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**MULTINATIONAL CORPORATIONS IN THE ARAB WORLD  
WITH PARTICULAR REFERENCE TO THE CONTRIBUTION  
OF INDUSTRIAL JOINT VENTURES  
TO DEVELOPMENT IN THE GULF REGION**

A Thesis submitted for the degree of  
**Doctor of Philosophy**

by

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**DEDICATION**

To my daughters,  
Dalia and Rasha,  
with love.

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## ABSTRACT

This thesis investigates the status and the role of Multinational Corporations in the Arab World. Its main hypothesis is that the Multinationals today represent a permanent feature as the major world-wide source of modern technology. As such, the Arab countries will continue relying, into the foreseeable future, upon technology produced, owned or controlled by these global firms.

The research finds that a century of increasing integration with the western industrialised countries, primarily shaped by the activities of the multinational corporations, has nevertheless left the Arab region less industrialised and more technologically and institutionally backward than many other parts of the world. The Arab Nation as a whole, in all its diversity of countries and regions, has failed to economically or industrially advance at the same rate as other newly industrialising regions. The lack of commitment to national and regional development needs in the Arab World on the part of most multinationals, is matched by an equal absence of any clear sense of purpose and dedication on the part of the Arab countries themselves.

Despite the proposition by some Arab professionals and elites that the Arab States must consider breaking with any development strategy that substantially relies on access to capital and technology provided by foreign multinationals, the research contends that, in view of the current underdeveloped state of indigenous technology in the Arab World, the contemplation of the option of "de-linking" from the multinationals is neither possible nor desirable. The fact is, that the Arab States, individually or as whole, are not as yet prepared for the challenges that such a go-it-alone development strategy would imply.

The research also finds that, as the multinational behaviour is governed by diverse objectives, helping out the developing countries of the Arab World to build-up their technological base is not generally one of their distinctive goals. They have their own "growth" strategy while each of the individual Arab States has its own "development" policy. The objectives of each differ, as shown in this thesis, and are often incompatible. Yet, for a multinational corporation to secure profit, growth and security, it will need the goodwill of the Arab countries, while the latter, in order to start building their technological base, need the multinationals. Thus, objectively, they need each other and a fruitful cooperation between the two parties depends on the convergence of two strategies, which usually need to undergo many changes in order to accommodate each other's diverse interests.

This means that, what a foreign multinational can really offer depends on how much an Arab country, individually or in collaboration with other Arab countries, may actually be prepared or able to take. From the latter's viewpoint, the ability to take is dependent on the extent to which the Arab countries can cooperate effectively together. The recent trend in the region towards forging economic integration, in the form of regional groupings among neighbouring Arab countries, is widely heralded to be an essential step in the right direction. However, in view of the considerable variations in natural resource endowments which exist among the countries of the Arab World, it has been increasingly suggested by the Arab participants of our main survey, that inter-Arab multinational joint ventures constitute a highly desirable form of organising economic activity, and of accomplishing effective economic cooperation among the countries of the region.

Most importantly, the thesis demonstrates that there are many areas in which conventional economic theories are deficient in explaining multinationals' behaviour and impact on the Arab World. Deficiencies between theory and practice are referred to throughout the work and discussed in particular detail in Chapters 4 and 12.

A major conclusion of this study is that, the Arab governments which once feared the multinationals are now actively interested in seeking to court and accommodate them more effectively to local development needs. There is increasing evidence that the Arab countries have learned to bargain with multinationals to make them better serve their specific objectives and interests. Through more contacts and interactions, previously contrasting positions have softened and a wave of pragmatic attitudes on both sides is emerging to promote greater recognition of the mutual interests involved.

It is the hope of the author of this thesis that his work will encourage even greater mutual understanding and cooperation between the Arab States and multinational partners in the future. Indeed it is only through such cooperation that joint efforts can be effectively used to promote beneficial development and growth for the future prosperity of the Arab Nation as a whole.

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**CHAPTER 1**  
**PREFACE AND MAIN THEMES**

The focus of this work is the complexity of relationships which currently exists between the member states of the Arab World and the diverse range of international companies normally described in academic literature as Multinational Corporations (MNCs).

The author's main hypothesis, explored throughout this thesis, is that decision making by MNCs' head offices and boardrooms has a major impact on the nature of economic and industrial development in the Arab States. Internationally-based decisions by multinational corporations affect both short-term market activities and also, more importantly, long-term patterns of industrial investment. In turn these activities have a major impact on economic, social and political development of the Arab World as a whole.


Traditionally, much of Arab public and academic opinion has been highly critical of the effects of the MNCs' "neo-colonial" practices on their economies and ways of living. This theme of Arab distrust and dislike of domination by foreign influences has been repeatedly emphasised to the author during his survey work in the Arabian Gulf States. At the same time, he has also identified other examples of willingness to accommodate and recognise the need for international companies to assist with local development efforts in the Arab States as a whole.

During the course of his detailed research enquiries, which extended between 1985 and 1991, the author also became strongly aware of the fact that the majority of the Arab States are incapable, on their own, of pursuing effective independent industrial

development programmes, without major cooperation and reliance on advice, know-how, technology and capital from overseas. In the process of industrial transformation, the MNCs are increasingly recognised by many Arab commentators, as having an important part to play in assisting with local development programmes. Likewise, for many local companies, the market access to overseas, provided by contacts through MNCs, is also an important consideration, encouraging a greater awareness of the need for enhancing interdependency between Arab and overseas interests.

A further reality that has become apparent to the author during the course of his work, is that neither the Arab States nor the MNCs are in any sense homogenous entities. The Arab States are widely varied in nature and extent and have historically lacked the ability, or political will, to devise effective common external policies on trade or industrial investment programmes. Their leaders, while using strong rhetoric about the desirability of political and social unity, have at the same time, often pursued highly independent and competitive national development programmes. For instance, the Gulf Cooperation Council (GCC), established in 1981 as a direct consequence of the Iraq-Iran War, has subsequently failed to pursue any highly coherent set of development or trade policies by its member states. Likewise, the Maghreb Arab Union States have traditionally pursued competitive industrial development policies.


Looking at the MNCs, a similar pattern of diversity of theory and practice applies. Companies from many different origins (North America, Western Europe, Japan, Taiwan, etc.) are involved in many different activities and markets and pursue widely diverse policies and practices in terms of their long-term investment programmes. However, the general pursuit of profit maximisation gives them an apparent overall unity of purpose, sufficient to convince Arab commentators of their general unity of impact on the region.



Profit in these terms has been perceived not as a valuable indicator of effective industrial or commercial performance, but rather as a guide to the degree of exploitation pursued by the foreign companies, in captive and/or often quasi-monopolised market situations.

The author's field survey work, undertaken in the Gulf States, has been aimed at exploring in detail the possible contribution of joint ventures between the Arab and their MNC partners, against the difficult context of the Arab aspirations for regional development on the one hand, and economic integration and self-sufficiency on the other. His survey results demonstrate some possible ways of enhancing greater mutual co-existence between the Arabs and their foreign international partners in the future. Of particular significance is his emphasis on the need for both sides to seek greater unity of purpose in their strategic planning processes, and to look for ways of minimising damaging conflicts of interest. The qualification underlying this is for the leaders of the Arab World as a whole to agree amongst themselves on minimum possible degrees of economic integration and cooperation, especially where it applies to industrial development and trade policies. Only by establishing this type of common minimum standard of practice and behaviour will it be possible for the Arab States to cooperate effectively with MNCs in the future. Particular recommendations for assisting such cooperation are identified and listed in Section 12.4 of Chapter 12, featuring general conclusions and policy recommendations.

Prominently featured among issues highlighted by this study, are questions pertaining to joint ventures, technology transfer, jobs and local personnel training, and foreign investment policies, applied both by MNCs and the Arab host countries. This study outlines the analytical framework and provides a general discussion on how the interaction between MNCs and the Arab countries shape the strategic policy choices available to both partners.



A further regard of this study is to carry out a brief historical evaluation of past policies pursued by the Arab states, in order to draw lessons from them. The past experiences of other countries, which, in similar stages of their development, have successfully managed to cope with challenges of a similar nature to that confronting the Arab world today, are also analysed. The study then attempts to promote and argue the case for new policies, as and when necessary. The work proceeds as follows:-


Chapter 2 defines the geographical extent and nature of the 'Arab world', and reviews the main common features of its countries, their attitudes towards foreign multinationals and principal investment legislations applied by individual Arab countries to foreign corporations.

Chapter 3 surveys the information incorporated in the literature and in the writings of Arab scholars, with particular emphasis on the work of Samir Amin and Riad Agami, together with what western international economists and theorists have to say about the perceived and actual role of multinational corporations in the Third World, of which the Arab world occupies an important part.

Chapter 4 assesses the historical and theoretical framework of MNCs. It focuses attention on definitional clarification of the most commonly used terminologies in this study, to avoid possible confusion. It also reviews different theories of trade and economic development and their possible applications in the Arab countries.

Chapter 5 complements this by assessing the most prominent issues concerning multinationals in the Arab world, including their special contributions to economic development and attempts to assess the future prospects of the multinationals in the





region, in view of the increasingly changing developments, both on a regional level as well as worldwide.

Chapter 6 identifies the impact of the operations of MNCs on the paths of development in the Arab world, with particular reference to industrialisation. Again, technology and knowledge transfer feature prominently in this chapter, which concludes its assessment by suggesting some recommendations to tackle the many challenges which face the overwhelming majority of the Arab countries in their inquest for industry-inspired development.

Chapter 7's major concern is with Joint Venture Partnerships in the Arab context. It emphasises related issues, such as channels of technology transfer, research and development and the Arab potential to benefit from the interaction with MNCs in terms of technological acquisition and know-how.


Chapter 8 identifies the research hypothesis, the methodology adopted to test their validity, and the main rationale behind the choice of its subject. It also identifies the scope and limitations of the main field work undertaken in the Gulf States.

Chapters 9 and 10 detail the statistical framework of the study, by presenting the results of detailed analysis of the main survey. They analyse the information gathered from the overall sample of Arab professionals, Arab companies and foreign MNCs operating in the Arab world; and draw the implications of strategic choices, by analysing in some detail the causes and implications of different policies of both MNCs and the Arab countries. All these are discussed at some considerable length, and an overview of the findings is made and presented in the light of previous studies and literature search.



The principal findings of the Gulf empirical work, are further supported in Chapter 11 by selected case studies of four joint venture models involving foreign multinationals in the Arab world. Three such cases deal with the manufacturing industry in the sector of petrochemicals, steel and fertilizers, in the state of Qatar. The fourth case analyses the international joint venture experience of Kenana Sugar Factory, between Sudan Government and Lonrho International. Chapter 11 reviews and assesses the cases in such a way as to enable the test of hypothesis, advanced by the research, with respect to the performance of MNCs in the Arab region. It also supports, on balance, the principle findings of the previous two chapters.

Chapter 12, the final chapter, draws together the main conclusions of the entire study, and attempts to drive some policy implications of the existence of MNCs for governments of both home and host countries to MNCs. It reviews the implications of the research, together with the inferences from the results, for policy formulation. It also assesses the implications of the research conclusions for management educational development and explores potential further research. Finally, this concluding chapter proposes an approach to increase the Arab world's strategic capability to relate better to the contemporary nature of the multinationals and to enable them to more effectively relate to the development aspirations of the Arab world.



## CHAPTER 2

### THE ARAB WORLD TODAY


#### 2.1 The Nature of the Arab World

This chapter deals with the most common features which characterise the countries of the Middle East that form what is today known as the Arab World.

For the purpose of this study, we will define the Arab World as those twenty two countries which comprise the membership of the "Arab League", whose birth was given under British auspices in 1945. It was Peter Mansfield [The Arabs : 1983] who defined the name Arab as being "*The inhabitant of Arabia*". But the people of Arabia have been very important in the history of the world, and have gone on to live in many other countries, so the name is also used to mean anyone who speaks Arabic, and claims that he is descended from Shem, who was one of the Sons of Noah.

The Arab countries are geographically located in two continents: Asia and Africa. The Asian Arab States are Iraq, Syria, Lebanon, Palestine, Jordan, Kuwait, United Arab Emirates, Bahrain, Qatar, Oman, Saudi Arabia, North and South Yemen; while in Africa we have Morocco, Algeria, Mauritania, Tunisia, Libya, Egypt, Sudan, Somalia and Djibouti.

Geographically, the Arab World stretches over 5.25 million square miles (equivalent to 1.4 million Hectares or 14 million square kilometres) [see table 2-1], within the semi-arid area which reaches from the Atlantic to the Arabian Gulf. It occupies a specific part of the area, isolated from Europe by the Mediterranean, from Black Africa by the Sahara, and from the Turkish and Persian Worlds by the Taurus mountains.




While predominantly muslims, the Arab World is not exactly congruent with the Muslem World. The latter occupies almost all of the semi-arid area shared by four peoples (the Arabs, the Turks, the Persians and the Indo-Afghanis), overflows a little into tropical Asia (Bengal, Indonesia) and more recently into certain areas of Black Africa (West and East Africa). Nor can the Arab World be reduced to some or other ethno-racial phenomenon, for Arabism has mixed together many peoples with different origins and different racial components.

It was a relatively centralised political entity only during a very brief period of its history: two centuries. And even then, at the time of the Ommayids and the first Abbassids, from 150 to 350, linguistic unification was far less advanced than it is today. After 350 the Arab World expanded into relatively stable regional political entities which were only to be reunited under Ottoman rule.

## **2.2 Commonalities and Differences**

To talk about the Arab World is not to argue that its countries are necessarily a homogenous group, notwithstanding all they have in common. In reality, the Arab League is not a power block or even a cohesive interest group. It is a loose association linked largely by history and language. Its members represent a wide range of geographical areas, colours, levels of development and political structures; hence it is always held up by the lack of consensus in its desperate attempts to have a common approach to the regional, as well as world, problems. When they do agree, however, their views acquire an extra dimension of moral force, which represents more than the sum of their individual powers as states.




Economics and politics are closely interrelated in the region that forms the Arab World. Both political and economic challenges impinge on the domestic economy in terms of priorities for national expenditures, for exchange earnings and the degree of top-level time available to focus on domestic economic questions.

There are, nevertheless, some common factors which, in theory at least, are bound to "pull" them together, if only to attempt to achieve the much talked about economic integration between them.

The most common features among the twenty two states of the Arab World could be summarised as follows:


1. Have a total population of about 214 million (1989) projected to exceed 290 million by the turn of the century. (See Table 2-1)
2. Speak one single language - Arabic.
3. Share one religion - Islam (over 90%).
4. Have 42 percent literacy rate on average. [According to "The World Almanac", New York, 1984.]
5. Have a total area of uninterrupted stretch of land of 5.25 million square miles that extends from Oman on the Indian Ocean to Morocco on the Atlantic. The Arab States overlook the Indian Ocean, the Atlantic, the Red Sea, the Mediterranean, the Arabian Gulf, Strait of Gibraltar, Strait of Bab El-Mandeb (by Aden), Strait of Hormuz and the Suez Canal.

- 
6. In terms of infra-structure and communications, the Arab countries, particularly the oil-rich ones, enjoy quite a lead over the great majority of developing countries.
  7. In terms of agricultural produce, it enjoys both the availability of fertile land and diversification of products, thanks to the diversity of climatic weather, i.e. Mediterranean climate, Savanna, tropical, etc.

### **2.3 Economic Integration**

On the basis of the above commonalities, economic integration has been an historical objective for the Arab countries. Some forty five years ago, the Arab League sought to achieve economic integration between its member states through the abolition of tariffs and other non-tariff barriers and through other means of economic and political cooperation. Due to political differences that characterised their relationship in the 1950s and 1960s, twenty years of political growth in economic cooperation between them were practically lost, although admittedly, exchange of trade was sometimes encouraged by bilateral rather than multilateral agreements.

The potential for such cooperation, nevertheless, has increased in the late 1960s and early 1970s. The basis of the establishment of an Arab Common Market is the ideal complementarity and diversity of the Arab economies, i.e. the non-GCC States (GCC: Gulf Cooperation Council consists of Saudi Arabia, Kuwait, U.A.E., Qatar, Bahrain and Sultanate of Oman) have relatively large industrial bases, manpower, infrastructure and agricultural resources, while the oil-rich Arab countries have abundance of capital and financial resources.



The Sudan could be ideally cited as an example in this connection, for its enormous potential for the development of its agricultural sector. With an area of approximately one million square miles, and more than 200 million acres of fertile cultivable land, the Sudan could become an important regional exporter of agricultural products, provided that appropriate technology and capital are made available.


Of this huge expanse of land, only 20 million acres (10%) are currently being used for agricultural production and at a low yield efficiency. The heavy dependence on cotton proved to be dangerous for Sudan and there is an urgent need for diversification and the opening up of new lands. The trouble is that this will require investments on a scale which the Sudanese economy is quite incapable of generating on its own.

#### **2.4 Classification of The Arab Countries**

Different researchers refer to the Arab World, categorising its countries into different groups, but there is no single or best way of going about that. Each one tends to distinguish between them differently, according to the research objectives. So, depending on whichever angle you look through, the Arab World could be divided in a number of alternative ways. Sub-geographical groupings, according to Kubursi [1987, p.56] may be formed as initial mechanisms of coordination, but the eventual realisation of a larger Arab cooperative strategy remains critically needed to meet international challenges in a tightly controlled world market.

In looking at general policies in the 22 Arab States, the countries can be grouped in three different ways:

1. By geography (North Africa, Arabian Peninsula and Levant).


- 
2. By type of economy (oil and non-oil countries).
  3. By political system (broadly free enterprise countries against controlled economies).

The most obvious classification of the Arab countries for an economist, is between states with oil and those without it. Riad Agami (1979) proposed a fourfold classification, somewhat similar to the one used by a U.N. Study in discussion of the prospects for regional integration in the Arab World:-

1. Group (1) : GCC countries, comprising Saudi Arabia, Kuwait, U.A.E., Qatar, Sultanate of Oman and Bahrain, which are characterised by an abundance of oil and capital, limited agriculture, relatively small population, and an acute shortage of indigenous skilled personnel.
2. Group (2): Consists of Algeria, Iraq and Libya. In addition to oil and capital, they enjoy a significant agricultural potential and slightly larger population base. They too suffer from a shortage of technical skills, with a possible exception of Iraq.
3. Group (3): Egypt, Morocco, Sudan, Syria and Tunisia. These countries are characterised by a limited amount, or a complete absence, of oil and a shortage of capital. They do have, however, a reasonable endowment of agricultural and other resources and a significantly larger population base.
4. Group (4): Comprises Jordan and Lebanon, which are characterised by a limited Agricultural base, small light industry and, unlike the other countries, a substantial endowment of skilled labour, primarily in the service sectors.

Samir Amin [1982, p.41], perceives the Arab World today as neither a political nor an economic unit, and as a particularly heterogenous sample. Based on this background, his






categorisation of the Arab World takes a rather different form, even if his groupings partially overlap with Agami's ones in one or two respects.

The author's own classification, however, stems from a different proposition. Economic integration between the states of the Arab World is thought to be best realised via cooperation between sub-regional groups of relatively like-minded countries, sharing common features in general, and/or perhaps geographical boundaries, which in turn make it most likely that they also share a common history accumulated throughout centuries, by virtue of neighbourhood.

Our proposed grouping is, therefore, meant to serve a definite purpose, as it is imperative that the most viable form of economic integration between the Arab countries, can only be envisaged through a step-by-step process, whereby each of the proposed sub-groups can have its own organisation of some form, perhaps somehow similar to that of the Gulf Cooperation Council. This is, in a way, synonymous with saying that the economic cooperation between four or five distinctive groups would be rather easier, less problematic and more politically viable than one between twenty two independent sovereign states.

Along the above line of logic, the author proposes the following five sub-groupings:-

1. Group (I). The Arabian Peninsula: The six members of the Gulf Cooperation Council, together with Yemen.
2. Group (II). The Fertile Crescent: comprising Iraq, Syria, Lebanon, Jordan (and Palestine).
3. Group (III). The Nile Valley: Egypt and Sudan.


- 
4. Group (IV). The Maghreb Countries: Morocco, Algeria, Tunisia, Libya and Mauritania.
  5. Group (V). East African Arab States: Somalia and Djibouti.

In deciding upon the above, we have taken political, economic, geographical and historical considerations into account.

Whilst a precise criteria of distinction is not obvious, it is evident that the proven difficulties to maintain the theoretically desired unity among the Arab-countries to act as a homogeneous market group, do justify the breaking down of the countries into a kind of sub-grouping. Each group of countries may need a set of distinctive trade and investment policies, but only within a generally accepted framework of a coherent strategy that will have a built-in capability of accommodating minor differences while capitalising on the common unifying factors as a major source of policy decisions, particularly in so far as their relationship with the outside world is concerned.

## 2.5 Economic Integration and Regional Trading Blocs

Hardly is there any country in the world which is not a member of one kind or another of a wider collection of a group of other neighbouring countries, which have voluntarily decided to form an association among themselves to pursue common interests, either on economic or political fields. It is however, inconceivable that any such regional grouping, will be solely political, or economical in the nature of its objectives as politics and economics often converge. The accelerating growth of regional organisations has been a feature of the world scene since the 1940's. *"Today there are about 27 organisations of neighbouring states, designed to promote economic, political and other forms of cooperation."* [Brooke, 1990, p.259.]



This section briefly reviews the world regional groupings which have grown up as a result of treaties and agreements among their members, to regulate economic cooperation of one sort or another between themselves. Many of these organisations, have traditionally sought to promote economic integration, a subject which this study has particularly emphasised as an instrument to enhance the Arab world's economic development. In a world in which regional groupings have become a growing and permanent feature, the least any developing country can do is simply to attempt to become part of it.

M. Brooke [1990, p.259] classifies regional organisations under three categories:


1. Those that aim to be economic communities;
2. Those that aim to be free trade areas;
3. Those with more modest aims.

As the growth of various regional groupings is likely to be a permanent and important feature on the world trade and investment map, we have set out in Appendix A a list of the already existing organisations, in different continents, with a view to providing some idea of how they came into being and what objectives they are intending to achieve. The remainder of this section deals with the major Arab organisations and the possible lessons they can, and have, learned from the past experiences of similar organisations worldwide.

## **2.6 The Arab World and Regional Cooperation**

### **2.6.1 The Arab League**


The Arab League was founded in March 1945 to encourage progress towards regional cooperation and unity and to formulate a joint Arab response to the Zionist colonisation of Palestine. There were seven founder members: Egypt, Lebanon, Iraq, Syria, Jordan, Yemen and Saudi Arabia. Membership has since



expanded to include 22 independent Arab states including Palestine, which is considered an independent state and is represented by the PLO at League meetings.

The supreme authority of the League is the Council, in which each member has a single vote. The Council has sixteen committees, including the political committee and those dealing with communications, health, information and social affairs. On the economic level, a joint economic cooperation treaty was concluded in 1950, to complement the Arab League Charter, and bodies established under this include an Economic Council, linking economic Ministers or their deputies. Over the years a series of other specialised agencies have been established under the League auspices or as a result of its resolutions. These include a Council of Arab Economic Unity (CAEU), set up to implement the Arab Economic Unity Agreement, which came into effect in 1964. In early 1965, the CAEU launched an Arab Common Market, although this has not been a resounding success. Apart from Egypt, only Iraq, Jordan, Libya, Mauritania and Syria have joined. Four joint ventures have been set up by the CAEU: The Arab Company for Drug Industries and Medical Appliances; and the Arab Mining Company, both based in Amman (Jordan); the Arab Company for Industrial Investment, headquartered in Baghdad; and the Damascus based Arab Company for Livestock Development.

Financial agencies established by the Arab League resolutions include: the Arab Monetary Fund based in Abu Dhabi; the Arab Bank for Economic Development in Africa (BADEA), headquartered in Khartoum (Sudan); the Arab Fund for Economic and Social Development (AFESD), Kuwait; the Arab Authority for



Agricultural Investment and Development (Khartoum); and the Inter-Arab Investment Guarantee Corporation (Kuwait).

While Egypt's expulsion, in the wake of its peace treaty with Israel in 1979, which lasted for over ten years, has diminished the Arab League's political influence significantly, the Inter-Arab frictions have been of at least equal importance in explaining the League's comparative eclipse in recent years. In fact the much heralded economic cooperation between member states has been only reduced to bilateral, as opposed to multilateral, agreements. Against this background of weakness and disunity, it was no surprise that the Arab League has virtually lost its unified voice in its dealings with the outside world, not only on a political level, but even more importantly on the economic and commercial levels. The fact that the Euro-Arab dialogue, which began in 1973 made little progress to date, is a monument of the League's failure to conclude any economic agreements with foreign partners. The dialogue is mainly aimed at encouraging economic cooperation between Arab countries and the EC. The administrative framework is a general committee and working groups on a range of topics, such as industry, agriculture, finance and trade.

#### 2.6.2 Emergence of Arab regional groupings

The near paralysis of the Arab League, meant that other regional organisations emerged as increasingly convincing alternatives as agencies for promoting cooperation between the Arab States. This was highlighted by the controversy over European tariff and quota barriers, to the entry of Arab petrochemicals to Europe. Demands for an easing of European restrictions came principally not from the Arab League, but from the Gulf Cooperation Council (GCC).




The GCC, having been established in 1981, was the first sub-regional group to be formally constituted within the Arab world. As others appeared later, it may be worthwhile looking at how and whether the experiences of the GCC are relevant to the other two sub-groupings subsequently constituted, namely the Maghreb Arab Union (MAU) and the Arab Cooperation Council (ACC), formally proclaimed within days of each other in February 1989.

### 2.6.3 The Gulf Cooperation Council (GCC)

Since the signing on May 25th, 1981, of the Charter creating the Gulf Cooperation Council, grouping together Saudi Arabia, Kuwait, Bahrain, Qatar, Oman and the United Arab Emirates (UAE), the GCC had a growing impact on the economic life of these states. *"Progress to date still falls far short of the objectives laid down in the United Economic Agreement (UEA) signed in November 1981. But for those selling to the Gulf, or planning projects there, the GCC is an economic reality, whose aspirations, policies and future plans must be taken into account, in the drawing up of a marketing strategy".* [The Economist Intelligence Unit, October 1988, p.22.]


Without going into detail, a brief summary of the most visible features of the GCC and its objectives and achievements are given below:-

- The UEA's first three articles provide for the waiving of customs duties on trade among the GCC states themselves;
- For a product to qualify as nationally manufactured and become eligible for exemption, its domestic value added must constitute at least 40 per cent of the finished product, and GCC nationals must own at least 51 per cent of the equity of the firm producing it;
- Oman is seen as a special case, having embarked on its development effort later than the other GCC member states. It was then allowed to go on



imposing tariffs on imports of certain products, i.e, cement, aluminium products and plastics. These exemptions were to have expired in March 1988, but were extended for a further five years;


- Preference is given in government purchases to nationally produced goods, allowing the latter a price advantage of up to 10 per cent over the foreign equivalent, and then to GCC goods with a 5 per cent price advantage;
- Other provisions of the UEA, call for freedom of movement, work and residence, right of ownership, as well as free movement of capital and business activity. The aim is eventually to create a Gulf citizenship with the introduction of a Gulf passport. But in this area too, Oman has once again been a reluctant partner;
- There are serious obstacles to the coordination of development plans as provided by the UEA. In fact some GCC members do not have a plan, while the period span of others differ. Despite their apparent homogeneity, they are all at different levels of development;
- After about ten years since it was established, the GCC has still a lot to do in the way of progressing towards realising many of its stated objectives:
  - a. The Uniform minimum customs tariff, on foreign products has not been as yet applied;
  - b. Collective bargaining with the outside world has been attempted both with the EC (over the petrochemicals issue) and the U.S.A. with whose government, the GCC has held regular consultations about a possible free trade agreement. Such outside contracts, while clearly regarded as a step in the right direction, but may have limited potential for success, at least thus far;

- 
- c. Regarding joint purchasing policy, there have been bulk purchases of rice and there is an annual tender for medical supplies, but the policy has not otherwise been widely applied;
  - d. Other joint projects still awaiting implementation, include a 1700 km oil pipeline to Oman, a joint electricity grid, with an estimated cost of 2 billion U.S. dollars, cooperation between existing main airlines and joint establishment of ports, roads, water and power stations: Currency alignment in the form of unified investment regulations, a joint investment policy, coordination of fiscal, monetary and banking policies and the eventual establishment of a joint currency, is something which appears to be beyond the immediate priorities of the GCC.

#### 2.6.4 The Arab Cooperation Council (ACC)

While the six members of the GCC share basic political, even philosophical, religious and social conviction, as well as having benefitted enormously from the oil boom, with many other things in common, neither of the two newer sub-groups in the Arab context (ACC and MAU) have the same sort of homogeneity. The ACC seems a particularly odd animal grouping, as it comprises Iraq, Egypt, Jordan and Yemen. It came into existence in the aftermath of the Iran-Iraq war in 1989. While Egypt has the edge in population, but Iraq, even at the end of a long and ruinous war (against Iran), emerged still potentially the richest in the Middle East. It may have fewer proven oil reserves than Saudi Arabia, but has far more of the two other basic ingredients for long-term success: a native population and water.






The ACC, which virtually came to a halt in the wake of the Iraq's invasion of Kuwait, meant different things to different members. While, as became only too clear later, it meant to serve political and strategic (military) purposes for Iraq, and possibly for Jordan as well, only economic considerations were behind the temptation for Egypt and Yemen to join in; the Egyptians entered the ACC with no illusions. For them, it was genuinely first of all of economic interest. It guarantees them an outlet for their surplus labour for a few years to come, and perhaps a privileged market for exports, including military, which Iraq might be tempted to forego for more expensive and more sophisticated Western trinkets. On the political level, Egypt, after the Arab League Summit in Casablanca, has made a triumphal return to the centre of the Arab world and hardly needed a sub-stage to play its role.

Jordan's interests in the ACC are simpler. The geographical bridge is transformed into a political one. It also counted on some economic fall-out: a few more jobs in Iraq, encouragement of the use of the Jordanian service industries – banking for example – besides, there is the establishment of the ACC secretariat in Amman, which will bring jobs and have its political uses, bringing Amman a step closer to its ideal of being a sort of Middle-Eastern Geneva.


The anomaly in the ACC was North Yemen (later the unified Yemen). Non-contiguous with the others, it is arche-typically South Arabian, while the others are Northern Arabs, and by most standards, considerably less developed. *"If truth be told, Yemen would have liked to have become part of the GCC and there was some speculation along those lines in the Gulf. For both Yemens, the economic benefits are obvious. They already receive help from the Gulf, but it would be more highly institutionalised. There would not probably be more Yemeni emigration towards the Gulf, than already exists (now much reduced in the aftermath of the Gulf war). Seen from the Gulf countries' perspective, the idea*



*had two major advantages: first, the inclusion of the Yemens in the GCC would have given the enlarged group control over the Bab el-Mandeb, and in consequence the Red Sea as well. The second reason is that inclusion of the Yemens and transformation of the organisation into an Arabian Peninsula Council would have removed the onus of the GCC, as a rich man's club, in what is basically a very poor part of the world" [Graz, 1989, p.14].*

#### 2.6.5 The Maghreb Arab Union (MAU)

The third group, the MAU is very different to the two others. It may be brand new, but at least in the three countries that could be called its heartland, Morocco, Algeria and Tunisia, it has been talked about for about thirty years, that is even before the independence of Algeria. All three share not only their geographical fate – and they are very conscious of their nearness to Europe – but also the cultural outlook of quasi-bilingualism in French; Tunisia and Morocco have never really made a break with French culture. Algeria, after its years of truculent 'Arabisation', is reconsidering the question. Algeria and Morocco have almost equal population, 23 and 24 millions respectively. Tunisia is less populous, but has never been considered a negligible quantity by its neighbours to the west. Perhaps, in part because of its comparatively high level of development and excellent educational infrastructure and calibers. Beyond the inner circle of the club, there were also Libya and Mauritania. In fact Colonel Gadhaffi has been a full-fledged participant in the game of musical chairs that has been played in North Africa, first to counteract the influence of Egypt, and then to balance out between Algeria and Morocco. As for the other members, Libya's membership is understandably welcomed in view of the fact that, as Gadhaffi's outspoken aim is inter-Arab harmony, and/or unity, he should be generous in helping those who give him a chance to practice what he preaches. Mauritania, the fifth member of the MAU, on the south-western flank, is not really a problem. As one commentator put it, it is considered a little like *"The proud, but impecunious*




*Uncle, who must be invited to family feasts, whether one really wants him or not".*  
[Graz, p.18].

It is still early indeed, to try to analyse whether this latest organisation of the 'grand Maghreb' can go further than being one more incident in the power struggle for the region. It is in any case, the first that does not try to play the central players off against each other. While both the GCC and ACC are largely concerned with relations among the member countries, the Maghreb Union members put considerably more emphasis on their collective relation with Europe. That is no doubt a natural result of both their geography, and their history.

#### 2.6.6 Concluding Remarks about the Arab Organisations

When the GCC was founded in 1981, it encountered considerable hostility elsewhere in the Arab world, and particularly in Tunis, where the Arab League, as an institution, was shaky after the suspension of Egypt two years earlier. It was condemned as an example of particularism, inherently inimical to the still-reigning (at least verbally) idea of Arab unity, supposedly rooted in the sense of Arab identity from the Atlantic to the Gulf.

In fact, four years later, or around 1985, some Arab scholars began talking about the GCC as a model for other regional groupings. In 1984 Mr. Lakhdar Ibrahim, the then Under-Secretary-General of the Arab League, imagined an ideal carving-up of the Arab world, which was not very much different from what we see now: There was a union of the fertile crescent, that included Syria and was ready to receive Palestine together with Iraq, Jordan and Lebanon. Egypt and the Sudan were somehow supposed to take fraternal care of Djibouti and Somalia. The Yemens, would indeed have been welcome to an Arabian Peninsula Council. The




five-member greater Maghreb is the one that has come into being, exactly as the imagined scheme. Even if there are loose ends to be tied up, the major framework of the imagined scenario is there.

Notwithstanding the political ambitions of the ACC, at least in the subconscious of its most keenest promoter – Saddam Hussein of Iraq – which eventually lead to its collapse, the partial success of the GCC and the survival of MAU, against all odds, can be taken as proof that regional groupings in the Arab context can function, even though there is no absolute agreement on every policy. A new wave of pragmatism in the Arab world seems to be shaping a new type of thinking. There seems to be an acknowledgement that needs, aspirations and ways of looking at the world, might not be identical from the shores of the Atlantic to the sands of the Gulf. It is a new and fundamentally more open spirit in the Arab world, one that no longer demanded that all bow to one leader, nor even agree perfectly in order to act in concert.

#### 2.6.7 Lessons to be learned from past experiences

Judging from the detailed account on world economic blocs, as shown by Appendix (A), regional groupings in different parts of the world have been set up to tackle similar challenges of development, while the nature of such challenges varies according to variations in the economic environment, as well as changing political developments. Africa is a continent of curious paradoxes and extremities, and its regional organisations are to deal with long standing challenges such as the high level of unexploited natural resources and bottom-of-the-league poverty. Latin America faces similar problems, and despite the maturity of most of its countries in terms of the length of their independent existence, it is still regarded




as unstable. Only recently has their burden of foreign debt started to improve, and the trend towards liberalism been felt.

Many regional organisations, nevertheless, share common characteristics, irrespective of their particular locations. On the negative side such characteristics would include the following:

- a. Political tensions always play a damaging role and undermine the integrity and progress of regional organisations i.e. EAC in Africa, LAFTA in Latin America and ACC in the Middle East;
- b. By their very nature these organisations tend to have built-in constraints, reflected in the slowness of decision-making and the uneven distribution of the benefits accrued from the economic integration. Even the EC is not exempted from these characteristics;
- c. All suffer from conflicting interests. Only a well-prepared administrative infrastructure can successfully handle disputes arising from such conflicting interests, otherwise a particular organisation will be doomed to failure.


On the other hand, regional groupings have the potential to tackle problems and face challenges much better than on individual country level. Their most visible advantage is the fact that they can influence the terms of trade in ways which member countries find difficult when acting alone. The Arab groupings of GCC and the MAU, have had partial success in their trade negotiations with Europe.

Despite diversities between members, in terms of economic structure and performance, the ASEAN group has mostly succeeded in speaking with one voice. In fact, regional groupings can, at times, be of resounding success as unifying



forces, particularly if the members' common interests converge against outside influences. The failure of some economic integration attempts, via the formulation of regional organisations i.e, EAC and ACC, does not necessarily mark an end to the attempts of the concerned members to pursue economic integration and cooperation among themselves, as shown from the Latin American and African experiences, as well as from the Arab countries unsuccessful attempts for integration in the past. Any failed attempt is usually followed by resumption of talks, perhaps after a time lapse, during which political tensions tend to recede. When new associations are formed, they would have the additional benefit of learning from past experience, avoiding previous mistakes and emphasising on policies which are more likely to induce agreements, rather than conflicts. After decades of trials and errors and repeated attempts and failures, it is hoped that the relatively new regional organisations, within the Arab context, will learn the lessons and improve their prospects of success. The experiences which many sub-groupings (that have been a sort of off-shootings of larger continent-wide organisations) have clearly shown is that, those associations with limited number of members have the propensity to progress faster than the larger groups. The attention is drawn here to the example of OEAO's six francophone African countries, who are all members of the larger grouping of ECOWAS. The GCC's performance, as compared with that of the larger Arab League, is already impressive enough to advocate and argue the case for such sub-groupings, not only in the Arab context, but elsewhere as well.


In fact some regional groupings tend to invite initial hostility from outside on their proclamation. When the GCC was established in 1981, not only was it reluctantly received by the other Arab States, but also some of the western industrialised



countries were disappointed. *"It would have been so much easier for them",* the argument went *"to have to deal with a single entity rather than having to go on pleasing all the capitals one by one"* [Graz, 1989, p.5].

The Arab regional organisations may have some peculiar characteristics, the parallel of which is hard to find in other similar organisations, the GCC's Unified Economic Agreement, for instance, provides, as a long term aim, for the creation of a Gulf Citizenship, possibly with the introduction of a Gulf Passport. In this respect one can say that the experience of the GCC in integration is more ambitious, even than the European Community, let alone the other regional organisations we have hitherto reviewed. Another observation which is worthwhile noting is the ability to emulate successful experiences elsewhere, as is clearly the case for the newly formed Maghreb Union. MAU's administrative infrastructure, has been clearly influenced by the EC experience. It is worth noting, that the Maghreb agreement is the only one that provides not only for a Council of Heads of State and ministerial meetings, but also for a popular assembly. This assembly of 50 members, 10 from each 'parliament' of member states, no matter how they have been chosen, has no power at all. Theoretically, it has a 'consultative role', but the very fact that it exists, is a sign that all of the countries involved feel that their populations must be made to be a part of the process: This structure bears much resemblance to that of the European Community.

Any regional organisation in the world stands the risk of failure, as well as the prospects of success. As shown in Appendix (A), problems often stem from the diversities in the economic development among respective members. Whenever a regional organisation is in the process of formation, all talk tends to focus on




economic cooperation. Soon after initial steps towards the implementation of its objectives have been taken, disputes among members are likely to focus on politically-inspired differences. Dissatisfaction, however, often originates from the fact that the more developed members of a particular association, are seen by other members to reap the maximum benefits from the association. We have already noted some examples of this tendency in a number of regional organisations, i.e. Nigeria (ECOWAS); Singapore (ASEAN); Kenya (EAC); Ivory Coast (CEAO) and Saudi Arabia (GCC). This phenomenon should not cause any undue concern, and rather be put into perspective. The way to deal with such situations, and to contain any likely adverse repercussions, is to ensure that provisions are made, that not all members necessarily benefit from the economic integration at the same rate, or to the same degree. Special concessions can always be made for relatively poorer members. The decisive consideration in establishing any economic integrating grouping, is not whether the poorer members of the grouping benefits more than the richer ones, but whether the latter would benefit more by being outside rather than inside the grouping. For the overwhelming majority of the Arab countries, the answer is that none of them will benefit more by being outside and that all of them will be better off – perhaps with varying degrees – by being inside the grouping.

## **2.7 The Role of Oil Resources in the Arab World**

Total world proven reserves of oil and natural gas liquids (NGLs), as at January 1991, were estimated by Oil and Gas Journal at 1000 billion barrels. Of this, more than three-quarters are in OPEC countries, and more than half lie in just four Middle Eastern Countries – Saudi Arabia, Iraq, Kuwait and Iran. In 1989, Saudi ARAMCO announced an addition of 85 billion barrels, equivalent to more than twice the total proven reserves






of North America. Reserves in Saudi Arabia are now estimated at around 260 billion barrels, which amounts to a quarter of total world oil reserves.

That oil is a strategic commodity, is certainly true. As such, its dominant role in shaping the strategic economic decisions in the developing countries of the Arab World, particularly in the Arabian Gulf, will continue as long as factories are built, technological progress continues to seek improvement and development plans in the region and elsewhere are undertaken. Oil shall remain the pillar of the Gulf States' economies, as well as of Libya, Algeria and Iraq, the influence of which spreads throughout the rest of the Arab World, especially in countries where they are substantial aid donors. Whilst American and British oil reserves can sustain their present production for less than a decade, the majority of the Gulf Cooperation Council States can go on producing at today's levels for around a century. Moreover, they are making out new reserves, while production elsewhere has already been declining, or is forecast to begin its decline, in the 1990s.

The Arab World, having been economically strengthened, thanks to its command of this strategic commodity – oil has, over the last fifteen years or so, sought to spread its scope of outside relations worldwide.

According to a detailed survey of over 650 U.K. companies, commissioned by the Institute of Export and The Market Research Society, conducted in April 1984, [Financial Times, 2.5.84], the Middle East and North Africa have overtaken the E.C. as the markets offering the best opportunities for British exporters. Regarding its commercial relations with Europe, the Arab World, which is considered to be the third largest trade partner of




the E.C. (next to U.S.A. and other European countries) [Table 4-3-5a], could be categorised into three distinctive sub-groups.

1. Those with bilateral agreements with E.C., namely Maghreb countries: Morocco, Algeria and Tunisia; and Mashraq countries: Egypt, Syria, Jordan and Lebanon. This group accounts for 60% of the entire Arab population, with per capita income of around \$1400 on average (in 1986).
2. The countries signatory to the multi-lateral economic agreement via LOME agreements. They comprise Somalia, Sudan, Djibouti and Mauritania, together accounting for 15% of the total Arab population and no more than \$300 in their average per capita income.
3. The Arab countries whose economic relations with E.C. are governed by no particular official agreements. This group includes the rest of the Arab States, namely Iraq, Libya, the six member states of the Gulf Cooperation Council, and Yemen. Together they account for 25% of the total Arab population, with their average per capita income amounting to around \$4000 (1986).

The Mashraq countries of the first group deal with the E.C. according to what are commonly known as "cooperation agreements", whilst those of Maghreb countries are subject to the so called "participation agreement" signed in 1969.

## **2.8 Recycling of Arab Petro-dollars**

The oil-rich Arab countries have shifted from being net exporters of raw materials, notably crude oil, during the 1960s and 1970s, to becoming net exporters of capital during the 1980s. Most of the capital borrowed by developing countries during this period came from the developing countries themselves (OPEC Members). But most of the surplus income generated by Arab oil exporting countries has been invested in developed



countries, particularly in Europe, Japan and the U.S.A. These countries in turn lent the capital to the developing countries. The high interest rates charged on such loans were the mechanism to which the industrialised countries resorted to, as a way of reducing the high risk involved in lending to the developing countries, resulting eventually in the increased foreign debts of most of the third world countries.

The overall effect has been devastating to the countries of the Third World, whose inevitable reduced capital investment led to their restricted economic growth and high unemployment levels. Moreover, servicing such loans became increasingly unmanageable and a continuous source of friction between the borrowers and the lenders.

When deciding on the ways to utilise and channel financial surpluses, the Arab oil exporting countries have always sought an optimum balance of the following three elements:

1. They primarily considered the basic purpose of investment to be for their own economic development. They sought to achieve a structure of investment which guarantees a certain degree of safety (including political) but also high yielding and least exposed to inflation.
2. They also tried to achieve the highest possible liquidity of their investment, since this enables them to adapt as quickly as possible to the changes in the international financial markets.
3. The awareness that solidarity with other developing countries is an important factor in changing relations on the world oil market. This has been clearly demonstrated by their role as aid donors through development assistance. In the view of some commentators, this development has been the most remarkable feature of South-South financial cooperation in the 1970s.




However, the Arab financial surpluses of the 1970s were mainly placed into various forms of investments in the industrialised countries. A relatively small portion of these investments has been channelled into portfolio and direct investment, while the greater proportion was held in bank deposits, in view of their high liquidity and relative security. In addition, this form of surplus deployment was indirectly encouraged by the industrialised countries themselves (attraction of high interest rates), given that they have a highly sophisticated financial banking system.

## **2.9 Population Growth and the Work Force**

According to the World Bank [Mideast Markets, July 9th, 1984], the countries in the Middle East and North Africa have the second highest rates of population growth and fertility in the world after sub-Saharan Africa. Between 1970 and 1982, their populations grew at an average rate of 2.9 per cent a year and in 1982, the total fertility rate (number of children born per woman) was 5.4. Unlike most of the other Arab countries in the region, four States have policies to reduce population growth. Recent surveys show that 24 per cent of married women of child bearing age in Egypt, 38% in Turkey and 41% in Tunisia practise contraception. In contrast, only 5% of all women in Sudan and rural women in Syria do so. In the vast majority of the Arab countries, and even in the best case of rapid decline in both mortality and fertility, the growth in population will put a major additional burden on the economy.


The movement of work force from one Arab country to another, while well placed to suit at least one aspect of the objectives sought to be achieved by integration, namely, shift of excess labour force to where it is mostly needed, could well have far reaching political, as well as economical, effects. "Brain drain" is reported to have been increasingly high in some labour exporting countries such as Sudan, whose best qualified people have left



the country during the late 1970s and the best part of the 1980s, to seek jobs in the prosperous Gulf States and Libya. They are attracted by a combination of two motives: high pay in the countries they have emigrated to and the frustration of political instability, as well as the financially non-rewarding wages in their own country.

Another example to be cited is North Yemen, the development of which is constrained by labour shortages. Attracted by the demand for labour elsewhere in the Gulf, some 30% of the country's male labour force has emigrated [MEED 3.1.87]. In the early 1980s, when investment funds were relatively plentiful, but labour was not, planners tended to favour capital-intensive, rather than labour-intensive, projects. As revenue becomes scarcer and demand for Yemeni labour decreases in the rest of the peninsula in the wake of the falling oil revenues, this policy choice may have to be revised. The recent discovery of oil in the country, however, may lead to the adoption of a balanced recourse between capital-intensive projects (installation of oil projects) and those of labour-intensive ones, geared to accommodate the thousands of Yemenis who have lost their jobs in the neighbouring Gulf States. One must mention here that the oil sectors of different Arab countries incorporate only a small number of labour. (Only 1.5% of the 1975 total work force of GCC nationals were engaged in the oil sector, according to Seragedin *et al*, "*manpower and international labour migration in the Middle East and North Africa*" [Washington D.C.: The World Bank, 1981, p.69]. Yet oil exporters pay for imports which incorporate a much greater number of labour. Similar trends and implications are equally evident in the rest of the labour exporting Arab countries, i.e. Egypt, Sudan, Jordan and Tunisia.

As for the oil countries constrained by labour shortages, the fastest way to increase the population of working age groups is by immigration, even if on a temporary basis. The




host country acquires cheaply much of the economic benefit of education and upbringing at the cost of the labour suppliers. That, however, raises the dangers of ethnic disunity and cultural dependence, particularly if the emigrants are from countries other than those of the Arab World. The recent trend of the oil countries to favour labour force imported from countries such as Pakistan, India, Philippines and Sri Lanka on economic grounds (cheap labour), to replace the relatively expensive Arab nationals, has already proved to impinge on the cultural set up of most of the tiny Gulf States. This has been clearly manifest in the kind of social problems, the parallel of which the people of the region have never experienced before. Most prominent and far-reaching among these problems, is that of children's upbringing, which is mostly undertaken by Philippino baby-minders.

According to I.L.O., the labour force in the Arab World does not exceed 25% of the total population. This is attributed to a number of factors, prominent among which is the exceedingly low rates of women participation. Due to social and cultural reasons, 90% of the women population (who comprise 50% of the total population) do not work. But on the other hand, this is not contributing a lot as a negative effect, since the unemployment levels are already very high and the productivity is relatively low owing, among other reasons, to the inefficiency of the labour force. To this one can also add the problem of the continuing increase in urbanisation, to the detriment of rural areas, whose natural resources are left underexploited as a result.

#### **2.10 Principal Policies of Individual Arab Countries towards MNCs and Foreign Investment**

Appendix (B) attached at the end of this thesis, reviews the main legislations which govern the Arab investment activities insofar as they involve foreign MNCs and/or foreign capital.




Relatively little is documented about the codes of conduct and regulations governing MNCs' activities in the Arab World. There seems to be no apparent distinction between MNCs and other foreign enterprises, as to the regulations under which they are subjected. Despite variations between individual Arab countries regarding investment laws, most of them are working towards the unification of such laws. These efforts usually seek to fulfil two declared objectives, as the investment laws are designed within the broad context of the Arab economic integration:

- a. taking the criteria to the extent that an investment project can contribute in the fulfilment of economic and social development plans;
- b. Arab joint venture companies are promoted as a vehicle to accelerate industrial and agricultural development. These joint ventures enjoy a variety of concessions, as well as legal and financial support.

It is worthwhile noting that the investment legislations of the overwhelming majority of the Arab countries have undergone drastic changes during the 1970s. Far from responding to policies adopted by foreign MNCs, there seems little doubt that the sudden growth in Arab surplus funds, in the wake of the oil boom of the 1970s, and the apparent availability for development finance in countries such as Egypt and Sudan, had much to do with the changes in the Egyptian and Sudanese policy on foreign investment from earlier policies, which had limited private foreign investment and stressed the development of government planning and public sector enterprises.

Sudan, after undertaking a sweeping series of nationalisations in 1970 that failed to produce desired results, undertook to formulate a policy of attracting foreign investment. Accordingly it enacted the organisation of Investment Economic Services Act in 1973, revised its existing Industrial Investment Law in 1974, and passed the "Development and



Encouragement of Agricultural Investment Act" in 1976. Moreover, the six year plan (1977–1983) adopted in 1977, assumed that, out of a total projected investment of \$6.5 billion, 52 per cent of that amount would be obtained from external sources. In view of the country's expressed goal of becoming the "bread basket of the Middle East" and the oil producers need for a near and reliable source of food, the Sudanese Agricultural Investment Act of 1976, was largely aimed at Arab investors.

In addition to Egypt and Sudan, other deficit states of the Arab World, such as Morocco, Tunisia, Jordan and Syria, have also enacted legislations or implemented policies favouring Arab or foreign investment. Many of the Arab countries have evolved institutions to finance and participate in projects with domestic and foreign capital. Towards this end, Egypt in 1971, founded the Egyptian International Bank of Foreign Trade and Development and the Sudan, in 1974, created the Sudan Development Corporation, with the aid of a Saudi Arabian Monetary Authority guarantee, which enabled it to secure a £200 million Eurodollar loan to use as capital for investment in commercially viable projects within the country.

Despite the emergence of these new national institutions, a variety of institutional constraints on the flow of Arab capital has hindered the process. They fall into the following general categories:

1. Policy and decisional instability on the part of the host country authorities, leading to change of major declared policies, and the revocation of given guarantees;
2. Bureaucratic problems;
3. Lack of project promotion and formulation – lack of prepared project proposals (feasibility studies, etc.);
4. Lack of indigenous managerial skills and sources of technology.





Unlike the ordinary MNC entering a developing country, the typical Arab investment organisation does not itself have the managerial and technological elements to back up the proposed investment project. Since the host country cannot provide these elements either, the Arab investor is dependent on the Western MNCs for management and technology.

TABLE 2-1  
THE ARAB WORLD :  
BASIC INFORMATION AND ECONOMIC INDICATORS

	POPULATION		AREA KH <sup>2</sup>	PER CAPITA INCOME US \$	EXPORTS (FOB)		IMPORTS (CIF)		GDP <sup>a</sup> Sm 1986	KEY INDUSTRIES (See Key for Abbreviations)	MAIN IMPORTS
	1989 MILL- IONS	GROWTH RATE % 1980/89			SM 1989	GROWTH 1980- 1988	SM 1989	GROWTH 1980- 1988			
ALGERIA	24.45	3.1	2,381,741	2,170	9,569	- 8.2	8,977	- 4.7	60622	Ag; CO; Pp; Mf; IO; Mf; Ce; CS.	Mc; IS; Ch.
BAHRAIN	0.50		662	6,360	2,716	- 7.5	2,914	- 5.0	4739	Dt; CO; Pp; NG; E1.	CO; Mc.
EGYPT	51.39	2.7	1,001,449	650	2,634	6.0	7,378	15.3	53844	Ag; CO; E1; Pp; Mf; Ce; CP.	Wh; Ch; Tr; Mq.
IRAQ	18.27	3.6	434,924	-	12,079	- 7.5	10,297	9.4	45719	Ag; Wh; Eg; CO; Mf; CP; Ce.	MV; Mc; IS; Fd.
JORDAN	4.04	3.7	97,740	1,120	1,195	5.7	2,324	- 0.9	4612	Ag; Wh; Eg; Pp; Cg; Ca.	Fd; CO; Mc; MV.
KUWAIT	2.02	4.3	17,818	13,680	11,257	-11.0	6,452	4.0	17657	CO; Pp.	MV; Fd; Mc.
LEBANON (1986)	3.08	8.8 (82-85)	10,400	-	532	- 5.1	2,237	- 8.2	378	Ag; CP; Ce; Pp.	Fd; Mc; Ch.
MOROCCO	24.57	2.7	446,540	900	3,405	4.7	5,527	0.6	15113	Ag; Tb; Wh; Bg; Eg; Pp; E1; Mf; Phr; Mf; CP; Ce.	Mc; CO.
LIBYA	4.40	4.3	1,759,540	5,410	7,560	-13.6	5,716	- 5.5	20659	Ag; CO; Ce; Cg.	Fd; Mc; Tx; MV.
OMAN	1.49	4.5	212,457	5,220	3,721	- 4.6	2,447	0.5	7665	Ag; CO; Ce.	MO; Tr.
QATAR	0.43	5.4	11,000	9,920	2,570	-13.1	1,502	- 5.1	4958	Ag; CO; Pp.	Mc; MV; Fd.
SAUDI ARABIA	14.44	3.7	2,150,000	6,230	31,894	-21.3	25,591	- 0.8	75825	Ag; CO; Pp.	Fd; MV; Mc.
SUDAN	24.42	3.1	2,505,800	540	652	- 3.9	1,453	7.0	5853	Ag; Tb; Pp; CP.	Mc; Ch; MV.
SYRIA	12.08	3.6	185,180	1,670	3,006	- 6.7	2,098	- 8.7	21637	Ag; CO; Pp; Mf; CP.	CO; Mc; Fd; IS.
TUNISIA	7.99	2.5	163,610	1,260	2,978	- 0.9	4,326	- 1.6	9420	Ag; Tb; CO; Pp; Phr; IO; CP; Ce.	Mc; Fd; Tr.
U.A.E.	1.54	4.9	83,600	18,430	17,030	- 5.3	9,559	- 3.0	20899	Pf; CO; NG.	Mc; IS; MV.
NORTH YEMEN	11.20	2.7	195,000	650	1,290	- 7.6	2,464	- 4.5	3685	Ag; E1; Sa.	Fd; Mc; Tx.
SOUTH YEMEN	6.09	2.9	637,700	170	170	- 7.6	429	-16.1	1593	N/A	N/A
SOMALIA	0.41	-	22,000	1,010	53	6.4	316	5.2	755	N/A	N/A
DJIBOUTI	1.95	2.6	1,030,700	490	652	9.6	526	0.8	834	N/A	N/A
MAURITANIA	214.71		13,680,000	114,953	102,533		375869				
TOTALS											

Source: Compiled by the author from various sources, including:  
1. World Bank, International Development Report, 1989  
2. U.N. Statistical Book on Trade and International Trade, 1986  
3. International Statistics, 1988/89 - World Bank  
4. Islamic Development Bank, Annual Report 1989/90

<sup>a</sup> GDP at market price  
1. The World Bank Atlas, 1986.  
2. MIDO (August 1986).  
3. Middle East Construction  
(media information)

Key:  
A = Agriculture  
M = Machinery  
E = Equipment  
C = Chemicals  
CO = Crude Oil  
CP = Consumer Products  
S = Services  
I = Iron Ore  
M = Machinery  
MF = Manufacturing  
C = Chemicals  
MV = Motor Vehicles  
MS = Metals  
P = Petroleum Products  
S = Services  
T = Textiles  
Tr = Transport Equipment  
Tx = Textiles  
Wh = Wheat

TABLE 2-2

OIL INDUSTRY: PRODUCTION OF CRUDE OIL,  
EXPORTS AND RESERVES

	PRODUCTION 1000 b/day		EXPORTS (\$mn)		OIL RESERVES Barrels (bn)	
	1986	1989	1986	1989	1986	JAN 91
WORLD TOTAL	59,641	63,843	-	28,000	724.5	1000
OPEC TOTAL	18,333	22,648	-	20,000	503.2	750+
ARAB TOTAL	13,150	14,357	54,793	-	415.0	
U.A.E.	1,370	1,936	6,200		33.0	
BAHRAIN	44	-	1,772		0.1	
TUNISIA	106	-	344		1.8	
ALGERIA	600	1,094	2,500		8.8	
SAUDI ARABIA	5,042	5,158	21,700		169.2	260
SYRIA	185	-	375		2.1	
IRAQ	1,688	2,841	6,100		72.1	
OMAN	558	-	2,029		4.1	
QATAR	333	396	1,500		3.9	
KUWAIT	1,416	1,815	6,600		94.5	
LIBYA	1,034	1,117	4,600		21.3	
EGYPT	774	-	3,340		4.3	
OPEC - NON-ARAB MEMBERS	6,847	8,291			100.5	
OTHERS:						
BRITAIN	2,602	1,883			9.0	
CANADA	1,798	1,962			6.9	
NORWAY	906	1,541			10.5	
U.S.A.	10,302	9,160			24.6	
U.S.S.R.	12,384	12,207			59.0	59.0
CHINA	2,630	2,740			18.4	
MEXICO	2,750	2,892			54.7	
OTHERS	6,269	-			25.9	
% OF ARAB WORLD TO TOTAL	22.1%	22.5%			57.3%	
% OF OPEC TO WORLD	30.7%	35.5%			69.4%	
ARAB SHARE OF OPEC	71.7%	63.4%			82.5%	

- Sources: 1. OPEC - Data Base  
2. Petroleum Economist - April 1987. Pg.156.  
3. Petroleum Economist - August 1991. Pg.42.  
4. Energy in Profile (The Shell Briefing Service)  
Number 3, 1991. Pgs. 2, 3, 8.

TABLE 2-3  
 SECTORAL DISTRIBUTION OF DEVELOPMENT FINANCE  
 DISBURSED BY MAIN ARAB DEVELOPMENT FUNDS TO  
 THIRD WORLD COUNTRIES 1974 - 1989

\* Million U.S. Dollars

INSTITUTION	YEAR OF COMMENCEMENT OF OPERATIONS	NUMBER OF BENEFICIAL COUNTRIES	NUMBER OF OPERATIONS	ECONOMIC SECTORS						TOTAL	% OF TOTAL
				TRANS-PORT & COMMUNICATIONS	ENERGY, ELECTRICITY, OIL, GAS	WATER & SANITATION	AGRICULTURE & ANIMAL HUSBANDRY	INDUSTRY & MINING	OTHER SECTORS		
ABU DHABI FUND FOR ARAB ECONOMIC DEVELOPMENT	1976	42	92	182.37	395.15	51.11	203.14	333.50	33.35	1198.62	4.2
THE ARAB BANK FOR ECONOMIC DEVELOPMENT IN AFRICA (BADEA)	1976	38	140	405.32	96.52	41.32	207.89	101.64	30.00	892.59	3.1
THE ARAB FUND FOR SOCIAL AND ECONOMIC DEVELOPMENT (ADSAED)	1974	17	231	921.19	931.02	468.72	1063.84	399.46	82.47	3866.70	13.4
THE IRAQI FUND FOR FOREIGN DEVELOPMENT	1976	31	69	220.75	124.16	5.00	320.70	186.30	876.11	1733.02	6
THE ISLAMIC DEVELOPMENT BANK	1975	39	688	379.95	3340.69	125.93	711.63	2487.71	240.78	7286.68	20.2
KUWAITI FUND FOR ARAB ECONOMIC DEVELOPMENT	1962	65	376	1789.37	1516.54	396.90	1247.24	965.69	38.20	5953.94	20.6
OPEC FUND FOR INTERNATIONAL DEVELOPMENT	1976	85	492	308.07	606.60	79.74	247.12	189.67	944.30	2375.52	8.2
THE SAUDI DEVELOPMENT FUND	1975	59	279	2150.88	1030.60	385.70	1178.09	361.98	455.24	5562.44	19.3
TOTAL		105	2367	6357.20	8041.25	1554.31	5189.65	5025.95	2700.45	28,869.51	100.0
% OF EACH ECONOMIC SECTOR				20	27.9	5.4	18	17.4	9.3	100	. .

Source: Islamic Development Bank, Annual Report, 1989  
 (In Arabic)




## CHAPTER 3

### LITERATURE REVIEW INCLUDING IMPORTANT ARAB VIEWS ON THE CHANGING GLOBAL ECONOMY

#### 3.1 Introduction

Investigation of materials, hypotheses and analysis incorporated in the writings of a wide range of scholars, professionals and economic analysts who have dealt with various questions pertaining to the economics of the Arab World has revealed a number of interesting, but also controversial, and occasionally conflicting, views which make further investigations and analysis a worthwhile endeavour to contemplate. A particularly closer attention has been paid to the performance, role and contributions of foreign multinational companies in the inquest of the Arab countries to achieve their national economic development, a process with which they have been greatly concerned over the past two decades or so.

It has been noticed, however, that the bulk of literature related to the Arab economy so far has primarily dealt with the impact on the Middle East region of development originated in other parts of the world. The Arab World's present and future influence on developments elsewhere in the world; in other words, its active rather than reactive role in the world scene, has apparently been played down. It is not as yet clear if such tendency is due to a perceived conviction that the Arab World as a distinct region can offer nothing or little of particular significance to the rest of the world and that it can only respond to events shaped by others without having a great deal in the way of actively contributing to these events or attempting to change their course.




The absence in literature of a positive role to be assumed by the Arab region has clearly underestimated the potential economic influence which it can exercise at the international level, in view of its potential resources and strategic location in the heart of the world map.

### **3.2 Scope of Literature Coverage**

It is, however, important to exercise a reasonable degree of caution to distinguish between two types of literature coverage: those writers and analysts whose entire concern in a particular work has been the Arab World, or some of its states, as opposed to those whose reference to the Arab economies has been mainly prompted by the need to elaborate on particular issues in which some Arab countries could be ideally cited as models for illustration. The first type could well be illustrated by Samir Amin's contributions in his pioneering works, as well as in R. Agami's book entitled "Arab Response to The Multinationals". An increasing number of Third World writers, as well as western economists have more recently addressed themselves to the questions pertaining to the interaction between different policies of the MNCs involved in the Third World countries on the one hand, and those of the Third World's governments and companies on the other. The Third World countries' policies have been gradually formulated in the process of their economic development pursued by individual countries in the aftermath of political independence while others are being adopted in direct or indirect reaction to policies originated outside their borders and pursued through foreign MNCs. A number of illustrations will be given later with a view to analysing some of these phenomena.

### **3.3 The Arab Writers**


While the mainstream of the Arab writers tend to focus on the misgivings and the negative implications on the Arab World's economic development of the activities of



foreign MNCs, only a few have attempted to come up with specified alternative policies which are capable of warding off the negative effects of the foreign influence exercised by these multinationals. Even Samir Amin, the Egyptian who certainly has no parallel in the Arab World in terms of his intellectual contributions as a formidable development theorist, has done relatively little beyond advocating the potentiality of moving towards an "autocentric Pan-Arab development" as the one and only viable alternative option to contemplate.

**3.3.1** Samir Amin's outspoken and well articulated criticism against the objective bases of multinational monopoly capital's domination over the Arab economy, and the dangers that go with such domination, insofar as it links the Arab economy forever with foreign interests, is well known. His analysis clearly lends itself to the mainstream ideas of the dependency theorists among whom Amin is a forceful pioneer in his own way. Appealing though his call is for an integrated and dynamic Arab economic unit, his argument seems to fall short of constructing a detailed scenario of how such an achievement can possibly withstand the many challenges it is bound to confront. The question of living up to the test of practice – given the heterogeneous resources and revenues – let alone the wide variations among different individual Arab Countries in their pursued economic ideologies, appear to be still crying for an answer despite all the rhetoric and sentimental calls for autocentricity and self-sufficiency.

**3.3.2** Riad Agami, on the other hand, takes a conciliatory view in his attitudes to the foreign multinationals operating in the Arab World, perhaps to the point of asserting their indispensability to the process of economic development in the Arab World. His findings, based on a limited survey conducted in the late 1970s among



a selected number of a few elites and businessmen in two of the Arab countries (Kuwait and Iraq) have established a favourable attitude on the part of the Arab countries towards the foreign multinationals. He also concludes that:

*"even socialist regimes in the Arab World appreciate the contributions of the MNCs to their societies in their quest for economic and technological growth".*

Apparently, Agami has probably confused "appreciation" and "satisfaction" with what would rather be referred to as a forced cooperation in the absence of viable alternatives. It is, however, possible to assert that the Arab countries are not hostile towards the MNCs, as indeed our own survey has confirmed, but they are certainly not as forward-looking and forthcoming to the multinationals as Agami would like us to believe. One also needs to be precautionary about sharing Agami's optimism regarding the friendly business-like atmosphere in which the multinationals are operating in the Arab World. Since his entire sample was derived only from those in direct contact with MNCs, there is a case for questioning the basis on which his findings are established. In Agami's own words:

*"the factor of self-interest is no doubt at work ... and they are more likely to derive some benefits from that contact".*

If that is so, as the author's survey confirms, then the obvious conclusion is that they will naturally favour and welcome the activities of these MNCs – a fact clearly manifested in their answers to Agami's questionnaire.

In fact, the extent to which Agami's survey sample has been representative enough of the population it was intended, cannot be claimed to have been established in any precise terms.






### 3.4 Market forces vis-a-vis Protectionism

The relevance of the activities and policies pursued by the MNCs to the current debate on the contrast between free trade and protectionist policies is quite evident. It is the MNCs, after all, who are more akin to demonstrate in practical terms the actual exercise of free trade policies worldwide. While the precise definition of free trade can possibly be controversial, our general concern in this context is the free movement of capital, as well as goods, in their various forms. The investment opportunities worldwide are clearly seized by the MNCs, which in a way, do act as agents for individual governments and virtually carry out their policies. The current debate seems to emphasize the importance of free movement of trade. Let us, in the following pages, critically review some of these ideas which generally appear to command a reasonable degree of acceptance.


The Brandt Commission Report regards that, while bilateral reciprocity has value as a bargaining device to secure improved access in protected markets, the spread of this phenomenon can still be a dangerous development. "*Multinational balancing*", the report indicates, "*is the only way to seek a recovery of world trade*". [Brandt Commission Report, 1983, p.108.] While the report emphasizes the negative effects of the protectionist mood, and advocates the notion of free trade, an increasing number of developing countries assume that competition is harmful and should be replaced, wherever possible, by regulation and that collectives are preferred to individual venture. The contradiction between the two sides of the argument is self-explanatory. Insofar as protectionism plays a major obstacle to the Arab countries, whose natural path of development would be to move from exporting products in primary form to the processed one, the Arabs seem to be justified in their repeated calls against the protectionism of the western industrialised countries, geared to prevent any perceived competition from the Third World countries. Particularly relevant to this, is the EC policy towards the GCC's



petrochemical exports to Europe, which has erected high tariff barriers to protect its own industry.

What is particularly striking is the fact that a double standard view seems to prevail when particular trade policies are evaluated, depending on whether these policies are meant to address the problems of the developing or the developed countries. The west has always maintained that, stable, orderly and predictable economic relations between the major powers (U.S.A., Japan and The European Community) are necessary conditions for a stable international economic order, and that such stability between these major powers is the most valuable contribution they could make to the development of small countries i.e. The Arab States. Much as this would sound appealing, one would rather tend to adopt the argument that, the more the competition is between these major powers in the Arab World markets (and the Third World Countries in general), the more it is likely that the Third World would end up deriving more and more benefits. Competition, therefore, is more conducive to the developing countries than the concerted policy agreed upon by and among the major powers.


With all the variations among different regions and countries of the world in terms of economic philosophies and regional aspirations, any concerted policy by a few countries can only be geared to serve the interests of these few. An alternative way of tackling the question of the international economic order, must be to broaden the degree of representation in whatever organisation is empowered to consider the viable alternatives. Practically, but also theoretically, there are no better candidates to assume such responsibility than the already established institutions of the U.N. Perhaps some carefully



derived mandatory directives, supported with more vested authority, are all that is needed, if concrete actions are to replace the sheer theoretical and academic efforts which have been contemplated so far by these organisations.

Professor Lester, of the Massachusetts Institute of Technology, believes that *"The postwar trend of the world to be more and more economically integrated is bound to recede"*. (The Economist, 9th November, 1985, p.21.) He articulates his views by referring to the fact that the current degree of economic integration has out-turned the world's collective political willingness to manage it. He also states that there are unsolved domestic economic problems that can most easily be solved by the major powers each isolating oneself from world trade. America faces a productivity problem, Europe unemployment, and Japan faces a trade imbalance problem. Assuming Professor Lester was right, then it would be natural to envisage a slowdown in the MNCs' activities in the Third World in the years that followed. Apparently, there has been no evidence to support such argument, at least during the past six to seven years prior to which the assertion was originally made (1985).

For all such reasons, and many others relating to protection of national products and resources, the individual western governments are more and more leaning towards protectionist tendency. If the developed countries happened to resort to this strategy as an ideal instrument to protect their own interests, then it will be economically but also politically logical for the developing countries, the Arab States among them, to turn to the same defensive weapon. They might even be more justified to do so given the fact that they would probably be harming nobody in the process. Moreover, they might be stepping towards the right direction by attempting to lay the appropriate foundation of their future development of their own resources. After all, they are bound to start one day



and somewhere. The appropriate time seems to be now, and perhaps the starting step should be to consider the sectors in which they most enjoy comparative advantages by virtue of their abundant natural resources. That makes a great deal of sense insofar as they will eventually have sovereignty over their resources and the control of their own destination. Such policies are bound to result in positive responses of different sectors of industry and agriculture and make it possible to rectify what Dr. K. al-Fayez (1986) refers to as:

*"an unusual situation in which the expenditure by the Gulf governments stimulates returns not in their own domestic economies, but in the economies of those countries which provide the goods and services needed for infrastructural development in the Gulf".*

In opposition of trade barriers, the official statement endorsed by GATT in 1984 reads as follows:-

*"It is difficult to reconcile some discriminatory measures taken by the European countries, at least with the spirit of GATT."*

Guesses have been made that non-tariff barriers affect close to half of the world trade. Repeated studies have been always concerned about the creeping protectionism which has characterised the European countries' trade policies in recent years. One such report argues that:

*"the cost of quota restrictions and higher tariffs are likely to outweigh any expected benefits."* [World Economic Outlook, IMF, 1984.]

### **3.5 The Arabs : Past and Present**

Many Arab writers nostalgically keep referring to their glorious past during which the Arab nation was a dominant force worldwide. The ancient Arab Technology is repeatedly mentioned in this respect, implicating that the Arab nation will hopefully revive its past glories one day and be once again in the forefront of the world nations. In fact some

people are so adamant in their belief that history will repeat itself and that the Arabs still have every chance of being among the world leaders in more than one respect.

Donald R Hill [Arab Affairs, Winter 1986/87] argues that:

*"the irrigation system in the province of Valencia (Spain) is substantially the same today as it was when the Muslims departed. The many words of Arabic origin in modern Spanish, relating to irrigational matters, bear eloquent witness to the influence of Arab ideas in this technology. Many other examples are frequently mentioned: dams built across rivers, providing insight into the skills and methods of the Arab hydraulic engineers; mills operating by ebb tide in the 10th century, about a century before the first known appearance of tidal mills in Europe. The 10th-century Arab philosopher Al-Farabi is mentioned in connection with arithmetic and algebra. Other examples include the 14th-century Egyptian scholar AL-Qalgashandi and his contributions to the construction of large buildings, optics, burning mirrors, centres of gravity, surveying, the discovery of (hidden) water, moving of heavy weights ... etc."*

Samir Amin looks at the Arab past civilisation from a rather different angle, introducing the "commerce and trade" dimension. His views in this respect are based on what he refers to as a

*"civilization generated from surpluses coming from the products of its long distant trade." "In return", he argues "Arab commercial prosperity affected Arab agricultural development and enabled it to progress significantly, at least in certain areas at certain times." [Amin, 1983, pp.12-13.]*


A contrast of the past with the present time situation is called for here. One is tempted to assert that, while surpluses in the past were well benefited of, the Arabs of today have apparently failed to make much use of their 1970s oil surpluses in furthering their often talked about aspirations of reviving their past glories. Today, the technological development seems to be the key factor in any development, and hence every attention and effort ought to be exerted in directing a considerable portion of the proceedings of their resources to grasp and develop modern technology and closing the wide gap in this respect between themselves and the industrialised world.

Since MNCs are our major concern in this study, the question remains: is there any alternative recourse before the Arabs to relying upon the MNCs in their quest for technology acquisition? The answer to this vital question seems to be far from commanding consensus. While people like Agami place particular emphasis on MNCs as a major mover of technology, a great deal of Arab scholars tend to place their faith on the Arab autocentric development and self-reliant strategies.

*"The major force of independent Arab development" argues Ahmed S. Nofal "will come from the Arab States and not outside them. This will not happen unless Arab funds return from foreign markets, joint-Arab projects are set up, economic integration between Arab States is established and our natural resources are brought under our control". [Arab Affairs, Spring 1987, p.117.]*

### **3.6 Government, Nationalism and The International Economic Order**


Western economists always argue that the developing countries have much to lose from an increase in economic nationalism. Such argument is based on the proposition that, as their weight in the world economy has increased, so too has their interest in, and their responsibility for, a liberal international economic order. In trying to adapt this simple argument to the Arab world as it stands today, one could emphasize the importance of Arab nationalism and the economic role it could play in furthering the Arabs' economic development. In fact the success associated with a coordinated and concerted Arab move will be in no way different from that previously achieved by others in similar situations. The Japanese success, and also that of Europe, are at least partially attributed to one kind or another of economic nationalism. To rule out the role of nationalism in any forthcoming economic breakthrough in the Arab world, will be to suggest that what proved to be positive and effective for the industrialised countries in the past, cannot be so for the Arab World today. Articulation of such hypothetical argument will require a great deal of imagination and a considerable degree of reasoning. That is something which is yet to be seen.



The role of Governments is also a source of controversy. Some people would argue that, "in the past the government was widely valued as an instrument to resolve problems; today government itself is widely viewed as the problem". It is our view that to generalise such a view, on a developing region such as the Arab World, would be a call to forgo the benefits of pursuing a gradual evolution, with the implication of having to face the risk of squeezing different stages into one, in an attempt to arrive at the target destination earlier than would be possible if a natural evolution process is to be allowed. There seems to be a common misperception, sometimes a harmful one, in the minds of a great number of western writers and analysts, who tend to overlook the fact that what is good for the western companies is not necessarily so for the Third World companies. The essential role of the governments in the Arab world, and indeed in the Third World countries, in almost every walk of economic, social and political life of their people and their economics can hardly be overemphasized. In the words of Sir John Harvey James, the former Chairman of ICI [January 1988], *"The cliché that the world is a single market is in reality not true"*. Each market requires different responses and it is the ability to read and apply that response which actually matters.

It was Richard Robinson who said that *"different national sovereignties generate different legal, monetary and political systems"* [Robinson 1978, p. 19]. Each legal system implies a unique set of relevant rights and obligations in relation to property, taxation, control, monopoly, business organisation and contract. These in turn require the firm to consider new policies, in the sense of being different from that required in a purely domestic setting. It is evident that many less developed countries have less faith in the capacity of foreign private business – in effect, the MNCs – to satisfy national objectives.

*"No contemporary nation-state will tolerate unlimited penetration by an alien enterprise in which control is vested in a management headquartered in another nation-state and making decisions possibly insensitive to the allocational priorities of the host country"*.



[Ibid, p. 7] There is no reason to assume that any part of the Arab World could be an exception to this widely accepted perception.

### 3.7 Future of MNCs in the Arab World

Louis Turner has, a long time ago (1973), argued that:

*"the time is not far off when the underdeveloped countries will become net importers of primary products and new exporters of manufactures".*

Now that we are approaching the turn of the century, and judging by the progress witnessed by some Third World countries, and most notably the newly industrialised countries, one can only admit that Turner proved to have demonstrated an unmistakable farsightedness. What seems to be even more likely, in yet a few more years to come, is probably a combination of "more of the same" trend in the existing NICs, together with the likelihood of more and more of the Third World countries joining the list of the NICs. While it will be premature at this stage to speculate on the time dimension, it will not be too overoptimistic to predict, with a reasonable degree of confidence, the possibility of some three to four countries of the Arab World being well among the newcomers, in the not too distant future.


In view of the increasing tendency among the Third World scholars to advocate the idea of strengthening the interaction through the so-called South-South Trade, it may be argued that, an increase of exports of manufacture of NICs to other developing countries will eventually reduce the extent of dependence of the developing countries on the industrialised world, hence the MNCs originated there. Malcolm H. Dunn and Heiko Komer [Khan, 1986, p.119] have dealt with this. They demonstrated the striking example of the growing exports of Volkswagen cars manufactured in Brazil and argued against the original assumption.



*"The growing exports of V.W. from Brazil to other developing countries" they claim, "represents no reduction in the dependence of the developing countries upon the industrial countries and the IC multinationals. Rather, the dependence from goods imports (in this case vehicle imports from F.R. of Germany) is replaced by a new dependence."*

The trade-off between exporting technology and transferring it for acquisition by the beneficiary developing country is an important matter to exercise. It appears reasonable to assume that while exports by MNCs could be seen as no more than a temporary short-term balancing of the (Arab) countries' requirements, the supply of technology for acquisition would rather be seen as long-term investment, hence long-term partnership. Opinions of individual Arab States can nevertheless be divided, depending, of course, on the natural differences in perceptions, judgment and political ideologies. While some Arab states will welcome this type of long-term relationships, others will rather prefer to see them within the context of one-off contacts during which they can gradually attempt to build up their own technological capabilities, perhaps via learning by doing. The misgivings which are usually associated with dependency on others, and the necessity to control and contain its influence, have been a major concern of many quarters in the Arab World. Samir Amin predicts the acceleration of dependent development in the oil producing Arab States.

According to Amin, even the attempt of some countries, such as Algeria and Iraq, to carry out an integrated industrialisation, based on capital goods and consumption industry, would involve advanced capitalist technologies and would run into the problem of finding foreign outlets if expansion was to continue. It is the author's view that, this particular type of dependency is not all that harmful, so long as the only viable alternative is to resort to investing abroad in order to draw dividends, as is clearly the case for the Gulf oil producing states. After all, the foreign outlets could well be within the Arab region, which in itself meets the target of the Arab regional integration. If an Arab state depends




on another within the Arab world in order to meet its own needs, then the situation which arises from such interaction is one that we would rather call "integration" as opposed to "dependency", as could be implied by Amin.

As for the manufacturing sector in the Arab World, R. Agami concluded that since 95 per cent of his survey participants indicated that MNCs' participation should not be prevented, then that confirms the general commitment of the Arab elites to industrialisation and explains their criticism that the MNCs have tended to stay away from that sector and to confine themselves to extractive industries. Whilst one agrees with the first proposition (commitment to industrialisation), the criticism against the MNCs is clearly misplaced. In fact one can hardly envisage a MNC declining an invitation by any developing country, so long as the required services are profitable. It should also be stated here that the MNCs involved in extractive industries are different in the nature of their operations from that of manufacturing industry. They are not necessarily integrated companies which combine between different activities, some of which they refrain from in favour of some others. In fact it is the individual country's own choice which determines the particular path of development depending, of course, on a number of various factors – such as the availability of raw materials in the right quantity and quality, together with labour costs and the size and extent of the market. The blame is therefore to be laid on the shoulders of individual Arab states and not on the MNCs.

Morris A. Adelman argues that:

*"Multinationals will survive and prosper, though not as much as in the past, because their know-how is, and will remain, a valuable asset."* [Kindleberger and Andretsch, 1983].

While future development of the MNCs in the Arab World, as indeed elsewhere, is by no means certain, one can only agree with the above proposition insofar as the short-term




foreseeable future is concerned. As for the long-term view, it is hard to see the MNCs prospering. Oil MNCs are already witnessing a declining trend in their historical power in the area. National oil companies have already taken over most of the roles previously assumed by the multinationals. This leads us to suggest that, apart from assuming marketing and distribution roles, there seems to be no more power left before the traditionally strong oil MNCs. There is, however, little doubt that even with regard to the MNCs outside the oil industry, the same prediction can hold true with a reasonable degree of confidence. There is an increasingly rising awareness of the need for self reliance coupled with an equally strong feeling in favour of improving the bargaining power on the part of the Arab governments and companies alike (improvement in management skills and built-up experience). Such developments have already contributed in shaping a new type of mentality which is naturally akin to weaken the foreign companies' strength. While the vast majority of the Arab governments are far from being hostile to foreign companies and their influential role in shaping the process of economic development in their countries, the professional people, who at the end of the day are those who are closely associated with the day-to-day running of their country's economies, are growing more and more cautious towards MNCs' influence. The general trend does suggest that before very long the MNCs will be gradually losing their momentum, as their policies will no longer be endorsed unchecked. The question to be raised is thus related to one of timing of the end of multinationals' domination, rather than being one of whether or not they will continue to be prosperous in the Arab World. This view, however, clearly contradicts John Dunning's contention that:

*"no longer is the control of foreign investment the main political issue, as it was in the period of fast growth of the sixties and early seventies. In many countries new investment is more likely to come from foreign multinationals than from domestic companies. Therefore the main issue of the eighties seems to be the struggle of nation states for an adequate share in the investment cake, which multinational corporations are still distributing". [Dunning, 1985, p.75.]*


### 3.8 Multinationals and the "Dependency Theory"

Within the framework of the "dependency theory", some ideas, mainly prompted by it and based on its theoretical foundation, seem to contradict themselves. Since the location of the Arab World is one concern of this study, one is keen to explore what different theories attach to the importance or otherwise of any country's or region's location regarding its connection with the MNCs. Dudley Seers (1983) refers to locational disadvantage being one of his stipulated four categories when he tackles the possibilities of the "room to manoeuvre". The closer a developing country is to an industrialised one the more dependent the former will be on the latter. Nobody doubts the effect of location on a country's quest for self-reliance but in what way? It should not be forgotten, however, that it is also true to argue that the closer a country is to those more developed, the lower the costs of transportation, especially if there are overland foreign routes. This makes it easier for its exports to compete in neighbouring markets; but, as already said, it also encourages dependence on imports. It may be reasonably safe to assume here that all depends on the degree of development achieved and the extent to which a developing country perceives its imports and exports. If a region, such as the Arab World, is so concerned about exporting (raw materials or products) rather than importing, which is the case at least in a great number of the Arab countries, then closeness (location) to the developed world could be seen as an advantage. Otherwise, it will remain dependent as long as it is incapable of exploiting its resources to the stage whereby they can be exportable. Some kind of analogy is to be sought here to establish the link between the above analysis and the geographical location of the Arab World's many countries, particularly those within a close proximity to Europe, notwithstanding the Mediterranean Sea, which acts as a natural geographical barrier. Going back to D. Seer's theory about the room to manoeuvre, the vast majority of the Arab countries have virtually no room to manoeuvre since they are more or less under the limitation of a small



population, ethnic dimensions, closeness to industrial Europe, have a culturally subverted bureaucracy, high consumer expectations and a narrow technological base. The question we need to raise here is: so what? Does it necessarily mean that these countries are doomed to be prisoners of their powerful neighbours and are bound to stay so without even attempting to seek ways and means to pursue their own strategies, leading them to independent paths of development? The author's instinct is that theories such as these sometimes overlook the overriding need to come up with alternative scenarios as to how to face the perceived dilemma. Moreover, they should not be seen as though they do suggest that all routes are blocked and that no signs of hope for improvement are within sight. It is not so much that theories of this nature are foundless, but they might be inappropriate in the context of the developing countries, although not necessarily so within the framework and experience of the western world in which they have originated.


Regarding the bargaining position of the MNCs, D. Seers postulates that a Multinational Company will make few concessions, depending on how badly it actually wants to invest in a given country. Many of the Arab oil producing countries are attractive in a number of respects, a fact which in itself suggests that more concessions can be forced on the foreign companies. To go by this theory will lead us to believe that the Arab host countries are in a relatively favourable position, compared to other developing countries, regarding the concessional terms they can expect to gain in their relationship with MNCs. In reality, no evidence seems to support such proposition, as we shall find out in some detail later on. Apparently no serious attempts have as yet been made on the part of the Arab countries to exert pressures on the MNCs. It is the authors view that the extent to which an individual Arab country is prepared to resort to exerting such pressure, is a function, not so much of its degree of attractiveness it possesses, but of its perception – economic and political – of the likely outcome of foreign participation and its



implications on domestic development strategies. The political orientation of an individual government has also its obvious reflection on the degree of concession a MNC is expected to offer. Libya's success, back in the early 1970s, to exert pressures on oil MNCs, and the subsequent nationalisation of these companies under the tactful slogan of participation, could be a case in point. Quazi-socialist governments are known to be concerned about strengthening their bargaining power when it comes to negotiating with foreign companies, and the Arab World is by no means an exception from this generally pursued pattern.

### 3.9 Weaknesses of The Arab Industrial Policies

Different Arab scholars and academicians have always taken a critical view of the way the Arab industrialisation has proceeded in the aftermath of the independence era. Most of their criticism is focused on the tendency of the Arab capital to seek risk-free investment outside the Arab market. Professor A. S. Nofal believes that *"western countries have maximised obstacles with a view to guaranteeing plentiful Arab investment in their institutions"*. [Arab Affairs, Summer 1987, p.126.] Government bureaucracy and widespread maladministration, together with weaknesses inherited in local financial institutions, are always cited as discouraging factors, but no-one is to believe that foreign markets are free of these failings. S. Amin has also argued along the same lines, suggesting and advocating the Arab autocentric development option. Amin's strongest criticism has been against what he calls the defeatist (passive) attitude among the Arab countries towards the necessity of what he refers to as "technological autonomy", which is seen to be either quite impossible or a mere expression of cultural nationalism, rather than a social and economic necessity. *"This disarticulation"*, Amin argues, *"is further accentuated by development plans articulated around industrialisation for export"*. [Amin, 1982, p.76.]




Industrialisation in the Arab World, and the full analysis of the present policies and future development strategies being pursued, will be the subject matter of chapter 6.

### 3.10 Arab World's Capital Markets

The question on Arab capital markets has been intensively posed over the last decade and has hardly been overlooked. Literature coverage reveals a particularly growing concern over this issue among the Arabs in the financial and banking fields, as well as among Arab strategists and economic analysts. It is not an over-simplification of analysis to suggest that, there is what amounts to be a consensus agreement on the need to develop capital markets within the Arab countries even to the point of withdrawing money deposited in international banking. It was Dr. Saddy of Saudi Olayan Group of companies who once advised that:

*"since it is their (Arab's) money that the international multinational banks have squandered so far, a carefully executed plan calls for lessening this risk by gradually increasing the OPEC countries' direct access to their deposits"* [Journal of Arab Bankers Association, August 1983].

Some ten years ago, Arab financial institutions began to establish themselves in Europe and the U.S.A. London, which now hosts an increasing number of these institutions is by far the most attractive of the world financial centres. Such calls have always been resisted by the western institutions, on the grounds that any substantial withdrawal of deposits from the international banking system, would accentuate the liquidity problems the system is facing, coupled with the over exaggerated difficulties of establishing sophisticated capital markets in the Arab World. It is the author's view that many of these perceived difficulties have been already contained or put under reasonable control, and that some others are successfully overcome. Inadequate structure, repeatedly referred to in the past, has been reasonably dealt with, at least in the oil rich Arab States. Different skills are acquired, commercial laws constituted and reconciliation between Islamic and




western commercial laws became possible. Moreover, the joint stock concept which was once alien to Arab culture is no longer so. What then remains is essentially no more than a determined commitment to the cause of establishing regional financial institutions to take over the work of foreign financial institutions operating in the Arab World. Financial joint institutions among Arab countries, who constitute the Arab league, have already started to bear fruit.

### 3.11 The Arab Multinational Corporations

The main conclusion of the Vienna conference, in September 1986, which was organized by the Gulf Organization for Industrial Consulting, in association with the Geneva based Consultant, "Business International" was that *"the end of the oil boom is a positive development for the Gulf region"*. In fact this very conclusion has repeatedly been expressed in a number of writings contributed to by different Arab elites, who generally believe that more realistic attitudes towards development priorities have been created in the aftermath of the oil recession. The foreign MNCs' established role in the past is now under assessment, with a view to limiting the effects of their excessive profits realised primarily due to the poorly managed oil surpluses. More efficient techniques of management and sound economical paths of development are clearly the order of the day. Only in a stable and predictable market can long-term strategies be worked out, and this has been possible only recently, following the end of the oil boom. Re-assessment of the partnership with foreign companies is apparently under way, with a view to realising and recognising the importance of the transfer of technology and technical know-how - slowly but surely.





Whilst it is premature to suggest that the Arab MNCs are now in a position to assume the role of foreign MNCs, one is reasonably justified in envisaging their positive future role in the development process that the region is embarking on.


Reginald H. Green [Khan, 1986, p.54] has argued that the Third World's MNCs are quantitatively insignificant but, with the exception of two categories, one of which is Arab Multinationals which, according to him, are substantial in number, range of activities, and capital deployed. One, however, remains cautiously optimistic about their future development while one also looks forward to the possibility of success, even though they are still in their infancy stage. The emergence of Arab MNCs in itself can reveal a great deal about the future of foreign MNCs operating in the area.

### **3.12 Importance of Cooperation between the Arab States**

Hardly does one review an article or a book written by Arabs on their affairs which does not emphasize, in one degree or another, the need for cooperation among individual Arab States. Repeated calls for joint Arab bargaining with MNCs are noted to have been particularly emphasized recently. The much talked about joint cooperation necessarily entails joint development of technology, product, process designs, joint preemptive investment strategies, joint planning and overseeing of world and local developments affecting the Arab economies.

### **3.13 Critique of Samir Amin's Analysis on the Arab Economic Development**

While Amin's views embracing "Arab autocentric development" generally command a wide degree of sympathy within Arab circles, some of his analysis are bound to provoke controversy, and occasionally invite criticism, from some quarters. One such view can be, to take one example, what he calls "Primitive Communism", referring to the traditional



practices of the masses. His insistence on the overriding need to break the family and its tradition in order to develop individualism, and free him from the chains of tradition, does not particularly conform to the present Arab World as it stands today. Family traditions are, in fact, the basis on which any further Arab unity – of which Amin is so much concerned – can be realised. His calls for the reinforcement of small merchant production, at the expense of collective forms, also contradicts his own views on socialism. The whole idea of breaking the family traditions seems to make it difficult for us to adjust our thinking to his repeated call for Arab cooperation and unity. If the smaller elements of the system (family) are not united, then how could we expect unity among disintegrated parts? Would it not be more logical to start the unity process at the smaller circles, first before larger ones are contemplated? As Aidan Foster-Carter [Amin, 1982, p.18] has rightly questioned in his analysis to Amin's works, it would also be difficult to see who can be the agent of the transformation Amin repeatedly calls for.

Amin also takes a strong view against the tendency of the Arab countries to promote export-oriented industry, which further accentuates their costly dependency, and to the great detriment of Arab autocentric development. While such views are generally accepted, one should not lose sight of the practical difficulties of relying entirely on import-substitution to the extent of neglecting the need to export, and thus forgoing all the advantages of having access to foreign currency that goes with it.

An alternative option to be considered could be a scenario of a gradual de-linking whereby the oil rich Arab States are to proceed with their export industries based on the exploitation of their natural resources (essentially minerals), given that domestic or even regional (Arab) markets are not sizeable enough to absorb the locally manufactured products i.e. petrochemicals and other oil-related products. The rest of the Arab world

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can then base their industries on import-substituting manufacture while at the same time receiving assistance from the oil states with regard to their needs, which cannot be met without resorting to imports. Gradually, the oil exporting countries can rid themselves from the control of the MNCs over marketing. Such arrangements between the resource rich and poor Arab countries are bound to create a situation whereby their interests will be strongly interlinked. The resulting convergence of common interests is not only desired, but also necessary, if the potentiality of the economic integration between the countries of the Arab World is ever to become a reality. It is only by spreading the benefits to which the oil proceeds are put, among the entire region, that one can envisage a way out of the dilemma which R. Agami refers to as "*The oil enclave*". Agami rightly stipulates that the oil industry tended to be an enclave in the natural economy of its Arab producers and as such, the industry was not integrated with the rest of the economy. Among a long list of possible reasons for this state of affairs, the lack of coherent strategy agreed upon to cooperate and coordinate with the rest of the Arab World must remain the most obvious of all.

On the other hand, Amin speaks of yet another enclave which in this case is "*agricultural enclave*". He stipulates that major progress in agricultural productivity is inconceivable without heavy investment in irrigation and mechanisation. Let us now turn back to our original proposition of encouraging the export-orientated industries in the oil rich states in order to provide capital needed to support different projects and investments in the non-oil Arab countries. There seems to be no way out of the dilemma of increasing dependence on foreign MNCs, except by financing modernisation of an enclave agriculture in countries such as Sudan, Morocco and Egypt. Only by so doing can the Arab World rid themselves from the control imposed on them by the world system dominated by MNCs. The autocentric Pan-Arab development will then have moved a

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stage further, by crossing the threshold of empty slogans and transferring hopes and aspirations of economic unity into reality.

### 3.14 The Eclectic Theory : Its application in the Arab Context

The "*Eclectic Theory of foreign Direct Investment*" postulates that "*the propensity of a country's enterprise for engaging in foreign direct investment is determined by ownership, internalisation and locational advantages that are available to them, as compared to other nations, and that foreign direct investment of a developing nation is a function of its stage of economic development*". [Kumar and McLeod, 1981.]

The markets in developing countries, according to Dunning, induce entrepreneurs to develop "*small-scale, labour intensive processes and products*". What a careful reviewer of the "Eclectic Theory" senses, is that the premises on which it is based, and the concern it appears to express, are the presumption that foreign direct investment for the developing countries is an overriding necessity, and probably a precondition, for their development. It is the author's view that this assumption is not relevant to the Arab World. Neither does it square with the views of the majority of the Arab development and political academicians for that matter, as our own Gulf survey has clearly established. The advocates of Arab autocentric development are obviously not quite keen on foreign investment of their resources, even if some advantages could be associated with such trends. Foreign investments, as opposed to domestic ones, may reflect a drainage on a developing country's resources, and also increase the involvement of MNCs, and their influence and control on such investments outside the borders of the investing country. The example of Kuwait's foreign investments, based outside Kuwait, which are meant to diversify sources of income and reinvest the proceeds of oil exports for future generations, is worth assessment, but it might be too early to do that, given that the experience is still in its infancy.

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The question of developing countries' inclination to labour-intensive processes and products is also debatable. The evidence in the Arab World, and particularly in the oil producing countries, seems to reveal a tendency to engage in technology-intensive industries – be it petrochemicals, cement, aluminium or other extractive industries. Not only are many of the Arab Gulf States under-populated and lack sufficient indigenous manpower to cater for their ambitious development programmes, but also most of these projects they have embarked on are technology-intensive by their very nature. One can then dispute the proposition of labour intensiveness being a characteristic of developing countries, which apparently is taken for granted among an increasing number of writers on MNCs.

Kuwait, as noted earlier, has embarked on a series of foreign direct (and indirect) investments and on a scale unprecedented in terms of the percentage of foreign investment to G.D.P. While a large proportion of its investment is directed to financial portfolios, it can be said that Kuwait's model has little to lend itself to the Eclectic Theory as far as its three major elements (ownership, internalisation and locational advantages) are concerned. Nor has Kuwait reached such a stage of development advanced enough to make its foreign investment a model against which the Eclectic Theory can be testified. The underlying factor remaining is the financial surpluses which were drawn from the oil proceedings during the 1970s, to which the domestic market was – and still is – not big enough to absorb. Foreign investment must not, however, be seen as an end in itself, and should not be necessarily seen as a sign of success or good management of economic affairs and be encouraged accordingly. Kuwait's experience should only be taken as an example of a country opting for a temporary solution outside its national or regional borders, due to the absence of viable alternative options to turn to. It is in fact ironic, and in a way pitiful, that the bulk of the Arab oil exporting states' financial surpluses are not

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held within the Arab World. It is particularly so at such a time when the Arab deficit countries are forced to look for aid and capital inflows elsewhere outside their borders. The long-term prospects must always be in internalising rather than externalising the use of natural resources and any returns resulting from their exploitation. An encouraging example of the internalisation of various factors of production among the Arab countries, is the movement of private and public capital, as well as that of labour force among the countries of the Arab World. In fact, this phenomenon could be considered to be the only two domains in which some sort of achievement has been realised regarding the long heralded economic cooperation among the Arab States. It could always be argued that the movement of these two resources (capital and man-power) should become a powerful force for integration, and a promising step forwards towards economic integration.

### 3.15 The Role of Agricultural Sector in the Arab World

According to the former Arab League's Secretary General, Chedli Klibi:

*"There has been a five per cent rise in agricultural output in the Arab States recently. Nevertheless, most Arab states are still a long way from achieving self-sufficiency in food". [CAABU Bulletin, No. 18, 1st October, 1987.]*

To deal with food problems in the future, the ideal strategy for the Arab World to pursue will be nothing less than the "Sudan bread-basket strategy" agreed on in principle some fifteen years ago. Recently Saudi Arabia has adopted an agricultural strategy whereby its farmers are guaranteed financial incentives to grow wheat harvest even to the point of incurring losses to be met by the government. While it will be hard to see the economic logic in growing wheat in Saudi Arabia, given the scarcity of water and the high cost of production, the argument is one of preparing for self-sufficiency in the years ahead. Some people argue that it is by far better for the Arab countries to incur losses today in order to create a situation whereby the use of technology that goes with large-scale agricultural projects, and the process of learning by doing, will eventually lead to profits

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and also make self-sufficiency a reality. Atif A. Kubursi argues that only industrial experience develops skill and expertise. "*A factory*", according to him, "*is much better than a school when it comes to the learning process*". [Arab Affairs, Winter 1987/1988, p.41.] Additional benefits are to be sought in terms of value added income as well as in the fact that the factories are the best carriers of technology. What remains to be considered is the question of allocating geographical priorities in such a way that comparative advantages enjoyed by each individual Arab countries ought to be benefited of in the best possible way. While some countries of the Arab World have the potential agricultural resources which are abandoned, owing to the lack of capital and the technological capabilities, i.e. Sudan, the process of directing financial resources to invest in the potentially resource poor countries, i.e. wheat cropping projects in Saudi Arabia, does not appear to make economic sense.

### **3.16 Lessons drawn from the Arab interaction with the global economy**

The Arab World, being an integral part of the Third World, must have enriched its own experience through its familiarity, created via contacts, with different experiences demonstrated in various parts of the Third World, as well as the industrialised one. The question to be addressed should be about the extent to which the Arabs can draw on the experiences of others in more or less similar circumstances. A number of models can be cited here to serve as rudimentary examples to simulate.

The example of China and Cuba demonstrated the possibility of having own companies originated locally as a possible answer to the autocentric approach. To what extent can such models be repeated in the quest for doing without the help of the multinationals? Louis Turner (1973), argued that, "*this is certainly possible despite the economic cost involved*".

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So long as some Arab countries are financially able, at least they can opt for the transfer of technology by direct purchase of sophisticated machinery, as opposed to licensed agreements, which might imply too much dependence on MNCs. Theoretically this can be made possible, given that a long-term strategy of gradual delinking can be agreed and acted upon. In view of the increasing demand for advanced education and training, and the emergence of an increasing number of experienced technicians, economists, managers, etc, the relative importance of management contracts customarily arranged in conjunction with foreign MNCs, will probably witness a declining trend. Similarly, one can also look up to the Japanese and the newly industrialised countries. In the words of Richard S. Newfarmer *"Perhaps the most persuasive case for seeing MNCs as the institutionalisation of technological dependence, comes from the experience of Japan, which did not permit the establishment of multinational companies subsidiaries"*, [Skully, 1978].

One would also add that the Japanese, who transformed themselves into aggressive world leaders in a number of industries, could not have been in their present strength had U.S. and European MNCs been allowed to control technology-intensive industries in Japan, as they did elsewhere in the world. It is the author's view that the analogy with the Arab World is not irrelevant. The question which must be posed is: If Japan did it in such a short term, what is it that makes it so impossible for the Arabs to follow suit? Many factors could be mentioned in support of seeking a common ground and establishing the basis for comparison:-

- Arab nationalism could well correspond to Japanese nationalism, heralded to be a strong contributing factor in the Japanese success and their technological superiority.
- Huge collective natural resources in the Arab World – as against almost non in Japan. The Arab countries are clearly in a comparatively advantageous position regarding the availability of abundant natural resources, in terms of both variety and quantity.



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- Availability of abundant funds to finance R & D.
  - Improvement in educational standards and technical and management skills accumulated through continued contact with western technology and familiarity and acquaintance with foreign patterns of development and the world economic system at large.
  - The well heralded, and much talked about, self-reliance and independence from the outside influence of the MNCs.

All of which could well be capitalised on in the attempt to follow the footsteps of other countries, such as Japan or the South Eastern Asian NICs. Relative advantages enjoyed by different Arab countries will have to be carefully exploited, and the scattered uncoordinated efforts by different Arab countries mobilized to optimal levels. Gradual introduction of tight policies to curtail the negative effects of foreign investments, will always be among the tempting options before the Arab World to consider.

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## CHAPTER 4

### MULTINATIONAL CORPORATIONS AND THEIR RELATIONSHIP TO INTERNATIONAL TRADE AND DEVELOPMENT THEORIES

#### 4.1 Introduction

This chapter attempts to provide a theoretical and conceptual framework for an analytical discussion, to follow in subsequent chapters, of some selected aspects of MNCs. Questions relating to the relevance of economic theory to explain their emergence, their structural and functional characteristics and their operational relevance for strategies of collective self-reliance, are the subject of analysis, as are the practices and policies pursued both by MNCs and the Arab host countries towards each other.

Geromy Clegg [1987, pp.164-165] has traced the theory of MNE as "*a process originating with the industrial organisation approach*". This analysis was over-influenced by the power of a single source country, the U.S.A. and was committed to the explanation of the MNE as the product of concentrated market structure alone.

Internationalisation commonly takes place in activities when the external costs of transferring knowledge or intermediate products are high. As the rights to such items are traded, such rights could be termed "ownership advantages", the concept of which is introduced by the "Eclectic Theory" of Direct Foreign Investment (DFI), which determines the direction of international competition by establishing the link between the national origin of a particular firm, to the generation of ownership and other locational advantages, and determining thus the least cost location of international production.

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## 4.2 Concepts and Definitions

### 4.2.1 Multinational Corporation (or Company)

Different people use different terms in their reference to the multinational companies in general, but the terms Multinational Company (MNC or MNE) and Transnational Corporation (TNC) are the most commonly used, albeit synonymously, to mean the same thing. The survey of literature indicates that there are almost as many definitions of MNCs as there are published papers, and that there is little or no consensus as to a definition.

Multinationals are defined by OECD (1977) as:

*"Companies or entities whose ownership is private, state or mixed, established in different countries and so linked that one or more of them may be able to exercise significant influence over the activities of others and, in particular, to share knowledge and resources with others".*

A Transnational Corporation (TNC) invests in more than one country and has a common management sharing information and resources within the company. Because TNCs have a home country-base where many functions are centralised, the term transnational is more accurate than the commonly used "multinational".

Toyota President, Mr. Shoichiru Toyoda sees multinationals as:

*"Companies which can make the best use of manpower, capital and goods all around the world". [The Economist, June 24, 1989, p.81.]*

A stricter definition distinguishes multinational firms from those with overseas subsidiaries by the amount of control their regional operating units have over their own R & D, product development and investment plans. In fact, a MNC is

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usually a large undertaking which controls a number of subsidiaries in several countries and whose strategy and organisational structures are conceived globally.

The closer one gets to the Third World and the U.N., the more likely such companies will be called "Transnationals" on the basis that they operate across ("trans") national boundaries, without really being owned or managed by people from many ("multi") nations. "Multinational" is then used (occasionally) to describe companies, owned by a number of countries (usually by governments).

According to the United Nations, 'multinational firm' is defined as:

*"an enterprise that owns production or service facilities in one or more countries other than the one in which it is based".*

As this definition is undoubtedly less restrictive than those which are generally used in studies of American and European Corporations, it would be the one on which this study dwells as and when it refers to the terminologies of MNCs or TNCs, which may be used synonymously throughout the whole work.

#### **4.2.2 Technology Transfer/diffusion**

The concept of technology we have used throughout is a broad one. It has two parts: the first consists of all kinds of tools, machines, vehicles, buildings, etc., while the second part comprises all kinds of knowledge required for the use, maintenance, repair, production, change and innovation of the first part. We may refer to the two parts respectively, either as "hardware" and "software", or as "equipment" and "technological knowledge".

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In the literature and in economic analysis, equipment is usually referred to as 'capital goods', because it is the physical form in which money capital and labour value accumulate in industry and infrastructure. Thus to sum up, our definition of technology comprises capital goods and skills (including managerial, financial, marketing, process and product know-how, institutional and organisational know-how).

The process of spreading the product or process innovation from the innovating firm to other firms in the national economy, is called "technology diffusion". However, the spreading of new technology within a single country is one thing and its spreading among countries is another. The transfer of technological know-how across national boundaries, i.e. "technology transfer", is not the same as diffusion of new technology within a single country. Diffusion of new technology is a more predictable and smoother process than technology transfer.

Technology transfer in the case of the Arab World will, in this study, cover most of the countries' trade in capital equipment, whether industrial, transport, agricultural or communications. This indicates that technology transfer, as used in this study, is broadly defined, and as will become clear from the analysis, this definition is wider in its coverage than that allowed for in the U.N. Code of Conduct on the transfer of technology. According to the draft code of U.N., technology transfer is defined as:-

*"the transfer of production, management or marketing technologies by any means"* and does not extend to transactions involving only the sale of goods. In fact, given that the largest number of the Arab countries have not yet completed their economic infrastructures, such an exclusion of capital goods will deprive a large

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part of their imports of manufactured goods, such as those related to power-generation, construction, transport, communication and other infrastructure activities, from the favourable impact of the code.

The transfer of technology is appropriate if based on a selection of what is suitable and supported by the capacity and ability to apply, adapt and improve it. When those conditions – or most of them – are met, the operation is referred to as a "vertical transfer" of technology, if not, it is known as "horizontal transfer". It is evident, however, that most, if not all, technology transfer this study has addressed itself to, in the context of the Arab World, is of the first type, i.e. vertical.

#### 4.2.3 Joint Ventures

As this terminology is frequently used in this study, it might be worthwhile to clearly define what it means. The expression is commonly used in multinational contractual or investment arrangements, but is rarely defined in legislation. The Arab countries are no exception in this respect. Joint venture is generally used to refer to the establishment of a project with foreign and local capital, involving the incorporation of an Arab legal entity. However, the expression is also used in a number of other ways, for example, to describe the situation of two construction companies carrying out a contract in partnership, without the formation of a joint legal entity or with reference to the joint company formed between foreign oil companies and the State oil company, i.e. Egypt Petroleum Company (EGPC) or ARAMCO, following the discovery of commercial oil resources. Our concern in this study, however, is primarily focused on joint ventures in the Arab manufacturing sector, as could be found out in Chapter 11, which deals with some selected case studies. It should also be appropriate to note here that joint ventures

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are relatively a recent phenomenon in the Arab World. The more common mode of entering the Arab markets by MNCs has always been through the option of export – to produce at home and sell in the Arab markets, normally through an independent domestic-based distributor. Direct investment in the Arab World is not so common, given the increasing tendency of investment legislations to favour the joint venture option, which allocate a dominant share of control to the local (Arab) partner, both in terms of management and capital.

In a description of Joint Venture in Saudi Arabia, Walmsley gave a definition which could well apply to many Arab countries:

*"The Joint Venture as we know it in practical terms in the Middle East today, is a negotiated arrangement between a company that has technical and commercial expertise and experience, and a company that does not have these skills relative to the product or service, but does have local knowledge and general commercial strengths to help create and maintain a business in its own market area ..... the strength of participation can generally only vary with the local side, where purely financial sleeping partners or political partners (governments) can be acceptable for the strategic purpose of the operation; before any real progress can be made, a technical partner has to make a tangible input of know-how." Walmsley [1985, p.1]*

The above definition of 'joint venture' reflects a true picture of the state of most Joint Venture Projects which have been most recently established in almost all oil-producing Arab countries, between foreign MNCs and the local partners.

#### 4.2.4 Direct Foreign Investment (DFI)

The basic definition of DFI is provided by the IMF being:

*"an investment conferring a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise". [Billerbeck and Yasugi, 1977*

*p.136]. This covers the control of both incorporated and unincorporated foreign affiliates (branches). It will, in fact, be very rare to apply the terminology of DFI*

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in the Arab World (or in most of its countries) because, according to the above definition, they hardly exist. Effective control is inferred from ownership of fifty per cent or more if the source country owner is a single entity or a group of owners acting in a unified manner.

There are many motivations which explain the overseas investment drives of MNCs. Some of such motivations are:

1. To protect their existing foreign markets, or in search for new ones in the context of the growing trends towards protectionism in both the developing and the developed world;
2. To secure a continuing supply of the needed raw materials or other products;
3. To take advantage of lower cost of production in the host nations, especially for export purposes;
4. To circumvent quota restrictions imposed by some developing countries by particularly locating manufacturing industries in such countries;
5. To take advantage of the economy of scale, or to minimise their risks;
6. In a few instances, the national governments' policies designed to prevent monopolistic or oligopolistic conditions at home, contribute to the migration of capital to other countries.



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As far as the Arab countries are concerned, a formal analysis of the patterns of inward and outward DFI requires an appropriate set of matched data on these patterns. Unfortunately no such data are readily available.

However, the investment pattern of a typical Arab country, as indeed of many developing countries, develops gradually. As countries pass from one development stage to another, not only the role of inward and outward direct investment changes, but so does the character and composition of such investment. As a country develops, it will start to emerge as an outward direct investor, and such outward investment will rise faster than inward investment. In a way, Kuwait has exemplified this pattern toward the late 1980s. The GNP per capita at which a country such as Kuwait has started engaging in such investment, may have depended on:

- a. The amount and structure of its resources (mainly oil);
- b. Its economic system and the role of non-market forces (while laissez-faire is the norm, the role of the public sector (Government) is predominant in the way public funds stemming from the main natural resource are directed or invested);
- c. The extent and form of economic, political and cultural interface with other countries – Kuwait, generally enjoys a good business-like relationship with most of the western countries in which it has invested a great deal of its surplus revenues;
- d. Its size (in relation to both market and population).

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#### 4.2.5 Economic integration

Whether we speak of economic cooperation or economic integration, we shall, for the purpose of this study, use the terms interchangeably to mean the process by which the Arab countries, in pursuit of their common economic development, voluntarily come together and agree to extend preferential treatment in trade and investment to each others' production, and to adopt with respect to certain economic problems, common internal and external policies.

Bela Balassa, one of the most authoritative theorists on integration groupings, defines economic integration as:

*"a state of affairs in which there is an absence of discrimination, as between the various units of the integrated area."*

Another theorists, of equal standing, the Swedish economist, Gunnar Myrdal, defines it as:

*"a state of equal opportunities for producers and consumers alike between as well as within countries".*

Both of these definitions, it could be observed, perceive of economic integration as a "state of affairs", rather than as a process or means towards an objective.

Our concern as far as the Arab World is concerned, is with the fact that both definitions stress the absence of discrimination, or the equality of treatment within the integrated area. In fact, in an integration grouping comprising as wider diversity of economically unequal partners, as is clearly the case within the Arab World, there is need for explicit discrimination in favour of the relatively weaker partners. This is particularly true when the theory is applied to poor Arab countries such as Sudan, Somalia, Mauritania, Yemen and even Egypt within the



larger Pan-Arab framework of a region comprising a number of oil-rich countries, albeit with varying degrees of wealth and revenue-generating resources. It is also true even within the sub-regional groupings, such as the Gulf Cooperation Council (GCC) which comprises relatively poor countries such as Oman and Bahrain.

What the above argument highlights is the fact that it is vital to recognise that all members of the integrating grouping - the Arab World in our case - do not benefit from the economic integration at the same rate, or to the same degree. The decisive consideration is not whether a poor country such as Sudan benefits more than say, Saudi Arabia, but whether the latter would benefit more by being outside rather than inside the grouping, on the basis that its interests are closely associated with the world economy. For the overwhelming majority of the Arab countries, especially the less economically fortunate ones, the answer is no; but then, this would be a matter for each country to decide.

It is evident that the Middle East region trades more with the outside world than it would need to if their resources were properly developed and internal trade and investments encouraged. The more a particular region is developed, the more the countries constituting that region are inclined to cooperate with each other. The most obvious example to strike one's mind is Western Europe, which is trying to be self-dependent, even at the expense of its traditional trade, and investment partners in the developing countries, thanks to its early development. The Arab economic integration which this study happened to advocate, is to be based on a number of factors that favour such integration, prominent among which are:



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1. To follow a highly independent development strategy might well be catastrophic for the individual Arab countries, given the very small size of population (market) in most of them that make them heavily dependent on foreign trade. That is precisely why they have no viable alternative but to be integrated in one body. It is within this context that the Arab nationalism is viewed as a possible catalyst for this integration to be realised.
  2. The presence of big multinationals restricts the chances of maintaining complete freedom of action. It is sometimes advocated that the Arabs need to take advantage of the 'Japanese model', which has required a dedicated and sophisticated nationalism (nationalism at one stage has also had its bearing on Germany and Britain, whose subsequent industrial progress has been associated with one kind or another of nationalism).
  3. Among the common factors which are shared between the Arab countries and which are to be seen as unifying elements, are the Arabic language, Islamic religion and the common cultural heritage.
  4. Apart from the gain in political influence, the economic advantage of integration lies in the fact that some of the Arab States have vast natural resources, and labour shortages, while others are poor and over-populated. The element of complementarity is obvious to be seen and dwelt upon.
  5. Within the framework of dependency theory, "location" profoundly affects the possibility of self-reliance. The closer a country is to those more

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developed, the lower the cost of transportation and other factors, which makes it easier for its exports to compete in neighbouring countries, but it also encourages dependence on imports from those countries. This is an argument which is well placed to serve the cause of economic integration between the countries of the Arab World.

### **4.3 Theories and Practices of International Trade**

#### **4.3.1 Historical background**

Most literature on the economic theories related to the international trade is dated back to the era of "mercantilism" in Western Europe, before Adam Smith (1723–1790) published his famous book 'The Wealth of Nations' in 1776. While mercantilism required a nation to export goods in return for precious metals, Smith's contribution in favouring trade, relied on the theory that an optimum pattern of specialisation and trade would eventually develop as a result of the consumer's desire to buy goods at the lowest available prices, and of firms' reactions to market forces in pursuit of profit – this in turn would imply a shift of resources into those industries with absolute international cost advantages, hence the development of a pattern of trade based on specialisation among different nations. This theory of "absolute advantage" was later modified in 1815, by David Ricardo (1772–1823), who introduced the concept of "comparative" as opposed to "absolute" advantage. His main argument postulated that the basis of mutual beneficial trade between two countries stemmed from them having different relative costs (opportunity costs). This means that a given country might still import goods where it was the low cost producer, if it is even more efficient in producing other (alternative) goods. Ricardo's comparative advantage theory is still widely acclaimed to date – its application and practical relevance to the

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developing countries of the Arab World today will nevertheless be refuted at a later stage of our analysis, insofar as the actual performance of the Arab international investment and trade is concerned.

#### 4.3.2 Trade liberalisation versus protectionism

The cost of protectionism and the benefits of trade and investment liberalisation have been extensively analysed in the economic literature. It is widely recognised that protection imposes costs both on the country initiating it and on its trading partners, while liberalisation results in substantial benefits to all parties concerned. It was in recognition of this generally accepted notion, that GATT (The General Agreement on Tariffs and Trade) was established in 1947, to provide a forum to negotiate reductions in tariffs which, at the time, were the most applied measure of trade restrictions. While trade liberalisation was the most publicised objective of GATT, it can be argued that, in view of the fact that the initiative has mainly come from the, the major, economic powers in the wake of the Second World War, and in the absence of the developing countries, the majority of which were then under colonisation, the implicit, undeclared objective was to accelerate the process of post-war reconstruction of the European developed countries, by opening up their economies and increasing the opportunities for international economic exchange. This argument is further supported by the fact that protectionist pressures and practices remain high to date in industrial countries, and in many cases have resulted in an increase in trade-restricting measures. Of course, that is not to argue that GATT has failed in achieving its declared objectives. In fact, as a result of seven successive rounds of multilateral trade negotiations, average tariffs in industrial countries on industrial products have declined sharply, *"from over 40 per cent in 1947 to about 5 per cent in 1988.*

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*World Trade has expanded markedly, including a twenty-fold increase in the volume of trade in manufactured goods" [IMF report, December 1988, p.29].*

An increasing proportion of developing countries' exports of manufactures was directed towards industrial countries. Trade trends among the developing countries show that their share of world exports have declined. [See table 4.3.2.1 and 4.3.2.2.]

TABLE 4.3.2.1 RATES OF GROWTH AND MARKET SHARES FOR WORLD EXPORTS BY AREAS AND COMMODITY GROUPS, 1973-86 (in percent)

Origin	Destination																		
	Industrial Countries						Developing Countries						World						
	Shares of total exports to area		Compound rate of growth		Share of total exports to area		Compound rate of growth		Share of total exports to area		Compound rate of growth		Compound rate of growth						
1973-81	1986	1973-81	1981-86	1973-86	1981-86	1973	1981	1986	1973-86	1981-86	1986	1973-81	1981-86	1986	1973-81	1981-86	1986		
<b>Developing countries</b>																			
Manufacturers	6.8	9.9	11.6	19.0	13.2	16.8	10.4	14.4	15.1	26.7	-1.7	14.9	6.9	10.7	11.8	21.7	7.8	16.2	
Primary products	39.5	51.0	35.9	21.1	-12.0	7.1	47.4	58.8	47.8	26.9	-8.6	11.8	39.4	50.6	37.7	22.3	-10.7	8.4	
Oil	67.8	67.8	50.7	27.6	-17.5	7.9	87.6	85.8	...	32.8	...	...	68.5	69.1	...	28.7	...	...	
Non-oil	26.9	25.4	25.5	8.6	2.2	6.1	31.5	29.9	...	16.9	...	...	27.4	27.0	...	11.5	...	...	
Total exports	20.1	29.4	18.8	20.7	-5.3	10.0	21.7	29.6	25.7	26.8	-6.4	12.8	19.2	27.8	19.5	22.1	-5.4	10.7	
Total non-oil exports	13.3	14.0	15.9	13.0	5.3	10.0	15.3	17.2	...	22.2	...	...	13.1	14.7	...	15.9	...	...	
<b>Industrial countries</b>																			
Manufacturers	90.3	86.6	86.1	12.9	9.5	11.6	81.0	78.6	76.6	21.1	-3.1	11.2	82.2	80.1	79.6	15.0	5.5	11.2	
Primary products	48.9	39.2	56.1	14.1	1.4	9.0	41.2	30.4	36.9	18.9	-1.6	10.6	45.9	36.1	47.8	15.0	0.2	9.1	
Oil	25.4	23.2	36.8	26.3	-4.2	13.6	8.3	8.1	...	32.7	-2.3	18.0	21.6	19.2	27.2	26.7	-4.0	13.9	
Non-oil	59.3	63.4	69.7	10.4	4.0	7.9	54.2	54.2	...	17.6	-1.5	9.9	56.0	57.4	62.8	12.1	1.8	8.0	
Total exports	73.2	64.2	77.2	13.3	7.5	11.0	66.7	61.1	64.0	20.6	-2.8	11.0	68.1	60.9	69.6	15.0	4.3	10.7	
Total non-oil exports	80.1	80.6	82.9	12.4	8.5	10.9	72.4	72.7	...	20.4	-2.8	10.9	73.9	74.1	75.9	14.4	4.9	10.6	
<b>World</b>																			
Manufacturers	100.0	100.0	100.0	13.5	9.7	12.0	100.0	100.0	100.0	21.6	-2.7	11.6	100.0	100.0	100.0	15.4	5.6	11.5	
Primary products	100.0	100.0	100.0	17.3	-5.7	7.9	100.0	100.0	100.0	23.6	-6.4	11.1	100.0	100.0	100.0	18.5	-2.1	8.7	
Oil	100.0	100.0	100.0	27.7	-12.6	10.4	100.0	100.0	100.0	31.1	...	...	100.0	100.0	100.0	28.5	-10.5	11.8	
Non-oil	100.0	100.0	100.0	9.4	2.0	6.4	100.0	100.0	100.0	17.6	...	...	100.0	100.0	100.0	11.7	...	7.0	
Total exports	100.0	100.0	100.0	15.2	3.6	10.6	100.0	100.0	100.0	22.0	-3.7	11.4	100.0	100.0	100.0	16.6	1.5	10.6	
Total non-oil exports	100.0	100.0	100.0	12.3	7.9	10.6	100.0	100.0	100.0	20.4	...	...	100.0	100.0	100.0	14.3	4.4	10.4	

Source: General Agreement on Tariffs and Trade, International Trade (Geneva), various issues.

Reproduced by Kelly et al, December 1988.



**TABLE 4.3.2.2 SELECTED DEVELOPING COUNTRIES AND AREAS: RATIOS OF IMPORTS AND EXPORTS TO GDP, 1963-86<sup>1</sup> (In Percent)**

	Imports					Exports				
	1963	1973	1981	1985	1986	1963	1973	1981	1985	1986
<b>Oil exporting countries</b>										
Kuwait	17.0	19.4	28.9	28.8	31.0	59.8	70.4	66.7	52.7	42.1
Nigeria	14.0	13.6	29.7	12.1	...	12.6	25.0	27.4	17.1	...
Oman	10.9 <sup>2</sup>	24.0	33.3	33.6	34.6	4.5 <sup>3</sup>	68.1	64.4	46.9	33.6
Saudi Arabia	16.6	18.0	22.9	24.9	23.6	53.1	71.3	73.7	33.3	28.5
Venezuela	12.9	16.5	19.7	16.6	18.6	24.4	28.7	30.3	25.3	19.4
<b>Africa</b>										
Burkina Faso	16.9	19.8	28.9	32.6	28.3	4.2	5.1	6.3	12.4	12.0
Burundi	7.9	10.2	16.3	16.4	15.7	8.4 <sup>1</sup>	10.0	7.6	9.7	13.1
Côte d'Ivoire	21.4	27.8	24.5	21.7	17.4	29.0	33.7	28.9	39.2	34.2
Ghana	23.7	15.0	3.6	10.6	14.2	19.8	20.8	2.7	10.0	14.5
Kenya	25.7	27.3	30.5	25.0	23.8	22.0	21.6	17.5	16.7	17.6
Liberia	46.3	46.7	51.6	35.1	...	34.8	78.1	60.8	53.7	...
Malawi	21.0	31.5	27.7	23.9	20.1	16.3 <sup>4</sup>	22.0	22.1	19.3	18.1
Mauritius	27.0	49.4	48.7	49.6	...	42.0	40.4	29.4	41.4	...
Morocco	19.1	18.8	29.6	32.4	25.8	16.4	15.0	16.1	18.2	16.6
Sierra Leone	27.4	32.3	27.9	20.8	34.1	26.5	26.9	12.0	17.1	32.9
Tunisia	21.4	24.4	45.6	33.1	32.7	12.1	15.2	30.2	20.5	20.0
Zaire	15.4	26.5	12.5	26.8	25.5	18.0	34.3	12.0	32.2	32.2
Zambia	36.2	26.5	31.7	27.3	41.2	53.1	46.6	26.7	21.0	23.7
<b>Asia</b>										
Burma	14.7	4.8	6.3	4.3	3.8	16.9	4.7	8.1	5.0	3.8
Fiji	34.4	51.6	49.6	37.9	33.3	37.8	22.0	24.7	19.7	20.9
India	6.0	4.2	9.0	7.6	6.6	3.9	3.8	4.8	4.4	4.1
Korea	14.6	41.2	38.0	35.9	32.1	2.3	23.7	30.9	34.9	35.3
Malaysia	42.5	31.7	47.5	39.4	39.3	44.3	39.4	48.4	49.4	50.3
Philippines	13.5	16.9	21.9	16.6	17.0	12.8	17.7	14.6	13.9	15.4
Singapore	153.4	122.6	203.0	150.1	147.0	124.6	87.3	154.3	130.3	129.7
Thailand	18.8	19.5	27.6	24.1	22.0	14.2	14.9	19.5	18.6	21.0
<b>Europe</b>										
Hungary	...	34.4	40.3	39.7	40.4	...	38.3	38.4	39.7	38.6
Turkey	8.5	8.7	13.1	...	...	4.5	5.3	6.9	15.1	...
Yugoslavia	6.9	24.4	24.8	27.8	17.9	5.2	15.4	17.6	24.6	15.8
<b>Middle East</b>										
Egypt	23.6	9.9	36.6	20.4	21.1	13.5	12.1	13.5	7.6	5.4
Jordan	39.5	49.6	89.8	66.7	51.6	5.1	11.0	20.8	19.3	15.6
Pakistan	15.6	14.5	19.7	19.6	18.4	7.3	14.3	10.1	8.8	9.9
Syrian Arab Republic	22.6	23.5	29.7	19.6	18.7	10.9	13.5	12.4	7.7	5.3
<b>Western Hemisphere</b>										
Argentina	7.0	5.8	7.4	5.7	6.0	15.0	8.2	7.2	12.7	8.7
Barbados	64.6	68.9	61.9	50.0	44.1	45.6	21.7	21.0	28.9	20.6
Brazil	5.5	8.8	8.8	5.8	5.2	3.9	7.8	8.3	11.3	8.6
Chile	11.4	8.0	19.5	17.1	17.3	12.5	8.9	12.0	23.9	25.0
Colombia	10.5	10.3	14.3	18.7	11.2	8.0	9.9	8.1	10.2	14.8
Costa Rica	24.1	29.8	46.1	28.8	26.5	18.5	22.5	38.4	25.6	25.9
Dominican Republic	18.3	20.9	23.1	33.5	26.8	17.3	18.9	16.4	16.6	13.4
El Salvador	22.4	28.0	28.5	16.8	21.7	22.7	26.9	23.0	11.8	18.0
Guatemala	13.6	16.8	19.4	10.5	6.1	12.1	17.3	14.5	8.8	6.2
Honduras	23.2	27.7	35.9	25.6	23.4	20.3	27.6	28.7	22.0	22.9
Jamaica	28.8	35.8	49.5	55.2	39.6	25.8	20.6	32.7	27.0	24.5
Mexico	8.0	6.9	10.0	7.9	...	6.2	4.1	8.1	12.5	...
Panama	32.3	34.7	39.7	28.4	24.0	10.7	9.5	8.5	6.8	...
Paraguay	9.9	12.3	10.7	14.0	15.0	10.3	12.5	5.3	6.9	5.0
Peru	19.0	11.0	17.2	12.5	...	18.4	11.3	15.9	20.9	...

Source: International Monetary Fund, Data Fund. (Reproduced by Kelly et al, December 1988)

<sup>1</sup> Some of the ratios shown are distorted by large fluctuations in the real exchange rates of the countries concerned.

Calculations based on purchasing power parity would yield different results.

<sup>2</sup> 1964.

<sup>3</sup> Average 1962-64.

**TABLE 4.3.2.3 SHARES IN WORLD MERCHANDISE EXPORTS, 1963-86<sup>1</sup>**  
(In percent)

	1963	1973	1977	1981	1985	1986 <sup>2</sup>
<b>Total Exports</b>	100.0	100.0	100.0	100.0	100.0	100.0
<b>Developed countries</b>	67.6	70.8	64.6	63.0	66.3	69.6
European Community <sup>3</sup>	33.7	36.7	33.7	30.9	31.1	34.5
Intra-EC	15.2	19.8	17.1	15.8	17.0	19.7
Japan	3.5	6.4	7.2	7.8	9.1	9.9
United States	15.7	12.0	10.2	11.5	10.7	9.7
Other developed countries	14.6	15.8	13.5	12.8	15.3	15.6
<b>Developing countries</b>	20.3	19.2	25.7	27.6	22.9	19.5
Four Asian NIEs <sup>4</sup>	1.5	2.9	3.1	4.3	5.9	6.3
Other developing countries	18.8	16.4	22.6	23.4	17.0	13.3
<b>Eastern trading area</b>	12.1	10.0	9.7	9.4	10.8	10.8

Sources: GATT, IMF, UN, UNCTAD; and Fund staff estimates. Based on GATT classifications.

Reproduced by Kelly et al, December 1988.

- <sup>1</sup> Based on nominal U.S. dollar values.
- <sup>2</sup> The most recent year for which comprehensive data are available.
- <sup>3</sup> EC(10): Belgium, Denmark, France, the Federal Republic of Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.
- <sup>4</sup> The newly industrializing economies of Hong Kong, Korea, Singapore, and Taiwan Province of China.

**TABLE 4.3.2.4. SHARES IN WORLD EXPORTS OF MANUFACTURES,<sup>1</sup>  
1963-86<sup>2</sup>  
(In percent)**

	1963	1973	1977	1981	1985	1986
Total Exports	100.0	100.0	100.0	100.0	100.0	100.0
Developed countries	80.9	83.1	82.6	80.8	79.0	79.6
European Community <sup>3</sup>	44.0	46.5	45.0	40.1	39.9	42.6
Intra-EC	20.6	22.8	20.9	18.9	20.3	23.0
Japan	...	10.0	11.9	13.3	14.2	14.1
United States	...	12.3	12.0	13.9	12.0	10.9
Other developed countries	...	14.3	13.8	13.4	12.8	12.6
Developing countries	5.8	6.9	8.0	10.7	12.2	11.8
Four Asian NIEs <sup>4</sup>	...	3.7	4.2	6.2	7.9	7.9
Other developing countries	...	3.2	3.8	4.5	4.2	3.9
Eastern trading area	13.3	10.0	9.3	8.6	8.9	8.6

Sources: GATT, IMF, UN, UNCTAD; and Fund staff estimates. Based on GATT classifications.

Reproduced by Kelly et al, December 1988.

- <sup>1</sup> Standard International Trade Classification (SITC) categories 5 through 8 minus 68.
- <sup>2</sup> Based on nominal U.S. dollar values.
- <sup>3</sup> EC(10): Belgium, Denmark, France, the Federal Republic of Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.
- <sup>4</sup> The newly industrializing economies of Hong Kong, Korea, Singapore, and Taiwan Province of China.

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Among the developing countries, the combined share of world exports of the four Asian NIEs has risen steadily from 3 per cent in 1973 to 4.3 per cent in 1981, and to over 6 per cent in 1986 (table 4.3.2.3.). During this period, their exports grew at an annual average rate of 17 per cent and at a rate of 10 per cent a year since 1981. However, the Asian region is to be regarded as an exceptional case. Exports of other geographical regions of developing countries declined during 1981-86, at an annual average rate of 8 per cent in Africa, 2 per cent in the Asian developing countries, 5 per cent in Latin America and 17 per cent in the Middle East. This compares with a growth rate of world exports of about 2 per cent.

Trade policy in industrialised countries continues to be characterised by bilateral/sectoral approaches to liberalisation of trade (and dispute settlement). Such approaches may be at the expense of solutions to larger problems on a multilateral basis, and sometime have adverse effects on Third World countries. In practice, and far from being true defenders of "liberalism" much heralded by almost all trade theories originated in the capitalist world, the industrial countries continue to defend protectionism using different arguments. Such arguments may include macro-economic imbalances among the major industrial countries, associated exchange rate changes and instability and 'level playing field arguments' (difference in cost factors between them and the developing countries owing to lower wages in the latter).

Many examples could be given to highlight the magnitude of the protectionist tendency among the leading industrial countries:-

1. At the sectoral level, reference could be made to the lack of commitment to eliminate the multifibre arrangements, on the basis of what amounts to

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a weak and unconvincing justification: lack of reciprocity on the part of the developing countries who restrict certain high-valued textiles and clothing products in which industrialised countries are competitive;

2. The increase in non-tariff measures may have largely offset the liberalising effects of tariff reductions in the post-war period. As estimated by the IMF, the economy-wide tariff equivalent of U.S. non-tariff barriers on textiles, steel and automobiles, is about 25 per cent, bringing protection to its early post-war level. [IMF, December 1988, p.10.] Non-fuel imports of industrial countries subject to selected non-tariff measures, are estimated by UNCTAD to have increased from 19 per cent of total imports in 1981 to 23 per cent of the total in 1987;
3. The European Common Agricultural Policy (CAP), with its built-in restrictive measures against imports of agricultural food, and the implied non-tariff barriers against outside competition, is a monument of protection and a clear violation of GATT principles and spirit, and the liberal free trade in general;
4. The industrial policy of all industrialised countries, which often encompasses government actions to foster specific sectors, includes a number of protectionist measures: tax concessions, subsidised credits, capital grants, regional aids, import quotas, VERs, tariff quotas, import licensing, health standards, export subsidies, .... etc. In the U.K. alone, aid to industry doubled in 1976-81; steel, shipbuilding and mining, together

received one-fourth of total aid to industry in 1982-83, against 7.5 per cent six years earlier. [IMF, 1988, p.16.];

5. The industrial countries' arguments for protection, include the need to encourage mature industries (counter-argument to the notion of infant industry protection) i.e. strategic sectors (such as high technology industries), as well as sectors important for security and defence (such as coal in Germany and agriculture in Japan);
6. There is a growing tendency in some advanced nations to practice "managed trade", in which quantitative targets are employed to divide up markets. The export success and low imports of Japan are the principal justification. [Porter, 1991, p.669].

#### 4.3.3 Multilateral Trade

The current round of trade negotiations under GATT, launched in September 1986 in Uruguay, offers a major opportunity for the international community to come to grips with the implication of extending the frontiers of free trade to the hitherto disapproved of sectors of agriculture, tropical products, textiles and other manufactured exports of developing countries, as well as to services.

An important agreement, reached in the Uruguay round, is to strengthen the institutional framework of GATT, and to enhance its role in monitoring trade policies. This could potentially have far-reaching deterrent effects on nations contemplating various forms of restrictions on trade. At a time when protectionism is taking new and ever more insidious forms, such as managed trade,

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voluntary restraints, unilateral determination of unfair trade practices, and the evolution of discriminatory trading arrangements, a strengthened international machinery is vital for upholding and applying established principles, carrying out necessary policy surveillance and providing for dispute settlement.

Most recently there have been some encouraging signs of an enhanced commitment among the Western leaders, to a speedy, successful conclusion of the protracted Uruguay Round. The following extracts from the July 1991 London G7 Economic Summit Declaration, show that such commitment is much more than mere rhetoric, as is usually expected from summit declarations:

*"No issue has more far-reaching implications for the future prospects of the world economy than the successful conclusion of the Uruguay Round. It will stimulate non-inflationary growth by bolstering confidence, reversing protectionism and increasing Trade flows .... we therefore commit ourselves to an ambitious global and balanced package of results .... with the widest possible participation by both developed and developing countries .... We shall each remain personally involved in the process, ready to intervene with one another if differences can only be resolved at the highest level".* [Financial Times, July 18, 1991.]

Having closely followed up the deliberations of the economic conference, the author is of the opinion that the seven leaders have meant business this time, and that the 1991 G7 Conference has marked a significant turning point in overcoming the stumbling block which has prevented the negotiating parties in GATT from concluding their much protracted trade negotiations. The strong wording of the declaration suggests that, it is not yet another statement which is high on words and low on action.

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#### 4.3.4 GATT and the Generalised System of Preference (GSP)

GATT membership has increased from the original 23 signatory parties in 1947 to 96 at the end of 1988 – 28 more countries maintain a de facto application of the GATT, pending final decisions as to their future commercial policy. Only four Arab countries, namely Egypt, Kuwait, Morocco and Mauritania are among the 96 contracting countries, while Tunisia was provisionally acceded (in 1988). Five more Arab countries, namely Algeria, Bahrain, Qatar, U.A.E., and Yemen (PDR), maintain a de facto application of the GATT, thus bringing the number of Arab countries directly associated with GATT to ten (about 50 per cent of the total members of the Arab League).

While GATT is today the major world trade regulating body, its policies and decisions are not legally binding to its members, but in practice it has emerged as an organisation to formulate ways of maintaining the set of trade principles. Its original agreement covered four main subjects, namely the most-favoured nation principle (whereby any favour to any member should be extended to all); the reduction of tariff barriers (on the basis of general agreement reached at negotiations held interally between members in what became known as 'rounds'); non-tariff barriers to be abolished and arrangements for membership and resignation.

Because the less developed countries (LDC) have long argued that their pressing development needs required special and differential treatment by developed countries to improve the competitiveness of their products, the GSP has been incorporated in the GATT Treaty of 1979, allowing the industrial countries to grant tariff preferences to developing countries. Trade preferences are also granted



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to selected developing countries under various regional trading arrangements, i.e. Lome' Convention and the Mediterranean countries under association and cooperation agreement with EC. Under most GSP schemes, "sensitive" items such as textiles, clothing and footwear, are excluded from preferences, while others, such as certain petrochemicals, receive limited GSP coverage. In the case of EC petrochemical imports from Middle Eastern exporters, the quota level is typically reached early in the year. The textile and clothing sectors, the products of which represent about 17 per cent of all industrial tariff lines, account for about half of industrial products excluded from all GSP schemes taken together. [Aujaria, Kirmani, and Peterson, 1985.]

#### 4.3.5 Euro-Arab Dialogue

At the time of early Euro-Arab dialogue, initiated at foreign ministers level, efforts were made on a policy for introducing further cooperation agreements. The Maghreb States had special status vis-a-vis the EC from its inception, with trade preferences granted for Morocco's citrus produce and for clothing and textile exports from Tunisia, although quotas were applied if exports exceeded a certain level. The Eastern Arab (Mashraq) countries covered by the cooperation agreements were Egypt, Syria, Lebanon and Jordan, the agreements being signed in 1976 and 1977. The arrangements under which Maghreb produce entered into the EC were also formalised under separate agreements with Morocco, Algeria and Tunisia during the same period. These agreements were not extended to non-Mediterranean countries other than Jordan, as it was believed that this would be contrary to the spirit of the EC's Mediterranean Policy, and would make the policy meaningless. [See Table 4.3[a].]

**TABLE 4.3[A]      EXAMPLES OF THE DISMANTLING OF TARIFF BARRIERS  
FOR MEDITERRANEAN AGRICULTURAL PRODUCE DURING  
THE TRANSITIONAL PERIOD, 1986 - 1996  
(% TARIFF).**

	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96
	ORANGES, small citrus											
SPAIN	12	10.8	9.6	8.4	7.2	4.2	2.4	1.92	1.44	.96	0.48	-
MOROCCO	4	4	4	4	4	4	2.4	1.92	1.44	.96	0.48	-
ISRAEL	8	8	8	8	7.2	4.2	2.4	1.92	1.44	.96	0.48	-
	TOMATOES											
SPAIN	11	9.9	8.8	7.7	6.6	3.85	2.2	1.76	1.32	.88	0.44	-
MOROCCO	4.4	4.4	4.4	4.4	4.4	3.85	2.2	1.76	1.32	.88	0.44	-
	ONIONS											
SPAIN	12	10.9	9.8	8.7	7.6	6.5	5.4	4.3	3.2	2.1	-	-
MOROCCO	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.3	3.2	2.1	1	-

Source: Memorandum présenté par le Royaume du Maroc en vue des négociations d'adaptation de L'accord Maroc-CEE, February 1986. [Reproduced in 'Euro-Arab Trade'; Special Report No. 1105, The Economist Intelligence Unit, 1988, p.85.]

**TABLE 4.3[B]      EC TRADE WITH ARAB STATES\* AND OTHER  
DESTINATIONS (1986)**

	EC EXPORTS TOTAL: ECU 807bn	EC IMPORTS TOTAL: ECU 796bn
INTRA EC	57.0%	58.0%
EFTA	11.0%	10.0%
USA	9.0%	7.0%
ARAB STATES	5.0%	4.0%
EASTERN EUROPE	3.0%	3.0%
JAPAN	1.0%	4.0%
OTHER	14.0%	14.0%
	100%	100%

\* All members of the Arab League except Bahrain and Yemen.  
Source: Eurostat External Trade Statistics [EIU Special Report No. 1105, January 1988, p.11]

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The Gulf States (GCC) have recently requested negotiation of trade and cooperation agreements with the EC, providing for a free trade area covering all industrial products – including petrochemicals. Imports of petrochemicals from the GCC countries into EC are presently governed by the Community's GSP Scheme, the operation of which has been the focus of a dispute between the two parties as covered in some detail elsewhere in this study. In fact, the EC's GSP Scheme, which provides non-reciprocal tariff concessions to developing countries, as well as its different preferential trade agreements with other countries and country groups, have always been under question from some GATT contracting parties as to the consistency of these agreements with GATT articles, which stipulate that the formulation of customs unions and free trade areas is subject to certain requirements. These requirements include their formation "*within a reasonable period of time*" and their coverage of "*substantially all trade*" among the partner countries. [GATT Article XXIV.]

Others, such as P. Nicolaides even question the principle of the GSP, arguing that "*expanding the GSP without implementing any form of trade liberalisation, is a misguided strategy for promoting LDC growth.... while the GSP has enabled some exporters to gain windfall profits, but overall it has been relatively unimportant, both in terms of the benefits it generates and the boost it gives to LDC exports*". [Nicolaides, 1988, p.53.]

This argument, however, may not be supported by the figures stipulating the considerable benefits encountered by the developing countries as a result of the tariff preferences under the GSP. According to a study undertaken by M. Kelly et al [IMF occasional paper No. 63, 1988], in 1986, \$36 billion of exports from developing countries received preferential treatment by OECD countries, compared with \$25 billion in 1980 and \$10 billion in 1976, when GSP schemes came into full operation.

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Recent trends indicate a new willingness on the part of major powers, including the so-called super powers, to cooperate more closely, not only on the political level, but even more so on the economic fields. In the past, without an internationally accepted regime, trade has often become a source of tension and conflict among nations. The scramble for raw materials and markets in the nineteenth century led the Great Powers into intense rivalries and even wars. Those lessons of the past must be recalled at a time of rapid and unprecedented change in the world political and economic scene.

#### **4.4 Theories of Economic Development and growth and their application in the Arab World**

Development is now increasingly perceived as a much more complex process than merely raising per capita income: its social constituents, in terms of income equality and also of better nutrition, housing, literacy, etc., would not necessarily be achieved by economic growth. Increasing attention is also paid to self-reliance in the developing countries.

The categories of developed and developing countries have been becoming more heterogeneous and thus now overlap, whatever dimension one looks at. The per capita income of some developing countries, e.g. United Arab Emirates, is now higher than that of the U.S.A., and Singapore is more urbanised than most of Western Europe – Argentina and Brazil have become, in many economic dimensions, including technological capacity, more developed than Greece or Portugal.

##### **4.4.1 The Concept of Development**

While this thesis emphasises the necessity of modern technology to realise economic development in the Arab World, we must be aware of the many factors which could potentially prevent the appropriate use of technology. Prominent

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among such factors in the Arab region, is the backward conditions of its countries, which can negatively affect the final outcome, such as low level of literacy among the rapidly increasing population, and the quality of their education. In fact, there are numerous criteria for comparing levels of development, some of which are economic and others social and cultural. However, development as such can be defined in many ways and in order to set the scene for a brief discussion of the levels of economic development in the Arab World, it might be helpful to provide a few examples of such definitions for more illumination.

*"Development" could be defined as "taking the steps to break the chains at many points, or making a big push forward to break the vicious cycle of poverty".* [R.Gabrowski, 1989.] According to this definition, development is a process of transformation, where the traditional sector is displaced with the modern sector.

Kindleberger distinguishes between development and growth by stating that, *"growth refers more to change in size of economy – more output, more inputs, more efficiency, etc. While development goes further beyond, implicating a change in the structure of outputs and in the allocation of inputs by sectors. In short, 'growth' concerns with size addition, while 'development' concerns with functional capacity"* [Kindleberger, 1965, p.1].

#### 4.4.2 Elements of Development in the Arab World

In the Arab countries, there has been a reasonable increase in growth over the last two decades or so, while development has occurred only at a modest level (Table D4 in Appendix D). In fact, development in the Arab countries could be looked at from different angles: as a tool for modernisation (modern technology), as distinctive justice (social angle) and combinedly as socio-economic transformation.

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In considering the most important elements of development in the Arab context, one could refer to the following:

1. Human resources: while scarce in some parts (countries) they are abundant in other parts of the Arab region, and the shift has already taken place in the past to fill the gap. This has been one major area in which some sort of economic integration among the Arab countries has successfully taken place;
2. Natural resources: exist abundantly in the vast majority of the Arab countries. Energy, mineral and agricultural resources are certainly more than sufficient to cater for the requirements of development;
3. Capital formation: shortage of capital was an obstacle in the past. This particular problem has been largely overcome thanks to the oil-generated revenues of the 1970s and beyond. What is yet to be seen, however, is an increase in labour productivity, owing to the use of modern machines. The availability of capital, at least in the oil producing countries, has contributed to the expansion of the infrastructure: buildings, inventory, schools, hospitals, roads, railways, ports, etc. While a great deal of the intermediate back-up materials of these projects have been imported from outside (associated technology), it would not have been possible without the use of the local capital to have this task done;
4. Technology: is available only in its physical form, but not in know-how.

Buckly and Casson [1989, p.5] stated that, "*a necessary condition for development in any locality, is that there are resources with a potential for exploitation*". In concluding our review of the major elements of development, we would only say

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that such conditions are almost fully met in the Arab World, with only one exception – technology, and its exploitation. All other pre-requisites for a successful socio-economic transformation of the Arab World are already in existence. Technology transfer, therefore, has and will remain to be, at the centre of the Arab priorities if any economic or social development is to be seriously contemplated. As for the fact that a number of less resource-endowed Arab countries are still living in poverty, with some of them even below subsistence level, such as Somalia, Djibouti, Mauritania, Yemen and Sudan, this might raise the question of 'distribution justice', a subject which will remain outside the scope of this study.

The rationale to the oil producing Arab countries' development, is best summed up in a few simple words: oil is an exhaustible wealth. Only sincere, human determination is capable of accepting the challenge to convert this exhaustible wealth, in the time available, into a lasting one, by developing human resources and economies. In fact, the full realisation of the potential of these countries depend on two major pre-requisites – the development of human resources (via enhancing technical and managerial skills and capabilities) and the exploitation of existing economic resources, and the diversification of their use.

#### 4.4.3 Stages of Development

There has been a great deal written on economic development and the broad question of how an economy progresses. The literature emphasises such questions as to how an economy moves from one stage to another; from agrarian to industrial and the various conditions that are associated with each developmental stage. Rostow's *'Stages of Economic Growth'* first published in 1959, and

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reprinted in each of the following years until its second edition was published in 1971 with no alteration of its original text, which preserved its basic approaches to the *'Stages of Economic growth'*, was widely heralded as the "most stimulating contribution to political and economic discussion made by any academic economist since the war", to paraphrase the *'Economist'* Magazine.

In fact, it is hard to imagine every country necessarily fitting a particular stage of economic growth or development exactly. As Michael Porter stipulates, each nation goes:

*"through its own unique process of development. The mix of industries and trajectory by which the economy passes (or does not pass) through the stages is a reflection of each nation's unique circumstances, with respect to the 'diamond' (determinants of national advantage). The nations' history plays an important role by shaping such things as the base of skills that have been created, the prevailing values and norms of behaviour, the needs, tastes, and preferences that will underpin demand patterns, and the challenges that have been set or confronted".* [Porter 1990, p.562].

It is on the basis of such argument that we find particular industries providing the starting point for development are heavily dependent on the nations natural environment, i.e. mineral and agricultural resources, in the general case of the Arab countries. Naturally, the development process in such countries is, and has to be, focused on resource-based industries, such as petrochemicals (Gulf States), textiles (Sudan and Egypt), agriculture, and phosphates (Morocco), etc.

Economic prosperity, according to Porter, will tend to rise as a nation moves through the first three of (his) stages of (competitive) development, which are: (1) factor-driven development, (2) investment-driven, (3) innovation-driven, and (4) wealth-driven. Porter attributes this rising tendency to the fact that upgrading



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leads to increasing national productivity. A nation with unusually abundant natural resource for its size, however, his argument goes, can enjoy high national income despite a position in the factor-driven stage, though it is not likely to be sustainable indefinitely. Good examples would be, according to Porter, Kuwait and Saudi Arabia, which may enjoy high income per capita for decades because of an abundance of oil. It is interesting to note here that Canada is also cited as another nation whose remarkable natural resource endowment has long supported a high standard of living, though few industries, outside of resource-intensive areas, possess international competitive advantage.

Porter's vision of the stages of development is, in fact, not much different in principle, from that of Rostow's "Stages of economic growth", which identifies all societies in their economic dimensions, as lying within one of five categories (stages): the traditional society (where a ceiling exists on the level of attainable output per head); the pre-condition for take-off (in the process of transition from the traditional society to taking-off towards modernisation); the take-off (where the old resistances to steady growth are finally overcome); the drive to maturity (when some 10-20% of the national income is steadily invested, permitting output regularly to outstrip the increase in population); and lastly, the age of high mass-consumption (where the leading sectors shift towards durable consumer goods and services). [Rostow, 1971, pp.4-11]

While the Arab oil-producing countries, particularly those in the Gulf region, are to be regarded in the early stages of factor-driven development, according to Porter's theory, some of these countries can be located in Rostow's last category of high mass-consumption. In fact, because high mass-consumption depends on

income per capita, one can have nations moving into that stage before they have absorbed fully and efficiently the technologies that go with their versions of technological maturity. Once again, Saudi Arabia and Kuwait may well be called on to illustrate the point.

Without going into much detail about the implications of these theories of developmental stages on the bulk of the Arab countries, it might suffice our purpose to point out that according to the arguments advanced by Rostow, it might be reasonable to regard the process of development now taking place in the bulk of the Arab world, as analogous to the stages of preconditions and take-off of other advanced European societies in the late eighteenth, nineteenth and early twentieth centuries. What the theory does not precisely explain, however, is whether such analogy would necessarily lead us to conclude that, in order for the Arab world (and indeed the majority of the developing countries of the world) to advance towards the stages of development already achieved by the leading industrial countries such as the G7 for instance, they may need the same span of time or more precisely, about two to three centuries before they can be in similar stages.

The speed by which technological progress is advancing and the technology transfer is likely to proceed, makes one much more optimistic about the future prospects of the developing world than such theories of development and growth implicitly lead us to believe.

Rostow himself admits that *"the classical theory of production is formulated under essentially static assumptions which freeze – or permit only once-over change – in the variables most relevant to the process of economic growth. As modern*

*economists have sought to merge classical production theory with Keynesian income analysis, they have introduced the dynamic variables: population, technology, entrepreneurship, etc. But they have tended to do so in forms so rigid and general that their models cannot grip the essential phenomena of growth as they appear to an economic historian" [Rostow, 1971, p.13].*

The same argument can as well be advanced to explain the fact that, however comprehensive any theory of development or growth may be, it would be always short of fully explaining various phenomena which are themselves a function of the increasingly changing economic and political environment. The speed of such changes can hardly be predicted by any theory the validity of which is often overtaken by time. Who could have, for instance, predicted the speed by which today's communication and information technology have shaped the business environment, only a few decades earlier?

On the question of the applicability of development theories to real life situations, it was Hutton who, in his analysis of the major theories of development, suggested that *"there can be no neutral theory of development, since each alternative necessarily has a political dimension"* [Hutton, 1988, p.139]. The three theories of development which Hutton is referring to in this context are: Laissez-faire individualism, collectivism, and scientific technological change. Without involving oneself into details, the three perspectives of development are best summed up per the following diagram, taken from Hutton [1988, p.140].

**DIAGRAM 4.4: THREE PERSPECTIVES OF DEVELOPMENT**

Individualism, free will and choice	Historical determinism	Technology and systems management
John Locke (1632-1704 and Adam Smith (1723-1790)  Nineteenth century capitalism  Twentieth century mixed economies and welfare states  OECD industrial states	Karl Marx (1818-1883) and Friedrich Engels (1820-1895) Vladimir Ilyich Lenin (1870-1924)  Evolution through revolution (a) Primitive communism (b) Slavery (c) Feudalism (d) Capitalism (e) Socialism (f) Pure communism  Chinese agrarian society COMECON industrial states	J.M. Keynes (1883-1946) Demand management  Supply side management  Soviet central planning  The possibility of detente and convergence between competitive political and social systems

Source: Hutton, 1988, p.140.

#### 4.4.4 Development Priorities

Because the developing countries in general have limited resources, they have to choose between many development options and make the appropriate choice as to which particular industry or sector they have to concentrate on. These options may be many and some of them will be considered hereunder:

1. **Import-substitution.** The idea is based on the notion that freed-up foreign exchange can be used for more advanced purchases, feeding the process of upgrading industrial skills. Criticism against this option is usually centred around the tendency to draw a nation into unattractive industries which will lack advantage in international markets, despite the fact that protection can guarantee the home market;

2. Development strategy based solely on identifying industries where the nation has only basic factor advantages – this option also runs the risk of unsustainability and vulnerability to economic cycles worldwide;
3. With whatever industrial sectors are opted for as a base, the next step is to stimulate the development of upstream, downstream or related industries, in which advantage is less factor sensitive. Investments in education, research and infrastructure should be a focus of attention. Indigenous companies should be encouraged to become multinationals, to acquire technology and skills and to gain direct access to foreign markets.

While admitting that foreign MNCs are an important part of the process of economic development in developing countries, particularly in its earlier stages, they cannot ultimately be the sole engine for such development. *"A development strategy based solely on foreign MNCs may doom a nation to remaining a factor-driven economy"* [Porter, 1990, p.679]. At the same time, multinationals can relocate when factor costs shift, or if wages get too high. Therefore, foreign MNCs should be only one component of a developing nation's economic strategy, and an evolving component. At some stage in the developing process, the focus should shift to indigenous companies. As emphasised elsewhere, joint venture may be the appropriate channel through which MNCs can operate in the developing countries of the Arab world. The Arab Governments' strategy should be based on seeking the help of several multinationals in a given industry, instead of only one or a few, to encourage rivalry that will spill over to benefit the nation and to stimulate supporting or related industries. Governments should also encourage the formation and upgrading of indigenous companies in related and supporting industries to those in which multinationals operate.

#### 4.4.5 Dependency Theory

This theory emphasises the importance of the economic, political and cultural links that come with certain types of capital, especially that which arrives via the MNCs.

The point that no government is entirely free to shape its own policy without regard to external influence, as contended by The Dependency Theory School, carries a great deal of relevance in the Arab World. The dependency theory, with its emphasis on the factors limiting the "room to manoeuvre", can clearly be seen at work in the Arab countries. The Theory stipulates that no room to manoeuvre at all are practically left for a government with several of the following liabilities: a small population, ethnic divisions, location next to super power, few natural resources, a culturally subverted bureaucracy, high consumer expectations and a narrow technical base. Almost all of such liabilities befall on most of the Arab countries; hence a limited room to manoeuvre, with the question of direct or indirect intervention by the MNCs, being only obvious.

The limitation of any theory of development such as the dependency theory, could be seen in the light of what someone in Dudley Seer's stature has stipulated that: *"Human reality is so construed that no model can be devised for its analysis which is both realistic and simple enough to provide a universal development ideology that could be applied with safety in any nation at all, especially if we allow, as we surely must, for demographic and geographical factors as well as a range of economic and cultural ones"*. [Seers, 1983, p.135]

Whatever differences there may be in assessing the dependency theory, one fact remains intact; no contemporary nation-state will tolerate unlimited penetration by an alien enterprise, in which control is vested in a management headquartered in another nation-state, and making decisions possibly insensitive to the allocational priorities of the host country. The point is that a firm operating across frontiers must fit into the national identity in a tolerable fashion, wherever it does business. It must not permit itself to be seen as disturbing national priorities in an important manner.

Dependency theory manifests itself in the Arab World, which has always maintained some association with Europe and was integrated into the world

capitalist system, as a dominated periphery, at an earlier stage than the other regions of the Third World, with the obvious exception of Latin America and The Caribbean. To illustrate this statistically, Samir Amin [1982, p.51] assessed the contribution of imports to consumption and investment in the Arab World to be twice as important as in Black Africa, three times more important than in Latin America and the Caribbean, and 3.3 times more important than in South and East Asia. In other words, the Arab economy is more externally oriented – and hence more dependent – than the economies of the rest of the Third World.

The external orientation of the Arab economy is further manifested in the high ratios of imports and exports to the GDPs of some eight selected Arab States, as can be seen from Table 4.4.4 following. The Arab oil producing countries are particularly vulnerable to foreign markets, with Kuwait's and Oman's 1986 foreign trade (exports and imports) accounting for 73.1% and 68.2% respectively of their GDPs. The equivalent ratios for Jordan, Tunisia and Saudi Arabia are 67.2%, 52.7% and 52.1% respectively. Syria, Egypt and, to a lesser degree, Morocco, are relatively more self dependent, as can be shown from Table 4.4.4.

**TABLE 4.4.4      SELECTED ARAB COUNTRIES : RATIOS OF IMPORTS  
AND EXPORTS TO GDP, 1963-86 (PERCENT)**

	IMPORTS					EXPORTS				
	1963	1973	1981	1985	1986	1963	1973	1981	1985	1986
KUWAIT	17.0	19.4	28.9	28.8	31.0	59.8	70.4	66.7	52.7	42.1
OMAN	10.9	24.0	33.3	33.6	34.6	4.5	68.1	64.4	46.9	33.6
SAUDI ARABIA	16.6	18.0	22.9	24.9	23.6	53.1	71.3	73.7	33.3	28.5
MOROCCO	19.1	18.8	29.6	32.4	25.6	16.4	15.0	16.1	18.2	16.6
TUNISIA	21.4	24.4	45.6	33.1	32.7	12.1	15.2	30.2	20.3	20.0
EGYPT	23.6	9.9	36.6	20.4	21.1	13.5	12.1	13.5	7.6	5.4
JORDAN	39.5	49.6	89.8	66.7	51.6	5.1	11.0	20.8	19.3	15.6
SYRIA	22.6	23.5	29.7	19.6	18.7	10.9	13.5	12.4	7.7	5.3

Source:      Compiled by the author from International Monetary Fund – Data Fund [as cited in IMF, Occasional Paper 63, by Kelly et al, December 1989].

#### 4.5      Eclectic Theory of International Production

The Eclectic Theory [Kumar and McLeod, 1981, and Dunning, 1985] postulates that the propensity of a country's enterprises for engaging in foreign direct investment, is determined by ownership, internalisation and locational advantages that are available to them, as compared to other nations. In so far as these three advantages are not evenly distributed between countries, the activities of MNCs will affect the disposition of resources in both the home and host country and between them. This approach to explaining international production has been called Eclectic, due to its embracement of the three main forms of foreign involvement by enterprises, namely direct investment, exports, and contractual resource transfers such as licensing, management contracts, technical service agreements and so forth.



As such, the Eclectic Theory offers an explanation as to which route of exploitation of each of the three advantages is preferred. In all three vehicles the possession of ownership advantages is a necessary prerequisite for involvement. However, the possession of internalisation advantages suggests that firms will exploit these advantages by way of exports or foreign direct investment, rather than by a contractual resource exchange; whereas the equity investment route, rather than exports, will be chosen where locational advantages favour a foreign, rather than a domestic, production base.

The main limitation of the Eclectic Theory in the author's view, seems to be that its main concern is confined to how best a particular MNC can maximise its advantages, regardless of any possible negative implications on the host country's interest, which seems to be overlooked. The theory is based on the assumption of seeking the best available option for the MNCs and it apparently assumes that the recipient host countries are waiting and available, ready to go along with whatever scheme the technology supplying MNC decides best suits its own interest. To sum up, the Eclectic Theory is designed to explain the international production strategy of the developed world, without due regard or attention to the developing countries, without whose cooperation no international production would be likely to achieve its sought after goals. This analysis will be taken up further in our last chapter, when the theoretical implications are considered.

#### **4.6 Future outlook of the economic situation in the Gulf Region**

In view of the fact that the 1990s do not promise a major resurgence of oil revenues on the scales witnessed during the late 1970s and early 1980s, the Arabian Gulf countries are expected to maintain their policy of import-substitution and economic diversification. The growth in imports is likely to be restrained and more emphasis will be put on maintenance and the efficient utilisation of resources – protective tariffs selectively

provided for locally produced commodities may be needed, together with other incentives, to encourage domestic investments. The rise in exports of petrochemical products, aluminium and natural gas, among others, may offset to a large extent, the drop in oil revenues. The region is expected to maintain its historic trade surplus, albeit with some deterioration in the respective countries' export-import ratios.

Changes in the size and nature of the Gulf markets in recent years, however, have important consequences for foreign suppliers. Shifts have taken place between demand for capital and intermediate goods and demand for finished consumer goods, largely as a result of industrialisation, with the completion of the massive infrastructural schemes. However, the Gulf countries will continue to look out for foreign partners to provide them with the necessary imports and technological know-how, albeit their reliance will no longer be confined to their traditional trade and investment partners. It is against this background of changing conditions and needs of the Gulf markets, that a new era of foreign MNCs' involvement in the region, is to be anticipated: An era in which respective market shares of each of these companies will be determined by the extent and degree of success they can achieve in developing the new strategic capabilities which Section 5.3.2 of Chapter 5 will consider.

**CHAPTER 5**  
**STRATEGIC CHOICES FOR MULTINATIONAL CORPORATIONS**  
**AND THE ARAB WORLD**

**5.1 Introduction**

The scale of inward investment in the Arab World is important as a backdrop to any discussion of the phenomenon. Unfortunately, official figures on the value of the assets involved are a statistical minefield. Figures vary from the different sources, according both to the coverage of the surveys conducted and to the methods used to evaluate the assets and liabilities under conditions of inflation and fluctuating exchange rates. Today, negotiations with MNCs inevitably focus on issues concerning the extent of their value-added contribution to the host countries. Questions of investor's protection need to be taken into account as well.

Evaluation of the MNCs' activities in the third world, raises the question of world economic integration. With exports rising as a fraction of GNP, the world is supposed to be effectively becoming more economically integrated.

This leads us to the question of the interaction between MNCs and the host countries. How the present MNCs work in different Arab countries, and the ways in which they may be changed, have major implications for the Arab World. The purpose of this study is to describe the background to MNCs' activities, and to analyse these with particular reference to their implications for the future development of the Arab World, both in industrial and trade sectors.

The SOAS conference in May 1981 on "Third World Governments and Multinationals"

concluded that:

*"There was still a pressing need for primary research about the Multinationals-Third World interaction. Until more fieldwork is done in the host countries, the conference participants cannot be fully supported in their claim that a new spirit of pragmatism runs through the Third World, permitting a new relationship between MNCs and host economies, to the ultimate benefit of them both".*

Partially, at least, this study on the Multinationals in the Arab World is meant to respond to such a call. However, it is not just economic calculation that we are dealing with, but the balance sheet must also involve non-economic factors, and may well vary from country to country within the Arab region.

The fact that foreign MNCs are willing to accommodate the economic nationalists, by accepting some dilution of their control over subsidiaries, suggests that companies' relationships with the Arab governments could well be heading towards a new stability in the near future. However, this proposition needs to be verified and further supported by clear evidences. Two factors nevertheless seem to justify this new spirit of optimism:-

- a) The disappearance into history of colonial regimes would help in creating a new environment, whereby greater pragmatism is to prevail. The bitterness towards colonial powers is bound to die out – in time – to the point of pursuing mutual interests.
- b) Governments that once feared the Multinationals are now trying to court them. Admittedly, over the intervening period, they have learned to bargain with the MNCs to make them better serve their objectives. Maybe this is no more than a temporary attitude which is likely to change, given the fact that it is probably the

recession which seems to have softened the contrasting positions between governments and the MNCs.

## **5.2 Investment Vis-a-Vis Trade**

The striking differences in the very definitions of MNCs, pose a considerable challenge in the attempt to assess their relationships with host countries. In fact there is only little which could be said about MNCs' direct investment in the Arab region. The author has therefore chosen to tackle the issue from a different angle; namely focusing attention on the practices of the MNCs in their attempt to capture a great deal of the Arab market share. In this respect, we need to draw a line between exporters to the Arab market and the foreign companies with production facilities in the region.

A tentative review of the number and types of foreign companies involved in most of the Arab countries seems to suggest that, it is not the major, widely-known MNCs which are necessarily playing a leading role in the region, but rather the companies with major exporting facilities. (See Table 5.2[a]). During the 1970s, the construction industry had greatly boomed in the Middle East and a number of MNCs in the construction field have been directly involved. The role of local sub-contractors, who gained a wide support and protection by local regulations must have been considerable.

Table 5.2[b] demonstrates that the activities of the MNCs have been primarily directed towards exports as opposed to real investment in the Arab countries. Therefore it would be possible to conclude that MNCs in the region have been out of line with the widely accepted belief that, exporting has long been played down and overseas production of the majority of the MNCs is now many times their level of exports. Lipsey and Weiss (1981) explore the determinants of 1970 U.S. exports to 44 destinations, and conclude that the

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foreign affiliate activity of US firms appears largely to complement US exports and that the local sales of US firms often come at the expense of exports from Third World countries. There is, thus, evidence that US outward foreign direct investment tends to act as net complement, rather than a net substitute, to US exports in the industry. Some writers [Stopford and Turner, 1985, p.118] tend to argue that:

*"As nationalist and communications barriers are falling, a globally targeted exporting strategy may, for some industries, be better suited to today's conditions, providing there are some supporting investments in overseas distribution systems. Even where exporting is gaining power, investments are still needed, where there are regulatory obstacles, or in certain key markets, where the lessons to be gained from active participation can be used throughout the whole company."*

In the Arab World, protectionism has not yet taken roots, as is the case in the industrial countries. Perhaps it is because of that, the MNCs, rather than investing in the Arab States, are exporting their products to them. Even in Europe, political barriers are real against imports. Japanese electronic and automotive companies know they can invest in Europe and the USA to get behind the protectionist quotas erected against them. As for the Arabs, they depend on importing the Japanese products, rather than giving facilities to Japanese investment. Of course the size of the market is, among other factors, one major limiting factor. That having been said, one does not underestimate the attraction of a number of Arab countries as potential locations for foreign MNCs' investment. This is particularly so given the remarkable achievements of the Arab Gulf States in completing their infra-structural development as a basic pre-requisite to any forthcoming industrial development.

Emerging trade barriers had the effect of creating a new stimulus for foreign investments. Faced with a loss of demand from an export territory, the supplier could set up a local manufacturing subsidiary, or else license his technology. A rather different story, it

seems, would have to be told about the Arab market. The changing face of the Arab World, in the wake of the oil boom of the seventies, is likely to create new strategic problems for managers of the MNCs working in the region. For firms and governments alike, the tests will be those of establishing competitive positions in markets that can no longer be controlled by traditional one-country measures.

**TABLE 5.2[a] SABIC CORPORATIONS AND THEIR FOREIGN PARTNERS, UP TO 1985**

(SABIC: Saudi Arabian Basic Industries Corporation)

No	Name of Corporation (Industry)	Date of establishment	Main Products	Foreign Partner	Commencement of operations or projected commencement
1	Hadeed	20.3.79	Reinforcing rods and bars	D.E.G. (W. Germany)	January 1983
2	Sulb	1962 (expanded 1979)	Reinforcing bars	Kurt Mandel (W. Germany)	Early 1960s
3	SAFCO	1965	Urea, Sulphuric Acid, Melamine	None	1969
4	SAMAD	1979	Urea	Taiwan Fertilizer Co.	1983
5	Ar-Ruzi	1979	Chemical-Grade Methanol	Mitsubishi (Japan)	1983
6	Ibn Sina	1981	Methanol	Celanese and Texas Eastern (USA)	1984
7	Sadaf	1980	Ethylene, Ethylene dichloride styrene, ethanol, caustic soda, low density polyethylene	Celanese and Texas Eastern (USA)	1984
8	Kemya	1980	Low-density polyethylene	Arabian Pecten, owned by Shell (USA)	1984
9	Yanpet	1980	Ethylene, Ethylene glycol, Polyethylene	Mobil (USA)	1984
10	Petrokemya	1981	Ethylene, Polystyrene, Blothin 1	None	1985
11	Sharq	1981	Polyethylene, ethylene glycol	Japanese Consortium led by Mitsubishi	1984
12	Gas	1983	Nitrogen, Oxygen	None	1984
13	Ibn haiyan	1984	Vinyl-chloride-monomer	Lucky (Republic of Korea)	1986
14	Ibn al-Bitar	1985	Ammonia	None	1988
15	Ibn Zahr	1984	Methyl-tertiary-butyl ether	Arabian Apl Corp, Neste Oy (Finland) and Enichem (Italy)	1988

Source: Compiled from various SABIC Publications.



TABLE 5.2[b] FOREIGN TRADE STRUCTURE OF THE ARAB WORLD, 1988

Country	EXPORTS (%)							IMPORTS (%)						
	A	B	C	D	E	A+B	C+D+E	F	G	H	I	J	F+G+H	I+J
Algeria	96	1	0	1	3	97	4	30	2	5	27	35	37	62
Bahrain	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Egypt	69	12	12	..	7	81	19	19	2	8	29	41	29	70
Iraq	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Jordan	43	10	5	6	36	53	47	19	16	5	23	38	40	61
Kuwait	90	1	..	4	5	91	9	17	1	2	39	41	20	80
Lebanon	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Morocco	21	29	18	2	30	50	50	12	13	17	24	34	42	58
Libya	99	..	..	1	1	99	2	15	1	2	33	49	18	82
Oman	91	2	..	5	2	93	7	15	3	2	41	39	20	80
Qatar	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Saudi Arabia	90	1	..	4	5	91	9	17	1	2	34	46	20	80
Sudan	13	80	..	3	4	93	7	7	19	2	36	36	28	72
Syria	50	25	6	3	16	75	25	17	11	5	28	39	33	67
Tunisia	19	17	30	6	28	36	64	18	7	14	22	39	39	61
U.A.E.	79	4	..	..	16	83	16	4	3	1	43	49	8	82
North & South Yemen	88	3	..	7	2	91	9	25	15	5	22	32	46	53
Somalia	..	95	..	..	5	95	5	22	4	8	39	27	34	66
Djibouti	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mauritania	32	65	..	..	2	97	2	21	5	2	36	36	28	72

KEY: A = Fuels and Minerals  
 B = Other Primary Commodities  
 C = Textiles & Clothing  
 D = Machinery and Transport Equipment  
 E = Other Manufactured Goods  
 A+B = Total Primary  
 C+D+E = Total Manufactured  
 F = Food  
 G = Fuels  
 H = Other Primary Commodities  
 I = Machinery & Transport Equipment  
 J = Other Manufactured Goods  
 F+G+H = Total Primary  
 I+J = Total Manufactured

Source: Annual Report 1989/1990, ISLAMIC DEVELOPMENT BANK, pp.46/47, Citing World Bank, International Development Report, 1990

(..) Data not available; Data about countries with population size less than one million are also excluded.

\*\* Totals do not add up to 100%, due to approximation and rounding of figures.

### 5.3 Strategies of Multinationals

The answer to the question of why MNCs place factories or offices in particular countries or regions can be grouped into three main business strategies: a) market; b) supply; and c) demand. This study will have to find out in some precise terms the real motives of foreign MNCs in their choice of given Arab states as locations for their operations. This will be discussed at length in Chapters 9 to 10.

- a) Market Strategy: to avoid tariff and non-tariff barriers placed on their exports (much of Japanese investments within the EEC is of this type).
  
- b) Supply Strategy: to ensure that their countries of origin are well supplied with raw materials like oil, minerals and tropical crops. The domination of MNCs in this primary sector is under threat from the governments of less developed countries such as the Arab States, who have set themselves the task of taking over the control of their resources, as will be considered in some detail later in this study. In response, the MNCs are:-
  - i) moving out of the business of extraction;
  - ii) and involving themselves more in the transport, processing and marketing of these raw materials (oil being a typical case in point);
  - iii) because MNCs have never ceased to offer their technical skills and managerial assistance, even in those cases where national assets have been nationalised (Arab oil), they still exercise considerable control in the primary sector.

- c) Production Strategy: MNCs move overseas as part of a global strategy to reduce labour and material costs. Some set up free-trade zones where they can hire cheap labour to produce components which are then assembled elsewhere, resulting in the absence of any positive impact on the rest of the economy.

While tariff barriers against MNCs' products do not as yet exist in the Arab countries, particularly those in the Gulf region, and the free-trade zones are almost irrelevant, (or at best only rudimentary) the raw material supply strategy, as well as the part of production strategy regarding the reduction of material and labour costs, do apply in the case of a number of Arab countries.

### 5.3.1 Global Business Environment

No one doubts the fact that MNCs are continually changing their strategies on an ongoing basis in order to adapt with the changing realities of the global business environment. It was Levitt [1983, HBR] who once predicted that *"MNCs are coming to their end and new global companies are emerging and operating with low cost as if the entire world would be a single entity"*. The same voice has been more recently echoed by *'Business Week'* in its cover story, May 14, 1990, under the title of *"The Stateless Corporations"*:

*"The multinational of the 1970s is obsolete. Global companies must be more than just a bunch of overseas subsidiaries that execute decisions made at headquarters. Instead, a new type of company is evolving. It does research wherever necessary, develops products in several countries, promotes key executives regardless of nationality and even has shareholders on three continents. As world markets consolidate further, the trend will accelerate and that will raise some critical questions about sovereignty, national interest and potential conflicts between companies and their own governments"*.

In fact many of the above-stated symptoms have already shown signs of occurrence in the Arab world, albeit other developments such as the promotion of local Arab executives are yet to be materialised.

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### 5.3.2. Historical Background of MNCs

The historical development of MNCs could be traced back to about a century ago.

Many stages of their evolution can be identified as follows:-

1. Prior to 1880, most industries were locally or regionally based, reflecting that the role of MNCs was limited to classic comparative advantage criterion. Exports of locally produced goods was the major form of MNCs activities.
2. After 1880, fuel power machines prompted the appearance of the first real MNCs - Ford, Singer, and Gillette, who used some advanced technology, and in a business environment with no international barriers, operated with worldwide strategies.
3. 1920-1950 The first wave of globalisation slowed down rather quickly, due to the growth of nationalism and protectionism, coupled with the great depression and the Second World War. This period witnessed the growth of import-substituting investment, leading MNCs to establish production facilities in overseas markets they have previously exported to.
4. In the aftermath of the Second World War, and particularly after 1950, advanced technology led to the rise of economies of scale and mass production. This was particularly facilitated by the removal of tariff barriers, inspired by GATT's efforts and the disappearance of cartels, all resulting in reduction in the real cost of transportation and much higher

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share of international trade and investment in general. This is a period during which MNCs had a real chance to expand their global activities.

Historically, most of today's MNCs have adopted strategies that were shaped by their home-country culture and their subsequent internationalisation. In many European companies, for example, management mentalities have been rooted in the pre-Second World War environment, in which overseas businesses were first built. Expanding into their colonial markets when the barriers to international commerce were high, these companies usually set up self-sufficient national operations that were highly sensitive to local needs and opportunities. These later became the true multinational companies – literally a portfolio of national companies, each responding to its own operating environment.

In contrast, the strategies of most American companies were established during the 1950s and 1960s, as post-war reconstruction demand drew them offshore and their strategies gave rise to the international product cycle theory that explains overseas expansion in terms of a company's ability to transfer innovative products from the most developed to less developed markets.

The management mentality in Japanese companies was shaped by a very different administrative heritage. Expanding into a world of lowered trade barriers in the 1960s and 1970s, and constrained by strict Japanese government-imposed limitations on overseas investment, these companies internationalised through an export-based strategy. They treated the world as one single market and were thus able to capture economies of scale.

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All three of these classic strategic models are seen to be out-dated in the international environment of the 1990s. A new competitive game has emerged which requires MNCs to develop three diverse – often conflicting – strategic capabilities, simultaneously:

1. The multinational flexibility to respond to local market needs;
2. The global competitiveness to capture efficiencies of scale;
3. The international learning ability that results in worldwide innovation.

As a consequence of these changes, a new model for the worldwide company is emerging in the 1990s – one which could be more appropriately called "transnational", in line with the definition of the term as stipulated in Section 4.2.1 of Chapter 4.

### 5.3.3 Changing Patterns of International Competition

According to Mustoneu [August 1990], the mid-1950s brought some significant changes to the strategies of the MNCs. Markets have recovered from the war and the growth of world trade took off. The next decade (1960s) brought along a growing interest in investment in developing countries. The third major change was the invasion of Japanese companies to Europe, South East Asia and the U.S.A. This started a fundamental change in the international competitive environment, the most important elements of which are the creation of the single European market, and most recently the collapse of the communist bloc countries and the continuous efforts of GATT to remove various subsidies.

*"In the past, MNCs subsidiaries have generally been formed to resemble miniature versions of their parents, that is producing and selling substantially the same products and pursuing similar forms of management practice – that was when*

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*MNCs were dealing with unchallenged technology. This has changed, however, and MNC strategies are changing to adapt to the new competitive environment."*  
[Frechting, 1990, p.22]

'Exporting', also in the past, was generally chosen by MNCs as being in response to spare capacity, skills and resources. Knowledge agreements (licences) were recognised as being appropriate where it was more profitable to sell knowledge than a product, and where exporting was proving inappropriate, such as where tariffs and import restrictions were in place. Equally, knowledge agreements were seen as applicable where direct investment was not, such as where the risk was unacceptable, or the desire to move quickly was paramount. Direct investment was the third stage and generally arose as a defensive measure where competitive aggressiveness deemed it necessary to safeguard markets .....

*"As a result of pursuing 'incremental approach', product development has traditionally been tailored to the domestic market. This approach is no longer applicable. With the arrival of globalisation, what is required is for the product to be internationally, as well as domestically, oriented at the time of design."*  
[Brooke, 1990, pp.58/59]

Most recently MNCs have been preoccupied with the rapidly changing patterns of international competition and development trends in the world markets, which kept them busy formulating new theories of global strategy. The question is one of how best to adapt the corporate-wide set of standards and strategies, both to the changing pattern of competition, as well as to the changing needs of the host countries, particularly in the developing world.

Since the 1950s there has been a marked change in the competitive environment, whereby the old core of industrialised nations such as US and UK have been

increasingly challenged in both traditional and high technology industries, by Japan and the NICs. 'Globalisation' is now a reality, not just a trend. All MNCs can do if their rivals are doing the same activities as they are, is to do so better.

The relationships between MNCs' headquarters and subsidiaries, and the degree of delegational power passed from the former to the latter, are prominently featured in the literature about MNCs in general. Mustoneu [1990] contends in his paper, that such relationships depend on the nature of the business of MNCs and that economic, technological and comparative characteristics have to be considered. However, many strategists focus their attention on the pressure for global operational integration which stems from many factors , such as:

- a. technology intensity;
- b. pressure for cost reduction; and
- c. access to raw materials and energy.

However, the counter pressure for local responsiveness, as opposed to operational integration, arises from the following reasons:

- a. differences in customers' needs and distribution;
- b. the need for substitution and product adaptation;
- c. differences in market structure; and
- d. host governments demands.

The internationalisation of business, however, does not necessarily mean that all MNCs should pursue global strategies. The idea of global markets is mainly based on the economies of scale in R & D and the tendency of people to buy standardised brand products. But according to Mustoneu, with whom the author



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tends to agree, there are also other forces to the contrary affecting the development of the markets:

- a. New flexible manufacturing techniques have made possible smaller production units producing customised products according to specific customer orders;
- b. Even the big national markets (such as US market) are not homogeneous. Various ethnic groups are prone to stress their special nature as customers;
- c. Brand names are not that strong world-wide. This is shown by a recent study of familiarity of some brand names. Mustoneu outlines some examples to illustrate this new development: Coca Cola is ranking 6th in Europe, 1st in US and 2nd in Japan; corresponding figures of McDonalds are 78, 5 and 26; and of Mercedes cars 1, 37 and 151; and of Sony 16, 68 and 4 respectively.

The new strategy which has emerged to claim some consensus, is manifest in the slogan "think global and act local". This is a call to adapt to various local markets, rather than to adopt the policy of a standard product with standard marketing. Such a strategy is not only to the benefit of the MNCs, but also of those developing countries, such as the Arab States, who will naturally enjoy the benefit of competition among MNCs, resulting in better quality and lower prices. This compares with operational integration, which implies a type of oligopolistic attitude among MNCs, to cooperate and coordinate their standard policy to the detriment of the host countries, whose lack of bargaining power renders them vulnerable to rules and practices imposed on them by the powerful foreign MNCs.

Strategic planning by different MNCs varies and no particular system is necessarily regarded as better than another. Each MNC adopts its own approach to strategic planning that it deems fit, to maximise its own resources and competitive advantages. The main concern is the development of global strategies to deal with the uncertain events that will hinder a given MNC's operating plans. Such problems as plant location, cross-border transfer pricing, exchange rate fluctuations, its own profitability, growth and diversification situations, may not necessarily coincide with the strategic planning of host countries, which might be focused on their national development schemes. Of course, a part of the MNCs' strategic planning also takes into account local national host governments viewpoints, as they seek to optimise their resources on a global scale within the political and social constraints of operating in different nation states. It is on the basis of such corporate plan strategy that policies such as the type and combination of exporting, licensing or direct investment are undertaken, and how the MNC elects to utilise its managerial, technological and financial resources, taking also into consideration the best balances of opportunities against likely risks in the host countries.

#### **5.3.4 How MNCs Change Strategies to Beat Trade Barriers**

MNCs are often faced with situations in which their operations in some host countries are restricted by various forms of trade and investment barriers. In order to overcome such barriers, some MNCs elected to make some tactical changes in their strategies. Some examples are given below to highlight such changes of strategy, which by the passage of time have proved to be more than just tactical changes.

Taiwan, South Korea and Israel have traditionally been off-limits to Japanese auto companies. Taiwan and Korea ban importing of Japanese cars and Japan observes the Arab embargo of Israel. But thanks to its US output, Honda Motor Company found a way to circumvent these problems. It ships four-door "Accords" to Taiwan and Korea and "Civic Sedans" to Israel - all from Ohio.

The Canadian telecommunications giant, Northern Telecom Ltd, has moved so many of its manufacturing functions to the US that it can win Japanese contracts on the basis of being a US company. Japan favours the US over Canada telecommunications companies, because of the politically sensitive US-Japanese trade gap. The reality is that the Canadian company probably could not have penetrated Japan out of Canada.

Also, to avoid licensing and regulatory hassles in the largest markets, Western Europe and the US, different MNCs establish mergers and acquisitions to get around such problems. The merged company (US-European) can identify itself as an inside player in both Europe and the US.

#### **5.4 Strategies of The Arab World**

##### **5.4.1 The Diversity of the Arab States**

Their common interests and endless calls for unity notwithstanding, we find governments of the Arab countries ideologically split on their attitudes to foreign private investment. We also find that the bargaining power of countries will vary given the relative abundance of their natural resources, and given the size of their populations; Saudi Arabia, with its oil, is in an incomparably stronger bargaining

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position than say, a resource-poor country such as South Yemen, or an under-developed, though resource-rich, country such as Sudan.

MNCs survive by making profits. Given this, any MNC considering an involvement in the Arab region would start by applying normal investment criteria, such as return on capital, risks attached to specific investments and pay-back times. If the project looks unlikely to meet these minimum criteria, it will be rejected. It is in line with this view that one attributes the considerable selectivity among the MNCs. They have concentrated their investment on a handful of already prosperous Arab countries primarily made up of the OPEC members of the Arab States. It would seem that a systematic reciting of production to less advanced countries in the Arab World, where wages and the productivity equivalent are much lower, would seem a normal reaction on the part of entrepreneurs. This movement has taken place but only on a very limited scale. The scenario of the recycling of Arab petro-dollars to stimulate the take-off of the less developed Arab countries did not quite work as was widely hoped. It is only through promoting closer economic and investment strategies amongst themselves that the Arab countries, as a group, could collectively put themselves in a stronger bargaining position vis-a-vis foreign companies, if they are ever to prosper.

#### 5.4.2 The Nature of Arab Industrial Development Planning

In the overwhelming majority of the Arab countries, the industrial development strategies pursued by their governments are at best vague and ill-defined. It is obvious that the industrial development strategy is much wider than the objectives to, or targets of, a development plan. Unfortunately, it is the latter which is the

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sole concern of the decision makers in the Arab world. Their concern seems to be concentrated only on the industrial development plans, to the exclusion of a wider industrial strategy capable of establishing the basis on which periodical plans can be derived. In a number of Arab countries which are endowed with agricultural resources, the most thrust of development will have to be made in the agricultural sector of the economy. Industrialisation is to be seen more as an accompaniment to this thrust, than as a prime mover in its own right. Such strategies should be well spelt out and MNCs seeking business in those countries are to adapt their strategies accordingly. Llyter et al [1977] states "*the corporate strategy can be used to appraise an existing strategy by relating it to the external environment and the internal resources*". Since a clear corporate strategy simply does not exist in the Arab States, the MNCs will naturally be faced with a difficult situation in their attempts to adapt their own strategy in a business environment which lacks a clear sense of direction.

Sudan can be cited as a text-book example of a developing Arab country, with no apparent strategy for industrialisation. The purpose behind the creation of the Public Corporation Act 1976, does not even attempt to define the objectives of the activities [Farah, 1982, p.43]. Moreover, the word "strategy" itself is seldom used in the Sudan (and indeed elsewhere in the Arab world). "Planning" is the word which is rather synonymously used, although in practice even planning does not exist, given that planning as a management function includes "*the setting of objectives and choosing of policies, programmes and procedures leading to the attainment of goals. It should also be seen as a decision-making process in which choices are made from among different alternatives*" [Llyter et al, 1977].

To quote an example of the deficiency of objective setting within the framework of a wider strategy formulation, the following are excerpts from the 1971 Act of Public Corporations in the Sudan:

*"With the aim of liberating the national economy from the grip of international monopoly ... the elimination of bureaucratic routine ... the establishment of the basis for a socialist economy ... In order to serve the public interest and get rid of the selfishness and greediness of private exploitation".*

It is evident from the above that the government of the time did not seem to be clear of what it wanted from public enterprises, or at least not to have articulated its goals. Similarly, there seems to be little by way of formulation of criteria for the future divestment of many industrial undertakings once they have been established. In short, a good deal of the existing and planned public enterprises seems to be in the public sector for somewhat arbitrary reasons. Within the Arab countries, Sudan is by no means an exceptional or extreme case as far as misconceptions in the strategy formulation or implementation are concerned.

#### **5.4.3 Interaction of Arab National Regulations with MNC's Strategies**

Some people argue that national regulations are no longer suitable since the nature of the national state has been changed by the phenomenon of multinationalisation itself. On the other hand, regulations based exclusively on the multi-nationals, without state support, would be too fragile and unstable. This double deadlock requires a new solution which will never be provided by either of the current actors alone, i.e. the states and multinationals. Rather it will be the outcome of their dialectic.

In the same way that economic frontiers between states are becoming less clearly defined, those between undertakings are becoming more vague. The multiplicity of co-operation agreements, joint production, cross holdings between firms of different nationalities, belonging to both the same sectors or different sectors, often in competition with each other, makes it necessary to redefine the concept of the undertaking itself.

In the Arab World there seems to be little evidence to assume that there are separate legislations to deal with foreign MNCs as opposed to other foreign companies. This suggests that the only distinction in that respect is between foreign and local companies. A different set of regulations governs the activities of joint ventures, whereby a number of concessions are offered to motivate both foreign and local undertakings to promote this much favoured form of partnership. However, in some selected fields, and in harmony with Arab League instigated co-operation agreements, Inter-Arab organisations are favourably treated, i.e. abolishing customs on joint-Arab commodities, unified Arab custom barriers and practices against commodities from outside the Arab World. Nevertheless, one can generally assume that regulations organising the activities of foreign companies operating in different Arab states, apply equally, irrespective of their varying degrees of multinationalisation. According to Al Moajil [Arab Gulf Industry Vol 1, No.1, January 1986]:

*"The Arab Gulf States must look to wider strategy and the establishment of joint-ventures linking Gulf resources of capital and energy to the manpower and markets available in the larger, more densely populated Arab countries, whose development has been impeded by lack of financial resources".*

Various agencies already exist to promote such Inter-Arab co-operation in a number of different investment sectors.

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#### 5.4.4. Islamic Banking and Sharia Law

Our account on investment regulations will be incomplete without considering the Islamic banking system, the introduction of which has created a considerable degree of conflict with the western banking system. Islamic banks in London, for instance, can only be classified as investment institutions not banks? Western banks provide guarantee to the capital for depositors while Islamic banks do not. In an Islamic country like Saudi Arabia, the unhappy mixture of commercial and religious codes does create a degree of uncertainty in agreements between local and foreign companies, because the government has been forced to introduce a body of secular law particularly for dealing with foreign corporate entities. (Sharia Law is the ultimate source of all legislations). Many people coming to do business in the Arabian Gulf States for the first time have, in the past, expressed concern over the applicability and influence of Sharia Law. They seem to have formed the opinion that the Sharia would somehow work to their disadvantage. This is emphatically not the case. In fact, in all Gulf States, Sharia is stated to be only one of the sources of law, and where its main application is to be found in the areas of personal law, for example divorce, inheritance and guardianship.

Regarding the bargaining position of the MNCs, it is assumed that a multinational company will make few concessions, depending on how badly it actually wants to invest in a given Arab country. The more attractive the host country appears, the more concessions which can be forced on the foreign company. Naturally, the Arab countries offer varying degrees of such attractiveness depending, among other factors, on the prevailing political system in a particular country, as well as on governments' perception of the likely outcome of foreign investment and its implications on domestic development strategies.



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#### 5.4.5. Oil and The Arab World

The multinational oil companies, each of which has long developed into an integrated oil company, controlling not only its own oil production in the Arab oil producing countries, but also transportation and marketing, and more recently oil products – became new kinds of industrial organisations – in some aspects the forerunners of the modern multinational corporations. The impact of these MNCs on the Arab World has been clearly demonstrated throughout the modern history by the fact that, it was the Seven Sisters, who could decide how to allocate economic growth between one Arab State and another and who imposed their own characters on the emerging nations . It was Anthony Sampson (1985) who said in his most informative and pioneering book "Seven Sisters":

*"Financing whole nations (in the Arab Gulf), fuelling wars, developing deserts, MNCs had seemed often enough like private governments to which the western nations had deliberately abdicated part of their diplomacy."*

The 1970s were testing years for the relationship of MNCs and the Arab World. The rise of OPEC under the Arab leadership and the expropriation of oil and other resource-based companies were their world's response to a pattern of investment which was widely felt to be oppressive and unfair.

The fact that technology and industrial development witnessed in the 1950s and 1960s depended substantially on cheap oil, reflects that the Arab oil producing countries have offered tremendous sacrifices in actually substantiating the world economic development by allowing their oil to be sold at least at a lower price level than the market could actually bear. In 1951, coal accounted for 51% of fuel in the USA, while in 1973 it was 19% [Anthony Sampson, 1985]. In western Europe the change was even more evident. Because of cheap oil, all alternative

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energy sources were being neglected. In 1974, the Seven Sisters, according to the Fortunes List of the biggest US corporations published in 1975, were all among the 15 biggest MNCs in the world. It is no wonder then, that the Arabs have to rightly argue that their non-expensive oil was really in the best possible interests of the west. After all, it was only when their repeated calls for a fair share of the fruits, realised by the MNCs have fallen on deaf ears, that they unilaterally decided to increase the prices of their sole natural resource – oil.

### **5.5 The New Power of The Third World**

The fact now seems irreversible that much of the world's wealth had suddenly shifted from its traditional western industrialised world to new locations. Apart from the NICs, the oil-rich states, who are to be counted amongst the newly-emerged category of wealthy countries, have not been well prepared to exploit their financial surpluses. The Third World could not be readily rewarded by the newly acquired wealth pertaining to some of its members. No serious attempts have as yet been made to invest the huge oil returns of the 1970s where they could have been ideally placed. Instead, these surpluses have reversed back to the western financial institutions which have reallocated them partially in a few NICs. The absence of long-term, well coordinated strategies as to the best viable way of exploiting the financial surpluses of OPEC would have to bear a large share of the blame. But the critical question still remains: what next?

The Arab oil-producing countries, on account of their limited investment absorption capacity, have had petro-dollar surplus until mid-1980s, but falling crude oil and other raw material prices since then, together with rising interest rates and the slow-down in world trade, have placed these countries in a very difficult situation and hence dashed the hopes that OPEC – which at one time did not need all its new money – may prove a

more effective bridge between the rich and poor countries, than all the earlier aid-giving institutions of the west. To what extent do the MNCs have to be associated with this state of affairs remains outside the scope of this study and needs to be explored at some considerable depth in future researches.

#### **5.6 Research Facilities and Technology Transfer**

The contributions by MNCs towards research and development facilities in the Arab host countries, particularly in respect of adaptive research appears to be limited by lack of necessary personnel and lack of very specific long-term reasons for researching. Moreover, MNCs' traditional strategy is keeping fundamental research close to corporate headquarters. This has the effect of precipitating the accusations by the Third World countries that foreign private investment does block off or pre-empt possibilities for domestic investment. The question here, is one of enabling the Arab governments and companies through joint ventures or any other alternative forms of participation to learn how to manage MNCs and other patterns of relationships. A practical illustrative example to be cited, is the future of steel production in the Arab World and the likelihood of a successful transfer of technology in this field. Saudi Arabia and Algeria, for instance, would benefit from cheap energy supplies and being newcomers would have to be able to introduce the most efficient techniques, provided that MNCs are willing to assist in transferring their technology and know-how.

#### **5.7 MNCs of Different Nationalities**

The Arab market is now widely open to different competitors worldwide. Different developing countries have different attitudes towards MNCs from different parent countries. Whatever such differences may be, some facts about the MNCs remain undisputable, at least from the viewpoint of the developing countries. One such solid

conviction is the fact that what is decided in MNCs' boardrooms can and does have an immediate effect on the national economy, as a whole, of the host country. The attitudes of western MNCs in the Less Developing Countries (LDCs) are such that proposals to extend in these regions may be dismissed on two grounds: either because they are seen to be too risky, or that sophisticated technology is too complex for their people to produce. That perhaps explains the concentration of their corporate investments in the safe countries of Western Europe and North America. Such attitudes have paved the way for a gigantic newcomer – Japan – who has been faster to adapt in a region like the Middle East, because it was quicker to avail itself when the need arose. The result soon became evident: what were to be the much more rapid growth markets of the western MNCs were left wide open for Japanese MNCs' investment at precisely the time when the Newly Industrialised Countries (NICs) were seeking their partnership and assistance. In fact the Japanese industrial structure based on government-sponsored vision had convinced the LDCs that comparative advantages in their mature product sectors was passing to the Third World. This is particularly so in view of the widely held belief that British and American MNCs have an institutional orientation towards short-term financial results (maybe due to frequent predominance of accountants in management and of financial institutions as shareholders) as Stopford and Turner (1985) claim.

The Arab market is also open to foreign companies of the socialist block of East Europe and the Soviet Union, which often exist in the form of Joint Venture as a result of intergovernmental agreements. Some of these companies are obviously welcome in particular Arab countries, given that the goals of most of these companies are far from making higher profits, and in most cases they are believed to share none of the negative characteristics of western MNCs. However, in view of the recent political (and economic)

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developments in the Socialist bloc, it is not as yet possible to speculate on how the relationship between the two regions is likely to develop in the years to come.

### **5.8 Japan and the Arab World**

No analysis of MNCs could possibly be complete without a thoughtful reference to the Japanese experience. The most important multinational production of Japanese firms are those in the low labour-cost, fast growth and above all, export-orientated economies of the less developed newly industrialising countries, most of which are situated in South East Asia.

The Japanese major handicap of sheer distance from the most important foreign markets for their products, can work to the advantage of the Arab countries, given their relative proximity to Japan. By steering their international production location decisions towards the NICs, Japanese MNCs gained both the advantage of very low cost yet highly productive labour and also the advantage of participating in the world's fastest growing markets. The Arab countries could soon be an obvious target to the Japanese companies so long as they show signs of steady growth in their industrial development. Investment in manufacturing has long been orientated towards developed countries for the western MNCs. Japan seems to be the favourite choice for the Third World countries in respect of technology transfer, much required to meet their industrial aspirations. Moreover, the telling experience of the NICs demonstrates the effectiveness of co-operation with Japan as opposed to other western countries when it comes to questions concerning the transformation of their economies.

The Japanese, moreover, tend to deliver a higher specification than required for targeted devices and customers, apparently without passing the added cost on to the final prices.

The basic foundation for co-operation with Japan has already been laid in the Arab World. Japanese goods are showing an increasing presence in the Arab markets, including cars, electrical appliances and electronics. Also an increasing number of Japanese construction firms are actively involved in some Arab countries. The temptation to promote co-operation with Japan is further highlighted by a number of other factors:

- a) Cheap technology;
- b) Politically – Japan has no history of colonisation – hence the absence of fear of political influence or interference;
- c) their easy-going, business-like manner of partnerships;
- d) advantage of the quality of Japanese engineering steel production, given their long experience in supplying steel know-how to Brazil and elsewhere in the Third World. (An increasing number of Arab countries have recently undertaken large steel production facilities, such as Saudi Arabia, Qatar, Algeria, Libya and Egypt among others. Qatari Steel Company (QASCO), which was established as a result of a joint venture agreement between Qatar government and two Japanese steel companies in 1974, was the first integrated steel plant in the Arabian Gulf.)

The Arab countries would prefer the Japanese to work through joint ventures or, even in a purely contractual relationship. Timing is crucial, and perhaps the Arab countries would better have to make the move before it is too late, in case the protectionist pressure from western competitors succeeds in weakening the Japanese economy, hence its ability to maintain its technological superiority.

## 5.9 The Future of MNCs in the Arab World

Trade and industry are closely related to each other. In one sense, the location of industry is an integral aspect of all international trading arrangements. Trade occurs, after all, because industries are situated away from their sources of raw materials, their markets or both. International industrial location is influenced principally by national comparative advantages in relation to historic raw materials and/or labour costs. Issues of industrial strategy, however, change considerably and become less familiar when comparative advantage is also assessed in terms of countries' relative access to energy, capital, technology and other immaterials. A considerable number of Arab countries enjoy the advantage of both energy and capital, as well as vast areas of abundant agricultural land and other natural resources. Lack of technology with which western MNCs are primarily associated is the principal weakness of the Arab economy. It is with this in mind that the Arabs are looking forward to a new era of friction-free cooperation in the international market place – where their industrial development can be attained at a reasonable cost. Friction in the international economy and rising protectionist pressures, reflect many of the current problems affecting industrial strategy. Traditional arguments about who is entitled to sell what, in whose national market, at which price, are being increasingly transformed into arguments about who is entitled to make what, in which country or region – in other words, into disputes centring on international location of industry itself. The issues that surround basic petrochemical production in the Arab Gulf, automobile assembly or manufacture by Japanese companies in Europe, illustrate the point. The Arab countries can hardly be insensitive to the outcome of such disputes about the location of international industrial activity, and their relationship with MNCs is bound to be eventually determined accordingly.

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MNCs' influence in the Arab countries are restricted by many factors. The key variables are the growth rate of the chief OECD economies, the value of the US dollar, the course of trade and protectionism in the US and elsewhere, world interest rates, and above all, the price of oil. The prospects for these are mixed, so are the future strategies of MNCs and the host Arab countries alike. The fall in the oil price by nearly 50% during 1986, was ambiguously good news for oil importing Arab states who paid less for their oil. They benefited from the subsequent boost to OECD growth rates. They have also gained from the falls in interest rates and the lower dollar. Such gains for the poor Arab countries are dependent on, and will follow those for the industrial countries. It is through the MNCs that these industrial countries channel their presence, hence investment activities in the developing countries.

One also needs to explore why foreign MNCs choose to locate some of their activities in particular Arab countries and how their behaviour resembles or differs from that of local firms. One also needs to deal with the different question of what might have happened, had they not invested before attempting to answer the basic question of whether or not the Arabs have benefitted from their presence. Another central question is the one posed by Stopford and Turner (1985) as to whether the MNCs have created or replaced trade in the particular case of Great Britain. Similar issues may apply in the case of the Arab World. Our own survey in the Gulf Region has dealt with such implications as can be shown in Chapters 9 and 10.

#### **5.10 Possible Future Strategies for the Arab World**

The seventies witnessed the strength of OPEC. In the late sixties they began to concern themselves with the idea of gradual nationalisation under the tactful slogan of participation – the notion that a producing country was entitled for partnership of the concession – as



opposed to merely taxing it. In the seventies they achieved big successes and gradually national companies started to play their effective roles.

It is the author's belief that, inevitably, all activities pertaining to the present multinational oil companies are bound to be eventually taken over by the producing countries. It is, nevertheless, hard to tell when that stage will have to be reached in precise terms.

As the rate of return on oil industry is higher than on other industries, the Arab countries can, in the long-term, establish integrated national companies capable of financing most of their own exploration – tanker fleets, refineries, tank farms, trucks and filling stations together with their expansion into the new business of petrochemicals, the foundation of which has already been laid. It might be well argued that gone are days when—the oil multinationals had built themselves up into some of the biggest corporations in history, primarily through the ownership of concessions in developing countries, and predominantly in the Arab Middle East.

The only requirement for such transformation to take place is to carefully adopt a long-term view as to the crucial question of technology transfer without which the region will remain dependent on the industrialised world.

Among the Arab oil producing countries are those who are complacent enough to the extent of failing to distinguish between the long and short term strategies and the trade-off between them. Some of them would simply ask: "why abolish the oil companies when they can find the markets for us and regulate them?"

The short-term tactics forced upon the producers under pressure, to which they have no option but to put up with, should not necessarily dictate or determine the long-term strategy. It is for the Arab producers to leave no stone unturned in their pursuit of strategies that will enable them to rely on no-one but themselves, lest the present fragile partnership is suddenly over. This is particularly so, given the findings of Church Committee (set up to investigate in the policies of American oil companies after the first oil shock in 1973), which published its report after some discussions between Senators in 1975. The report clearly stated that "the US government should seek to cut the companies loose from this system of mutual dependence with the producers, and the government should try to create uncertainty among the producers as to their access to the consumer markets." Although the report was not acted upon, yet it attracted a great deal of support at the time among American officials and decision makers and Congressmen. This attitude of scepticism demonstrates the great vulnerability of a complete dependence on foreign MNCs, particularly if the fate of a strategic commodity, such as oil, is at stake. It is more so for the Arabs who almost entirely rely on oil – at least at present – as a major if not sole earning resource upon which their whole economy depends.

The argument inviting the Arab World to gradually take full control of the integrated operations, assumed at the present by the oil MNCs, could be further supported by the recent development in the oil companies' strategies; although oil remained MNCs biggest business, and as the recession continued through the early 1980s, all the Seven Sisters had to shut down their refineries, cut back their tanker fleets and reduce their petrochemical plants. They started diversifying their interests and now like to see themselves as energy companies rather than just oil companies. All the Sisters now own coal mines which are seen as the most obvious long-term replacement for oil.

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What does this new trend on the part of oil MNCs imply? The MNCs are diversifying their products into commodities which are natural substitutes to their main product – oil. This marks a crucial turning point in which a situation is created whereby a company produces two different products which are in competition with one another. One does not doubt the obvious choice of such company as to which product to favour, if a situation of trading off between alternative choices was ever to arise. Naturally any company's loyalty goes first to its parent country, and it is this divided loyalty which is likely to interfere with the natural development of any business.

Against this background, the oil producing countries do seem to have limited options to pursue. Their long-term vision must always be focused on the best viable means to take control of their natural resources. The author believes that they should be more concerned with the time dimension involved in the evolution of management control of different sectors of economy and less with the debate on whether or not such evolution is necessary at all.

**CHAPTER 6**  
**IMPACT OF MULTINATIONAL CORPORATIONS**  
**ON INDUSTRIAL DEVELOPMENT IN THE ARAB WORLD**

**6.1 Introduction**

This chapter has been mainly prompted by a debate which took place in Oxford during a Conference held in September 1987. Discussion at that time focused on the potentiality of development, based on industry in the Middle East. While the main theme of argument revolved around advocating the model adopted by Kuwait over the last decade or so, a model based on a strategy to enhance and promote outward direct investment (O.D.I.) on the grounds that basic conditions of industrialisation inside Kuwait are unfulfilled; the author took a rather different view. While admitting the many obstacles which any industrialisation process is bound to face in the Arab countries of the Middle East, it is the author's view that industrialisation based on self-sufficiency, and one which opts for the maximum exploitation of the domestic natural resources within the Arab World, should, and will always be, the cornerstone to offer the right answers to the numerous challenges which the region faces.

One such problem to be confronted within this context, is the reliance of the Arab countries on the outside world in virtually everything. The realisation of a strategy which allocates a central role to the domestic institutions and capital, will have to necessitate the adoption of policies which essentially restrict the outflow of Arab capital to the minimum levels, while every available avenue would be pursued in order to optimise its internal use, but without resorting to policies which may be seen to be identified with total protectionism.

Industrialisation, as a vehicle for economic development, should be looked at differently when applied to developing regions such as the Arab world. There are essential needs in such countries, without which no development can take place. While in normal circumstances, schooling, health services, nutritional programmes and other provisions of basic needs, will naturally be considered as services, the development of these services via the introduction of basic manufacturing industry to render such services available, ought to be paramount. Moreover, the provision of these basic needs, which are essential to elementary human welfare, eventually earns high economic returns. It is therefore important to look at these services as basic industries for the developing countries to embark on, right at the earliest stages of their development. For illustrative purposes, one can reasonably refer to the manufacture of school and hospital needs (paper manufacture, stationery, hospital beds, textiles and essential carpentry, etc.) using domestic resources as raw materials. Not only will such a trend substitute imports, but could also present earlier opportunities for a promising manufacturing industry in the future. Indeed, it helps lay the foundation for a potential industrial future.

Industrialisation, as part of the Arab development, is a dominant choice, according to A. A. Kubursi [Arab Affairs, Winter 86/87, p.47], who stipulates that in many Arab States there is little else to develop. On the other hand, it is as a source of income that industrialisation fulfils its most felt and remarkable role, given the value added component of domestic production it tends to raise.

The special development problems of Arab countries have not been in the mainstream of the literature on economic development, and students concerned with multinationals' involvement in this region have not therefore had much reason to look at Multinational Companies (MNCs) in activities other than oil production. However, it is not the

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intention of this study to focus on the oil sector, as it would have to address itself to the magnitude of the contribution of the Multinationals to the development process which is now taking place in the Arab World. It will attempt to explain how the existing international investment position in the Arab World has recently evolved, and how it might be expected to change in the foreseeable future. Multinationals, of course, are not the sole actors in the economic development process, but a policy which accords the multinationals a central role must recognise their influence in forging the path of development. It should not be denied however, that, the reluctance of the industrialised countries, seriously and sympathetically to consider the Third World's problems (the Arab countries are part of that world), has strengthened the belief that the Arabs must seek independent solutions for their problems particularly through mutual cooperation among themselves. One possible and perhaps the most desirable form of such cooperation, might be facilitating the relatively independent paths of development. This appears even more pressing in view of the expanding protectionism in the western countries, which has been clearly demonstrated in the widely reported dispute between the Arab Gulf States and the European Community over the flow of Arab petrochemicals to Europe.

A century of increasing integration with the western industrialised countries, primarily shaped by the activities of the MNCs, has left the Arab region deindustrialized and more technologically and institutionally backward than any other region of the world, with the possible exception of Sub-Saharan Africa. Likewise, attempts at promotion of trade within the region exemplified by the Arab Trade Conventions of 1953 and 1982, the Arab Economic Agreement and The Arab Common Market, have been remarkable, primarily for their inability to transfer the attractive phraseology of the written agreements into practical accomplishments.

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## 6.2 Objectives of Industrialisation

Before dwelling on a detailed analysis of different alternative strategies to adopt, one has to emphasise the importance of having a clear vision of the broad and precise objectives that any industrialisation process is deemed to accomplish. In the author's viewpoint, such objectives are to revolve around the following main ideas, insofar as most of the Arab countries are concerned:-

- a. To cease playing the old traditional role as extensive market for manufacture originated elsewhere, and as sources of the primary products to the industrialised markets. This might be reinforced by the main economic expression of Arab nationalism, i.e. industrialisation;
- b. As mentioned earlier, industrialisation of the Arab States has to cater for the supply of such basic needs to support schooling, health services and nutritional programmes and avail them as one of its first priorities;
- c. Some obvious objectives for industrialisation are export-diversification, – particularly relevant to the Arab world, having been dependent for so long on primary commodities for their exports – and the learning of technological and managerial skills. One must, however, hasten to add here that export-diversification as an objective, should not be misinterpreted as being equivalent to advocating export-led economies. As will be elaborated in some detail later, it may well be appropriate for most of the Arab countries – at least in the short term – to pursue policies leading to import-substitution, provided the loopholes and the many disadvantages it can possibly invite could be avoided. (Detailed account of such disadvantages are dealt with elsewhere in this chapter.);

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- d. Lawrence G. Franko (1978) argued that

*"the European MNEs appear to have avoided, or have been unable to obtain a significant direct role in, the fulfilment of the Arab countries industrial aspirations".*

Irrespective of whether that was due to deliberate avoidance or inability, it is the Arab countries collective responsibility to correct this situation. Whether through self-reliance or obtaining assistance from whoever expresses readiness to offer help, a formula has to be struck which can somehow rid them of the excessive reliance on outside supply of what they can potentially produce domestically;

- e. In March 1983, The Gulf Corporation Council (GCC) introduced a unified economic strategy, the aim of which was to increase the pace of industrialisation within the GCC, so that manufacturing industries would be contributing not less than 25% of member countries' GDP within the next years leading to the turn of the century. The need to avoid any duplication of projects was clearly recognised. Such objectives need to be carefully scrutinised and followed up through specific plans of action, as opposed to the present tendency of resorting to rhetoric and obligation-free declarations of intent;
- f. One more objective to be realised by industrialisation, could also be to combat the negative effects of EPZs (Export Processing Zones) which have been set out during the 1970s as special manufacturing enclaves to attract foreign investors through lavish tax, customs and labour incentives. While some such zones have boomed, i.e. Hong Kong, with varying degrees of success, no such success has been particularly noticed in the Arab export zones, at least insofar as the expansion of industrial sectors is concerned. In fact they have been no more than an indirect way of inviting foreign investment through tax and tariff incentives on imported



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raw materials, at the very time when the main thrust of the industrialisation process we call for is the appropriate exploitation of domestic natural resources, and the restriction, as far as possible, of imported materials in both primary and product forms.

### **6.3 Opportunities and Strengths of the Arab Industry**

Many Arab countries have recently adopted various policies to accelerate more industrialisation via a number of certain incentives, particularly for manufacturing projects or projects which combine manufacturing with contracting. These can include:-

1. Long term loans from industrial banks at low or minimum interests;
2. Equity participation by banks when needed to stimulate investment in new industries;
3. Land in industrial areas at minimum rent;
4. Tax holidays (for up to 5 – 15 years in most of the Gulf States and Saudi Arabia) and the export-free zones of Egypt);
5. Low cost utilities e.g. Electricity, water, etc.;
6. Protective tariff barriers, and in selected cases restriction of competing imports for stipulated number of years after the year of establishment;
7. Preference in government purchases to local production of comparable quality at prices up to (in Kuwait and Saudi Arabia) 10% higher than imports;
8. The waiving of custom duty on imported raw materials or equipment.

The opportunities for industrial developers in the newly emerging industrial regions of the area, i.e. Jubail and Yanbu in Saudi Arabia, could be threefold:-

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- a) Primary industries: utilising its rich endowment of hydrocarbon and mineral resources. This industrialisation programme features world-scale primary industries, both capital and energy-intensive manufacturing products;
  - b) Secondary industries: downstream manufacturers who, from foodstocks and resources available in both regions, will produce a broad range of added value products such as petrochemical intermediates, plastics, steel, copper, aluminium products and agrochemicals;
  - c) Support and light manufacturing industries: wide array of opportunities to manufacture essential products and provide services for the ever expanding needs of both industrial cities, as well as other growth areas. Numerous other opportunities are also available in commercial and residential developments which are all necessary parts in the continuing growth of the region.

Beside proximity to the growing markets of Asia, Africa and Europe, other advantages offered by the industrialisation process in the Arab region include:-

- fully serviced industrial sites with a complete range of industrial infrastructure, particularly in the oil producing Gulf States;
- convenient access to domestic and world markets by air, sea and land;
- plentiful and reliable fuel and feedstock supplies.

In view of the many opportunities and strengths enjoyed by industry, as could be clearly seen from the several incentives, both at internal and external levels, and given patience and dedication, the Arab countries have a reasonably good chance of making their massive development plans pay off. However, the easy days of the oil boom are now behind us, and from now on, only hard work and dedication may produce the desired results as far as the fulfilment of the Arab aspirations for development, based on industrialisation, is concerned.

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#### 6.4 The Arab World's Financial Management

The end of the 1970s and the beginning of the 1980s, witnessed the growing discontent of the Arab oil-producing countries over the structure of their investment. Due to increasing inflation, and high political risk (e.g. the freeze of Iranian assets in USA and of Iraq's assets in Europe), they became dissatisfied with the high proportion of their investments in short-term, high interest rate bank deposits and began a series of qualitative changes in their investment policy. The key elements in their new policy included the following:

- (a) Reduction in the relative share of investments denominated in US dollars;
- (b) An increase in the share of non-financial investments and within this framework, an increase in investments in developing countries in general and non oil-producing Arab countries in particular;
- (c) An increase of Arab financial institutions' involvement in the recycling of financial surpluses. These institutions have one common characteristic in that they are, by and large, inter-governmental institutions.

The co-existence of a great supply of, and a great demand for, funds would appear to offer significant potential for financing the development of the poor countries within the Arab World itself. It would seem, however, that the mobilisation of Arab capital surplus for development finance in the Middle East, has always been subject to the more fundamental constraint of lack of appropriate economic and financial institutions. While they are still in their early stages of development, one remains optimistic about the recent surge of such institutions and the potential future role they might play in creating cooperation between individual Arab States, which is so often desired. Such cooperation can ideally be allowed to take place within the framework of what is often referred to as triangular trade – Arab oil money, western technology and the labour and resources of an

oil-poor Arab country. A clear example would be by combining the skills of western agribusiness with Egyptian labour and Saudi capital, in order to harness the agricultural potential of the Sudan.

#### 6.5 Industrialisation as a Mechanism to Achieve Self-reliance

There seems to have been a misconception among some quarters and groups of decision makers in the Middle Eastern countries, that exports of primary products, i.e. crude oil, can compensate for developing an industrialisation strategy that is capable of boosting different sectors of the economy. *"Because of the limited local value-added contents of oil exports, export revenues exercise a limited effect on the rest of the economy"* [Al-Fayez, 1986]. In fact, the response of industry and agriculture has, for so long, been kept minimal and their contribution to the GDP limited in the vast majority of the Arab countries. (Table D5 in Appendix D.)

The economic and political instability that most of the Arab countries have witnessed over the last two decades or so, demonstrates the extent to which their economies are vulnerable to forces beyond their control (take the oil prices fluctuations as a typical example to illustrate the global influence). It is precisely this vulnerability which requires them to change direction. It is the author's view that such change of direction and strategy will have to start by leaning more and more towards promoting industrialisation policies that can withstand the many challenges imposed on the region's countries from outside.

The most obvious example of the need for local industry can be seen in the petrochemical industry, as well as in the refinery sector. As noted by R. Agami (1979), the oil industry in the Middle East was not integrated with the rest of the economy. That in itself made

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it an isolated enclave in the national economy, being an export-orientated industry, managed by foreign companies. If that could be understood, in view of the foreign MNCs' domination in the past, one can find no justification for it to be so at the present time, particularly after the return of the oil sector to the national domain of the Arab countries.

The location of the refinery industry is yet another example to be considered. One only has to have a glance at the statistics showing the Arab world's share of the refinery industry worldwide, compared to its share of production of crude oil and the oil reserves, to realise how poorly the industrialisation process has developed, and its priorities been made. The Middle Eastern share of world refineries, which has been consistently falling since the 1980s, stands at less than 5% at the present (see Table D9/D10 in Appendix D). While the oil sector is not intended to be particularly focused upon in this study, yet, to relate an assessment of the Arab industrial and agricultural development and investments to the oil market, prices and production levels, is to deal with reality. Oil resources are, without doubt, the major factor determining the future of Arab investments, controlling national purchasing power and the funding resources of Arab aid agencies, if not those of international agencies.

Some Arab countries, including Saudi Arabia, came to realise that the economic and thus political price of relying on imports of a necessity can be so high that the avoidance of dependency had taken the form of turning a blind eye to the doctrine of comparative advantages. The recent tendency of Saudi Arabia to subsidise cereal production, at the cost of lower average income (as governments of the industrial world, such as EC countries, indeed do), is only an expression of such new attitudes.

## 6.6 MNCs and The International Economic Order

The developing countries naturally want structural reforms to an international system to which they did not participate, given that the International Economic Order has been devised while most developing countries were still under foreign domination, both politically and economically. While paying lip service to the notion of free trade, the governments of the developed countries have each tried to retain a degree of freedom of national action which, in an interdependent world, produces an increasing incompatibility with the maintenance of an international economic order. On the same ground, the developing countries are finding it more and more difficult to comply strictly with the rules dictated by market forces.

It was J. H. Dunning who once noted that the ...

*"interventionist policies are the rule rather than the exception, and that it was only the nature and degree of interventionism which varies."* [Dunning,1985, p.424.]

Based on the preposition that further investment beyond a given limit ceases to be fruitful, and that transfer of resources are best used to support consumption, many of the western advisers, directly or indirectly, discouraged investment in the Arab countries by the Arab Corporations, be it via joint ventures with foreign MNCs, or by one kind or another of collaboration among Arab joint companies. This tendency is often justified by the ever over-estimated problem of lack of administrative capacity to execute, or entrepreneurial ability to identify, further investment opportunities. Our view is that this hypothesis is irrelevant to the particular cases of the Arab States, as it seemingly does not take into account the fact that transfers of resources should be required in the first place to combat these very problems, i.e. training of administrators and entrepreneurs, transfer of technology and organisation of on-the-job training.

The dependence of the Arab economies on MNCs has persisted over the years, partly because the Arabs have not seriously attempted to free themselves from their control, and partly because of the resistance of the powers behind the International Economic Order to the introduction of substantial changes. It is necessary at this point to state that self-reliant development is only possible at the regional level, that is at the Pan-Arab level, and that such development is essential if the excessive dependence on the advanced industrial world, and its MNCs, is to be effectively corrected. Obviously, the economic/technological dependence has far-reaching politico-strategic implications.

#### 6.7 Constraints on Industrialisation

The emphasis placed on the industrialisation of the Arab countries, however, has suffered from many constraints, derived from the haziness of the concept, nature, and role of industry among decision makers, *coupled with the confusion and frequent changes in the social and economic institutional frameworks within which industrialisation has proceeded.* In more detail, we may point to the following explanations for the modest progress in industrial development in the region:

- The aims sought for industrial policies varied between import substitution, export, self-sufficiency, and the transfer of technology via industrial development;
- The ideological and practical conflicts between the pre-eminence of the public sector, the private sector, or the mixed sector; between socialism and free enterprise; between the Arab countries adhering to one or other of these systems, but also within the various groups inside the same country;
- The unanswered questions pertaining to the relationship between national industry and the international economic system. Should industry attempt to retain its independence? Should it link itself with the strong chain of international industry controlled by the MNCs? Should the Arab countries concern themselves with

questions of dependence on the MNCs at the present stage when they are taking their first steps in industrialisation, or should they acquire industrial capability first, regardless of the means or route, and attempt independence later?

- Indecisiveness on the alternative options between industry and agriculture;
- Questions are also posed with regard to the degree of advancement of technology, the degree of appropriateness of technology, or the aim of industrialisation in as much as import-substitution would suggest a different technology from that of export promotion.

Arguments commonly cited by industrialists against the tendency among some Arab scholars to enhance the pace of industrialisation in the region, are as follows:-

1. Size of population: The small population size of most of the Arab countries, renders them vulnerable to depend heavily on foreign trade. (With the exception of Egypt, Sudan, Morocco and Algeria, no individual Arab Country has a total population exceeding 14-15 million people; two thirds of the 21 Arab States have populations less than 10 million each.);
2. Limited absorptive capacity: Low literacy rates, lack of trained industrial workers, technicians and managers, as well as small population, have always been cited as proof that the countries in the region have low capacities to absorb their vastly increased oil revenues through industrialisation efforts. [Business International, Lelyveld, 1975.]



3. Comparative lack of profitability: The lack of profitability that most recently established Arab investors often complain about, is attributed to a number of factors:
- a) Many investments have been made in the wrong activities;
  - b) Insufficiently trained managers and politically motivated investment decisions;
  - c) Excessive haste to demonstrate prompt and highly motivated investment decisions;
  - d) Excessive replication of some relatively simple, and originally profitable activities, leading to over-investment, as has been the case for cement industry in the Gulf States;
  - e) Engaging in industrial investments without sufficiently investigating the appropriateness and comparative efficiency of alternative institutional mechanisms for undertaking economic activities, and for accomplishing technology transfers such as by the mechanism of licensing, franchising, sub-contracting and trade.

The extent to which each of the above factors has contributed to the problems of industrialisation is analysed in some detail in Chapters 9 and 10, which deal with our own Gulf Survey findings.

4. Lack of co-ordination: The much talked about Arab economic integration has left much to be desired: joint-ventures on a regional basis are only patchy and even in the very few cases of joint-ventures, the absence of efficient and clear sense of purpose is evident. The consequences are always manifest in the duplication of efforts and projects, owing to the apparent preference of some Arab countries

to act independently of other countries, when it comes to taking decisions relating to industrial strategies.

5. As stated by A. S. Nofal [1987, p.124], the widening gap for the poor (Arab) countries, between their exports and imports, (due to increased interest rates and the unfavourable terms of trade imposed upon them from outside trade partners) has severely limited their ability to develop their own potential through industrialisation. It is now a well known fact that foreign borrowing by an increasing number of poor countries is not used, on the whole, for investment, but rather for servicing existing debts. The majority of external debt falls on the shoulders of 12 of the Arab States, which constitute the majority of the Arab nation. Therefore the problem does not concern only one specific Arab country. It is basically an Arab problem.
  
6. According to S. Amin [1982, p.57], there is an inherent weakness in the Arab mode of industrialisation which accentuates dependency on outside. Light industry, remains preponderant, as it represents about 60% of industrial production. The recently established basic industries in Saudi Arabia and the Gulf States are more often geared to export than to the satisfaction of the internal needs of production. This is true, for instance, of fertilizer manufacture, of the production of petrochemical materials (plastics) and of the aluminium industry. The development projects of the last decade have accentuated this extroverted orientation of industrialisation, which is based entirely on natural resources, mainly energy. This is particularly true in the Arabian Gulf States.

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## **6.8 Factors Limiting Technology and Knowledge Transfer**

Apart from the scarcity of skilled workers, engineers and managers capable of absorbing new technology, technology transfer to the Arab World is particularly hindered by the following factors:

- (a) Because of the high rate of technology obsolescence and the frequent inappropriateness of that technology in relation to existing factor endowments and scale requirements, the potential Arab recipients of the technology may not want to learn the technology, even if they could;
- (b) Because of the small size of the domestic market (that is individual Arab countries, since the establishment of a collective common market is yet to be achieved) and the high start-up cost and delays required in making it possible to take advantage of learning by doing, direct participation is likely to be avoided in favour of continuing dependence on foreign consultants, engineers and foreign managers;
- (c) Individual expatriate employees of MNCs may try to prolong their own usefulness to the Arab host country by impeding the transfers of such know-how, even if their employers (MNCs) want to facilitate them.

Against this background, and in view of the failure of the policy that relied for so long on MNCs as a prime instrument for technology transfer, the fundamental question as to whether the MNCs are the right institutions to promote the interest of the Arab countries still remains unanswered. Some people view MNCs as an inevitable evil that can hardly be dispensed with, while others promote the idea of restricting their involvement in the domestic development process to the minimum possible level. Various alternatives are still talked about, but with no obvious conclusions, as to the best route to pursue. The question of existing forms of partnership between individual Arab states and the foreign

MNCs and the possibilities for change are apparently in the forefront of the Arab élite's thinking. While joint ventures are seen as an obvious, and the most advocated form of, partnership between the Arab host country and overseas MNCs, there has always been an extremely strong case for joint ventures among Arab investors from different countries in the region as a means to further the economic integration of the Arab World.

It is tempting to refer in this context to the distinguishing feature of the investment strategies by MNCs in general, which is manifest in their preference for joint ventures. Such preference is even more justified in the case of the Arab MNCs, which are basically involved in activities, either within the Arab region itself, or the Third World countries. They particularly benefit from the local partners' knowledge of local conditions, access to distribution channels and capital, management and political connections as an additional advantage. Moreover, affiliates founded by developing countries' firms in general are much more flexible, drawing on domestic materials more extensively than their developed countries counterparts. Other advantages may include acceptance of lower equity participation, satisfaction of host countries which aim to exercise economic and political control over their national resources, opening more development options and choosing between alternative strategies for development.

According to Nugent [Khan, 1986, p.171], Arab MNCs numbered almost one thousand by early 1980s and accounted for capital investments of at least \$36 bn, thereby accounting for more capital than all the rest of the Third World's multinationals put together.

It is rather difficult to predict the future of the newly-formed Arab multinationals, but it can be stated for certain that they are substantial in number and in their range of activities,

and capital deployed. They were financed with a portion of the proceeds of the 1973/4 and 1979 oil price increases. It could reasonably be said that they have some unique characteristics, in that there is nothing like them in other regions. Such characteristics may include the following:

1. Multi-country ownership and control;
2. Have taken a broader view of objectives than enterprise profit;
3. Are a part of a broader regional economic co-operation project;
4. Have potential for altering regional and national production structures.

There are, nevertheless, inherent weaknesses which limit the degree of success. One can mention many of these, but will only point to a few: Loose definition of the regional cooperation project and the failure to define non-profit objectives sufficiently to give clear orientation for evaluating the performance of management. The most recent problems of funding, in view of the decline in the oil boom, especially as few of these corporations have generated surpluses for reinvestment, have also curtailed the natural progress of such corporations.

There is no doubt, however, that an Arab multinational can promote economic and technical cooperation among the countries of the region and make a significant contribution to their development. They can be very useful in establishing economic complementarities among the Arab countries, discovering new areas of inter-linkages, pooling their resources, extending the economies of scale through larger scales of production across borders, thus imparting a new dynamic to the development process of the Arab World. The author would like to emphasise here the importance of the experience of Arab multinationals accumulated over years, in closing the technological gap. In fact, the failure of the industrialisation efforts so far, and the fact that almost all

projects remain dependent on foreign firms and consultants for virtually everything, constitute the most important reasons for looking to the newly-emerging MNCs within the Arab World, as well as other parts of the Third World, as a means of reducing the existing technological gap.

#### **6.9 The special role of Manufacturing Sector**

According to Nugent [Khan, 1986, p.7], ...

*"manufacturing constitutes the largest sector in which multinationals of the south have placed their direct foreign investments in other developing countries".* Some recent estimates put over 55% of their foreign direct investments in this sector followed, by 30% in service and finance. For the Arab countries, the finance and services constitute 30.6% indicating an exceptionally higher orientation towards services at the expense of the manufacturing industry, which represents only 8.8% of GDP (see Table D5 in Appendix D). In contrast, manufacturing absorbs a relatively small share of investment abroad by the western industrialised countries, much smaller than in the case of investments by developing countries' firms. America's manufacturing direct foreign investments in the period 1979-81 was 23.4%, while the share of other OECD countries was 28.5%. Primary industry accounted for 50.4% of American direct investment abroad and services for 14.9%. [Khan, 1986, p.70.]

As for the Arab world, and according to Nugent [*Ibid*, p.172], about one third of Arab MNCs are involved in manufacturing (in terms of both numbers and volume of capital invested), and another one third in finance. In terms of volume of capital however, Multinationals of the multilateral type, originating in the public sector and operating in the transportation, manufacturing and financial services sectors, have dominated.

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Moreover, many of these are centred in the capital-abundant, labour scarce countries of the region, such as those of the Arab Gulf.

In 1979, the US ownership share of the manufacturing sector in the Middle East was 49.1%; the UK 21.5%; Germany 10%; France 6.3%; the Netherlands 2.6%; Japan 2.2%; and Canada 0.5%. [Agami, 1979.]

S. Amin [1982, p.56] maintains that the share of manufactured products as a whole in total household consumption, is lower in Africa and Asia than in the Arab World (20% as against 32%). He attributes this to the lower level of urbanisation in non-Arab Africa and Asia. Also the general level of consumption is lower and the structure of income distribution less regressive. Imports of manufactured products for consumption are thus a relatively less heavy burden for the national economy in those areas than in the Arab World, in terms of the ratio of their imports to the G.D.P., and the respective countries import capacity.

Some positive trends, however, have been recently witnessed in a number of Arab countries, regarding policies particularly geared to attract and encourage local manufacturers, through various types of incentives. In Saudi Arabia, for instance, a number of steps have been taken since 1983, which were mainly designed to protect and encourage local industry. Regulations dealing with this, state quite categorically that Saudi manufactured goods are to be preferred over similar foreign goods, even if the quality is lower than that of foreign products. Similarly, contractors working on government projects have been warned against importing goods which can be manufactured locally. In addition, government departments and public organisations are now legally obliged to buy Saudi products, for as long as they remain satisfactory for the

purpose required. The government has given these resolutions strong backing by allowing Saudi's tenders 10% price margin over those of foreign competitors, both for supply and works contracts. Similar policies are now being adopted in a number of other Arab States.

All these and other similar policies in the Arab States, mean that many foreign countries, essentially MNCs, are going to find it extremely difficult to maintain their positions in the market, unless they elect to establish joint ventures in the Arab countries with local registered companies, as against operating on their own or with local agents.

#### **6.10 Import-substitution versus Export-orientation Policies**

Import-substitution policies generally ignore built-up advantages of particular economies or countries), which make them subject to criticism by the developed countries, on the grounds that, they necessarily lead to the decline of world trade share. One more misgiving is also that they are thought to be conducive to neither high levels of employment and capacity utilisation, nor to reduced dependence on foreign supplies. The inherent difficulties usually cited, regarding the administration of import-substitution policies, indicate something of the problems of moving towards export-oriented policies. Four of these problems could be cited as follows:-

1. As domestic industries grow used to protected domestic markets, the entrepreneurs engaged in them are inclined to lobby individually and collectively for the maintenance of protection;



2. 'Rents' accrue to the beneficiaries of import licenses, monopoly rights, public subsidies and so on, provide another incentive for business efforts to be diverted into lobbying;
3. Even if bureaucratic decisions are formally guided by a plan, they are hardly ever informed by published – and therefore predictable – economic criteria and consequently entrepreneurs face considerable uncertainties in planning new development;
4. The whole system of controls administered in a discretionary, and therefore indiscriminate fashion, creates a bureaucratic vested interest in its continuance.

The need for import–substitution in the Arab countries, can be particularly felt in the agricultural sector. Food imports in the Arab States constitute a sizeable drain on the foreign exchange positions of a number of countries (see Table 6–10). Efforts to substitute local production can be expected to be given emphasis and official encouragement. In relation to the results that can be attained, expenditures for agricultural intermediates represent a fairly small proportion of the final product.

A comparison with Japan reveals a remarkable contrast, whereby Japan's lack of natural resources and food has been converted into an advantage, since it forces Japan to import in order to survive, and to export in order to import. It is therefore reasonable to suggest that while import–substitution policy has been irrelevant in the case of Japan, it is apparently an indispensable option, which every Third World Country has to go through at one stage of its development. By its very nature, import–substitution encounters the development of traditional means of exploiting domestic resources. But it is only by

limiting the inflow of imported goods, via resorting to local resource exploitation, traditional though the means to achieve that target might be, that a developing country can hope to lay a strong foundation for a future export-orientated economy. Hence, import-substitution is seen as complementary rather than a substitute to export-led economy. Perhaps one can put it the other way round: The export promotion that many oil rich Arab States are inclined to pursue, should be seen as a compliment to import-substitution, and indeed, dependent on it.

*"Few countries" in the words of A.A.Kubursi [Arab Affairs, Winter 1986/87, p.49] "have been able to move directly to the export of manufactured goods, without a rather long period of learning and preparation, through import-substitution. The experiences of Canada and South Korea are illustrative of this sequence. Besides, export-dependent countries often find themselves in real troubles when external demands falter, the existence of a complementary regional (Arab) demand increases the flexibility and confidence of domestic exporters".*

**TABLE 6.10: FOOD IMPORTS (% of Total Imports) - 1988**

ARAB COUNTRY	%
ALGERIA	30
BAHRAIN	..
EGYPT	19
IRAQ	..
JORDAN	19
KUWAIT	17
LEBANON	..
MOROCCO	12
LIBYA	15
OMAN	15
QATAR	..
SAUDI ARABIA	17
SUDAN	7
SYRIA	17
TUNISIA	18
U.A.E.	4
YEMEN (North & South)	25
SOMALIA	22
DJIBOUTI	..
MAURITANIA	21

Source: Islamic Development Bank - Annual Report 1989-90, p.47.

### 6.11 Some Recommendations and Conclusions

There is no lack of bright ideas in the Arab World regarding industrialisation and development questions. What is missing however, is the determination and will to transform such ideas into specific plans of action. It is the strong belief of the author that the basic foundation for economic cooperation between the countries of the Arab World has already been laid and that the great efforts exerted in establishing the institutional framework have produced a number of joint agreements which are sufficient enough to transform Arab dreams into reality. Such agreements include "Arab Joint Economic Action Agreement; The Agreement on Developing Inter-Arab Trade; The "United Agreement On Arab Capital Investment In Arab Countries"; "The Arab Economic Unity Agreement", and the decision to set up the "Arab Common Market".

The Arab World is, so far, a nation of consumers and it is about time they showed the signs of their capability to emerge as a nation of producers. However, it is going to take imagination and considerable effort to evolve and produce the new products which are going to sell in the new market of tomorrow.

The codes of conduct for MNCs of the developed countries operating in the Arab World have yet to be clearly formulated. There is certainly a need to develop a formal understanding among the Arab countries to determine how MNCs can achieve their objectives as well as those of the host Arab states to the mutual benefit of both.

As to the newly emerging Arab companies operating outside their home countries, a network of relationships between them and South-South issues has still to be worked out, either in terms of a quantitative increase in economic relations among themselves or of a qualitative clarification of these relations. A further step would be to identify the

initiating forces and appropriate institutions for realising the chosen objectives. In general, one can reasonably be safe in concluding that southern-based and adapted skills and technologies are likely to be easier to transfer and are more controllable and appropriate when transferred among southern economies. They also involve lesser inequality in bargaining power.

The Arab region with its strategic geographical location between Europe, Asia and Africa has enjoyed and will always continue to enjoy, the benefit of economic interaction with the outside world. This factor, coupled with the strong European drive for colonisation in the last two centuries, which witnessed the continuing strength of the industrialisation process, played a significant role in protecting the region against isolation. It is a proven fact, however, that things did not develop in the Arab's favour as their resources were put under the control of the European powers. The relationship that followed was one of exploitation, since all facilities were used basically to the advantage of the colonial powers. Against this background it would appear quite understandable for the Arab countries to seek more, and primarily new, partners to assist in their development process and to consider, at the same time, independent paths for development. Individual Arab countries might, however, pursue different approaches from others in their perception of cooperation with the outside world. In the words of Y. A. Sayigh [1982],

*"some people might even question the very existence of such a thing as an "Arab Economy"; that it is both artificial and unacceptable to aggregate data relating to the individual economies and to consider the totals as presenting an account of one regional economy. Moreover, just as the approaches of individual Arab host countries to the MNCs and foreign investment in general are likely to differ, so will the responses by the individual companies involved".*

Whether or not to endorse the view of Peter Neerso [Skully, 1978], who claims that

*"generally the quasi-socialist governments have had more success in coping with the multinationals than the capitalistic governments"* is beyond the scope of this work. Such

a view is based on the assumption that socialist governments have a clearer view of the problems with more coherent policies and they are less open to influence by local business interests and outright bribery and have therefore had some success in reducing the cost of foreign investment.

As to the comparison between manufacturing industry and the agricultural sector, and the relative emphasis on one at the expense of the other in the process of achieving development process, far-reaching implications are to be drawn from the activities of the multinationals involved. In many cases, manufacturing subsidiaries of the MNCs compete with locally-owned companies. Due to this competition, many locally owned-handicraft and small-scale industrial enterprises have had to close down or have been blocked in their development. MNCs' activities outside the oil sector in the Arab region have been, as demonstrated earlier, of exceedingly limited scope. Outside the obvious link between agriculture and energy - fertilizer - there is little evidence for likely long-term multinationals in agriculture.

It is the author's view that by the time oil ceases to play the only dominant role in shaping the economies of the region, as is clearly the case right now, many things will have to change. The prosperity of the oil producing Arab countries, together with the non-oil producers, ought to be targeted without much dependence on oil, so long as the Arab World enjoys the ownership advantage of the wide range of natural resources, be it the vast cultivable lands, minerals, animal husbandry or hydrocarbons. The collective strategy of the Arab States needs to be geared to monetise the resources from oil to boost their productive capacities, so that they can march towards self-sufficiency, not only in the production of petroleum products, but also in the achievement of a balanced development of agricultural and industrial sectors and their manpower and technological resources. The

outcome of the industrialisation process, which is gradually taking place, must develop on a scale which is capable of transforming the region into a new leading industrialised and developed one.

We can hardly emphasise the need for the priorities and structures of Arab investments locally or abroad to be reviewed in such a way that long term capital yielding industries will have to be in the centre of focus. In the process, the Arab World will have to be prepared to wait for a relatively longer period of time for their investment strategy to pay off in normal commercial terms. This is in contrast to the other option of having their capital tied up in western financial institutions who are recycling them in accordance with strategies that are naturally geared to serve their interests, which might not necessarily coincide with those of the Arab States to whom the capital originally belongs. A paradox to be recalled in this context, is the British Government's concern with Kuwaiti interests in British Petroleum (BP). It is obvious that at a time when investments in equity are continually eroded by inflation and dollar depreciation, the appropriateness of this particular path of investment becomes enormously doubtful. One must also emphasise that the management of such long-term strategy as opposed to short-term, quick return investments, can only be undertaken by governments. It is the public and not the private sector which is to assume the leading role in laying the right foundation of the type of industrialisation strategy that this chapter has highlighted.

In the 1990s, the Gulf countries are poised for a decade of unprecedented economic growth. Energy will supply the resource base. Mobilisation of private sector resources, economic diversification and job creation are government policy in the Gulf States, but a new and entrepreneurial attitude by Gulf businessmen, hitherto used to quick profits from trade, will be needed to bring industrialisation about.

To meet the challenges of 1990s, plans have been announced by Gulf producers, to increase production capacity of oil-related industries (mainly petrochemicals and refineries) on a scale which will stretch world engineering and production resources available to meet this. The Gulf producers are developing their own refinery capacity and buying down-stream facilities in world markets, i.e. Kuwait. They are creating a fully integrated industry of the Seven Sisters, which will enable them to manage the world oil market from well head through refineries to the retail petrol station. This enables the Gulf producers to develop local technical skills, expand employment and add value to the crude oil produced. Only the Gulf States among the Arab Countries have the financial capacity to pursue such policies during the 1990s, when further efforts are expected to be made to acquire downstream capacity in the USA, Europe and South East Asia.

## CHAPTER 7

### JOINT VENTURES AND TECHNOLOGY TRANSFER BY MULTINATIONAL CORPORATIONS IN THE ARAB WORLD

#### 7.1 Introduction

Contributions of the Multinationals to technological change and technology transfer are arguably their most important influences on national and global welfare. The Arab World, while enjoying the advantage of the availability of both energy and capital, as well as vast areas of abundant agricultural land and other natural resources, lacks the technology with which western MNCs are primarily associated. It is with this in mind that the Arabs have always looked forward to foreign companies in the belief that they are well suited to bring about modernisation via pursuing efficient methods of transferring technology. The concept of technology transfer, however, must, in the words of Dr. A. H. al-Moajil [1986], be ...

*"better understood to eliminate the false idea that it is achieved by importing machinery and installing plant on a turn-key basis".* Technology transfer needs to be associated with the development of the creative ability to install, maintain and further enhance production processes through gaining education and understanding into the working of the machinery and the processes. To achieve this end, it is necessary to develop research capabilities with the specific target of developing new technological processes for the industries of the Arab World, while creating the engineering systems and services necessary to install and maintain these processes.

#### 7.2 Joint Ventures as a Means of Attracting Foreign Investments

The attraction of a number of Arab countries as potential locations for some industrial development, could stem from the remarkable achievements of the Arab Gulf States in completing their infrastructural development as basic prerequisite to any forthcoming



industrial growth. Many foreign MNCs, faced with a loss of demand from export territories, are increasingly tempted to set up local manufacturing subsidiaries, or else license their technology. Historically, the role of the Arab Governments has been instrumental in capturing the sort of opportunities that had arisen in such circumstances. Joint ventures are often seen to be the answer to fulfil the aspirations of most of the Arab countries to acquire technology and technical know-how. In addition to obtaining managerial and organisational skills, the joint ventures alternative can also render access to markets of the foreign partners. The predominance of joint ventures could be associated with a deliberate government policy of restricting foreign ownership to less than fifty percent, as is the case in the overwhelming majority of the Arab States. In some cases, however, foreign investors themselves prefer joint ventures in order to take advantage of local resources. This could be particularly so in the Arab World, given the numerous and diversified natural resources which it enjoys.

The changing face of the Arab World, in the wake of the oil boom of the seventies, has created new strategic problems for managers of the MNCs operating in the region. For firms and governments alike, the test has been one of establishing competitive positions in markets that can no longer be controlled by traditional one-country measures. In fact, the Gulf States (GCC) have already introduced regular guidelines to organise their management of their domestic investments. While ad hoc measures are occasionally regulated on a single country to country basis, there is now a strong tendency to mutually organise the scale of production for economic operations within the region.

A survey conducted by the author, in 1984, in which a number of British businessmen involved in the Arab market were approached and interviewed, clearly indicated that Joint Venture was the best, and in many cases the only, vehicle for doing business in the Arab

region. Foreign partners in joint ventures appear to benefit substantially through access to various types of concessions, while avoiding, at the same time, the risk of going it alone. A Saudi partner, for instance, usually holds at least equal ownership in a joint venture, making it easier to obtain the heavily subsidised medium-term loans for up to 50 per cent of capital requirements available from the Saudi Industrial Development Fund. Of course, not all Joint Ventures are necessarily successful, but the Joint Venture route still offers the best, and sometimes the only, means of building on the vast amount of time and money already invested in the Arab market. To bring into perspective the extent of joint ventures and their share of contribution in several investments in the major Arab markets, it might be useful to highlight the experience of Saudi Arabia throughout the decade prior to 1984. From 1970 to 1982, the number of Saudi companies incorporated in the Kingdom grew fivefold to 3,806, and the number of joint ventures with western firms grew tenfold to 1,260. The amount of capital invested by these firms grew by a spectacular 52 times to SR 54 billion (\$ 15.6 bn). [The Economist, July 28, 1984.]

Licensing and wholly owned subsidiaries are often used as a means for the transfer of technology from the developed to the developing world. Joint ventures differ from licensing arrangements in that, licensing does not involve the sharing of equity. However, a joint venture can be structured so as to be a party to licensing, franchising, contract manufacture, industrial cooperation agreements and management contracts, as well as joint assembly and manufacturing operations.

While in the early 1970s, the MNCs 100 per cent equity ownership of their subsidiaries in the Arab World (as indeed elsewhere in the developing countries) was common and almost universal, there is now a variety of arrangements between MNCs and their hosts, ranging between Joint Ventures and partnerships with MNCs, equity participation ranging

from 25% ownership and little management control, to 80% and full control. There is a considerable evidence of a further move away from equity stakes towards even more flexible arrangements, such as management contracts, buy-back deals (particularly in the oil sector) and production sharing (Kenana Sugar Company in Sudan).

In many cases of Joint Ventures, indigenous partners can provide some protection, making further attacks more difficult, since more restrictive government policies will be hitting local citizens, as well as foreign multinationals. It is not even obvious that MNCs will always resist being pushed into completely non-equity situations. After all, selling management and technical expertise on contract, can avoid the commitment of vulnerable capital in an uncertain political environment, especially in the more underdeveloped Arab countries such as Sudan, Yemen and Somalia. The converse of this is that a developing country's government may find it worth forcing MNCs to keep at least a minority equity stake in a venture, because this does give a company a more substantial longer-term commitment to a project than a basic management contract does. Again Kenana Sugar Company of Sudan (KSC) is a classic case in point.

One frequently hears the opinion that foreign MNCs that wish to sell equipment should generally take an equity stake in the venture, as a guarantee of good faith and continued interest. Turn-key plants in the Middle East have something of a bad name and stories of difficult start-ups are common. Two typical examples the author happened to be closely familiar with are Sennar Sugar Factory and Port Sudan Textile and Weaving, both set up by the Industrial Production Corporation of Sudan in the mid-1970s, in conjunction with foreign multinationals. Even Algeria moved as early as in 1978 to adopt a similar view of foreign equity participation, in an effort to try to combine its preference (at that time) for 100% local ownership with MNCs commitment by seeking "product in hand"

as opposed to "key-in-hand" terms for plant sales. In fact the efforts to transfer advanced European technology in the 1970s to the Arab World have failed, mainly because they essentially meant the mere sale of equipments and turn-key plants, without providing the know-how. The 1970s also saw the setting up of costly projects, characterised by the use of intensive capital and advanced technology, which was often inappropriate. Halwan Steel factory of Egypt, which was set up in the 1960s, stands today to exemplify an outdated technology that can hardly meet today's requirements. However, despite the many misgivings associated with import-substitution strategies, which were adopted in the region in the 1950s and 1960s, particularly in the socialist Egypt, Syria and Iraq, and following independence in Algeria in 1962, there have been obvious achievements. Not only have there been benefits on social grounds (i.e. employment, etc.) and economic levels, i.e. local value added, but more importantly, the then new ventures formed part of a learning experience for all those involved. This mean that the inevitable mistakes were not necessarily repeated. Apart from altering the composition of imports, the establishment of import-substitution activities has brought technological transfers which, limited though they might have been, would not otherwise have occurred.

In general, license agreements and management contracts imply lower dependence than direct investments, because they only run for an agreed period of time. In the Arab World, however, renewal of the contract may always be unavoidable, because the multinationals often fail to transfer the core elements of their technology or fail to train local counterparts to take over the posts of foreign managers. In future, and after the Arab countries have succeeded in educating and training sufficient numbers of their economists, managers and technicians, the relative importance of management contracts may probably diminish. On the other hand, the importance of license agreements (and similar technical cooperation contracts) may increase, particularly in the oil exporting

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countries and any other countries with no need for importing capital. The multinationals naturally prefer to have full control over the use of their technology in foreign countries, but a license agreement may be acceptable to them because it represents an easy and safe way to earn money. It would be reasonable to assume that MNCs will rather want to transfer their technology by way of license agreements and similar contracts more to the quasi-socialist Arab States, with relatively higher risk of nationalisation. However, some of these socialist Arab countries (Libya and Iraq) may consider that license agreements may also imply much dependence on MNCs. This induces them to elect for the provision of technology transfer rather via direct purchase of sophisticated machinery, if they can afford the high costs with which this type of investments is usually associated.

It is imperative that, while licensing offers an important alternative for MNCs wishing to develop their penetration of Arab markets, it will not succeed unless there is a tangible benefit to both licensor and licensee. From the licensor's viewpoint, the motivation may stem from a number of factors pertaining to product characteristics, restrictions placed on foreign direct investments or the repatriation of profits, access to raw materials or essential imports, local entrepreneurial involvement and other marketing strategy considerations.

**Table 7-2[a] FOREIGN EQUITY PARTICIPATION IN THE INDUSTRIAL SECTOR OF OMAN BY 30.6.1986.**

Country of Origin	Number of Companies Involved	Foreign Equity Investment 1000 R.O.*	Share in Total Foreign Investment %	Share in Sectors total equity in foreign and Joint Venture Projects %
Kuwait	1	1,580	17.7	6.5
Jordan	3	861	9.7	3.5
Holland	1	990	11.1	4.1
India	7	508	5.7	2.1
<b>TOTAL</b>	<b>12</b>	<b>3,939</b>	<b>44.2</b>	<b>16.2</b>
Others	24	4,965	55.8	20.4
Total Foreign	36	8,904	100.0	36.6
Oman	-	15,445	-	63.4
Sector's Total		24,349#		100.0

\* R.O. = Omani Riyal

Source: Derived from Ministry of Commerce and Industry - Directorate General of Commerce data.

# Out of the total investment in the industrial sector of R.O. 24.3mn "Raysut Cement Company" alone had an equity investment of R.O 8 million, or 32.9 per cent, of which R.O 1 million or 12.5 per cent was Arab owned and another R.O 1 million or 12.5 per cent was owned by the other GCC countries. [ESCWA, U.N., 1988, pp.17-18.]

**Table 7-2[b] COMPANIES WITH FOREIGN PARTICIPATION IN OMAN, 1986.**

Name of Borrower	Loan Amount 1000 R.O.	Percentage in Shareholding	
		Oman	Foreign
Chain Link Fencing	70	51	49
Premix LLC	300	60	40
Ready Mix Muscat	300	60	40
NAbis Al-Shanfari Gases	420	60	40
Oman Drilling Mud	500	75	25
Oman Lubricants LLC	1500	45	55
Furniture Makers LLC	130	51	49
<b>TOTAL</b>	<b>3220</b>		

Source: The Oman Development Bank.

### 7.3 Channels of Technology Transfer

A survey among some Western Multinationals, undertaken by Mansfield *et al* [Dunning, 1982, pp.78-79], addressed a number of important relationships about the extent to which transfer of technology to foreign affiliates is favourable/unfavourable as a mode of international transfer. Its main findings could be summarised as follows:-

1. In the 5 years of use of the new technology, transfer to a foreign affiliate was the principal channel for 85% of the firms (surveyed) in the first sample, and 62% of the projects in the second sample;
2. Exporting was used somewhat more often than international licensing in both samples;
3. Licensing became somewhat more important than exporting in the second five years of use, but transfer to affiliates remained the major channel;
4. Use of affiliates (and licensing) is higher for product than for process technologies, while use of exporting is higher for process technologies. Firms indicated that they were less willing to send new process technologies to their affiliates, in part because it is more difficult to limit subsequent diffusion to foreign competitors once the process technology is transferred.

In general, predominance of transfer to affiliates is affirmed in a study by Vernon and Davidson [1979] who also found that U.S. MNCs became quicker to transfer new technology into production abroad as they gained experience with multinational operations.

This leads us to focus our attention on the Arab World and the extent to which the above findings relate to the actual situation in the Arab region, insofar as the channels of technology transfer by foreign companies are concerned. Our own survey, conducted in

1984 among some British companies operating in the Middle East, failed to establish any meaningful findings in this regard. As for the general belief expressed by John Dunning [1977], stipulating that direct investment in the developing world will be a less important channel for technology transfer, giving way to more licensing and management contracts, the experience of the Middle Eastern Arab countries seems to conform with this trend, as confirmed by the findings of our own Gulf Survey in 1990 (see Chapter 9 of this study).

#### **7.4 Existing Patterns of Foreign Investments in the Arab World**

While some Arab Gulf countries, such as Saudi Arabia, established heavy industries with participation of foreign companies as share holders, in order to guarantee collaborator commitment, market success and technology transfer, others such as Kuwait generally built their plants on a turn-key basis and contracted the required technical assistance.

According to Saudi Arabia's Ministry of Industry and Electricity [Gulf Economic and Financial Report, Manama, Bahrain, April 1988], at the end of 1986 there were 1900 industrial projects in production with an estimated capital investment of SR 60 bn. Nearly 400 of these projects are joint ventures with foreign partners, with a total invested capital around SR 30 bn. This contrasts sharply with the number of industrial plants in 1975, which stood at just 461, with an invested capital of only SR 2 bn. Of the 66 loans approved by the Saudi Industrial Development Fund (SIDF) in 1986, 17 projects with a total SR 239 million were for enterprises with a foreign partner. By the year end, the cumulative number of joint venture projects funded by SIDF was 311, with commitments totalling SR 5.5 bn and representing 39% of the Fund's total loan approvals. The foreign capital in these projects amounted to SR 1.6 bn.



To round up our discussion on Joint Ventures and foreign investment in the Arab World, it would be worthwhile attempting to look at the general trends from a statistical viewpoint. To this end, the following tables may shed some light on the phenomenae statistically:

Table 7[a] Shows the number of foreign corporations registered in Saudi Arabia by nationality during the period 1977-1985.

Table 7[b] Shows Joint Ventures in the Arab World by economic sectors as at the end of 1983. These are broken down into two distinctive types of Joint Ventures: Inter-Arab Multinational Joint Ventures (IAMJVs) and Arab-International Multinational Joint Ventures (AIMJVs).

Table 7[c] Complements Table 7[b] by giving percentage distribution of the two types of joint ventures in 1981.

Table 7[d] Shows total loans granted to Joint Ventures in Saudi Arabia up to the end of 1986.

**TABLE 7[a] NUMBER OF FOREIGN CORPORATIONS REGISTERED IN SAUDI ARABIA 1977-1985 BY NATIONALITY**

Nationality	1977	1978	1979	1980	1981	1982	1983	1984	1985	Total
United States	10	9	19	22	24	15	10	7	1	117
Japan	1	3	4	7	5	9	3	1	3	36
Federal Rep. of Germany	11	18	15	14	12	14	4	8	1	97
United Kingdom	9	11	16	15	20	11	3	3	4	92
France	6	8	12	13	2	10	5	2	9	67
Other European Countries	18	29	29	19	16	32	18	12	10	183
Arab Countries	6	3	2	2	4	4	1	1	-	23
Other Asian Countries	10	17	11	18	7	9	5	6	3	86
Multinational	8	8	8	6	10	6	7	4	5	62
Other Countries	6	6	7	3	4	7	3	1	-	37
	85	112	123	119	104	117	59	45	36	800

Source: Compiled from figures supplied by the Saudi Ministry of Commerce, Riyadh (cited by U.N. ESCWA Study prepared in Arabic by Said S. Martan, Oct. 1987, p.17.)

**TABLE 7[b] JOINT VENTURES IN THE ARAB WORLD BY ECONOMIC SECTORS AS AT THE END OF 1983**

	IAMJVs Inter-Arab Multinational Joint Ventures (1)		AIMJVs Joint Ventures with Foreign MNCs (2)		TOTAL (1 + 2)	
Economic Sector	Number of Projects	Capital 1000 US\$	Number of Projects	Capital 1000 US\$	Number of Projects	Capital 1000 US\$
Extractive	22	1,442,540	16	461,187	38	1,903,727
Manufacturing	53	3,787,131	76	5,356,064	129	9,143,095
Agriculture	28	1,747,146	24	307,756	52	2,054,902
Finance	69	6,252,856	97	5,264,156	166	11,517,012
Tourism & Hotels	24	514,100	15	436,800	39	950,900
Transport & Communications	24	3,405,925	11	159,100	35	3,565,025
Building & Construction	21	541,170	15	87,730	36	629,100
Services	11	190,849	15	191,400	26	382,249
<b>TOTAL</b>	<b>252</b>	<b>17,881,617</b>	<b>269</b>	<b>12,264,393</b>	<b>521</b>	<b>30,146,010</b>

Source: Study (in Arabic) entitled "Role of the Multinational Corporations in the Economic Development of the Arab World" undertaken by the general secretariat of the Union of Arabian Gulf Chambers - Damam, Saudi Arabia, January 1989.

**TABLE 7(c) PERCENTAGE DISTRIBUTION OF INTER-ARAB MULTINATIONAL JOINT VENTURES (IAMJVs), ARAB INTERNATIONAL MULTINATIONAL JOINT VENTURES (AIMJVs) AND ALL ARAB JOINT VENTURES BY SECTOR (1981).**

Sector	IAMJVs		AIMJVs		TOTAL	
	No. %	Capital %	No. %	Capital %	No. %	Capital %
Agriculture, Forestry, Fishing	6.3	5.3	2.6	0.3	4.7	3.2
Mining	3.0	11.1	3.7	0.4	3.3	6.9
Manufacturing	35.9	23.3	25.8	36.4	31.2	28.7
Construction	8.4	3.7	3.7	3.1	6.3	3.2
Transport and Communications	3.0	27.5	1.1	20.2	2.1	24.6
Commerce and Tourism	8.4	1.1	7.9	1.6	8.2	1.3
Financial Services	31.2	27.0	42.6	37.2	36.5	31.2
Other Services	3.8	1.0	12.6	0.8	7.7	0.9
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Masoud, 1981, (Cited by Jeffrey, B. Nugent 1987, p.51.)

**TABLE 7[d] TOTAL LOANS GRANTED TO JOINT VENTURES IN SAUDI ARABIA UP TO THE END OF 1986 (MILLIONS OF SRIs)\***

Sector	Number of Projects	Total Loans	Expenditure	Foreign Partner's Share	Total Project Costs
Construction Materials (excluding cement)	63	923	635	256	1965
Cement	2	800	1245	380	3172
Chemical Products	68	997	757	282	2223
Consumer Products	60	863	699	267	1793
Engineering Products	110	1833	1337	404	3598
Other Industrial Projects	6	86	55	18	188
<b>TOTAL</b>	<b>309</b>	<b>5500</b>	<b>4728</b>	<b>1607</b>	<b>12939</b>

\* SRIs = Saudi Riyals

Source: Compiled from data supplied by the Saudi Industrial Development Fund.

According to H. Azam [July 1988], the nature of the joint ventures required in the Gulf region today, differs from what it used to be in the past. In the early stages, joint ventures were mainly in construction or construction-related sectors. Later, concentration was in heavy industries, such as those of petrochemicals, steel and aluminium. Nowadays, the emphasis is more on downstream industries. To give some examples, the potential is greater for downstream petrochemical industries high technology, consumer product industries, engineering plant assembly industries, services and operations and maintenance. As the standard of living improves, so there are new amenities: shops, sports facilities, supermarkets. Different types of joint ventures are created to suit and cope with the improved standard of living. Such joint ventures may involve industrial development and transfer of technology. The best time to invest may be when the region has reached its floor, when incentives are high, as they are today, and when future prospects are promising (relevant to Iran-Iraq post-war era in the Gulf).

Technological requirements of the Arab World may vary from one country to another, depending on the availability or otherwise of various natural and strategic resources. An oil producing Arab country may obviously need different types of technology compared to another country such as Sudan or Morocco, whose main concern is related to the agricultural sector. R. Agami [1979, p.102] attempted to match different groups of individual Arab countries with relatively similar conditions, according to their appropriate technological needs. The following table sheds some light on matching these groups and their appropriate technological requirements.

Table 7[f]

## MATRIX OF APPROPRIATE TECHNOLOGY

	Manufacturing	Service-Commercial
Group 1 [1]	Capital and energy-intensive process technology for petro-related, export-oriented industry.	Software, hardware; foreign exports.
Group 2 [2]	Capital-intensive, import-substitution manufacturing technology; agricultural technology.	Software, hardware; upgrading of indigenous managerial and technical talent.
Group 3 [3]	Agricultural technology; intermediate manufacturing technology with low capital intensity, import-substitution products.	Upgrading of indigenous managerial and technical talent.
Group 4 [4]	Light manufacturing, export-related technology.	Banking, insurance and related services; commercial technology.

Source: Compiled by R. Agami [1979].

Key: [1] Saudi Arabia, Kuwait, Qatar & UAE.  
 [2] Algeria, Iraq, Libya.  
 [3] Egypt, Morocco, Sudan, Syria, Tunisia.  
 [4] Jordan, Lebanon.

The factor endowment of the Gulf region, with a relative abundance of capital and a relative shortage of labour, practically dictates the capital intensive orientation of future industries. Besides, the financial and tax incentives and the advantage of having low energy and other utility costs, among other factors, should help offset the relatively higher unit costs of production. Industries based on the Arab regions' mineral resources (iron ore, potash, copper, phosphate, gold, limestone, etc.), which exist in economic quantities in Saudi Arabia, Oman, U.A.E., Jordan, Morocco, Sudan and many other Arab States, are naturally characterised as being capital and energy intensive. Developing such primary industries normally creates external economies and forward linkages that would render investments in derived secondary product industries more profitable.

## **7.5 Research and Development Issues**

Three major influences on the location of R & D can be identified as follows:

1. Factors favouring centralisation of R & D efforts in the Multinational's home countries (effectively their headquarters). These include:
  - a) Economy of scale in R & D;
  - b) The need to avoid duplication of effort;
  - c) The extent of importance of interchange with top management who determine company strategy;
2. The importance of close contacts among R & D, marketing and production personnel favours decentralisation of R & D, especially for development and adaptation efforts;
3. More common location factors, including the cost and availability of R & D inputs and government policies may also influence the location of R & D.

According to "LINKS – Third World First" (April 1986), only about 2–3% of world total R & D capacity are located in the Third World. Technology transfers are therefore one-sided with Third World nations exercising little influence on the type of technology developed. In the Third World, the Arab countries among them, local affiliates of foreign MNCs merely act as packages for products imported from the parent company (routine assembly of components manufactured elsewhere). What the Arab World obtains are strictly end products, not the capacity to develop them. Not only that, but imported technology may even replace local technology developed throughout history and adapted to local conditions, such as pearls trade in the Gulf, leather industry in Sudan, and small



handicraft industries in Egypt and elsewhere. All could potentially be improved and further developed had it not been to the competition from imported technology, which had substituted rather than complemented them. Some of these imported technology may involve negative effects on natural resources, the environment, employment, use of local materials and the balance of payments.

Productive research, which provides the profitable licenses and patents, should indeed be done closer to the manufacturers and not necessarily in MNC's headquarters, as is clearly the case at present.

Advanced technology has made products increasingly knowledge-intensive, and despite attempts by MNCs to refrain from transferring R & D facilities outside their headquarter bases, in an attempt to prevent imitation and diffusion, it is increasingly becoming uncontrollable to limit the transfer of tangible technology, such as technical data and computer software.

President Reagan's first National Academy of Sciences panel – which produced The Corson Report – [Whyman 1988], concluded that:

*"The free flow of information, ideas and people did result in some loss of technology to the Eastern bloc. However, the benefits derived from additional controls were outweighed by the costs to the maintenance of a vigorous research base and an innovative R & D community. Efforts to control intangible technology, not only run counter to the western world's ability to innovate, but conflict with other basic values (such as freedom and openness to society), so highly valued".*

The increasingly changing attitudes following the perestroika and Glasnost in the Soviet Union, are likely to lead to the creation of a new environment whereby the risk of technology transfer can be rendered insignificant. Likewise, the growing use of facsimile

machines and other enhanced telecommunications services, means that technology transfer is an increasingly common part of business practice. All this suggests that the expansion and competitiveness of technology markets has made technology transfer more prevalent and export controls problematic. However, the eventual outcome of all these recent developments is yet to be felt in the Arab World. Another development which deserves mentioning in this regard, is the fact that the source of technology has now shifted away from government controlled entities, to the private sector. The direction of commercial development is being decided by market demand and other commercial considerations. Consequently, control problems will soon be confined to the dual use list of commercial goods that have military application, such as Technology and Development Group (TDG), an Iraqi company said to be involved in the purchase of the Lear Fan factory in Belfast in 1988, with the intention of training Iraqis in high technology processes to manufacture composite materials which can be used in missiles, (allegations which subsequent events seem to have affirmed).

The role of the public sector in the Arab countries with regard to the question of technology transfer, needs to be emphasised in this respect. Public sector enterprises have accumulated significant technological expertise and know-how; yet there is still a long way to go before they can tap their expertise to make effective adaptations and modifications in technologies, which they receive from multinationals on the basis of their operating experiences, and the research and development activities undertaken by them. However, three main characteristics of technologies acquired by some public sector enterprises in the Arab World can be identified: First, they can be used on a smaller scale than those supplied by MNCs based in the industrialised world. Small farms in Sudan have benefitted from some simple technologies and agricultural know-how, provided by "Shambat Food Research Centre", an independent research institution which is sponsored

by the Ministry of Agriculture and the Faculty of Agriculture of Khartoum University. Second, as in Egypt, they are usually labour-intensive and do not involve huge capital outlays. This type of simple technology could be particularly visible in textile, leather and small handicrafts sectors. Finally, they can better utilise some of the raw materials that are locally available. This can be demonstrated by the manufacture of some locally produced drugs in small pharmaceutical factories in Egypt and Sudan, using indigenous herbs and other materials supplied by local markets.

The most telling illustration of the leading role that the public sector can play in the promotion of the industrial development in the Arab World, is the experience of the Saudi government, which responded to the needs for basic industries by setting up the Saudi Arabian Basic Industries Corporation (SABIC), in 1970. Similar corporations have been set up in many other Arab countries to monitor and supervise the public industrial enterprises. In Sudan, the Industrial Development Corporation (IDC) was established in the 1960s, only to be renamed "The Industrial Production Corporation (IPC) in 1970, in the aftermath of the wave of nationalisations of previously privately owned companies. Towards the mid 1970s, IPC was to be dissolved and replaced by sectoral corporations, which were previously under its corporate supervision (financially and administratively) following the re-nationalisation decisions. Today, leather, sugar, food, oil, building materials, textiles and mining industry corporations operate as quasi-governmental entities in Sudan.

This emphasis in the Arab World on the role of state-run industries to compete effectively in the modern world, probably contrasts with the main thrust of the economic philosophy of the western world, which is based on the efficiency of the private enterprises which, in their view, better regulate and encourage competition to the benefit of all.

## 7.6 Cooperation Among the Arab States Through Joint Ventures

There is a general belief in the Arab World, indeed in many other developing countries as well, that MNCs are reluctant to transfer their technology to ensure their indispensability. They avoid having more than a token number of nationals in key positions, albeit most if not all recent concession agreements contain provisions to the effect that MNCs should give preference to nationals, wherever possible, in both initial employment and promotion. While overall statistics show a predominance of nationals, in the Gulf States their presence in middle and upper management is notably lacking. A new trend is gradually gathering momentum among the Arab decision makers, which advocates the adoption of a strategy to establish Arab MNCs to be instrumental in closing the technological gap between the Arab World and the industrialised countries. A joint venture among Arab investors, is seen as a means to further the economic integration of the Arab World and to avoid duplication of industrial and other projects. It is also a useful device for bringing together investors from the rich and poor countries in a single project, thus facilitating the flow of funds between the capital exporting and capital importing states of the Arab World. Moreover, it permits the development of projects which require large amounts of capital or extensive multi-country markets. Three types of Arab Joint Ventures can be identified in this regard:

1. Project Joint Ventures: such as Kenana Sugar factory in the Sudan (involving Kuwait, Saudi Arabia, Lonrho Company and Sudan Government);
2. Sectoral Joint Ventures: which seek to promote and develop projects in a particular field and then to act as holding companies for the enterprises actually established; examples being the Arab company for mining and the Arab company for development of animal resources;

3. **Geographical Joint Venture:** where governments of two or more Arab countries form a company to identify, develop and manage investments and enterprises within the geographical limits of one or both of the states concerned. Many examples can be given in this regard, particularly within the context of the geographically-based sub groups within the Arab World, i.e. GCC and Maghreb Union. An interesting example of what could be achieved, is the proposal for joint Maghreb Airline, which could offer a wider network of destinations, while avoiding duplication of routes. Others are Algerian-Tunisian Transmediterranean Pipeline, a 2,500 kilometre link between Algeria's southern gas fields and Italy, which was completed a few years ago. The pipeline crosses Tunisia, which receives some of the gas as transit fee payment. The success of this project has paved the way for a proposed inter-Maghreb pipeline, to supply gas from Algeria to Western Libya (450 kilometres link), to pipe about 3,500 mn cubic metres of gas a year from Qued Safsaf in Algeria to Zuwara on the Libyan coast, where an aluminium smelter is planned. [Arab-British Commerce Journal, July/August 1988.]

### **7.7 Trade in Goods with Military Applications**

The Middle East is, no doubt, one of the most lucrative arms markets. A substantial portion of the USA high technology exports is in military goods, which indicates the character of America's strategic ties, perhaps more than its strategic competitiveness.

In March 1989, British Aerospace announced that its arms deal with Saudi Arabia might ultimately be worth £150 billion, the largest export contract ever negotiated by Britain and among the biggest defence deals ever. [The Observer, Sunday 19th March, 1989.] While

the quoted figure turned out later on to be grossly exaggerated, nevertheless, no one doubts the fact that it is to be one of the largest contracts of recent history.

What concerns us in this regard, is the way Saudi Arabia is going to cope with and administer such a large contract. As widely reported, a major offset agreement has been concluded with the UK for 35% of the value of a \$7.6 bn contract, to supply Tornado military aircraft to Saudi Arabia. At least 60% of the foreign half of the venture should be made through the provision of working capital with the balance of the investment used as the Joint Venture deems appropriate.

Another offset investment programme was introduced in Saudi Arabia, to ensure that the Kingdom benefit more substantially from the large contracts it was rewarding abroad. Major foreign suppliers are expected to offset the cost to Saudi government by investing 35% of the contract value in Joint Ventures in the Kingdom. This policy was first put into practice with agreement on the \$3.5 bn "Peace Shield" early warning radar package. The main contractor, Boeing, on behalf of itself and its US sub-contractors, came up with nine potential projects with a combined investment of \$700 million; five of which were under implementation by early 1990.

Our account on military technology and how individual Arab Countries cope with the challenges posed by the technicalities of use and transfer of knowledge of this type of sophisticated technology, will be incomplete without due reference to the Iraqi experience. Iraq has established an extensive network throughout Europe, to acquire military useful equipment and skills. According to press reports [Financial Times, September 13, 1989] the network is believed to spread through Spain, France, Britain, West Germany and Italy. (As no denial of any kind has been issued by any of the parties concerned, we have no

reason to assume that these reports are unfounded). It includes more than a dozen British Companies on the continent. The one thing they have in common is high technology. British officials say that while the Iraqi network is not in itself illegal, it is a source of concern because of the proliferation of missile technology in the Middle East, and Iraq's intensive efforts to build its own high technology armaments industries.

Of particular concern to western governments, are Iraq's attempts to acquire technical skills, by sending trainees to work at European-based companies. This way Iraq can tap the west's most sophisticated industrial and military technologies, without necessarily breaking the law by exporting prohibited products. One specific area of concern to western governments has always been that Iraq, along with Egypt, may have been attempting to obtain materials and technology through a network of companies, mainly in Europe, for the manufacture of both conventional weapons and for the production of a nuclear-capable missile, the CONDOR 2, on which the two Arab countries have cooperated with Argentina. (CONDOR 2 missile is believed to have a range of 900 km. The two-stage solid fuel missile would be capable of carrying a small nuclear or chemical warhead.) Also, Matrix Churchill, the British machine tool company based in Coventry, which is the subsidiary of an Iraqi trading company, has been recently a focus of attention. It is an Iraqi-controlled company and Iraqi technicians have undergone training at its site in Coventry. (It was bought-out in 1987 with finance channelled through a network of companies established by Iraqis.) Iraqi directors set up a series of companies, one of which, Technology and Development Group (TDG), was involved in the purchase of Lear Fan Factory in Belfast in 1988. Here too, British officials were concerned that Iraqi's could be trained in high technology processes to manufacture composite materials which can be used in missiles. The only legal control which Britain can exercise against training in sensitive industries, is through immigration laws. As a matter of fact, Iraq

made no secret of its determination to acquire equipment and technology. Nor is it in any way a secret that Iraq has always been assisted by foreign companies in its endeavour to establish and improve its military industrialisation programme. More than a dozen foreign companies, half of them West German, were said to have been involved in the establishment of the al-Qaqa Complex, south of Baghdad, where an explosion at a munitions plant in August 1989 is believed to have killed hundreds of workers. (The foregoing assessment was made about a year before the start of the Gulf War, which later provided real evidence of the validity and the correctness of the, then unconfirmed, reports.)

#### 7.8 The Use of Comparative Experiences

The question has to be addressed as to the extent to which the Arab World can draw on the experiences of other nations, who at one stage of their development, perhaps similar to that of the Arabs today, have demonstrated the ability to transfer technology to support their own industrial programmes. Some Third World countries, such as Cuba, India and China, established their own companies originated locally. Others, like Japan and perhaps some South East Asian newly industrialised countries (NICs) followed different courses. We have to consider the extent to which such models can be somehow repeated or emulated, with or without the need to adjust to different local conditions of individual Arab Countries. Some people would argue that, as long as a number of Arab States can afford to meet the financial commitment involved in the acquisition of technology, they can opt for the transfer of technology via outright purchase of the appropriate technology. We are more concerned here with "knowledge" when referring to the word "technology" and not the "hardware". It is obvious that the ability to purchase is not necessarily synonymous with "transfer of technology", as it will not resolve the problem of



transferring the knowledge required to manufacture a product, to design a bridge, to undertake micro-surgery or to construct a dam.

### 7.8.1 India

In 1985, India attempted an industrialisation policy with the lowest possible reliance on the technology of industrialised world, that resulted in an export performance markedly poorer than other NICs, but India is regarded to be the largest NIC exporter of turn-key projects, and as one of the leading exporters of industrial technology specifically designed for the Third World. By its policies, India has obtained a greater technological autonomy, as compared to other NICs, albeit this independence has been paid for with slower growth.

### 7.8.2 Korea

Korea compares as an intermediate case, between the highly restrictive Indian and the very liberal Singapore economic policy. In most of the Arab countries, which in a way are similar to the Korean example, foreign ownership can be permitted only in special cases, such as for the export-oriented or lightly technology-intensive projects, and only when entry of foreign firms is considered compatible with the government development strategies. While some efforts are being made to train local staff on new technology undertaken in some of the Arab countries, there has been little achievement so far in the way of investment in research and development in industrialised nations, to gain access to sophisticated technology. In their Foreign Direct Investment (FDI) policy, Korea invested in resource-rich countries to gain raw materials, as well as undertaking manufacturing in developing nations to serve local markets. All these support the motivation of

expansion and diversification of Korean exports, to maintain the dynamic industrial growth at home. In the author's view, the Arab countries need to do just that.

### 7.8.3 Japan

The initial post-war industrial policy of Japan, was based on the strategy of learning advanced foreign technology, but without being dependent on direct investment by western corporations. The Japanese government restricted FDI at home, but encouraged technology imports through licensing agreements, which became a vehicle of knowledge transfer, than direct investment. It is needless to say that the Japanese imported the technology and commercialised it through adaptive R & D, creating in the process many significant improvements, particularly in the area of production processes. Japan now has trade surplus in medium and low technology goods, since its comparative advantage in high technology is defined as less than that of USA. The latter, however, now faces a problem: the rent from innovation – that is the exceptional gains on which high profits and high value added are based – are realised in producing the goods, not in selling the technology. The underlying secret behind the Japanese technological success, can be impliedly detected in what the "Economist" once stated [November 9, 1985]:

*"The average American 17 year-old knows half as much mathematics as the average Japanese 17 year-old ..... Given such science and maths scores, it should come as no surprise that Japan produces twice as many engineers per capita as the US, and that with twice as many engineers in the payroll, Japanese products seem to be a little better engineered."*

Table 7.8, attached at the end of this chapter, shows that potential scientists and engineers per million population, was approximately 60,000 in Japan, as compared to a mere 15,000 (25%) in US in 1986.

The Japanese innovation is based on making things as light in weight, thin in width, short in length and operating time and as small in size and cost as possible – all designed to economise on energy, raw materials, time and space. This compares with heavy, thick, long and big products of Europe and the US. Moreover, the US high technology is concentrated in a limited number of sectors – aircraft, computers and agricultural chemicals and a substantial portion of high technology exports in these sectors are military.

#### 7.8.4 Application to the Arab World

It would be worthwhile to reflect here on the statistics pertaining to the number of engineers and basic science graduates of the Arab World. The following table, which the author has constructed from figures provided by Dr. Zahlan's paper, presented at a seminar organised by the British Foundation for Science and Technology, London, in October 1989, sheds some light on the potential research capabilities in the Arab World.

**Table 7.8.4 POTENTIAL RESEARCH CAPABILITIES IN THE ARAB WORLD**

	Year	Number
Number of Universities	1989	85
Number of Students enrolled	1989	3,000,000
Number of Graduates of Engineering	1985	27,000
Estimate number of Graduates of Engineering in	1992	54,000
Number of Working Engineers	1988	500,000
Holders of BSc Degrees in Basic Sciences	1985	19,000
Arab Engineers educated abroad	1988	100,000
Arab Professionals working abroad	1988	250,000
Arab University Students outside the Arab World	1988	250,000

Source: Dr. Sahlan.

N.B. The theme of the Seminar was "Transferring Technology with The Arab World" – jointly organised by The Foundation and The Arab-British Chamber of Commerce on 3 October, 1989.

The various practices adopted throughout the Arab World during the past three decades, initially emphasised turnkey types of contracts. These modalities were justified on the grounds that Arab professional manpower and experienced organisations to participate in serious programmes of technology transfer were not available.

With time, variations on these patterns were introduced, according to country and conditions. As the above table shows, there has been a significant transformation of Arab technological capabilities. Since independence, the Arab States have made great strides forward in education: qualified manpower is no longer a constraint. Today, there are more than 85 Arab Universities, which enrol 3 million students. An indication of the scale of their activities is that they graduated 27,000 engineers in 1985, and are expected to graduate 54,000 in 1992. By comparison, universities in the UK graduate 11,000 engineers a year; those in the US 80,000; and in Japan the figure is 75,000. There were approximately 500,000 Arab engineers working in the Arab World in 1988; this is a figure comparable to the US manpower pool of 1.5 million engineers. In addition, there are large numbers of university graduates in most other fields of knowledge; in 1985 for example, 19,000 students received a BSc degree in the basic sciences. Some 20 per cent of Arab engineers have been educated abroad, and many more have had international experience. There are some 250,000 Arab Students enrolled in universities outside the Arab World. Furthermore, there are large numbers – estimated at 250,000 – of professional Arabs now working abroad. But the modern world of technology thrives on specialised, productive and innovative corporate organisations, and not only on a pool of professional manpower.

Here again, considerable progress has been made. Institutions and organisations capable of providing consulting, contracting, research, engineering and industrial services have

been established during the past two to three decades. These firms, however, have only limited R & D and corporate capabilities. Nevertheless, given the requisite environment, they would be able to participate in the process of technology transfer. An extensive infrastructure now exists for the adoption of very different methods for planning and executing infrastructural and industrial projects. The Arab countries are not only capable of pursuing technology transfer programmes in the years ahead; they are also highly motivated to doing so.

#### **7.9 The Potential of Arab Scientists**

In support of his optimistic view on the tremendous potentials of the technological and scientific capacity within the Arab World, the author has compiled a number of statistical indicators from the UNESCO statistical year book – 1988. Aided by the statistical tables 7.1 to 7.8, provided at the end of this chapter, one can reasonably conclude the following:

1. The estimated number of potential scientists and engineers of the Arab World for the years 1980 to 1985 (Table 7.1) suggests an impressive increase of 50% (from 1.15 million to 1.72 million) in the course of five years. Compared to the respective numbers in the entire developing countries, the share of the Arab World stands at 5.6% in 1980, and 6% in 1985. More insight can be gained by looking to the number of scientists and engineers per million people in the Arab World. This was 7,046 in 1980 and 9,143 in 1985. The figures indicate a profound improvement of the research and scientific capacity, particularly when compared with the equivalent average in the developing world, which records 6,272 in 1980 and 8,263 in 1985.

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2. While scientific and technical manpower potential in the Arab World (Table 7.3) can hardly be comparable to the corresponding number in the industrial countries, that of Egypt seems to be particularly impressive (492,470 scientists and engineers in 1976 and no doubt many more today). It is worthwhile noting, however, that around 80% of potential scientists and engineers and 75% of technicians in Kuwait in 1980, were foreigners. Similar proportions of foreigners are also known to be recorded in other Arab countries, particularly in the oil-rich states (91% for Libya). While reflecting the extent to which scientific researches are dependent to a considerable degree on foreign expertise, these figures still highlight the commitment of these countries to promote the scientific capabilities within their territories. Moreover, we should not lose sight of the fact that the vast majority of these foreign experts is largely derived from other sister countries within the Arab World.
  
  3. As for the scientists and engineers actually engaged in research and experimental development (Table 7.4), the number corresponding to Egypt, by far the largest of the Arab World in this regard, is a mere 28,000 in 1986. This compares poorly with that of Japan (677,000) and even Israel (53,000 in 1984). Yet, it still sounds reasonable by international standards, particularly among the developing countries.
  
  4. If the type of research and experimental development and the branches of economic activities in which these researches are conducted are all considered, one soon comes to the conclusion that, applied research features remarkably, particularly when compared with fundamental research (76% to the former, as opposed to 18% to the latter in Sudan's case; 80% and 8% in the case of

Kuwait). These figures reflect percentages of the total expenditure on R & D (see Table 7.7).

5. Regarding the sectors in which experimental development is performed, it is imperative that different emphasis pertains to the varying degrees of importance and types of economic resources among individual countries. While in Egypt, for instance, about 58% of scientists and engineers are involved in R & D in the sector of agriculture, forestry, hunting and fishing, only 13% and 11% do so in Kuwait and Qatar respectively. By way of comparison, it is rather interesting to note that 95% of the Japanese scientists and engineers who are engaged in R & D perform their researches in the manufacturing industries (Table 7.6).

According to Thomas A. Pugel [Dunning, 1985, pp.70-71]

*"Net exports across industries are positively related to the employment of human capital and relatively related to raw or unskilled labour. Net exports are often found to be negatively related to the use of non-human capital, although this relation is usually not as significant as the former two [Stern and Masts, 1981]. Whenever these influences are controlled, net exports are positively related to one or another measure of the importance of new technology in the industry, such as the R & D intensity or number of scientists and engineers employed as a fraction of the labour force."*

Unfortunately, the only relevant information available about the scientific and research potentials of the Arab World are the statistics identifying the overall number of engineers and scientists, as shown in the tables (7.1 to 7.8), provided at the end of this chapter.

#### **7.10 US Government Policies on Technology Transfer**

In a meeting of the American Association for the Advancement of Science [South Magazine, August 1987], tighter controls on US technology transfer were demanded and USAID was attacked for turning Brazil's soya bean production into an export success,

through its work on new varieties, and thus damaging the market share of US producers. Similar criticism was also echoed against the US support for Philippines rice research, and even the aid to famine-stricken Sudan, in improving sorghum production. The complain is part of the ammunition of a mixed lobby of farmers, big business and security specialists, pushing Washington for tighter transfer controls. A paper presented for the American association, assessing the transferability of various technologies, found that "spill-out" of US agricultural technology was quite limited. Chemical technology was found to be more transferable. However, most of this is produced by private, often transnational companies, and most of the transfer takes place via licensing and technology agreements.

One characteristic of US policy in technology transfer, is its concern with the policy on trademarks, patents and proprietary processes, where, unlike the case of agricultural technology transfer, domestic sentiments are likely to result in significant policy changes. The main argument raised is that the US bears the development costs for a product, while foreigners cream off the markets before they can be recouped (at first complaints were aimed at Japan and Europe). In 1984, Congress ordered that a country's record on protecting intellectual property be a consideration in granting generalised system of preferences trading benefits.

On the other hand, criticism is always voiced against US use of the affiliates of its MNCs in the developing world as "listening posts" to monitor and, where desirable, to obtain the technology knowledge through license or otherwise, for transfer back to the parents.



### **7.11 Arab Misgivings towards MNC's Policies on Technology Transfer**

The intellectual climate in much of the Third World does not accept that their citizens should pay heavily for technology provided by MNCs. on the ground that academic information should be freely available to humanity. In addition, there are growing demands that the MNCs should carry out R & D in the developing countries, such as the Arab World, where the resultant products will eventually be sold and used.

The constraints on technology transfers to the Arab countries, have already been dealt with elsewhere in this study (section 6.9 of Chapter 6). On the theoretical level, some people in the developing countries would argue (rightly or wrongly) against the present patterns of technology transfer on the following grounds:

1. Transfer tends to infringe on a country's sovereignty;
2. Possibility of tension between the aims and interests of technology givers and receivers;
3. The paradox inherent in most of the joint ventures which are characterised by inequality of management, leading to one party being constantly over-ruled. This eventually results in the ceasing of cooperation. In this context, it is always pointed out that directors from the Arab side of joint ventures are just figure-heads on the boards of local subsidiaries, while full executive directors are confined to parent companies.

### **7.12 General Conclusions**

Aid to industry ought to concentrate on aspects that should have catalytic effect, such as research, training and studies. The emphasis here is on the improvement of skills and management and the transfer of technology. The creation of effective industrial and market-oriented research with technological applications, remain at the forefront of the

Arab thinking, as does the creation of scientific institutions capable of interacting with industry and contributing to its development. Cooperation deals should be struck between science and technology institutions in the industrial world and similar Arab infant institutions, if enhancing the quality and level of technological development is to be sought in the Arab World.

If there is one single positive outcome to be gained by cooperation between the Arab World and the western MNCs, be it through joint ventures or otherwise, it should be the successful transfer of technology and the creation of a business environment that will assist the Arab countries adapt themselves to the increasingly changing world of technology. Unfortunately, the Arab countries have, as yet, failed to make any tangible headway in that respect. Their financial power, notwithstanding, they have not succeeded in generating a great deal of technology to be adapted to their local conditions, thus leaving themselves much lagging behind in the technological field.

The development of technology depends on a number of factors, some of which are favourably at the disposal of some Arab States, while some others could potentially be made available on a joint basis. The favourable economic factors, for instance, may include the availability of capital, a requirement which could be reasonably met by the oil-rich states. The skilled labour whose presence can be sought in countries such as Egypt, Iraq, Jordan and Sudan, among other Arab countries, patchy though that might be, is not to be considered as a major constraint either. After all, opting for the appropriate type of training in order to upgrade skills, is not a hard endeavour to contemplate. Neither does the Arab World lack the type of political stability required to develop technology, given the fact that the politically troubled areas do not necessarily constitute the whole of the region that forms the Arab World.

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Among the countries of the Arab World, Egypt is by far the most advanced of all in a number of respects. On the one hand, it is the most densely populated country, with its educated personnel and educational infrastructure impressive enough to give the Egyptians a different outlook on technology than the rest of the Arab countries. Their relatively sophisticated technological base gives them an incentive to seek to share in the development of technology, rather than to opt for mere imports, particularly in view of their inability to pay for the massive technology imports. In this regard, Egypt is, in a way, like India, another country with limited financial means but an impressive technological capacity. Halwan Steel and Ore Factory and Nasr Car Assembly Company, together with other technologically sophisticated projects, such as Aswan Dam, stand as monuments to the Egyptian technological capabilities. Also, Egyptian Universities, by far the largest in terms of both number and the size of intake, are well developed to accommodate researches in different technological fields.

The experience of Egypt will have to be an appropriate starting point for other Arab countries to follow suit, as well as to support financially and in any other way. The eventual target to accomplish must, however, remain to be the assumption of a positive role in the management and development of technology, as opposed to merely buying some.

At the peak of their great civilisation (from the 8th to the 12th centuries), the Arabs practised technology transfer on a large scale. The foundation of Arabic science and technology were laid down in the era of Caliph al-Ma'mun (reigned 813-833); the 10th-century Philosopher al-Farabi (d.950) devotes a chapter in his Enumeration of The Sciences to Hiyyal. He includes arithmetics and algebra in his category; the 14th-century Egyptian scholar al-Qalgashandi (1355-1418) included among his list: construction of

large buildings, optics, burning mirrors, centres of gravity, surveying, the discovery of (hidden) waters, moving of heavy weights, the science of water clocks, water machines, and the science of pneumatic machines. [Arab Affairs, Vol.1, No. 2. Winter 86/87.]

Science, technology and trade travelled along the same route in Arab history. Islamic teachings promoted openness, tolerance and the pursuit of knowledge. At first, the Arabs were engaged in a vast programme of learning, research and acquisition. This was followed by a period of intensive scientific research and application. The transfer of this knowledge to Europe then followed. The international transport system established by the Arabs made it possible not only to sustain a flourishing economy, but also to facilitate the movement of ideas. Thus, what this chapter has attempted to highlight is the need to continue with a long Arab tradition: the simultaneous transfer of goods and ideas.

**TABLE 7.1 ESTIMATED NUMBER OF POTENTIAL SCIENTISTS AND ENGINEERS FOR 1980 AND 1985**

YEAR	ARAB WORLD	DEVELOPING WORLD	% OF (1) TO (2)	ESTIMATED NUMBER PER MILLION IN ARAB WORLD	ESTIMATED NUMBER PER MILLION IN DEVELOPING WORLD	% OF (4) TO (5)
	(1)	(2)	(3)	(4)	(5)	(6)
1980	1,146,000	20,284,000	5.6%	7,046	6,272	112%
1985	1,721,000	29,513,000	6.0%	9,143	8,263	111%

Source: Compiled from UNESCO Statistical Year Book, 1988, Table 5.1.

**TABLE 7.2 ENROLMENT OF UNIVERSITY STUDENTS IN THE ARAB WORLD**

YEAR	ARAB WORLD STUDENTS	DEVELOPING WORLD STUDENTS	% OF (1) TO (2)	ARAB WORLD (TEACHER STAFF)	DEVELOPING WORLD (TEACHER STAFF)	% OF (4) TO (5)
	(1)	(2)	(3)	(4)	(5)	(6)
1970	444,000	7,318,000	6%	25,000	613,000	4%
1975	896,000	12,846,000	7%	44,000	953,000	4.6%
1980	1,446,000	18,096,000	8%	73,000	1,303,000	5.6%
1985	1,956,000	25,351,000	7.7%	104,000	1,725,000	6%
1986	2,112,000	26,798,000	8%	112,000	1,846,000	6%

Source: Compiled by the author from UNESCO Statistical Year Book, 1988, Table 2.2.

**TABLE 7.3 SCIENTIFIC AND TECHNICAL MANPOWER POTENTIAL IN SELECTED ARAB STATES**

COUNTRY	YEAR	TYPE OF DATA *	TOTAL (1)	POTENTIAL SCIENTISTS AND ENGINEERS		POTENTIAL TECHNICIANS	
				TOTAL (2)	FEMALE (3)	TOTAL (4)	FEMALE (5)
Egypt	1976	ST	...	492,470	96,200	...	...
Djibouti	1973	EA	35	35	4	-	-
Libya	1980	EA	35,751	43,737	1,142	9,020	439
Sudan	1971	EA	11,229	9,708	...	1,521	...
Bahrain	1981	ST	22,362	10,747	3,184	11,615	4,215
Iraq	1972	EA	68,334	43,645	10,901	24,689	2,950
Jordan	1977	EA	17,232	11,575	1,623	5,657	704
Kuwait	1980	ST	181,923	78,795	...	103,128	...
Lebanon	1972	ST	...	28,350	...	...	...
Qatar	1983	EA	15,236	6,302	1,701	8,934	2,346
Saudi Arabia	1974	ST	...	33,376	...	...	...
Syria	1970	EA	44,909	24,523	3,473	20,386	7,176
N. Yemen	1974	EA	2,074	1,394	18	680	18
Tunisia	1974	EA	11,135	3,421	...	7,714	...
Japan	1982	EA	37,050,000	7,046,000	881,000	30,000,400	1,305,000
Israel	1984	EA	349,410	174,518	...	174,792	...
USSR	1986	EA	34,600,000	15,000,000	8,115,000	19,600,000	12,642,000

\* EA = Economically active qualified manpower.  
ST = Stock of qualified manpower.

Egypt: Data refer to persons aged 25 years and over with an education at the third level (University or above).

Libya: 32,135 of potential scientists and engineers are foreigners.

Also, Bahrain 7,464, Kuwait 63,339 (of potential scientists and engineers in Col (2) and 77,188 of the technicians in Col (4) are foreigners.

Qatar 4,782 (Scientists and Engineers), 6,032 (technicians).

**TABLE 7.4 NUMBER OF SCIENTISTS, ENGINEERS AND TECHNICIANS ENGAGED IN RESEARCH AND EXPERIMENTAL DEVELOPMENT**

COUNTRY	YEAR	TOTAL (FTE) SET	SCIENTISTS AND ENGINEERS		TECHNICIANS	
			TOTAL	FEMALE	TOTAL	FEMALE
Egypt*	1986	28,524	20,893	...	7,532	...
Libya	1980	2,600	1,100	...	1,500	...
Sudan	1978	7,077	3,806	...	3,271	...
Jordan	1985	445	270	...	175	...
Kuwait	1984	2,072	1,511	334	561	113
Lebanon	1980	186	180	...	6	...
Qatar	1986	290	229	58	61	2
Japan	1986	677,153	575,292	46,187	101,861	19,453
Israel	1984	53,735	39,749	...	13,986	...
USSR	1986	...	1,500,000	598,100	...	...

\*Egypt: not including military and defence research and development.

SET = Scientists, Engineers and Technicians

FTE = Data are in full-time equivalent.

**TABLE 7.5 NUMBER OF SCIENTISTS AND ENGINEERS ENGAGED IN RESEARCH AND EXPERIMENTAL DEVELOPMENT BY THEIR FIELD OF STUDY**

COUNTRY	YEAR	SEX	TYPE OF DATA	TOTAL (1)	NS (2)	E&T (3)	MS (4)	AS (5)	SS &H (6)	OF (7)
Egypt	1982	MF	FT	9,950	1,605	2,605	2,050	3,143	547	-
		MF	PT	29,967	8,152	3,735	6,390	2,782	8,908	-
		MF	FTE	19,939	4,322	3,850	4,186	4,070	3,517	-
		F	FT&PT FTE	11,503	3,075	1,189	3,109	1,186	2,944	-
Libya	1980	MF	FT	1,100	230	198	130	221	321	-
Sodaa	1978	MF	FT&PT	3,266	513	686	222	560	1,218	67
Jordan	1982	MF	FTE	1,241	310	340	118	92	381	-
Kuwait	1977	MF	FT & PT	606	109	165	9	52	271	-
Qatar	1986	MF		229	160	53	2	5	-	9
		F		58	57	-	1	-	-	-
Japan	1981	MF	FT	379405	80442	142316	64408	26598	41316	24325
		F	FT	22475	2277	775	7850	904	4108	6561

KEY: NS = Natural Science  
E&T = Engineering and Technology  
MS = Medical Sciences  
AS = Agricultural Sciences  
SS&H = Social Sciences and Humanities  
OF = Other Fields

**TABLE 7.6 NUMBER OF SCIENTISTS AND ENGINEERS ENGAGED IN RESEARCH AND EXPERIMENTAL DEVELOPMENT PERFORMED IN THE PRODUCTIVE SECTOR, BY BRANCH OF ECONOMIC ACTIVITY (FULL TIME EQUIVALENT)**

COUNTRY	YEAR	BRANCH OF ECONOMIC ACTIVITY							
		% TOTAL (1)	AF H&F (2)	EI (3)	MI (4)	U (5)	C (6)	T&C (7)	OA (8)
Egypt*	1982	5,527 100%	3,194 57.8%	651 11.8%	1,327 24.0%	210 3.8%	111 2.0%	34 0.6%	- -
Kuwait**	1984	296 100%	13 4.4%	- -	67 22.6%	- -	2 0.7%	42 14.2%	172 58.1%
Qatar***	1986	44 100%	5 11.4%	7 15.9%	8 18.2%	7 15.9%	4 9.1%	- -	13 29.5%
Japan	1985	311,678 100%	294 0.1%	1,095 0.4%	297,249 95.4%	-/- -/-	7,232 2.3%	5,808 1.9%	- -

KEY: AFH&F = Agriculture, Forestry, Hunting and Fishing  
 EI = Extracting Industries  
 MI = Manufacturing Industries  
 U = Utilities  
 C = Construction  
 T&C = Transport and Communications  
 OA = Other Activities

\* Egypt not including military and defence R & D.

\*\* Data refers to the number of FT and PT scientists and engineers engaged in scientific and technological activities.

\*\*\* Also FT & PT. (Full-time and Part-time)



**TABLE 7.7 CURRENT EXPENDITURE FOR RESEARCH AND EXPERIMENTAL DEVELOPMENT BY TYPE OF R & D ACTIVITY**

CURRENT EXPENDITURE BY TYPE OF R & D ACTIVITY						
COUNTRY	REFER- ENCE YEAR	CURRENCY	ALL TYPES OF R & D ACTIVITY (1)	FUNDAMENTAL RESEARCH (2)	APPLIED RESEARCH (3)	EXPERIMENTAL DEVELOPMENT (4)
Sudan	1978	Pound	5115 100%	917 17.9%	3920 76.6%	278 5.4%
Kuwait	1977	Dinar	6254 100%	506 8.1%	5076 80.8%	702 11.2%
Japan	1984	Yen	7152938 100%	1009651 14.1%	1793723 25.1%	4349565 60.8%
USA	1983	Dollar	86204600 100%	10787900 12.5%	21949700 25.5%	53467000 62.0%
UK	1978	Pound Sterling	2792800 100%	198500 7.1%	650600 23.3%	1943700 69.6%
Singapore	1984	Dollar	144700 100%	4900 3.4%	37900 26.2%	101900 70.4%

Source: UNESCO Statistical Year Book, 1988, Table 5.11 (5-64).

Amounts shown are in thousands.

**TABLE 7.8 SELECTED INDICATORS FOR SCIENTIFIC AND TECHNICAL MANPOWER POTENTIAL AND PERSONNEL ENGAGED IN RESEARCH AND EXPERIMENTAL DEVELOPMENT**

Country	Year	Type of Data	Qualified manpower		Personnel engaged in R & D.			
			(1)	(2)	(3)	(4)	(5)	(6)
Egypt	1986	ST	13,196	...	435	157	0.4	...
Libya	1986	EA	14,711	3,034	370	505	1.4	2.5
Sudan	1978	-	...	...	217	186	0.9	...
Bahrain	1981	ST	30,273	32,718	...	...	...	...
Jordan	1985	EA	4,194	2,050	77	50	0.6	...
Kuwait	1984	ST	57,305	75,002	877	329	0.4	...
Lebanon	1980	-	...	...	67	2	0.0	...
Qatar	1986	EA	23,341	33,089	702	187	0.3	...
Japan	1986	EA	59,636	253,941	4,743	840	0.2	...
USA	1986	EA	14,777	...	3,282	...	...	...
Israel	1984	EA	41,821	41,886	9,525	3,352	0.4	22.8

Source: UNESCO Statistical Year Book, 1988, Table 5.18 (5-111).

NOTE: Data for qualified manpower relate to 1976 for Egypt; 1977 for Jordan; 1980 for Kuwait and 1983 for Qatar.

KEY: EA = Economically active qualified manpower  
 ST = Stock of qualified manpower  
 S&E = Scientists and Engineers

(1) = Potential Scientists and Engineers per million population.  
 (2) = Potential Technicians per million population.  
 (3) = Scientists and Engineers per million population.  
 (4) = Technicians per million population.  
 (5) = Number of Technicians per Scientist or Engineer.  
 (6) = Scientists and Engineers in R & D as % of potential S & E.

## CHAPTER 8

### INTRODUCTION TO FIELD WORK RESEARCH UNDERTAKEN IN THE ARABIAN GULF REGION

#### 8.1 Introduction

As correctly noted by J. P. Killing [1983 : p.87] ...

*"nearly every book which deals with the subject of MNCs and joint ventures, or licence agreements, does so from the point of view of the firm which has technology and is wondering how best to exploit it".*

This study has intended from the outset to devote a great deal of its attention to explore the possibilities of maximising the advantages to the Arab host countries of their dealings with foreign MNCs. It attempts to do so with the full understanding that, the Arab countries are now witnessing a critical stage of their development, whereby they can no longer afford to go along with schemes readily made by foreign MNCs without questioning the minute details that are associated with such schemes, particularly if joint venture arrangements are under consideration.

#### 8.2 Objectives of the Study

It is hoped that this study will illuminate the phenomenon of MNCs in the Arab World by raising some critical issues, identifying important hypotheses and suggesting in the end some profitable paths for empirical and theoretical analysis.

MNCs play a crucial role in the process of economic restructuring of the world economy through their operations in many host countries, making use of the particular opportunities which each of these countries is offering to their activities. This study attempts to answer the question on whether the role of MNCs, as active agents in the process of permanent

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and accelerating restructuring of the economic development of the Arab World is a positive or negative one.

The study attaches central emphasis on the commonly assumed transfer of technology by MNCs to the Arab countries and attempts to analyse the conflicts resulting from the present mechanisms by which technology is transferred. It is hoped that a study of this kind will be of some help in solving some of these conflicts to the ultimate benefit of the technology recipient Arab countries, since available evidences now reveal that most of the benefit of technology transfer has thus far been accrued to the technology suppliers; the MNCs.

There are three main reasons why there is an urgent need to find solutions:

Firstly, the available evidence strongly suggests that MNCs represent a permanent feature, particularly in the field of manufacturing industry in the Arab World, a sector on which our study has particularly emphasised;

Secondly, since MNCs are a major world-wide source of modern technology, it is highly likely that most of the technologically underdeveloped Arab countries will continue to depend for quite some time upon technology produced, owned or controlled by these global firms;

Finally, the Arab countries have become increasingly dissatisfied, not only with the terms and the conditions of technology transfer through MNCs, but also with the results of such transfer over the last two decades or so.

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It is the author's hope that when contacts have been persistently made over six years of time, with a cross-section of people who are directly or indirectly involved with the MNCs' operations in the Middle East, and with a clear sense of purpose, such contacts must have contributed to the theoretical advancement of knowledge and set the scene for the formation of appropriate strategies by the Arab countries on the basis of undergoing changes in the investment positions of both MNCs and the Arab countries themselves. His overriding concern to ensure an even-handed approach in dealing with various viewpoints, is hoped to have assisted the upgrading of the quality of the final outcome of the research analysis.

### **8.3 Main hypotheses used in the Research**

It is generally contended that the contributions of MNCs to their host countries' economic fortunes are either positive, negative or neutral. In the particular case of the Arab World, their contributions are seen to be a mixed blessing, as they reflect a combination of both positive and negative implications in a number of various respects. It is therefore important that the Arab countries should formulate their policies towards foreign MNCs which are to be limited to one or a combination of three options:-

1. More of the same policies if the present performance of MNCs is seen to be satisfactory in serving the economic development aspirations of the particular Arab host country;
2. Adopting a "u-turn" policy that might entail completely radical changes of the existing policy (or set of policies), including the option of turning elsewhere and possibly opting for nationalisation or confiscation if the MNCs role is seen to be clearly damaging to the national economy (or sovereignty); or
3. Adopting a middle ground stance between the two extremes.

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The foregoing premises may lead us to a series of assumptions and hypotheses, many of which have emerged during the literature searching stage, as well as during the preliminary contacts made throughout the first stages of objective formulation. The model used in this study hypothesises that certain factors determine the degree of responsiveness in the Arab World to certain activities and operations carried out by MNCs, while others indicate the extent of satisfaction by the host Arab countries from such activities. The attractiveness of the Arab countries to foreign direct investors in manufacturing and other sectors is also associated with certain other factors, such as their level of development, their resource endowments, investment environment and strategies adopted towards foreign direct investment in general.

The main research hypotheses revolve around and stem from the strong debate which has been going on for a good part of the last two decades, about the influence of MNCs on development in the Third World. Supporters say they positively influence development by:

1. Providing private capital which is not available locally. By transferring resources, MNCs can become a spur to economic recovery;
2. Creating employment and frequently offering better working conditions than local companies;
3. Transferring technology, skills and experience not otherwise available and contribute to industrialisation; and
4. Increasing revenue to governments through both direct and indirect taxes and contributing positively to the balance of payments.

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Critics however, say that MNCs:-

1. Are accountable only to shareholders in their home base;
2. Are motivated by profit rather than social need and balanced economic growth.  
Thus, technology, skills, and expertise transferred may not contribute to broader development;
3. Labour is plentiful in the Third World; in many industries MNCs' investment is capital and technologically-intensive;
4. When MNCs need labour-intensive production, they locate subsidiaries in Free Trade Zones, taking advantage of low paid workers and poor employment conditions;
5. MNCs exploit raw material and agricultural resources for the benefit of their home countries and have transferred toxic and hazardous production to the Third World where fewer regulatory procedures operate;
6. MNCs repatriate profits, management and consultancy fees. In some cases, governments borrow more capital than they receive in income from taxing the companies, in order to attract the investment.

8.3.1. Hypothesis on the role of MNCs in the Industrialisation of the Arab Countries

Under the implicit assumption that the main thrust of development in a developing country is to fulfil the basic needs of its society, most technologies which MNCs provide to foreign affiliates based in the developing countries, are seen to be inappropriate. They seem less inappropriate, however, under the more relaxed and perhaps more realistic assumptions that:

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- a. The industrialisation process per se represents over the long-term the most important way out of under-development; and
  - b. Practically all developing countries are characterised by a considerable degree of openness vis-a-vis the world economy, a trend which has lately increased by the emergence of MNCs.

Under these assumptions, the appropriateness of Multinationals' controlled technology would have to be judged by the degree to which it contributes to the broadening of the industrialisation process and/or the expansion, and diversification of the host-country's export trade and the improvement of its terms of trade with the outside world. With regard to the Arab countries, while MNC-provided technologies are barely appropriate for the broadening of the industrialisation process in most of these countries, they are often appropriate from the viewpoint of the second objective (diversification of their exports, albeit not necessarily followed by any associated improvement of its terms).

Some Arab countries, attracted by the mirage of the easy import-substitution strategy, have accepted at face value most of the MNC arguments that any attempt to interfere with the scales of given technologies would lead to diseconomies. This has also induced them to offer MNCs very generous concessions and subsidies in the form of tariff protection in cases where the use of technologies inappropriate to the size of the local market resulted in the construction of plants with excess capacity and unduly high fixed capital investment. The cement industry in the Gulf region is a clear example that comes to mind in support of such contention.



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### 8.3.2. Free market mechanism vis-a-vis protectionism

While the contemporary economic theories no longer regard the interests of different nations as incompatible, there appears to be some sense in the mercantilists central assumptions pertaining to the incompatibility of interests among nations in reality. Today, the advocates of free trade base many of their arguments on the adverse repercussions of protectionism. The latter, in their view, benefits only the protected areas (or countries) but only at the expense of others who are harmed in the process. Besides, the gainers are relatively less, compared to the majority who would loose out. Protectionists, on the other hand, use the infant industry argument, which is most appealing when applied in developing countries such as the Arab States. Its main assumption is that if a country cannot produce a given commodity at a lower cost than its rivals, it may develop an ability to do so by choosing to erect barriers (tariff or non-tariff). By so doing, it can allow its labour force to acquire necessary skills which, in turn, will help in the expansion of production facilities sufficiently enough to yield economies of scale.

The research hypothesises that, in the Arab World competition is harmful and should be replaced wherever possible by regulations; that collectives are preferred to individual ventures; and that the public sector's leading role in most of the Arab countries should be preserved.

This hypothesis favours a scenario which apparently suits the interests of the overwhelming majority of the Arab countries, but in the viewpoint of the industrial world and its MNCs operating in the Arab World it is rather unacceptable.

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The responses that have emerged from our Gulf survey, together with our assessment of the role played by governments and other state-controlled organisations in the realisation of development strategies of the Arab countries, do confirm the validity of the above hypothesis. Another dimension which seemingly adds to the strength of the argument is the nationalistic attitudes (Pan-Arabism) which advocates policies geared towards self-dependence, that necessarily entails less reliance on outside cooperation.

### 8.3.3. Cultural implications

Buckley and Casson contend that,

*"There are main areas in which conventional economic theory appears to be deficient in explaining MNCs behaviour in less developing countries .... Cultural factors are obviously at work and can explain what economic factors have failed to do in that respect"* [Buckley and Casson, January 1989, p.1].

In the Arab World, cultural factors can always be cited to explain the failure of some well established theories to be applied in reality. While, for instance, the traditional concepts of resource endowments, such as land, labour and capital have particularly proved to have only limited success in explaining why there are remarkable differences in the material economic performance between the Arab World and, say, the NICs of South East Asia, one obvious factor comes to mind to offer a reasonable explanation: differences in educational level and quality of training. However, most of the economic theories, including the "Eclectic theory of international production" seem to ignore the significance of this factor, as well as other cultural and social ones.

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Buckley and Casson [p.11] claim that cultural constraints inhibit entrepreneurship, both directly by discouraging individual initiatives and indirectly by encouraging political leaders to distort incentives and over-regulate the economy. Such claim is not supported by the real experience of most of the Arab Countries, in that there is little regulation of their economies. Moreover, individuals are freely allowed to exercise their business activities, so far as they are within the framework of investment and commercial laws, which are often flexibly regulated. One also notes that Buckley and Casson seem to regard the lack of individualistic thinking in the developing countries, as a major cultural weakness. In the Arab context, and far from being a sign of weakness, such cultural heritages are often considered to be a source of strength, particularly in the less economically fortunate Arab countries (non-oil states), in which self-sufficiency of basic food is common. The recent phenomenon of the expansion of famine-stricken areas in the rural areas of the Sudan, has been mainly attributed to the spread of "individualism" – rather than to the lack of it – which has been reflected in the tendency to emigrate to the urban areas, leaving behind the productive sectors of agriculture and other traditional local handicrafts. In view of the constraints on foreign currency resources to cater for the imports of food, a natural consequence of urbanisation is the lack of locally produced food supplies, hence famines.

While cross-cultural barriers can partially explain why the spill-overs from MNCs' operations in many Arab countries are so limited, the capacity of indigenous competitors to imitate – let alone adapt or improve upon – imported technologies, is limited not so much due to cultural considerations, as by their lack of scientific outlook, which in itself is a function of the development stage they have hitherto reached.

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It is generally hypothesised that, the deeper the cultural roots of a nation or a group of countries, the stronger is their resistance to foreign style products or consumption patterns, and hence the lesser is their dependence on imports from MNCs' base countries. In the Arab World, particularly in the Arabian Gulf, this hypothesis is irreconcilable with the real life experience. Beside the economic factors that pull the countries of that region more and more towards the outside world, the wealth that came with oil revenues has drastically changed the consumption patterns of people in that particular part of the Arab World. While the contention that *"interests of all human beings are basically common"*, claims some acceptance at face value, the argument that *"interests of different nations from the economic perspectives do conflict and not overlap"* as it is sometimes ostensibly assumed does attract much stronger appeal.

#### 8.3.4 Joint Venture and technology transfer

There are three schools of thought on the role played by MNCs in international technology transfer to developing countries: orthodox, radical and reformist. Orthodox viewpoint shared by the MNCs themselves maintains that technology produced in the advanced countries is appropriate to the needs of developing countries and the most efficient mechanism for its transferring is through MNCs. The rationale for this viewpoint is based on a number of prepositions; prominent among which is that the whole "technology package" is closely integrated with management, marketing and financial skills and as such covers many stages including site selection, decision on plant size, plant construction, etc. It is stressed that such knowledge cannot be acquired in the market separately through licensing, technical literature or imitation. Practically all premises advanced by the orthodox viewpoint are rejected on many political, social and economic

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grounds by the radical school, which maintains that the only way to break out of permanent technological dependence is to drastically limit imports of MNC-owned and controlled technology and to return to inward organising broad technology import-substitution programmes. The reformist school takes a middle ground and contends that developing countries need an appropriate mix of technologies and that MNCs have a useful role to play, provided some conditions are fulfilled, and that at the present the technology transfer through MNCs is far from being an unmixed blessing for the host developing countries.

The above premises and assumptions are tested by the study in the context of their appropriateness in the Arab World. Many of the arguments embodied in the different and contradicting viewpoints of the three schools have been accounted for by the questionnaires of the main research survey conducted in the Arabian Gulf region.

#### **8.3.5. Impact of Expatriate workers on the Gulf States**

The study tests two hypotheses with regard to the impact of foreign workers on the economies of the Gulf region. While some economists maintain that remittances sent home by expatriate workers represent a loss of spending power for the Gulf economies and a financial drain on the invisible trade account, others argue that in the industrial sector which is a main concern of our study, the value added to the economies by the expatriate workers far outweighs the negative impact of their tendency to remit a high proportion of their earnings home.

More important for the purposes of our research is the impact on the technical skills of the Gulf nationals. The presence of expatriates is seen by many as

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depriving the nationals from acquiring technical experience and so obtaining a true transfer of technology. This seems more valid, particularly in the case of the higher-level European and American expatriates who occupy senior positions, for which trained nationals (from the Gulf and other Arab States) might be recruited from the many new national universities and training institutions. A counter argument to this claims that there is a need for caution in this area; over-rapid replacement of expatriates by nationals at the senior administrative and technical levels may act as a net bar to the effective transfer of technology. The research reaches the finding that, flexible, gradual transition could take place through assistance from neighbouring Arab expatriates as a necessary first step towards complete indigenisation of the work force. (Pan-Arab nationals' level as a mid-way stage before work force is completely replaced by nationals of each respective Arab country.)

**8.3.6. The Relationship between MNCs and the Arab Governments**

Arab governments that once feared the MNCs are now seen to be trying to court them. They seem to have learned to bargain with MNCs to make them better serve their objectives. The assumption is that, maybe through more and more contacts and interaction, previously contrasting positions have softened and the balance between the advantages and the disadvantages of the MNCs might have tipped in favour of the advantages. Within the Arab context, some argue that such tendency is due to the emergence of a more pragmatic attitude, while others explain it within the framework of the dependency theory; meaning that the Multinationals having the upper-hand have forced such cooperation.

## **8.4 Methodology and research strategy**

### **8.4.1 Questionnaires and interviews**

The research strategy is based upon structured questionnaires and interviews of three types of participants. The open-ended interviews have capitalised on the Arab norms of hospitality and their general orientation towards face-to-face exchange of views and discussions: this has been further supported by the many responses to the questionnaires which a two month visit to three Gulf States has produced.

For its comparisons with experiences of MNCs in other regions of the world and even in other Arab countries outside the Gulf area, the study relies rather heavily on the published literature on such regions/countries.

Although formal questionnaires were initially sent to many companies, only a few of them were satisfactorily completed. As a result, most of the information gathered from those who were eventually interviewed were obtained from semi-structured but relatively open-ended interviews. Both because the latter information contained relatively little quantitative data and because the sample was not a randomly selected one, more emphasis is placed on qualitative than on quantitative analysis.

In order to gain a spread of opinion, selection of potential respondents was drawn from a wide variety of functions, disciplines and economic sectors. Every effort was made through a number of personal contacts and through the involvement of

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many friends and research associates to raise the response level so as to ensure that the pattern of opinions received was as representative of the targeted sample as possible.

Since the assessment of the impact of policies on outcomes is prominently featured as one of the basic aims of the analysis, some emphasis is placed on describing the policy settings that are assumed. To relate practice with the theoretical set-up of the MNCs and international joint ventures and direct/indirect foreign investment, some related theories such as 'Dependency Theory', 'Eclectic Theory of International Production', 'Laissez-Faire' and 'Protectionism' have been assessed. The aim is to attempt to establish the right balance between theory and practice, as far as possible.

#### 8.4.2. Pilot Survey

In 1984, the author conducted a number of selected interviews with some British firms which had business links with the Arab World. While the interviews were intended at that time to serve purposes of a slightly different nature from those of the 1990 survey in the Arabian Gulf, insofar as the emphasis is concerned, the outcome and the findings could have hardly been more relevant to the subject matter of the present survey. The questionnaire and interviews conducted in 1984 have well served their purpose as a pilot survey for our 1990 Gulf survey, as they proved to be productive in revising the contents and scope of the questionnaire itself. In fact the previous experience has established beyond any doubt the fact that response rates tend to be low when questionnaires are sent by post, or even



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when personal contacts are attempted without carefully arranged initial communications through telephone contacts or introductory letters. Other purposes served by the 1984 survey for the benefit of those of the present one, could be briefly identified as follows:

- a. The conclusion was reached as early as in 1984 that the lack of data and the clear reluctance of people involved in providing any sensible information on "invisible" investment and trade, made it impossible to contemplate opting for MNCs involved in construction, engineering or consultancy sectors. This fact has been, in effect, a signal to disregard the invisible investment sector and to focus the research attention on MNCs involved in the manufacturing industry in particular;
- b. Open-ended questions proved to have produced either misleading or no results. They were therefore omitted from the questionnaire set of our present survey;
- c. The original design of the questionnaires has been subjected to extensive revision and reduction in size, upon the advice of some experts, including the research tutor.

On the basis of the experience gained from the first endeavour, which was mainly concerned with British firms involved in Arab-British trade and business in general, it was seen appropriate not to use up a great deal of the intended research potential population for a pilot survey, which was dispensed with in our present survey. All the above led to the design of a set of questionnaires, largely modified from their original versions, greatly reduced in size and in shape, and excluding

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open-ended questions which were reduced to only one out of an average of 17 questions for each of the three questionnaires, designed to address three types of potential participants, namely Arab Companies, Foreign MNCs and Arab Professionals. In fact, though not identical, the sample of the pilot study of 1984 was comparable in its knowledge and way of thinking, to that of the present survey. It thus saved much time and effort which would have been necessary had their duplication been deemed inevitable.

#### 8.4.3. Other Sources of Information

Every possible use was made of the data made available from various sources, i.e. official publications, proceedings of seminars and conferences, many of which the Author has attended in his official capacity at an Arab Embassy in London. Apart from the information made available by the extensive questionnaires and interviews on a formal level, other types of qualitative information was also obtained through a number of informal contacts and meetings with some senior officials, of decision making calibre, both in the Arab countries and at the MNC managerial levels. Other sources include:


- a. Semi-official contacts with employees of some organisations of relevant concern to the subject matter of the research topic, including Arab-British Chamber of Commerce, and similar trade organisations, i.e. Committee for Middle East Trade (COMET), the Council for the Advancement of Arab British Understanding (CAABU), Middle East Association, etc.;
- b. Extensive literature search into articles and surveys, academic thesis, specialised journals, reports, bulletins, directories and periodicals;

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- c. Numerous field visits were made in a number of industrial factories, economic and academic institutions in three Gulf States, and various models of MNC operations in the region, were reviewed from the literature survey;
  - d. Other information relevant to the study has also been gained from the Author's professional knowledge as a formal industrial manager in a poor (but potentially rich) Arab country (Sudan) and from his present capacity as an economic advisor at an Arabian Gulf Embassy in London.

#### **8.5 Scope and Limitations of the Research**

The Multinationals are major actors, whose operations profoundly impact on the world economy, as they perform both as investors and traders. This study is particularly (but not exclusively) concerned with the first category (MNCs as investors).

There are large gaps in the available statistics on the operations of MNCs in the Arab region, and indeed elsewhere in the Third World, due to their well-known reluctance to publish data or provide researchers with it. There is also a general lack of comprehensive and reliable data on the efficiency performance of the Arab firms dealing with MNCs. The major reasons for the inadequacy of data are the reluctance of Arab firms to make their data public, the use of ethnic and kinship links as informal channels for their investments and the well-known fact that many developing countries still do not maintain complete and accurate data on the investment activities of their national firms. Therefore, our treatment of the findings of the study is necessarily constrained and our conclusions regarding the quantitative analysis should be treated with caution: In fact, the quantitative



estimates and data which are compiled and presented in such a way geared to best serve the purpose of the study, should be considered of an illustrative character of use, but not necessarily to be taken as forecasts of actual developments.

The limitation on the existing data base on MNCs has been further exacerbated by the limited responses of the survey participants to particular questions which sought quantitative answers. From the earliest responses to the questionnaires sent by post, it soon became clear that the very questions which intended to provoke numerical answers were those mostly responded to with reluctance. Further experience acquired via personal contacts and interviews, reiterated the fact that such questions are most likely not only to be neglected, but also to deter potential participants who would otherwise be prepared to complete the entire questionnaire, from doing so. It was for this reason that during the face-to-face interviews conducted in the Gulf region, direct questions seeking quantitative information were deliberately avoided, in an attempt to maintain an atmosphere of rapport which is paramount in stimulating and probing the interviewees to release as much information and personal views as possible.

Moreover, the author was at a disadvantage of lacking the sponsorship of a prestigious institution, or the support of any official or semi-official body. The initial attempts to link the study with an Arab organisation in London have failed and the idea was soon abandoned. Financial problems encountered, as the author was entirely self-sponsored, constituted a major factor in the repeated delay of the research completion. It was held back owing to the lack of resources needed to undertake original enquiries, which did not materialise until the summer of 1990, when the research main field work was eventually

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undertaken in three Arabian Gulf States. The geographical coverage of the survey was originally contemplated to include also three other Middle Eastern countries, namely Egypt, Iraq and Morocco, but that idea had to be dropped in the circumstances.

#### **8.6 The Survey sample**

While the sample selection of the survey participants was meant to be at random, due attention was given to ensure the coverage of a wide variety of functions and disciplines, both at the company and people levels. The Arab professionals were drawn from different backgrounds, as detailed in Section 8.7, while the Arab and multinational companies incorporated a variety of sectors, ranging from foodstuffs, pharmaceuticals, electronics, and paper, as well as aluminium, cement, leather, sugar and steel manufacturing. While no claim is made here for a perfect representation of the entire population of the sample chosen for the actual survey, a fair amount of cross-section was possible to approach. However, there is inevitably a degree of subjective bias and the element of convenience in actually reaching out some companies has also been one of the determining factors in the selection process, while the Author was touring the Gulf States.

One possible limitation which the author is prepared to accept, is the fact that those who actually responded to either of his questionnaires or interviews could well represent the firms which are less likely to be vulnerable to competition. Conversely, those who either responded negatively, only partially, or who did not care to respond at all, may have done so out of their sheer concern to protect their business competitiveness. The findings are thus not intended to, nor are they portrayed as being, a statistically accurate report. They should be viewed as indicative, rather than predictive, of the attitudes and operations of

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MNCs in the Arab World, or the reactions of the latter to the policies and strategies of the former.

The strategies of various MNCs and their Arab host countries, mainly drawn from published documents and industry sources, are identified by this study and analysed using published information and selective interviews. The Author is, of course, well aware of the limitations and difficulties of this type of research. The factual richness of interview data cannot all be reduced into a few operational hypotheses or propositions and still be preserved. In order to lessen the magnitude of such limitations, he opted for some supportive case studies, but detailed presentation was deliberately avoided, otherwise it would have ended up in an unacceptable length and probably it would have made tedious reading.

#### **8.7 Responses of Arab Professionals**

It is not always wise or appropriate to jump to hasty conclusions, based on what other people perceive through their own experiences, and respond to attitude questions. Yet, some general understanding of the nature of MNCs role and operations in the Arab countries ought to be sought in the offices (or minds) of the people who are directly or indirectly involved in the decision making machinery which influences (or is influenced by) the strategies or performance of MNCs. It is the author's view that the views expressed by this type of technocrats should be highly accounted for, as an essential ingredient for the proper evaluation of the role played by MNCs, especially if circumstances arise that necessitate policy revisions due to ever changing conditions. It is in line with this understanding that particular attention has been duly given to the

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responses provided by this category of survey participants: the Arab Professionals, who are mainly comprised of academics, economists, managers, engineers and high ranking government officials of various disciplines and numerous functions.

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## CHAPTER 9

### FIELD WORK ANALYSIS AND FINDINGS: PART 1 CONTRIBUTION OF MNCs TO TECHNOLOGY TRANSFER AND OTHER DEVELOPMENT ISSUES IN THE ARAB WORLD

#### 9.1 Research Scope and Methodology

The main findings of this study are based on a survey conducted during the summer of 1990 in three Arabian Gulf States; namely United Arab Emirates (U.A.E.), Qatar and Kuwait. The survey targeted three distinctive groups as the main focus of the study. The majority of the respondents have been directly approached and provided with extensive questionnaires following a brief introduction explaining the nature and objectives of the survey. Some of the targeted sample were interviewed and a few more were sent the questionnaires for completion as mutually arranged over brief telephone communications. It must be emphasised here that while the response level of those approached through direct contacts (personally and by telephone) was remarkably high, those who were contacted by mail have produced disappointingly poor responses, both quantity and quality wise.

Three different sets of multiple choice questionnaires were designed to address three types of respondents and the positive responses received at the end of the survey period were comprised of the following:

1. 92 Arab professionals presently working in different economic, financial, engineering and academic institutions and ministries in the three Gulf States. They are drawn from different sectors and disciplines including industry, oil, engineering and financial sectors as well as research centres, universities and other similar academic institutions. 62 of the total number of the group of professionals (67%)



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are economists, while the balance (33%) is constituted of a cross-section of engineers, legal advisors and managers or executive directors at varying levels of decision making status and responsibilities;

2. 18 Arab Companies (effectively Gulf Companies) performing their operations in cooperation with foreign multinational corporations in one way or another<sup>1</sup>. 15 of this sample are involved in manufacturing (83%), while the remaining three are involved in software development, telecommunication and engineering consultancy services. Those directly contacted (hand delivery of questionnaires following brief introduction) and the others with whom face-to-face interviews have been undertaken, were mainly either general managers or executives closely associated with top management. In the sample selection stage, emphasis was primarily laid on the manufacturing industry and a special attention was given to the need for broadening the diversity of sectors within the manufacturing industry<sup>2</sup>.
3. 14 foreign multinational corporations operating in the Gulf region with varying ranges of partnerships with local (Arab) firms or governments. 9 of the total who responded are based in the U.A.E. (and indeed elsewhere in the Arab World as well) and 2 in Qatar. Those were directly contacted and the author was fortunate to be able to conduct interviews with the resident managers of some of these corporations in their Gulf offices. The remaining 3 were the only positive responses received from a total of 96 who were sent the questionnaires by post; two from Britain and one from Belgium. It was clearly evident from the outset

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<sup>1</sup> 69 Arab Companies cooperating with multinational companies were sent questionnaires by mail; 18 of them at their U.K. office addresses.

<sup>2</sup> The sample included manufacturing in cement, plastic, aluminium, steel, fertilizers, petrochemicals, leather, beverages, flour, etc.

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that the level of response would not be promising, as many of those approached elected to decline the initial invitation to respond, giving all sorts of excuses. As the choices were extremely limited it was necessary to approach whoever was likely to respond meaningfully, notwithstanding the extent of closeness to the idealistic sample target set out at the outset. Joint venture corporations particularly in the manufacturing industry or other multinationals with some direct working relationships with local counterparts have been originally targeted but those are the very corporations whose cooperation proved to be difficult to secure. It was then seen that whatever information could be gathered must be of some value – no matter how scanty. This is particularly so in view of the magnitude of time and effort spent in persuading a number of potential candidates well before the start of the author's visit to the Gulf region, but with no apparent success. Prior to the successful visit to the Gulf, some 96 multinationals<sup>3</sup> were sent questionnaires by post but only 3 cared to return them completed. It is in view of these circumstances that positive responses received from 11 foreign multinationals based in the Gulf States were seen as a reasonable success. Some of these corporations happened to be involved in engineering consultancy and contractors with little to contribute in the general areas of joint ventures, technology transfer and training which have been set to reflect the main focus of the survey. However, some useful information could be derived by interviewing a number of senior executives working for those corporations.

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<sup>3</sup> 72 British Multinationals based in U.K. and 24 European and American Multinationals.

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9.1.1 Discrepancies incorporated in the responses to some questions

While the overwhelming majority of respondents elected to choose one answer to indicate their views or preferences in response to the multiple choice questions as was expected, a few others gave more than one. This does not cause any problems at the analysis stage as it is natural to expect a combination of different factors and this was fully taken into account when the questionnaire was designed.

Answers to some other questions asking for preferences to be indicated included in some few cases a voluntary scaling to show a descending or ascending order of preference choices. This was easily accounted for by taking the most significant choices as their selected ones<sup>4</sup>.

The rate of responses to some particular questions proved to be considerably low. This may be due either to the lack of information on a particular subject or an apparent lack of clarity. Such questions, together with those which produced inconsistent answers, were omitted in the analysis stages and have not formed any basis for conclusions.

Some respondents, on the other hand, have pioneered to hypothesise questions which were not raised in the questionnaires or during interview sessions, together with their attempted answers. Such initiatives and similar comments have no doubt enriched the magnitude of information provided and of course, the findings and conclusions.

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<sup>4</sup> For example, in questions 6 to 13 of Questionnaire E (See Appendix E) the most significant three of a possible six choices were taken as their selected choices, since on average three choices proved to be the main pattern as shown by the average respondent.

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A number of British Consultants, whom the author was able to meet with in U.A.E., indicated that as they are mainly in the business of consultancy services and not involved in joint venture investments, their answers to most of the questions, ideally meant for manufacturing or other similar corporations, might not be particularly helpful to the purpose of the survey. While such comments were carefully taken account of, many of their comments expressed during relaxed debates (on two occasions at least) were extremely relevant and usefully integrated into the general analysis and assessment of the multinational's operations in the Middle East. From the author's point of view, it was seen quite appropriate and in place to draw on these consultants companies' vast international experiences, which have clearly influenced, and in some cases accelerated, the development process of some parts of The Arab World.

#### 9.1.2 Language and Communication Methods:

The questionnaires were deliberately designed in English language. Had they been written in Arabic in an attempt to match the common language of almost all respondents of the two groups of "professionals" and "Arab Companies" that would have been at the risk of forgoing the qualitative requirements of the targeted sample. The only obvious criterion to guarantee the minimum requirement of the competence of various respondents was set to be the good command of English language. As an Arab national himself, the author was particularly keen to hedge against the known tendency of some Arab executives to deal with such matters routinely by assigning the work to some junior staff member, perhaps with relatively less work burden. The outcome proved to be a remarkable success, as it is now quite evident that no less than 90% of the total respondents are holders of university degrees as minimum requirements. Out of the total of 92

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professionals, 17 (18%) are university professors, 45 (50%) Doctorate degree holders, as well as an unspecified number of Master degree holders. It is therefore hoped that the high calibre of the sample would at least partially compensate for the likely disadvantages stemming from the small size of the sample, particularly for the two groups of Multinationals and the Arab companies.

Having said all this, it would remain to add that conversations during interviews with Arab respondents were, of course, conducted in Arabic language, thus benefiting from the depth and quality of information and views provided at length and in the most amicable and informal atmosphere.

The overwhelming majority of the professionals who have taken part in this exercise are drawn from different countries of The Arab World, mainly Sudan, Egypt, Iraq, Jordan as well as a few Gulf nationals. On this ground it would be only reasonable to assume that the responses have reflected a broad consensus from Arab professionals, as opposed to any other assumptions that would explain it in a rather narrower perspective. This is particularly so in view of the fact that almost all of them have drawn their ideas and conclusions not only from their present experience in the Gulf States which host them, but also from their past experiences as former experts in their own countries of origin in respect of their different and wide range of specialisations.

The following is a detailed account of the responses received and an assessment of what would constitute the basis for the main findings of the entire survey.

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## 9.2 Impacts on the Arab Countries of the Activities of Foreign Multinationals

While far more respondents among the professionals group<sup>5</sup> indicated "positive" impacts pertaining to the contribution of multinationals in respect of exports, imports, job creation opportunities, capital investment, technology transfer and management/technical training within the Arab economies, "negative" impacts were reported with regard to some other aspects; those include promotion of research capabilities, structure of the Arab economies and the appropriate exploitation of domestic resources. A relatively high proportion of the respondents reported "neutral" effect for the role of multinationals in promoting research capabilities (34%), management/technical training (29%) and to a lesser extent, their role in technology transfer (20%).

Table 9.1 overleaf gives a summary of how the Arab professionals generally view the impact of multinationals in respect of the various issues in question.

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<sup>5</sup> Academics, economists, managers, financiers, engineers, public figures, businessmen and government officials.

Table 9.1: IMPACTS OF MULTINATIONALS

	Arab Professionals			Arab Companies			
	Pos.	Neg.	Neut.	Great	Fair	None	Neut.
a. Exports	55%	32%	13%	31%	54%	15%	-
b. Imports	57%	36%	7%	-	-	-	-
c. Jobs	58%	27%	15%	13%	60%	27%	-
d. Capital Investment	60%	22%	18%	14%	29%	57%	-
e. Technology Transfer	61%	19%	20%	36%	43%	21%	-
f. Promotion of Research Capabilities	30%	36%	34%	31%	39%	15%	15%
g. Managerial & Technical Training	43%	28%	29%	27%	47%	20%	6%
h. Structure of Economy	38%	50%	12%	23%	54%	23%	-
i. Appropriate Exploitation of Domestic Resources	38%	53%	9%	50%	21%	14%	14%
j. Competitiveness of economy	-	-	-	23%	46%	23%	8%

Note: percentages shown pertain to the total number who responded.

Pos. = Positive Neg. = Negative Neut. = Neutral

As can be seen from the above table, the responses given by the Arab professionals, which largely equate the positive and negative impacts in a way that would render them neutral on balance, contrast with those given by the Arab Companies cooperating with multinationals. The latter registered "great" or "fair" impacts to almost all of the ten factors with a possible exception of the impact on capital investment, as a clear majority,

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(57%) of the companies, expressed their dissatisfaction by assigning an adverse effect in that respect.

### 9.2.1 Views of The Multinationals

As could be seen from Table 9.2.1 following, foreign multinational companies, or their representatives in the Gulf States, were asked the same questions but in a rather different format. Since no foreign company is likely to voluntarily admit that its activities have negative effects on the economy of their host country, it was seen appropriate to ask them to point out whatever they consider as positive effects, stemming from their business operations in The Arab World. A list of possible alternatives was provided and the responses received from 13 companies were as follows:-

- 85% indicated "positive" effect on the Arab economies of the multinational's role in creating new jobs;
- 62% regarding each of "efficiency enhancement" and "provision of training to local nationals";
- 6 out of 13 (46%) positively view their contributions in promoting exports and also local added value;
- Only 2 (15%) and 1 (8%) referred to the provision of foreign capital and the payment of taxes (respectively) as areas to which they have contributed positively.



**Table 9.2.1 POSITIVE EFFECTS OF MNCs' BUSINESS OPERATIONS IN THE ARAB WORLD**

a. Creation of new jobs	85%
b. Promotion of exports	46%
c. Local added value	46%
d. Enhanced efficiency	62%
e. Provision of foreign capital	15%
f. Payment of taxes	8%
g. Provision of training to local nationals	62%

The Multinationals also assessed different factors according to their relative importance with regard to their contribution to the development of The Arab World. This was expressed by placing their preferences on a descending scale (0-6) to emphasise relative significance as depicted in Table 9.2.2 below:

**Table 9.2.2 FACTORS INFLUENCING CONTRIBUTION OF MULTINATIONALS TO THE DEVELOPMENT OF THE ARAB WORLD**

	Total Number (a)	Average (b)	% (c)
a. Host government's policies towards Multinationals.	58	4.5	75%
b. Environment for disseminating new technology and management skills.	50	3.8	63%
c. Domestic & International market structure.	43	3.3	55%
d. Type of Foreign Investment.	32	2.5	42%
e. The strategy of your (MNC) company.	61	4.7	78%

- (a) Total number allocated by all (15) respondents
- (b) Average of a possible maximum of 6 (6 being more significant than 1)
- (c) Percentage of a possible total maximum of 100%

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The most important factor influencing Multinationals' contributions, according to multinationals themselves, is the strategy adopted by their headquarters in the parent country. This factor was emphasised by 78% of a possible maximum of 100% (4.7 points out of 6 points). Second in their priority (75%) was the host government's policy (particularly those specifically directed to the multinationals). The environment for disseminating new technology and management skills came third with 3.8 points (63%), while market structure came in the fourth place with 3.3 points. The type of foreign investment was considered to be the least important factor with only 2.5 points (41%).

It is evident from the above that, albeit with varying degrees of significance, all factors in question do affect the extent of multinationals' contributions to the development of the Arab countries, with "strategies designed at the parent headquarters' office" being the major determining factor. This might reflect something on the question of where the priorities of these companies actually lie. It appears that top priority goes to the pursuance of their own objectives and interests. Interests of host countries must then follow afterwards.

If we are to draw any conclusion from these responses, it would have to be that the multinationals own testimony confirms the misgivings expressed by the Arab professionals that their contributions to the development process that has recently characterised the Arab region are, if any, only marginal and in most cases negligible, owing to the fact that MNCs' concerns lie somewhere else; their own corporate strategy.

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On the other hand the multinationals tend to consider themselves as a major source for new jobs as well as contributors to efficiency enhancement and providers of adequate and appropriate training facilities to local nationals. Provision of capital or payment of taxes are clearly not among their concerns, as these objectives do not feature prominently among their contributions.

Those 15 Arab Companies operating in the Gulf, with some degree of cooperation with foreign multinationals, were also asked to assess the possible impacts of multinationals on various factors and their responses revealed some contrasts with those of the professionals. In general, the positive impacts according to them tend to outweigh those of negative ones. 14 out of 15 (93%) believe strongly in the positive impact in respect of changing work practices while 80% suggest that productivity has been increased as a result of their presence. As for changing life style (culture, traditions, etc.) 53% consider the impact as positive, while 33% see the impact in that respect as neutral. Only 2 (13%) fear the impact is negative. There seems to be no conclusive evidence about their role in bringing about access to capital with 40%, 20% and 40% indicating positive, negative and neutral respectively. The impact on local technology is seen to be positive for 43%; negative for 29% and neutral for yet another 29%. Far more respondents can see only neutral effect for both national sovereignty (57%) and net return on taxes (45%), while the balance is equally divided between the two other extremes of "positive" and "negative" impacts.

In neither of the seven issues shown in Table 9.3 has the feeling of adverse effect outweighed that of positive one. It is apparent therefore that, unlike the Arab

professionals, the attitudes of Arab Companies are rather favourable towards foreign multinationals.

The above findings are detailed in Table 9.3 which follows:

**Table 9.3 IMPACTS OF MULTINATIONALS IN RESPECT OF:**

	Arab Professionals			Arab Companies		
	Pos.	Neg.	Neut.	Pos.	Neg.	Neut.
a. Changing work practices	68%	27%	5%	93%	-	7%
b. Changing life style	-	-	-	53%	13%	33%
c. Access to capital	-	-	-	40%	20%	40%
d. Productivity	84%	15%	1%	80%	7%	13%
e. Net effect on tax returns	19%	68%	13%	27%	27%	45%
f. National Sovereignty	14%	70%	16%	23%	15%	62%
g. Local technology	45%	46%	9%	43%	29%	29%

Note: Figures shown represent percentages of the total who actually responded to the respective questions.

#### 9.2.2. Interviews and Comments

On the question of multinationals' impacts, a number of interesting issues were raised. It would be beneficial to highlight some of those ideas which were emphasised by different respondents with a view to supporting the survey findings, based on the outcome of the two-way discussions between the interviewees and the author.

Arab Professionals: Some respondents elected to cite the indebtedness and financial deficits encountered by a number of Arab countries as one major repercussion of the activities of foreign multinational corporations operating in those countries. In fact it is not quite clear how such an argument can be justified

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and on what grounds it would be based. What is to be emphasised however, is not so much the strength of the argument itself, as the mere fact that this attitude is persistently and strongly expressed by the Arab professionals. It has been also stated during interviews that the impact has been particularly positive when multinationals' involvement was required to exploit natural resources ideally suitable for exploitation, such as oil for instance. Cement industry has also been cited as another example in that respect. Left to themselves the multinational oil companies would have continued to keep the prices of oil at their minimum levels. According to such argument, what happened in 1973 and thereafter was not so much an increase in prices, as it was a natural development to correct and readjust what was believed to be an unfair level of prices for the producing countries. Moreover, the oil companies tended to keep the strategic and important jobs to themselves, thus refraining from offering a fair share of top decision making posts to the nationals.

In the past, multinationals, in the words of a former governor of an Arab Central Bank, were "*arrogant and domineering*", but at present they are faced with a situation whereby they are being left only a limited room to manoeuvre. The fact that many of these companies have now adopted more realistic, accommodating and cooperative stands is reciprocated by the Arab host countries who have learned to co-exist with foreign companies rather than to confront them. This new attitude, emanating from both sides, is apparently the outcome of the recent emphasis on joint venture partnerships which are primarily meant to realise objectives which are conducive to the interests of both partners.

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While the impact of foreign multinationals is generally seen to be positive, such impact is largely marginal for the Arab countries, but considerable for the multinationals themselves. In fact the positive impact is only up to a small degree in terms of job creation, capital investment, technology transfer, management of technical training, changing work practices and, productivity increases. It is apparent that, when left with the option of expressing their attitudes, either positively or negatively, many interviewees tended to avoid emphasising the negative side, preferring instead to take a neutral stance.

However, it would obviously be premature to suggest on this basis that all those who expressed themselves by indicating a "neutral effect" should be considered as unhappy about the activities of the multinationals. After all, nobody has suggested that these foreign companies have to contribute in every aspect of economic life in The Arab World. Any such suggestion would be against the highly heralded aspirations of the overwhelming majority of the Arab professionals for self reliance.

As for the role of multinationals in technology transfer, many professionals have mentioned that it is far slower than it was originally assumed and there is a great deal which is yet to be desired, but "*something*" as one respondent put it, is "*anyway better than nothing*", meaning that whatever little is there, is due to the cooperation with foreign multinationals.

This is certainly true for many other aspects of the impacts and contributions of the multinationals in the region. The message appears to be that, only little (but not nothing) has been achieved so far.

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Theoretically, the impact of multinationals on an economy is not affected by the fact that it is an "Arab" economy or otherwise. Empirically this might not be quite the case for the particular Gulf States on which the survey was focused. In that region, foreign multinationals have been directing a great deal of their efforts towards the production of consumer goods that are meant to be consumed domestically and by neighbouring (Arab) markets, in countries characterised by a high propensity to consume, thanks to the abundance of oil revenues. This amounts to concluding that multinationals have encouraged consumption and hence discouraged savings, thus pulling down domestic investments along with them. This might have possibly been one of the adverse impacts of multinationals, which was overlooked by the original survey.

A number of Arab engineers who the author happened to interview in U.A.E. have complained that decision makers in the Gulf region have for so long ignored the environmental factors which needed to be taken into consideration, in conjunction with foreign multinationals involved in constructing various projects in engineering or industrial fields. Today, many multinationals do not pay much attention to such environmental considerations in the Third World, as they usually do under statutory obligations in the Western World to which these companies belong. This is particularly true in the Arab World in view of the absence of obligatory rules which regulate the performance of construction and engineering companies with regard to such vital issues. Even if such regulations exist at all, at best they are either in a rudimentary form or left to be dealt with in a harmfully relaxed and arbitrary manner.

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A British senior expert in marketing and feasibility studies provided some useful comments on the impact on the Gulf States of foreign multinationals. That impact, according to him, is generally positive, given the fact that hydrocarbon resources were initially discovered, developed, exported and marketed by foreign multinationals. In his view, this has started the development process and the opinion therefore is that since the economic development is naturally indispensable, so the contributions of the multinationals must have been positive. If some of the factors mentioned in Table 9.1 appear not to be very positive at present or in the past, they are bound to be so eventually, i.e. promotion of research capabilities, national sovereignty, etc.

In an apparent contrast to this view expressed by a foreign expert, one Arab economist emphasised the need to distinguish between the long term and the short term impacts of multinationals. According to him, the short term impact is generally positive while in the long term, the impact(s) will have to hinge on various factors, the most important of which is the bargaining capability of the local companies involved. Many other professionals have emphasised the importance of strengthening the bargaining skills and power. Others indicated that the impact is generally neutral on balance, as some positive contributions are outweighed by negative ones.

### 9.2.3. National Sovereignty

While many Arab professionals (about 70%)<sup>6</sup> have expressed their misgivings on the role of foreign multinationals in undermining the ability of an Arab Country to maintain its national sovereignty, others indicated that multinationals do not

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<sup>6</sup> See Table 9.3.



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directly interfere in issues related to national sovereignty, but they certainly influence them. In fact it is unwise to judge all the Arab Countries on the same scale owing to the wide variations in their backgrounds. It might be more reasonable, however, to assume (as one respondent put it) that national sovereignty could be adversely affected by the activities of foreign multinationals only in case of weak nations. If weakness is synonymous with smallness as it might be suggested, then a great number of small oil-rich Gulf States can hardly be excluded from this category. Theoretically, wealth should assist in strengthening the prospects of any given nation having its national sovereignty secured. However, the small Gulf States, wealthy though they might be, are apparently more vulnerable to outside influence than those other Arab Countries with relatively poorer resources but with larger population sizes. It could be concluded, therefore, that among other factors, population size and not the degree of wealth or per capita income, is more akin to hinge against the vulnerability of national sovereignty. It might even be said that, far from having been used as a defensive shield, wealth could even lure foreign powers through their multinational companies to pursue particular strategies within the framework of their target of maximisation of their interests that could possibly undermine the national sovereignty of defenceless states, such as those of the Gulf region, if there are any reasons to believe that their own interests are in jeopardy.

### **9.3 Degrees of Satisfaction with Multinational Performance**

Professional Arabs as well as those representing different Arab Companies, were asked to indicate the degree to which foreign multinationals have generally satisfied the economic development objectives of the Arab World. 86 professionals and 16 companies gave their responses as follows:

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**Table 9.4                    DEGREES OF SATISFACTION WITH MULTINATIONAL PERFORMANCE**

	HIGH	MODERATE	LOW	NONE
Professionals	6%	30%	51%	13%
Arab Companies	31%	50%	19%	0%

From the above, the contrast between the two groups is sharply evident. While the professionals are clearly dissatisfied with the role so far played by multinationals towards the fulfilment of the Arab economic development aspirations, those whose contacts with the multinationals are more direct (the Arab Companies) believe that they have positively contributed towards these objectives, with a reasonable degree of satisfaction. While only 6% of the professionals believe that the contribution of foreign multinationals was high and 30% consider it moderate, more than 50% expressed dissatisfaction or low degree of satisfaction. 13% of them registered a "nil" satisfaction, which in a way means that they are not only dissatisfied but rather outraged by the outcome of the partnership between the Arab World and foreign multinationals.

The Arab Companies on the other hand had sent through their responses a rather different message. 81% of them are either highly or moderately satisfied, leaving only 19% expressing a low degree of satisfaction. None of this group indicated that the multinationals contribution was non-existent as some professionals did.

In attempting to find out the reasons behind the sharp differences of opinions between various groups of Arab economists, academics and other professionals on the one hand and those of the Arab industrialists on the other, one would need to consider the true

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nature of each of the two groups and their vested interests on both personal and national levels.

As a similar study conducted some ten years ago in Kuwait and Iraq has concluded, the above findings also confirm one or both of two explanations: either (a) that direct contacts with foreign multinationals bring about an awareness and appreciation of each others' constraints and problems or (b) that the interests of the businessmen – especially those involved in joint venture arrangements with multinationals, converge with the interests of multinationals and thus produced satisfaction.

It will be reasonable, however, to take the factor of self-interest into account; those in contact with multinationals are generally more likely to derive some benefits from that contact, and they are thus more likely to favour and welcome its activities. If somebody is involved in joint venture arrangements with multinationals he is almost certain to answer favourably to the multinationals activities (that they perform in accordance with national interest). *"Otherwise, by agreeing to the contrary, he indirectly will be agreeing that he too also operates in ways that are contrary to the national interest."* [Agami, 1979.]

It might be tempting to assume that academics and professionals are rather theoretically-minded in their assessment, in view of the fact that their experiences are not necessarily closely linked with the performance of multinationals, while the industrialists are better placed to make the right judgement, given their direct involvement with foreign companies. Although this argument sounds logical and makes a great deal of sense, it does not necessarily undermine the equally sensible proposition that many of the highly qualified professionals, particularly the engineers and some economists, are by no means

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less knowledgeable about the subject matter of the survey. Many of the academic staff of the Arab Universities, particularly those in economics and business schools and faculties are closely attached with the practical side of the subject, through their membership of different committees, feasibility studies, assignments dealing with performance assessment of industrial and other concerns. Beside their leading role in shaping policy issues and decision-making assignments, university professors and senior economists of The Arab World often participate actively as members of the boards of directors of different corporations and institutions.

In order to reflect on the wide knowledge and contributions of various professionals, we need to look no further than to the diversity of disciplines and institutions from which the majority of the survey sample of professionals were drawn. About 90% of that sample belonged to the following institutions and professions:-

- GOIC – Gulf Organisation for Industrial Consultancy
- Business schools and economic departments of three Gulf Universities (U.A.E., Qatar and Kuwait)
- Industrial and investment banks, ministries of industry and commerce
- Arab economic development funds (both in Kuwait and U.A.E.)
- Research and Technology Institutions i.e. KISR (Kuwait Institute for Scientific Research)
- Economic and legal advisors, primarily in the industrial and financial sectors
- Project engineers (mainly civil) involved with foreign multinationals in construction and related fields.

Given the diversity of theoretical knowledge coupled with practical experience, the views expressed by these professionals would not be taken lightly. In many respects, they are

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even better qualified for an even-handed assessment of the role played by foreign multinationals than the industrialists whose daily preoccupation with their businesses does not leave them much time to reflect on and engage in a neutral performance assessment. Particular weight must also be given to the sheer size of the sample from the professionals group, compared to that of the Arab companies, as the former constitutes a size five times greater than the latter (92 professionals compared to 18 companies).

To conclude this section, one is bound to emphasise what the above statistical analysis has confirmed; the majority of the Arab professionals who effectively are the real decision-makers, do not rate highly the contributions of foreign multinationals in general. In itself this fact reflects the failure of these companies to successfully convince their partners in the Arab World of their usefulness in a manner which could support the suggestion that their continued presence in the region is to be taken for granted. If anything, this might suggest the need for some elements of "Multinational's" strategy to be reconsidered and perhaps revised in such a way as to reassure the Arab partners that their long-founded cooperation, particularly during the last three decades, has not been in vain. Otherwise, alternative strategies could possibly be adopted on the part of the Arab countries, a subject which is to be dealt with in the following section.

#### **9.4 Strategies to limit the degree of reliance on MNCs**

The question of overdependence on foreign multinationals and the potential strategies pursued by the Arab countries to limit the degree of such dependence, has been a real concern among many intellectuals in The Arab World. The ongoing debate is one of many current issues frequently raised during conferences, intellectual gatherings and press reports. As there is no lack of ideas, at least at theoretical levels, as to the various alternatives or combination of strategies geared at limiting the adverse effects of

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overdependence, a long list of potential strategies was provided for respondents from the three groups covered by the survey.

They were then asked to select whatever they deemed appropriate and the table which follows (Table 9.5) depicts a summary of their responses, indicated as percentages of the total who responded to that particular question. It is to be noted that, as respondents are naturally likely to choose more than one strategy, the total percentages will not add up to 100%.

**Table 9.5 STRATEGIES TO LIMIT OVERDEPENDENCE ON FOREIGN MULTINATIONALS**

	Professionals	Arab Companies	MNCs
a. Policies geared to improve bargaining power.	42%	46%	27%
b. Regulation of conduct of MNCs.	47%	33%	18%
c. Emphasis on equity participation.	62%	8%	64%
d. Indigenisation of management and technical personnel.	37%	46%	55%
e. Restrictions on MNCs areas of operations.	41%	8%	9%
f. Procurement of technology through licensing, direct purchase and management control.	34%	31%	27%
g. Requiring exports as a condition of importing.	33%	-	9%
h. Favourable terms for domestic enterprises over foreign subsidiaries.	26%	23%	45%
i. Reliance on local capital and technology.	22%	15%	9%
j. Threat of nationalisation or confiscation.	3%	8%	9%
k. Erection of barriers against imports.	9%	-	36%

It is noted that while the Arab professionals tend to favour a combination of most of the above mentioned strategies, the Arab Companies have elected to disregard most of them as they referred to only a few strategies as deserving significant weight, such as the improvement of bargaining power, indigenisation of management and technical personnel,

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and to a lesser degree the regulation of the conduct of MNCs. The professionals gave greater emphasis on equity participation (62%), conduct regulation, bargaining power improvement and also on the call for restricting the areas in which MNCs are allowed to operate.

Judging from the proportion of respondents favouring each of the different strategies, it can be seen that one-third of the total number of 92 professionals significantly favoured seven out of eleven strategies, while only three such strategies were favoured by a similar percentage of the Arab companies.

Both groups however, rejected almost categorically the suggestion that the threat of nationalisation or confiscation could be taken as a means to achieve the required end. They also declined to support the policy of systematic favouring of domestic enterprises over foreign subsidiaries. Neither do they appear to have much faith in local capital or local technology to rely on as a way out. Erection of barriers against imports and the requirements to link multinationals' imports with its exports from the host country, have both been received with a total rejection by the Arab Companies, since none of them (not even one single company) has expressed a preference for these particular two strategies. From the foregoing, it is clear that, whatever attitudes the Arab Countries may have against foreign multinationals regarding their negative impacts, which in their views would outweigh those of positive ones, no one seems to be prepared to rush to the conclusion that radical policies such as barrier erection or threat of nationalisation would be the appropriate answer. Even the usual sentiments frequently voiced by intellectual gatherings calling for systematic favouring of domestic enterprises over foreign subsidiaries have not been vindicated by the survey, as Table 9.5 clearly shows.



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The main conclusion one can come up with on the basis of these responses is the iteration of the fact that the Arab people are neither satisfied with the role presently played by foreign multinationals, nor have the confidence in themselves that they can manage without them. The dilemma appears to be that while a series of new regulations and commercial laws were being constituted in many countries, particularly in the Arabian Gulf, with a view to encouraging and accommodating the activities of foreign concerns (see Appendix B) the outcome appears to be quite far from their expectations. A number of questions needs to be addressed in this context:

1. Have the Arabs been too over-simplistic in their expectations for positive short-term results out of a partnership that needs a long-term gestation period before any fruits could be reaped?
2. Could it be that multinationals are too reluctant to over-emphasise – as their Arab counterparts often do – the mutual interests and elect instead to confine their prime concern on their own interests, even if that can be achieved only at the expense of the Arab side of partnership?
3. Is it perhaps true to say that both partners are desperately doing their level best, but with results that are unsatisfactory to both, which could possibly suggest the existence of some major loopholes in the structure of their partnership that need attention and remedial steps to overcome?

While attempts will be made at a later stage to attend to these questions, let us now turn to the multinationals themselves to see how they assess their relationship with The Arab World. Multinationals were requested to indicate what particular strategies they think the

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Arab host countries pursue in order to subvert their overdependence on foreign partners. 11 out of 13 multinationals responded to this question and three main strategies, according to them, were emphasised by the Arab Countries. 64% of them believe that the Arab Countries/Companies lay particular emphasis on equity participation, while 55% referred to their tendency towards indigenising their management and technical personnel. 45% think that the Arab partners systematically favour domestic enterprises over foreign subsidiaries. As for the erection of barriers and restriction against imports, which was overwhelmingly rejected by both professionals and the Arab Companies, a relatively high percentage of the multinationals (36%) believe that has been one of the strategies the Arab Countries have pursued so far to achieve the objective of self-reliance.

What is evident from the above is that emphasis on equity participation is much favoured by the Arab professionals, but the fact that only 8% of the Arab Companies appeared to have actually adopted this strategy seems to suggest that a wide gap exists between desire and action, effectively between theory and practice.

Arab professionals favour equity participation perhaps as a means to commit the foreign multinationals more towards a mutually beneficial partnership. Different government regulations and policy declarations to the same effect may have left a mistaken impression on the part of multinationals that such policy is vigorously pursued, notwithstanding the limited success which the actual performance reflects. In itself, this reflects a typical phenomenon in the Arab World; there is always a considerable gap between declared policies and real action. In a traditional society such as that of most of the Arab Countries, changes do take place very slowly and many declared policies have the tendency of taking a considerable length of time before they are fully operational. This fact can also partially explain the previously mentioned need for long waiting times before

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positive results of cooperation are felt. Also, it would be appropriate to associate the phenomenon of pursuit of quick returns from different trading and investment operations in the Middle East with the traditional trading nature of many businessmen in the area.

The Arab people of the Gulf region in particular have been historically traders whose main trading experience in the long past has been associated with the tendency to achieve quick returns on their trading activities; a phenomenon which is incompatible with the recent developments in the Gulf region that are mainly based on industrialisation and the service sector that goes with it.

Responses from foreign multinationals also revealed the existence of sharp differences in their assessment of the situation compared to that of the Arab partners. While, as previously shown, the Arab professionals and companies see no need for erection of barriers against multinationals, the latter (multinationals) express their fears that such desire is not reflected in real life (36% of multinationals believe that barriers already exist). Similar fears are equally expressed regarding the favourable treatments received by domestic enterprises at the expense of foreign subsidiaries. Again 45% of multinationals believe this to be the case in the Arab World, while those concerned do not advocate this policy as expressed by both Arab Companies and professionals.

What is evident, however, is that some kind of agreement between the three groups of respondents has emerged regarding the inappropriateness of strategies, such as nationalisation and confiscation and the possibilities of reliance on local technology (and local capital). There has also been a broad consensus regarding the undesirability of requesting multinationals to export in order to have the permission to import.

## 9.5 Technology Transfer

Extensive training of local Arab staff, both domestically and abroad, is seen by the Arabs as the most appropriate policy to achieve the relevant transfer of technology. That was the most conclusive evidence received from the Arab Companies and professionals alike when the question of technology transfer was raised. Other policies are also advocated but less emphatically and with varying degrees of emphasis, as Table 9.6 shows. The responses expressed as percentages of the total respondents indicating their preferences read as follows:-

**Table 9.6 HOW BEST CAN THE ARAB WORLD REALISE THE TRANSFER OF APPROPRIATE TECHNOLOGY**

	Arab Professionals	Arab Companies
a. Extensive training of local staff domestically and abroad.	60%	79%
b. Emphasis on less sophisticated, easily operated technology.	45%	36%
c. Requiring contractual commitment of licensor's training and permission of horizontal transfer of technology by licensee.	45%	43%
d. Motivation of Engineers, Scientists and technology-related staff.	37%	43%
e. Enhancing Research & Development Programmes.	39%	36%
f. Resorting to licensing as opposed to outright purchasing of technology.	15%	21%

With the possible exception of "transferring technology through licensing as opposed to outright purchasing of technology", which received little support, the other strategies

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prescribed in the above table have been generally advocated with more or less equal emphasis. It might be understandable that emphasis on less sophisticated technology has been received with less enthusiasm among the industrialists compared to the professionals. Only marginal differences among the two groups are reported regarding the other strategies i.e. motivating technology-related personnel, horizontal transfer of technology and enhancing research and development programmes. The last of these has surprisingly received low preference by both groups (36 – 39%). While the least important of all, as viewed by the respondents, was the trade off in favour of licensing as opposed to outright purchasing of technology.

The fact that research and development programmes were not keenly favoured is apparently attributed to what some professionals who were interviewed by the author have stated that human knowledge is universal and as such, R & D programmes successfully carried out elsewhere should be capitalised on by the entire human race and that duplication of efforts would only be wasteful. R & D in the Arab World should therefore be confined to adaptive technology rather than to attempt inventing new systems or procedures to those which already exist elsewhere. On this basis, it would be quite in place to emphasise the need for extensive training in order to grasp and deal with existing technology. Such trend would involve only limited time, effort and cost and release resources to be directed to realise the appropriate adaptation to local environmental considerations. Commitment of licensors' training and permission of horizontal transfer, adds one more dimension to iterating the importance of the central issue of local staff training which has received an overwhelmingly high support (60 – 80%).

As for motivating Arab engineers and scientists, perhaps through carefully designed incentive schemes which was modestly supported, the idea is simply to keep them within

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the Arab region and to circumvent the consequences of the brain drain that many Arab Countries have experienced in the past. This is particularly so in view of the considerable gap which exists between the inducements which the Arab scientists working in their own countries can get and what they are actually offered elsewhere outside the Arab World, i.e. Europe and U.S.A. The names of many Arab scientists and successful professionals whose exceptional performance records outside the Arab World have hit the headlines in the past, have been frequently mentioned during interviews in the way of illustration. It would not be appropriate to mention names in this respect. It is always suggested that the ideal way of keeping such talented Arabs within the Arab World to maximise the benefits derived from their contributions is to strike the right balance by motivating them through various incentives so that they can be compensated for any possible loss of prestige or financial status. Their professional association with reputed international institutions should, of course, be maintained and further strengthened in order to guarantee the continuity of their talents and to keep them up to date with any new developments in their own fields of specialisation.

#### 9.5.1 Protection of Local Technology

Different measures can be taken to protect local technology and reduce payments to foreign licensors. When the Arab professionals were asked to air their views on such measures, 54% of them favoured the "undertaking of close scrutiny by local authorities" when dealing with the technological needs of the Arab Countries to ensure that indigenous technologies are not being excluded. 51% advocated the permission of horizontal transfer of technology by the licensee. Only 29% and 20% referred to the reduction of the life of licensing agreement and the application of prescribed royalty sales consecutively, as appropriate measures to protect technology.

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When multinational companies were asked similar questions to indicate the measures of local control that they believe are designed by the Arab host countries to protect local technology, their responses were muted. Only 8 of the 14 companies approached elected to respond at all and 6 of them (75%) concluded that the Arab Countries prefer licensing arrangements to direct investment, while 3 (37%) have indicated both measures. It is thought unwise to attempt to reach any definite conclusions on the basis of such responses, in view of the exceptionally low level of response. This is clearly an inconclusive outcome on which no weight or value should be attached.

However, some useful remarks were made by those who were interviewed on this subject. One such remark emphasises that the reduction of the life of licensing agreement as a measure to protect local technology could be recommended only insofar as it does not jeopardise the success of the project concerned. Also, this method can only be effective in areas where technology development is rapid. Having said all this however, we should not over-emphasise the significance of local Arab technology in such a way as to give the misleading impression that they are available at any significant scale. As one British expert working in Qatar put it to the author ....

*"There is no local technology in the Gulf region and indeed in the Arab World in general. In the very rare cases in which they exist, they are often inferior and obsolete and therefore one would even question the very wisdom of them being perpetuated."*

## INTERVIEWS

The above findings, which are based on different responses to the questionnaires completed by the three groups of survey participants, can be further supported by

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different comments and remarks made by those who were personally interviewed. An account of such remarks would be given below to shed some further light on the subjects covered by the survey.

#### 9.5.2 Arab views on Technology Transfer

A variety of different views have emerged during the interviewing sessions regarding the general subject of technology transfer. The formation of sophisticated banking systems was reported to be one important requirement to realise the efficient transfer of technology. As a channel of technology transfer, turn-key projects have been repeatedly referred to as the least appropriate of all; licensing instead seems to be seen as more akin to real transfer but all hinges, in fact, on the availability of financial resources and potential skilled manpower, which makes manpower planning crucial to any meaningful transfer of technology. The option of using less sophisticated, easily operated technology is to go about transferring technology in a gradual way, i.e. establishing assembly, if there is a limited market as it is clearly the case in the Gulf region, then moving towards manufacturing part elements and tools domestically before reaching full manufacturing stages. The graduation process gives plenty of access to manpower training and the accumulation of much needed know-how. A former Sudanese Minister who was interviewed in Kuwait, disagrees with the notion frequently advocated by Arab intellectuals, to completely disregard the reliance on foreign consultancy firms on the ground that they are less qualified to grasp the Arab domestic needs. He suggests that joint cooperation with such foreign firms through a system of restricted tenders is highly commendable. His defence of such argument is based on the presumption that foreign consultants tend to value their quality of advice very highly, as their international reputation is their most



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valuable asset which they cannot afford to risk. Therefore, it is inconceivable that such foreign consultants would perform their duties in a knowingly harmful way to the interests of their Arab partners.

The transfer of technology through the adaptation of imported foreign technology to local conditions has also been frequently emphasised, as has been the necessity of local staff training, along with the technical and managerial staff of licensor's firms to acquire the needed know-how. An important step towards the realisation of technology transfer is the minimisation of the degree of dependency on foreign staff through motivating locals to stay with the same organisation as a life-time commitment to stimulate career development; that is to minimise to the lowest possible degree the manpower turn-over. By so doing, not only will they grow more loyal to their corporations but also more knowledgeable through experience accumulated throughout years of dedicated work for one single employer. It may be worthwhile to recall here that, the loyalty to employer institutions in Japan, which is heralded to be an integral part of their cultural heritage, has always been a strong contributing factor in the Japanese success and their technological superiority.

### 9.5.3 Other Views on Technology Transfer

A French Manager representing a French multinational company in joint venture with a Gulf State, stated during an interview that the transfer of technology to an Arab Company would ideally take the form of maintaining technical relationships with foreign licensors. He also indicated that the bargaining power of a local (Arab) partner could gradually improve as a natural consequence of equity participation between the two partners. Implicitly this amounts to concluding that

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equity participation, beside its known advantage as a vehicle towards fulfilling mutual interests, does assist in creating the right climate to improve bargaining skills and power. In other words the latter (bargaining power) is a function of the former (equity participation). Regarding the same matter, a British Engineer working for a consultancy firm in U.A.E. believes that the people of the Gulf States do not need to improve their bargaining power or capabilities. This argument is based on the fact that Gulf people are basically traders who do not lack the experience of good negotiators. According to this engineer ...

*"they can take care of their interests very well". He then adds "it is for us, the multinational companies, to make the necessary concessions to keep a reasonable degree of presence in an area such as the Gulf, which is widely open to outside competitors".*

As for the appropriate type of technology, it is imperative that the labour-intensive technology is clearly not favoured in the Arabian Gulf States, due to a number of considerations:

- a. safety measures are still in a rudimentary stage;
- b. scarcity of local skilled labour force; and
- c. capital intensive projects are most suited to areas with capital abundance.

With regard to the trade off between exports and imports, it is evident that most of the export-oriented manufacturing units in the region are basically established to meet local market needs and that only the surplus is exported. The local market requirements are thus the base for any manufacturing industry, albeit there are often some exceptions to this generalisation, i.e. fertilizers and other oil-related industries.

#### 9.5.4 Problems of Technology Transfer to the Arab World

The easy diffusion of technology to foreign competitors based in the Middle East is regarded in the view of some multinational companies as a negative outcome of technology transfer and is attributed to the lack of awareness of the importance of confidentiality attached to particular technology or technological processes – rather than to a deliberate policy carried out by the Arab Countries to diffuse technology in favour of other competitors. Another adverse effect of technology transfer in the region is attributed to the lack of proper maintenance, resulting in inefficient use and sometimes disuse.

In the aftermath of the oil boom of the late seventies and early eighties, the general trend in the Gulf region had become one of opting for the latest, most sophisticated technology. This phenomenon seemed like a fashion trend rather than a way of pursuance of a subtle policy of using less sophisticated and easily operated technology that can square with the level of existing training, efficiency and capital availability. As mentioned earlier, it is the outright purchase of turn-key projects which is dominant over license arrangements in most of the cases, a phenomenon which is not conducive to the proper transfer of technology.

It would have been inappropriate to ask the Arab professionals or companies to comment on the negative effects of technology transfer to the Arab Countries, on the grounds that almost all Arabs believe strongly in the necessity of such transfer. Possible differences of views were seen to be best propped rather by seeking their views on what constitute the "appropriateness" of technology and how best to acquire it. Multinationals, however, were asked to comment on any perceived disadvantages of the technology transfer to the Arab World and the fact that 12

out of the total of 14 responded positively to this particular question indicates that foreign multinationals have their own misgivings on the usefulness of technology transfer to the Arab Countries, while the latter emphatically take it as a foregone conclusion that technology transfer is not only useful but essential and in most cases indispensable for their economic development.

The 12 multinationals responded to the question on technology transfer and its disadvantages as follows:-

**Table 9.9                      NEGATIVE EFFECTS OF TECHNOLOGY TRANSFER TO THE ARAB COUNTRIES**

	Total	%
a. Easy diffusion to foreign competitors.	2	17
b. Improper use – insufficient management.	5	42
c. High proportion of unexploited capacity of technology.	4	33
d. Low return compared to high cost.	2	17
e. Impediment to development of local technology.	2	17

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\* The total is more than 12, indicating that some respondents have elected to choose more than one factor.

If any conclusions would have to be drawn from the above table, one can refer to the following:

- a. The fact that 42% of the multinationals have expressed their fear of improper use of technology by the Arabs, primarily due to insufficiently trained management and technical personnel, indicates the low confidence in their capabilities to properly manage the imported technology. MNCs may have their own reasons to hold such views based on their experience

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in the region. The question that is to be addressed will have to be the appropriate way of training and adapting to imported technology by the Arab nationals; a responsibility which ought to be shared by both partners.

- b. Closely associated with the above is what a third of the sample has referred to as "the likelihood of unexploited capacity of technology", possibly owing to the above-mentioned factor - inefficient management. It is worthwhile mentioning in this context that "technology transfer" would not be rightly called so if it is not associated with management and technical know-how. In most cases the technology transfer that this study refers to is rather one of technical and managerial know-how than a physical one. Furthermore, it would seem rather inappropriate to transfer technology in its physical form without the necessary technical back-ups, including comprehensive training programmes designed to cater for local nationals. Management and technical contracts should usually be associated with any physical technology transfer prior to the ultimate stage of technology being fully operational.
- c. No great significance seems to be attached to the other factors - low returns on capital, diffusion and local technology impediment. The first and last of these should rather be the concern of the technology recipient, not that of the technology supplier - the multinational. The low ratings which these factors received in fact demonstrate that the interests and concerns of the local partners usually come only at the bottom of multinationals' priorities.

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## 9.6 Over-dependence on Foreign Multinational Companies

As mentioned earlier, according to many Arab professionals, the requirement of exporting as a condition for importing does not necessarily constitute a wise policy to limit the degree of reliance on foreign firms operating in the Arab World; besides, it is not always feasible or sensible. Neither is reliance on local capital or technology the first best strategy in that respect. The realisation of self-dependence could be partially achieved, however, through indigenisation of products and the banning of imports of those items which can be locally manufactured. There is no objection to regulating the conduct of foreign multinationals in principle, albeit it should be done with sense and proper timing and after ensuring proper reporting of activities. If restrictions need to be imposed on the areas in which foreign multinationals are allowed to operate, this should be done on a selective basis and within a limited scale. As for licensing, direct purchase and/or management contracts, it would not be appropriate to trade-off between these different forms, as they are not necessarily mutually exclusive. The Arab Countries ought to create the right investment climate and conditions to induce foreign investments (with the possible exception of weapons and armaments). They should also impose reasonable environmental conditions. Many professionals appear to advocate joint ventures with foreign enterprises, with as wide shareholding as possible in favour of the local partner. Some respondents refrained from favouring domestic enterprises over foreign subsidiaries on the grounds that such policy is likely to kill the competition necessary for improving quality and could also create corruption.

Of course the threat of nationalisation needs to be confined to extreme cases only. Likewise, erection of barriers against imports, while theoretically appealing, but in practice leads to poor results as it necessarily entails government subsidies to local manufacture, a phenomenon which once started proves to be hard to alter, as local entrepreneurs get

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used to the benefits of concessions without which their very ability to survive becomes questionable.

### **9.7 Local Vis-a-vis Foreign Management**

The tendency of some multinationals to rely on local managers to participate in the running of their operations in The Arab World and indeed in most of their overseas activities is attributed to a number of reasons. Some of these companies seek to eliminate language and other local adjustment problems, while others see in local managers a window of opportunity to reduce their costs of operations, based on the assumption that they are less expensive than expatriates. Understanding of local feelings about sensitive and possibly politicised issues can be responded to more appropriately through local than expatriate managers. The provision of greater employment continuity is yet another consideration that makes it tempting to appoint more and more local managers.

Multinational companies and the Arab Companies cooperating with them were asked to rate the different factors associated with the choice of local managers according to significance. Their responses are epitomised by Table 9.7 following:

**Table 9.7                      ADVANTAGE OF APPOINTING MORE LOCAL MANAGERS\***

	Multinationals		Arab Companies	
	Total rates	Preference scale	Total rates	Preference scale
a. Elimination of language and other adjustment problems.	30	1	26	4
b. Understanding local feelings.	27	2	45	1
c. Less expensive than expatriates	20	4	32	3
d. Employment continuity.	25	3	36	2

\* Significance is indicated by the allocation of a number between 0 and 5 (5 being more significant than 0).

The twelve multinationals and fifteen Arab Companies who responded to this particular question attached varying degrees of significance to their choices. While language and other local adjustment problems were referred to by the multinationals as the most important factor behind their preference to local managers, this factor is the least important in the viewpoint of The Arab Countries. Understanding local feelings, according to the Arab Companies is reckoned as the major advantage with 45 points, while this comes in the second place in the preference scale of the multinational companies. Multinationals do not apparently view the issue of local managers from the angle of cost effectiveness, as this is indicated as the least important of the four motives. According to the Arab Companies, it is expressed as the second least important which implies that the Arabs do not attach much significance to the local managers on the account of cost, as on the principle itself of enhancing employment opportunities to the locals. This was perhaps expressed



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indirectly by placing the provision of employment continuity as their second best choice. For multinationals this factor is placed at their third rank of importance.

These figures may not in fact indicate anything of substance other than the fact that local managers are not sought by multinational companies for their cost effectiveness, contrary to common belief, but primarily for a perceived or real importance of breaking language and other similar barriers between foreign companies and their local partners. Incidentally, local partners do not appear to see eye to eye with their foreign counterparts in that respect, as they see the significance of local managers in their ability to cope better than foreign expatriates with sensitive issues which only local people can fully appreciate and design appropriate policies accordingly.

#### **9.7.1        Disadvantages of Local Managers**

The advantages of appointing more and more domestic managers can be outweighed, or at least balanced, by possible disadvantages. Four such disadvantages were considered and Table 9.8 summarises the respondents assessment:

Table 9.8

## DISADVANTAGES OF LOCAL MANAGERS

	Multinationals		Arab Companies	
	Total rates	Preference scale	Total rates	Preference scale
a. Gap in management understanding between parent company and its overseas subsidiaries.	29	1	11	2
b. Limitation in career development opportunities for parent company managers.	25	2	10	3
c. Risk of emergence of federation of independent national units with only nominal links to corporate headquarters.	20	4	3	4
d. Unsuitability of local managers for technology-based multinationals.	24	3	16	1

The fact that only 8 out of a total of 18 Arab Companies (44% of the total sample) cared to respond to this question, opposed to as many as 12 out of 14 multinationals (86%) speaks for itself. It reveals that, in the view point of the Arabs, little, if any, could be regarded as disadvantageous in respect of local managers' appointment, which is taken for granted as being advantageous. This is not a view which is shared by the multinationals themselves, whose reaction to the question confirms that they hold some misgivings about the desirability of resorting to appoint more local (Arab) managers to run their subsidiaries in the Arab region. In support of this view a quick glance at the previous table (Table 9.8) reveals the following:-

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The existence of a gap in management understanding between parent company and its overseas subsidiaries is the most worrying factor that makes the multinationals unwilling to accede to the pressure for more local managers to be appointed. This is closely followed by fear of the limitation in career development opportunities for successful managers in the parent company. Judging from the magnitude of significance attached to each of these two factors by the Arab Companies, it is clear that the Arabs do not seem to take much notice of these factors. This is even more so regarding the risk of emergence of federation of independent national units which both multinationals and the Arab Companies see as the least important of all other factors. Third among the multinational's priorities, but first in the view of the Arab Companies, is the unsuitability of local managers for technology-based multinationals. There seems to be a sense of pragmatism among the Arab companies in admitting the lack of expertise among the Arab managers in technology-based projects.

The conclusion to be drawn from the above analysis is that while the Arab partners greatly favour the appointment of more and more local managers as opposed to expatriate ones, multinationals are clearly reluctant to admit that such a trend could be advantageous for the partnership. The fact that foreign companies maintain some local managers to run their subsidiaries would be seen in the light of their awareness of the locals' high sensitivity to local needs and opportunities. They are obviously keen to be seen as accommodating the Arab Countries' aspirations to avail as much training and experience as possible to their nationals in various managerial fields. This is particularly so in the Gulf region which during the last few years had an abundance of university graduates of their own, who are naturally looking forward to reasonably rewarding jobs in public and

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private sectors. The social and also cultural factors are clearly at work here; to be appointed in a managerial post is seen as an inducement to join the workforce, particularly if that means, as it is usually the case in the Gulf, foregoing more lucrative and financially rewarding careers in family based trading businesses which have emerged as a prominent feature within the Gulf economy in the aftermath of the oil boom of late 1970's and early 1980's. The Gulf heritage of family ownership businesses has resulted over years in the establishment of thousands of small companies and businesses that depended more on personal relationships than on formal organisation.

#### **9.8 Impacts of Multinationals**

While the survey has deliberately avoided raising the political aspects of the various issues it addressed, respondents kept emphasising the political impacts. In considering alternative strategies to limit the extent of over-dependence on MNCs, the political orientation of each individual Arab country has to be taken account of, since such factors are highly likely to influence partnership relations. Regarding the degree of MNCs' contributions to the development process in the Arab World, this should naturally vary from one country to another.

The negative impacts of MNCs are more evidently felt socially and culturally. The MNCs have certainly played their due share in shaping new negative attitudes among the nationals of some Arab (Gulf) States, with regard to the tendency towards achieving maximum results with minimum efforts. In evidence of that, one only has to consider new phenomena, such as commissions, and agency regulations whereby a Gulf national can end up emerging as a millionaire in a short span of time, only by virtue of having been given the right to be a sleeping agent to a gigantic foreign MNC, whose presence

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in the region is governed by such regulations. One more aspect could also be that the absence of discipline in the region, owing to cultural reasons, could limit the degree and capability of grasping the imported technology that is associated with MNCs.

On balance, the Arab professionals do not hold favourable views about foreign MNCs, regarding their contributions to the development process in The Arab World. According to them, such contributions are either neutral, or at best marginal. Of course the MNCs consider themselves as major sources for all kinds of positive developments i.e. jobs, efficiency enhancement, etc. Unlike the Arab professionals, the Arab Companies have expressed favourable attitudes towards the multinationals but, given the element of self-interest, this should not be surprising.

The most recent trend to favour joint venture partnerships between the Arab and the foreign MNCs, seems to have led to the development of a new spirit among the Arab Countries who have gradually learnt to co-exist with foreign MNCs, rather than to confront them as was the case in the past.

Whatever sharp views some people or organisations may hold against foreign MNCs, the survey has clearly established the conclusion that in the Arab World no one advocates radical policies such as the erection of barriers or the threat of nationalisation against the MNCs, or the confiscation of their assets. In fact one can reasonably conclude that the Arab people are neither satisfied with the role presently assumed by the foreign MNCs, nor have the capability to manage without them. Far from discouraging the MNCs from playing a role in the Arab World, the emphasis has been focused on seeking the most appropriate way of courting these corporations and deriving the maximum benefit from


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1. The technology transfer is a target that is vigorously sought by the Arab Governments and professionals to be achieved. It is often seen to be paramount to all other targets and objectives. The multinationals, however, have their misgivings as to the usefulness of such transfer and in a way are reluctant to concede to the pressures posed on them by the Arab World in that respect. It can be said that the MNCs only resort to paying lip service in contributing effectively to areas such as training and efficiency enhancement of local managers, and any other activities geared to the fulfilment of a real transfer of technology.
  
  2. The multinationals are primarily concerned with the management and marketing control of investments in the Arab World, as opposed to equity shareholding or technology transfer. Historically they have been reluctant to contribute with capital participation, as the return on capital on their investments in the area is always seen to be less than the fees or royalty accruing to management or marketing contracts. The fact that these multinationals are still influential and mostly indispensable in the Arab region bears witness to their success in pursuing their well planned and far sighted strategies in the area – technology transfer will necessarily entail self-dependence by host countries in the long term and it is a recipe for a possible diminishing influence or control by foreign MNCs.
  
  3. For the multinationals' branches and subsidiaries operating in the Middle East, it is paramount to strictly abide by the strategy and guidelines adopted by their headquarters in their parent countries. This crucial requirement clearly speaks for itself; the main concern and priority of these foreign corporations is looking after their own interests first and foremost. The interests of the host countries comes as a distant second concern in their list of priorities.

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4. The undesirability of strategies such as nationalisation, confiscation of assets belonging to foreign MNCs, imposing strict conditions on them to export in return for permission to import materials, erection of barriers, etc., has clearly commanded a broad agreement among the overwhelming majority of the survey sample, which consists of both Arab professionals and industrialists, as well as the representatives of foreign MNCs operating in the Arab region.
  5. Research and development should be confined to adaptive technology in the Arab World i.e. there appears to be no economic sense in attempting to invent new systems or procedures to what already exists elsewhere.
  6. The labour-intensive technology is clearly the wrong type of technology to prevail in the Arabian Gulf. However, the most sophisticated technology does not necessarily square with the type most needed in that region. The appropriate type should be a function of the existing and potential level of training, efficiency, and also the capital availability. The last of these three requirements, however, seems to have over-shadowed the others as a major determining factor in the recent past.



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## CHAPTER 10

### FIELD WORK ANALYSIS AND FINDINGS : PART 2 POLICIES AND FACTORS IMPACTING ON JOINT VENTURE PARTNERSHIPS IN THE ARAB WORLD

#### 10.1 Nature of Partnership

The multinational companies operating in the Middle East tend to perform their activities through different types of partnership or joint venture arrangements. The Arab Companies have their own preferences in the type of such partnerships, while the Arab professionals have also their different views as to the best way of doing business in collaboration with foreign companies. Various views of the three groups are depicted in Table 10.1, which summarises different responses to the question on the most appropriate type of partnership.

Table 10.1                      **PREFERRED FORM OF PARTNERSHIP  
BETWEEN ARAB AND MULTINATIONAL COMPANIES**

Type of Partnership	Professionals	Arab Companies	Multinationals
a. Equity stake	54%	–	75%
b. Management contract	16%	38%	37%
c. Buy-back deal	16%	8%	–
d. Production sharing	30%	23%	0%
e. Other types	2%	31%	25%

Sample: 92 professionals; 18 Arab Companies; 13 Multinationals

Of different partnership types, equity participation seems to be seen as the most appropriate type of all, as it was emphasised by 54% of the Arab professionals and 75% of the multinationals who responded to the questionnaire. Management contract has been favoured by both multinationals and the Arab Companies with a reasonable degree of

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acceptance, even though it received the support of only 16% of the professionals, whose second best choice goes to "production sharing" arrangements. This would have to be taken as an implicit reference to sharing production in proportion to the equity shares of each partner. This type of partnership however is met with a complete rejection by the multinational companies themselves who also emphatically rejected the buy-back deal arrangements. Other types which were emphasised mainly by the Arab Companies, include license agreements and technical services agreements (as opposed to management or marketing contracts). Others referred to some particular types of agreements such as one seeking to guarantee a definite share of the local market, as an integral part of the initial partnership agreement between a multinational and the local (Arab) partner.

Whatever differences there are, it was quite evident from the outset that joint ventures in principle enjoy a wide acceptance, tantamount to consensus among the respondents of all three groups. Buy-back deals appear to be seen as unworkable arrangements to most of the respondents and therefore, it is no wonder that they have been almost totally excluded from their list of choices.

Joint venture is certainly favoured by the multinationals compared to foreign direct investment (FDI) in the Arab Countries. In fact a question designed to prop the views of Arab professionals as to what their choice will be if an Arab Country has to choose between accommodating FDI on its soil on the one hand, and opening its markets to direct imports from outside on the other, has failed to produce any sensible result. Out of 70 professionals who elected to respond to this question, 61% placed their choice with FDI (with no local participation) and only 39% preferred direct imports. However, an overwhelming proportion of the 61% elected to qualify their choice either by voluntarily deleting the sentence in brackets which reads "(with no local participation)" or by

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amending the words to read "(with majority equity participation by the local partner)". This tendency to emphasise the importance of local participation in equity was also reinforced by the professionals who were interviewed.

It is therefore imperative to rule out the assumption that FDI is favoured on the basis of the relatively high proportion of respondents who referred to it. It became clear to the author later on that the question was misinterpreted and the fact that many respondents have chosen to take the liberty of amending the wording of the question through additions and omissions, only explains this. FDI by multinationals was almost unanimously seen by all professionals who were interviewed as a second best choice, while the first preference went to FDI with local participation, i.e. joint venture.

Direct imports are not at all recommended as an alternative, except in cases where no prospects of local investments exist. This would have to be taken to mean that FDI by foreign MNCs may be only reluctantly permitted if the only available alternative is direct imports, indicating perhaps the fact that direct imports are the most unpopular option of all available possibilities.

Some Arab professionals have expressed concern that multinationals may press for more FDI without the involvement of nationals, in view of the growing concern about the environmental effects of industrial projects in their parent countries. It is not as yet clear whether this new and forthcoming trend would be associated with a similar willingness on the part of these multinationals to move their R & D facilities (partially at least) to where their investments are mainly located. In the author's view, this would be a most unlikely development to anticipate.

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10.1.1 Interviews:

With respect to the nature of partnerships, interviews conducted with Arab professionals established the following:

1. Different forms of partnerships in joint ventures are determined by the type of investment. It is a matter of case by case assessment which might even suggest the application of a combination of more than one type i.e. management contract and product sharing.
2. Buy-back deal in joint venture partnerships can ideally be suggested as an option to combat the adverse effects of the smallness of domestic market size that characterises almost all Gulf States. Oil production (and export) could be cited as a typical example of cooperation with multinational oil companies through such agreements.
3. Management contract as a form of joint venture agreement must be restricted to the marketing of the product, rather than the production process itself, which should be separately dealt with through different types of technical cooperation, including extensive training programmes for the local staff on the technical know-how and know-why that would eventually lead to technology transfer.
4. Some respondents believe that buy-back deals could be considered provided that cost and sale prices have some specific long-term relationships. Together with production sharing arrangements, buy-back deals should be based on the full understanding that they are directly related to the international market prices prevailing at the time.

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Agreements should be based on predetermined prices for say the production inputs, particularly if production sharing will have to be considered.

5. Management contracts should only be confined to the short term, preferably supported by specific clauses indicating the possibility of extending the original period, if necessary.
6. In case of equity sharing of a joint venture, majority stakes (more than 51%) should be retained by the local partner(s) in order to retain management control.

## **10.2 Capital Requirements**

Multinational companies normally seek to create the appropriate environment before they present themselves as credible partners in any region or country. In the case of the Arabian Gulf, the conditions have been generally favourable (abundance of natural resources (oil) and the availability of capital). Historically, multinationals have succeeded to avail themselves in the Gulf region without having to participate in the equity of the investment projects which have taken place during the last two decades. This was made possible via agreements, the terms of which have been often favourable to them. The value of capital has never been an issue of any concern for the local (Gulf) partners, neither has the resources (mainly oil). This state of affairs resulted in the influx of multinational companies flooding into the area in their hundreds, but far from leaving any impression among the host states that they have imposed themselves on them, they were successful in exposing themselves as keen partners, willing to offer their help on what appeared to sound like easy and favourable terms, in the eyes of the recipient countries.

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This was particularly so with regard to the supply of technology and the technology transfer which was always seen as an essential ingredient for economic development.

In countries such as China and India, multinationals have performed their activities without participating in equity, but also without imposing any prices. In the Arab Countries and particularly in the Arabian Gulf States, the return on multinationals' investments have mainly been against their contributions in management and marketing fields and on the basis of an agreed fixed royalty.

It has been repeatedly argued by the Arab professionals (during interview sessions) that the multinationals have been often reluctant to participate in the capital requirements of such investments, as the return on capital invested is often less than the royalty rates accruing to them. This explains, in view of these professionals, the reason why the foreign companies' concern has been primarily confined to management and marketing control as opposed to real participation through equity shareholding and technology transfer. The fact that technology transfer has been minimal (if at all) explains why the multinationals are still influential and in many regards indispensable.

In South East Asia, the strategy of western multinational companies was based on the notion that *"if you can't beat them, join them"*. The Arab Countries can always draw on lessons learned elsewhere. While the Saudis, for instance, have gained valuable experiences through their partnership with foreign multinationals in various fields of management, marketing and maintenance, the multinational companies have always had the upper hand. Having capitalised on the most favourable terms and conditions pertaining to cheap resources, various concessions and political stability, MNCs' advantages have been reflected in high profit margins. Particular emphasis needs to be

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placed on training local nationals in the field of conducting feasibility studies and project evaluation, so that more local participation could be secured in the decision making process, leading to the selection of viable investment projects based on the evaluation of real costs involved. The fact that these feasibility studies are mainly conducted by foreign consultants – effectively foreign multinationals – deprives The Arab World of the opportunity to have access to even-handed, unbiased recommendations, which take into full consideration the Arab national interests as a paramount priority. The fact that emphasis was particularly focused on the importance of this, by a remarkable percentage of the survey respondents, demonstrates the Arab concern on the role the nationals need to play in formulating the investment strategies of The Arab World. In this respect it is worthwhile noting that 70% of the 92 Arab professionals have indicated that insufficient feasibility studies account for most of the problems leading to the failure of many of the Arab industrial projects (see Table 10.8).

### **10.3 Importance of The Arab World to the Multinationals**

The multinational companies operating in The Arab World were requested to indicate the reasons behind their choice of the Arab region as a location for their investment (or trade). Having been provided with ten potential motives for such choice, respective emphasis on one reason rather than the other was expressed through the allocation of different weights in a descending order of significance. The numbers given against each reason indicate chosen weight compared to a possible maximum of 100. The following table (Table 10.2) is constructed to summarise different responses in a descending order of significance of each motive.

**Table 10.2 REASONS BEHIND MNC's CHOICE TO INVEST (OR TRADE) IN A PARTICULAR ARAB COUNTRY**

Reasons for Investment	Order of Significance	Total Points (out of 100)
a. An important market in its own right.	1	83
b. Cheap labour force.	2	77
c. Cheap raw materials, including energy.	3	76
d. Advantageous tax system.	4	76
e. Freedom of capital movement and expatriation of profits.	5	73
f. A gateway to other Arab Countries.	6	71
g. Advantages of familiarity with commercial and legal structure.	7	65
h. Ease of restrictions on industrial licensing.	8	64
i. Preferential purchasing of local products (and services) by local government.	9	55
j. Capital loans and grants.	10	47

What the above table reveals is that while multinationals usually extend their business operations overseas for a variety of different reasons, the most tempting factor in the Gulf countries is what they are known to offer as a flourishing market, given the remarkably high purchasing power of those affluent societies. Cheap labour force provided by the nationals of the poor countries of South Asia and other less fortunate Arab Countries, constitutes the second advantage; closely followed by cheap raw materials (primarily oil) and the advantageous tax system that all oil-producing Gulf Countries provide for foreign



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companies. This is followed by yet another peculiarity of the Gulf Countries which, unlike many other Third World Countries, allow for free movement of capital and do not restrict the repatriation of profits. The fact that around 70% of the multinationals in the survey sample are based in the U.A.E. explains the unexpectedly high weight (71%) laid on the significance of U.A.E. as a gateway to other Arab Countries. Given that Dubai is regarded as the most important Arab commercial centre for re-exporting through its well-reputed Jebel Ali free zone industrial area, it is hardly surprising to note the emphasis by the multinationals on the importance of this small state as a gateway to other Arab Countries, in their assessment of the main determining reasons for their investment location.

Relatively less important, however, although not in a significant way, are the last four motives (see Table 10.2), with capital loans and grants being the least important of all.

Most of the Gulf Countries have in the recent past years, formulated investment policies geared to encourage preferential purchasing by national governments of locally produced products, but this factor per se seems to have played no significant role in attracting multinationals to establish production units in the area. The same could also be said about the tendency of the Gulf States to ease restrictions on industrial licensing. Likewise, while many of the foreign companies operating in the Gulf States are now familiar with the commercial and legal structures of their host countries, it is also true to state that the Gulf region is not particularly peculiar in this respect. In fact, no multinational company is likely to commence its foreign investment activities anywhere in the world before fully familiarising itself with all relevant information pertaining to the commercial and legal structures of its potential markets. If anything could be emphasised in the way of concluding the findings of the responses provided on this matter, it would have to be the

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reiteration that the Gulf Countries are highly attractive to international business, particularly if the field of investment is not of a large scale production nature, with a possible exception of the oil sector, which was deliberately excluded from the survey sample.


#### 10.4 Impact of Arab Government's policies

Public sector in the Arab World has both a corporate and a public dimension and thus is intended to achieve not only economic, but also social and political goals. Among its objectives, the following could be particularly listed: protection of domestic producers; domestic price stabilization; export expansion; improvement of the terms of trade; exchange control; raising revenue for the treasury; implementation of bilateral trading; health and national security control.

Since it is the state rather than private individuals or institutions, which is the recipient of oil revenues (in the Arab oil producing countries), the bulk of this surplus is controlled by the Arab governments and public entities. In fact, the role of government is a vital ingredient of the structure of resource allocation and the way in which such resources adjust to changes in supply and demand conditions. To a very large measure, the impact of MNCs on economic structure will depend on the policies pursued.

Having said that, one needs to distinguish between two types of government interventions

- *"positive interventionism to reduce market distortions"* says Dunning (1985, p.423) *"should be distinguished from negative interventionism to counteract one set of market distortions by an other, or even counteracting the effects of the market for non-economic reasons."*



Having now considered the main attracting motives inducing multinational companies to invest in the Arab Countries, with special reference to the Gulf region, it remains to assess the views of the Arab academics and professionals in general, regarding some policies adopted by the Arab governments which impact on the multinationals and the development prospects of the Arab World.

While cheap labour force was ranked by the foreign multinationals as the second most attracting determinant for their choice of the Gulf region, the Arab professionals who took part in the present survey clearly expressed their preference of the government policies which are geared to limit the employment of foreign nationals. Out of a total of 55 Arab professionals who have attended to this particular issue, 73% advocated such policies, while 27% believed that the limitation on foreigners' employment was bound to produce negative results on balance. The freedom to repatriate capital and profits, which is heralded by 73% of the multinationals, is viewed rather differently by the Arab professionals: 42% of them have favoured restrictions on repatriation of capital/profits by foreign multinationals; while 58% of them believe that such policy would have negative impact. Likewise, Arab professionals seem to be uneasy about the frequent changes of investment regulations which have characterised the 1970's and 1980's. 79% of the professionals expressed their misgivings about such changes, while 19% believe that to be necessary to adjust to new developments, both on local and international levels. Only 2% think that the effect of regular changes is neutral.

The contrast between the views of multinationals and those of Arab professionals is quite evident in a number of respects; while the overwhelming majority of the Arab professionals are themselves foreign employees from other Arab Countries (only a small minority of the respondents are Gulf nationals), nevertheless, they do advocate the slogan

of localisation of Gulf employees, even though many of them seem to qualify such demands by suggesting that caution should be exercised to guarantee the adequate availability of qualified nationals before any replacement to foreign employees takes place. It is this very fact of foreign work force and their cost-effective advantage, that multinationals refer to as a major attracting factor for their presence in the Gulf region.

On the other hand, about 42% of the total respondents among the professionals group favour the restrictions on freedom of capital/profit repatriation as opposed to 58% who are against. Of course, the nationalistic sentiment is naturally at work here and this result should be viewed from this perspective. Foreign companies would understandably not entertain any kind of restrictions and, of course, their responses confirm this. With regard to the frequent changes of investment regulations, the impacts will vary depending on the type and magnitude of changes. Obviously some such changes will be in their favour, while some others will not, depending on whether the new regulations are intended to encourage or hinder their freedom of manoeuvre. The foregoing figures and percentages are depicted by Table 10.3 below.

**Table 10.3 IMPACT OF GOVERNMENT POLICIES**

	Positive	Negative	Neutral
a. Limitation on the employment of foreign nationals.	73%	27%	0%
b. Frequent changes of investment regulations.	19%	79%	2%
c. Restrictions on repatriation of capital/profits by foreign MNCs.	42%	58%	0%

Sample: 92 Arab professionals.

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## 10.5 Peculiarity of Multinationals' positive role in The Arab World

Question: *"Apart from technology transfer and management training, what advantages do you envisage the multinationals are capable of offering that are not readily achievable by the Arab firms, either on national or regional levels"?*

The above was the only open-ended question which the 18 Arab Companies cooperating with foreign multinationals were asked to express their views about. Responses received, either in writing or during direct interviews with some of their managers or leading executives, emphasised the significance of the new attitudes that came along with multinationals, which generally led to the improvement of working environment. Various comments were made regarding this, the most remarkable of which can be briefly summarised as follows:

1. Better access to international markets (experience gained in the marketing field worldwide);
2. Better management system and training;
3. Enhanced know-how and systematic planning in production fields;
4. Improved working methods/procedures and administrative approaches;
5. The type of social interaction and understanding most needed to promote technology transfer;
6. Higher flexibility to adapt to market conditions and higher competitive edge;
7. More relaxed working environment;
8. Less restrictions emanating from culture and traditions, i.e. employment of women; and
9. Reduction of risk elements, both in production and marketing techniques, including injuries resulting from insufficient safety procedures.

In a nutshell, the positive contribution of multinationals can be particularly felt in the improved working environment. This was also confirmed by different responses given by the Arab professionals. Out of 77 professionals who responded to one particular question pertaining to a closely similar issue, 68% indicated that the impact of multinational companies in respect of changing work practices in The Arab World is positive, as opposed to 27% who believe it to be negative, with the remaining 5% indicating "neutral" impact (see Table 9.3). The responses received from the Arab Companies are even more conclusive and emphatic; out of 15 companies responding, 14 (or 93%) share the view that the impact of multinationals on changing work practices is positive. Only one (7%) thinks the impact to be neutral, while none of them believes that the multinationals' performance in this respect has been of any negative effect.

The above list of advantages, which shows what multinational companies can, and actually do, as opposed to what their national counterparts can, generally reveals the positive role in improving productivity levels. Again, this view is shared by 84% of Arab professionals and 80% of Arab Companies as shown by Table 9.3.

**Table 10.4**                      **WHO MAKES INVESTMENT DECISIONS  
IN THE ARAB WORLD**

	Professionals	Arab Companies
1. General Manager on his own discretion.	22%	20%
2. General Manager acting on family advice.	20%	-
3. Decision is made on professional advice.	32%	47%
4. Left to the Banker or Stockbroker.	5%	-
5. Left to Shareholder.	12%	7%
6. Board of Directors.	50%	47%

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## 10.6 Investment Decisions

Whilst the responses of the two groups of Arab professionals and companies to the question posed in table 10.4 above are naturally not identical, they nevertheless demonstrate a general trend which reveals that the investment decisions involving certain degrees of financial commitments are mainly assumed by the Board of Directors of companies, who base such decisions on professional advice. The above table (Table 10.4) also indicates that in the Arab World in general, shareholders per se have no direct role to play in the decision making process. This might be attributed either to the confidence vested in the Boards of Directors, who are usually seen as true representatives of the shareholders and a genuine defender of the company's interests, or to the fact that in the overwhelming majority of the Arab private companies, the major shareholders are primarily represented in the Boards of Directors. This is also indirectly so regarding the public sector corporations whose members of the Boards of Directors are usually drawn from representatives of the appropriate public sector ministries and corporations, as the government is effectively the main shareholder.

The concept of entrusting the lending banks or stockbrokers with the task of making decisions is alien to the Arab World, given that the financial markets are still underdeveloped, with a possible exception of Bahrain (and Lebanon in the pre-Civil War era). The fact that 20% of 92 professionals believe that important investment decisions are made on family advice, while none of the Arab Companies endorses such views, would be explained in terms of two assumptions:

- a. The professionals might possibly have based their judgement on the assumption that small family businesses are usually run by family members, whose decision making process takes the form of consultation and exchange of views among themselves before being translated into specific actions by the managers and

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- technocrats. This is particularly relevant in The Gulf region, in which the family business is the usual structure, hence the source of decision making; and
- b. The Arab Companies which have responded happened to be outside the category of family oriented businesses and whose decision-making mechanism lends itself to the more sophisticated techniques which are pursued by professionally qualified people whose advice is made available to the Board of Directors for final endorsement.

However, some of the comments advanced by a number of professionals who were interviewed, are worthy of being highlighted as follows:

- a. Neither of the five groups listed in Table 10.4 makes investment decisions of any significant scale. Decisions, in fact, are mostly made by those with the closest access to the influential members of the society. In the case of The Gulf region this simply means the Shiekhs and Princes who belong to the Royal families.
- b. The decision making process is rarely entrusted with the General Manager at his own discretion, unless he is himself the owner, proprietor or the major shareholder of the company in question.
- c. The decision making process depends on the degree of availability of financial resources. The more these resources are, the more the decisions are vested in the hands of the Board of Directors, or someone in the higher hierarchy of the company; the less such resources are, the more General Managers are likely to be involved in the decision making process.

## 10.7 Technology Diffusion

Question: *"How possible is the diffusion of imported foreign technology to other competitors in The Arab World?"*



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The above question was responded to by 16 Arab Companies as follows:-

**Table 10.5 DIFFUSION OF IMPORTED TECHNOLOGY**

a. Fairly possible.	8 - 50%
b. Partially possible.	7 - 44%
c. Impossible.	1 - 6%
<b>TOTAL</b>	<b>16 - 100%</b>

It is somewhat surprising to have an exceptionally high proportion of the Arab Companies holding the view that imported technology to The Arab World is *potentially diffusible*. This can hardly be compared with the results previously obtained from 12 multinationals operating in The Arab World, who were asked about the negative effects of technology transfer to the Arab countries. Only two of those companies, i.e. 17% of the total, cited "easy diffusion to foreign competitors" (see Table 9.9). If that is how foreign multinationals view this matter, it would certainly seem surprising that 94% of the Arab companies (as Table 10.5 shows) believe that the diffusion of imported technology (to other competitors) is either fairly or partially possible. Only 6% (one out of 16) believe that such diffusion is impossible.

One would only recall what has already been mentioned earlier, that in The Arab World it is the lack of awareness of the significance of confidentiality regarding technological secrets which leads to technology diffusion. In fact, there is no reason to assume that there could possibly be a deliberate policy to diffuse technology to any third party by the Arab countries or companies.

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### 10.8 Export Processing Zones (EPZs)

EPZs are the special manufacturing enclaves set up to attract foreign investors, often using lavish tax customs and labour intensives as bait. Such zones have boomed since the 1960s, despite some economists' doubts about their benefits (as the Arab professionals in our own survey indicated in their responses).

Free ports where goods can pass in and out tax free, go back centuries. EPZs, by contrast, offer concessions only where goods passing through the zone undergo some process that adds value. As the number of EPZs has risen, so has the competition for foreign investment. All EPZs waive customs duties on imported raw materials and other goods if the final product is sold elsewhere, but there are other incentives too in almost all Arab EPZs, ranging from long tax holidays on profits to subsidised rent and services.

Our own survey hypothesised that the Arab export-free zones i.e. Dubai and Egypt, have shifted emphasis from import-substitution in favour of exports; and hence led to close integration of the Arab economies with the world economy.

Only 49 out of a possible total of 92 Arab professionals elected to respond to this particular question (53%) and 71% of them expressed a general agreement with the above hypothesis, while the balance of 29% disagreed.

Asked whether the concept of Arab export-free zones is a positive or negative development, the responses of 64 professionals (70% of the total) were as follows:-

41	-	64%	positive development
10	-	16%	negative development
13	-	20%	neutral effect.

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In general, the above percentages could be briefly interpreted as follows:-

- a. The fact that a considerable number of the intended sample has refrained from responding is probably attributed either to the lack of strong feelings about the subject, or lack of adequate knowledge.
- b. While 41 (44% of the total sample size) have expressed their satisfaction by indicating that EPZs constitute a positive development, the majority which make up the balance (56%) are either undecided, neutral or against (view them unfavourably).
- c. As the responses given in writing in respect of EPZs in the Arab World appear to be inconclusive, we may elect to seek refuge in what the Arab professionals had to say about the issue in question during face-to-face discussions which ensured more freedom of expression than might be expected in the more formal case of answer-provided questionnaires.

There appears to be some consensus among the professionals who were interviewed that the Arab export-free zones have a neutral effect on balance, because they are mainly engaged in re-exporting activities (Dubai in particular) which implies importing from countries other than those of origin without any corresponding increase in domestic demand. In fact, the Arab export-free zones cannot be said to have favoured more economic integration with the world economy, neither have they shifted emphasis from import-substitution. Their influence in these respects has been neutral, first due to the small size of such zones, besides the fact that the five industrial free zones of Egypt are mainly designed to serve local markets and satisfy domestic demand. In fact the

experience of Egypt was an attempt to release some of the internal pressure regarding say, foreign exchange regulations, etc.

In conclusion, one would say that on balance the effect of the Arab industrial-free zones, judging from the experiences of Dubai and Egypt, could probably be described as neutral. These export free zones are unlikely to make any significant impact on the prospects of economic development in the Arab World.

#### 10.9 Foreign expansion of Arab public sectors

The Arab professionals were asked about the objectives behind the foreign expansion of the public sector enterprises of some Arab countries such as Kuwait. A summary of their responses is depicted in Table 10.6, which lists such objectives in a descending order of priority.

**Table 10.6 OBJECTIVES BEHIND FOREIGN EXPANSION BY ARAB PUBLIC SECTOR**

1. Diversification.	55%
2. To increase market size (limited local market).	45%
3. To gain necessary expertise particularly in technology management; a step towards technology transfer.	32%
4. Promotion of political ties.	21%
5. Undermining dependence on foreign companies.	20%
6. The need to acquire foreign exchange.	11%

Since Kuwait ideally typifies the Arabian Gulf States, it is evident from the above responses that they primarily reflect the general views pertaining to the Gulf countries. It is not surprising therefore to find out, as Table 10.6 shows, that the foreign expansion

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of the Gulf investments are primarily due to the need for diversification (55%) and to the limited size of the domestic market (45%). About a third of the Arab professionals also believe that gaining necessary expertise in technology-related activities, which is more readily accessible abroad, is an important objective to be pursued. The need to acquire foreign exchange is not regarded as an objective in itself in the Gulf region, while promoting political ties or undermining dependence on foreign companies are to be regarded as less important, since such objectives could potentially be pursued through other means and not necessarily via expanding outwards. However, a sizeable minority of around 20% of the respondents still believes that such objectives could be achieved through foreign expansion.

The main factor, by and large, is the limited investment opportunities in the Gulf region, with the possible exception of the energy sector. Foreign expansion of the public sector is thus seen in the light of the anticipated decline of hydrocarbon resources, which are depletable. Some new sources of wealth, to complement the existing ones, are to be sought before it is too late. As the recent Gulf crisis has clearly demonstrated, there is a security factor which is directly involved as well. No doubt the ruling families of the Gulf States have, for some considerable time been vulnerable to political changes in the region and the foreign investments by the Gulf public and private enterprises with key members of the ruling families maintaining a major share of their equities, could be explained and viewed within this context.

#### **10.10 Industry vis-a-vis Service Sector**

Having now considered the factors which lead some Arab countries to expand their business activities outside their national borders, one needs to consider the reasons why Multinationals tend to limit their real investments in The Third World, while encouraging

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the expansion of their service industry. The main reasons for such a tendency as given by the Arab professionals can be seen in Table 10.7 below.

**Table 10.7**                      **WHY DO MNCs LIMIT THEIR REAL INVESTMENTS IN THE THIRD WORLD AND ENCOURAGE EXPANSION IN THE SERVICE INDUSTRY**

1. Service sector is risk-free (highly profitable).	58%
2. Fear of competition with their own products.	34%
3. A deliberate strategy to keep the developing countries underdeveloped.	23%
4. To avoid technology diffusion.	18%
5. Other reasons.	1%

It would suffice to restrict our comments on the one fact that the above percentages highlight – the achievement of high profits and risk aversion have and will always remain to be at the centre of MNCs' strategy; a strategy that will eventually determine the type and location of their investments in the Third World. This said, let us now reflect on the comments in this regard which have been made by different interviewees, which can be briefly summarised as follows:-

- a. The Multinationals prefer expanding in the service sector because it requires less capital investment; whenever they elect to pull out of a foreign market, they can do so more speedily and with minimum cost incurred.
- b. The determining factor with regard to the choice between the service and other sectors is rather the return on investment, irrespective of the type of sector. The emphasis on the service sectors by some MNCs is thus not a deliberate policy to undermine their real investment, but is an investment decision made on purely commercial grounds.

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- c. The service industry is not necessarily opted for at the expense of the physical investment. It would be inconceivable in view of the huge infrastructural investments that took place in the Gulf region over the last decade or so not to expect a corresponding level of service sector in an economy which is characterised by a high propensity to spend. Expenditure in physical projects such as schools, hospitals, roads, airports, industrial factories, etc., necessarily spills over into the service sector.
  - d. The political and strategic significance of a particular country or region can also determine the type of sectors to which various investments are directed. The type of technology to be transferred to a given country (industrial or service technology) is thus a function of the degree of strategic importance of that country.
  - e. The assumption that MNCs deliberately limit their real investments, while encouraging the expansion of service industry in the developing countries, is in itself subject to question and can be refuted. It is not in the interests of the MNCs to keep these countries underdeveloped, because to them (MNCs), development means bigger markets and higher demand. While it is certainly true to say that, at times the service sector is less risky and easier to get into than to an industrial project, it is equally true that services are indeed needed at all levels of development, while capital investment is not necessarily required at some levels.
  - f. It is not strictly logical to assume that MNCs are fearful of competition with their own products, because if they invest in the developing countries this will simply expand their product sources, as well as potential markets.

#### **10.11 Consultants**

The engineering consultants are the only foreign multi-national companies allowed by law to operate in the Gulf countries without the obligatory need to associate with local

partners (or agents). In fact they are the only foreign businesses with own subsidiaries in the Gulf, as they are exempt from having to abide by the Agency Laws of the Gulf States, as explained in more detail in Chapter 6 and Appendix (B).

In U.A.E. a number of Chief Engineers and residential executive engineers of some three such contracting and engineering consultants, were interviewed and the following would be mentioned in brief by way of summarising the main outcome of the discussions which took place in Abu Dhabi in May 1990:

- a. The consultancy firms and engineering contractors usually do not invest, but only supervise contracts. In one case, such supervision has involved contracts which were valued in the region of 2bn Dirhams (about £350 million) in Abu Dhabi alone. This is not to be confused with investment.
- b. The consultancy firms in the Gulf do provide training to local employees, but not necessarily to Gulf nationals. The Gulf nationals do not seem to be interested in the engineering profession, in the words of a British residential engineer. According to him, they are interested only in managerial posts, particularly those with high salaries. They therefore have no particular role to play in the engineering or consultancy sectors, the majority of which are dominated by foreign MNCs operating on commercial grounds.
- c. In one of those British Engineering firms based in U.A.E., the author was told that many Arab personnel were employed at various managerial and technical levels. Their main job is to design and supervise the projects. As for the parent company (in Britain), apart from 4 members of the Board of Directors, up to 10 engineering staff may be involved periodically to prepare project documents only. This particular company employs only supervisory engineers to projects worth \$100m. The Government of U.A.E. pays a contracted rate to the company for each staff



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member and the company pays out salaries and other expenses, at its discretion, from that sum received from U.A.E. Government.

- d. In the viewpoint of a Senior Engineering Manager (also British), the advantages of appointing more and more local staff in managerial posts are reduced to mere coping with Gulf Governments' Policy which generally favours employment of the locals among the staff.
- e. The Engineering Consultants who represent foreign MNCs believe that cooperation with private sector is much smoother than with the public sector. This is related to the fact that most work, in consultancy and contracts, is tied to Government contracts under strict specifications. The Government still effectively controls.
- f. Local managers may well be less expensive than foreign expatriates, but the question is not one of cheapness or otherwise. It is rather one that addresses the fact that the nationals (in the engineering sector) are simply not available to fill managerial posts. Of course there is always a minimum requirement of qualifications to keep up with the MNCs standards and reputation.

#### 10.12 Factors contributing to the failure of some Arab (Manufacturing) Companies

**Table 10.8**                      **MAIN FACTORS CONTRIBUTING TO THE FAILURE OF ARAB COMPANIES**

	%	Ranking
a. Investment made in the wrong activity.	48	4
b. Insufficiently trained managers.	57	2
c. Politically motivated investment decisions.	51	3
d. Excessive replication leading to over-investment.	21	6
e. Insufficient feasibility studies.	70	1
f. External factors i.e. cooperation with MNCs, etc.	23	5

\* Sample : 92 Arab Professionals.

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Insufficient feasibility studies are seen by the Arab professionals to be the most important factor contributing to the failure of some Arab Companies (70%). This factor is followed by the "insufficiency of well trained managers" (57%). Just over 50% of the professionals blame the failure on the decision makers whose investment decisions are politically – not economically – motivated, which in a way lead to the investment having been made in the wrong activities (or perhaps wrong locations), a contention supported by 48% of the sample. The least important of the many factors (see Table 10.8) were reported to include the external factors (23%) and the alleged excessive replication that leads to over-investment.

What these responses clearly illustrate is that, contrary to common belief, the external factors, and particularly the problems associated with cooperating with foreign multinationals, do not seem to be of any major significance insofar as the Arab Companies' problems are concerned. Incidentally however, when the Arab professionals were asked to comment further on any other factors which could supplement the list already provided, their main emphasis focused on external factors, even though they did not refer to them directly as external.

The other factors included three major reasons for failure:

- a. Failure to choose the appropriate technology mix;
- b. Feasibility studies, particularly those conducted by foreign experts or consultants and the tendency of such studies to be biased or misinformed;
- c. Restrictions imposed by outsiders i.e. EEC against the exports of Arab products as well as "dumping" policies as one particular respondent put it.

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Clearly the above-mentioned factors are all related to influences which are effectively outside the real control of the Arab Companies or countries.

On the other hand, many economic experts whom the author happened to interview were adamant in their rejection of laying the blame on external factors. Their emphasis on various domestic factors contributing to the limitations of the success of Arab Companies included: low productivity levels; high cost of production; tedious routine management; uncompetitiveness vis-a-vis foreign-produced products; preference of local consumers for imported rather than locally produced products; high transportation and overhead costs; social and political constraints; and the failure of designing a successful marketing strategy.

Other factors relate primarily to poor non-oil producing Arab Countries such as poor infrastructure and the limitation in foreign currency resources required to purchase intermediary and capital goods from the international market.

Industrial projects may be doomed to failure, depending on whether a particular factory or company belongs to the private or public sector domain. Almost every case has its own reason or set of reasons which determine the borderline between success and failure. According to an Irish economic expert working as an advisor in an industrial consultancy organisation in the Gulf, insufficient feasibility studies are often the main reason for the failure of some projects undertaken by the private sector. The excessive replication which lead to over-investment does happen occasionally, but is not really a main reason for failure. His assessment is based on the premise that a good product management operation can always succeed, notwithstanding the usual constraints. Regarding the external factors, including possible influence on the part of multinationals, this also can

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happen, but again the determining factor would always be attributed to the inexperience and sometimes "unreasonableness" of some local partners.

Generally speaking it is very rare to have investment made in the wrong activity in the Gulf region, whose inhabitants have a long trading experience; a factor which must have well met the qualification of having to be commercial-minded in any decision making process involving investment. It may not be easy, however, to distinguish between "investing in the wrong activity" and "duplicating successful investment elsewhere", which in a way makes it a wrong activity if it is viewed at regional (or pan-Arab) level. Taken on a purely national basis, however, it could be seen as an appropriate decision so long as domestic markets' requirements are met by domestic products. What is at stake here is the long heralded economic integration between the countries of The Arab World; a strategy well received in theory but with only little in the way of actual achievements.

#### **10.13 The Investment Criteria**

Many Arab professionals have emphasised the political stability as the most important investment criteria in the Arab World. The survey was undertaken during May to June 1990; a short time before the start of the Gulf crisis and the outbreak of war in the area. Emphasis has also been made on the necessity of proper exploitation of local natural and human resources. As for the criteria which foreign MNCs will very closely observe before investing in a given market, bureaucracy, red-tape and corruption, which are usually associated with many of the developing countries, seem to have featured prominently. The multinationals are particularly concerned with performing their operations in an atmosphere in which quick, sensible and non-bureaucratic procedures prevail. It is to be highlighted however, that the importance of various investment criteria depends on a variety of different factors related to each individual Arab Country, with its

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own peculiar investment constraints and problems regarding technology transfer and social, political and economic considerations, which can vary significantly from one country to another.

Other issues which have received a noticeable degree of attention and emphasis, include the following:

- a. The indigenisation of management and technical personnel is required wherever possible, but only under some well-prepared phasing out programmes.
- b. In many cases, the type of technology which is imported appears to be either unneeded or inappropriate. Only the required technology should be allowed to be imported. It has to be emphasised here that the temptation to go for the most sophisticated technology should be resisted.
- c. It is sometimes thought that the highly influential people in the Gulf (Shiekhhs and Princes who have more or less unlimited discretion) are in an advantageous position, having the ability to make decisions and making them speedily. While some analysts consider this as a positive phenomenon, insofar as decisiveness is needed, it could in fact be a double-edged sword. It is imperative that decisiveness (or decision made in a hurry) is not necessarily compatible with the most appropriate decision, which is likely to produce the desired results. Investment decisions made without due consideration and carefully conducted trade-off between potential alternatives, could possibly lead to devastating results.

#### **10.14 Major Findings**

Whilst responses received from different survey groups regarding the various issues addressed on the multi-nationals and their role have not established any consensus –

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which was not originally sought or predicted – a remarkable degree of agreement amongst them has emerged in a number of respects, as could be shown by the following:

1. Whatever differences of views have been expressed, it was quite evident from the outset that joint venture partnerships in principle have enjoyed wide acceptance, tantamount to consensus among the respondents of the three groups. It is also generally accepted that it is in the interest of the Arab countries to allow the local partner of joint ventures to have the majority share in the equity of any such ventures.
2. Insufficient feasibility studies account for most of the problems encountered by the Arab manufacturing companies. As these studies are primarily carried out by foreign MNCs, the failure of many Arab industrial projects is attributed to these foreign firms (70% of the Arab professionals confirm this assertion).
3. The exceptionally high attractiveness of the Gulf region to foreign MNCs is attributed to a number of factors, the most prominent of which are cheap raw materials (energy) and labour force, advantageous tax systems and the numerous concessions given to foreign MNCs (capital and profit repatriation).
4. The positive contribution of MNCs is particularly manifest in their role in setting up an improved working environment. This is particularly felt in areas such as management systems, training, working methods/ procedures, and risk reduction. In short, their deep-seated effects are primarily on the people by transforming their methods of production and their input cost structure, among other things.
5. Turn-key projects in the Arab World are the least appropriate of all channels of technology transfer; Licensing is more akin to real transfer, provided that potential skilled man-power is available at the required quality and quantity.
6. As confirmed by the survey, one can fairly say that the Arab export-free zones, such as Dubai and the five Egyptian zones, cannot be said to have favoured more

economic integration of the Arab World with the world economy, neither have they shifted emphasis from import-substitution objectives. Their influence in these respects has been mainly neutral, or at best marginal.

7. The desire for diversification coupled with the limited size of local markets are the major factors behind the tendency of many Gulf public enterprises to expand their scope of business internationally. (Kuwait being cited as a typical example in case.) On the other hand, the choice of foreign MNCs between investing in industry or service sectors in the Arab World (and indeed in the developing countries in general) is rather determined by the return on investment regardless of the type of sectors. It is a decision based on purely commercial grounds. In general, the rate of return for a given investment appears to be better (and less risky) in the service sectors such as banking, insurance, shipping, etc., than in industrial sectors.

As a matter of fact, there is no consensus of an ideal economic structure on which to base an ideal partnership between MNCs and host countries of the Arab World, because the goals and/or trade-offs between goals, of various countries of both MNCs home and Arab host are different. There can be no general answer to the way in which MNCs may affect economic structure or economic development. This conclusion is further underlined by the fact that government economic policies to which MNCs react also vary widely between countries. Whether MNCs operate for the good of the Arab World will thus depend as much on the respective governments' goals and policies as on anything which MNCs themselves may or may not do.

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**CHAPTER 11**  
**FOUR SELECTED CASE STUDIES OF JOINT VENTURES**  
**IN QATAR AND THE SUDAN**

**11.1 Introduction**

**11.1.1 Um Saeed Industrial Estate**

The author was privileged to have been given the opportunity to pay a carefully planned visit to the Industrial Estate of Um Saeed in The State of Qatar in June 1990, where three of its major industrial enterprises were visited and interviews and guided tours to various production and marketing units arranged. Some key decision-makers, virtually general managers, on instructions from the headquarter offices in Doha, the capital, were quite prepared to explain and readily respond to the author's questions and enquiries and also instruct others to provide him with as much assistance as possible in the way of attending to his questions and furnishing him with any relevant information as would be deemed appropriate to the subject matter of his enquiry.

**11.1.2 Per Capita Income of Qatar**

With per capita income in 1989 totalling 17,844 U.S. dollars, Qatar has the highest per capita income in the Third World and the fourth highest in the entire world. According to "OPEC. Facts and Figures", January 1991, Switzerland has the highest per capita income in the world (\$25,933), followed by Japan (\$22,841) and U.S.A. (\$20,765). This compares with an average of 1,646 U.S. dollars for the Middle East region and \$517 for the whole continent of Africa (both excluding OPEC member countries).



### 11.1.3 Industrial Development in Qatar

The overall aim of curbing the drainage of non-replaceable national resources in the State of Qatar, is regarded as the main feature of the economic policy adopted by the State. This policy gained considerable momentum during the mid-seventies when the state began the implementation of its comprehensive development plan involving large-scale expansion in housing projects and establishment of new industries reliant on abundance of capital reserves.

The extraction industries, oil and gas, still dominate the industrial sector in Qatar, but manufacturing industries have grown in importance in recent years as a useful secondary source of national income. They have achieved international standards of production and have provided new work opportunities for young Qataris. The aim of State policy has been to create a firm productive base from which to expand and diversify sources of national income. The foundations of modern industry were laid with the creation of special industrial zones, equipped with all essential services required by industry.

Since it was established in 1973, the Industrial Development Technical Centre (IDTC) has played a vital and pioneering role in organising and directing the industrial development process in Qatar. It played a central role in the development of the industrial port at Um Saeed and the conversion of Um Saeed into a major industrial centre at the heart of a bustling modern society.

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#### 11.1.4 Industrial Areas

There are several industrial zones in Qatar, including two in Um Saeed – one for heavy industries and one for light industries – and the Salwa Road Industrial Estate to the west of the capital – Doha.

Um Saeed – situated on the coast some 35 kms south of the capital – has become the industrial heart of Qatar. In the early seventies it was selected as the centre for the national heavy industries because of its deep, rock free, sea water channels. Um Saeed is the export terminal for oil produced from the onshore fields at Dukhan in the west of the country. The first wharf of the industrial port was opened in 1976 and this was followed by a port expansion programme, preparing of factory sites and construction of all necessary port facilities. A number of heavy industries were set up in Um Saeed including iron and steel, petrochemicals, chemical fertilisers and a natural gas liquids complex, in addition to an oil refinery.

In 1975 dredging work began to deepen the port, and a harbour for tugs and pilot boats was constructed. Special wharves were built for the discharge of raw materials and the export of industrial products for the major industries, while a commercial freight port was also developed. Um Saeed port now counts 11 wharves, covering a total length of 2,800 metres.

The State has provided the city with all necessary auxiliary services to include customs, immigration, health and police; and set up observation offices for port traffic and wharves; and established a power station to supply the plants subsidiary distribution stations.

#### **11.1.5 Doha Industrial Zone**

Situated on Salwa Road, 7 kms west of Doha, this industrial zone, set up for light and medium industries, has a well established infrastructure providing all the necessary services – water, electricity at subsidised prices, and land at token rents, alongside a modern network of roads linking it with the capital.

#### **11.1.6 Four Joint Venture Case Studies**

Qatar Steel Company (QASCO), Qatar Petrochemical Company (QAPCO) and Qatar Fertilizers Company (QAFCO) are all industrial projects established in Qatar during the 1970s as joint venture partnerships with foreign multinational companies, namely Japanese (QASCO), French (QAPCO) and Norwegian (QAFCO). The following pages will reflect on the experience of the three factories, as case studies based on the information the author was provided with during his personal contacts with the factories' personnel, together with some previously acquired knowledge on the three projects during his long employment as an economic advisor at Qatar Embassy in London.

As a Sudanese national, the author has developed a special interest in the Sudanese Kenana Sugar Company (KSC), which was predicated in early 1970s on combining the natural resources of the Sudan, surplus Arab oil revenues and Western technology and has ever since been heralded as one of the largest integrated agro-industrial complexes of its kind in the world: while a proposed visit to KSC has not materialised, detailed information was possible to come by from numerous sources, prominent among which are various essays and studies about KSC from academicians, as well as former employees, together with a

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number of annual reports and briefings through visual aids, kindly provided by Kenana Procurement and Liaison Office in London.

Lonrho, the British MNC, whose role in initiating the project, starting from its feasibility study stage, and its active partnership role during the first five years of the projects' inception before its final withdrawal from the partnership in 1977 has been a subject of controversy, was also contacted and it was possible to gain some insight on its role and to reflect upon it. Hence KSC has been dealt with as a main case study, to be supplemented by the three cases of the Qatari Industrial Estate of Um Saeed.

## **CASE STUDY (1)**

### **11.2 Qatar Petrochemical Company (QAPCO)**

QAPCO was established in 1974 as a joint venture between the Government of Qatar, represented by Qatar General Petroleum Company (QGPC) – (84%), and CdF Chimie (ORKEM) of France with 16% of the total company shares. The plant, which commenced operation in February 1981 following a long gestation period of seven years, is one of the biggest petrochemical complexes in the Arab World and the first to operate in the Gulf region. It was designed to produce 280,000 Tonnes per year of ethylene, 140,000 Tonnes per year of low density polyethylene and 46,000 Tonnes per year of Sulphur. A drop in oil production since 1980, however, has affected the levels of the associated gas available for industry.

A new ethane recovery unit was commissioned by end 1985 and formally inaugurated in early 1986.

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### **11.3 Performance**

The complex has already exceeded by 255 tonnes the design capacity in polyethylene production (in 1987). A similar trend is forecast for ethylene output after the completion of the Qatari North Field Gas Project, on which the work is currently underway.

QAPCO's products are marketed worldwide. Ethylene and sulphur are marketed by QGPC's marketing and transport department, while the low density polyethylene is handled by ORKEM, under a marketing agreement.

According to the (French) General Manager, who is nominated by ORKEM, ORKEM operates its activities in accordance with an operations contract as well as management and marketing agreements.

An interview with the French Manager, in his office at the complex site, was successfully arranged and the discussion, which lasted over one hour, has established a great deal of valuable information and provided the basis for the assessment of the nature of the joint venture partnership and how it proved to be a remarkable success over a decade and a half long cooperation.

In addition to its Qatar business, ORKEM has also a presence in Saudi Arabia since 1985 as a licensor, but with no business commitment. It has also a joint venture project with a Moroccan Phosphate Company.

### **11.4 Technical Cooperation**

The Ethanol plant was purchased from TECHNIP, a French engineering company, while the Polyethenol plant was licensed by ORKEM and erected by COPPEE RUST, which

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is a Belgian company. The utilities (water and electricity) installations were erected by Japan Gazolin Corporation (JGC).

Qatar Government has acquired some shares in the parent company of ORKEM in France. This explains why the marketing strategy of QAPCO relies on markets other than that of France, since it would be inappropriate for Qatar to compete with itself in the French market (as the French Manager put it).

The export promotion of the company's products has clearly materialised as 99% of QAPCO's production is exported. Local value added benefits are particularly demonstrated by the activities of local contractors who are assigned most of the contracting jobs required by the company. Efficiency has been long enhanced through proper exploitation of technology, after respective local technical and engineering staff were provided with extensive training programmes, both in France and Qatar, at the beginning of the project. The training was then maintained on a continuous on-the-job training basis.

Pursuance of mutual interests between the two partners of the joint venture was ideally and characteristically demonstrated by Qatar Government having shares in the French company ORKEM. This was mainly in a bid to avoid conflict of interests and to promote and emphasise the mutual interests and commonalities between the two partners. As for ORKEM, its strategy is designed to capitalise on the importance of being present in a region such as the Middle East, which in any case is an important centre for the petrochemical industry at present, as well as in the future. It is in line with this strategy that ORKEM has managed to expand its markets in the Middle East. (Its presence in Saudi Arabia and Morocco as a joint venture partner has already been highlighted.)

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With regard to development problems and the extent to which the multinational companies can contribute in the Arab World, the French ORKEM Manager has his own perception about which he expresses himself in an unmistakeably emphatic tone:

*"There is no development in the socialist countries of say, the Eastern bloc. It is only the capitalist countries which are development prone; so the Arab countries can only hope to achieve their development targets through cooperation with the capitalist system and its multinationals" ..... "developing and improving technical capabilities are the most important steps a developing country must opt for, even without reliance on foreign multinationals. By so doing, it can create real production companies which can help create added value..... In Saudi Arabia, businessmen are industry-minded and tend to produce for the long-term, thus emphasising on future development (agriculture, etc.) rather than on what could turn out to be tempting short-term profit yielding projects."*

Comparison has also been made (by the French Manager) with other oil producing Arab countries such as Libya for instance, in which locally available resources are not fully exploited due to lack of cooperation with foreign MNCs. Reference is made to the fact that Libya still imports canned vegetables and fruits instead of processing them locally, while some big projects are being built in non-priority sectors. In other words, the locally available raw materials are not properly exploited, hence no added value is realised. This is clearly a case for investing in the wrong activity, while ignoring priority investments which ideally square with available natural resources.

### **11.5 Type of technology**

In response to a general question on the appropriate type of technology, the French Manager elected to cite Algeria as an illustration of the way he believes the Arab World is shaping its strategies. Algeria uses technology-oriented projects without labour getting opportunities for jobs (maybe this is one reason why a large Algerian workforce exists in Europe). Emphasis on technology rather than on people is not an appropriate path for economic development for the developing countries of the Arab World. This is particularly true in view of the fact that the return on investment of highly sophisticated

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technology is not considerable, while the return on investment in training and qualifying local manpower is much greater in the long term. Greater emphasis should therefore be focused on people rather than on machines.

### 11.6 Qatarization

QAPCO's Board of Directors has adopted a policy of gradually reducing the number of French staff in its joint venture company. From a peak of about 50 French staff members in 1980, their number is now reduced to only 15 (in June 1990). Most of the local staff and workforce is derived from other Arab and Asian countries, mainly Indians and Egyptians and some of them have received intensive training in Europe, mainly in France. In order to have a general idea about the sort of expertise which is needed, it might be worthwhile to give a detailed account of the 15 French staff members, broken down as summarised below:-

<u>Engineers</u>	<u>Supervisors</u>
1 x Production Manager	2 x Production
1 x Maintenance Manager	6 x Maintenance
2 x Ethanol Plant	
1 x Assistant Methanol Manager	= 8 in total
= 5 in total	
Plus:	
1 x General Manager	
2 x Members of the Board of Directors	
= Grand total of <u>15</u>	

The French General Manager concluded our amicable discussions by a comment on the expediency of the replacement process which has vigorously taken place recently under the banner of 'Qatarization'. In principle he does not question the genuineness of the idea of nationalising the staff, but he has reasons for caution. Experience and efficiency are two key words which should, at the end of the day, win through.



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## CASE STUDY (2)

### 11.7 Qatar Fertilizers Company (QAFCO)

#### 11.7.1 General background

A share company with limited liability was originally established by the Government of Qatar in 1969, to utilise flared associated gas for the production of ammonia and urea. In 1974, the government transferred its shares to Qatar General Petroleum Corporation (QGPC), which now holds 75% of the total shares, while the balance is held by Norske Hydro of Norway which also handles the marketing of the products as a worldwide agent.

When it commenced production in 1973, QAFCO was the first industrial complex in the Um Saeed heavy industry zone and it marked the initial step in the State's industrial diversification programme. Since the construction of a second unit in 1979, the plant has a daily capacity of 1,800 tonnes of ammonia and 2,000 of urea – virtually all of it for export. For the year 1987, production for both was well above the design capacity of 660,000 tonnes (urea) and 594,000 tonnes (ammonia).

Some very useful information was derived via an hour-long interview that the author was able to conduct with the QAFCO's Norwegian General Manager, who represents Norske Hydro Company of Norway. A brief summary of the outcome of that discussion is outlined below.

QAFCO cooperated in the beginning of the project with many foreign multinational companies, notably with Unilever and Shell, as well as with other MNCs from Sweden and Switzerland.

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### 11.7.2 The Joint Venture Partnership

The Norwegian, Norske Hydro, which is a joint venture partner with Qatar Government, has a license agreement with ICI of England and some American companies. It undertook the training and development of the local workforce, which is derived from some 20 nationalities; mainly Arabs, Asians as well as other nationalities. Only a small minority of the qualified workforce (and management) was Qatari, and still is at present, albeit this situation is gradually changing as the Qataris have begun to train themselves in different fields of operation and management, but again only a few of them are with industrial experience.

The basic technology was initially supplied by the British companies i.e. ICI, then by the Japanese at a later stage. Eventually QAFCO was licensed to utilise the technology provided. By that time, the management and operation of the company had transferred gradually to QAFCO. It has been a very slow process of knowledge and skills transfer, mainly because initially only a very few locals were educated or had any industrial experience. Most Qataris come directly from Universities after graduation, but still fewer have had economic or management backgrounds. Most of the local staff (local not Qataris) are mainly of technical background.

The problem is usually manifest in the fact that most Qataris are impatient to climb up the professional ladder as fast as they possibly can. In the viewpoint of the Norwegian Manager, and due to a number of domestic, political and social factors, it is in fact very difficult and challenging to attempt to stand in the face of this increasingly damaging nationalistic trend on the part of Qatari youngsters who often push for promotion demands in the hope that they can, in record time,

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climb up the managerial and administrative ladder which entails a great deal of decision making responsibilities for which they lack the essential experience and scope to cope with.

### 11.7.3 The workforce

On the other hand, the majority of QAFCO's workforce (Arabs and Asians mainly) have been employed for a long time and a great number of them have accumulated experiences in the factory that date back to its initial establishment. In this respect, it could be said that there is a steady and stable workforce, many of whom have been employed for more than 20 years. Experience has thus been built up over years. As English is the official language of QAFCO, almost all recruitment takes place from English speaking communities as a necessary condition. In the past, language barriers have been a handicap in communication and in performance in general; no longer does this problem exist at the present time.

According to the Norwegian Manager, there is no particular objection in principle to "Qatarization" of the staff, but the problem mainly arises from their impatience and unreasonable expectations towards quick and immature promotions. This creates a situation whereby maintaining a stable structural organisation becomes difficult to achieve. Recently there have been an awful lot of conflicting interests at work in the appointment of staff, with an unmistakable eagerness to Qatarise the workforce. *"If this tendency is pushed too hard, it will certainly produce negative results"*, to paraphrase the Norwegian Manager.

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#### 11.7.4 Management Contract

The managerial contract of Norske Hydro was scheduled to be terminated by the end of 1990. Depending on the decision of the main shareholders (Board of Directors), the Norwegian company was prepared to renew its contract and continue with its managerial responsibilities. (The Contract was later renewed.) Planning for future modernisation of the factory and stocking appropriate spare parts in appropriate quantities (and qualities) needs special skills and careful management and technical know-how and it is in this field of knowledge that the role of the Norwegian company would be most profoundly needed.

### CASE STUDY (3)

#### 11.8 Qatar Steel Company (QASCO)

QASCO, the first integrated steel plant in the Arabian Gulf, was established in 1974, as a result of a joint venture agreement between the Government of Qatar (70%), KOBE Steel of Japan (20%) and TOKYO BOEKI Ltd (10%). The actual production came on steam in 1978.

QASCO employs a blend of 1,000 skilful staff of 12 different citizenship, interwoven with latest production technology and equipment, who generate an annual production of more than half a million tonnes (550,000 tonnes per year); that is 167% of the rated capacity of the plants 330,000 tonnes per day. Its quality assurance is tailored in accordance with international standards, together with reliable delivery schedules. As an integrated plant, QASCO enjoys a number of auxiliary facilities which the author was able to see for himself, as he was taken for a two-hour long guided tour around the factory and its various production and marketing departments. Those facilities include material

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receiving/handling, main power sub-station, quality control centre, maintenance shops, beside the other supporting facilities of sea/fresh water, compressed air, natural gas and a clinic.

QASCO's Direct Reduction plant (D.R.) is the first in the Arabian Gulf area and the seventh to be installed worldwide by 1977. Its options for D.R. is justified by the possible utilisation of the abundant natural gas in Qatar as fuel. Besides being easily operated, its product is solid and easy to handle.

While KOBE Steel Co. Ltd., shares 20% of the total equity of QASCO, it was evident in view of QASCO's Manager, who represents the Japanese side of the joint venture, that neither KOBE nor Qatar Government were assessing the foreign stake of shares as a means of providing capital to the project. Equity participation was agreed on as a means to ensure mutual interests pursuance by both partners. This is particularly so in view of the fact that the period of commencement of business, starting in 1974 when the joint venture agreement was signed by the respective shareholders, and culminating in 1978 when actual production came on stream, coincided with an era in which Qatar was in no way short of foreign capital.

Qatarization, which has long been the prime concern of QASCO's Board of Directors, has received a substantial momentum through the year 1989, when 74 Qataris have been appointed in various technical and administrative departments. Further training and upgrading of Qatari staff, at all levels, has been a well attempted goal for which several specialised training courses have been effected, to keep the Qatari staff informed of the most up-to-date technology.

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It was very impressive, in fact, to bear witness to the management transformation of such a sophisticated project, which is on the verge of becoming completely run by Qatari management. It is no doubt a tremendous achievement in itself, regardless of how efficient the local management will turn out to be in the not-too-distant future. Notwithstanding the repeated calls for caution and sometimes misgivings that were expressed by the foreign partners of QAPCO, QAFCO and QASCO, one has to commend the enthusiasm and forward-looking spirit that the author detected during the briefings and the short discussions which were arranged with some Qatari executives at QASCO. A number of Qataris of middle-age group, with whom the author had exchanged views, have unequivocally expressed their determination to take it on themselves to turn their new experience in the field of management into a success. A final assessment of the degree of their success, however, needs to be given a reasonable period of time before any conclusive judgement can be passed and a verdict given.

#### CASE STUDY (4)

##### 11.9 Kenana Sugar Company Ltd. (KSC)

###### 11.9.1 Joint Venture between Sudan and Lonrho

KSC was initially established in early 1970s as a joint venture between Sudan Government and Lonrho. The basic sugar agreement of June 1972, which came under repeated revision later on, stipulated the distribution of the company's shares in the ratio of 51% - 49% between the two partners, with Sudan Government enjoying the majority shares. Lonrho was to provide a loan to the Sudan Government to cover its 51% share in the company's equity, in return for allowing the former (Lonrho) to be in charge of the procurement of all the capital requirements of the project. The Government pledged to offer the project all sorts

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of concessions, including free land, water, exemption from taxes, etc., in addition to protecting the project's interests in the form of imposition of restrictions on sugar imports, purchase of the company's products, together with a pledge to purchase Lonrho's share in the equity on termination.

Sudan Government's strategy for opting for the joint venture model of KSC, was based on a number of considerations, prominent among which was the achievement of self-sufficiency in sugar, presenting a commercially viable development project for the foreign investors, in addition to the other usual objectives i.e. securing more employment and training to local employment, infrastructural development and the efficient exploitation of domestic natural resources. The whole strategy sought to utilise KSC as a model for the trilateral relationship between the Sudan's natural resources, the capital of the Arab oil-exporting countries and the technology and managerial know-how of the West.

With its billion dollar multinational financing, KSC represents a unique experience in public enterprise joint ventures. It was designed to transform the Sudan from a net sugar importer into a significant exporter of the product, with an eye on the nearby Arab markets at a time (early 1970s) when Sudan was conceived as a potential "Bread-basket of the Arab World". By 1977, plans were being laid to realise Sudan's vast unrealised potential as a source of food, with huge investments by the Arab oil states in the reclamation of uncultivated lands. Behind this agricultural performance was the belief that, if the United States were to respond to any future use of the Arab oil weapon by cutting off food supplies, as some American officials had hinted at the time, Sudan might act as granary for the Arab World.

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The scale was ambitious by any standard, the average sugar plant in the world having only about half the capacity of Kenana.

#### 11.9.2 Size of the Project

It would be worthwhile to detail below some basic information related to the size of KSC as could be seen in more detail in its Annual Report for the year ended 30th September 1988:

**Table 11.9.2 KSC - BASIC DATA AND FACTS:**

1.	Initial concept:	a) Import-substitution, 150,000 tonnes p.a. of white sugar for the domestic market
		b) Foreign currency generation: balance of production for export.
2.	Record production:	Season 1986/87 : 310,000 tonnes of sugar.
3.	Estate area:	150,000 feddans (63,000 Hectares)
4.	Plantation area:	85,000 feddans (35,000 Hectares)
5.	Irrigation works:	a) 4 pump stations with a capacity of 44 cubic metres a second.
		b) Waters of White Nile carried along 29 Km of main canal, fed along some 300 Km of secondary canals.
		c) 800 million gallons per day (irrigation requirement).
6.	Estate roads:	250 Km of major roads supplemented by a 1500 Km network of infield roads. Maximum length of canal haul to factory = 35 Km.
7.	Workforce:	7,500 permanent employees, with a further 9,000 seasonal workers engaged for the duration of the crop.
8.	Electricity generation:	a) During crop = 40 megawatts
		b) Off-crop = 20 megawatts.



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As noted by Ibrahim (1983), the basic agreement referred to earlier, between Lonrho and Sudan Government, has received very intensive media and political coverage and more emphasis was made on Lonrho's role in the provision of capital, advanced technology and required training for the Sudanese personnel and Lonrho's pursuance of the Sudan's development rather than its own profitability and growth.

But, during the subsequent years, KSC's initial agreement was subject to several and radical revisions, starting from 1974 as Lonrho's shares were drastically reduced and it was completely relieved of its obligation to provide capital loan to Sudan Government as initially agreed. New sources of capital loans and new Arab shareholders were introduced and several agreements were signed between various partners, both on financial and technical levels. The chronology of main events starting from the Sugar Agreement of 1972, through the Founder's Agreement of 1975, and equity participation agreement of 1975 by the Government of Kuwait and the major capital restructuring of 1980, culminating in the factory inauguration celebrations in March 1981, could best be summarised by the following Table, which gives a share register of KSC as it stood on 30th September 1988.

**TABLE 11.9.3 SHAREHOLDING OF KSC : SHAREHOLDERS**

SHAREHOLDERS	TOTAL SHAREHOLDING £Sm*	TOTAL SHAREHOLDING %
Government of Sudan	197.1	35.17
Government of Kuwait	170.9	30.50
Government of Saudi Arabia	60.2	10.92
The Arab Investment Co. S.A.A.	39.0	6.96
Sudan Development Corporation	31.7	5.66
The Arab Authority for Agricultural Investment and Development	31.2	5.56
Consortium of Sudanese Commercial Banks	24.9	4.45
Lonrho Plc (Britain)	2.6	0.46
Nissho Iwai Corporation (Japan)	0.9	0.16
Gulf Fisheries Co. W.L.L. (Kuwait)	0.9	0.16
<b>TOTAL</b>	<b>560.5</b>	<b>100.00</b>

\* £Sm - Sudanese pounds (in millions)

- Source:
1. Annual Report and Accounts - 1988.
  2. "The Kenana Sugar Project in the Republic of Sudan, An experience in joint venture Financing", by Moncim Khalifa

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### 11.9.3 Scope of the Study

This case study does not intend to give a comprehensive and detailed evaluation of KSC experience which does, and will remain to, raise a number of controversial questions. The prime concern of the author, however, is to shed some light on the joint venture aspects of the project, with special emphasis on the partnership between the Sudan Government and Lonrho. Other partners, including the major equity participators such as Kuwait and Saudi Arabia, will ideally have to be a

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subject matter of a separate and more detailed study, which should remain outside the scope of the present one.

The fact that Lonrho's role has come to an abrupt termination, long before the completion of the project, clearly speaks for itself and confirms the failure of the joint venture experience between the two partners. A brief assessment of the background against which the partnership came into being in the first place, might be helpful in our attempt to explore the possible causes of the failure.

#### 11.9.4 Management Contract and Sales Agreement – 1975

The Management Agreement which followed the incorporation of KSC in 1975, has stipulated that Lonrho was to provide the company with general management, consultancy, technical assistance, training, marketing and purchasing acumen. In effect, this agreement had put KSC, to paraphrase Ibrahim, (1983) "*under the complete control of Lonrho*".

Lonrho had supervised the purchase of all the basic plant, machinery and equipment for the project before the termination of its Management Contract in May 1977, by which time its shares in KSC dropped further to 0.46%. This was due to the escalating costs of the project that necessitated the introduction of the Government of Kuwait as a shareholder and prospective lender. The termination of Lonrho's Management Contract, as announced through a press release issued by the Board of Directors, was due, amongst other reasons, to its failure to fulfil its promises to finance the project and the failure of its original feasibility study to estimate the actual costs involved, as it proved to be completely inaccurate and misleading.

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The Sugar Sales Agreement between KSC and Sudan Government in May 1975, provides for the sale of 150,000 metric tonnes of KSC sugar production per annum to the Sudan Government on the basis of a certain "cost plus" formula, which is not strictly adhered to at present. Any surplus production above the first 150,000 tonnes is earmarked for export, with the aim of earning foreign currency needed for debt servicing and the payment of imported inputs, etc. At present the whole volume of production is needed for local consumption, therefore KSC is selling the balance of its production (above the 150,000 tonnes limit) to the Sudan Government for hard currency, at a price based on the London Daily Market Price, plus notional loading, freight and insurance costs. This arrangement is beneficial to KSC, as it provides a ready-made market in the present climate of global over-capacity and depressed world sugar market prices, and also to the Sudan Government which, at a time of acknowledged economic difficulties, is not required to find lump sum financing for sugar imports.

#### 11.9.5 Indigenisation of staff:

A lot of emphasis was made on the process of training the Sudanese as one of the major objectives of KSC in all of its agreements. However, no training agreement was concluded with Lonrho or any other corporation up to 1982, as indicated by Ibrahim (1983), while M. Khalifa (1987), on the other hand, mentions "*a progressive policy of Sudanisation*" among the successful measures taken by KSC to achieve cutting costs. Whilst Ibrahim expresses his unhappiness about what he perceives as a failure even to design a Sudanisation programme up until 1982 of the technical and managerial posts, and mentions in support of his argument that by that particular year there were still 534 foreign experts occupying all of the

middle and high-level technical posts in KSC, the picture which is portrayed by the 1987 Annual Report tells a rather different story:

*"With the Cane Production Division virtually 100% Sudanised and a series of senior Sudanese appointments made within the factory and elsewhere, the Sudanisation programme is largely on course at managerial level. However, certain artisan grades within the factory and workshops are a particular cause for concern with a number of expatriates retained of necessity beyond their scheduled replacement dates as a result of a dearth of available skilled Sudanese labour. .... The retrenchment of job opportunities for Sudanese nationals in the labour markets of the oil-producing states has not brought about the anticipated improvement in the situation".*

#### 11.9.6 Conflicting goals

The Sudan Government's main objectives behind this project were to use the joint venture model as a channel for acquiring the managerial know-how and technology of the Western Multinationals; the presence of the latter, in itself, was a factor that showed credibility and gave some confidence to the Arab investors. Thus the model would be replicable in other industries or economic sectors.

Lonrho's strategy, in contrast, was based on the following:-

- a. to gain control over a macro-economic project without spending too much capital or requiring too many loans;
- b. to use KSC as a springboard to expand towards the wealthy Arab countries; and
- c. to use the fashionable model of international joint venture for economic growth and profitability linked to the goals of development.

It is inevitable that a joint venture which is based on conflicting rather than mutual and complementary goals, is bound to confront problems. As for KSC, some such problems could be briefly referred to here as follows:-

- a. The credibility of the feasibility study conducted by Lonrho was questionable on many grounds:
- 1) actual cost proved to be far above estimated figures;
  - 2) self-sufficiency predicted has not been realised even to date, hence no exports or hard currency have been achieved;
  - 3) sugar production was predicted to start in 1975/76 whereas it did not begin until 1981.
- b. On termination of Lonrho's Management Agreement, neither a re-evaluation of its managerial procedures was made, nor alternative management contract sought in replacement. Lonrho's management procedures continued, despite the fact that the termination of contract coincided with the completion of construction stage. Since the surrounding conditions of construction and production stages are naturally different, a new managerial philosophy, procedures, and traditions should have ideally been promoted.
- c. Potential economies of scale led to problems of management control, exorbitant costs and the complexities and extended length of the construction phase.

#### 11.9.7 Lonrho's views

The author was able to contact Lonrho and a one-hour long interview with the Managing Director of KSC before Lonrho's withdrawal, has shed some light on the circumstances leading Lonrho to pull out of the project in 1977. This section primarily intends to reflect on the KSC experience from Lonrho's viewpoint.

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The discrepancy between the cost of the project as forecast by the feasibility study undertaken by Lonrho and the much higher actual cost, was mainly due to the oil shock of 1973, which led to oil price levels beyond any planner's expectations. This development necessitated a complete revision not only of the cost estimates, but also of the basic agreement of the joint venture between Lonrho and Sudan Government. As a result, the government of Kuwait was persuaded to play a leading role as a shareholder (30.5%) and a prospective lender. Lonrho's withdrawal from the project later on, was prompted by the existence of sharp differences of views regarding major strategic choices between Lonrho and the new shareholder (Kuwait). The latter demanded to undergo radical revisions to the earlier agreements, but such demands were not agreeable to Lonrho. The Sudan Government had, in fact, no option but to go along with the Kuwaiti's proposals, in view of the fact that Kuwait, at the time, was an indispensable partner, a major shareholder and prospective lender, whereas Lonrho's role was solely confined to management and technical advice. Lonrho's views were that its management philosophy and that of the major shareholder (Kuwait), were clearly incompatible, and accordingly decided to pull out. In this respect, one might recall the reasons announced by KSC Board of Directors, to be Lonrho's failure to fulfil its earlier pledges to assist with financing the project, and the failure of its original feasibility study to forecast the actual cost of the project.

According to Lonrho, its failure to provide the needed finance was due to a number of reasons:

1. Its failure to persuade the British Government to provide credit guarantee facilities to Lonrho and hence to KSC.

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2. The reluctance of the western financial institutions to assist the Sudan Government in view of the political development arising from the assassination, in 1973, of the American Ambassador in Khartoum, by a group of radical Palestinians.
  3. In view of the escalating financial requirements of the project in the wake of the 1973 sharp increases of oil prices, Lonrho's efforts have failed to provide more than token financial loans from French and Japanese financial institutions. This was far less than the actual requirements to prevent the project from coming to a total halt.

As for the objectives behind Lonrho's involvement in KSC, Lonrho did not seek to use Sudan as a gateway to other African countries, nor as a springboard to expand to the wealthy Arab countries. The Managing Director of KSC has indicated to the author that their involvement in Sudan has actually followed, and not preceded, their involvement in the sugar industry business in other parts of Africa. He further explained that he himself happened to derive most of his experience elsewhere in Africa, before he was posted to KSC. On the other hand, since there has been no more sugar projects in the Arab countries in which Lonrho had stakes following the experience in KSC, the perceived objective of its intention to expand to the Arab World has proved to have no ground either. KSC was a product of a mutual approach between Lonrho, on the one hand, and the Sudan Government on the other, to establish a viable enterprise in line with the declared development policy of Sudan, when the whole idea was initially conceived and implemented.



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In Lonrho's views, KSC has proved to be a success, even after it ceased to have a stake in it. In fact, Lonrho's maintenance of its nominal share of 0.46% was not a deliberate strategy, but KSC, at the time of its withdrawal, was not financially in a position to pay back Lonrho's share, so it was automatically allocated as shares pertaining to Lonrho. As to the fact that the ultimate cost of the project has turned out to be higher than originally anticipated, there is nothing particularly peculiar, as many similar projects throughout the world have experienced similar problems and challenges. Moreover, KSC today compares favourably to other existing sugar factories in the Sudan, namely Geneid, New Halfa, Sennar and Assalaya sugar factories, in terms of the quality of the product and the actual production capacity as compared with the maximum capacity.

According to Lonrho, the accusation that it assumed a dominant role during the equipment purchase stage, is unfounded. The purchases of all machinery and factory equipment took place under the direct control and supervision of KSC Board of Directors and Lonrho simply assumed its responsibilities under the provisions of its agreements with Sudan Government. Moreover, Lonrho believes that it has successfully established a good working relationship with Sudan Government without any major disputes, right up to the stage where Kuwait Government assumed a major role in formulating KSC's strategy, a strategy which, as the Managing Director of the project, Lonrho thought to be not conducive to the interests of KSC and incompatible with its own management philosophy.

#### 11.9.8 Peculiarity of KSC

KSC enjoys some peculiar characteristics, with rare similarities in other projects of similar nature. In this respect the following can be highlighted:-

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1. Provision and funding by the project (KSC) of major infrastructure and social services (\$134m – 29.2% of the estimated total capital cost of the whole project). This is in contrast to the world's sugar industry, which enjoys the benefit of state support in the provision of such services.
  2. KSC represents a case whereby the project is both import–substituting and export–oriented at the same time.
  3. One of the largest integrated projects of its kind in the world.
  4. A unique experience in public enterprise joint ventures, in terms of seeking to acquire capital and technology through tripartite cooperation.
  5. Despite the many problems KSC encountered, it proved an outstanding technical success, particularly insofar as the quality of its product is concerned. According to the technical assessment by F. C. Schaffer and Associates Inc., KSC factory ranked amongst the top 1% in the world in respect of overall processing efficiencies.

#### 11.9.9 Perceived and actual role of Lonrho

In an international joint venture, a diligent promoter can play a prominent role in the configuration of the venture's shape and future. In KSC, Lonrho had fully assumed that role, both technically and financially, while the Sudan Governments role at first was only nominal.

The basic Sugar Agreement of 1972 between Lonrho and Sudan Government, secured for the former complete control over the company through the exclusive right of the technical, administrative, financial and marketing management of the company. But on the termination of Lonrho's Management Agreement, the project was unfortunately left in 1977 without its promoter and original managing

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company in a real financial crisis, facing a delay of several years in its scheduled production, with a cost quadrupling the estimation of its feasibility study (\$599.2m in 1977).

While a number of reasons were given for the termination of Lonrho's involvement in KSC, one particular justification advanced by Ibrahim (1983), seems to have the strongest appeal of all the others: that real justification is thought to be that, once the purchase of the plant, machinery and equipment was completed and the construction contracts were awarded, the primary spending era of KSC was virtually over. Lonrho's stay to face the hectic troubles of production, with almost nominal management fees, (Ls.175,000 p.a.) would certainly be incomprehensible. Another justification may be that Lonrho was no longer expecting more capital to be poured into KSC.

#### 11.9.10 Controversy about KSC

KSC has for some time been a subject of controversy, as it raises a number of questions which nobody can claim to have satisfactory or comprehensive answers to. By the way of attempting to offer a general appraisal, one has to address the following questions:-

- a. Was the project a top priority justifying the use of the nationally scarce resources which were allocated to it?
- b. What was the degree of awareness on the part of Sudan Government regarding the roles and intentions of the various partners in the joint venture, particularly Lonrho, and was there a potential conflict of their respective interests and objectives?

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- c. Was the project envisaged on too grand a scale, given the potential technical, financial and managerial capabilities of the Sudan?
  - d. Is KSC likely to contribute efficiently to the development of the Sugar Industry in the Sudan, in terms of productivity and the spill-over effect with regard to domestically generated know-how, both at technical and managerial levels?
  - e. Is KSC experience generally encouraging or discouraging foreign investments in the Sudan, having been intended as a model for the trilateral relationship investment?

To sum up, Sudan in 1991 is still importing sugar and is not even in a position to pay for KSC and its shareholders in hard currency. While it would be only fair to say that the experience still frightens the foreign investors, one should not overlook the positive side of KSC's story. Its performance (in 1988) at around 80% of its nominal design capacity, in the light of the overwhelming constraints faced, is not a bad achievement and is to be regarded as a target for future. While KSC's original intention to participate in self-sufficiency of sugar consumption in the Sudan has not been yet realised, and despite the fact that there remains some considerable way to go before commercial viability can be assured, and the chronic shortage nationally of foreign currency be adequately met, KSC in the long run is expected to be of lasting benefit to the Sudan in terms of:

- a. providing a major source of employment;
- b. providing training facilities and thus increasing the level of skills of the local employees;
- c. provision of self-sufficiency in a basic food commodity with consequential saving in foreign currency;

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- d. supporting Sudanese manufacturers and supply industries;
  - e. the expectation that the Sudan's difficulties, reflected in an increased turnover of skilled Sudanese production and maintenance staff, is likely to be reversed by the eventual return of its own skilled workers from the oil-rich Gulf States;
  - f. some promising expansion schemes presently in the pipeline, including the use of Molasses (sugar by-product) in manufacturing cattle feed supplements and in the production of domestic charcoal; and
  - g. the fact that KSC has substantially contributed to the local infrastructure and hence to the economic and social development of the surrounding region. No doubt it will continue to do so for as long as the project is kept in operation.

In conclusion, it is perhaps pertinent to point out that KSC, which is regarded as one of the world's major sugar producers, with a considerable technical success, has a potential scope for recovery which considerably outweighs its downturn.

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## 11.10 Summary and Conclusions to the Four Case Studies:

### 11.10.1 Characteristics of Joint Ventures in the Arab World

The neutral assessment of the foregoing four cases would draw our attention to some commonalities of the international joint venture experiences which The Arab World has gone through over the last two decades. While the industrial environment among different Arab countries varies, sometimes significantly, particularly between the oil-producing states and those which are not endowed with such strategically significant resources, some common themes are believed to have shaped the joint venture partnerships with foreign multinational companies, with regard to areas such as technology transfer, training of local nationals to replace foreign experts, management and marketing contracts, license agreements and the technical cooperation between respective partners.

Each one of the four cases happened to be peculiar in its own right, having been the first project of its kind in the particular sector and geographical location. They all share, however, the characteristic of having to enjoy the advantage of utilizing the abundance of natural resources i.e. hydrocarbon in Qatar and fertile agricultural land and irrigation water needed for a potentially successful agro-industrial project in Sudan. Each of the three Qatari factories is heralded as the first industrial complex of its kind in Qatar and together they represent an important step in the states' industrial diversification programme. The equity participation in the Qatari projects has not been inspired by the need for capital finance, while this very factor was the major motive behind opting for foreign equity shareholders in KSC joint venture. In fact, the need to attract Arab capital to be invested in the Sudan was the main consideration behind the original idea right from the outset. The joint venture which was subsequently established between the Sudan on the one

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hand, and both Kuwait and Saudi Arabia on the other, was basically an attempt on the part of the former to overcome its chronic lack of capital resources.

While holding only minority shares in the joint ventures, the foreign partners in all four cases have been charged with the responsibility of handling the management and marketing of the production as worldwide agents, with a possible exception of KSC, whose marketing strategy was initially based on some inaccurate predictions which have never been fulfilled. The technical cooperation can best be demonstrated by the Norwegian Norske Hydro of QAFCO, who had a license agreement with ICI of England and some American companies, thus ensuring the minimum standard of technical success. Similar arrangements were also made by the other three factories.

Two peculiar experiences stand out as a sign of departure from the general pattern of international joint venture agreements in The Arab World. One is the acquisition of Qatar Government of some shares in the French company (ORKEM) with which a joint venture partnership existed in QAPCO. The idea was to secure a more fruitful relationship based on mutual interests, which have been interlinked as a result of each partners' share ownership in the others' concern. The other relates to KSC, where Lonrho's initial agreement with the Sudan Government assured a characteristically dominant role for Lonrho at the outset of the project, including the feasibility study, through all subsequent stages leading to the plant erection. It is also noted that in all joint venture cases, apart from the main foreign partner, a number of other foreign companies were also involved with some priorities secured for those belonging to the country of origin of the main foreign joint venture partner. Reference can be made to TECHNIP, the French

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engineering company which was licensed by the French ORKEM of QAPCO to supply the main machinery which was erected by a Belgian company, while the utilities installations were left under the responsibility of a Japanese company. Similar arrangements were also followed in KSC case, which involved foreign companies and nationals from as many as 20 different countries. So, if one talks about joint ventures between an Arab country and a foreign company, one should exercise caution to avoid a possible misrepresentation; while joint ventures usually are established with one major foreign partner, in fact cooperation takes place with many other foreign companies with or without the pre-knowledge or supervision of the main joint venture foreign partner.

A striking phenomenon which was revealed by the case studies, is the relatively long time which elapses between the initial perception of a joint venture project (feasibility study) and its completion date (start of production). While a clear-cut yardstick as to the appropriate or average period of construction time of a typical industrial project is difficult to generalise in pursuit of a meaningful comparison, it is quite evident that such gestation period was exceptionally considerable in the cases under consideration. Notwithstanding all the technical complexities of cooperation agreements and the slow progress of execution, the importance of the time factor and the exacerbating high cost of delaying the completion date have been ignored. (The continued erosion in value of the Sudanese pound, a process that began in June 1978, had a profound effect on KSC's cost structure. From September 1979 to 1990 the parity of the Sudanese pound against the US dollar has gone down from £S 1.00 = US\$ 2.00 to a low of £S 1.00 = US\$ 0.10; moreover the domestic annual inflation rate is now well into three digit figures.)



#### 11.10.2 Indigenisation of work force

Among the many slogans which are commonly raised by government officials and professions in general in the Arab World, indigenisation of the work force is the one most prominently featured. The case studies have confirmed that what the Arab professionals in the main survey have emphasised on this matter was not mere rhetoric. At the practical level, the experience of the four projects under question reflected the fact that the indigenisation process has proceeded with a pace which was considered fast enough to call for caution by the foreign partners of the joint ventures. According to them, too much speed could possibly lead to unwarranted results. In 1989 alone, 74 Qataris have been appointed in various technical and administrative departments in QASCO. Similar trends have been clearly noted in the other three cases. It is worthwhile mentioning that most of the Qatari projects have benefited from the advantage of prolonged employment and accumulated experience for the majority of manual skilled and semi-skilled work force, implying thus the sense of stability and continuity due to the low turnover rate. What is clearly evident however, is the fact that the foreign partners in these joint ventures are adamant in their resistance of the tendency of the local (Arab) partners to replace particular managerial and technical personnel on the ground that they have to retain as many foreign expatriates as possible in order to maintain the high quality of management and products. In most cases the Boards of Directors, whose members are predominantly local nationals, are persistent in pressing hard for accelerating the process of handing over of management to local managers, particularly at the top and middle managerial levels. Such steps are taken under the banner of "Qatarization" or "Sudanisation".

In the three Qatari cases, the author's attention was particularly drawn to the structure of work force at various levels. At the bottom level (skilled and non-skilled workers) the foreign workers, particularly Asians, are clearly dominant. Generally, further up the management hierarchy the Qatari nationals make their presence felt. They are more highly visible at the top management level but less obviously so at the middle and administrative staff levels. At the labourer's level, the nationals are completely non-existent. This phenomenon is not only peculiar to Qatar, but is typical of the industrial sectors of all oil-producing Gulf States.

The likely drawback of management in the Arab World is that, in most cases, particularly in the oil producing Gulf States, a very high proportion of managers have risen to their positions, not through their own efforts, but rather through some inheritance. There is a strong tendency for those people who inherit a secure economic position to exert little effort for their advancement. The means to advancement in a large corporation must be through acquiring a sound foundation in one of the professional skills, because the need to acquire and develop these skills leaves little time for the pursuit of power as an end in itself and advancement in large corporations, such as those referred to in our case studies, must be based on proven professional ability if the corporation is to survive successfully.

While there is no objection, even on the part of the foreign partners, against the principle of staff indigenisation, it is the speed and the abrupt way with which some countries elect to enforce such policy, which is subject to criticism and sometimes resistance. Because many multinationals tend to place the quality of their operations at the forefront of their strategy, their expressed misgivings are

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naturally justified. The question to be addressed, however, is not so much the reluctance of foreign partners to concede to the pressure for indigenisation on the ground that not adequate experience has been readily available among the nationals. It is rather to do with the practical reasons as to why, after all these years of partnership, we find that adequate qualifications have not been acquired by the nationals, nor appropriate training supplied. It is apparent that the blame should equally lie on the shoulders of both partners, as they must have contributed with their due share in creating this state of affairs, albeit in varying degrees of responsibility.

The Sudanisation programme in KSC however, has gradually but slowly improved, since ten years after the start of its first production season, the Sudanese elements are dominant in the overwhelming majority of the managerial and technical posts. Many other divisions, including the Cane Production Division, have been one hundred percent Sudanised and it appears to be heading towards a complete Sudanisation of the whole project in a few years time. Of course the joint venture partners will continue to maintain some token existence, as their representatives in the factory and elsewhere. It is also expected that a number of expatriates from the nationals of the industrialised countries will be retained as a natural link between Kenana and the ever-advancing and technologically changing world.

#### **11.10.3      Marketing Agreements**

The fact that some kind of marketing or sales agreements were concluded with the foreign joint venture partners of all the four cases, reflects that the Arabs' experience in international marketing is fairly limited. This phenomenon seems to suggest that the worldwide marketing of the Arab production should be left in

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the hands of foreign companies. After more than a decade of partnership, in producing and internationally marketing Qatari products, which are mainly export-oriented, there seems to be no sign of any forthcoming take-over by the Qatari partner of the marketing operations. This in itself is a further manifestation that the role of the foreign multinational partners in the Arab joint venture projects still leaves a considerable amount to be desired in transferring the marketing know-how to their Arab partners.

#### 11.10.4 Capacity Utilisation

In view of the fact that almost all cases revealed that their designed production capacities were exceeded only a few years after they started production, one is bound to raise the question of whether such development is due to technological advance or rather to exceptionally hard work on the part of the projects' management and work force. Alternatively, one would not exclude yet another explanation, which suggests that there might have been an error in the theoretical estimates of the nominal capacity on the part of the designers or feasibility study consultants. It is rather surprising to find out that all three Qatari factories have exceeded their maximum capacities, while KSC has operated at 80% of its nominal design capacity in 1988. Moreover, these industrial projects were all in a position to expand, both horizontally and vertically, within a few years after their first production seasons. Again, it is not quite clear whether such a development was due to an increasing world demand or a result of the need to cope with newly introduced production technology. As for KSC, one can find an explanation in the fact that, owing to the financial problems which the project was confronted with in its different phases of construction, some installations were postponed for future consideration i.e. Molasses, Charcoal and the Cube Sugar Plant, all of which were

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completed at a later stage following the inauguration of the project in 1981. On the other hand, there seems to have been no reason to believe that some problems have occurred as a result of inaccurate feasibility studies in the three cases of Qatar projects. As for KSC, the feasibility study conducted by Lonrho was subsequently thrown into question on the grounds of its inaccurate predictions regarding consumption levels, potentials for raising adequate finance to complete the project, etc. Such failure to accurately foresee future developments confirms what some 70% of the Arab professionals in the main survey have emphasised, when they attributed the failure of some manufacturing companies in The Arab World to the defective and misleading feasibility studies, mostly carried out by foreign multinationals or under their direct supervision.

#### 11.10.5 Final Conclusions

It is difficult to refer to the four cases as success stories or otherwise on the basis of the limited information made available. In fact, no detailed information was readily available, or sought, to establish the commercial viability of these projects, as the prime concern was directed to assess the practises involved in the establishment of the joint venture partnership between The Arab Governments and foreign multinationals. The most striking observation, however, may have been the considerably long period spent on most of these industrial projects before actual production was realised. While some justifications could be given to explain this phenomenon, some questions will remain unresolved regarding the economic and commercial justification of a project, such as KSC, in view of the known scarcity of financial resources of the Sudan. One particularly pressing question will always remain unanswered about the actual motivation and objectives of Lonrho in instigating the whole project, in the light of its pledges given to

organise its financing as a major partner, only to withdraw a few years later. The timing of the termination of its contract is also a source of controversy, since it coincided with a crucial stage in which Sudan Government was left with no other viable option but to proceed to complete the project at any cost.

One problem which is highlighted by the literature survey (Dunning, 1985, p.425) and which joint venture experiences such as that of KSC of Sudan have practically confirmed, is the lack of ability on the part of some developing countries to know what is the best economic structure to embark on. They therefore cannot have the necessary knowledge of MNCs' resource allocative decisions to intervene usefully. It is on the basis of such argument that many of the Arab professionals who have taken part in our survey have elected to take a neutral stance towards MNCs.

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## CHAPTER 12

### GENERAL CONCLUSIONS AND POLICY RECOMMENDATIONS

#### 12.1 Introduction

Section 12.2 of this Chapter summarises the major findings of the main survey and case studies of Chapter 9 through Chapter 11. Section 12.3 identifies the implications of the research findings on the theories of Development, Trade, MNCs and Foreign Direct Investment, insofar as their relevance to the developing countries of the Arab world is concerned. Section 12.4 offers some policy recommendations on how the Arab countries can create a constructive partnership of joint ventures and other types of cooperation with foreign multinationals and how to improve the technology transfer prospects. Section 12.5 suggests appropriate future research areas which neither this study nor previous ones have adequately tackled. The last section concludes the thesis by the inclusion of some comments on the relationship of the entire work to the many ongoing political, economic and social changes which are taking place globally, as well as at the Arab regional level.

#### 12.2 Summary of major findings

##### 12.2.1 Theories and Practices of Development

There are some important phenomena in the area of economic performance of the developing countries of the Arab world, which existing theory cannot easily explain. No specific explanation is given, for instance, to the failure of technology transfer to generate sustained innovative capacity in the Arab countries, some of which have been involved with western MNCs and western technology for many decades. Theories of competitive advantages also failed to explain why an industrial sector such as the petrochemical industry in the Arabian Gulf, which enjoys the advantages of both western technology and the low cost of production

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in terms of raw materials and manpower, has as yet not been in a position to compete worldwide with similar products originated elsewhere, despite the fact that the quality of the Gulf produce is the same. While cultural factors may partially inhibit the acquisition of scientific ideas and western working practices in the Arab world, the failure of foreign investors to develop backward linkages with indigenous suppliers would be more acceptable as an explanation. As for the economic factors, the cost of adapting technologies by MNCs to local conditions, may determine the type of technology used in the Arab host countries. Such economic considerations (which include the extent of profitability) would possibly explain the reason behind the use of capital-intensive technologies by MNCs in labour-abundant Arab countries. The importance of mechanisation in meeting quality standards in export markets is a possible explanation for particular types of investment in the agricultural and some industrial fields.

It is also found that, owing to the wide variation among the countries of the Arab world, and the fact that the country patterns of international competition appear to differ remarkably (notably between the oil producing countries and those without oil resources), no single method or theory would be appropriate to all Arab countries. They are too diverse in their relationships to allow this. This confirms other studies' findings, that a unified theoretical approach to be applied indiscriminately among the countries of the region, would be unworkable.

#### 12.2.2 The Role of Profits

Central to the debate over MNCs is what the Arab scholars have overwhelmingly emphasised in our main survey, that the over-riding concern of MNCs is to achieve maximum profitability in line with their global corporate strategies. This



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analysis appears to conform with the main thrust of the economic and trade theories in which profit maximisation by economic enterprises is highly featured as a criteria for their economic success. The ramifications of the pursuit of such strategy by MNCs on the Arab countries have been identified both by this study and the literature review. Below is a summary of the main areas of dissatisfaction from the Arab host countries' perspective:

- a. MNCs activities in the Arab region leave a great deal to be desired in terms of providing new jobs, adequate training opportunities for local nationals, additional investment capital, etc.;
- b. MNCs are often reluctant to transfer their technology, a fact which is evident in their clear preference for turn-key projects. Their lack of commitment to contribute positively in the transfer of technology can also be seen in their reluctance to establish local centres for research and development;
- c. As shown by the survey and the case studies, MNCs often have a monopoly over marketing operations and marketing know-how, and seem to regard these activities as well-protected areas which need to be exclusively under their controlled domain;
- d. MNCs preference for capital-intensive technology contradicts the national interests of many Arab countries, notably those with surplus and growing labour supply. Capital-intensive projects are often inappropriate and sometimes unnecessarily more costly than is needed or afforded;
- e. On the ground that the return on capital invested in the Arab world is less than the management (and marketing) royalty fees, the MNCs are often reluctant to participate in equity. Even in the few cases where equity is

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- undertaken, they often manage to recover their equity shares (as a survey participant claimed) through inflated equipment and service costs;
- f. Inaccurate feasibility studies undertaken by foreign consultancy firms (MNCs) often result in fatal errors in the process of viable investment selection and project evaluation. According to ESCWA report on "impact of MNCs on development in Saudi Arabia", [1988, p.85], some MNCs have been detected on many occasions in Saudi Arabia carrying out a study and drawing up plans with specifications matching the products of specific producers;
  - g. MNCs often set exorbitant prices for their contracts with their Arab business partners.

While the above misgivings on the role of MNCs have been strongly expressed by an increasing number of the survey participants, the study has also established that the difficulties that have been facing many joint venture undertakings in the Arab world, are partially attributed to the limited experience the Arab countries have in initiating, establishing and operating industrial ventures. The Arab side of the partnership has certainly its due share of the blame in any failure stories of their joint partnerships with foreign MNCs.

### 12.2.3 The Need for greater Regional Cooperation

This study shows quite clearly that the realisation of greater regional cooperation among the Arab States is the only way to overcome the many constraints impeding their development process. Such a conclusion starts from the premise that as the acquisition and development of technology and technical and managerial know-how are strategic elements in the process of regional development and integration,

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it becomes necessary to cooperate at the regional level, in so far as technology transfer is concerned. Such a cooperation would consist of many strategies, which this study has highlighted. The Gulf Cooperation Council, having initiated the process of economic integration as a coherent group among the Arab States, has best exemplified the essence of economic integration at their regional level, by taking steps to coordinate their industrial and investment projects so as to prevent duplication, waste and harmful competition. Notable among such projects for which a regional strategy has evolved, is the petrochemical sector, the coordinated development of which has materialised with a view to maximising material gains and competitive advantages in the production and sales of these technologically sophisticated and capital-intensive products. As for other industrial projects, it is seen that a regional approach to product specialisation and pooling the markets, should provide initial relief to the scale-constraints and that, further enlargement of the markets through extra-regional arrangements (primarily on a Pan-Arab basis) would be necessary to combine economies of scale with efficiency.

This study finds that many lessons could be drawn from the past experiences of various regional economic groupings. The establishment of the European Coal and Steel Community in the 1950s was, in fact, seen as only the first step in what has been a long, and not always smooth, journey to a single market for the EC in 1992. The differences in language and culture no longer arouse passions of hatred and war between them. The lesson to be learned by other economic groupings, and notably in the Arab context is that economic integration is not perceived only for its positive benefits on the economic level, but also for its potentials in healing long-standing historic diversities and enmities.

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#### 12.2.4 International Trade Policies

Today the concept of global free trade is rapidly losing its relevance. While the convention is that the industrialised countries trade freely with the world, but in reality they increasingly trade between themselves, and only selectively with external markets in second and third world countries. On the other hand, the production and export performance of the newly industrialising economies (and Japan) has been impressive enough to encourage an increasing number of developing countries, including the Arab States, to pursue similar policies, which include the erection of non-tariff barriers. Practically, the Arab markets in general have for long allowed goods of all sorts to enter freely with little, if any, barriers, while the Arab industrial exports appear to face an uphill task in seeking access to the OECD markets, which are heavily loaded with protectionism. The competitive advantages of some Arab industrial products (i.e. petrochemicals), will not be fully reflected in rising productivity unless these products have access to foreign markets. A pressing goal of the Arab governments, therefore, is to pursue open market access vigorously in every foreign market. In fact, many trading nations continue to call for revisions in some GATT articles pertaining to negotiation of tariff schedules [Article XXVIII] on the ground that the present distribution of negotiating rights favours large suppliers and creates disincentives for small suppliers to enter into tariff-binding negotiations. The past experience of the Arab industrial development and the trade barriers erected against the exports of Gulf petrochemicals to Europe and elsewhere, as this study has highlighted, can only add new dimensions in support of such calls for reciprocity.

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### 12.2.5 Joint Ventures and State Companies

The research finds that the bulk of the joint venture projects which have been surveyed, and those which were brought to the author's knowledge, have mainly been between foreign MNCs and the Arab governments or public sector companies. The reality in the Arab world appears to contradict what most literature and economic theorists suggest, that private sectors are more favourable to do business with in view of the fact that almost all MNCs involved in the Arab markets belong to the private sector. The Arab world is characterised by heavy state involvement in the economy, even relative to much of the rest of the Third World. According to a World Bank Study in 1983, the state owned enterprises in manufacturing in Egypt was 65 per cent, Tunisia 60 per cent and Syria 58 per cent. The privatisation programmes which have been recently encouraged in most of the Arab countries as a part of IMF-inspired structural programmes, with the target of gradually reducing the size of the public sector, have proved to be irrelevant in the particular cases of the Arab oil producing countries, in which major industrial and utility projects are in the domain of the public sector. In fact there are a number of arguments against the notion of privatisation in the Arab Gulf State in particular. Paul Steven [1989, p.58] has convincingly advanced some of these as follows:

- a. If encouraging competition through more suppliers and rivalry is the target, this is in fact inhibited on the ground that national markets are too small, particularly in the Gulf States.
- b. Privatisation is not conducive to successful technology transfer, neither to upgrading skills and training.
- c. Given the nature of the political systems in most of the Arab countries, privatised enterprises are not completely free from government interference.

The probability of the State willingly relinquishing its predominant position seems unlikely.

- d. Far from redistributing wealth, privatisation programmes would reinforce the existing concentration of economic (and political) power.
- e. Preferences to the workers which are usually associated with privatisation programmes are irrelevant in the Gulf States, due to the exceptionally high degree of expatriates' predominance.

Other arguments against privatisation in the rest of the Arab world include:

- a. Shortage of domestic investors in many non-oil producing Arab countries, particularly in those projects which are too large for domestic capital market to swallow (foreign investment is a sensitive issue in many of these countries).
- b. Although many privatisation supporters see a potential repatriation of Arab capital (from the western financial markets) as a major gain from such programmes, the past experience suggests disappointing records in reality.
- c. Capital markets are underdeveloped, thus making share distribution associated with privatisation problematic.
- d. If privatisation is on the horizon, it is likely to freeze decision-making in the enterprises concerned for years until new owners are in place, as management would adopt a wait-and-see approach.

In conclusion, one can say that regarding privatisation in the Arab world, the objectives which are desirable are not feasible, and those which are feasible are not desirable. In reality, while 'privatisation' is the slogan, the true watchwords

are 'reform' and market 'liberalisation', as this study has identified on a number of occasions.

#### 12.2.6 Summary of the Gulf Survey Findings

On the basis of the analysis of the information gathered from our main survey participants, a summary of the main findings are briefly given below as follows:


- a. The contributions of foreign multinationals to the advancement and development of the Arab economies are not highly rated by the Arab professionals. In itself this fact reflects the failure of these companies to impress their Arab partners of their usefulness in such a manner, which could support the suggestion that their continued presence in the region is to be taken for granted. If anything, this might suggest the need for some elements of MNC's strategy to be revised, with a view to reconciling it with that of their Arab partners.
- b. Despite the increasing tendency to hold critical views against the performance of the MNCs, there is no evidence of any animosity between the two partners. There is a consensus among all groups of the survey participants that MNCs are indispensable and that they can theoretically be relied on, provided that some particular aspects of their strategies are to be changed to match the national interests of individual Arab countries, particularly insofar as their economic development plans and aspirations are concerned. To this end, the suggestion that MNCs should be threatened through the introduction of tougher regulatory measures against their operations, is not supported by this study.
- c. Technology transfer is regarded by the Arab countries as being an overriding concern, and MNCs as their best channels to realise this

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objective. It has clearly emerged that joint venture partnership offers the best option as a favourite type of association with MNCs, as opposed to other channels of cooperation, while the turn-key arrangements are regarded as the least favourable.

- d. For the subsidiaries and branches of MNCs located in the Arab countries, the strict compliance with the strategies and guidelines imposed on them by their headquarters in the parent countries, is paramount and often outstrip any other local considerations. It appears that their room to manoeuvre is grossly restricted.
- e. Labour-intensive technology is not appropriate to prevail in the Arabian Gulf, in view of the known scarcity of indigenous work force, neither is the most sophisticated and the latest technology, which does not necessarily square with the local conditions and needs. The appropriate type needs to be a function of the existing and potential level of training, efficiency, as well as the available capital and manpower resources. The abundance of capital in some affluent Gulf countries should not determine – as in the past – the type of technology which could be unnecessarily costly if based only on this criterion.
- f. Contrary to common sentiments expressed on general terms about the need to acquire research and development capabilities in the Arab countries, this study shows that it does not make economic sense to attempt to invest heavily in R & D projects with a view to inventing new systems or procedures in the Arab world to that which already exist elsewhere. In view of the general belief that the technological advancement that has been achieved so far need not be restricted to the industrialised world, and that scientific discoveries should be accessible to all, regardless of the extent





of contribution by individuals or institutions to such discoveries (without prejudice to patent rights and trade marks regulations and the right to retrieve the costs involved in the process of R & D); it is widely seen that research and development efforts within the Arab States should ideally be confined to adaptive technology. There is no economic sense in the duplication of efforts and resources to acquire what would be regarded as a common human knowledge, which should be easily accessible to all.

- g. The predominance of the government role in the direction of the Gulf States' economies, is not only confirmed by the survey, but is widely seen to be an overriding necessity, in view of the peculiarities of the nature of these economies, as identified in section 12.2.5 of this chapter.
- h. It is generally suggested that, in affluent societies, the manpower cost of production constitutes a high proportion of the total production cost. Our Gulf Survey has revealed that, contrary to this generally accepted notion, which is clearly in place in, for example, Scandinavian countries, this is not the case in the Gulf States, which by world standards are regarded as affluent countries. The reason being the exceptionally high degree of the predominance of expatriate cheap workers from South Asia and neighbouring non-oil producing Arab States. (Among ten reasons behind the MNCs choice to invest in the Arab world, cheap labour force has been referred to as the second important reason by the MNCs themselves – see Table 10-2.)
- i. MNCs' contribution in setting up an improved working environment in the Arab world, has been highly rated by the survey respondents. This is meant to refer to areas such as improved management systems, training, working methods and procedures, etc.

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- j. In view of the neutral effects so far of the existing industrial free zone areas in the Arab countries, this study does not advocate the idea of expanding on this experience. Free zone areas such as those in Egypt and Dubai are to be given more time to consolidate their experiences before a conclusive assessment could be drawn as a basis for future strategy on the potential benefits of such free zone areas.

### 12.3 The Relevance of Economic Theories in the Arab context

#### 12.3.1 Trade Theories

As suggested in earlier sections, the theories of international trade which assume perfect competition, are not truly applicable to the contemporary world. In most countries of the Arab world, the dominant role assumed by the governments, despite the liberal policies adopted towards investment and trade in general, demonstrates the fact that the so-called "perfect competitive market" does not exist in reality. On the other hand, David Ricardo's "theory of comparative advantage" regarding the inherent factor abundance, is evidently undermined insofar as it fails to explain the inability of the vast majority of the Arab countries – whether producers of oil or not – to achieve their economic development programmes. This state of affairs, whereby the resource-endowed Arab countries have not fully made use of their competitive advantage, coincides with yet another distortion of the same theory when applied to the NICs of South East Asia, who have done so well with much less resources and less competitive advantages.

The inference which the Arab experience assists us to come up with, is that the theory of competitive advantage may have been relevant in the past decades, when technology played only a minimal role in the advancement of a nation's economy.

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Today, and in view of the increasingly dominant role of technology in shaping and determining the degree of resource exploitation, the technological superiority and not the abundant factor resources is the main, if not the sole, competitive advantage that really matters. To illustrate this, one has to look no further than to Japan, whose economic success has entirely relied on its superior technology, and its ability to organise its work force.

"Development through industrialisation", as the examples of the South East Asian NICs have successfully illustrated, has been a model for an increasing number of the Arab countries who, over the last decade or so, have embarked on such a strategy. The major stumbling block against the realisation of the desired results has always been the lack of technology, without which no more competitive advantages could be gained. Ironically, the success of the NICs has stemmed from their policy of erecting non-tariff barriers, a policy which is in clear contradiction with the competitive advantage theory, as well as with the spirit and efforts of GATT. The "infant industries argument", on the basis of which such protective measures were pursued, has led to the success of an industrialisation policy which, according to the theory, should have been different in that these countries would have confined their manufacturing efforts only on goods in which they have a competitive advantage. Because the developing countries in general have the tendency of emulating the success stories of other developing countries, the argument which advocates the adoption of some kind of protectionist policies in order to safeguard and protect the newly emerging manufacturing industry in the Arabian Gulf and other Arab countries, is understandable.

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As shown above, the operations of the MNCs in the Arab World, and indeed elsewhere in the Third World, cannot be explained in the framework of free trade theories. As Lall, S. and Streeton [1977] said, "*aspects of theory such as profit-maximising behaviour, may be relevant to the actual performance of MNCs*". In fact, the control of foreign operation can allow a MNC to fully exploit the return on certain advantages and resources that it possesses. The most important reason for FDI is to maximise the profits from its specific advantages (technology) under oligopolistic market structure. The role of oil MNCs (the seven sisters) in the pre-1973 period in the Gulf region, could illustrate the point.

FDI by MNCs, according to Caves, R.E. [1982], does not only involve the flow of capital, but also of superior technology and entrepreneurship that the firm possesses. Our own Gulf survey has demonstrated that neither capital nor technological know-how and entrepreneurship have been adequately transferred to the Gulf countries, as technology transfer has been mainly confined to the physical aspects of the hardware, i.e. machines and equipments. It is thus apparent that FDI has been mainly pursued by MNCs in order to realise the objective of profit-maximisation from their ownership specific advantages.

We can now briefly conclude that free trade based on perfect competition is no longer relevant, that "comparative advantage theory" is now obsolete, that MNCs performance could only be explained in the framework of their technological superiority (among other advantages) and their profit-maximisation motives and that, the only viable alternative for the developing countries of the Arab world, is to acquire the technological know-how, in order to successfully exploit their

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existing factor resources, which will hardly be regarded as competitive advantage in the absence of the technological capability to optimise their use.

In order to develop their productive forces and infant industries, the Arab countries might have to resort to some protective measures, perhaps on a temporary "infant industry" basis. In fact, by so doing they would not only be emulating the successful example of the South East Asian NICs, but also performing in accordance with John Stuart Mills' [1800–1873] classical doctrine which states that

*"every nation has a temporary need for protection ... The classical theory is not absolute and a nation's best economic and commercial policy, depends on its actual stage of development"* [Abdulla, 1991, p.33].

#### 12.3.2 World Trading System and the Developing Countries

For the economically advanced countries of North America, Western Europe, Japan, etc., the goals and objectives of the post-war economic system, shaped by Breton Wood institutions, have been achieved to a remarkable extent. Freer world trade has provided access to extensive, rich and competitive markets, yielding stable sources of needed raw materials and outlets for the manufactures and technological accomplishments of, what has become known as, the developed economies. Four decades of prosperity and growing international trade have secured the position of Western Europe, North America and Japan, at the forefront of the nations, in terms of their economic performance.

But there can be no doubt that it is the rise of the developing countries as full actors on the world stage, that has brought forth the greatest challenges to prosperity and the multilateral ideals. For the developing countries, it was hoped that an expanding world economy would automatically extend its benefits to them

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as well. The notions of economic liberalisation, free trade and market competition – at least in theory – suggest that such an outcome is to be expected. However, while some success is evident in a limited number of the developing countries, particularly in Asia who experienced sustained periods of rapid growth (due to an outward orientation that takes advantage of the opportunities for world trade), a second much larger group of developing countries, including the bulk of the Arab world, had been less successful, and it can be argued that the international trading system has not served to spur their progress. With weak economies and only a rudimentary industrial capacity, these countries could not gain access to markets of developed countries on the basis of reciprocity. Despite the introduction of the generalised system of preference (GSP) negotiated under GATT or other arrangements such as the Lome Convention, international markets are clearly less open to their processed and manufactured exports than to their raw materials. The major part of value-added continues to the detriment of the exporting developing countries. The terms of exchange have been unfavourable to them.

### 12.3.3 Theories of MNCs and Foreign Direct Investment

John Dunning's eclectic theory of international production, which incorporates a number of other theories, is now the most widely debated theory in literature on the phenomenon and operations of MNCs. As has been described in Chapters 3 and 4, its main elements indicate that the extent and pattern of production undertaken by MNCs outside their national boundaries, are dependent on ownership, locational and internalisation advantages a particular MNC has compared to others, and that the response to them by firms will vary according to industry, country or region (of origin and destination) and firm specific characteristics.

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It is our intention here to consider the extent to which such theory has any reflection on, or relevance to, the actual performance of MNCs in the Arab region. Let us focus our attention on the main three elements of the theory, bearing in mind that owing to the complexity and multidimensional nature of the MNCs activities, there could be no one single theory which can fully and satisfactorily explain the FDI behaviour of the MNCs.

The locational advantages can partly explain the notion of MNCs investment in the Arabian Gulf States which have provided a favourable environment for foreign investors compared to other locations. Such locational advantages are manifest in the availability of abundant and cheap energy resources and hence lower cost of production, marketing advantages (saving transportation cost for the relatively nearby markets of Asia, Africa and Europe), absence of trade barriers and government interventions, lower tax ceilings, adequacy of basic infrastructure and the relative political stability (at least before the recent Gulf War). On the other hand, in view of the local investment regulations, which tend to encourage majority share for the local capital, the local manufacture is expanding at a rate faster than the FDI, which is mainly undertaken via joint venture arrangements. What the eclectic theory does not adequately explain, however, is the fact that the bulk of MNCs' involvement in the region is still taking place via exports and licensing, rather than the FDI which the locational advantages of the region assume.

The internalisation advantage, on the other hand, means that it must be more beneficial to the MNC possessing ownership advantages (which in our case are assumed to be mainly the technological capabilities), to use them itself rather than

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to sell or lease then to foreign firms, that is for it to internalise its advantages through an extension of its own activities, rather than exercise them through licensing and similar contacts with independent firms. Again the reality is rather different, as our research findings have confirmed that the foreign MNCs are increasingly reluctant to be involved in equity participation in the Gulf States, possibly on the grounds that the return on capital investment is less than the royalty rates on management and management contracts on the one hand, and the turn-key projects on the other. Once again the profit-maximisation motive explains the internalisational advantage of the MNCs better as [Itaki, 1989] stated:

*"The distinctive feature of the internalisation theory is its recognition that the firm is an economic institution the objective of which is to maximize profit in the world of market imperfections. The firm attempts to maximize its revenues and minimize its costs: the firm maximizes its organisational benefits after remunerating all the factors of production, R & D, marketing and management."* [M. Itaki, April 1989, p.3.]

The author also shares Itaki's reservations about the "location advantage" regarding its ambiguity in dealing with the concept of cheapness. *"Eclectic theorists"* Itaki states, *"talk about the location advantage in monetary rather than in real terms. It follows that the more depreciated a local currency is the better. However, cheap inputs owing to currency depreciation also results in 'cheap' profits, i.e. the remittance is also depreciated in terms of the international currency, say the US dollar. Furthermore 'cheap' inputs, especially a 'cheap' labour-input has the adverse effect of shrinking the workers' income and the host country's market"*. [Itaki, 1989, p.15.]

In attempting to identify the implication of the cheapness of inputs as locational advantage in the Arab countries, one tends to agree with the above argument insofar as it reflects the current performance of MNCs in different locations (countries) within the Arab world. To go by the theory with regard to the cheap locational factors, one would expect more and more FDI in countries such as Sudan and other under-developed countries of the Arab world, as compared to the



oil-rich states, owing to their locational advantages of cheaper labour force and currencies. Our own research findings, however, have established the fact that FDI by MNCs in those poor countries, is either non-existent or minimal. The withdrawal of Lonrho Limited from the Kenana Sugar Project of Sudan, half way through its implementation, may help to illustrate the point, as the repeated depreciation of the Sudanese pound, against foreign currencies, was cited to be a major factor in the events leading to the discontinuity of the joint venture partnership between Lonrho and the Sudan Government.

We conclude this part of our analysis by emphasising that the essence of any theory, such as the "Eclectic theory", is mainly in its predictive power to explain why MNCs engage themselves in FDI. What we can infer from our Gulf Survey, is that despite the fact that the main elements of the Eclectic theory – ownership, internalisation and locational advantages – are reasonably in place, FDI has not been vigorously pursued by MNCs in the Arab countries. Instead, they elected to opt for the usual alternatives of exporting, licence agreements and turn-key projects. The Eclectic theory does not fully explain why FDI has not taken place, given that all its conditions are either fully or partially met. It does not offer adequate justifications as to why MNCs have a preference to do business rather via the channels of exports, licensing and turn-key arrangements. The main question is whether (OLI) advantages are necessary or sufficient conditions for MNCs to expand their international production. The other question which is also not sufficiently answered by the Eclectic theory is: *"In a poor or underdeveloped host country with low wage rates in terms of say US dollars (although relatively high wage rates there), does it indicate a location advantage or disadvantage to the investing MNCs to expand their FDI?"* If the theory allows for answers to

such vital questions, it could well provide some predictive power, which could be made use of by the decision-makers and strategic planners of both MNCs and the host countries.

#### 12.3.4 Development Theories and the Arab World

As we have shown in Chapter 3, the Arab development theorist, Samir Amin, has demonstrated how the Arab economy in general is more externally oriented – and hence more dependent – than the economies of the rest of the Third World regions. The "dependency theory", elegantly discussed by Dudley Seers and his colleagues in his pioneering book Dependency Theory. A Critical Reassessment [1983], is much heralded in the developing countries as a theory which is well placed to explain the economic plight of many developing countries, in the fact of what they regard as "*unfair international economic order*".

The "Dependency Theory" has evolved since the beginning of the 1960s, from the Latin American "structuralist school", which claimed that the underdevelopment of Latin America was due to its reliance on exports of primary products, which were subject to terms of trade that both fluctuated in the short-term and deteriorated in the long term. This was a major justification for import-substitution behind tariff walls which would reduce the dependence on foreign manufacturers, and thus on the industrial countries.

The realisation that import substitution created new forms of dependence (increased imports of capital equipments, intermediate products, raw materials, fuels and technology and capital provided by MNCs), converted the Latin American "structuralists" into "dependency" theorists. While they did not abandon

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the earlier theories, they changed the emphasis and added other features, namely that *"the world consisted of a core of dominant nations and a periphery of dependent ones"* [D. Seers, 1983, p.15.]

Looking at the economic situation in the Arab world today, and in view of what the findings of our survey in Chapters 9 through 11 have established regarding the increasing dependence of these countries, either on the technology and technical and managerial know-how of foreign MNCs (as in the oil-producing Arab States), or on both technology and capital (in the poorer and much under-developed Arab States, particularly in Africa), it becomes evident that the body of dependency theory contains far more relevance than neo-classical economics. Inconveniently for theorists of any kind, characteristics such as a country's population, resource base and location, among other things, also affect the degree and nature of its dependence, as does the quality of political leadership and its ability to motivate the people to productive effect.

In his attempt to identify the general implications the "theory of dependency" may have for contemporary development strategy, Gabriel Palma states that:

*"Some writers within the dependency school argue that it is misleading to look at dependency as a formal theory, and that no general implications for development can be abstracted from its analysis. Some of those who argue that there is such a theory, flatly assert that it leads inescapably to the conclusion that development is impossible within the world capitalist system, thus making development strategies irrelevant, at least within that system".* Others, on the other hand, who speak in terms of a theory of dependency, argue that *"it can be operational into a practical development strategy for dependent countries"*. [Seers et. al., 1983, p.20] Palma then concludes his remarks by asserting his own view about the dependency school of thought: *"..... the contribution of dependency has been up to now more a critique of development strategies in general than an attempt to make practical contribution to them"* [Seers, 1983, p.23].

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Insofar as the main postulation of the original ideas and hypothesis of the "dependency theory" are concerned, its relevance to the Arab world (as a periphery) is clearly evident. The starting point is the idea that the world economy is composed of two poles, the 'centre' and the 'periphery', and that the structures of production in each differ substantially (primary products in the Arab world, be they agricultural or mineral, while industrial, technologically sophisticated products in the case of the centre – the industrialised world.) That of the centre is seen as homogeneous and diversified, while that of the periphery – the Arab world – in contrast, as heterogeneous and specialised; heterogeneous because economic activities with significant differences as to productivity existed side by side, with the two extremes provided by an export sector with relatively high productivity of labour, and a subsistence agriculture in which it was particularly low; specialised because the export sector would tend to be concentrated upon a few primary products (oil in the Gulf and agriculture elsewhere), with production characteristically confined to an 'enclave' within the peripheral economic structure, or in other words, having very limited backward and forward linkage effects with the rest of the economy. This, in effect, is the precise situation of the Arab economy today. It is this structural difference between the two types of economy which lies behind the different function of each pole in the international division of labour, as the dependency theory postulates. The principal elements of this system of centre-periphery, according to the theory, could be summarised as backward structure of production and low productivity in the periphery, generating low level of effective demand, as well as of prices in the peripheral export sector, hence leading to deterioration in the terms of trade between the two poles (in favour of the centre). Both these phenomena explain why levels of average real income tend to diverge in the two poles, and why there is the tendency towards

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unequal development in terms of the degree of creation, penetration and diffusion of technical progress (homogeneity), and the degree of integration of the structures of production (diversification). All this leads to a type of development of the periphery characterised by unemployment of the labour force, external disequilibrium and the deterioration of the terms of trade.

All these phenomena are evident from a number of observations in the Arab countries, as this study has highlighted:

- a. Only primary products are exported and the Arab economies are, in general, poorly integrated;
- b. the demand for manufactured products is oriented in the main towards imports;
- c. imports in the non-oil producing Arab countries tend to grow faster than the level of real income or of exports. (The opposite is the case in the centre, where imports consist essentially of primary products, for which income elasticity is less than unity.)

In conclusion, one can say that the 'dependency theory' lends much of its characteristics and relevance to the Arab countries and particularly so to the most under-developed countries among the developing members of the Arab world.

#### **12.3.5 Government Intervention in Industrial Development**

Due to the fact that perfect free market competition simply does not exist in the industrial sectors of the overwhelming majority of the developing countries, the notion of free trade and liberalisation is always questionable. Many observers and

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analysts therefore see that there is no alternative to a directed industrial economy, and that market can only be extended by organisation, rather than by liberalisation.

In the advanced industrial countries of the western world, free trade can be successfully implemented, but in the developing countries of the Arab world, the government intervention in the organisation of the market is not only preferable, but rather a necessity; otherwise, if the state does not interfere, the financially strong and influential people (in the Gulf States these would be mainly the Royal family members and the influential businessmen), will have the monopoly in almost everything. The stage of development a particular country or region has unfolded is thus a major determining factor in the degree of success by which any economic theory could be judged. Such a stage of development is far more important than just dealing with theories as abstract. It was Belassa who stated that *"market incentives in less developed regions have not grown to the point where they are conducive to development"*. [Belassa, 1967, p.10]

The role of the state apparatus in the Arab countries, be it a direct government role or through public enterprises is paramount. This is particularly so in view of what our study has established regarding the increasing role of MNCs and the external orientation of the Arab economy. Both government enterprises and the MNCs can be complementary, as each, in its own way, possesses key business assets. For MNCs the list is a familiar one, including their usual ownership advantages: technological command, access to financial sources, global marketing power, etc. The assets of the Arab public enterprises or government (public sector) are perhaps less well-known, but they are:

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1. Big in relation to other private firms in the domestic economy, with much larger share of resources;
  2. Claim a marked degree of control over domestic market (often holding legal monopolies over their product markets);
  3. Can, in principle, obtain privileged access to investment funds from domestic public sources and, via the guarantee power of the State, in external transaction [O'Brien, P. and Kisanga, E., 1984, p.13].

What we meant to show from listing the above characteristics of the governments in the Arab world, is that while most of the classical economic theories, which are based on the assumption of liberalisation, free trade and competition, naturally do not envisage a dominant role for the State and its intervention, and assume the economy direction to be determined by market mechanism under a perceived perfect competition, the absence of such "perfection" of market and industrial competition in the developing countries of the Arab world, necessitate a type of government intervention which contradicts with the postulations of the main bodies of economic theories. For countries which are still in their early stages of economic development, profit maximisation would not be rated highly among their objectives, as most of the economic theories imply. Our literature review also reveals that, countries such as Japan, the NICs of South East Asia and, to a lesser extent, India, which were listed among the category of the developing countries not too long ago, have based their successes on pursuing policies which are less profit-oriented than their Western counterparts. A great deal of their success also stemmed from the interventionist policies which their governments have exercised during and after the take-off stage of their move towards industrial development.

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Following in the footsteps of such countries will always remain an increasingly desired option for the developing Arab countries to contemplate.

The vital role of government policies in the early stages of development of nations, is best summed up by Michael Porter, who stipulates that:

*"Government has the greatest direct influence on national advantage in the factor – and investment–driven stages of development (which the developing countries including the Arab world are now exhibiting). The tools at its disposal, such as capital, subsidies, and temporary protection, are most powerful at these stages in a nation's competitive development. In the early stages, government also must take the lead in factor creation: encouraging savings or foreign borrowing to accumulate capital, upgrading education and infrastructure, and beginning the development of technological base .... Government at this stage can play an important role in such areas as channelling scarce capital into selected industries, promoting risk taking through implicit or explicit guarantees of assistance, stimulating and influencing the acquisition of foreign technology, and employing temporary protection to foster entry leading to domestic rivalry, and the construction of modern facilities. Government's role in challenging and exhorting industry to upgrade, is also a vital one, as the Japanese and Korean cases illustrate .... Government is often prime mover early in the development process .... as the nation aspires to move beyond early investment–driven to the innovation–driven stage of development, however, firms must increasingly become the prime movers ... and government's role must shift to almost exclusively an indirect one" [Porter, 1990, pp.671–672].*

#### 12.3.6 Economic Integration Through Regional Groupings

Regional cooperation has been an important element in the efforts of the developing countries to overcome their problems. In some instances, the establishment of regional organisations have helped to alleviate national rivalries. The creation of CARICOM helped the small newly independent states of the Caribbean to forge strong economic links and develop a common regional identity, despite the breakdown of their federation. In East Asia, ASEAN has emerged as a viable regional organisation, submerging some of the earlier tensions among its member countries. South Asian countries have established SAARC as they have realised the need for cooperation, despite a history of mistrust and regional



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conflict. In the Near East, the Gulf Cooperation Council (GCC) has been set up as an instrument of cooperation among the smaller Arab nations of the region. The States of the Arab Maghreb have come together in search of common advantage, after a long period of tension and mutual suspicion. Moves towards regional cooperation have recently been revived in other parts of Africa, Asia, and Latin America as well. These encouraging trends indicate a growing recognition among developing countries that they have much to gain from practical economic cooperation.

The Arab world, whose disunity in the past is sometimes cited as a major factor in their lack of collective economic progress, can learn a great many lessons from the eventual success of the EC. The message is that economic integration does help former enemies to turn friends. The EC has gradually emerged over some 35 years from a group of six to twelve. The way this friendship has been achieved, was basically an economic one. While the eventual aim for the Arab world (as it is for EC members) is political, the means of integration are essentially economic and the development of trade between the European countries has been a driving force in this respect. It should also be so, not only among the members of each Arab sub-groupings, but also between these groupings, within the broader framework of the Arab League.

#### 12.3.7 Theoretical Models in Practice

In formulating their investment and trade policies, the Arab countries do not necessarily follow a particular economic model. It seems that, whatever has proved to be successful, or seen to be so elsewhere, has a strong impact insofar as it inspires the desire to emulate. This tendency could be seen at work in the

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Arabian Gulf States with regard to the duplication of industrial projects which, due to specific market-oriented factors, have proved to be successful. The examples of the cement and aluminium industries, among others, illustrate the point. Their strategic planning therefore, is not based on any theoretically-stimulated model, or even a carefully thought out pattern. The early stage of development of most of these countries, and the fact that the modernisation efforts of their economies have only recently begun, make it difficult to adapt to particular economic theories or models.

Generally, the problem of attempting to postulate models of theories, be it in the area of greater industrial development or international trade or investment, is the continual need for adaptation to fit the increasingly changing realities and circumstances of the countries of the Arab World. In the 1950s, only a few of the Arab countries had political sovereignty over their boundaries. In the 1960s, even those who had their political independence were economically dependent on their former European Colonial powers. It was only during the 1970s and beyond that the national economic planning has become a common practice. Some countries have even opted for nationalisation of some foreign and private institutions, such as Iraq, Algeria and Egypt in 1960s and Sudan in 1970s, but with little in the way of success. The Arab oil producing countries had gradually assumed control over their oil resources under the banner of "participation" only after 1973. The joint venture experience between the local Arab institutions (mainly public enterprises) and foreign MNCs, is itself a recent development which started in earnest around late 1970s, through to 1980s. This early stage of industrial development and the immaturity of the economic experience of the majority of the countries of the region, coupled with the ever-changing business environment at the global level

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- technological or otherwise - render it difficult to pass a judgement on the real implications of economic theories and their relevance to the actual performance of the Arab economy. Theories embody empirical contents, which could only be verified by specific case studies rather than simply insensitively assumed. The Arab world has only recently begun to acquaint itself with different theories of liberalisation of trade and investment, vis-a-vis protectionism. Some countries in the past have resorted to protectionism, possibly motivated by ideological considerations, but most recently, the shift towards the market economy has rather been the general pattern, while protectionist attitudes seem to be gradually receding. Furthermore, what limit our ability to identify and analyse the extent of the appropriateness of the main body of economic theories and their relevance to the economic performance of the Arab countries, is the scarcity, if not the complete lack, of statistical data on the performance of MNCs involved in the area, as well as related information. Any attempt to do so is bound to be a statistical minefield.

## **12.4 Some Policy and Managerial Recommendations**

### **12.4.1 Introduction**

As has been shown, the Arab world in all its diversities, is endowed with substantial reserves of fossil fuels, of valuable minerals and other natural resources, including agricultural land and water. Apart from their known hydrocarbon resources, the complementary factors of production, land and labour, in countries such as Egypt, Sudan and Morocco among others, are considered to be in surplus. The land being under-utilised and the people unemployed and under-employed, there is enormous potential for development, particularly if the

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oil-generated capital of the wealthy Arab States is more effectively used to enhance sound industrial and commercial investments within the Arab world.

As has been shown previously, there are two possible scenarios to approach the development needs of the Arab world. One school of thought contends that foreign investors (MNCs), finance institutions and trade partners, have a decisive impact on the design and implementation of economic and investment policies of the Arab countries. They affect main decisions concerning the structure of production and trade, type of technology and industrialisation programmes. It is on this basis that advocates of this school believe that, if the potential industrial development in the Arab world is to be realised, there is no other way but to closely cooperate on the basis of a free-trading principle with foreign multinationals who have proven experiences and capabilities to successfully exploit their technological edge and know-how. Joint ventures, which are a favoured type of cooperation with foreign multinationals, would be the most appropriate way of channelling foreign investment into the Arab economies.

The second school of thought suggests that, in view of what some Arab professionals and scholars consider to be a rather unsatisfactory performance of foreign companies in their past involvement in the Arab world, and in order to make a feasible alternative to the strategy of total reliance on foreign multinationals, the Arab economies have to adopt a more intransigent approach. They need in fact to "delink" from foreign actors and institutions in those areas where the repercussions on the national economies of individual Arab countries are most pronounced. This is mainly in trade, foreign investment and technology acquisition. 'Delinking' also implies that foreign investments and foreign

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technologies are confined to those sectors and areas where they may support the development of a growing internal market, and the implementation of basic needs-oriented local development strategies, so foreign capital and technologies may be restricted to areas like raw materials expansion, transport system development, energy development, some services which are indispensable for communication, etc. Such a restriction of the role of MNCs and foreign capital may be contradictory to the economic interests of the foreign corporations and may be difficult to enforce, because of the weak bargaining power of the Arab countries. But a process of 'delinking' cannot be set in motion without a careful restriction and surveillance of activities of foreign investors. In the context of non-oil producing countries of the Arab world, delinking requires the compulsion to export to developed countries (as often demanded by IMF) be gradually removed by an imports restraint programme. Imports should be restricted to capital goods, intermediate products, and food items which are indispensable for an industrial and agricultural rehabilitation programme. Special arrangements have to be made with various international institutions such as GATT, with a view to seeking support for such policies, which would otherwise be resented.

As noted by Dunning [1985, p.427], host countries *"have often in the past welcomed FDI but not the foreign investor; the resources have been wanted but not the control over resources"*. In the author's viewpoint, which is further supported by the research findings, Dunning's contention correctly mirrors the precise situation in most of the Arab countries even today, as it demonstrates a major concern insofar as the Arab World's relationship with foreign MNCs are concerned. The case could hardly be better put than in Dunning's words to reflect the Arab world's attitude towards MNCs.

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It is true, however, that in the late 1980s a new wave of realism and pragmatic attitudes on the part of both MNCs and their host Arab countries has emerged. MNCs are thought to be no longer as paternalistic as they used to be in the past. This is reciprocated by the Arab countries who have gradually learned to co-exist with foreign companies, a phenomenon clearly manifest in the disappearance of confrontational policies, including the threat of nationalisation and other measures of a similar nature. Without both sides having to show signs of their readiness to accommodate the interests of each other, and to demonstrate such readiness in terms of practical steps towards revising at least some elements of their strategies, neither the development potentials of the Arab world would be fully explored, nor the continued presence of MNCs in the region taken for granted. Of course, any changes which are made by one side, i.e. MNCs, are likely to be ineffective without careful consideration of the implications for the other side, i.e. the Arab States, or vice versa.

With regard to the collective Arab stance and coordination of their strategies towards foreign MNCs and foreign investment in general, the newly emerged mood of pragmatism should also be extended to putting up with factual realities, on top of which is the fact that the Arab world is not a collection of a homogeneous and similar minded group of countries, no matter what they may have in common with each other. However, notwithstanding the diversities among themselves in respect of the level of development, abundance of natural resources, GDP, population size, technological growth, etc., there can be no real chance of success to realise any perceived independent paths of development, except within a framework of some kind of regional cooperation. In order to make it easier to undertake the investment programmes required for independent development, all

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promotional efforts should be coordinated on a Pan-Arab basis whenever possible, if only to avoid the wasteful duplication of resources and administrative structures.

#### 12.4.2 Technology Transfer

The question of technology transfer to the Arab world through MNCs, and particularly via the channel of joint ventures, has been prominently featured in this study. On the basis of the detailed analysis of the main survey and literature review, a number of policy recommendations in this respect are briefly identified as follows:

- a. The role of Arab governments in dealing with the many challenges emanating from foreign investments, MNCs and joint ventures, ought to be predominant, because in most cases government and government oriented institutions are closely involved, as they often engineer the process of channelling foreign investments into the national economies, and participate in joint ventures with often large shares of risk capital as well as loan capital. In fact, public sector enterprises and institutions in the Arab world are generally in a better position to facilitate the adaptation and diffusion of imported technologies, by directly linking them to the national research and development endeavour. They can more easily mobilise government-supported research institutions and universities than the private sector firms can, to benefit from the managerial and technical expertise provided by collaborative joint ventures. It is therefore imperative that governments, as opposed to private institutions, should assume the commanding role in formulating and administering all strategies designed to tackle multinationals' related problems, particularly in the area of technology transfer.

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- b. Licence agreements and management contracts should be persistently favoured, as opposed to FDI and turn-key arrangements with MNCs. Lessons in this regard need to be learned from Japan and India.
  - c. Notwithstanding the economic cost involved, we should not rule out the prospect of a possible success in the long term, emanating from the pursuit of a strategy of keeping a low level of technological dependence (drawing on India's experience), provided that simultaneous efforts are made to generate a great deal of indigenous technological potentials, drawing upon the comparatively large pool of technically qualified manpower. Our own study has found out that the Arab share of scientists and engineers is fairly impressive, enough to trigger any attempt to explore viable scenarios, whereby the development and mobilisation of indigenous technological efforts become a realistic proposition.

#### 12.4.3 The Promotion of Self-Reliance

To achieve self-reliance but without completely delinking from foreign MNCs, the following policies are to be adopted:

- a. Formulation of investment strategy, in harmony with national interests. Feasibility studies and project assessments should be an exclusive domain of the Arab governments, in which the assistance of foreign MNCs would only be sought in matters of purely technical nature, the parallel of which is not locally available.
- b. Greater emphasis should be focused on training and qualifying local indigenous managers and manpower, rather than on physical technology, as the return on investment on people is much greater than on machines, in the long term.



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- c. In dealing with MNCs, the Arab countries would need to be cautious in making decisions to optimise the trade-off between better short-term profitability, if technology is transferred to MNCs affiliates (less costly for the host countries), and the erosion of short-term profitability arising from technology acquisition. In all cases, particular emphasis must be given to maximise the benefit from the ongoing enhancement of research and development efforts that speed the pace of technology creation (in the area of adaptive technology).
- d. In the least developing Arab countries, such as Sudan, resources have to be released from export production and directed towards internal demand. Industrial development in those countries should embark on a programme of decentralisation, in order to gain from the resulting advantages in transport. The small-scale design of production units on a local and regional level – which lessen the resort to foreign MNCs – may give rise to the development of indigenous technologies. In fact, ecologically and socially well-adapted technologies should be designed in cooperation with these basic producing units, involving people who are familiar with local and regional problems. In this respect, mechanisation of traditional agricultural sector may be promoted only where a substitution by labour is not feasible or reasonable.
- e. In the financially prosperous, oil-rich countries, investment strategies may be designed (with or without cooperation with foreign MNCs) to establish local corporations which may begin to attract local shareholders, as buying shares could prove attractive as a way of saving, as an alternative to just consuming. Certainly the views of shareholders in their having (as individuals or groups) significant investment interests, will eventually buy

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them control over the decisions of these corporations and probably guard against any outside influence (from MNCs or other foreign investors). This will have far-reaching implications on the future role and strategies of these corporations. Shareholders in the Arab countries are likely to adapt to the reality of having to be far-sighted in their perception of investment. Their concern for the future will no doubt motivate them to question and rectify any investment strategies, if they do not in some way suit what they believe to be in the best interest of future generations.

- f. The long-term objective must be to establish domestic technical capabilities. In order to fulfil that objective, it is recommended that efforts should be concentrated on a national science and technology plan within the framework of a joint Pan-Arab initiative – the author would like to code name this endeavour as "Arab Science and Technology Park" (ASTP).

#### 12.4.4 Economic Integration Between Arab States

In view of what the Arab countries have in common, which give them a distinctive character in terms of economic, political, social and cultural dimensions, there seems to be a strong case to argue that a carefully coordinated strategy of cooperation might work in their favour, even though their past experience may suggest otherwise. That vision would best be put to test alongside a regional grouping, as we have suggested (in Chapter 2), as the most viable option of all types of cooperation. It is always possible to adopt common approaches which are to be flexible enough to provide for the different contingencies influencing the international competition within each of the regional groupings in the Arab region.

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Implicit in such a strategy to adopt a common approach, is that certain efficiency goals, such as those based upon technical or scale economies, and/or dependent on import of technology, may have to be sacrificed to promote or protect other objectives.

One way of converting theoretical slogans into reality, in terms of achieving a new coordinated role between the Arab countries to sharpen their technological edge, and invest in product development and plant modernisation and expansion, to capitalise on the strength of their regional market, is to fully utilise the potentials of their existing Arab institutions. AIDO (Arab Industrial Development Organisation) is one of such joint institutions which are involved in project finance and development. It offers a range of technical services to potential investors, such as reports of country factors affecting investment, legal and constitutional advice on project formation, financial planning, administration, management, etc.

Since AIDO is commissioned by all Arab States to act as the umbrella organisation for industrial development activity, it should be fully supported by all parties concerned to perform its duties. It should particularly be assisted in its role as a negotiator, where foreign parties are involved, for the sale and transfer of technology, as well as in drafting legally binding contracts. It is obviously in the interest of the Arab countries as a group to make their treatment of foreign investors as uniform as possible, and to avoid competition among themselves in granting concessions. Competing concessions would eventually cancel each other out to the benefit of no one Arab country, as indeed would the duplication of projects.

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#### 12.4.5 Enhancement of Arab Competitive Advantages

It has been concluded, in view of our previous discussion on competitive advantage theory, that such advantages which are based on relative abundance and cost of factors of production, are not sufficient enough to explain the existing pattern of trade and investment between the developing countries of the Arab world and the industrialised world of today. Notwithstanding the growing concern among economic and business analysts and governments, the existence of the protectionist attitudes and policies among an increasing number of countries, can hardly be ignored. Protectionism seems to be a deeply-rooted phenomenon which is likely to persist, thus undermining the main thrust of competitive advantage theory in the process. The lessons and implications that such argument may have on the strategy of the Arab countries could be far-reaching. Some of such implications are considered below:

1. It would be dangerous for those Arab oil-producing countries who have based their comparative position on such advantages as oil, to rest on their laurels, in view of the fact that such advantages offer, in reality, little security. In fact the spread with which the international business environment is changing, leaves no guarantees to any country, to solely rely on a single competitive advantage, such as oil in our particular case. This brings us to the second point;
2. On the basis of the above argument, diversification of the sources of production and income, should automatically be embraced as a top priority option, if the Arab oil producers are to adopt any far-sighted strategy to cater for the post-oil era after the depletion of this exhaustible source of wealth (the unconfirmed reports on the new discovery of water as a possible cheap fuel for motor cars, which may completely negate the

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- importance of oil as a strategic energy source, would only come to mind in this respect). Together with alternative energy sources such as nuclear, solar energy, etc., oil will no longer be a competitive advantage in itself;
3. Competitive advantages are not only undermined by competition from substitutes, but they are themselves changing and no longer sustainable. Lessons in this respect would be learned from the NICs of South East Asia, whose competitive advantage in the past was based on abundant cheap labour, but having been under pressure from new low labour cost producers (Malaysia and Taiwan for example), they opted for alternative new advantages, such as the development of more technology-intensive products (as opposed to labour-intensive technology);
  4. For the Arab oil-producing countries, access to abundant factors is less important than the technology and skills to process their products effectively or efficiently. This factor, in itself, should be an additional manifestation to induce them to adopt more vigorous policies to rely on themselves (in the longer term), via more industrialisation and diversification of their economies.
  5. We have already seen how the world is opting for more and more competition among various countries and MNCs. Such international business competitive environment must be to the advantage of the developing countries who should seize the opportunity to improve their bargaining position and dictate their own conditions, in what promises to be a consumer's (not supplier's) market. It should, however, be emphasised here that it is not the physical supply of products which is to be pursued, but rather the transfer of technological skills and know-how.

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6. Joint ventures among the companies or governments of the Arab countries which, in line with our definition of MNCs, are to be regarded as Arab MNCs, can best realise their objectives through the adoption of strategies which do not lay much emphasis on profit maximisation. This does not necessarily mean that cost minimisation is not to be considered as an important operational objective, but cost minimisation might not necessarily lead to profit maximisation in the short-term. Their strategy can target the achievement of revenues at a reasonable level, or even break-even level in the short-term. The underlying objective would be to lay the ground for more self-reliance in the future. While contradicting with the notion of competitive advantages, such strategy which has been successfully tested elsewhere i.e. NICs, can aim at the long-term interest of these countries. It is a case for sacrificing today's interest, even if that means incurring financial losses on a temporary basis, so long as there are some guarantees of long-term gains. Such gains could be reflected in:
- a. gaining long-term technological know-how through the accumulation of experience realised in the process of on-the-job training and trial and error;
  - b. appropriate exploitation of un-tapped resources to the future benefit of the Arab partners of these joint ventures;
  - c. less reliance on outside world implies import substitution and foreign exchange savings. This objective is particularly conducive to the interests of the relatively poor or under-developed countries of the region;
  - d. by so doing, the Arab States can strengthen their bargaining position vis-a-vis foreign MNCs, who will deal with them on an

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equal footing rather than via their corporate strategies, which can contradict those of the Arab host countries.

7. The basic cultural differences between the orientation of the western MNCs towards profit maximisation and the Japanese orientation towards growth of sales volume and market share, put the Japanese MNCs in a favourable position in the Arab world. In fact, the Japanese MNCs future prospects are much brighter than those of their western counterparts in the Arab region. The cultural difference is also evident in the selling methods. While western MNCs are used to using high pressure selling methods to generate quick sales, the Japanese, in contrast, prefer intimate long-term relationships with their customers, probably built on plenty of contacts, even before a sale is materialised. Their approach to selling also involves less pressure and more after-sale contacts. These cultural factors have, in the main, helped to tip the balance in favour of more involvement of the Arab countries with the Japanese MNCs, a trend which is most likely to continue. This can be regarded as yet another advantage in favour of the Arab world, which just falls short of having the characteristics of "competitive advantage" - it is the advantage of wider room to manoeuvre and to choose between more than one alternative. The Arab States should carefully seize the opportunity to make use of such new advantage and new bargaining power.
8. The Arab States' strategy towards foreign MNCs needs to take into consideration the long-term benefits to be realised. Multinationals should be cultivated whose rationale for locating in a particular Arab country goes beyond basic factor considerations. If a multinational is locating in a country solely because of cheap raw materials (energy), or cheap labour,

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the stability of the investment is ultimately suspect. If a particular Arab country represents a good location for a regional production and distribution centre, or if local conditions make it a desirable product development centre in a particular segment (phosphate in Morocco, petrochemicals in the Gulf, cotton textile or sugar industry in the Sudan), then the multinational will have more enduring reasons for investing in the country and upgrading that investment over time. The idea is to make a particular country or region almost a 'home base'. This strategy is also in line with the long-term objectives of the Arab regional integration, which this study advocates.

#### **12.5 Future Research Possibilities and Needs**

The purpose behind this study somewhat falls short of presenting conclusive findings on the various aspects of the activities of MNCs in the Arab region, as the phenomenon of multinationalisation in the Arab context is far too recent to permit such an attempt. Information or data about MNCs performance, structures and the actual costs and benefits encountered, both by them and the Arab host countries as a result of their activities, are insufficient to allow comprehensive quantitative analysis. The main goal has been to identify what the author considers to be an essential field of inquiry, by presenting conceptual and substantial contribution on the subject, in the hope that a study of this magnitude will stimulate the interest of scholars and institutions in and outside the Arab world and will promote further and more detailed studies. Some possible areas of future research worthy of further investigation, could be outlined as follows:



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**12.5.1**      The Effectiveness of Joint Ventures among the Arab States

The sketchy information available indicates that the rate of failure among a considerable number of projects undertaken on a joint venture basis between some Arab States, is very high. More empirical studies are needed to provide a basis for examining the question of existing forms of partnership and the possibilities for change. A cost-benefit analysis of various forms of investment would be necessary to identify potential prospects for better alternatives. Many issues pertaining to the strategies pursued in various aspects of managerial, financial, technical and/or marketing fields, need to be investigated in serious and carefully planned research projects, since a clarification of such issues is a prerequisite for the selection of appropriate policy measures to realise specific goals.

**12.5.2**      Kenana Sugar Company as a model for Intra-Arab Cooperation

What prospects are held to replicate the Kenana Joint Venture Model (Chapter 11) in other industries or economic sectors (apart from the sugar industry) in the Arab region? The issues under assessment are to be the potential prospects of capitalising on an existing experience of a joint venture project, which is based on a triangular cooperation between Arab investors (petrodollars), the western technology (MNCs) and the natural resources of the host country (Sudan). This ongoing experience needs to be fully assessed with a view not only to evaluating the pros and cons of this experience, but also to establish the viability of such strategy to be taken as a future model for intra-Arab cooperation.

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**12.5.3**      MNCs and the Existing Technological Gap between  
The Industrialised and Developing Worlds

In the 1970s the oil-rich countries of the Arab States increasingly raised the hopes among the Third World countries that they may prove a more effective bridge between the rich and the poor countries of the world. While tens of billions of petro-dollars have been siphoned in various forms of aid and project financing, in a number of developing countries, the ultimate results were far from being satisfactory. Not only has the external debt problem among the Third World countries been exacerbated, but also the oil producing countries themselves soon came to encounter financial constraints which have outstripped their ability to sustain the initial momentum, which started to gather in earnest in the 1970s.

To what extent do the MNCs have to be associated with this state of affairs, in view of the fact that much of the project finances have been channelled through them (international financing institutions) and the projects themselves were implemented in close cooperation with foreign MNCs, particularly insofar as the supply of technology is concerned.

These questions on the role the MNCs may have directly or indirectly played in dashing the hopes of the developing countries in reducing the wide gap that exists today between them and the developed world, are to be further explored at some considerable length and depth in future researches.

**12.5.4**      The Need for an Arab Data Bank

Any research which is constrained by the deficiency of basic statistical data is bound to be subject to limitations. Data banks are alien to the Arab world and no

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matter how any fact-finding missions are equipped, with whatever resources, the lack of available data on the actual performance of the Arab economies, such as the performance levels of MNCs, their commercial profitability stance, degree of achievement of targets in terms of production, sales, indiginisation of work force, level of perceived and actual transfer of technology, training, etc., and all sorts of information which are amenable to quantitative analysis and interpretation by modern theory, will always undermine the eventual outcome of such researches.

How to successfully establish the right systems of data banks and to make use of the increasingly important developments in the field of information technology in the Arab countries, is in itself a significant area for research. This is an endeavour which would be highly demanding in terms of personnel and financial resources. Ideally, it is an undertaking which should be left in the hands of an expert committee. It is hoped that such a project would be commissioned by an intergovernmental body in each individual Arab country, so that necessary resources can be provided within an agreed framework, and terms of reference. At a later stage, appropriate plans could be designed with a view to galvanising the efforts of individual Arab countries, which will then be culminated in the establishment of what could be called an "Arab data bank". Such a project may greatly assist our understanding of the rapid development that is taking place, not only at the multinational corporation's level, but in all walks of economic life within and outside the Arab world.

#### **12.5.5      Impacts of World Regional Blocs on the Arab world**

In view of the increasing worldwide trend to establish regional groupings among countries, on the basis of common geographical, historical and other

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considerations, it has been suggested that cooperation among nations will, in the future, largely take place between such regional blocs, as opposed to the existing trading system in which unilateral arrangements between countries constitute the bulk of world trade and investment. To take the EC after 1992 as an illustration, the internal market programme of 1992 consists in principle of measures intended to be neutral with respect to the rest of the world. In practice, adherence to the principle of neutrality is not automatic, and in some cases, is impossible. The competition of the internal market is thus likely to affect Third World countries, particularly those with strong economic relations with Europe, such as the Arab States. A detailed research project is called for to illuminate the effect on the Arab economies of the emergence of such economic groupings, with special emphasis on the influence on the Arab world of a more integrated Europe in the aftermath of 1992.

#### 12.5.6 The Interaction between MNCs and the Third World

There is a pressing need for primary research about MNCs – Third World interaction in general. While some studies covering particular aspects of such interaction have been cited by this study, it was noted that they reflect biased views, depending on the origin of those who have undertaken the studies. In order to ensure neutrality, the suggested research to look into the interaction between multinational corporations and their host developing countries, would ideally be undertaken by a combined group of scholars from both the developed and the developing countries. A major purpose of such a research would be to look into the potentials of how the strategies of both MNCs and their host countries might be reconciled.

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### **12.5.7 Role of MNCs of the Third World**

The MNCs of the Third World, as opposed to those of the industrialised world, have recently acquired an increasing share of attention. Information and data about this recent trend among the developing countries to establish joint companies to undertake their main operations in the developing countries are sketchy. There is a pressing need for primary research about these so called "MNCs of the Third World" and their potential and actual impacts on the future economic prospects of the world economy in general, and that of the Third World in particular.

### **12.6 Concluding Remarks and 1991 Postscript**

This thesis is being completed at a critical time when the whole world is undergoing rapid changes. This is more visibly so in the Middle East region in the aftermath of the Gulf War and the post Cold War era in East European countries and the Soviet Union. These ongoing global and regional political, economic, social and technological changes, are clearly shaping both the nature of the Arab World and the possible contribution which MNCs can make to assisting with the industrial development growth of the Arab region in the foreseeable future.

The new realities in the field of regional economic and industrial cooperation since the institution of the Arab sub-regional groupings, have led to the emergence of a new outlook for regional cooperation in the whole Arab region. In this respect, efforts have started to focus more on cooperation at the sub-regional or bilateral levels, by strengthening bilateral ties. However, this approach is bound to widen the gap in industrial linkages between sub-regional groupings. New approaches for regional cooperation are required; they should draw on earlier successes in other parts of the

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world of similar groupings, such as the EC and ASEAN, to mention only a few, in order to meet the emerging needs in Arab regional cooperation.

Different types of technology and joint venture partnerships are now needed for different Arab countries, as technological and managerial requirements vary from one country to another. With regard to the Gulf region, the nature of joint ventures today differs from what it used to be in the past. During the oil boom era, MNCs from an increasing number of countries carried out important contracts through both equity and non-equity participation. Such contracts included turn-key projects and other contracts involving various combinations of supply, installation, operation and maintenance of equipment, machinery and systems, design, supervision and construction, in addition to technical assistance, management contracts, licenses and franchise arrangements. Emphasis has now shifted from construction sectors to heavy industries such as petrochemicals, steel and aluminium and most recently to down-stream industries and service sector, particularly in the fields of operations and maintenance.

This changing business environment has necessitated the need for a different role to be assumed by MNCs. Aid by these foreign corporations ought to concentrate on aspects that should have analytical effects, such as research, development and training. The aim is to improve and enhance the managerial and technical skills of the Arab nationals and to assist with the creation of an Arab business and market environment which is more conducive to achieve a successful transfer of technology to the Arab World.

In a multipolar world, where ideological and strategic alignments may no longer remain the overriding considerations, and where multilateralism has come under increasing challenge (from protectionism), trade rivalries could conceivably once again come to the

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fore as a source of tension and instability. We may hope that such a possibility will not turn into a reality. The only way open is to preserve and enhance the integrity and openness of the international system of trade and finance. The former socialist countries and the developing countries, including the Arab bloc, need to be better integrated into the world trading and industrial system. Only in this way can they hope to contribute to its strength and also derive full benefits from the greater cooperation involved.

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**APPENDIX A**  
**THE WORLD REGIONAL TRADING BLOCS**

**1. Asia**

a. The Association of South East Asian Nations (ASEAN) consists of six countries (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand). As an association it has earned considerable respect in the international community, despite diversities between members. In terms of economic structure and performance, the group has mostly succeeded in speaking with one voice. Unlike EEC, ASEAN does not have a common trade policy. Regulations vary significantly from country to country. Indeed though ASEAN has emerged as an important regional organisation, it has so far been more effective as a political, than as an economic, organisation. Most recently, while progress has been made towards closer economic cooperation and improved trade relations between ASEAN member states, these are still hampered by the mutually competitive nature of their economies. All member states are industrialising rapidly, with Singapore far outstripping the others.

b. South Asian Association for Regional Co-operation (SAARC) basically aims at increased economic, social and cultural collaboration among the countries of South Asia, with a view to accelerating the pace of economic development and enhancing stability in the region.

The association originated in December 1985, in Dhaka, Bangladesh, at a summit meeting attended by the Heads of State and Government of Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Sri Lanka. Regional cooperation is



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envisaged by the Dhaka Declaration as a 'logical response' to the dramatic challenges posed to the countries of South Asia by 'poverty, underdevelopment, low levels of production, unemployment and pressure of population compounded by the exploitation of the past and other adverse legacies'. Effective co-operation is expected to lay the grounds for optimum use of national and regional strengths, human and national resources and economic complementarities.

**2. Europe**

**a. The European Community (EC)**

Established by the Treaty of Paris (1951) and the Treaties of Rome (1957), the EC comprises three communities: the European Coal and Steel Community (ECSC), governed by the Treaty of Paris; the European Economic Community (EEC); and the European Atomic Energy Community (EURATOM), governed by the Treaties of Rome. The institutions of these communities were merged in 1965 and are henceforth referred to as European Community (EC). The original six members (Belgium, France, The Federal Republic of Germany, Italy, Luxembourg and the Netherlands) were later joined by the UK, Ireland and Denmark in 1973, Greece in 1985 and Spain and Portugal in 1986.

Excluding intra-area trade, the EC accounted by the end of 1988 (according to IMF report, December, 1988), for almost one fifth of world exports and nearly as much of world imports. Its weight in world trade is somewhat less than that of the United States and Japan taken together. In fact, the world trading system is slowly moving from one in which US is clearly dominant, to one in which US, EC and Japan compete to define the world agenda. Moving towards 1992, the EC is torn between outward-looking policies and a fortress Europe mentality, and this

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tension is sometimes reflected in inconsistent trade policies. The EC has indicated that reciprocity will be dependent on concessions from trading partners.

The convention is that Europe trades with the world. But the shifts in trade patterns have revealed a Europe trading increasingly with itself and, more selectively, with external markets. Some of this trend, is due to a decline in overall world trade, but even so, Europe's trading partners of the future (particularly after 1992) may show significant divergence from the past. Competition for the Western European markets themselves has come increasingly from the newly industrialised countries, where lower costs have permitted some headway in R & D and price competitiveness. In the medium term, European industry faces the challenge of competing in the new sectors with NIC's as well as with Japan and the U.S.

The decision making process in the EC, takes place at different levels (Council of Ministers, Commissioners, European Parliament and the Judiciary) and since many decisions originated in Brussels affect business, many firms and trade associations retain representatives there, to keep a watching brief and to lobby for their views and interests.

b. The European Free Trade Association (EFTA)

Members of this free trade association include the Western European countries who are not members in the EC, namely Sweden, Norway, Iceland, Austria, and Switzerland. Finland is an associate member. They have free trade between one another and with the EC. They do not have common tariffs with the outside world. EFTA also has its own competition policy, as well as limited agreements

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on other issues, which are binding on members. The most important agreements in which EFTA countries have signed thus far, are those with the EC, signed in 1972. They cover trade in industrial and processed agricultural products. Trade in unprocessed agricultural products remains highly restricted. Since the conclusion of the free trade agreements, trade between the two country groupings has quadrupled and in 1988 amounted to about \$100 billion, equivalent to 70% of EFTA trade and one fourth of EC trade with Third World countries, excluding trade within the two groups [according to the IMF report, December, 1988].

c. The Council for Mutual Economic Assistance (COMECON)

COMECON is an economic organisation. It was established in January 1949 at the Moscow conference of representatives from Bulgaria, Czechoslovakia, Hungary, Poland, Rumania and the USSR. (Albania joined a month later.) Politically it was a reaction of the Eastern European countries to the Marshall plan and to the beginnings of Cold War policies. In economic cooperation its aims were to exchange information on economic problems, to extend mutual technical assistance, and to grant mutual aid in the form of raw materials, machines and industrial equipment and other goods needed by the member countries.

At the very beginning, it was declared that COMECON (or CMEA) is an open organisation to which other European countries may join, but the geographical limitation was removed in 1962. Its membership was later increased to include, in addition to the original six members, German Democratic Republic (until German Unification in 1990) (1950), Mongolia (1962), Cuba (1972), Vietnam (1978). Yugoslavia participated in the work of COMECON in certain areas and has an observer status at certain meetings. Finland, Iraq, Mexico and Ethiopia

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have signed special cooperation agreements with COMECON. Albania ceased to be an active member at the end of 1961 without formally withdrawing from the council.

Among COMECON's countries there was very little contact before the Second World War, and they have very little to sell to each other. According to Oxford Analytica [1984], USSR's sales of energy and materials (at less than world price) and Eastern European counter-deliveries of engineering and consumer goods (at above world price) cumulated to more than 100 billion US dollars, in the period 1972-1982.

- d. Other regional organisations in Europe, which are of relatively less influence in shaping economic and trade relations among their members include:-
- i. BENELUX : which is a custom Union between Belgium, the Netherlands, and Luxembourg;
  - ii. Nordic Council, consisting of Finland, Sweden, Norway, Denmark and Iceland;
  - iii. Consultative Committee (COCOM), is an offshoot of NATO which operates restrictions on the export to the Eastern bloc of high technology equipment with military uses.

#### Regional Groupings in Africa, and Latin America

Africa is facing the worst economic crisis that any region of the world has known since the Second World War. The scenes of mass starvation frequently shown on television screens around the world, are not a passing phenomenon. They are part of a pattern of economic decline and decay afflicting most areas of the continent,

from which there seems little chance of escape. With few exceptions, African governments are now burdened with debt far greater than they can ever repay. The causes of the crisis are numerous and include: government mismanagement; civil wars and insurgencies; drought; low commodity prices on world markets; soaring costs of energy and other imports; and a population growth which has outstripped food production.

Similar debt problems also face Latin America. IMF figures show that despite the efforts that have been made to bring the debt problems under control, the regions long term foreign debt had risen from 231 billion dollars in 1980, to 421 billion dollars at the end of 1987, [International Business Outlook Conference, Oxford Analytica and International Herald Tribune, Oxford, September 1988].

Against this background of economic deficiency which prompted the EC to extend its duty free access on a non-reciprocal basis to its market, as well as financial and technical assistance to 66 African, Caribbean and Pacific countries, under the Third Lome Convention, we now set out to consider the regional groupings, which have been established in the two continents of Africa and Central and South America, with a view of promoting specific aspects of economic development.

### 3. Africa

#### a. The Economic Community of West African States (ECOWAS)

ECOWAS consists of 16 member states, mostly along the West African coast. Established in 1975, they are now moving towards forming a Customs Union by 1992. These countries, which include Benin, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierre

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Leone, Togo and Upper Volta (now Burkina Faso) and Cape Verde, have had an agreement on the free movements of their citizens since 1979, but due to fears of mass migration the implementation has been delayed. Nigeria, the largest and wealthiest member of the community, has expelled a number of immigrants from other member states, but in 1985, a limited agreement on the movement of people was signed. Duty-free trade agreement was signed in 1987. It has a cooperation fund to develop priority projects and a secretariat working on agricultural and infrastructure development, industrial cooperation and other programmes. Delicate problems may arise with regard to relations with other economic and political groupings in West Africa, such as (CEAO). A promising area of cooperation is represented by the community's growing ties with non-African economic institutions like the EC and the ANDEAN group .

b. Communauté économique de l'Afrique de l'Ouest (CEAO)

CEAO consists of six members of francophone African countries. They are all members in ECOWAS, but CEAO has progressed more rapidly than ECOWAS. Agreements among these six members (Ivory Coast, Senegal, Mali, Mauritania, Niger, and Upper Volta) which are currently ratified on the basis of the 1973 Treaty of Abidjan, include the abolition or reduction of duties between the member states, a development fund, and cooperation programmes for water supply and transportation.

c. Preferential Trade area for Eastern and Southern African States (PTA)

PTA was formed in 1981 with the purpose of improving commercial and economic cooperation within the region and to facilitate financial transactions between member countries, with a view to establishing a Common Market and eventually

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an economic community. Members are Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Rwanda, Somali, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. The East African Community (EAC), which was established in 1967 by three of PTA's members, namely Kenya, Tanzania and Uganda, lasted only for ten years, having been terminated following Tanzania's invasion of Uganda in 1977.

d. Economic Community of Central African States

[Communauté économique des états d'Afrique centrale] (CEEAC)

Formed in 1983 to promote economic cooperation, particularly with regard to free movement of citizens, removal of non-tariff barriers, standardisation of trade documents, and establishment of a fund. Its membership consists of Angola, Burundi, Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon, Rwanda, São Tome and Zaire.

4. **Latin America**

a. The Andean Common Market (ANCOM)

ANCOM consists of five countries of South America namely Venezuela, Colombia, Peru, Bolivia, and Ecuador. It is the most advanced in terms of common regulations and, in that respect, it could come only second to the European Community. Three of its members (Venezuela, Colombia and Peru), have abolished all duties on manufactured goods between themselves, while the other two are moving in that direction. These two, Bolivia and Ecuador, as the poorest members, are allowed to offer special concessions to non-member countries to increase their trade, but in spite of that, trade is growing much faster between members than with the outside world. ANCOM has negotiated trade

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agreements with other countries, including the United States, on terms that are more favourable than individual members would be likely to achieve. (This is, after all, the essence of common markets in general). The group also has restrictions on foreign companies. Normally, 100% ownership of local subsidiary is not permitted, and there are other regulations attempting to ensure that foreigners make a maximum contribution to local industrialisation, such as restrictions on the employment of foreign staff and on the repatriation of capital and profits, as well as requirements to export and to locate facilities in needy areas; approvals are more likely to be given to priority activities. There is also a programme for improving communications between themselves. [Brooke, 1990, p.261.]

b. The Caribbean Community and Common Market (CARICOM).

This consists of twelve states – apart from Belize and Guyana, all are islands in the Caribbean. This association aims to become an economic community; it grew out of an earlier free trade area, but economic problems in some of the member countries have delayed progress. Conflicts of interest occur between members who show even greater inequalities than most similar organisations. Some, like Bahamas, Barbados and Trinidad, are among the wealthier of the developing countries, whilst others like St. Lucia and St. Vincent, rank among the poorer. Another problem, is the small size of each individual market and of the whole; as a consequence, the area has a problem in promoting trade. The products are limited in range, and many of the countries are dependent on commodities which are depressed on international markets. Communications are also difficult, given the geography of the region; but common efforts are being made to improve the infrastructure, and significant achievements have already been recorded.



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CARICOM already has a common external tariff and taxation arrangements designed to increase the flow of funds to the poorer members.

c. The Latin American Integration Area (ALADI)

In view of problems stemmed by the differences of wealth, the integration area is sub-divided into three groups: the richest; the less industrialised; and the poorest. There are eleven members, including all members of ANCOM, who came in both the less industrialised and the poorest groups; geographically ALADI stretches from Mexico in the north to Argentina and Chile in the south. The aims are modest and at present this new organisation provides a framework for what are effectively treaties between individual members.

d. Central American Common Market

This has not progressed far, due partly to political difficulties. Its future is currently in doubt.

e. The Democratic Community of Central America

Its objectives are mainly political and military.

f. The Organisation of Eastern Caribbean States

All its members also belong to CARICOM.

g. The Organisation of American States (OAS)

Is a comprehensive organisation based in the United States, which is primarily concerned with political and social issues. It consists of all countries both in South and North America.

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h. The Organisation of Central American States

Consists of all Central American states.

i. URUPABOL

(Uruguay, Paraguay and Bolivia).

The last two organisations have no specific commercial aspirations, apart from limited cooperation agreements.

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## APPENDIX B

### TRADE AND INVESTMENT POLICIES OF INDIVIDUAL ARAB COUNTRIES IMPACTING ON FOREIGN INVESTMENT AND MNCs' OPERATIONS (COMPILED BY THE AUTHOR FROM VARIOUS SOURCES)

#### ALGERIA

In 1976 a National Charter committed Algeria to a path of socialist management of the economy. There is a recent campaign for a greater role for the private sector. The recently revised text gives equal weight to cooperation with the Eastern bloc and members of the OECD.

The new hydrocarbons exploration law provides some fresh incentives to foreign companies. Foreign firms are no longer required to finance the total costs of exploration. Sonatrach, the national company, can therefore sign individual exploration permits in which it will contribute to the foreign partners' expenses.

Contracts may be awarded to foreign companies either by "mutual agreement" or by call to tender. Mutual agreement applies only when contracts are awarded within the context of an inter-government agreement.

#### BAHRAIN

Potential investors in Bahrain must obtain the permission of the Ministry of Commerce and Agriculture. Except in the case of exempt companies (ECs), foreign companies and individuals may not own more than 49% of any local business, but this requirement may be waived if a project is considered essential to the economy. Under the ECs law, joint stock companies may be set up without local participation.

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While foreign participation in the past was allowed to reach up to 49%, the new amendment (of 1988) stipulates that it may not exceed 25% and that Bahraini participation should be at least 51%. The rest can be shared by Gulf and foreign investors. However, in cases where the company was founded in Bahrain, some exceptions may be made to allow foreign investment capital to exceed 49% of the capital of Bahraini companies.

#### **IRAQ**

The state trading organisations have a monopoly over the import of certain goods such as machinery and transport equipment, building materials, foodstuffs, and household electrical equipment. State trading organisations deal directly with foreign suppliers. It is possible, however, for a foreign supplier to trade with a state importing organisation through a local agent registered with the Ministry of Commerce. Only Iraqis or other Arab nationals are permitted to register companies in Iraq. Foreign investors can, however, participate in joint ventures provided that the majority share is held by Iraqis or other Arab nationals. Only foreign companies with government contracts are allowed to set up local branches in Iraq. A fine of 10,000 Dinars will be imposed upon any branch of a foreign company operating in Iraq, in cases of delay in submitting final audited accounts of more than six months after the end of the financial year for that company.

Prior to the recent amendment issued in April 1989 to the law covering commercial agents, article 10 of law No. 11 prohibited the use of commercial agents or intermediaries in contracts with Iraqi government and socialist sector departments and popular and professional federations and organisations. Instead, such organisations were required to conclude their import contracts by dealing directly with foreign manufacturers or

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suppliers, approved branches of such companies in Iraq, or through Iraq's commercial offices abroad.

According to "Gulf Economic and Financial Report" (issued by Gulf International Bank, October 1988), the Iraq-Iran post-war important restructuring measures in Iraq included de-regulation of the labour force; the sale of several state farms, supermarkets, petrol stations, repair shops, bus companies and factories to the private sector; the introduction of incentives for state workers; greater emphasis on quality of output and on exports; and the abolition of intermediate state organisations.

#### **JORDAN**

Because of Jordan's increasing importance as a regional entrepot, the setting up of several free zones has been encouraged in recent years. Under the "Control of Foreign Business Activities Regulations", foreign partners can own only up to 49% of the share capital of a company incorporated in Jordan. It is no longer possible for overseas companies to operate within the kingdom as agents in addition to their representation work.

Jordan's industrial activities are concentrated in phosphate, cement and petroleum sectors, which are open for multinational participation. From the beginning of January 1990, the government has lifted the abolition on imports of luxury goods, including televisions, cars, videos and refrigerators, which it imposed in November 1988. The reason for this is mainly the IMF's preference for free trade. In 1989 five targets were identified for privatisation in Jordan: the largest being Royal Jordanian Airlines (valued at £500 mn); The Transport Corporation of Jordan; and The Jordan Telecommunications Corporation. The government's policy is to keep a golden share in such companies.

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## KUWAIT

Kuwait, like other GCC members, is free from exchange control and there are no restrictions on the transfer of profits or dividends abroad. New industrial members may be granted tariff protection for their first five years of operation but in practice this period can be extended. Foreign professional firms (MNCs) such as architects, consulting engineers and urban planners are permitted to practise independently in Kuwait.

Contractors and commercial or industrial companies do not have the same freedom of action. They may only conduct business in Kuwait in conjunction with Kuwait's interests in one of three ways:

- a. under the sponsorship of a registered Kuwaiti-merchant (agent);
- b. through a joint venture partnership;
- c. through a Kuwaiti-registered legal entity in which the Kuwaiti partner has at least 50% of the capital and profit distributing rights.

In Kuwait, foreigners may own small businesses. According to an Emiri Decree issued on 23 July 1989 in Kuwait Official Gazette, non-Kuwaitis may now own and run small businesses such as retail outlets and service shops, without a Kuwaiti partner. The 1980 Commercial Law prevented foreigners from owning more than 49% of any business in Kuwait. Foreigners will, however, first have to deposit funds with a Kuwaiti bank, equivalent to the value of their business. Non-Kuwaitis may also now invest in mutual funds and real estate portfolios through local banks.

The Kuwaiti Company Code does not allow foreign participation in Kuwaiti shareholding companies, unless it is authorised by special decree. All industrial projects with majority Kuwaiti shareholding are exempted from income tax for a period of ten years. Locally

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produced commodities are afforded protection by restricting imports to 75% of local requirements.

#### LEBANON

Foreign investment in Lebanon is controlled by Industrial Promotion Decrees providing incentives, including a six-year tax holiday, provided that a newly set-up venture has a capital of at least £Leb 1 million and that it produces goods not made locally before January 1971, (the aim being to encourage new industries). Decree No. 3, 1977 allows business to ensure themselves against war risk.

Both Lebanon and Jordan are poor in terms of natural resources. Generally they are both supported by service industries, the aid of wealthier Arab States and the help of the international community. Lebanon was, until its political troubles exploded in 1976, a haven for private enterprises (both local and foreign). By location and temperament, the Lebanese are business-minded people and traders. Lebanon's banking laws were as liberal as Switzerland's, if not more so. Its future will always revolve around private enterprise and international economic activities.

#### LIBYA

Libya has, since the late 1970s, abolished almost all private business. Numerous public organisations, most of which are attached to the country's Secretariats (Ministries) have been set up to administer industry, trade, agriculture and services. Some of these organisations are given a monopoly over imports of certain consumer and capital goods.

Although it is possible to use English or Italian in negotiations with Libyan officials, all correspondence with public organisations must be in Arabic. Contracts, too, must be

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drafted in Arabic version which will be referred to if a dispute arises. It is important, therefore, that the Arabic version is complete and accurate. Only public organisations can act as agents for foreign suppliers. These organisations deal directly with manufacturers, or producers, thus excluding foreign representatives, agents and other intermediaries.

## MOROCCO

Incentives for investment in industry include: guaranteed transfer of dividends and profits; guaranteed repatriation of capital (if this comes from abroad); refund of any special tax on import duties for up to seven years in the case of export orientated industries; exemption from turnover tax and from import duties on equipment designed to save water or energy or to protect the environment.

The "Morocconisation" of business sector which King Hassan II introduced in 1971, provided for the transfer of control to Moroccans to be negotiated with adequate compensation paid to the foreign investors. He indicated that "Morocconisation" was merely a desire for majority control of business activities by Moroccans, rather than complete disconnectedness from the multinational corporate system. The requirements for "Morocconisation" were that the chair of the firm, the director, the majority of the board members, and half of the shareholders of a firm must be Moroccan nationals.

Royal Decree dated 14th June 1989 intending to conquer bureaucracy, specifies that if an investment proposal is not approved within two months of the date of application and no response of refusal is received, then it will be deemed as officially and finally approved and applicants are authorised to act accordingly. This decree is meant to cut short approval procedures and remove red tape in a more decisive way.



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Regarding liberalisation of foreign trade, less than 10% of imports in early 1990 required licences, compared to 70% in 1983, while most foreign exchange controls have been eliminated. In 1988 Morocco joined the GATT on Tariffs and Trade. As far as privatisation is concerned, and in line with the IMF policies, four sugar refineries, three subsidiaries of the State Fisheries company, a civil works company and some long distance bus routes have been privatised during a three year period, extending from 1985 to 1988. In April 1988 a Commission was created to determine targets for further privatisation.

#### OMAN

The "Foreign Business and Investment Law" stipulates that investments defined as "Economic Development Projects" enjoy up to 10 years' tax exemption, provided that the company's paid-up capital is not less than RO 100,000. Companies with foreign capital participation in which Omani's own at least 35% of the capital shares, may have a capital as small as RO 30,000 to qualify for five years tax exemption. Other incentives offered to foreign investors include income and export tax exemptions, and reduction in or exemption from customs duties on imported plant, machinery and raw materials.

#### QATAR

To invest in Qatar, foreign firms and individuals must have at least one Qatari partner. Such companies must be at least 51% locally-owned, except for those whose funds are invested in "national economic development projects". Foreign contractors with government contracts are also exempted. Foreigners providing professional services such as consultants and architects for example, do not need Qatari partners providing they have a Qatari sponsor to guarantee their financial liabilities.

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A mandatory condition in all government contracts with regard to disputes, states that all official contracts and tenders must specify that only Qatari courts are competent to entertain disputes with regard to these contracts. Foreign companies are requested to adhere to these conditions.

### **SAUDI ARABIA**

Foreign companies wanting to maintain long-term links with Saudi Arabia must think of setting up joint ventures there with local partners. Foreign contractors are required by law to pass on 30% of their business there to local firms. A "Cooperative" foreign company will make sure local firms get a higher share, even if their foreign competitors may be able to offer better terms. One of the Kingdom's main aims in dealing with foreign firms (including contractors and joint venture partners) is to achieve a true transfer of technology. Industrial ventures set up with Saudi Arabian private partners qualify for free loans of up to half the venture's capital from the Saudi Industrial Development Fund, a state agency whose task is to help diversify local industry.

Saudi Arabian Basic Industries Corporation (SABIC) is the largest 331 Company in the world, according to FORTUNE Magazine Report, 1989. Its 1988 sales amounted to 2369.9 million dollars. Its profits in 1988 amounted to 982.7 million dollars, thus making SABIC the 24th largest worldwide, in terms of profits. As for assets, it was the biggest 118 company (7197.7 million dollars).

Vice-Chairman of SABIC, Mr. I. bin Salma stated to an Arab Magazine (Al-Magalla, 15th August, 1989) that,

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*"there is no need for SABIC to invest outside the Kingdom as it has chosen from the outset the joint venture with selected industrial MNCs as a mode for its industrialisation strategy."*

Foreign capital can be invested without the participation of Saudi Arabian nationals, but in such cases, it does not benefit from the various concessions which are usually offered to foreign investors under the provisions of the foreign investment code (including 10 years exemptions from all income and company taxes). The code stipulates that foreign participation must not exceed 75 per cent of the joint-venture capital. Industrial projects licensed under the code enjoy the same privileges granted to national (Saudi) capital under the "National Industries Protection and Encouragement Regulations". However, in order to be eligible, foreign capital must be invested in the "development projects" (excluding the oil extraction sector) which fall within the priorities of the Kingdom's Development Plan. It must also include an element of foreign technical expertise and know-how.

While the slogan persistently raised regarding the 100 per cent "Saudisation", is unlikely to involve nationalisation, it will entail increasing obligations in terms of local purchase and training of the Saudi personnel.

#### SUDAN

The Commercial Agents Licensing and Control Act of 1968 regulates the appointment of agents for foreign suppliers. All foreign currency payments must be made through the Bank of Sudan. Exporters normally opt for a confirmed letter of credit to secure payment in foreign currency. Private and foreign investments are promoted and controlled by the "Encouragement of Investment Act 1980" which offer several incentives including tax exemption, free transfer of capital and profits and reduced prices for certain requirements such as electricity and land.

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## **SYRIA**

Foreign investors under Decree No. 84 of 1972 entitled the "Incentive For Foreign Investors in Free Zones and Free Markets", are given attractive incentives to set up industries and assembly plants in the country's free zone areas – set up in Damascus, Aleppo, Latakia and Tartous. Only Syrian firms may be appointed agents for foreign suppliers. Most imports are made through public sector organisations which in many cases have a monopoly over certain goods. State trading organisations normally deal with foreign suppliers.

In asserting recently the climate for private foreign investment in Syria, it is safe to suggest that, although this, and other policies such as liberal legislation covering banking, tax exemptions and profit repatriation have been instituted, they have not in the recent past attracted large-scale foreign investment. However, it is most likely that more foreign investment will be forthcoming in the wake of the new political environment created following the Gulf War and Syria's reproachment with the western industrialised world.

## **TUNISIA**

Industries set up to produce exclusively for export benefit from incentives including total exemption from taxes on profits for 10 years with reduced rates of tax for a further 10 years and exemption from customs duties and taxes on capital equipment and raw materials imports. To qualify for most of these incentives foreign investors must have a Tunisian partner. In most circumstances it is illegal for foreign nationals to act as agents or representatives. Many government or semi-government organisations have a monopoly over the import of certain products although imports are made also through the private sector.

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Law No. 88-1 10 of 18th August 1988, laying down regulations for international trading companies, stipulates:-

- a. Exemption from tax on industrial and commercial profits, tax on corporate profits or tax on non-commercial profits in respect of profits generated by exporting, international trading and brokerage operations appropriate to the ratio of turnover on these operations to total turnover (enhancing export-oriented development).
- b. Investments made by non-resident investors (MNCs) shall be guaranteed and protected and the right of non-resident investors to transfer capital invested by means of foreign currency investments and the earnings generated thereby, shall be guaranteed. The guarantee relating to transfer of capital invested by means of foreign investment shall cover the actual proceeds of the transfer or liquidation.

#### UNITED ARAB EMIRATES

All foreigners working there must be sponsored by a UAE national (or company) who will also assume legal responsibility for them. A foreign company can pre-qualify to bid for tenders only after applying for registration in the Suppliers and Contractors Registry kept by the Purchase Department. On winning a public contract, a company at least 51% owned by UAE nationals, will be paid an advance sum of 25% of the contract value within one month of signing the deal, providing that it submits a bank guarantee after payment. This, of course, favours national companies, but a foreign company may benefit from this rule if it sets up a joint venture with UAE partners. Such ventures often permit the foreign partner (or partners) to undertake managerial work.

Foreign capital participation is particularly encouraged in industrial projects that require advanced technologies, or that are considered to be important for economic development.

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However, foreign capital should not exceed 49% of total equity in any joint venture project. Exemption from income tax is limited to 5 years, while required imports of machinery, equipment and raw materials are exempted from custom duties.

#### **EGYPT**

Manufacturers engaged in assembly industries are eligible for preferential reduced levy up to 70%. Through this incentive to the manufacture in Egypt, foreign companies are well placed to negotiate deals that will affect not only the actual manufacture in the fields mentioned (assembly) but also training and other related areas.

President Sadat's open-door economic policy is aimed at economic liberalisation and at encouraging the inflow of foreign investment (since mid-1970s). New laws have been passed to allow domestic and foreign private participation in sectors which were previously the domain of the state. Whereas the private sector accounted for only 23 % of total planned investment between 1982/83, and 1986/87, the private sector share of investment over the five years to 1991/92 is projected at 38% (according to EIU, January 1988). Arab and foreign funds invested in the Egyptian free zones are exempt from legacy tax and inheritance duty. Such funds are well protected by law through the introduction of specific provisions in foreign investment codes, such as the impermissibility of nationalisation, confiscation, seizure or the imposition of custodianship.

#### **YEMEN ARAB REPUBLIC**

The government has guaranteed the freedom of investment by individuals as well as companies, whether Yemenis or foreigners, in all the economic projects which aim to develop a national economy. Foreign capital is to be treated exactly like national capital with all the privileges attached thereto. The government may not confiscate or nationalise

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any project properly authorised. However, in exceptional cases where such projects are nationalised, reasonable and just compensation must be paid and the transfer of such payments will be allowed to be made overseas to the extent of the size of the foreign capital imported. Local private investors have been instrumental in attracting foreign participants in many of their projects. Investment guarantee agreements giving protection to foreign investors have been signed with several countries.

#### **PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN**

All foreign exchange transactions must be made through the National Bank of Yemen. Only nationals can be appointed agents for foreign suppliers. A law providing good incentives to foreign investors was issued in late 1982. Incentives include exemption from local taxes and customs duties and free transfer of capital and profits. Foreigners working in Yemen PDR are permitted to transfer abroad up to 70% of their taxed earnings.

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**APPENDIX C**

**SAMPLES OF LETTERS AND QUESTIONNAIRES  
REGARDING THE MAIN FIELD STUDY UNDERTAKEN IN THE GULF**

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GEILI M FARAH  
26 Highview  
Byron Way  
NORTHOLT  
Middlesex  
UB5 6BL  
U.K.

March 1990

Dear Sirs

THE MULTINATIONALS AND THE ARAB WORLD

I am currently undertaking an enquiry into the problems associated with developing better trade and investment links between the multinational companies and the Arab countries. The question of technology transfer and training through joint ventures is highly featured and occupies a central position in this enquiry. This work is being undertaken in conjunction with the postgraduate research programme at Henley, The Management College and Brunel University, U.K.

The results of this enquiry should, I hope, provide valuable case material for improving managerial education in the area of international investment and trade. The enquiry also provides the basis for my completion of a doctorate degree.

I should be grateful if you would complete the enclosed questionnaire and return it as soon as you can. The responses of individual companies and persons will, of course remain confidential and be aggregated with other materials.

Yours faithfully



Geili M Farah(Mr)

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The Research and Doctoral  
Programme  
Henley - The Management College  
and  
Brunel - The University of West London



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Greenlands, Henley-on-Thames, Oxon RG9 3AU  
Telephone: Henley-on-Thames (0491) 571454  
Telex: 849029 HENLEY G Fax: (0491) 571635

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TO WHOM IT MAY CONCERN

This is to confirm that Mr G M Farah is registered as a part-time research student for a PhD on the above programme. We would be grateful for any assistance that you are able to give him by the completion of questionnaires or the provision of other information relevant to his research concerning Multinational Companies operating in the Arab world.

Signed.....  


Mr J Hutton  
Visiting Fellow and Tutor - International Studies

15.03.90

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G.M. Farah,  
Henley, The Management College,  
(Brunel University),  
Henley-on-Thames,  
Greenland,  
Oxon RG9 3AU  
U.K.

Questionnaire

Sample: Arab companies cooperating with multinational companies.

1-Name of the company:.....

2-Year of commencement of business:.....

3-Nature of business activity:

(a) export

(b) import

(c) manufacturing

(d) consultancy/service

(e) contracting

(f).....

4-% Number of your company employees :

	Arab nationals	non-Arab foreigners
(a) managerial		
(b) middle and technical		
(c) workers		

**5-Nature of partnership/cooperation with three main foreign companies:**

(a) if joint venture, what is the percentage proportion of equity participation (EP) and managerial control (MC) :

Name of foreign company	your company		the foreign company	
	EP	MC	EP	MC
1 .....				
2 .....				
3 .....				

(b) flexible arrangements: (please tick as appropriate)  
 (i) management contract  
 (ii) buy-back deal  
 (iii) production sharing  
 (iv) other forms

**6-Management development :**

How is your company's target to develop local skills met by your foreign partners:

- (a) flexibility in providing local management
- (b) management through parent company only
- (c) management dominated by Arab specialists
- (d) product-oriented managers
- (e) region-oriented managers
- (f) local management development is a domestic issue to which foreign partners have no contribution or say
- (g) .....

**7-Who makes the investment decisions involving financial commitments in your company?**

- (a) general manager on his own discretion
- (b) general manager acting on family advice
- (c) the decision is made on professional advice



- (d) left to the banker or stockbroker
- (e) left to shareholders
- (f) board of directors
- (g).....

8-How do you envisage the positive impact on the Arab countries of foreign multinationals' activities in the region in terms of:

	great	fair	none (negative)	neutral (no effect)
(a) exports				
(b) jobs				
(c) capital investment				
(d) technology transfer				
(e) research facilities				
(f) managerial and technical training				
(g) structure of economy				
(h) competitiveness of economy				
(i) appropriate exploitation of domestic resources				
(j).....				

9-Is the impact of the multinationals positive or negative in respect of the following:

	positive	negative	neutral
(a) changing work practices			
(b) changing life-style (culture, traditions, etc,)			
(c) access to capital			



	positive	negative	neutral
(d) productivity			
(e) net effect on tax returns (taxes paid vs remittances)			
(f) national sovereignty			
(g) local technology			
(h).....			

10-Which of the following strategies does your company pursue to avoid over-dependence on foreign companies:

- (a) policies geared to improve bargaining power
- (b) regulation of the conduct of the multinationals
- (c) emphasis on equity participation
- (d) indigenisation of management and technical personnel
- (e) restriction on the areas in which the multinationals are allowed to operate
- (f) procurement of technology through licensing ,direct purchase and/or management contracts
- (g) requiring exporting as a condition for importing
- (h) systematic favouring of domestic enterprises over foreign subsidiaries
- (i) reliance on local capital/technology
- (j) threat of nationalisation or confiscation
- (k) erection of barriers and restrictions against imports

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11-What are the advantages of appointing more local managers?  
please indicate significance by allocating numbers (1-5):

- (a)elimination of language and other local adjustment problems
- (b)understanding of local feelings about sensitive and politicised issues and responding with appropriate policies
- (c)less expensive than expatriates
- (d)provision of greater employment continuity

12-What are the <sup><li></sup>advantages?

- (a)problems of the gap in management understanding between parent company and it's overseas subsidiaries
- (b)limitation in career development opportunities for successful managers in the parent company
- (c)risk of tendency for federation of independent national units with only nominal links to corporate headquarters
- (d)not suitable for technology-based multinationals

13-In order to achieve the transfer of technology,what policies does your company pursue:

- (a)using less sophisticated, easily-operated technology
- (b)requiring contractual commitment of licensor to licensee training and permission of horizontal transfer of technology by the licensee
- (c)extensive training of local staff, domestically and abroad
- (d)enhancing research & development(R & D) programmes
- (e)resorting to licensing as opposed to outright purchasing of technology
- (f)offering more incentives to motivate engineers,scientists and technology-related staff members
- (g).....

---

14-What are the technological needs mostly appropriate to your business:

- (a)capital-intensive technology
- (b)labour-intensive technology
- (c)export-oriented manufacturing technology
- (d)import-substitution manufacturing technology
- (e)agricultural technology
- (f)intermediate manufacturing technology with low capital intensity
- (g)light manufacturing technology
- (h)upgrading of indigenous managerial and technical talent
- (i).....

15-How possible is the diffusion of imported foreign technology :

- (a)fairly possible
- (b)partially possible
- (c)impossible

16-Apart from technology transfer and management training, what advantages do you envisage the multinationals are capable of offering that are not readily achievable by the Arab firms either on national or regional level

.....  
.....  
.....

17-In your direct/indirect contacts with foreign multinational companies, to what degree have they satisfied your objectives?

- (a)high
- (b)moderate
- (c)low
- (d)none

---

Thank you for you cooperation.

Please return the completed questionnaire to the following address:

G.M. Farah,  
28 Highview,  
Byron Way, Northolt,  
Middlesex UB5 6BL,  
U.K.

C(i)-8



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G. M. Farah,  
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(Brunel University),  
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U.K.

QUESTIONNAIRE

SAMPLE: MULTINATIONAL COMPANIES OPERATING IN THE ARAB WORLD.

- 1- Name of Company: .....
- 2- Type of business activity in the Arab World:.....
- (a) exporter
  - (b) importer
  - (c) direct investment (production facilities)
  - (d) consultancy
  - (e) other types
- 3- Channels of business:
- (a) agency office (local agents)
  - (b) joint venture
  - (c) own subsidiary
  - (d) .....
  - (e) .....
- 4- What are the main three Arab countries with which your company is involved and the year of commencement of business
- (a) .....
  - (b) .....
  - (c) .....

5- If you are involved in direct investment in the Arab World, please give details of the number of employees at each level of your company in the Arab country/countries

	N a t i o n a l i t y o f S t a f f			
	Arab Host country	Parent country	Third Country	
			Arab	Non-Arab
(a)members of board of directors				
(b)staff in managerial levels				
(c)technicians and their assistants				
(d)engineers				
(e)clerical staff				
(f)workers				

6- Volume of business:(total capital invested in the Arab country/countries)

- (a)less than \$1 million
- (b)1\_\_\_\_\_10 million
- (c)11\_\_\_\_\_20 million
- (d)21\_\_\_\_\_50 million
- (e)51 + million

7- If your company is involved in direct investment in any of the Arab countries ,what is the nature of partnership :

- (a)equity stake
- (b)management contract
- (c)buy-back deal
- (d)production sharing
- (e)other types (please explain)

---

8- If you are a licensor to one or more of the Arab countries/companies: what are your returns on licensing:

- (a) initial fees
- (b) ongoing royalties
- (c) management services
- (d) once-only fees
- (e) profit share
- (f).....
- (g).....

9- (Please tick as appropriate)  
The positive effects of your business operations in the Arab World include:

- (a) creation of new jobs
- (b) promotion of exports
- (c) local added value
- (d) enhanced efficiency
- (e) provision of foreign capital
- (f) payment of taxes
- (g) provision of training to local nationals
- (h).....

10- The contribution of the Multinationals to the development of the Arab countries depends on many factors. In your case, what of the following factors are more important than the others (please place numbers from 0-6 to indicate significance; 6 being more significant than 0):

- (a) host government policy (particularly that specifically directed to the Multinationals)
- (b) the environment for disseminating new technology management skills, etc.
- (c) domestic and international market structure
- (d) the type of foreign investment

- (e) the strategy of your company
- (f).....
- 11- What are the advantages of appointing more local managers in your joint venture(s) in the Arab countries? (please rank from 1-4 to indicate the degree of importance):
- (a) elimination of language and other local adjustment problems.....
  - (b) understanding of local feelings about sensitive and politicised issues and to responding with appropriate policies.....
  - (c) less expensive than expatriates.....
  - (d) provision of greater employment continuity.....
  - (e).....
- 12- What are the disadvantages?
- (a) problems of gap in management understanding between parent company and its overseas subsidiaries.
  - (b) limitation in career development opportunities for successful managers in the parent company.
  - (c) risk of tendency for federation of independent national units with only nominal links to corporate headquarters.
  - (d) not suitable for technology-based multinationals.
- 13- What in your view are the negative effects of technology transfer to the Arab countries? (please tick as appropriate):
- (a) easy diffusion to foreign competitors.
  - (b) improper use - inefficient management.
  - (c) high proportion of unexploited capacity of technology.
  - (d) low return compared to high cost.
  - (e) impediment to development of local technology.
  - (h).....
- 14- What measures (if any) of local control are designed by Arab host countries to protect local technology and reduce

payments to foreign technology:

(a)licensing agreements rather than direct investment.

(b)restrictions even on licensing agreements through :

i-close scrutiny to ensure that indigenous technologies are not being excluded.

ii-to apply prescribed royalty rates.

iii-to reduce to the minimum possible the life of the agreement.

iv-to permit horizontal transfer of technology by the licensee

15- Is cooperation typically smoother with state enterprises or private sector in the Arab countries?

(a)state enterprises.

(b)private sector.

(c)if (a),what in your view are the underlying factors:

(i)private enterprises are less flexible than the public sector enterprises

(ii)difficulties in dealing with family-oriented groups

(iii)problems in transfer pricing

(iv)private enterprises are usually sleeping partners

(v)public sector is less precautionous about government guidelines;hence,more decisive

(d)if (b),why?

(i)private sector is more flexible-less bureaucratic

(ii) " " " " motivated

(iii)" " " result-oriented, more business-like

(iv).....

16- Which of the following strategies do you think the Arab host countries pursue to undermine their over-dependence on foreign partners:

(a)improve their own bargaining power.

(b)regulation of the conduct of multinationals.

- (c) emphasis on equity participation.
- (d) indigenisation of management and technical personnel.
- (e) restrictions on the areas in which foreign multinationals are allowed to operate.
- (f) procurement of technology through licensing, direct purchase and management contracts.
- (g) requiring exports as a condition for importing.
- (h) systematical favouring of domestic enterprises over foreign subsidiaries.
- (i) reliance on local capital and technology.
- (j) threat of nationalisation or confiscation.
- (k) erection of barriers and restrictions against imports.

17- If an Arab country opts for a socialist path of development, can it achieve economic development without relying on foreign multinationals ?

- (a) Yes
- (b) No
- (c) If Yes, how and what alternatives are there :
  - (i) reliance on local technology and local capital .
  - (ii) cuts in imports of non-essential goods and services
  - (iii) establishing own multinationals either on Pan-Arab or world-wide levels.
  - (iv) emphasis on export-oriented policies.
  - (v) developing and improving on indigenous technical capabilities.
  - (vi) strengthening role of state.

18 In descending order of significance, please choose from the following, the reasons behind your choice to invest (or trade) in the Arab World (please place numbers from 1 to 10 to indicate significance)

- (a) an important market in its own right.....
- (b) a gateway to other Arab countries.....
- (c) advantage of familiar commercial and legal structure.....

- 
- (d)cheap labour force.....
  - (e)cheap raw material/s including energy.....
  - (f)advantageous tax system.....
  - (g)capital loans and grants.....
  - (h)freedom of capital movement and repatriation of profits..
  - (i)ease of restriction on industrial licensing.....
  - (j)preferential purchasing of local products (and services)  
by local governments.....
  - (k)other reasons.....

Thank you for your cooperation.

Please return the completed questionnaire to the following address:

G.M. Farah,  
26 Highview,  
Byron Way, Northolt,  
Middlesex UB5 6BL,  
U.K.

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(Brunel University),  
Henley-on-Thames,  
Greenlands,  
Oxon RG9 3AU  
U.K.

QUESTIONNAIRE

Sample: To be used as a guideline for direct interviewing  
professionals, academics, public figures and government officials.

- 1- Name:.....
- 2- Job title:.....
- 3- area of specialisation:.....
- 4- What in your opinion is the impact on the Arab countries of the  
foreign multinational's activities in the region in terms of the  
following :  
(please indicate by: positive, negative or neutral)  
  - (a) exports
  - (b) imports
  - (c) jobs
  - (d) capital investment
  - (e) technology transfer
  - (f) promotion of research capabilities
  - (g) management of technical training
  - (h) structure of economy
  - (i) appropriate exploitation of domestic resources
  - (j).....



- 
- 5- Is the impact of multinational companies positive or negative in respect of:
- (a) changing work practices (culture, traditions, etc.)
  - (b) productivity
  - (c) net effect on tax returns (taxes paid vs remittances abroad)
  - (d) national sovereignty
  - (e) domestic technology
- 6- How best can the Arab world realise the transfer of appropriate technology:
- (a) emphasis on less sophisticated, easily-operated technology
  - (b) requiring contractual commitment of licensor to licensee's training and permission of horizontal transfer of technology by the licensee
  - (c) extensive training of local staff, domestically and abroad
  - (d) enhancing R&D programmes
  - (e) resorting to licensing as opposed to outright purchasing of technology
  - (f) offering appropriate incentive schemes to motivate engineers, scientists and technology related staff members
  - (g).....
- 7- What strategies could the Arab countries adopt to limit the degree of their dependance on foreign multinationals:
- (a) improvement of bargaining power
  - (b) regulation of the conduct of the multinationals
  - (c) emphasis on equity participation (to ensure that partnerships are based on mutual interests)
  - (d) indigenisation of management and technical personnel
  - (e) restrictions on the areas in which foreign companies are allowed to operate
  - (f) procurement of technology through licensing, direct purchase and/or management contracts

- 
- (g) requiring exporting as a condition for importing
  - (h) systematical favouring of domestic enterprises over foreign subsidiaries
  - (i) reliance on local capital/technology
  - (j) threat of nationalisation or confiscation
  - (k) erection of barriers and restrictions against imports
- 8- For protection of local technology and reduction of payments to licensors, the following measures can be taken:
- (a) close scrutiny to ensure that indigenous technologies are not being excluded
  - (b) to apply prescribed royalty rates
  - (c) to reduce to the minimum, the life of licensing agreement
  - (d) to permit horizontal transfer of technology by the licensee
- 9- How important to you is each of the following investment criteria (in a typical Arab country):
- (a) security
  - (b) capital growth
  - (c) ease of access to capital
  - (d) industrial diversification
  - (e) geographical diversification
  - (f) profitability and return on investment
  - (g) supply assurance of major essential materials
  - (h) stable market for products
  - (i).....
- 10- In the event of joint venture of an industrial investment between local (Arab) and foreign undertakings, what in your view is the preferred form of partnership:
- (a) equity stake

- 
- (b)management contract
  - (c)buy-back deal
  - (d)production sharing
  - (e)other types
- 11- In a typical Arab investment undertaking (industrial or trading) who do you think makes the investment decisions involving financial commitments:
- (a)general manager on his own discretion
  - (b)general manager acting on family advice
  - (c)decision made on professional advice
  - (d)left to the banker or stockbroker
  - (e)left to shareholders
  - (f)board of directors
- 12- Main factors contributing to the failure of some Arab companies (please tick as appropriate):
- (a)investment made in the wrong activity
  - (b)insufficiently trained managers
  - (c)politically motivated investment decisions
  - (d)excessive replication leading to over investment
  - (e)insufficient feasibility studies
  - (f)problems attributable to external (foreign) factors i.e. problems associated with cooperation with foreign multinationals
  - (g)other factors

- 
- 13- What are the main objectives implicit in the foreign expansion of some public sector enterprises of the Arab countries, i.e. Kuwait:
- (a)undermining dependance on foreign companies
  - (b)promotion of political ties
  - (c)diversification
  - (d)need to acquire foreign exchange
  - (e)increase market size (limited local market)
  - (f)gain necessary expertise particularly in technology management; a step towards technology transfer at a later stage
- 14- The Arab export free zones; i.e. Egypt and Dubai have shifted emphasis from import-substitution objectives in favour of exports; hence, close integration with the World Economy:
- (a)agree
  - (b)disagree
  - (c)positive development
  - (d)negative development
  - (e)neutral effect
- 15- Through their multinationals the western countries have the tendency to limit their real investments in the third world while encourage expansion of service industry; why:
- (a)a deliberate strategy to keep them under developed
  - (b)the service sector is risk-free and highly profitable investment
  - (c)fear of competition with their own products and fear of reduction of the size of their markets in the third world
  - (d)to avoid technology diffusion
  - (e)other reasons
- 16- If an Arab country has to choose between accommodating foreign direct investment on its soil and opening its market to import the product/service from the respective foreign multinationals; which choice is more akin to the interest of the Arab country:
- (a)FDI (with no local participation)
  - (b)imports

17- The "hegemonic Stability Theory" states that cooperation among nations requires the presence of a larger, more powerful country to exercise a leadership necessary to enforce cooperation between itself and the other countries:

(a) do you agree that such theory could well apply to a reasonable degree of success among the nations of the Arab world:

(i) Yes

(ii) No

(b) if Yes; which of the following Arab countries do you propose to assume the leadership role:

(i) Egypt

(ii) Saudi Arabia

(iii) Iraq

(iv).....

(c) if No; what alternative strategy is likely to produce desired results:

(i) collective action on Pan-Arab level

(ii) cooperation between existing regional groupings; i.e. GCC, ACC, etc.

(iii) national identities to seek cooperation as they deem appropriate

(iv) cooperation between economically like-minded countries within the Arab world

(v) cooperation between politically like-minded

(vi) other basis for cooperation

18- How do you view the following government policies: (for, heavily / negatively)

(a) limitation on the employment of foreign nationals

(b) frequent changes of investment regulations

(c) restrictions on repatriation of capital/profits by foreign multinationals

(d).....

19- In general, to what degree have the foreign multinationals satisfied the economic development objectives of the Arab world:

- (a) high
- (b) moderate
- (c) low
- (d) none

Thank you for your cooperation.

Please return the completed questionnaire to the following address:

G.M. Farah,  
26 Highview,  
Byron Way, Northolt,  
Middlesex, UB5 6BL,  
U.K.

يحيى فخر الدين ابي حيدر - تيمونيه تريفه 2 ابريل  
خاتمة ان تطابقه كمسار ترفنا استراتيجيات اقليمية  
ولم يمارس لها كذا الاستطلاع . ان اجنوبه لامة  
المر تاسد بمرارة اقليمية لينة انزواج . مرسلات  
( املنا ارسد ان تمنة ) نتموه حوله الاصلاح والتغيير :-

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**APPENDIX D**

**ADDITIONAL TABLES**

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TABLE D1

## ARAB AGRICULTURAL IMPORTS, 1984-86 (\$mn)

	1984	1985	1986
Algeria	2,419	2,519	2,300
Egypt	4,084	4,072	3,976
Libya	1,525	1,311	1,200
Morocco	1,300	1,230	1,240
Tunisia	596	520	610
<b>North Africa</b>	<b>9,924</b>	<b>9,652</b>	<b>9,326</b>
Bahrain	224	208	228
Iraq	3,085	2,888	2,712
Jordan	700	685	550
Kuwait	1,440	1,285	1,095
Lebanon	601	560	530
Oman	435	485	486
Qatar	227	218	225
Saudi Arabia <sup>a</sup>	5,357	4,748	4,644
Syria	905	942	830
UAE	1,380	1,240	1,187
North Yemen	809	725	595
South Yemen	240	280	310
<b>Middle East</b>	<b>15,403</b>	<b>14,264</b>	<b>13,392</b>
<b>TOTAL</b>	<b>25,327</b>	<b>23,916</b>	<b>22,718</b>

a: The figure for Saudi Arabia excludes cigarettes, non-alcoholic beverages, transport trade and high value processed foods that the kingdom normally includes in its agricultural trade figures.

Source: The Middle East & North Africa, Situation and Outlook Report, USDA 1986.



TABLE D2

## ARAB IMPORT RESTRICTIONS

Country	Exchange Controls	Import Surcharges	Advance Deposits	Multiple Exchange Rates
Algeria	Yes	No	No	No
Bahrain	No	No	No	No
Egypt	Yes	Yes	Yes	Yes
Iraq	Yes	Yes	No	No
Jordan	No	Yes	No	No
Kuwait	No	No	No	No
Lebanon	No	Yes	No	No
Libya	Yes	Yes	No	No
Morocco	Yes	No	Yes	Yes
Oman	No	No	No	No
Qatar	No	No	No	No
Saudi Arabia	No	No	No	No
Sudan	Yes	Yes	Yes	Yes
Syria	Yes	Yes	Yes	Yes
Tunisia	Yes	No	No	No
UAE	No	No	No	No
North Yemen	No	Yes	Yes	No
South Yemen	Yes	Yes	No	No

Source: IMF Exchange Arrangements and Exchange Restrictions Annual Report, 1986, Washington, pp.550-554.

TABLE D3 MAJOR KUWAIT INDUSTRIAL COMPANIES AND FOREIGN COMPANIES WITH WHICH THEY HAVE BEEN ASSOCIATED BY COUNTRY AND TYPE OF ASSOCIATION

KUWAITI COMPANY NAME & COUNTRY OF FOREIGN COMPANY	TYPE OF ASSOCIATION	AREA OF WORK	PLANT DIVISION
<b>1. PETROCHEMICAL INDUSTRIES COMPANY*</b>			
1. Foster Wheeler (U.S.A.)	Turnkey Contract: 1. Design & Engineering 2. Process license License	Ammonia-1 Urea-1 Ammonia-1 (gas reforming) Ammonia 1 (Conversion Process) Sulphuric Acid Unit Ammonium Sulphate Unit	(Plant A, Fertilizer Division)
2. Casale (Italy)	Process license Sub-contractor (Construction) Turnkey contract, (Process license, Design & Engineering)	Ammonia 2 & 3 Urea 2 & 3 Ammonia 2 & 3	(Plant A, Fertilizer Division) (Plant A, Fertilizer Division) (Plant B, Fertilizer Division)
3. Sinopec Carbo (U.K.)	Process license	Urea 2 & 3 Ammonia 2 & 3	(Plant B, Fertilizer Division)
4. Siam Carbon (Holland)	Sub-contractor (Construction)	Ammonia 2 & 3 Urea 2 & 3	(Plant B, Fertilizer Division)
5. Contracting & Trading (Lebanon)	Turnkey contract, (Process license, Design & Engineering)	Ammonia 2 & 3 Urea 2 & 3	(Plant B, Fertilizer Division)
6. Haldrup Topsoe (Denmark)	Process license & Design (expansion) Process license & Design (A new line) Turnkey Construction (multi contractor) Sub-contractor	Ammonia 4 4th Ammonia line 4th Ammonia line	(Salt & Chlorine plant) (Salt & Chlorine plant)
7. Siam Carbon (Holland)	Sub-contract (Supply & equipment)		
8. Consolidated Contractors Co. (CONCO), Lebanon	Sub-contract (Supply & equipment) Engineering & Construction		
9. Babcock (U.K.)	Process license & Design (expansion) Construction (expansion)		
10. Lurgi (W. Germany)	Process license & Design (A new line)		
11. Chiyoda Chemical Engineering Construction Co. (Japan)	Turnkey Construction (multi contractor) Sub-contractor		
12. Siam Carbon (Holland)	Sub-contractor		
13. Ceyra Rust (Sweden)	Consultant (Studies & Management)		
14. Haldrup Topsoe (Denmark)	Main process license & Engineering Construction		
15. Technal (Italy)			
16. Navipol (Italy)			
17. Chicago Bridge (U.S.A.)			
18. GHEM Systems (U.S.A.)			
19. TONGYAMA SODA (Japan)			
20. Hitachi (Japan)			

Cont'd.....

TABLE D3 MAJOR KUWAIT INDUSTRIAL COMPANIES AND FOREIGN COMPANIES WITH WHICH THEY HAVE BEEN ASSOCIATED BY COUNTRY AND TYPE OF ASSOCIATION (Continued)

KUWAIT COMPANY /NAME & COUNTRY OF FOREIGN COMPANY	TYPE OF ASSOCIATION	AREA OF WORK	PLANT DIVISION
2. KUWAIT METAL PIPE INDUSTRIES CO.	1. Salzgitter AG (W. Germany) 2. Americas Petroleum Institute (U.S.A.)	Technical cooperation. (Technical advice; technicians for supervision, training of Company's technicians in factories of the Company in W. Germany). Agreement was signed on May 1968 and was terminated in the early 1970s. An agreed upon annual fee was paid during the agreement. Authorization to the official monogram on spiral weld-line pipes. Since April 1970. An agreed upon fee is paid for the authorization.	
3. NATIONAL INDUSTRIES CO.	1. Henkel (West Germany)	License for the Company's detergent factory to produce DIXAN and PERSIL.	
4. REFRIGERATION INDUSTRY & COLD STORAGE.	1. White Wasinghouse (U.S.A.) 2. York (U.S.A.)	Technical Assistance in 1976. License for manufacture of central air-conditioning units, since 1979.	
5. KUWAIT CHEMICAL MANUFACTURING CO.**	1. Syres D.S.M. (Holland) 2. Not named (Switzerland)	Agreement to acquire right of know-how and technology, 1986. Turnkey contract for construction of the factory in 1980.	
6. KUWAIT MELAMINE INDUSTRIES CO.***	1. Chemical (US) with Eurotechnica (Italy)	License to provide technology for the Company's plant	

\* All modifications and/or technical problems which may be encountered after commission are referred to the Process Licensor and Designer for advice.  
Plant A was set up in the period 1964-1967.  
Plant B was set up during 1969-1972.  
Expansion of Urea I in 1974; 4th Ammonia line during 1979-1985.

\*\* Trial commercial production started 1983.

\*\*\* Commercial production started 1980. A feasibility study following technical and financial difficulties which faced the company revealed the infeasibility of the continuation of the company's activities. Accordingly, the general assembly of the company passed a resolution approving the liquidation of the company, effective 11/7/1985.

**TABLE D4 INVESTMENT TARGETS UNDER ARAB DEVELOPMENT PLANS TO THE 1990s.**

Country	Period	Growth Rate Target %	Total Investment	\$ bn Equivalent
Algeria	1985-89	6.6	AD 550 bn	118
Egypt	87/88-91/92	5.8	£E 46.5 bn	21 <sup>a</sup>
Jordan	1986-90	5.0	JD 3,175 mn	9
Morocco	1988-92	4.0	Dh 204 bn	26
Oman	1986-90	-	OR 2.25 bn	6
Saudi Arabia	1985-90	4.0	SR 500 bn	133
Syria	1986-90	-	SE 101.5 <sup>b</sup> bn	26
Tunisia	1987-91	3.5	TD 10.7 bn	14
North Yemen	1986-90	-	YR 38.0 bn	4
South Yemen	1988-92	-	YD 583.0 bn	2

a = at free market exchange rate

b = 1981-1985 allocation; 86-90 total will be higher in real terms.

Source: EIU Compilation from individual plan documents/announcements (EIU - Euro-Arab Trade, Prospects to the 1990s, January 1988, p.31.)

TABLE D5 SHARE OF ECONOMIC SECTORS IN GDP OF THE ARAB STATES, 1984

	1		2		3		4		5		6		7		8		9		10		11	
	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%
Algeria	3096.62	5.9	13917.54	26.5	6144.72	11.7	735.27	1.4	7437.70	14.2	7100.14	13.9	840.30	1.6	2151.24	4.1	7247.62	13.6	3633.81	6.9	51519	6.9
Bahrain	56.24	1.1	1002.15	19.6	593.11	11.6	61.36	1.2	465.28	9.1	567.54	11.1	797.63	15.6	608.45	11.9	674.92	13.2	337.46	6.6	5,113	6.6
Egypt	5651.11	16.7	5008.17	14.8	4466.56	13.2	216.87	0.7	1468.92	4.4	4165.23	12.9	1793.47	5.3	2608.64	8.3	5211.21	15.4	2608.64	8.3	33,839	8.3
Iraq	4499.67	9.8	6386.11	18.7	2846.73	6.2	91.83	0.2	1076.79	22.6	5142.48	11.2	872.39	1.9	4132.35	9.0	7759.64	16.9	1607.03	3.5	45,915	3.5
Jordan	234.96	5.5	1623.4	3.8	593.81	13.9	76.90	1.8	350.30	8.2	666.43	15.6	410.02	10.3	452.83	10.6	798.86	18.7	495.55	11.6	4,272	11.6
Kuwait	113.66	0.5	11525.12	50.7	1409.38	6.2	136.39	0.6	1022.94	4.5	1886.76	8.3	1113.87	4.9	704.69	3.1	3409.80	15.0	1409.38	6.2	22,732	6.2
Lebanon	230.86	8.5	-	0.0	353.06	13.0	146.66	5.4	92.34	3.4	768.63	26.3	209.13	7.7	100.49	3.7	510.36	21.0	244.44	9.0	2,716	9.0
Morocco	791.14	2.8	12290.93	43.5	1327.99	4.7	282.55	1.0	2825.50	10.0	1751.81	6.2	1130.20	4.0	1582.28	5.6	1214.97	4.3	4927.88	17.6	28,255	17.6
Oman	1970.20	16.9	524.61	4.5	2168.39	18.6	258.48	2.2	839.18	7.2	1597.15	13.7	34.97	0.3	547.93	4.7	2972.79	25.5	746.11	6.4	11,658	6.4
Qatar	260.91	3.0	4409.35	50.7	234.82	2.7	86.97	1.0	591.39	6.8	1000.16	11.5	69.58	0.8	234.82	2.7	1313.25	15.1	487.03	5.6	6,697	5.6
Saudi Arabia	60.67	0.9	3087.38	45.6	397.72	5.9	33.71	0.5	478.61	7.1	451.65	6.7	121.34	1.8	141.56	2.1	1604.36	23.8	397.72	5.9	6,741	5.9
Sudan	3267.06	3.0	35719.86	32.6	8085.75	7.4	-	0.0	16770.91	15.4	8929.96	8.2	4791.69	4.4	6643.02	6.1	20017.97	18.4	4682.79	4.3	108,902	4.3
Syria	2544.00	31.8	8.00	0.1	560.00	7.0	132.00	1.9	352.00	4.4	1566.00	19.6	80.00	1.0	680.00	8.5	868.00	13.1	1168.00	14.6	8,000	14.6
Tunisia	3929.06	19.5	1551.47	7.7	2276.84	11.3	40.29	0.2	1269.39	6.3	4573.82	22.7	947.00	4.7	1470.68	7.3	3425.33	17.0	664.92	3.3	20,149	3.3
U.A.E.	1056.07	13.2	816.29	10.4	457.56	12.2	94.19	1.2	470.94	6.0	1412.82	18.0	39.25	0.5	423.85	5.4	1222.29	15.7	1385.73	17.4	7,649	15.7
Yemen	307.52	1.1	13642.53	48.6	2488.08	8.9	559.12	2.0	2851.51	10.2	2739.69	9.8	670.94	2.4	1425.76	5.1	3270.85	13.7	-	0.0	27,956	13.7
North Yemen	654.26	20.6	38.11	1.2	2477.73	7.8	38.11	1.2	228.67	7.2	457.34	14.4	45.75	2.7	127.04	4.0	733.66	23.1	565.33	17.8	3,176	17.8
South Yemen	98.59	9.6	1.03	0.1	126.32	12.3	13.35	1.3	102.70	10.0	133.51	13.0	20.54	2.0	104.75	10.2	243.39	23.7	182.81	17.8	1,027	23.7
Somalia	894.89	42.9	8.34	0.4	110.56	5.3	16.69	0.8	64.67	3.1	196.08	9.4	133.50	6.4	146.02	7.0	235.72	11.3	279.52	13.4	2,086	11.3
Djibouti	16.44	2.7	0.0	0.0	33.49	5.5	17.05	2.8	38.37	6.3	197.32	32.4	28.01	4.6	43.24	7.1	150.42	24.7	84.65	13.9	609	24.7
Mauritania	197.96	26.5	56.03	7.5	49.50	6.6	3.74	0.5	22.41	3.0	52.29	7.0	-	-	63.49	8.5	224.85	30.1	80.78	10.8	747	30.1
TOTAL	29,913.89	7.4	109,355.36	27.1	35444.96	8.8	3079.53	0.8	48160.72	12.0	45758.81	11.4	14219.58	3.5	24595.37	6.1	63200.26	15.7	26159.58	6.5	402,958	6.5

Notes: 1. Sub-totals of economic sectors are calculated on percentage share. Due to approximation (to one decimal), the sum of sub-totals are slightly different from the Grand Total of GDP (402,958 \$m).

2. Service Sectors = columns 6, 7 and 9.

Source: Compiled by the author from various sources, mainly:

- "Arab Affairs", London - Winter 1966/67, pp. 183-193.
- "Arab Affairs", London, Spring 1967, pp. 199-208.
- "Arab Affairs", London, Summer/Autumn 1967, pp. 191-201.
- "Arab Affairs", London, Winter 1967/1968, pp. 218-228.

**TABLE D6 DEVELOPING COUNTRIES:  
SUMMARY OF TRADE MEASURES,  
OCTOBER 1985 - APRIL 1988**

	Tariffs			Nontariff Measures			Memorandum <sup>1</sup>
	Up	Down	Mixed	Tightened	Liberalized	Mixed	
Argentina			X			X	
Bangladesh			X		X		
Brazil		X		X			
Chile		X				X	
China			X	X			
Colombia					X		
Côte d'Ivoire	X						
Egypt		X			X		C
Gabon				X			
Ghana					X		
India			X		X		
Indonesia			X		X		S,C
Kenya			X				
Korea		X			X		
Malaysia		X					
Mexico		X				X	S,C
Morocco		X			X		
Nigeria			X		X		C
Pakistan			X		X		
Peru		X		X			
Philippines			X		X		S
Sri Lanka					X		
Taiwan Province of China		X			X		
Thailand		X			X		
Singapore		X					
Tunisia		X		X			
Turkey			X		X		
Uruguay		X					C
Yugoslavia				X			
Zaire			X				C
Zambia					X		
Total	1	13	11	6	16	3	...

Source: General Agreement on Tariffs and Trade, Review of Developments in the Trading System (Geneva), various issues.

<sup>1</sup> C = Comprehensive tariff reform; S = Substitution of tariffs for quantitative restrictions.

**TABLE D7 EMPLOYMENT CONTRIBUTION BY FOREIGN AND JOINT-VENTURE COMPANIES IN OMAN BY END OF 1984.**

Employment	Type of Ownership		Total		Grand Total
	100% Foreign	Foreign Joint Ventures	Non-Omani	Omani	
Omanis	1,907	5,038	6,945	6,584	13,529
Non-Omanis	13,741	34,706	48,447	108,278	156,725
<b>TOTAL</b>	<b>15,648</b>	<b>39,744</b>	<b>55,392</b>	<b>114,862</b>	<b>170,255</b>
% Omanis to total	12.2	12.7	12.5	5.7	8.0
% Non-Omanis to total	87.8	87.3	87.5	94.3	92.0

Source: Derived from Development Council Data - Oman.

**NOTE:** Total employment created by foreign companies in Oman was 15,648 occupation by end of 1984. Out of this total, only 1907 occupation (or 12.2 per cent) were filled in by Omanis. In Joint Venture companies, the total number of employment was 39,744, out of which 5,038 were Omanis, representing 12.7 per cent. The contribution of both foreign and joint venture companies to employment amounted to 55,392 occupation, representing 32.5 per cent of the total employment in the private sector; with Omanis being 6,945 or 12.5 per cent of the total (ESCWA report, 1988, p.42).

**TABLE D8      LABOUR FORCE IN KUWAIT, BY OCCUPATION AND NATIONALITY ; 1985**

	Kuwaiti		Non-Kuwaiti		Total
	Number	%	Number	%	Number
Professional and Technical	25,963	23.8	82,963	76.2	108,926
Administrative and Managerial	4,011	37.7	6,624	62.3	10,635
Clerical and related workers	34,061	41.2	48,676	58.8	82,737
Sales Workers	5,910	15.7	31,679	84.3	37,589
Service Workers	40,615	21.5	148,446	78.5	189,061
Agriculture, Animal husbandry and fisheries	2,657	20.4	10,383	79.6	13,040
Production Workers and Labourers	10,343	4.7	210,257	95.3	220,600
<b>TOTAL</b>	<b>123,560</b>	<b>18.6</b>	<b>539,028</b>	<b>81.4</b>	<b>662,588</b>

Source: Annual Statistical Abstract, 1986, (Table 118, p.128).



**TABLE D9 REFINERY CAPACITY - 1986 (1,000 b/d)**

	OPEC		World Excluding CPES*		OPEC % of World Capacity
	Capacity	%	Capacity	%	
Crude Capacity	6,648.50	100.00	56,183.90	100.00	11.83
Vacuum distillation	2,077.30	31.24	18,584.30	33.08	11.18
Cat. reforming	600.00	9.02	8,043.80	14.32	7.46
Cat. cracking	366.00	5.51	9,366.50	16.67	3.91
Hydrocracking	541.90	8.15	2,236.70	3.98	24.23
Thermal operations	383.00	5.76	4,878.40	8.68	7.85
Total Conversion	1,290.90	19.42	16,481.60	29.34	7.83
Hydrotreating	1,794.90	27.00	23,648.80	42.09	7.59
Alkylation	80.90	1.12	1,155.10	2.06	7.00

\* CPES = Centrally Planned Economies

Source: Annual Report, OPEC, 1986, p.13.

**TABLE D10 WORLD REFINING CAPACITY BY GROUP  
(MILLION BARRELS PER DAY)  
SELECTED YEARS IN DETAIL**

	1960	1970	1980	1984
OPEC	2.2	3.6	6.1	6.4
OECD	16.0	33.0	47.6	38.4
CPES	3.4	7.9	15.8	16.6
OTHERS	2.9	6.9	13.2	12.5
OPEC (% OF WORLD TOTAL)	9.0%	6.2%	7.4%	8.7%

Source: Facts and Figures, a Comprehensive Statistical Analysis, OPEC Secretariat, Vienna, October 1985, p.13.

**TABLE D11 ARAB REFINERY THROUGHPUT AND DOMESTIC CONSUMPTION,  
1985/86 AND 1995**

('000 b/d)

	ACTUAL 1985/86			FORECAST FOR 1995	
	Capacity	Throughput	Consumption	Capacity	Consumption
Algeria	483	445	150	483	235
Bahrain	255	200	20	255	30
Egypt	445	415	340	700	520
Iraq	618	350	280	750	425
Kuwait	668	590	85	615	135
Libya	315	210	135	315	220
Qatar	57	30	15	57	25
Saudi Arabia	1,815	1,325	595	1,965	1,000
Syria	215	210	145	275	220
Tunisia	30	30	60	135	90
UAE	185	150	155	185	260
<b>Total</b>	<b>5,086</b>	<b>3,955</b>	<b>1,980</b>	<b>5,735</b>	<b>3,160</b>

Source: Abdel-Aziz al-Wattari, *The outlook for The Refining Industry and Trade in Oil Products in Oapec and Opec Member Countries.* (Cited in *Euro-Arab Trade : Prospects to the 1990s - EIU, January 1988, pp.62-63.*)

TABLE D12 OPEC's EXPECTED PRODUCTION AND EXCESS CAPACITY IN 4Q91

	Capacity tbpd	Expected 4Q91 Production tbpd	Excess capacity	
			notional tbpd	likely tbpd
Saudi Arabia	8500 [1]	8400	100	100
Iraq	1000 [2]	500	500	0
Iran	3700 [3]	3500	200	200
Kuwait	300	275	25	25
Neutral Zone	180	180	0	0
U.A.E.	2500 [4]	2300	200	200
Qatar	400	390	10	10
Libya	1600 [5]	1450	150	150
Algeria	800	800	0	0
Nigeria	2000 [6]	1900	100	100
Gabon	300	300	0	0
Venezuela	2700 [7]	2300	400	200
Ecuador	300	295	5	5
Indonesia	1500	1450	50	50
<b>Total</b>	<b>25780</b>	<b>24040</b>	<b>1740</b>	<b>1040</b>

Notes:

- [1] Saudi Arabia is said to be able to produce 8.7 mbpd at present.
- [2] Iraq's capacity is calculated as the sum of local refining plus 50 tbpd exports to Jordan plus 500 tbpd exports of crude permitted by the UN. Local refining has reached 450 tbpd, oil minister al-Hiti claimed recently (MEES, 30/9/91).
- [3] Iran plans to raise its production to 3.7 mbpd by end November '91, according to oil minister Aghazadeh (MEES, 7/10/91, page A5).
- [4] The Emirates have produced at this level in the recent past. They should be able to sustain such a level of production.
- [5] Libya has tested its surge capacity of 1.6 mbpd; it was able to sustain this level of production.
- [6] Nigeria had planned to have 2.2 mbpd of capacity in place by the end of 1991 (PIW, 19/2/90). It should be able to manage 2 mbpd.
- [7] PdVSA's 1990 annual report put its capacity at 2.7 mbpd. A recent article reported that PdVSA was planning to press ahead with investments to increase the company's capacity by 0.1 mbpd to 2.96 mbpd by the end of 1991 (PIW, 24/6/91)/

Source: Centre for Global Energy Studies, London, Sept-Oct, 1991.

**TABLE D13 ECONOMIC GROWTH IN SELECTED ARAB STATES**

Gross Domestic Product (% real change)

	1981	1982	1983	1984	1985	1986	1987
Bahrain	...	10.2	-0.1	4.2	-0.3	2.3	1.5
Kuwait	-5.5	-11.1	8.2	5.2	-6.7	9.4	...
Oman	17.0	11.5	16.7	16.7	14.0	2.2	3.0
Qatar	...	...	0.8	6.7	-2.2	-21.1	2.0
Saudi Arabia*	7.9	1.6	-10.7	...	-6.4	-8.7	0.5
U.A.E.	2.8	-8.2	-5.0	4.3	-2.3	-22.1	...
North Yemen	5.8	5.3	10.3	2.4	...	...	...
South Yemen	...	...	3.5	0.5	1.0	...	...

\* A fiscal ending in year indicated, except for 1987 Calendar year.

Sources: National sources; IMF, International Financial Statistics.

**TABLE D14 DEVELOPING COUNTRIES : TRADE WITH INDUSTRIAL COUNTRIES AS A PERCENT OF TOTAL TRADE**

(In percent of area trade)

	IMPORTS				EXPORTS			
	1973	1981	1986	1987	1973	1981	1986	1987
Developing countries	66.7	61.4	63.2	64.1	65.1	60.9	60.3	62.8
By region								
Africa	77.9	71.9	72.3	71.3	67.2	67.1	69.1	68.3
Asia	66.9	56.6	60.4	59.7	64.0	56.2	58.7	60.9
Europe	54.9	46.5	50.1	54.9	43.8	36.5	44.8	50.1
Middle East	65.5	69.3	68.1	70.5	74.3	66.9	59.2	61.0
Western Hemisphere	71.4	62.0	70.5	72.9	71.2	64.2	70.8	74.3
By major export								
Oil exporting countries	76.7	77.5	73.0	74.2	77.9	69.9	67.1	68.1
Of which:								
Indonesia	69.1	66.9	69.6	75.3	79.4	73.9	75.9	82.6
Saudi Arabia	64.3	80.6	76.0	77.7	69.9	72.2	66.8	65.1
Exporters of manufacturers	58.4	51.4	57.5	59.6	53.4	47.7	55.5	59.4
Of which:								
China	76.9	74.4	66.8	70.7	43.8	44.0	40.1	47.5
Korea	81.2	62.5	72.3	73.7	85.9	62.5	73.7	75.9
By financial criteria								
Fifteen heavily indebted countries	76.4	67.6	69.2	72.3	71.0	61.3	68.1	71.9
Of which:								
Brazil	73.6	41.8	58.5	57.2	71.0	53.6	64.9	68.2
Mexico	90.4	87.6	93.0	95.6	77.0	83.4	88.5	91.6
Yugoslavia	61.1	52.1	47.2	56.3	52.9	30.8	34.4	47.2
Small low-income countries	64.3	53.3	59.6	57.2	57.0	51.3	63.5	64.4

Source: International Monetary Fund, Data Fund.

**TABLE D15 AREA DISTRIBUTION OF WORLD TRADE**

	IMPORTS				EXPORTS			
	1973	1981	1986	1987	1973	1981	1986	1987
Industrial Countries	75.2	67.5	74.2	74.7	74.1	65.7	73.4	72.9
Developing countries	24.1	31.4	24.7	23.9	25.1	33.1	24.6	24.8
By major export								
Oil exporting countries	3.6	8.1	4.5	...	7.1	14.7	5.9	...
Exporters of manufactures	9.4	10.7	11.7	12.1	8.2	9.1	11.6	12.5
By financial criteria								
Fifteen heavily indebted countries	5.5	7.4	4.0	3.6	5.5	6.9	4.9	4.4
Small low-income countries	1.7	1.5	1.3	...	1.3	0.8	0.7	0.6

Source: International Monetary Fund, Data Fund.

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