adequate requests for assistance.

Implications of the environmental ISO 14000 series in particular are becoming more important, as products and services must increasingly confirm to certain criteria in order to ensure fair trade and to break down trade barriers. This implies a greater effort by ESCWA countries to integrate environmental management into business policies in order to ensure continuous improvement of environmental performance. The major benefits of ISO 14000 certification relate to conformity with laws and regulations, adherence to export requirements and the terms of international environmental agreements, and increased in market share; while main obstacles include consultancy and certification costs, the lack of commitment by management, the lack of market demand, the lack of awareness regarding ISO 14000 benefits, and the low return on investment in certification.

An increasing number of organizations are undertaking environmental audits to assess their environmental performance. To be effective, these audits need to be conducted within a structured and fully committed management system and integrated with overall corporate activity.

The most important standard in the ISO 14000 series is ISO 14001, which sets the requirements for an environmental management system (EMS). While it is essentially aimed at environmental targets, and although participation in it is voluntary, the application of an EMS may have both positive and negative effects on industrial trade and competitiveness. However, participation in ISO 14000 provides a basis for certification of a firm's EMS, which may give it greater credibility with financial institutions, insurance companies, regulators and consumers. Non-participation could have adverse effects on a firm's competitiveness. This may be the case, for example, for firms in Arab countries where some governments find it difficult to provide the required infrastructure for the EMS, and firms could face institutional and technical obstacles to participating in such schemes. Moreover, the proliferation of EMS in developed country markets may intensify a trend in which firms in developed countries impose environment-related requirements on their suppliers, including those in developing countries.

The ISO 14001 standard is comparable to the ISO 9000 series in terms of quality management systems, and there are increasing efforts to enhance compatibility between the ISO 14000 and ISO 9000 families. However, as with ISO 9000, compliance with ISO 14001 is voluntary. Nevertheless, the ISO 14001 standard is playing an increasingly important role in international trade. This implies the need for Arab countries to integrate environmental management into business policies in order to ensure continuous improvement of environmental performance and policies. Though global standards may promote fair trade among the industrialized countries, harmonization on an international basis is becoming more problematic for developing countries. The lack of investment capital for acquiring new technology, for example, may prevent Arab countries from meeting international standards and raise trade problems for them. (3)

ISO 14000 certification in the Arab world has been limited: the records for 1997 for ESCWA countries showed the following numbers of ISO 14000 certified companies: Egypt 7; UAE 4; Oman 1, and Saudi Arabia 1. By end-1998 the number of ISO 14000 certified companies in Egypt had increased to fifteen, and three in Jordan had obtained certification. The records for end-1999 for the Arab countries showed the following numbers of ISO 14000 certified companies: Egypt 38, UAE 36, Bahrain 2, Jordan 8, Saudi Arabia 3, Syria 2, and Lebanon 4. Otherwise, all other Arab countries had only one ISO

14000 certified organization each (Morocco, Oman, Qatar, and Tunisia) or none at all. (4) This shows that the process of ISO 14000 certification still has a long way to go in the region, particularly as compared to other parts of the world. (5)

On the other hand, the situation regarding ISO 9000 certification in the ESCWA region has improved substantially, with the UAE in particular joining the ranks of those countries that have passed the 1000 mark of organizations that had obtained certification by end-99 (1045). Elsewhere in the region, progress over the past five years has been made in this respect: records for end-1995 showed the following numbers of ISO 9000 certified companies: Egypt 45, UAE 104, Jordan 2, Oman 20, and Saudi Arabia 96; by December 1997, Arab countries showed the following numbers of ISO 9000 certified companies: UAE 975, Egypt 344, Saudi Arabia 211, Morocco 60, Oman 53, Tunisia 51, Jordan 35, Bahrain 30, Qatar 29, Kuwait 28, Syria 7, and Sudan 1; by end-1999 the number of ISO 9000 certified companies in Egypt had increased to 649, Jordan 257, Oman 82, and Saudi Arabia 324. Though this shows that the process of ISO certification still has some way to go in most of the region, the accelerating trend in this respect is encouraging. (6) Regarding the impact of ISO 9000 certification in Arab countries, the major perceived benefits related to meeting international consumer demand, improving internal efficiency, removing barriers to export trade and strengthening market share, while the major obstacles to the cost of setting up a quality management system, the lack of awareness with regard to its benefits, the lack of commitment by management, and the low commercial return and low levels of local demand. Nevertheless, many companies expect governments to subsidize awareness campaign funding, training, and consultancy costs.

Notes

1. al Khouri R "Trade Policies in Jordan, Lebanon, and Saudi Arabia" in Hoekman and Kheir-El-Din (eds) *Trade Policy Developments in the Middle East and North Africa* (World Bank Institute, Economic Research Forum, 2000)

2. Article 51 of the Euro-Med Partnership Agreement between Tunisia and the European Union

3. ESCWA, "Report, Expert Group Meeting on Standardization in the Arab Countries" E/ESCWA/ID/1999/2

4. ISO *The ISO Survey of ISO 9000 and ISO 14000 Certificates, Ninth Cycle* (2000)

5. For an indication of how far the ESCWA region lags behind others, see for example *Asia Pacific Tech Monitor* Vol 15 No. 5, September-October 1998, passim, on IS0 14000 in South and East Asian economies, including India, Hong Kong and Singapore.

6. ISO op cit

B. D. ADVANCES IN THE APPLICATION OF INDUSTRIAL TECHNOLOGY AND INNOVATION

The impact of the ICT revolution and other knowledge-based industries (as well as other innovations such as production management, outsourcing, and marketing alliances) on industrial strategies and policies in Arab countries has yet to be felt on a large scale. Awareness is growing however of the potential of innovative ICTs in particular to help boost efficiency throughout the industrial sector across the ESCWA region.

The Arab world has in the past few years been confronting an explosion in new ICTs. Various practical examples include the spreading use, commercially and in government, of cheaper and user-friendlier Internet, teleconferencing, cellular phones, and CD-ROM, to name but a few examples of ICT applications.

Properly deployed and harnessed ICTs can help improve manufacturing efficiency and make a significant contribution to growth and sustainable development. While ICTs alone cannot solve the problems of the region's manufacturing sector, they provide the potential to generate, access, disseminate, and share knowledge and information at many levels, thus bolstering industrial development at large.

Examples of innovative ICTs in business are growing internationally. In particular, electronic commerce (ecommerce), now booming in the West, can contribute to economic growth in Arab countries. To many in the ESCWA region in particular, ecommerce still suggests sophisticated trade in a purely electronic environment. The reality on the Internet is that ecommerce is more likely to take place in an electronic environment that facilitates trading, with the actual financial transactions consummating deals quite likely taking place off-line. In this and other examples, ecommerce simply opens up the market and makes it less imperfect.

A look at the future of ecommerce in the ESCWA region must not confuse the business-to-consumer ecommerce phenomenon with the more fundamental changes it is making on global interorganizational cooperation. Business-to-business electronic commerce accounts for some eighty percent of total ecommerce worldwide. As this becomes standard, international firms will find it less attractive to trade with unconnected ESCWA region companies.

An interesting example of the business-to-consumer ecommerce phenomenon is the website that China set up to help companies market goods to American firms. This is a clearinghouse for businesses in China that wish to connect with American customers via the Internet where participating Chinese firms can post information about themselves and their products. China's primary aim is to promote smaller companies through the new site. Such firms were previously not allowed to make direct contact with their foreign counterparts, instead being required first to seek export licenses from the state. Some of the biggest opportunities for Chinese ecommerce appear to be in overseas wholesale business-to-business trade, on which the government is counting to boost exports. Successful examples of this trade are growing, including cases in which Chinese ornament makers by-passed intermediaries to sell their wares online in distant markets.

As the example of China shows, the state will have a big role to play in promoting and properly applying these ICTs. In ESCWA region countries, an important step in this process will be to articulate a policy on ecommerce. Rules will be needed for the nascent ecommerce industry to combat fraud and other abuses, and governments should implement strict measures to eliminate fraud and allow legitimate players into the market. The authorities will also have to protect consumer rights and apply fair competition laws to prevent ecommerce abuse. However, the government still plays the dual role of regulator and chief supplier in most ESCWA countries' telecommunications sectors, so until proper codes are in place, the private sector may have to lead. In South Africa for example, the government has taken steps to institute a policy on ecommerce. Meanwhile, South African ecommerce is being championed by private enterprises, as qualified business players put forward a code of conduct.

Improving things within the public sector itself is also an issue in this regard. Harnessing ICT to streamline government procedures so that tedious tasks are transformed into a fast and efficient mechanisms would be a major step in making ESCWA countries' economic system more efficient. Some developing countries are now embarking on government initiatives that seek to use the tremendous potential for ICTs to improve public sector effectiveness. Yet evidence highlights the poor record of ICT in the public sector, with senior public officials holding the key to success or failure. The approach they take to ICT is frequently deficient, and estimates are that up to eighty percent of ICT initiatives in government worldwide end in partial or total failure. Officialdom must therefore change its own culture if the potential of ICT to support public sector reform is to be realized.

Senior public officials, who set the tone and framework for use of ICT in public sector reform, play a critical role in this process. Out of ignorance, some state bureaucrats include no ICT in plans for reform. Other public officials lack computer literacy and an understanding of the power of information yet are aware of ICT and its potential. Investment in computing is therefore included in reforms, but as a preserve of experts, not as a systematic component of the reform process. A third group of bureaucrats is semi-ICT literate. They have a misguided awareness of ICT's potential, and believe it can transform government, or at least their careers. In this case, improperly deployed and harnessed ICT becomes the centerpiece of all change.

In ESCWA region countries as elsewhere in the developing world, officialdom must change its own culture if the potential of ICT to support public sector reform is to be realized. Some public officials, however, are now information-literate. They recognize ICT is a valuable means to achieve certain reform ends, not as an end in itself. Such people are becoming more common in the region, though the systems within which they work are still often lagging. Many public and private sector industrial organizations in the ESCWA region were built to function in environments of the 1970s or 80s when things were very different. New technologies will now be forced on employees who are not geared to work with ICTs, requiring a different mentality and skillset in order to work increasingly in an environment of electronic brainstorming. There are dangers and obstacles involved in this process. Information flows and knowledge acquisition may be influenced or even impeded by hostile institutions and negative attitudes. Those who deny or do not have access to knowledge and the fruits of the ICT revolution are in danger of becoming part of a marginalized underclass, and such a phenomenon is starting to be apparent in parts of the ESCWA region.

A key to sustainable industrial development in the beginning of the 21st century will be access to, use, and sharing of knowledge, information, data, and communications channels as well as the requisite technological means. The challenge is therefore to enfranchise such disadvantaged groups as the uneducated and the older generations so that all are afforded access to information and learning.

Applying the right ICTs in the right doses and ways could be a relatively uncomplicated and inexpensive process for countries in the ESCWA region. However, the first step, which has not yet been taken, is recognition at all levels from the grass roots to the highest decision-makers of the importance of ICTs in achieving sustainable industrial development.

Some countries may be closer than others in the ESCWA region to recognize the crucial roles of ICTs, and several ESCWA economies have started to witness promising development of firms in the ICT sector. This could become a major source of employment for educated groups in urban areas. (1)

Box 5 Jordan's REACH initiative

In 1999, the then Jordan Computer Society, now the Information Technology Association of Jordan (INT@J) devised REACH, a comprehensive framework that embraces actions in terms of regulatory framework. JCS is a non-profit civil organization that includes members from both the state and private sectors. This initiative involves a detailed assessment of Jordan's legal and regulatory framework as it affects ICT activities. REACH activities are now at an advanced stage and bring international ICT organizations together with their Jordanian counterparts. A special methodology has been devised for linking local ICT organizations with foreign firms, many of which are giants even by international standards.

REACH is a national strategy for Jordan to develop a strong export-oriented ICT sector. The strategy lays out the main thrusts to bolster the country's nascent ICT sector and maximize its ability to compete in local, regional, and global markets. It takes a critical look at Jordan's strengths and weaknesses vis-à-vis other relevant competitors. It outlines a plan, specifying actions to be implemented - by the government, and by other stakeholders - to ensure a favorable place for Jordan in the knowledge-based economy. The strategy and action plan were developed through an intensive consultation and research process with the Jordanian ICT industry. The strategy focuses on the software subsector, which comprises one of the most dynamic and fastest-growing parts of the ICT industry. Global sales of software and ICT services have grown at double-digit rates for the past decade. For Jordanian firms, this focus is appropriate due to low start-up capital requirements. This makes market entry easier and less risky for firms

The REACH methodology includes:

1. *Strategic planning sessions, where representatives of Jordan's ICT industry participated in brainstorming, focus groups, etc. A large number of firms were represented at these meetings*

2. *Survey of local software and other ICT firms, and collection of other local data. A team of consultants undertook a concentrated data gathering effort about the ICT sector and factors that affect its performance. This included in particular the legal and regulatory framework for the industry.*

3. *Formulation of a draft strategic plan. Industry representatives met to confirm recommendations in terms of an action plan. A presentation was then made to solicit responses from industry*

representatives including firms. The plan was adjusted to reflect these comments.

4. *A report to examine the Jordanian ICT sector's competitive position, including benchmarking to assess relative strengths and weaknesses vis-à-vis competitors. In particular, this included an evaluation of ICT Human Resource Development issues in Jordan, as well as an assessment of the legal framework for the ICT industry in the country.*

ITC is now firmly on the development agenda in Jordan, and REACH has started to have an impact in the country's software industry by making it the focus of public and private sector initiatives. However, in terms of such economic indicators as expansion of output, increased exports, higher productivity, and greater employment, it may still be early to give a firm assessment of the returns from REACH. (1)

Accession by various countries of the region to WTO and the accompanying commitment to accelerate reforms and pass relevant legislation are building additional confidence in some countries of the region as bases for international investors in the ICT and other sectors. ESCWA region countries must move to implement laws and obligations related to WTO Agreements, including those on TRIPS. These are vital for the economy as a whole, especially for the ICT sector. Several countries of the region have adopted a number of stronger laws laying the legal foundation for an effective intellectual property regime consistent with the TRIPS Agreement, declared their determination to ensure effective enforcement of the laws comprising the regime for protection of intellectual property, and co-operating with the civil sector to help lead anti-piracy campaigns.

However, despite the increasingly optimism about the future of intellectual property protection in the region and amid government attempts to modernize legislation, manufacturers of computer software fear lack of enforcement. For firms, this means expensive and probably difficult litigation, in the absence of state support in enforcing laws.

Furthermore, it is sometimes the case than in developing economies, businesses - especially firms in the ICT sector - can become marginalized because of complex laws for establishment and, once a legal business is set up, heavy tax burdens. At the same time, the public sector does not offer firms the proper incentives and other measures to promote business. This has most often been the case in the ESCWA region, where the ICT sector in general has lagged behind that of other developing areas, let alone the developed world. In some Arab countries, the state has actually gone so far as to compete with the ICT sector through the work of parastatal bodies. In most of the ESCWA region, government assistance in ICT entrepreneurship promotion is not yet well developed. Although a few state institutions provide support services to entrepreneurs, such help is far from being adequate or effective. State organizations sometimes end up competing with the private sector. The role of state universities in promoting potential to carry out product and process innovation is also limited in most of the rest of the ESCWA region. The constraints on upgrading the technical capabilities of firms also thus arise from the absence of links among universities, scientific research institutes, and firms.

The present institutional basis for an active ICT policy to promote industrial development in ESCWA region countries is weak. Inappropriate regulation is common regionally, and the state is poorly equipped to actively support development in partnership with the private sector.

The policy environment and regulations are important factors in the creation and promotion of entrepreneurship. Steps towards improving this situation involve reducing government regulation, and simplifying administrative and bureaucratic procedures. Potential entrepreneurs in the ESCWA region are reluctant to start and run a business while significant barriers exist.

In most ESCWA counties, ICT entrepreneurs also encounter obstacles, and support systems are generally inadequate for promoting entrepreneurial firms.

Box 6: Support for ICT development in Arab countries and Israel

Egyptian firms are paving the way for a national software industry that could achieve much of the success of Israel. Egypt has potential, but the industry needs greater government support. Not enough Egyptian government and banking officials take software seriously, making it hard for firms to obtain seed or expansion money. On the other hand, Egypt is a WTO member, and its laws reflect the need to protect IPR in the ICT and other sectors. Enforcement of these laws however may be problematic. (2)

Lebanon has traditionally been a leader in the ESCWA region in technology, but this position has been eroded due to, among other reasons, the absence of official support, and the existence of inappropriate laws and regulations. Though not a WTO member, Lebanon's passage of a copyright law in 1999 and pressure from outside the country to enforce it have started to have an impact on its ICT sector. At the same time, interest in ICT development has been growing with the spread of unemployment among qualified professionals and the increase in the emigration of those with scientific or technical qualifications.

The UAE is engaged in promoting the ICT sector through for example the initiative of Dubai regarding Internet development activities. At the same time, the UAE wants to encourage the employment locally of its nationals and the diversification of the economy away from hydrocarbon production. The UAE is a WTO member, and its enforcement of IPR and other regulations with an impact on the ICT sector compares favorably with other states in the ESCWA region.

These three cases provide a range of situations regarding the promotion of ICT firms and the need for legal or institutional change. While there are serious problems and obstacles to ICT development in Egypt and Lebanon, the situation in the UAE is probably better and provides an interesting contrast with most of the rest of the ESCWA region.

On the other hand, the whole ESCWA region is far behind Israel in this area, and its ICT policy has much to teach the ESCWA country. Israel has had remarkable success in its ICT sector over the past few years, partly thanks to an innovation support system for ICT firms. The initial purpose of this was the creation of an independent R&D capacity; and the system that evolved in Israel can be subdivided into three areas: matchmaking, investment, and consultative support. The aim is to turn ICT entrepreneurs with ideas into companies with a high export-market potential. The two essential factors of success in the Israeli case are the comprehensive support for companies in every stage of the business life cycle, and a well-balanced mixture of free enterprise with public finance.

With proper adaptation to local conditions, these concepts can be implemented in developing economies such as those of ESCWA. The Israeli ability to promote firms in its ICT sector means that it is now more important than ever to look at models from Israel that ESCWA countries can learn from and use to good effect to develop high technology products.

Notes

1. Dewachi A op cit

2. Based on information obtained from INT@J and from USAID, Amman

3. Radwan R "ICT and Its Impact in Accelerating Socio-economic Development: the Case of Egypt" paper presented to Expert Panel on Information Technology and Development Priorities, Competing in a Knowledge-based Global Economy, Beirut 15-6 May 2000

E. THE ECONOMIC IMPLICATIONS OF THE PEACE PROCESS

Various constraining factors define the development of relations between Arab and Israeli industrial firms, as threats to (as well as opportunities in) manufacturing activities in the region emerge not only from Israel but also from other countries such as Turkey, which has advanced considerably in developing industry.

The manufacturing sectors of ESCWA member countries involved in the peace process with Israel are less prepared to enter the international market than their far more advanced Israeli counterparts. At the same time, the peace process is changing economic relations of the Middle East, in some case creating increased uncertainty. New forms of relations are being initiated between Israel and her neighbors, including joint ventures and subcontracting arrangements for manufactured goods. However, these and other economic benefits of peace have not yet made a major impact on the region. Trade between Israel and Egypt has been growing slowly, and Israeli-Jordanian commerce remains modest. The PNA area continues to be integrated with the Israeli economy, in spite of efforts being made to develop Palestinian economic autonomy. The Palestinian economy relies on Israel for some 25% of GDP, whereas Israel's dependence on Palestine represents less than 1% of the Israeli GDP. Israel exports two billion dollars worth of goods to the PNA areas each year, while Israel's dependence on Palestinian trade is relatively small. (1)

In this as well as many other respects, regional economic relations are still hindered by many problems. These relate to manufacturing businesses being controlled by the state, government bureaucracy and complicated procedures, and non-tariff barriers and other border restrictions.

Non-economic barriers including political and cultural ones seriously hamper economic relations as well. The most important non-economic factor to impinge on relations between Israel and neighboring Arab economies in the past few years has been the Aqsa Intifada that began on 28 September 2000. Because of this, an initial step being considered toward economic separation between Israel and the PNA areas could be the unilateral implementation by Israel of an "effective economic border" through which goods would be authorized to pass only at certain border checkpoints. (If the security situation deteriorates further, a more complete separation scheme would be considered.) At the authorized border points, goods would be unloaded from Israeli trucks and re-loaded on to Palestinian trucks, and vice versa. In fact, this "back-to-back" system is already in place.

In light of the continuing violence, the movement of goods between the two economies will continue to be limited. Israel's interest in security has been heightened and this determines the need for a separation based on the transfer of goods at border points without vehicle traffic between the two markets. This will make goods more expensive and trade more cumbersome. At the same time, the siege of Palestinian cities has paralyzed a substantial proportion of manufacturing. This siege prevents many workers from reaching their jobs in factories. In addition, Israeli authorities prevent the passage of the majority of raw materials to the PNA areas (such as cement, which they say can be used for military purposes such as building fortifications). Containers filled with goods intended for the West Bank and Gaza have been delayed at Israeli ports as the authorities there allow the passage of few goods to the PNA areas.

Because of these and other restrictions, a public campaign is being waged in the PNA areas to boycott Israeli products in favor of Palestinian ones, in order to encourage the local economy. (Creating a series of employment opportunities in the PNA areas is also a priority.) At the same time, there is also a general trend to turn to the Arab world, tightening commercial bonds with Jordan and other countries instead of with Israel. These factors will begin to both promote certain manufacturing enterprises in the PNA areas, as well as to create opportunities for Jordanian and other Arab manufacturers in Palestinian markets.

Before the disturbances of autumn 2000, Israel had concluded understandings with the PNA on a border characterized by co-operation, with a free trade agreement and co-ordinated tax and customs regulations. Now, both sides are at the stage where each one does what it wants. The assessment by the private sector in Israel is that it should prepare for a significant reduction in trade with the PNA areas, and the initiation of an "effective economic border" is expected to contribute to this. Other factors include the reduced spending power of the residents of the PNA areas in the near term, and a strategic decision made by the PNA to reduce its economic dependence on Israel.

The continuation of the disturbances is liable to result in the separation of the Israeli and Palestinian economies. The Israeli government is now studying the necessity, the possibilities, and implications of this separation, as well as the preparations that would have to be made if such a decision is taken. Relevant government ministries are examining the economic implications of a separation, and the interministerial team that is coordinating the study includes representatives of Israel's Ministry of Industry and Trade. It may be decided to separate in some spheres while continuing to work together in others. Studies are focusing on areas and products for which the Palestinians have immediate available alternatives, versus areas and products for which the Palestinians would continue to be dependent on Israel in the near future.

Before the latest wave of violence, the potential for economic co-operation among the countries of the Middle East has often been analyzed under the apparent assumption that increased integration will not only yield direct economic benefits, but may also ensure that peace, once attained, is stable, since the costs of disrupting it becomes prohibitive. Thus, regional co-operation initiatives flourished in the mid-1990s, though the fruits of such efforts remain meager.

Box 6 Early attempts at matchmaking: The MENA Economic Conferences

Examples of attempts at regional economic co-operation that began during the mid-90s include The Middle East and North Africa (MENA) Economic Conferences

In a major exercise in support of the Middle East peace process, annual MENA Economic Conferences were held (respectively in Casablanca, Amman, Cairo, and Doha) in 1994-7, but these activities have now been suspended. The discussion in Casablanca in 1994 (and to a lesser extent in Amman in 1995) was, for example, of huge infrastructure schemes including a canal linking the Red Sea and Dead Sea, a major highway from Egypt to Syria via Israel, and other multibillion-dollar projects. However, lack of implementation of far more modest *projects in the wake of the 1996 and 1997 conferences replaced the grandiose visions of Casablanca of 1994.*

The Israeli list of projects presented at these conferences was the product of a political agenda that has thus far proved unrealistic. Israel wishes to pursue "economic development" while ignoring the major political issues, which still have to be addressed. These obviously include the achieving of a just, comprehensive, and lasting peace with the Arab world, and the satisfactory implementation of existing accords. For Israel to present projects at such conferences and other venues without regard to the overall situation in the region is unrealistic. It is also impractical to expect outside donors and other financiers to support such projects outside the regional political context.

Nevertheless, one success to emerge in his context was the signing in Doha in 1997 of the agreement between Israel and Jordan on QIZ. This remains the centerpiece of US-Israel-Jordan efforts to deliver an elusive peace dividend for Jordanians, has created more than 10,000 jobs and $360 million in investment in five QIZs. Jordan has made extensive use of the QIZ arrangements to export manufactured goods to the US, but Egypt - which could also profit form QIZ - remains hesitant. However, despite Egypt's consistent reluctance, other Middle East countries seem eager to use QIZs. For example, Turkey has announced its desire to establish QIZs in impoverished, strife-torn southeastern Anatolia, in order to foster peace and industrial development through improved market access of manufactured products to the US. (See Section B2 above for details of QIZs.)

The emergence of an integrated market between Israel and her neighbors will yield economic advantages, but this is still a long way off, and a new political arrangement will have to come into being before any economic understanding can be effective. Close regional ties are only evident for the PNA for which the overwhelming majority of imports and exports are accounted for by Israel. This pattern however was forced and not based on natural advantages.

Under existing conditions, essentially political considerations and sensitivities impinge on the investment decision. Nevertheless, certain investments are considered more promising than others. For example, given Jordanian competitive wage structures in relation to Israel, some Israeli businesses see investment or joint venture potential in food processing and automotive feeder industries, among others. Other Israeli business is attracted to such fields as textiles and computer software. (2) Jordanian business sees joint venture opportunities with Israel in high technology areas. In any case, whatever the details of industrial co-operation between Israel and the Arab world, a broad framework for economic relations among them remains to be established.

Box 7 The eventual framework for peace? Benelux vs. the Southern African Model

Economic integration can be an essential element in the development of small countries such as Israel, Jordan, and Palestine, as it has been in the case of Belgium, the Netherlands, and Luxembourg. In the Benelux triad, the case of Belgium for example emphasizes the ability of a small country to overcome market limitations through integration and export. The country's material resource endowment was neither a necessary nor a sufficient factor for viability. Belgium provides a good illustration of how the lack of material endowment can be compensated. Integration within the Middle East region, as within Benelux, has thus been considered as a possible cure for the problem of smallness, whether in the market or the endowment of the economy. Can the Middle East profit from this example?

A Jordan-Israel-Palestine triad of cross-border economic integration, investment and development would be a free trade zone if not a full customs union, with close co-ordination of monetary policy, and a variety of joint institutions to manage common resources. This scenario maintains that the extent to which the three economies vary in structure is not necessarily an obstacle to regional integration. On the contrary, the differences may provide a basis for a Jordan-Israel-Palestine triad on the premise that advantages enjoyed in one country could be shared with another, thus raising overall output and employment.

The appropriate policy for Arab economic integration with Israel must be put in the context of a general environment including both the internal forces of the economy and external conditions. The major lesson for the protagonists of a Jordan-Israel-Palestine triad is a realization of the difficulties ahead in achieving a popular basis of support: this is something that cannot be obtained simply by founding supranational institutions.

Nevertheless, the Benelux model for the Israel-Jordan-Palestine subregion seems to have enjoyed considerable backing. For example, a report made by a team of Israelis, Jordanians and Palestinians after the signing of the peace treaty between Jordan and Israel proposed a free trade agreement among the three economies, that could later "evolve into a customs union and be extended to include other countries in the region." The authors of that report went on to state that they "do not believe that free trade should end with the triad" and that it "should serve as the nucleus of a broader arrangement." The report continues: "If free trade develops among them, the Israeli-Palestinian-Jordanian Triad is more likely to play the role of Benelux, showing the way to develop closer economic relations including overcoming the practical difficulties of setting up the necessary arrangements and the benefits of doing so." (3)

The path created by the deliberate engineering of institutions and massive infusions of aid to place countries in a tight Benelux-style union will not bring stability and prosperity to the region. On the other hand, a less formal approach that approximates the ideas of integration and association may be more appropriate after a just, lasting, and comprehensive peace is achieved. Southern African countries in the Southern African Development Community (SADC) are pursuing such a path.
In 1992, the old Southern African Development Co-ordination Conference was transformed into SADC. The emphasis of the organization changed from "development co-ordination" to "development integration." Crucially, South Africa acceded to the SADC Treaty in 1994, giving SADC the opportunity to tackle issues such as sustainable regional growth. South Africa has been assigned the Financial and Investment sector of SADC as a special area of responsibility. Because the political settlement in the region was followed by South African membership of SADC, it provides a more effective instrument for member countries to move towards eventual economic integration. SADC is thus in the process of simultaneously implementing two models for regionalism: sectoral co-operation and trade integration. Although the two are distinct, success in one area tends to reinforce the other. Trade integration and sectoral co-operation contribute both directly and indirectly to sustainable economic growth and development in all countries of the region. The current mission of SADC is to find within the region the resources to overcome the legacy of apartheid, with the co-operation of the international community.

It is in South Africa's direct interest to make a substantial contribution to the economic development of sub-Saharan Africa. South Africa has pledged itself to be a constructive participant and to contribute to the best of its ability to the improvement of conditions within the Southern African region and further. In this regard, the initiation of planning and development activities with South Africa's neighbors is a most important issue, to be coordinated between all concerned national and provincial departments and the private sectors. Through close interaction, the individual states of the region stand to benefit, as does the region at large. However, this could only work for the Middle East region after a just,

> *comprehensive and lasting political settlement is reached with Israel. After that, a Southern African model can be applied, with one large economy helping smaller ones around it to the benefit of all in the region.*

For the time being however, such a framework remains elusive, depending as it does on a political settlement. Nevertheless, despite major political and security problems, new mechanisms of industry relations and technology transfer continue to emerge. These are leading to a changed geographical distribution of production, through bilateral arrangements such as subcontracting, joint ventures, or the relocation of industries from Israel to Jordan. The newly emerging industrial patterns may result in Israel's concentrating on selected high-technology products (geared mostly to Western markets) and on the transfer of technology and expertise, while Jordan may continue to promote labor-intensive and/or less technology-intensive industries, such as food processing and textile and garments.

The labor-intensive textiles and garment industry has been one of the main subjects of the impact of the peace process on Jordan, in view of its significant contribution to total manufacturing output, value added, exports and employment in the country. This industry is expected to be the one most affected by the new patterns of economic relations, and is still a contributor to exports in Israel. At the same time, the application of the QIZ model in Jordan has concentrated mainly on this sector (see Section B2 above for details.)

While industrial co-operation in garments and textiles, as well as in other lower technology areas, has developed between Israel and her neighbors, Jordan's interest in higher technologies has also emerged. (For example, see Chapter D above for details of Jordanian emphasis on computer software.) However, the changed situation and heightened violence between Palestinians and Israel has complicated Jordanian plans to move in this direction. In other words, Jordanian-Israeli manufacturing activities, which were gradually gaining momentum following the six-year old peace treaty, could be facing a difficult situation as businesses halt trade ties with Israel because of continued Palestinian-Israeli conflict. At the same time, many Jordanian industrialists are not dealing with Israel after the Palestinian-Israeli clashes of autumn 2000. To take one well-publicized case, because of the latest violence, the American firm Vishay has shelved its plans to build a facility in Jordan for manufacturing electronic components. The company had planned to build the new electronics factory in partnership with Jordan's Century Investment, an industrial group with a successful record of co-operation with Israel. The deterioration of the security situation in the PNA areas has raised questions about the stability of Israeli joint ventures in Arab countries, as Israel's entrepreneurs fear that hostilities would create pressure to shut down these joint ventures. However, Vishay will maintain contact with Century and re-activate plans to build the facility when the situation stabilizes. Vishay had originally planned to produce components in Jordan, with the board of directors of Vishay Intertechnology, the American parent company of the Israeli firm, approving in July 2000 the idea of building the plant in the kingdom. Other high-tech companies were to have followed Vishay's lead and helped in developing a high-tech industry in Jordan. Despite the decision to freeze the Jordanian venture, the security situation has not influenced the parent company's plans to invest in Vishay Israel. The company has a $500 million plan for expanding its Israeli facilities and doubling its number of employees to about 9,000. (4)

At the same time, Israel continues to engage in other activities that have had an indirect negative impact on Palestinian industry, as well as on Palestine's exports to Jordan. For example, the production and export of olive oil has been seriously affected by the Israeli destruction of olive trees. Some 4,500 olive trees had been cut down in the five weeks prior to 9 November, according to the PNA Ministry of Environmental Affairs, and villages have been roadblocked by the Israeli army, preventing the shipping of olives to presses for the production of oil to be sold to Jordan. Including olives, losses from destroyed, rotted, or unpicked crops in Palestinian areas amounted to $120 million in the year 2000 (up to late November) according to the Palestinian Economic Council for Development and Reconstruction. (5)

Despite a growing move to boycott Israeli products, the peace treaty has opened an opportunity for Jordanian goods to penetrate the Israeli market, and some of Jordan's products are competing there. Jordan exported goods worth $47 million to Israel between January and August 2000, compared to $30 million during the same period in the previous year. In 1999, Israel imported goods worth $53 million from the kingdom. (6) However, these figures, the most recent at the time of writing, do not include the period of the Aqsa Intifada, when stringent Israeli measures in the name of security began to especially hamper the flow of Jordanian goods to the Palestinian market. For example, the Jordan Cement Factories Company (JCFC) halted exports to the Palestinian market because of Israel's siege of PNA areas. Before clashes erupted end-September, the company used to export 1,000 tons daily of clinker and Portland cement to the West Bank and the Gaza Strip, six days a week. For nearly three weeks, the JCFC's exports to the Palestinian self-ruled areas were halted due to the strict security measures imposed by Israel due to the Palestinian-Israeli clashes. The JCFC then resumed the shipment of cement to the PNA areas, but only half the usual volume has been able to reach its destination, due to the heavy traffic at the crossing point. The company incurred heavy losses due to the banning of shipments. (7)

Within the framework of an Israeli-Palestinian political solution, new investment and trade relations will emerge between the two economies, as well as between each of them and Jordan. What is clear is that a greater measure of separation will be imposed between Israel and the PNA areas. For example, the World Bank has said that the PNA needs more autonomy in its trade arrangements in order to enjoy economic advantages. The Bank recommends that the PNA cancel its customs agreement with Israel, establish an independent trade entity with lower customs, and reach a separate new trade agreement with the Jewish state based on parity with Israel's other trading partners. The PNA and Israel currently maintain a trade association based on the Paris Agreement, where the PNA is included in a customs entity with Israel, and is unable to set different customs than Israel. As this changes, new manufacturing and trade patterns will emerge in and between Israel and her neighbors. (8)

Meanwhile, a major effect of Israeli-Palestinian strife is the increased perception of political risk in the subregion by domestic and foreign investors - both current and potential. Private investment and trade had shown some progress in Jordan and Palestine during the three years before the autumn 2000 crisis. Because of the current situation, the PNA areas in particular will be seen as riskier place to invest for the long term. (9) In short, the current situation is fluid and full of risks for manufacturers. Longer-term stability is the key to sustainable industrial growth; meanwhile, smaller trade and investments in more traditional areas will continue to develop.

Notes

1. Previous efforts at economic autonomy by Palestinians are described in for example Glain S "Palestinians Begin to Chip Away at Israeli Economic Dominance," in *The Asian Wall Street Journal*, 23 July 1999, p 11. However, the new situation resulting from the Aqsa Intifada, which erupted at the end of September 2000, has created a completely different set of circumstances, and the drive for Palestinian economic independence has accelerated. At the same time, Israel is also considering economic separation from Palestine, as illustrated in for example Rubinstein D "No butter and no milk: The Palestinian economy is sinking with the Intifada" *Ha'aretz* 22 November 2000.

2. See for example al Khouri R "Jordan's Higher-technology Sector" in ESCWA *Proceedings of the Expert Group Meeting on the Impact of the Peace Process on Selected Sectors*, (Beirut, 1998)

3. Lawrence, R et al *Towards Free Trade in the Middle East: The Triad and Beyond* (Cambridge Mass, 1995) p.1 ("Short Version")

4. Coren O "Vishay freezes its proposed electronics plant in Jordan" *Ha'aretz*, 20 October 2000. In another attempt at Jordanian-Israeli co-operation, Century Investment in 2000 bought a bankrupt Israeli garment company for $1.8 million, and the reopened operation has secured new contracts to supply American retail chains (Orme W "Jordan's Business Ties With Israel Face Peril" *New York Times Service* 3 November 2000).

5. Browning M and Kaplow L "Wielding the Ax of Bitterness: Israelis chop down Palestinians' precious olive trees, insisting it's retaliation for rocks being hurled at settlers" Cox News Service *The Atlanta Journal and Constitution* 29 November 2000

6. Central Bank of Jordan, Department of Research and Studies *Monthly Statistical Bulletin,* November 2000, pp 68-9

7. Awwad R "JCFC resumes shipments to Palestinian self-rule areas" *Jordan Times* 20-1 October 2000

8. Coren O "World Bank study recommends customs autonomy for PNA" *Ha'aretz* 9 November 2000

9. Office of the United Nations Special Co-ordinator "The Impact on the Palestinian Economy of Confrontations, "Mobility Restrictions and Border Closures" 28 September - 26 November 2000

F. THE GROWING ROLE OF TRANSNATIONAL CORPORATIONS

An important trend underlying globalization is the growing role of TNCs. These, with their enormous resources and power, are playing a greater, if still modest, role in FDI in manufacturing the region. At the same time, the strategies of TNCs in the Arab world and the logic of FDI there have changed. In the previous two decades, the main motivations of foreign investors in the Arab region were related to customs protection. This was such that the opening of a company or a production plant strengthened the margins of competitiveness toward the foreign exporters, or reinforced the special links with local partners through subcontracting or joint ventures. Significant examples of this investment strategy in manufacturing were the foreign participations with local entrepreneurs in Egypt in production and assembling of consumer goods for the domestic market. However, this pattern of investment by TNCs is now beginning to be phased out.

Privatization and the reduction of state intervention in the economy are also contributing to modifying the strategies of TNCs. However, the privatization process has been slow and delayed in the Arab world, weakening the competitiveness of local enterprises with regard to those in other more dynamic regions, such as Central Europe.

Six countries dominated FDI flows into the region in the mid 1990s: the US, the Netherlands, France, Germany, Italy, and Japan. Of these, the US is the most important and Japan the least. Compared with the dynamism of US investors, EU-based TNCs have not reacted strongly to the Euro-Med Association agreements. Though there has been an increase of FDI inflows from the EU, given their size, the effects are limited. The relative stagnation is due to the effect of European industrial restructuring, spurred by the completion of the single market, which has stimulated significant investment activity in the EU. This "Eurocentricity" has resulted in a general slowdown of capital outflows to LDCs in general, including the Arab region. A qualitative change is noticeable in EU investments, away from manufacturing and with a greater proportion of FDI in the tertiary sector. However, for mainly historical reasons, EU investors continue to maintain substantial interests in Tunisia, Morocco, Syria, and Lebanon, with a share of about seventy percent of the FDI stock, and in Egypt, with about half. (1)

Apart from energy-based activities, manufacturing FDI in the Arab countries is concentrated in Egypt, Tunisia, and Morocco. Table 3 shows rising total FDI for these three countries, and Table 4 an increased share of foreign direct investment in gross fixed capital formation. However, this typically involves modest technology transfer, and FDI remains tied to natural resources, particularly hydrocarbons in OAPEC member states. This hinders the impact of FDI in terms of technology and management, helping to explaining slow regional development compared with other regions such as Southeast Asia and Latin America.

Table 3 FDI in selected Arab countries, 1985-99 (in billions of dollars)

	85-95	1996	1997	1998	1999
Egypt	0.870	0.637	0.888	1.077	1.500

C. Morocco	*D. 0.238*	*E. 0.357*	*F. 1.079*	*G. 0.329*	*H. 0.847*
Tunisia	0.259	0.351	0.366	0.670	0.368

(Figures for 1985-95 are annual averages)

Source UNCTAD *World Investment Report 2000*

Table 4 FDI in selected Arab countries as a percentage of gross fixed capital formation, 1985-98

	85-95	1996	1997	1998
Egypt	5.5	5.1	6.1	6.1
I. Morocco	*J. 4.5*	*K. 5.0*	*L. 15.6*	*M. 4.1*
Tunisia	8.5	7.7	7.8	13.6

(Figures for 1985-95 are annual averages)

Source UNCTAD *World Investment Report 2000*

This may imply that Arab manufacturing should itself reorganize regionally to capture the advantage of economies of scale and of integration of regional demand and supply structures. Regional manufacturers could then more successfully negotiate various forms of alliance with large and medium-sized TNCs to enter global networks of production as intra-industry suppliers and as users of the latest production and marketing techniques available internationally.

A peace settlement in the Middle East may also lead to greater involvement of TNCs and to increased foreign direct investment in the region, with a possible bias towards tripartite partnership among them, Israel, and ESCWA member countries. Meanwhile, TNCs are setting up facilities in Israel in manufacturing sectors with a greater technological content, such as electronics. (2)

One problem that the region may face regarding TNC activity is in the area of the environment. In order to adopt laws and create policies for economic growth and environmental protection requirements, FDI legislation in ESCWA countries should address the problems of pollution emissions, perhaps by offering fiscal incentives to companies that use equipment to reduce emissions, or by levying additional taxes on polluting industries. Such incentives might bring both economic and environmental gains, as they could attract "clean" TNCs who have already developed environmental management system and wish to benefit from the extra exemptions.

Much of the FDI in developing countries is directed towards export-oriented activities. With liberalized trade at the global level, FDI-related exports in the Arab world are expected to flourish and will hence contribute increasingly to environmental degradation. Conversely, trade-related environmental measures will affect FDI activities, especially in developing countries that rely on FDI-financed export-oriented industries for their economic growth. (3)

Meanwhile, international investors still see the Arab world as a risky region. For example, though *Euromoney*'s latest country risk survey shows most Arab countries improving, they remain constrained by weak economic performance, high political risk (particularly in the Levant, Yemen and Algeria) and limited access to capital markets. The leaders of the region's Euromoney ranking are the six GCC states, topped by the UAE (world rank 28) and Kuwait (30). Saudi Arabia and the UAE were the only two GCC countries to witness an improvement in ranking in 2000, with the latter jumping three places to 35th. In North Africa, Tunisia came on top with a world rank of 51, followed by Egypt and Morocco with 54 and 56 respectively. By comparison, the Levant, because of political risk, weak economic performances, and debt problems, ranked lower, with Lebanon at 74, Jordan 75, and Syria 90. However, all three improved in 2000, mainly due to lower political risk perception thanks to a smooth presidential succession in Syria, a stable political environment in Jordan, and the Israeli withdrawal from Lebanon. Yemen, Libya, and Iraq record some of the lowest positions in the world, reflecting high political risk and weak economic performance. (4) The *Institutional Investor* country credit ratings show a similar picture: Arab countries included in the *Institutional Investor*'s survey in September 2000 almost all recorded higher scores than their level in March 2000; only Syria and Libya registered marginal declines. Egypt recorded the biggest rise, moving up to 56th place, and Iraq also posted an increase. (5)

The successful implementation of structural economic and social changes will greatly enhance the region's attraction for FDI. In the GCC subregion, several countries are now opening up their economies to FDI, which bodes well for them. Moreover, following a difficult period of very low oil prices until March 1999, the ensuing recovery has strengthened the GCC countries, reducing budget deficits and boosting confidence. On the other hand, the deterioration of conditions in Palestine will raise the risk of doing business in the region and will have negative implications on the 2001 country risk rating of Jordan, Syria, Lebanon, and Egypt. In such an atmosphere, it will be difficult for TNCs to expand their presence, except in hydrocarbons, the traditional area of concentration of FDI in the Arab world.

Notes

1. Allesandrini S et al "The Determinant of FDI: A Comparative Analysis of EU FDI Flows into the CEECs and the Mediterranean Countries" in *ERF Sixth Annual Conference Trade Finance and Labor Markets in the ERF Region Conference Proceedings, 1999*

2. ESCWA *Proceedings of the Expert Group Meeting on the Impact of the Peace Process on Selected Sectors* (Beirut 1998) p 1

3. ESCWA "FDI Legislation Reflecting Environmental Concerns in the ESCWA Region," (E/ESCWA/1997/11) p 30

4. *Euromoney* September 2000

5. *Institutional Investor* September 2000

IV. The Changing Regional Trade Environment

A. The Arab Free Trade Agreement

The regional trade environment is changing slowly, with AFTA in particular promising to achieve a measure of pan-Arab economic and industrial co-operation. However, this has still not made a major impact on trade in manufactured goods in the region.

Similar to foreign and international experiences, many intra-Arab schemes sought integration through various projects, including multilateral and bilateral trade agreements. Most of them were unsuccessful in their basic objectives of economic integration, and their impact remained very limited.

Efforts to bring about inter-Arab trade integration in particular started decades ago and were endorsed in 1982 in an agreement between member states of the Arab League for the facilitation and development of intraregional trade. However, once this accord was signed, there was little actual progress for more than ten years towards dismantling tariff and other trade barriers. The main shortcoming of the 1982 agreement was the adoption of a product-by-product approach to trade liberalization whereby countries were allowed to choose some manufactured goods but not others for tariff exemption. In addition, the agreement did not establish a schedule for the elimination of tariffs and other barriers to trade.

Spurred by the Uruguay Round negotiations and the setting up of the WTO, in the mid-90s attention once again focused on the issue of regional free trade when the Arab League in 1995 and again in 1996 called for activation of the 1982 agreement. The outcome was the establishment in 1997 of AFTA by the Arab League. Of the League's 22 members, 19 have joined AFTA, including all OAPEC members except Algeria (along with Djibouti and the Comoros). Among the AFTA members, fifteen have ratified the agreement, with Somalia, Palestine, Mauritania, and Yemen still to go.

The implementation of AFTA began on 1 January 1998. Member countries (except for Sudan) have since adopted measures to reduce tariffs on their imports from each other. The reductions were instituted at an annual flat rate of ten percent, with the aim of achieving total elimination by the end of 2007. AFTA contains details on tariffs and non-tariffs barriers, product origin, and bilateral agreements, among other subjects. The member countries agreed to bind the national tariff schedules that were applied on 31 December 1997. For the remaining countries that did not ratify the Agreement, the bound tariffs are those applied at the time they notify the Arab League of the ratification and endorsement of the program. Tariff-like charges and additional taxes are among the main components of the program and are to be treated like normal tariffs.

Member countries are also developing a work program to eliminate or at least reduce NTBs. To reach this goal, a negotiating committee on NTBs has agreed on a common list of goods whose imports are prohibited for religious, health, environment, and national security reasons.

The list is to be reviewed annually. The committee is also mandated to identify other NTBs applied by each member country and then start negotiations for their elimination. Member countries will apply the reciprocity principle in case of nonremoval by others of unjustified NTBs.

Though it may still early to assess the impact of AFTA, among the manufactured goods that could be positively affected by the agreement are oil and gas products; dyeing, tanning, and coloring materials; medicinal and pharmaceutical products; toilet, polishing, and cleansing preparations; manufactured fertilizers; chemical products; leather manufactures; rubber manufactures; wood and cork manufactures, including furniture; paper and cardboard manufactures; textile yarn, fabrics, made-up articles, and related products; non-metallic mineral manufactures; iron and steel; manufactures of metal; transport equipment; sanitary, plumbing, heating and lighting fixtures; travel goods, handbags, and similar articles; clothing; and footwear. (2)

AFTA member countries have shown flexibility and prudence in overcoming obstacles by agreeing to minimize and later eliminate all exemptions from the accord. However, global economic developments necessitate more synchronized Arab action and aggressive promotion of integration. Adjusting to increasing levels of international competition is a vital necessity. The challenges of globalization call for greater emphasis on investments that bolster and enhance overall Arab economic cooperation; this is required for the manufacturing sector in particular. (3)

Arab economic conferences and other fora have been calling for the speeding up of steps to finalize AFTA and reduce the period granted before the total removal of customs boundaries and obstacles to movement of goods among Arab countries. Nevertheless, AFTA is a necessary step toward achieving Arab economic integration. However, such an arrangement must be more than just a free trade area. It should also involve "deep integration" and this will mean - among many other things - streamlining and simplifying the rules for intra-Arab business. A tariff-free AFTA will still not be effective if real or imagined security fears slow trade in some manufactured goods or even prevent it in others; like some tariffs, unreasonably tight controls on trade can also represent an important barrier to business. One of the most important impediments to trade with and in the region is the professed security element manifested in unprofessional behavior of some customs and other border authorities. In one way or another, some form of tight border security is characteristic of all countries of the region. In fact, much of this so-called security is simply the result of outdated administration. Countries of the region have to actively engage in removing the numerous trade restrictions still existing, including false security measures.

The AFTA value added requirement is 40%, which is higher than some other free trade arrangements, such as those of the US with Jordan and Israel respectively, set at 35%. Another possible obstacle to more free trade could be the abuse by countries of the use of exceptions intended to enable local industry to carry out restructuring to improve competitiveness before having to face competition from foreign imports. (Members requesting such exceptions should provide a report showing the economic impact on the national economy and the duration for each requested good (listed at the 6 digit HS level at least) to be exempted from tariff and similar reductions.)

A positive innovation in the AFTA program is the call for private sector chambers of industry and commerce in Arab countries to monitor implementation. Pursuant to this, the Union of Arab Chambers of Commerce has been requested to submit a semi-annual report detailing the difficulties that traders encounter in dealing with the customs administration and any other regulatory agencies of individual member countries. (4) This involvement by the private sector aims at enhancing the transparency of AFTA.

Finally, it has to be recognized that currently the main markets for Arab industrial and other products is outside the region. However, there seem to be indications that efforts to achieve regional cooperation among the Arab states are less critical than attempts to create closer integration with multilateral and inter-regional systems of trade. (5)

Notes

1. See The Organization of Arab Petroleum Exporting Countries, the Arab League, the Arab Monetary Fund, and the Arab Fund for Economic and Social Development op cit p172 for details of actions taken by individual members in the application of AFTA

2. See Limam I and Abdalla A "Inter-Arab Trade and the Potential Success of AFTA" in The Arab Planning Institute *Working Paper Series*, 1998, no 6, Table 15, for a list of 4-digit HS commodities that could assume importance in more liberalized inter-Arab trade.

3. See ESCWA "Interlinkages between Trade, Investment, and the Transfer of Technology: Implications in the Context of an Arab Common Market" for an assessment of the impact of AFTA on various aspects of the petrochemical and capital goods industries in particular.

4. See Secretariat of the Federation of Arab Chambers of Commerce, Industry, and Agriculture *Awraq Iqtisadia* (Arabic) March 2000 pp 228-38 for an assessment of AFTA

5. The Economic Research forum for the Arab Countries, Iran, and Turkey *ERF Indicators, Economic Trends in the MENA Region, 1998* p 82

B. Subregional arrangements

1. Multilateralism

a. The GCC

The economic aspects of subregional arrangements, including multilateral ones such as the GCC, as well as bilateral ties, have become more important in the past few years in the ESCWA region. However, this has not necessarily had a major impact on industry, except possibly in the GCC where there has been some co-ordination in manufacturing activities among countries. (1)

The main economic feature of the GCC is the Unified Economic Agreement ratified in 1982 provides free trade among member states in all industrial and other products of national origin. Such products are exempted from customs duties and other charges having equivalent effect. The Agreement also aims at implementing a common external tariff and trade policy, and coordinating development. The initial implementation measures of the Unified Economic Agreement were taken in 1983.

Other aspects of the GCC related to manufacturing include:

- The Gulf Investment Corporation, with an authorized capital of $2.1 billion, aims to consolidate economic activities among member countries in commerce, industry, mining, and other investments. The Corporation, set up in 1984, is authorized to participate in, provide loans for, and undertake joint development projects in member and other Arab countries.

- The Gulf Standards Organization, created in 1982.

- The GCC Patent Office, created in 1992 to carry out the implementation of patent regulation for the GCC, and authentication and publication of data particular to inventions, among other related functions.

These and other joint bodies function to the benefit of the member states' manufacturing sectors. In addition, GCC countries have recently agreed on a common tariff structure of 5.5-7.5%, and have taken steps to link stock exchanges and to facilitate branch banking among the six states.

In short, the countries of the GCC have been at the forefront of the Arab states striving for economic co-operation and integration, important measures for attracting foreign investors to the GCC countries. However, other issues remain outstanding in this respect, including transparency in government procurement, and a regime for the protection of intellectual property rights that is compliant with the WTO TRIPs agreement.

Saudi Arabia remains by far the largest GCC economy, and developments in its industries continue to have a major impact on the Council's other five countries. In particular, Crown Prince Abdullah's suggestion on how to develop investment in oil and gas in Saudi Arabia has led a number of giant TNCs from around the world to indicate an interest in participating in hydrocarbon projects. This development and the updated investment law of Saudi Arabia has introduced many improvements and new elements that will make the kingdom's investment climate more competitive vis-à-vis foreign capital. (2)

The GCC is an example of how restrictions among Arab states can be eased and even in some cases abolished. This is good for business, but many "security" obstacles are still imposed on some economic activities in GCC states. Saudi Arabia in particular presents cases of import restrictions due to security, though partly because of the process of the kingdom's WTO accession, the list of such items subject to licensing is under review.

b. The Maghreb

Intra-country arrangements for integration and co-ordination in the Maghreb are far les advanced than in the GCC. Nevertheless, attempts have been made recently, especially under the US's Eizenstat Initiative, to bring Tunisia, Algeria, and Morocco closer together. In 1998, the US announced the launch of this measure, formally known as the US-North Africa Economic Partnership, aimed at encouraging private sector-led growth and regional economic integration in the Maghreb. Through the Partnership, the US aims to foster senior-level policy dialog aimed at promoting economic reform and liberalization; provide Maghreb governments with a platform from which to engage with potential US investors; and extend technical assistance and training programs aimed at helping Maghreb governments improve their business and investment climates.

The US dialog with the governments of Algeria, Morocco, and Tunisia has two basic components: to enhance the bilateral relationship between the US and each of the three Maghreb countries; and break down the barriers to intra-regional trade and maximize the growth potential that private sector-led development will help to achieve. Several projects are planned for 2001 under this program, with $5 million from Congress to fund the North Africa Initiative for 2000/1. (3) These include USAID-funded "investor roadmap" studies of the investment regimes in the three Maghreb states and form the basis for discussion of further steps to encourage private sector-led growth, trade, and investment. (4)

While it is still too early to judge the fruits of the Partnership, it is nevertheless interesting to contrast it with EU attempts to engage the Maghreb region.

2. Bilateralism

Bilateral attempts to foster economic relations in general and trade in manufactured goods in particular between Arab states have flourished over the past few years. Such measures have not however met with extensive success, though the fruits of some of them are starting to be felt. In this respect, the case of Syria is particularly interesting, as it has on a strictly bilateral basis attempted to expand trade, especially in manufactured goods, with its three neighboring Arab states. In the case of Lebanon, this has been part of a multifaceted and ambitious integration program undertaken during the 1990s at many levels, including economic measures. With Iraq, Syria has started very recently to resume trade links, but this process remains overshadowed by the UN sanctions on Iraq and the many restrictions that still apply to dealings with that country. In any case, bilateral business links between Syria and both other countries are heavily influenced by political and diplomatic factors with little direct relation to the need to promote manufacturing.

The case of Jordan and Syria is somewhat simpler. In particular, the Jordanian-Syrian trade pact of 1999 has eliminated customs tariffs on a wide range of goods in a move that could give a strong boost to trade between the two countries. Under the agreement, the Jordanians and the Syrians expanded the list of duty-free goods imported by each side to about 200 items, the largest number in any agreement that Jordan has ever signed with another state. The extensive tariff cuts agreed were a major step towards eventual free trade. However, Jordan retains a 35% duty on imports of Syrian garments, alcoholic beverages, biscuits and chocolates to protect its own industries, and Syria most notably continues to exclude marble, granite and vegetable ghee from the list of over 100 Jordanian products on which it waived tariffs. Along with the cut in tariffs, Syria and Jordan have taken other steps to consolidate ties, including easing formalities at border crossings, the renewal of a regular train service between the two countries' capitals, and the start of a Joint Jordanian-Syrian Free Zone, which will contain factories on 2,000 dunums of land straddling the border.

However, despite the essentially straightforward commercial nature of this and other bilateral Arab accords, political and diplomatic elements still impinge heavily on links between countries in the region. This unfortunately could diminish the positive impact of such measures as the 1999 accord between Syria and Jordan, which however has thus far proven to be durable.

Notes

1. This has also taken place in the context of diversification away from upstream hydrocarbon production in most GCC states (see Pereira, D "The Gulf Co-operation Council Countries: Recent Economic Developments and Prospects" Arab Bank Review, vol 2 no. 1, April 2000)

2. For details see *Middle East Monitor: the Gulf* vol 10 no. 6 June 2000, "Saudi Arabia Investment Talks Fast-tracked"

3. Office of International Information Programs, US Department of State. Web site: http://usinfo.state.gov, Address by Stuart E. Eizenstat, Deputy Secretary of the Treasury, North Africa Ministerial Meeting, Washington, DC, 18 April 2000

4. Office of International Information Programs, US Department of State. Web site: http://usinfo.state.gov, Statement to the Press Concerning the US-North Africa Economic Partnership, Washington, DC, 18 April 2000

V. DEVELOPMENTS IN INDUSTRIAL STRATEGIES AND POLICIES, THE DIMINISHING ROLE OF THE STATE, AND NEW OPTIONS IN THE REGION UNDER CONDITIONS OF MAJOR CHANGE

A. The new role of the state in formulating an outward-looking industrial strategy

The Arab state is slowly adopting a new role and formulating an outward-looking industrial strategy, in order to confronting such challenges to the manufacturing sector as tapping regional and neighboring export markets, as well as helping to develop an adequate business environment. Such government intervention includes the provision of technical and commercial information services, supporting R&D activities, as well as capacity-building efforts for technology management at the industry and the enterprise levels. While reliance on foreign sources of technology is an option that has to remain open, it is important to simultaneously focus on building indigenous technological capabilities through the support of applied research activities.

Unfortunately, the state's involvement in this respect is still weak. The enhancement and proper management of technological and innovative capabilities has yet to be regarded as a core concern of industrial policy in the region, with the focus being on overcoming the absence of an innovation culture. Despite progress in some countries of the region compared to the situation in the mid 1990s (1) the proper formulation and endorsement of a new paradigm regarding the nature of government technical and marketing support for developing industry-related technological capabilities remains a challenge for Arab states.

Box 8 Technical and marketing support institutions in Jordan

Although the government of Jordan has recently initiated a series of reforms in an attempt to encourage foreign investment and increase exports, the lack of developed industrial support services has helped to stunt the growth of manufacturing. In the case of the food-processing industry for example, in view of the prevalence of SMEs, it is often not feasible to invest large sums in developing a factory whose capacity, and subsequently revenues, are limited; the only other alternative is to depend on a support infrastructure to provide the necessary services to aid development. Unfortunately, such services are deficient in Jordan. Consequently, these factories are incapable of meeting export requirements and instead focus on a limited local market, while still seeking protection, as in the recent case of biscuit and other food manufacturers.

Main industrial support services in Jordan that still need development are:
- *Food product testing laboratories*
- *Quality system certification services*
- *Calibration services with internationally traceable physical standards and measuring and testing equipment.*

In other respects, attempts are also being made in Jordan to promote exports through public-private partnerships, particularly by the Jordan Export Development Corporation (JEDCO), the principal agency in the kingdom concerned with identifying opportunities for the development of Jordanian exports and providing assistance in this regard. Part owned by private sector business chamber and part governmental, JEDCO offers a wide range of services: directly to exporters and indirectly through the country's various private sector organizations. These include:

- Identification of business opportunities by providing relevant and accurate information essential to exporters in order to tap into international markets
- Commissioning or market and country studies and analysis to meet the needs of exporters
- Product promotion through inward and outward missions, participation at trade fairs and publications
- Identification and acquisition of technical expertise needed to improve Jordanian products and to capitalize on export sales opportunities
- Assistance to overseas buyers in locating needed products and services.

JEDCO operates trade centers in a number of Arab and foreign countries to promote Jordanian exports and provide assistance to visiting businesspersons. The centers also provide JEDCO and exporters with information on current developments and trade opportunities and facilitate the kingdom's participation at major exhibitions. Through these services and activities, JEDCO fulfills its role of encouraging and promoting exports.

JEDCO targets the Jordanian food-processing sector as a potential source of increased Jordan's exports, looking in particular at:
- Frozen meat products
- Canned vegetables
- Fresh juices and concentrates
- Dried herbs and medicinal plants
- Chocolate bars
- Candy, toffee, and chewing gum
- Snack foods
- Baby food
- Vegetable and olive oils
- Biscuits
- Ethnic products such as halawah and tahina

Of course, success in this area depends to a considerable extent on the application of appropriate Jordanian general food regulations covering hygiene, food additives, food packaging, pesticide residues, and food labeling. There are several specific regulations that are imposed on the food processing industry, issued and enforced by the Jordan Institute of Standardization and Measurements (JISM), the country's official body for the preparation and publication of Jordanian Standards. However, comparing Jordanian food standards against those of Codex, the EC, and the US FDA has shown that there are some discrepancies. These are in the essential composition of the product as well as in labeling, additives and other aspects of the standard.

JISM has developed national standards for large number of food products. These standards are enforced by JISM, and the Jordanian Ministry of Health enforces the requirements of the Jordanian food standards related to hygiene and additives. Jordanian food manufacturers rely on these inspections as evidence of their compliance with the Jordanian Standards. However, these inspections are only carried out randomly from time to time; due to the lack of internal inspections and tests carried out by some factories and the lack of internal quality standards for their products, consistent quality of the food products is not necessarily assured. This undermines the work of export development.

At the same time, more attention is being paid in the Arab world to the regime for FDI, the adoption of a new policy towards TNCs as well as other aspects of the legal and policy framework. Investment expansion through both the participation of repatriated Arab capital (as in Syria in the early and mid 1990s) and FDI by TNCs (as in the Gulf states today) is also being stressed. However, the overall business environment in the region has not improved substantially: foreign investors (including expatriates) still emphasize the need for regional peace, rule of law, and predictability; while domestic investors view constraints related to finance, taxes, skill availability, and legal and regulatory costs as major impediments.

Government, policies in the Arab world continue to undermine financial sector development. On the other hand, over the past few years many countries in the region have instituted reforms, including liberalization of interest rates, reduction of state control of credit allocation, an movement toward indirect and market instruments of monetary control. Financial markets are still immature or shallow, however, and financial sectors in the region have not yet changed significantly.

The main characteristic of the financial systems in the Arab world remains the reliance by the private sector on the banking system for credit. Securities markets do not plan a significant role in private finance, commercial banks provide credit (mainly short-term) to the private sector, and development banks supply most medium and long-term credit. Commercial bank funding comes mainly from deposits and to a certain extent from rediscount facilities. Money market activity is limited, restricting the ability of banks to increase liquidity as needed, and thereby forcing them to hold short-term assets. There is almost no market for long-term instruments. (2)

Equity markets are also underdeveloped. To address this vacuum in the financial market, many governments have introduced specialized institutions, typically government-owned lending institutions with special access to long-term financing at below-market rates. This strategy tends to impede the development of market solutions to the problem.
Nevertheless, in recent years, there has been significant progress in liberalizing interest rates, facilitating better mobilization of deposits and allowing banks to charge higher rates for riskier projects. Still, intermediation margins for non-GCC Arab countries are typically much higher than for OECD countries.

To increase competition in the banking sector, the countries of the Arab world must open up the market to foreign banks, as has been done most recently in Syria. This would increase competition and technology transfer and training, reduce market fragmentation by eliminating the privileges accorded to specialized banks, and increase competition from financial market. Steps are being taken in some Arab countries to create the proper regulatory framework for the banking system. However, supervision capacity in many countries remains poor, and the information infrastructure inadequate.

How can the large amounts of investment capital be raised to finance needed expansion and improvements in infrastructures services? Regulation of the private sector in the Arab world has developed to support state intervention in and control of the economy and to direct investments to favored sectors. The results have typically been lack of competition, high transaction cost, inefficient industries, and rent-seeking activities. (3)

Fiscal incentives promote investment in certain sectors in almost all Arab countries, as do the activities of investment promotion bodies. For example, the Investment Development Authority of Lebanon is becoming more active studying economic development strategies in conjunction with private consultants, and has among other projects initiated several duty free zones. The Jordan Investment Board has also expanded its activities recently. In these and other countries of the region, laws are being revised to take account of the new role of the state as a regulator, as well as to be in harmony with WTO practice. However, enforcement and administration of laws tend to be slow and cumbersome in the Arab world. Businesses that avoid using courts for contract enforcement must search for alternative mechanisms, or incorporate the uncertainty associated with a deficient legal system into their costs. Reasons for judicial inefficiency include the lack of qualified judges, the poor state of the legal profession, and outmoded procedures and systems.

Macroeconomic policy reforms such as those being applied many countries in the Arab world are a precondition for increased price sector investment and economic growth. By themselves, however, such reforms are insufficient. A business environment should be put in place that enhances competition, reduces transaction cost, and allows market forces to determine resource allocation. Although eliminating unnecessary and burdensome regulations can bring major benefits, a well-designed regulatory system still plays an important role in market economies. A strategy of dismantling many of the current regulations while building systems that address the needs of the global economy is still required.

Notes

1. As set out in ERF *Economic Trends in the MENA Region 1998* p 18 and in "Industrial Strategies and Policies in the ESCWA Region within the Context of a Changing International and Regional Environment," in ESCWA ERF, Friedrich Ebert Stiftung op cit p 48

2. Anderson R and Martinez A "Supporting Private Sector Development in the Middle East and North Africa" in Shafik N (ed) *Prospects for Middle Eastern and North African Economies* (ERF, 1998) p 186

3. Ibid p 190

B. Privatization as a Key Reform

The strategy of state-led development of industry in the Arab world has not achieved sustained growth, and the productivity of physical assets and human capital in the publicly owned manufacturing sector remained low. A move toward private ownership policies that encourage private domestic and foreign capital is thus essential, but privatization is not being implemented rapidly enough to achieve this.

Privatization is being recognized as a key reform in the Arab countries, but the obstacles facing it are still substantial, and trends in privatization in the region are still not altogether satisfactory. By contrast, developing countries in other parts of the world have been able to privatize a much larger number of enterprises and have generated more revenue from privatization than the countries of the Arab region. (1)

Full-scale privatization is proving to be complex, difficult, and slower than might have been expected because of the large number of publicly owned enterprises in the Arab world. Egypt, Morocco, and Tunisia are among the few countries of the region that have made significant progress, though even there much remains to be done. Tunisia's privatization program in particular is now into its second decade, having been launched with sales of smaller manufacturing companies in 1989-94.

Nor has privatization targeted manufacturing in particular, For example, US interest in privatization set to be undertaken in Saudi Arabia is focusing on “energy, whether it's or oil or gas or electric or telecommunications or railroads.” (2) US and other foreign investors still appear most interested in natural resource extraction, as they did in the 1940s and 50s, particularly as concerns hydrocarbons. Their other focus seems to be service sectors such as transport and telecommunication, though Western firms have targeted some privatized manufacturing firms.

Box 9 French stakes in businesses in the ESCWA region

French firms are among the most active in the Arab region, traditionally so in the Maghreb but now also increasing their stakes in the ESCWA region. For example, France has taken keen interest in Jordan's IMF sponsored privatization program. The sale of the Jordanian government's Jordan cement factories company (JCFC) stake to the French based TNC giant Lafarge was the first successful big divestiture to a foreign company in Jordan's privatization program, and an international consortium led by France Telecom later acquired forty percent of the Jordan Telecommunications Company. Among other French service firms eyeing the ESCWA region is Air France, now more heavily involved in Lebanon's Middle East Airlines, a candidate for privatization.

Lafarge in 1998 acquired from Jordan's public sector a 33% stake in JCFC, now grown to 40%. This has been good for JCFC, which has cut costs, raised worker productivity, and lowered financing expenses. Operating profits have increased five-fold over 1998. Lafarge is also helping JCFC improve its fuel systems and environmental controls.

JCFC exports in 1999 improved by twelve percent over the previous year. Fifty-one per cent of sales are to the Palestinian market; but sales there have plummeted in the wake of difficulties posed by Israeli-dictated transport arrangements after the start of the Aqsa

Intifada, though such barriers existed even before. Partly as a result, profits and sales are now down. Meanwhile, JCFC is re-organizing its management structure, reducing production costs by $20 per ton, and developing sales to ensure the company's competitiveness when its 50-year concession ends at the close of 2001.

Because of this involvement, Lafarge now has a presence in Egypt, Jordan, and the Gulf states, though the chairman of Lafarge has said he expects Jordan in particular to become a center for its regional activities over the next three years. Some countries such as Iraq are not yet open to foreign investment and Jordan could have a role there when this happens. (3) This presumably will also be good for Lafarge. Meanwhile, Lafarge's involvement in JCFC has led to several changes, including diversification into the French cement giant's other areas of production, such as gypsum wallboards, and roofing and specialty tiles.

Though its is too early to judge the ultimate success of this partnership, Lafarge's involvement in JCFC appears to be satisfactory to all concerned, and may act as a springboard for further French involvement in ESCWA region industry.

Different countries have varying commitments to the privatization of public enterprises. Some constraints facing the privatization process indicate that in most countries privatization is implicitly conceived of as the means of addressing the fiscal crisis facing the state, and not as a developmental question. In any case, and increasing number of countries in the ESCWA region have taken an outright decision to privatize large parts of public enterprises, including Egypt, Jordan, Kuwait, and Yemen. In the GCC subregion, most countries are still considering the issue, and tend to maintain public ownership in heavy and strategic industries. Outside the GCC subregion, in the more diversified economies of the ESCWA countries, privatization has moved with varying speed in countries such as Jordan and Egypt, though in the second half of 2000 the Egyptian government took action to accelerate the implementation of its program. (4)

Nevertheless, despite progress here and there, much more privatization is needed to help solve the problems of the region's state-owned firms. Because of poor accounting and data collection, governments in the region may not even know the true extent of the losses incurred by public enterprises, and even those that show a profit may do so only because they are protected from competition. Often the losses of public enterprises are financed through loans by state-owned banks. The extent of the losses faced in this way is hidden and difficult to estimate. In Tunisia, for example, few enterprises receive subsidies from the budget, but other public firms obtain loans from banks to cover their losses. The amounts involved are not known but are probably substantial. Since loss-making enterprises can probably never repay such loans, the losses of public enterprises contaminate bank portfolios. (5)

Notes

1. ERF Indicators: Economic Trends in the MENA Region (ERF 2000) pp 34-5

2. According to US Secretary of Commerce William Daley during a press conference with Saudi Arabian Minister of Commerce Osama Faqih, Riyadh, Saudi Arabia, 16 October 1999 (Office of International Information Programs, US Department of State, website: http://usinfo.state.gov)

3. Henderson A "Lafarge to help expand operations of the JCFC" *Jordan Times*, 27 March 2000

4. *Preliminary Overview of Economic Developments in the ESCWA Region in 2000* (United Nations, New York, 2000) p 13

5. Anderson R and Martinez A op cit p 182

C. THE NEW ROLES OF THE PRIVATE SECTOR AND ITS INSTITUTIONS, AS WELL AS OF INTERNATIONAL ORGANIZATIONS

New roles of the private sector and its institutions as well as of international organizations focus on selected subsectors in the Arab world, such as SMEs where private institutions together with official bodies are taking action to assist industrial firms to cope with the new challenges. Business led organizations such as some chambers of industry that embrace a wider spectrum of members are often large structures, ill adapted at present to give a strong lead in economic development. Because of these factors, many small businesses are suspicious of getting too close either to government or to private sector industrial organizations such as chambers. This has led to the setting up of new programs in the region to serve SMEs.

International experience shows that FDI through production-based activities generates complex links with the industrial sector of the recipient country, creating new job opportunities and close working relationships between the foreign investor and local partner in the areas of management, technology, and production. This linkage results in the enhancement of local technological capabilities and management skills, technology upgrading and improvement the performance of local SMEs. (1) Additionally, the increased exposure gained through foreign co-operation in various forms brings along access to new markets and source of financing for local industries.

SMEs require a minimum of efficiency, productivity and quality to capitalize on the opportunities provided by foreign investment and therefore need to move towards intentionally accepted production and managerial standards, which could make them attractive as potential partners. This entails the need for enterprise-level technical assistance, encompassing counseling, provision of business information, awareness programs, and marketing. The provisions of these services must be co-ordinated with institutions providing financial support to SMEs. Linking financial and non-financial support is essential in order to make loans less risky to financial institutions and therefore enhance the access of SMEs to credit.

It is also widely recognized that clustering of firms on a sectoral or geographical basis may greatly contribute to the enhancement of their competitiveness through gains and advantages deriving from co-operation and interaction, increased specialization and innovation, improved access to information on technology and markets, and better bargaining power. On the other hand, the concentration of firms represents a suitable framework for business support organization to better deliver their services.

The concept of the interfirm linkages and co-operation, to achieve collective efficiency and mutual benefits, overcomes geographical barriers and is sustained by the unprecedented advance of the information technology which is accelerating the process of globalization. Within this context, the survival and growth of SMEs will depend more and more on their ability to take advantage of this networking possibilities in order to gain exposure, to access source of market and technology-related information, to establish business linkages and to forge partnerships, such as subcontracting, which would allow them to enter the value added global chain. With these and similar ideas in mind, UNCTAD has created the Empretec program, which has been launched in Egypt and Morocco, and is set to be introduced in Jordan, Palestine and Lebanon in 2001.

Box 10 - UNCTAD's Empretec program in Morocco

SMEs constitute by far the largest part of Morocco's industry - nearly 93% of the sector's total firms. They employ over half of the industrial workforce and account for over 46% of industrial output and more than a third of industrial exports. SMEs are also the leading investors, accounting for over two-thirds of investment in recent years. The government's socio-economic development strategy is designed to improve the environment for business, in particular for SMEs. A number of programs have been initiated to support SME development. These aim to give easier access to credit and venture capital, and have created industrial zones with infrastructure and business incubators. To this end, UNCTAD is currently assisting the Office de la Formation Professionelle et de la Promotion du Travail (OFPPT) to develop the managerial and training capacity to execute Empretec Morocco and to link it to the worldwide Empretec program network. Empretec Morocco is also the pilot for Arabic speaking programs in the Maghreb region and the Middle East. Target beneficiaries are promising Moroccan entrepreneurs who are starting or expanding SMEs within priority manufacturing and service sectors with the aim of becoming competitive in the Mediterranean region. The implementation of Empretec Morocco consists of two stages: a first of 24 months, funded jointly with OFPPT including the establishment of a high-quality business support center, the induction of an advisory board, the certification of local trainers, and the creation of a local Empretec association. At the end of 24 months, when the program has developed customized training and business support services and is recognized for the quality of assistance and the level of enterprises assisted, Empretec Morocco should progress towards financial self-sustainability. The key to sustainability will be the establishment of a not-for-profit foundation with participation of key public and private sector stakeholders, including business associations.

In addition to core program activities, Empretec Morocco will provide a number of specialized services. These include training to strengthen the quality of services in public enterprises and to encourage the creation of small spin-off companies, the formation and strengthening of selected clusters of SMEs in priority sub-sectors (in co-operation with UNIDO), and specialized training and consulting services to small firms in the food-processing industry. With regard to trade support services, UNCTAD is currently strengthening the Trade Point Casablanca (TPC) established in 1996, to develop its activities, upgrade the skills of its staff, better understand the needs of its SME clients, and support trade facilitation and development policies. Trade Point in co-operation with Empretec created the TPC website, provides on-the-job training to the Trade Point staff in the preparation of web pages, electronic company catalogs and virtual exhibition centers on the World Wide Web and use of Electronic Trading Opportunities. (2)

Based on a philosophy similar to Empretec, a new regional initiative to support SMEs in the Arab region has been launched by UNDP/UIDO, built around three major components whose interaction contributes to the creation of a favorable institutional and business environment for SME development and increased competitiveness to stimulate foreign investment. The three elements of this approach are institutional support, enterprise levels assistance, and networking.

Within such a framework, strengthening local institutions in order to enable them to deliver better business development services to the local private sector, and accordingly to improve their capability to attract foreign investment, *represents a major area of intervention of this regional initiative. Emphasis is placed on capacity building activities in order to sustain the role of local institutions in terms of recommendation of policies and their translation into concrete application, such as the delivering of incentives and the country promotion. Training focuses on the organization of workshops, study tours, exchange programs in areas such as information management, communication techniques, international marketing, delivery of technical assistance to the private sector, formulation and evaluation of investment opportunities.*

Within this perspective, the program supports the establishment of a regional pilot network to enhance the role of local institutions to act as focal points that would provide SMEs networking facilities and opportunities of linkages with regional and international trade points, marketing assistance and ecommerce. At the same time, networking at a regional level stimulates a continuous exchange of experiences and fosters the diffusion of best practices. Moreover, through such an approach, the promotion of private-public partnerships, involving the private business community, government institutions, research institutes and civil society organizations will also be pursued to pave the way to the development of a common approach to investment promotion and enterprise development in a regional context, both at policy and enterprise levels.

In this context of co-operation the SMEs become of fundamental importance as they can contribute considerably to the social and economic stability of individual countries in the Mediterranean areas and more in general in the Arab region as a whole, in particular by:
- favoring self employment, especially among young people and women
- developing activities that at present have low productively levels and are directed towards local markets
- generating networks of specialized enterprises forming a bridge with Europe and other developed countries
- contributing not only to the reduction of unemployment, but also to consolidate an economic and social system that is able to take full advantage of an integration policy within an open and competitive context.

The main task is not only to promote the development of SMEs through centralized initiatives, but also to set up local mechanisms for industrialization and the development of entrepreneurship, generating actions that not only involve individual enterprises, but a whole group of actors, including public an private bodies and associations that form the development environment.

The formation of networks of SMEs, even in traditional sectors, eventually creates favorable conditions for the attraction of FDI and for transitional co-operating, avoiding a situation in which foreign investment is isolated with a context which it cannot communicate and must therefore furnish all the services and supplies that it needs and that might otherwise be available locally.

In particular, environmental considerations have been crosscutting themes in the activities of international organizations, which have also targeted larger firms. Efforts are being made by such organizations in industry to disseminate knowledge about cleaner production and its benefits. These include the United Nations Environment Program (UNEP) Industry and Environment Office, in co-operation with UNIDO, UNCTAD, and the United Nations Division for Sustainable Development of the UN Department of Economic and Social Affairs. (4) However, the impact of these and similar activities in the region remains limited.

Notes

1. UNIDO-UNDP *Investment for Development: New Regional Initiative to Support SMEs in the Arab Region* Issue 4, August 2000

2. Information supplied by UNCTAD Empretec program

3. UNIDO-UNDP op cit

4. UN Department of Economic and Social Affairs *Business and the UN: Partners in Sustainable Development, Industry, and Technology* (New York 1999)

D. GENDER MAINSTREAMING AND THE ROLE OF WOMEN IN THE INDUSTRIAL SECTOR IN ARAB COUNTRIES

With the possible exception of more traditional agri-industrial activities, gender mainstreaming in the economy in general and a greater role for women in the industrial sector in particular in many Arab countries remains limited.

Women's involvement in manufacturing activities in the ESCWA region is closely related to agriculture, and confined mostly to the informal sector. Competition between tertiary and manufacturing sector activities exists. A strong but negative correlation is found between women's economic activity rate and the rate share of manufacturing employment. There is a strong positive correlation between the economic activity rates in agriculture and manufacturing activities. Relationships between indicators of women's economic and social status, and indicators representing the economic/industrial environment, reveal a strong correlation between higher women's participation in manufacturing activities, and lower rates of urbanization, poor levels of industrialization, and low GDP per capita. In countries with high female involvement in agriculture, high dependency ratio, wide gender gap in education enrolment rates, low female secondary school enrolment, and low age at first marriage, there is a high female economic participation in manufacturing activities. (1)

These rather unconventional relationships found in the ESCWA region suggest its specific cultural and development characteristics. The effect of cultural norms on the economic role of women seems to be stronger than socio-economic factors. Most of the economically active women are in the tertiary sector. The relatively high employment rate of women is due to their participation in jobs perceived as "culturally acceptable," predominantly in the service sector, and not in manufacturing. The conditions on the labor market show strong competition between women's involvement in agriculture and services and to a lesser degree, manufacturing. This is understandable since the female labor force is generally concentrated in agriculture and services. Correlations made between the sectoral distribution of the female labor force and the economic/industrial environment show a positive relationship between women's involvement in agricultural and the share of agri-based industries in manufacturing value added. The involvement of women in agriculture and agriculture-related manufacturing activities in the informal sector is less productive than their employment in services and export-oriented manufacturing. (2)

Although the mainstreaming of women in the economies of Arab countries in general presents some interesting positive features (3) female integration in industrial development has not yet emerged in the ESCWA countries as strongly as in the Maghreb. (4) Problems remain however even in the latter area: in Morocco, for example, one of the few Arab countries where a comprehensive scheme for integrating women in development has been drawn up, there is no specific consideration of the role of women in the manufacturing sector. (5)

Notes

1. UNIDO *Contributing to the Future: A Global Analysis of the Role of Women in Manufacturing* (Vienna, 1998) p 29

2. Ibid p 30

3. For a general review of women's participation in the labor force in the region, see ERF *ERF Indicators: Economic Trends in the MENA Region* (1998) pp 124-7

4. *World Development Indicators 2000* gives a comparison between 1980 and 1992-7 of the distribution of males and females among agriculture, industry, and services in developing countries, including some Arab economies (pp 50-2). For Egypt, 9% of the female labor force worked in industry in 1992-7 compared to 14% in 1980, in Jordan, the comparable figures were 7% and 10%, while by contrast the rate jumped from 14% to 46% in Morocco and 32% to 40% in Tunisia.

5. Kingdom of Morocco, Ministry of Economy and Finance "National Plan for Integrating Women in Development - Summary" [Arabic] (1999)

E. INDUSTRIAL MODERNIZATION PROGRAMS

A positive step taken by some governments of the region to address globalization, integration, and trade-related challenges to private sector-led industrial development was the launching of IMPs or "mise a niveau" programs to enhance firm level restructuring, These are currently being implemented with EU finance in Tunisia, Morocco and Egypt, and about to be launched in Jordan and Lebanon. IMPs and the provision of entrepreneurial encouragement, advisory services, and training, are becoming increasingly common in the region. Inspired by the practical experience of new members of the EU such as Portugal, IMPs aim at dynamizing the industrial and related service sectors to ensure their sustained growth and competitiveness.

The conceptual framework for the IMPs is designed by adapting up-to-date approaches of industrial organization and managerial economics to the context of the country in question in light of its strengths and weaknesses, and typically operates at three different levels: that of the firm, the industrial cluster and its support structure, and the overall industrial environment.

At firm level, enterprise restructuring is normally expected to absorb the bulk of IMP budgets and to respond to the firm's request for support to improve efficiency and competitiveness via upgrading organizational, managerial, and technological methods. Activities at this level include support for the modernization of the firm's organizational structure, the introduction of advanced management techniques, providing training for the labor force and supporting activities in the development of design, quality, and marketing systems. This can also incorporate activities in research and development, promote business internationalization, and promote investment in environmental protection and rationalization of energy consumption. IMP beneficiaries are usually subsidized only on the first steps - such as the preparation of a diagnostic study of the enterprise - while further ones are financed on a near-commercial basis. (1)

At the second level, the IMP focuses on business groupings and industrial clusters, based on the Porter approach for achieving industrial competitiveness. The aim is to promote high quality support services and activate the positive role of business associations. It includes actions to diversify the financial sector, develop the networking capacity of business associations, and upgrade the technical services of local consultancy firms (both management-oriented and sector-specific). The major target is upgrading the support structure for industrial clusters where the contribution of NGOs and firms is raised to provide support for sector-specific industrial segments. The objective is for national entities to acquire skills - often only available abroad - to become key agents to provide technical and managerial services, implement quality systems, and promote innovation on a sustainable basis. To achieve this, it is essential for IMPs to forge links between foreign firms providing various consulting services and their local counterparts, and create conditions for the transfer of foreign technology and expertise to these local intermediaries. IMPs can also develop sector-specific focal points with expertise in technology and market information to provide countrywide knowledge of "best practice" benchmarks and concrete demonstration projects. (2)

The third level aims at improving the overall industrial environment through a variety of actions to be conducted by the state. These include implementing a national quality system that conforms with the international one, simplifying and improving the legal and regulatory environment, facilitating trade systems and organizations, and providing data and information on domestic and international industry and trade. Reforms that fall under the responsibility of the state in other sectors, including systems of education and training, science and research, and information technology, are pertinent for the successful implementation of IMPs. Upgrading these systems will relax constraints that hinder the creation of a self-sustaining industrial capability for continuous adaptation, innovation, and catching up. (3)

Looking at specific Arab countries, Egypt's IMP was designed in 1998 and is funded by the Egyptian government, the EU, and various other donors over the first 4.5 years. The program aims at improving the competitiveness of around 5000 enterprises by means of provision of technical assistance. The Tunisian Mise a Niveau program, which aims at elevating Tunisian goods to European price, quality, and innovation standards to meet the challenges of the FTA with the EU, started in 1996. The government's target is for 2000 firms to join the program by the end of 2001. A government study has shown that firms taking part in the program have managed to increase employment by 19% and productivity by 10% per year. (4) Jordan is about to launch its IMP, and a parallel program for Lebanon is in the final stages of tendering.

Box 11 Modernization of Lebanese Industry

Lebanese industry is currently going through a far-reaching process of change. As it strives to overcome growing competition in traditional markets, it must also face the challenge of trade liberalization with low-cost producers in the region, and with EU.

The vulnerability of Lebanese manufacturing in export markets is one of the factors that, despite the country's strong tradition of free enterprise, have delayed the signing of the proposed Association Agreement with the EU. Strengthening the manufacturing sector's export capacity is therefore crucial if Lebanon is to benefit to the full from further liberalization.

Manufacturing industry in Lebanon faces a range of problems, which stem from three basic causes. The first of these is the fragmentation and isolation that affects many SMEs. The problem of isolation is partly a question of geography, and of sectarian and community divisions. Fragmentation means that enterprises lack the scale of resources to tackle wider markets, develop new products, and learn from best practice in larger firms.

A second group of problems relates to the effects of the civil war. Through this period, normal commercial relations were profoundly disrupted. At the same time, education and training were severely disrupted. The effects of this included widespread skill shortages and a backlog in investment in new products, techniques, and equipment. Addressing these problems is an essential prerequisite for expanding exports.

A third important problem for manufacturing companies is the absence of an effective structure for supporting SME development. Many types of economic development resources *provided at the national, regional and local levels in advanced industrial societies are largely lacking in Lebanon. The financial system at present makes little provision for the needs of small manufacturers. The local consultancy industry is still relatively poorly developed and is largely out of reach of smaller companies for reasons of cost.*

As a response to these problems, the Lebanon IMP project aims to support the development of private sector manufacturing in Lebanon, with particular emphasis on established SMEs in the food processing and printing and packaging industries. The measures proposed focus on helping enterprises that have the capacity to grow to address specific barriers to development and to export effectively. It applies the experience of successful business support initiatives in EU in a framework designed to reflect the current priorities of Lebanese private sector manufacturing companies.

The four-year IMP will create a hands-on business adviser service and provide technical assistance to companies in the target sectors and in other areas of manufacturing industry.

The program will help to address manufacturers' problems in a number of ways. First, it will provide an arena where the public sector, in the form of the Ministry of Industry, and the private sector can develop experience in working together on initiatives designed to promote the strengthening of Lebanese manufacturing enterprises. Second, it will offer training and policy development support directly to the partner organizations. Third, it will provide casebook of economic development initiatives, based on European best practice, as a basis for the future development of business development policy involving the Ministry, other public agencies, and the private sector.

The aim of the program of support for Lebanese manufacturing industry will be, first, to improve the performance of manufacturing enterprises in the target sectors and more generally to prepare them to be able to export effectively to the EU and elsewhere. Second, it will directly assist such enterprises to export by providing them with information and helping them to establish links with agents and partners abroad.

The IMP focuses on helping enterprises with growth capacity to address specific barriers to development and to export effectively. The IMP will create a hands-on business advisory service and will provide technical assistance to companies in the target sectors and in other areas of manufacturing. The program will further provide an arena where the public and private sectors can develop experience in working together on initiatives designed to promote the strengthening of Lebanese manufacturing enterprises. Moreover, IMP will reinforce the capacity of SME support institutions and assist in the design of a coherent and effective SME policy in Lebanon. The specific objectives of the project are to:

- *improve the performance of manufacturing companies, particularly in the target sectors, by network building and access to advanced technology, through improving the quality of products and management techniques, and through better knowledge of markets and information*
- *open new domestic and export niches*
- *facilitate access to long-term financing and capital investment*
- *develop partnerships with EU companies*
- *develop the skills of specialized business support services and business support organizations, including industrial zones*
- *improve the business environment and enterprise policy. (6)*

Industrial modernization and restructuring, whether promoted under an IMP or other variant, will seldom be successful without complementary actions undertaken by the state. However much an IMP is effective in reaching large segments of industry or in integrating a broad range of elements, it cannot alone deliver the message that the economy has made the transition to full market orientation; the state must also give those signals, with effective rules and action. Improving access to data and information, simplifying bureaucratic procedures for business establishment and trading, and the dismantling of public sector monopolies in product and service sectors should thus be priorities. (7) Otherwise, IMPs risk becoming white elephants of the EU Mediterranean policy.

Notes

1. *ERF Indicators: Economic Trends in the MENA Region*, 2000, p 101

2. Ibid

3. Ibid pp 101-2

4. Ibid p 102

5. See Madani D and Page J "Global Rules for Business: Challenges to Firm Competitiveness and Opportunities for Success" *ECES Working Paper* No. 43, October 2000, p 20 for an expression of skepticism by Arab firms concerning IMPs in the region.

6. Industrial Modernization Program - Lebanon, EC, Agreement LBN/B7 4100/IB/99/0209

7. Madani D and Page J op cit specifically note that "an organized public-private partnership along specific sectoral lines that defines the nature of the restructuring program and the approach to be followed" is an attribute for greater IMP success.

VI. CONCLUSION

Serious challenges of globalization confront the industrial sector in the Arab countries as a whole at the dawn of the 21st century. (1)

First, global competition among unequals leads to the survival of whichever manufacturing industries are strongest in knowledge, experience, established markets, and resources. This is true for all regions, including the Arab world. However, in the context of the ESCWA region in particular, the peace process complicates this issue. The countries of the region are unprepared for peaceful competition against Israel in various areas of manufacturing, implying a restructuring of industry that is even more drastic than would be forced by the common forces of globalization without considering Israel. Thus, the economic implications of the peace process on the manufacturing sectors of ESCWA member countries, less prepared to enter the international market than more advanced Israeli counterparts, will be severe. Meanwhile, the issue of peace with Israel means that there will remain various constraining factors limiting the development of fruitful relations between Arab and non-Arab countries and firms.

Second, globalization is selective in nature so that only certain industrial goods and categories of people are allowed movement from Third World to developed countries. Regarding migration, the EU is starting to and the US continues to accept increased numbers of migrants of certain types from developing regions. The situation in the EU will have a particularly strong impact on the ESCWA region, as, due to slow population growth, the more prosperous European countries will over the next decade receive an increasing number of migrants from the Arab world. While some of these may continue to be unskilled or semiskilled workers who will perform menial tasks in European manufacturing and other sectors, an increasing number will consist of educated individuals with talents important for the development of the Arab industry. Thus, far from being a boon for the Arab manufacturing sector, the rise of emigration to Europe would constitute a brain drain, with serious negative effects on Arab industry. Meanwhile, the movement of manufactured goods could remain restricted, and that of ordinary people with limited skills even more so.

Third, the rules of the game are determined and enforced by the most powerful competitors whose insistence on worldwide acceptance of their own intellectual property rights will confirm the industrialized world's control of globalization. The new rules laid down by the WTO are a particularly important aspect of this process. The WTO agreements have greatly expanded the reach of multilateral rules and disciplines. The effective implementation of the agreements on TRIPS, SPS measures, and TBTs among others, are leading to increased competition in the world economy with major implications for the Arab region. Developments concerning the WTO post-Seattle 1999 are also discouraging and may have an important impact on some industries in various countries of the ESCWA region. In particular, labor and environmental restrictions could pose problems for regional manufacturers. (2)

Finally, the lack of compensatory arrangements between winners and losers during the phase of adjustment to globalization will mean that the distribution of income and wealth within the region's countries may worsen. This will cause difficulties in regional economies across the board, and will help to retard restructuring in the manufacturing sector.

These aspects of globalization are sufficient cause for concern in developing countries such as those of the Arab world, where physical, human and institutional infrastructure and management capabilities are still far below the standard required for successful participation in globalism.

The chief challenge facing the manufacturing sectors in the Arab countries is thus to adopt appropriate ways to participate gradually in globalization. Increasing socio-economic pressure is imposing on Arab countries the necessity to review their industrial strategies and policies to take into account the main implications of rapid technological change. Some in the region have reacted by perceiving such developments purely as threats instead of seeing the opportunities in them, calling on the state and others to provide protection and similar measures to preserve the old status quo. Such a situation is proving to be increasingly untenable, leaving the region wrestling with some of the greatest economic challenges it has confronted in the past few decades.

The Middle East has less trade intraregionally than any other developing region in the world. About 35% of trade in Asia is intra-Asian. African trade is about 13% intra-African, and in the Middle East it is about 8%, largely because Arab-Arab trade is too small. In order for this situation to improve, AFTA and other schemes regarding Arab economic and industrial co-operation must be promoted. Subregional arrangements, including the GCC, as well as bilateralism do not necessarily contradict this. At the same time, the changing international environment including prospects of peace and its impact on the region, mean that non-Arab countries, neighboring or otherwise, cannot be ignored. The challenge of large regional economic groupings such as the EU, the expansion of the partnership with the EU through the Euro-Med process as well as the enlargement of the EU itself, and formation of other non-Arab regional economic bloc thus make it imperative to remove intraregional trade barriers in manufacturing, as well to take account of extraregional developments.

The latter in particular is connected with the regime for FDI and adopting a new policy towards TNCs, as well as other aspects of the legal and policy framework for industry and the issue of transparency of the economy. In view of problems in these areas, investment expansion through both the anticipated participation of repatriated Arab capital and FDI is still far too slow.

On the other hand, privatization has at last been recognized across the region as a key reform, but various constraints facing it mean that trends in privatization in the countries of the region are still not strong. Delays and other problems in the privatization process continue; at the same time, it is still too early to give a firm judgement concerning the results of those privatizations that have taken place in the manufacturing sector.

Gender mainstreaming and the role of women in the industrial sector in Arab countries is still not a priority; meanwhile, IMPs, "mise a niveau," and the provision of entrepreneurial encouragement, advisory services, and training continue to be applied too slowly and inefficiently to cope with rapid global change.

In short, though the region has progressed somewhat from the negative situation of the mid-1990s (3) the challenges since then may have become bigger. The net result of such relatively slow progress coupled with rapid change means that the gap between the industrial development of the region and the exigencies of globalization is still wide, and may even be growing. This means that the calls made throughout the 1990s for radical change in the region's manufacturing industries, (4) though heeded by a few in some ESCWA countries, are now more pressing than ever.

Notes

1. As set out in ERF *Economic Trends in the MENA Region 1998* p 85

2. For example, labor and environmental factors are mentioned in the Jordan-US FTA, and could conceivably become matters for dispute between the two countries.

3. As expressed in 1995-6 in for example in ESCWA, ERF, Friedrich Ebert Stiftung, op cit, pp 99-100

4. Ibid pp 93-99