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Regional Cooperation in the Middle East

by Manutschehr Kiani, Hamburg

Since the foundation, in July 1964, of the "Regional Cooperation for Development" (RCD) by the heads of state of Turkey, Iran and Pakistan more than four years have passed. It was the President of Pakistan, Ayub Khan, on whose initiative the three countries signed their Istanbul Agreement for closer economic cooperation. In view of the fact that the three countries are members of the CENTO-Pact¹, it has often been assumed that the RCD-Treaty is no more than the economic component of the CENTO-Pact, which is military². No denials or counter-arguments have been able to allay this suspicion³, and yet in concluding the RCD-agreement the three peoples have been motivated—apart from their desire for closer social and cultural ties—solely by economic considerations.

The Aims of the RCD-Pact

What the three contracting parties intended to achieve was to eliminate their chronic balance-of-payments deficits by stimulating trade between themselves, and the proposed monetary union was to be a valuable aid in this respect.

The hope was that a common market comprising some 170 million people⁴ would serve as economic basis for large-scale industrial projects and mass production. It was finally intended that such a development should improve the position of the three countries on the world markets and vis-à-vis the other economic communities such as the EEC and EFTA, etc.

It was with these main objectives in mind that the aims of the agreement were formulated in the 29-point document. Apart from a general promotion of trade exchanges, there were to be structural improvements in the system of communications through extending with all deliberate speed the networks of roads, railways and air

transport⁵. The charges for postal, telegram and telephone services between the three states were to be reduced and the tourist trade was to be stimulated as an important source of foreign exchange. To help with the carrying out of industrial projects and with the establishment of joint shipping lines the three countries undertook furthermore to lend each other technical aid and to exchange their experiences with problems of economic planning⁶. As Pakistan and Turkey were interested in a steady and assured supply of oil, it was agreed to extend cooperation to this economic field⁷.

To facilitate economic cooperation it was necessary to strengthen the age-old cultural, religious and intellectual bonds between the RCD-countries. Only in this manner could the people be aroused to the requisite awareness of solidarity. For this reason school books were to be re-written, each country was to establish professorial chairs in the other two for the teaching of its language, culture and history; the exchange of students was to be stimulated through inter-state grants and arrangements were also to be made for an exchange of visits by artists, writers and scientists.

The Shape of the Organisation

To do all this and to see that it was done required an efficient organisation such as the RCD proceeded to give itself immediately after concluding the agreement. The Council of the Foreign Ministers of the three countries (the Ministerial Council) is the executive body which can ask specialist ministers to attend their meetings. A Planning Commission, in which the directors of the planning authorities cooperate, prepares the informational material the ministers require to reach their decisions. Both bodies have at their disposal a Secretariat under the direction of a Secretary General whose political function is to act as joint ambassador.

¹ The "Central Treaty Organization" comprises Turkey, Iran, Pakistan and Great Britain. The USA is represented only in a few committees. CENTO is successor to the Bagdad Pact. The coup d'état in Irak in 1958, following which that country left the organisation, made the renaming necessary.

² "Pakistan Times" of August 26, 1965.

³ The Foreign Minister of Pakistan, Mr Z. A. Bhutto, declared for instance on August 1, 1964, in Karachi that the RCD-Agreement had nothing to do with CENTO.

⁴ Pakistan has 112 million inhabitants, Turkey 32.9 million and Iran 25.7 million.

⁵ Cf. Orient, No. 3, volume V, 1964, page 9.

⁶ Iran is in its fourth Five-Year Plan; Pakistan in its third and Turkey in its second.

⁷ Turkey is particularly dependent on Iranian crude oil for its refinery in Izmir, which was built with Russian aid. It is further intended to construct a pipeline from the Iranian oilfields to Iskenderum in Turkey. Pakistan plans to build a refinery in Karachi.

The institutional integration of the three partner-countries has since the conclusion of the agreement made such headway that the Ministerial Council of 1968 saw itself obliged to reduce from seventeen to seven the number of expert sub-committees, which work for the Planning Commission. This was done to put a stop to the unhealthy proliferation of the administrative machinery by introducing a more rational working method. The RCD is thus further proof of the fact that integration proceeds at a faster pace on the institutional level than on the functional one.

Initial Successes

Already one year after the conclusion of the RCD-Treaty some partial successes could be registered:

☐ On August 28, 1965, a joint Chamber of Industry and Commerce was set up in Teheran. The tasks of its 30-member council include the discussion of all economic projects designed to promote economic integration, the extension and promotion of trade exchanges and the gradual reduction of import duties inside the RCD-area.

☐ In October 1965, travel was made easier by the abolition of visas—an important pre-condition for stimulating tourist-trade.

☐ As early as November 1965, postal, telephone and telegram charges for traffic between the RCD-countries were reduced to the official level charged for inland traffic. This step became possible only after the representatives of Iran had agreed to reduce the transit dues charged for communications between Turkey and Pakistan. It was not until this measure was adopted that it became possible to establish a basis on which information may be exchanged without trouble and at reasonable cost and to create the necessary prerequisite for effective cooperation.

☐ Finally, cultural cooperation between the partner-countries has been given a strong fillip by the speedy establishment in Teheran of a Cultural Institute, by generous financial help given to inter-regional schemes to exchange students and scientists and by arranging various seminars for cultural cooperation.

☐ In the course of four years joint shipping routes between the RCD-countries and the USA have been agreed and the air traffic between the partner-countries improved.

But these preliminary partial successes which co-operation has yielded must not be allowed to obscure the fact that even these initial results are essentially nothing but conference decisions which in many cases still wait to be carried into practice.

Joint Projects

One of the most important aims of the cooperative effort has been from the start the construction and financing of joint enterprises. For no single country is financially strong enough to entertain

large-scale industrial projects nor is the absorptive capacity of its home market sufficiently large to assure a minimum yield of such investments. The economic alliance of the RCD-countries should therefore go ahead with the industrialisation of the partner-countries with the aid of "production sharing".

The various expert committees of the RCD-organisation have since their establishment started on innumerable projects. But almost all of those that were to be spread over the three countries, such as for instance the construction of tractors and agricultural machines, Diesel motors, railway engines, production plants for the textile industry, are still, after four years, at the stage of planning, examination and consideration. It need hardly be said that in developing countries the process of industrialisation is difficult to get under way, and the Ministerial Council was undoubtedly right in stating, in 1967, that "large and sophisticated industries cannot be expected to be established overnight". Yet it is difficult to avoid the suspicion that there is a tendency to celebrate with oriental extravagance the institutional cooperation at the expense of economic successes, while being satisfied with partial results.

Up to now, the only seriously prepared projects capable of reaching the production stage within two years are the following:

☐ An aluminium plant with a projected capacity of 20,000 tons, to be constructed in Southern Iran with technical and financial aid from a North American firm.

☐ A carbon block, also to be constructed in Iran, likewise with American financial and technical support.

☐ A plant, proposed by Portal Ltd (England) for the printing of bank-notes in Turkey.

In view of the poor results of four years of working together one may well ask whether the \$ 6 mn that are being spent on a printing works for bank-notes could not have been more profitably invested. An investment in such a scheme is hardly likely to serve the purposes of industrialisation with its desired effects on employment and incomes, nor is it designed to improve the countries' investment and consumption structure.

The Promotion of Trade Exchanges

The main aim of the RCD-Agreement was to promote and intensify trade relations within the area the pact was to integrate. Before conclusion of the agreement trade between the partner-countries was insignificant. When cooperation began, the representatives of the three countries drew up lists of goods which were thought to be suitable for being exchanged between the member-countries. The intention was to use these so-called "Trade Expansion Lists" as a basis for improved bilateral trade agreements and for an

intensified exchange of goods. Now, four years after the creation of RCD, it is sad to note that, in spite of all these efforts and in spite of the establishment of the joint Chamber of Commerce, there has been no expansion in intra-regional trade.

Iran's Foreign Trade with the RCD-Countries ¹
(In thousand Rial) ²

	65/66	66/67	67/68
Imports			
Pakistan	170,599	208,930	310,387
Turkey	39,616	6,283	7,706
Exports			
Pakistan	121,839	118,067	75,895
Turkey	37,662	8,691	2,518

Source: Foreign Trade Statistics of Iran, Teheran 1968.

¹ The periods run in each case from March 21 to March 20 of the following year.

² 1 \$ = 75.00 Rial.

It emerges from the table that Iranian exports to Pakistan and Turkey have declined appreciably ⁸. Pakistan's exports to Iran have considerably increased, it is true, but this is due more to that country's great export drive than to any development in intra-regional trade arising from the integration agreement. By 1967/68, Iran's exports to Pakistan had dwindled to 0.75 p.c. and those to Turkey to 0.02 p.c. of its total exports ⁹.

In the same period Pakistan's share in Iran's total imports amounted to 0.34 p.c. and that of Turkey to 0.01 p.c., and that in spite of the fact that the volume of Iran's imports increased considerably ¹⁰. In 1967/68, Iran imported less from the RCD-country Turkey than it did from Cuba (303 mn Rials, 0.33 p.c.), or from Portugal (60 mn Rials, 0.07 p.c.) or Egypt (41 mn Rials, 0.05 p.c.) although the last-named country's trade is still subjected to strong tensions as a consequence of the conflict in the Near East. The intra-regional trade between the other RCD-countries—as for instance between Turkey and Pakistan—presents an equally unfavourable picture. The way trade within the RCD-area is developing is so discouraging that it is idle to speak of regional cooperation. The President of the joint Chamber of Commerce expressed his disillusionment on August 28 in Teheran in the following terms: "Three years after the Chamber was founded trade exchanges have been such as to make it impossible for me to say anything about them ¹¹".

Problems and Perspectives

The states participating in the RCD are classical agrarian countries ¹² which have reached approximately the same economic and cultural level. Their economic and technical state of development is in comparison with the industrial nations

extraordinarily low; they therefore require capital and technical aid on a large scale. Some natural resources apart, the only thing the three countries have in abundance is open and concealed unemployment. The level of their technical know-how is so low that without foreign assistance they are incapable of manufacturing the simplest industrial goods.

It is for this reason that the RCD-countries are seeking to enlist financial and technical aid from East and West in order to create better training facilities and thus hasten the process of industrialisation. A look at the foreign trade structure of the three countries reveals the striking fact that 30-40 p.c. of the imports consist of investment goods, 20-30 p.c. of durable commodities and the remainder of articles for consumption. In the light of these data it is not surprising that four years of trading within the integration area have been an unqualified failure. For neither were the partner-countries in a position to supply to each other the required investment goods and durable commodities, nor could they replace the luxury articles which they have been in the habit of importing from abroad by products of their own. It goes without saying that the exchange of farm-products which all the partner-countries produce is not particularly suitable to bring about a higher standard of living by way of more employment and improved incomes. But this is a problem that the RCD-countries basically have in common with all developing countries intent upon economic integration.

Notwithstanding the many tasks which still have to be tackled, the RCD-countries can contribute much more than they have done in the past to bring about their industrialisation. Indispensable in this connexion are such tasks as the extension of the system of communications and the financing and early completion of "joint projects". But under the prevailing circumstances it is unthinkable that regional cooperation might be extended so that it develops into a common market or monetary union. The creation of a monetary union presupposes the renunciation of a national monetary and financial policy; it is precisely the kind of proposition that would be rejected by all three countries anxious as they are to preserve their precious sovereignty and autonomy.

Perhaps it is still premature to draw the final balance. But considering that many projects have not yet emerged from the preparatory stage and that frequently nothing much more has been done than to form committees, to hold seminars and to praise with oriental verbosity what has not yet materialised, it would appear that many of the aims of the RCD have been set too high. It must therefore seriously be doubted that the organisation can achieve its objectives. The years to come will show to what extent the RCD-countries can extend their intra-regional trade, but the past four years give little cause for optimism.

⁸ Oil exports excluded.

⁹ Foreign Trade Statistics of Iran, Teheran 1968.

¹⁰ Foreign Trade Statistics of Iran, Teheran 1968.

¹¹ "Kayhan" (air edition) of August 29, 1968.

¹² Iran with its oilfields is perhaps an exception.