Maastricht Spurs Gulf States to Go for a Common Market

by Mohammed Aslam

Greater regional economic co-operation is a world trend. The six-nation Gulf Cooperation Council plans to create a common market by 1999 to co-ordinate the oil-rich economies of the Gulf states. Gemini News Service reports that European Community efforts to achieve a common monetary and economic policy seem to be the model for the Gulf states.

Proposals for the creation of a common market are moving up the economic agenda of the Gulf states. The approach of the single market in the European Community after 1992 is adding a sense of urgency to the debate.

Commerce ministers from six Gulf Cooperation Council (GCC) countries decided at a meeting in Doha, Qatar, to remove obstacles to a common market and set themselves a four-year deadline to resolve outstanding issues.

These include unification of customs tariffs, setting up a regional share market and letting Gulf firms open representative offices in any member state.

The United Arab Emirates Minister of State for Financial and Industrial Affairs, Ahmed Al Tayer, said: "We have chalked out a timetable to implement the remaining points in the (1982) joint economic agreement between 1992 and 1999. This will lead to the establishment of a common Gulf market by the end of 1999 after monetary and banking rules are unified."

For the annual summit of the GCC states in Kuwait economic issues were high on the agenda. Several rounds of preparatory talks in recent weeks indicated a revival of interest in efforts to give a fresh thrust to their oil-based economies by way of diversification and integration.

Economic cooperation leading to full uniformity of rules, procedures and operations was the prime purpose of the GCC when it was formed in May 1981.

But the circumstances in which it was set up — a few months after the outbreak of the Iraq-Iran war in 1980 — kept the focus largely on political and security aspects of the strategically sensitive region.

The dangers posed and disruption caused by the long war compelled the smaller states to think of pooling their resources to cope with any spillover of hostilities.

That war ended in August 1988, but just as the GCC states were recovering from its effects and confidence was returning to their markets Iraq invaded Kuwait in August 1990. The shock was as crippling as it was unnerving.

The aftermath of the war to free Kuwait has been comparatively easier to deal with, partly because of the confidence flowing from the United States-led victory and partly because of the rapid economic revival fuelled by the rebuilding of Kuwait and the opening up of the Iranian, other Arab and South Asian economies.

The result has been quite encouraging. The focus is returning to the goal of economic integration. In parallel are equally energetic efforts to find a post-war joint security mechanism with the help of friendly Arab and Western states, such as Egypt, Syria, the US, Britain and France.

The six GCC member-states have taken many complementary measures, notably allowing each others citizens to set up local trades, licensing facilities, joint projects and concessions on customs and transit controls.

Formidable problems remain, preventing quicker integration of the economies. These relate to banking regulations, import tariffs, disparities in taxes, stock markets, subsidies and pricing patterns. Policies and practices on almost all these issues differ widely among the six. Levels of prosperity also vary.

Bahrain and the UAE allow foreign banks to operate and have also become financial centres of the region, whereas Saudi Arabia, the biggest of the six, and Kuwait do not encourage this trend.

Share prices of regional companies are robust, but not all GCC members have formal stock exchanges. Equities are traded through authorised banks in the UAE; Kuwait, Bahrain and Oman have stocks floors; Saudi Arabia has a semi-official exchange and Qatar plans to set up its own stock market, as does the UAE.

Income is tax-free, but import levies and sales tax vary from place to place, ranging from a maximum of four per cent in the UAE to up to 20 per cent in Saudi Arabia. Unification of customs tariffs poses the biggest difficulty.

After the Doha meeting, Abdullah Al Quwaiz, the council's Assistant Secretary-General for Economic Affairs, said they had decided to complete all outstanding formalities in four years.

And after the Kuwait finance ministers' meeting, the UAE minister, Al Tayer, said the programme they had finalised "envisages accomplishment of a common GCC monetary, banking and customs market."

The Maastricht accord reached by the European Community on political, monetary and social integration has created perhaps the right atmosphere for the Gulf states to compromise and agree on common tariffs in order to deal with a united Europe as a single and competitive group.

The Community is the GCC's main economic partner. In 1989 trade amounted to nearly $35 billion in 1989. Varied Gulf tariffs are one factor for preventing a trade pact between the two blocs.

However, GCC economic performance has its critics. Kuwaiti economist Dr Abbas Al Mijren says the group's efforts to diversify economies from dependence on one source of income — oil, which forms up to 85 per cent of revenues of some states — had had "very poor results after all these decades."

A concerted programme to attract Arab capital to local investment schemes is not to be encouraged. The Abu Dhabi-based Arab Monetary Fund estimates put Arab funds kept abroad, mostly in the West, at $670 billion — more than half owned by the Gulf governments. Economists and stock dealers emphasise that steps should be taken to absorb these funds in the region before luring them back here.

One factor that makes such a prospect realistic is that the Gulf economies are market-oriented, with free enterprise and the private sector being given a greater role in development plans after the governments have laid out infrastructures out of their vast oil incomes.

The pressing necessity now is to unify policies. Maastricht is expected to spur action.

MOHAMMED ASLAM is on the staff of The Khaleej Times. He was formerly with the Times of India.

Gulf Co-operation

	Saudi Arabia	Kuwait	United Arab Emirates	Oman	Qatar	Bahrain
Area (sq km):	2.4	24,281	75,150	271,950	11,437	661
Pop (1990):	14.1m	2m	1.6m	1.5m	0.4m	0.5m
GNP per head:	$6,200 (1988)	$13,400	$15,770	$5,000	$9,930	$6,340

THEY say that the United States is divided into three classes — the haves, the have-nots, and the have-not-paid-for-what-they-have-got.

The last category was blindingly true of TV evangelist Jim Bakker. He conned nearly $6 million from viewers, using the money meant for his ministry to pamper himself and his "egregious wife Tammy with a lifestyle so rich that even their dog enjoyed an air-conditioned kennel.

It may be "Halo and farewell" to the freebooting Bakker, who is now serving a 45-year jail sentence for fraud, but other tricksters are thriving more comfortably than ever before and not in the US alone.

They are growing bolder and greedier everywhere, as recent cases show. No longer content with "a little tickle" to maintain a caviar-and-champagne lifestyle for a few months at a time, they think in millions, not thousands.

Fools' Gold Rolls in for the Great Pretenders

by Nicola Cole

The closure of the Bank of Credit & Commerce International, better known these days as "The Bank of Crooks & Criminals Incorporated," illustrates the thin division between success and failure in high finance. Few know this better than confidence tricksters, that infamous band of lone wolves who defy an insecure world with ever more audacious rip-offs. Gemini News Service reports.

Take the charismatic Anton von Kassel, who strolled into the National Westminster Bank group's smallest branch in Britain and coolly duped the manager into lending him over £3 million.

Then, driving a Rolls Royce packed with art treasure, he fled to his chateau near Bordeaux, France, and was not tracked down for two years.

During his trial at London's famous Old Bailey court earlier this year, von Kassel was described as "an extremely attractive figure, very charming, and very generous, particularly with other people's money." He was imprisoned for six years.

As summer visitors throng round tourist attractions like Buckingham Palace and the White House, there is very likelihood that "great pretenders" are mingling with them, antennae alert for someone susceptible to one of the oldest con-tricks in the book.

The "mark" will be wealthy, gullible, awed by the grandeur of these residences and secretly wishing to own a similar-sized mansion. Offered the chance to buy either of these great houses, they jump at it.

Arthur Ferguson "sold" not only Buckingham Palace ("The Queen can no longer keep up the mortgage repayments," he gravely assured his victim), but also disposed of a 99-year "lease" on the White House for $100,000 and accepted a "deposit" for an identical amount on the Statue of Liberty.

Queen Elizabeth's main residence was also used in a cheeky scam by a well-spoken swindler posing as a representative of Her Majesty, one "Colonel Allen."

Having arranged to meet a London jeweller at the Royal Mews part of the Palace sometimes open to the public — he ordered a £5,000 diamond brooch for the Queen; then, in a change of tactics typical of such cases, he asked to "borrow" a £1,200 gold-and-diamond necklace on approval.

The jeweller readily agreed. "Col Allen" promptly disappeared and has not been seen since.

Equally audacious was the South American forgery gang who persuaded genuine US banks to pay out large cash sums on faked travel cheques and bank drafts.

All had been "issued" by three legitimate-sounding financial institutions the City Bank of Miami, the First Western Bank and the Wells Fargo Bank. But these simply did not exist. All had been invented by the forgers, most of whom ended up behind bars. The gang leaders are believed still to be at large.

Stephen Hedges, a 24-year-old clerk from England, did not bother to invent banks. He simply switched £1.5 million from the one where he worked to a bogus company in Switzerland.

After that, he bunked off to Hong Kong where, to divert any suspicions, he pretended to live modestly, meanwhile playing the stock markets. When the law caught up, Hedges earned three years as a guest of Her Majesty's Prison Service.

"Ever been to Harrods? Honey, I own the place." Few women could resist Mohamed Yehia Saed's devastating chat-up line about the famous London store as he wined and wooed his way across the US — charging his lavish lifestyle to the Harrods account, of course.

But Mo, as he liked to be called, had no link with the real owner, Mohamed Al-Fayed; and when Al-Fayed was sent photos of Mo with pop group Duran-Duran, a two-year hunt for the imposter ended with Mo in the slammer — and Harrods footing bills of around $500,000.

What makes such individuals risk their liberty in ways that not even passionate gamblers think worth chancing?

The myth of the "loveable rogue" — clever, resourceful, streetwise, in the almost admiring words of a senior British police officer's recent report — blinds many people to the plain truth that conmen are basically lazy, very badly twisted cheats from whom honest people everywhere need constant protection.

The depths of heartless avarice to which conmen frequently sink was amply illustrated in the case of Rohan Bissett.

Employing a deviant variation on the unpleasant practice of preying on rich but lonely women (manipulating and dumping them gives swindlers a sexual "high"), Bissett posed as "Diana" in a lonely-hearts advert. He wrote lovingly to a 20-year-old sailor who replied from the aircraft-carrier Ark Royal, and accepted gifts of expensive jewellery.

Having "hooked" the young man, Bissett persuaded him to open a bank account for Diana.

You will know you have met one if you encounter a jobless high spender who, with utmost conviction, suggests you "lend" cash towards anything from a "can't fail" business to establishing right to "a lost fortune."

The more outrageous the pretext, the more probable it is that his scam will succeed.

— GEMINI NEWS

Issues of the Nineties

Sony Side Up

Gary R. Saxonhouse

FOR all the harsh talk of trade tensions between the United States and Japan, the world's two largest market economies have grown closer and more interdependent over the past decade, with extraordinary benefits for the populations of both countries.

The benefits to Japan have received most of the attention. Though through the years the US has forced Japan to restrict its exports here of cotton textiles, steel, color television sets, cars, machine tools, and semiconductors, the American market has been more open to Japanese consumer and industrial goods than has any other major market in the world. This access to American customers has been indispensable to Japan's emergence as the world's third largest exporter. (The US and Germany alternate in first place).

Through licensing agreements, joint ventures, and other forms of economic cooperation, Japan has frequently been able to gain access to the best of American technology — a process it has used in many industries to take technological leadership itself. Meanwhile, despite obstacles that may have limited imports into Japan over recent decades, Japanese consumers have been able to enjoy the products of IBM, Gillette, Pfizer, Otis Elevator, and many other American companies with substantial Japanese manufacturing operations.

Closer economic ties with Japan have also been good for the US, despite the commonly heard claims that Americans have gotten the raw end of the bargain. Indeed, although it has become commonplace recently to denigrate American economic performance in the 1980s, by many reasonable criteria Americans fared even better than did the Japanese during the past decade of close bilateral contact.

Between 1981 and the end of 1988, for example, real consumption in the United States increased by 28 per cent, compared with an increase of 27 per cent in Japan. And while US consumption rose in the 1980s at an average annual rate of 3.1 per cent, US investment grew still more rapidly at 3.4 per cent.

During the 1980s new jobs were created in the US at almost twice the rate they were created in Japan. Employment in America rose at an average annual rate of 1.9 per cent, compared with only 1.1 per cent in Japan.

This rapid growth in employment has by no means undermined American leadership in productivity. The Organization for Economic Cooperation and Development (OECD) takes great pains to evaluate national economic performance on an internationally comparable basis. Notwithstanding rapid increases in productivity for the better part of a century, and spectacular success in particular industries, Japan's overall level of productivity remains even today at little better than two-thirds the American level.

America's economic performance during the 1980s is all the more remarkable because the American taxpayer during this period bore the burden of a better than 50 per cent real increase in national defense spending. Closer economic ties with Japan contributed to America's 1980s boom in four important ways.

First, a massive inflow of capital from abroad, and especially from Japan, allowed Americans to finance the 1980s defense buildup without a reduction of either their capital stock or their standard of living. Second, the availability of low-price, high-quality Japanese imports, besides being a boon to American purchasers of cameras, calculators, VCRs, and countless other products, helped American monetary authorities break the back of inflation in the early 1980s.

The Americans who have bought Japanese cars, cameras, calculators, and VCRs have done so voluntarily and have presumably thought they benefitted from them. So, too, have the American manufacturers that have purchased Japanese semiconductors, steel, and machine tools.

Third, in a reversal of what used to be a one-way street, technology transfer from Japan in the 1980s has helped to revitalize many American industries, particularly autos and steel. Finally, the emergence of Japan as a major importer of manufactured goods has played an important part in America's extraordinary export-led manufacturing boom of the past few years. This market is so inviting that Japanese consumed $374 worth of American imports per capita in 1989, while Americans consumed only $360 worth of Japanese imports per capita.

The Liberation of Japanese Capital

From 1980 to 1989, the US borrowed a net total of $650 billion from the rest of the world. Roughly a fifth of this net capital inflow came from Japan — over $50 billion taking the form of Japanese net direct investment in US factories and real estate, and another $80 billion in Japanese net purchases of financial instruments.

American demands for a higher standard of living, for a significantly stronger national defense, and for major increases in capital formation proved achievable in part because they went hand in hand with a dramatic shift after 1980 in the Japanese ability to hold dollar-denominated assets. Until 1980, Japan's Foreign Exchange Control Law made it very difficult for Japanese citizens or private institutions to hold assets denominated in foreign currency. This law insulated Japanese financial markets from the rest of the world and reserved Japanese savings for the exclusive benefit of Japanese corporations and governmental authorities. When the law was revised at the end of 1980, in part as a result of American diplomatic pressure, Japanese corporations, financial institutions, and households for the first time were able to meet long pent-up desires to diversify their portfolios and hold dollar-denominated assets.The revision, which also led the way for the liberalization of domestic financial transactions in Japan, was little noticed (or otherwise discounted) in the United States at the time it took place. In retrospect, few events were more important for shaping the American political economy of the 1980s.

The opening of the Japanese market to sales of American financial instruments may have lowered US interest rates by as much as four percentage points from the sky-high levels that otherwise would have resulted from the American defense buildup. In consequence, Americans were able to enjoy a substantial increase in military preparedness without it coming at the expense of their standard of living or their capital stock. Indeed the maintenance and continued improvement of the US standard of living might even have come at Japanese expense, as the massive sale of high-yielding American financial products in Japanese capital markets raised interest rates and curtailed investment there.

End of a Golden Age

Japanese capital outflows were highest from 1986 through 1988 when the Bank of Japan followed a very accommodating monetary policy. But this policy abruptly ended in may 1989 as the Bank of Japan sought to restrain speculation in both the land market and the Tokyo Stock Exchange and raised the official discount rate for the first time in nine years.

In light of this change in Japanese policy, the golden age of the Japanese finance of American prosperity may well have ended. A rise in Japanese interest rates of almost five percentage points in little more than two years, the 40 per cent fall of the Tokyo stock market in 1990, a decline in the household savings rate, and the end of the Japanese government's budget surplus all make it more likely that Japanese investors will use more of their savings at home during the 1990s. Already Japan's net capital exports have fallen from 4.6 per cent of GNP in 1987 to less than 1 per cent of GNP in late 1990. And while the American public continues to be concerned about Japanese ownership of American resources, in fact, during 1989 and 1990, Japan, by liquidating past investments, has become a net capital importer from the United States.

Breaking Inflation's Back

At the macroeconomic level, the opening of Japanese capital markets did more than just provide much needed finance for the American economy. The depreciating yen, which went hand in hand with the opening of capital markets, helped to break the back of US inflationary expectations in the 1980s. They early 1980s marked the first time in almost 30 years that there was a sustained decline in the price of imported manufactured goods. Between 1981 and the end of 1986, prices of imported goods fell continuously at an average annual rate of 1.1 per cent — which in turn helped lower the prices of all manufactured goods in the United States. Indeed, driven by plummeting prices of Japanese computer chips the price index of all US producer durables fell 4 per cent from 1982 to 1990 after having risen nearly continuously for the previous 50 years.

At the microeconomic level, Japanese competitive pressure has forced improvements in the efficiency of many areas of the American economy. Just as the deregulation of American transportation, communications, energy, and financial services has resulted in vigorous competition in hitherto complacent industries, so has competition from foreign countries destroyed artificial monopolies in US manufacturing. Japanese firms have been at the cutting edge of much of this new competition, creatively taking advantage of the new opportunities opened up by the deregulation of commerce at America's borders.

Indeed competition from Japanese and other foreign firms has proved to be the most effective form of antitrust policy. Not long ago, intermediate and final goods industries in the US had the power to initiate waves of cost-push inflation. Labor and management engaged in unattractive public battles, which all too often led to lengthy strikes, as part of the process of dividing up monopoly profits earned at consumer expense. These hallmarks of an insufficiently competitive economy are happily rare today. During the 1980s less that one-tenth of 1 per cent of labor force time was lost due to work stoppages. Such work losses in the 1970s were three times greater.

Products Americans Wanted

During the 1980s Americans bought no less than $680 billion in imported goods from Japan. The Americans who have bought Japanese cars, cameras, calculators, and VCRs have done so voluntarily, and have presumably thought they benefitted from them. So, too, have the American manufacturers that have purchased Japanese semiconductors, steel, and machine tools. Neither the personal computer nor the software business, two of America's highest-growth industries, would have taken off as rapidly as they did without the availability of low-cost, high-quality microchips from Japan.

The continuing benefits to the American economy from Japanese imports can best be appreciated by examining the costs of protectionist barriers. The American consumer paid dearly, for instance, as a result of "voluntary" quotas on auto imports from Japan during the 1980s. According to widely respected estimates, these import restraints raised the price of Japanese cars in the US by $1,000 and the prices of US cars by $1,400. Put another way, auto import restraints in the 1980s annually cost American households one-third of what the S&L bailout will annually cost American households in the 1990s.

Reverse Technology Flow

Japan is now the second largest source of direct investment in the United States, after Great Britain. In the past year, Japanese enthusiasm for California and Manhattan real estate has fallen significantly as the Shuwa Company, a prominent real estate concern, and other Japanese investors have lost substantial amounts of money on American properties. Even so, the purchase by Japanese of such cultural icons as Rockefeller Center and Columbia Pictures continues to fan nationalistic fears of a Japanese takeover.

But direct investment has enriched Americans who sold properties to the Japanese, and in many cases has poured capital into American companies that needed infusions of cash. More than 350,000 Americans now work in Japanese-owned facilities ranging from Kikkoman's food processing operations in Wisconsin, to Dai Nippon Ink & Chemical's graphic arts group in New Jersey to the Green Cross-owned research and development laboratories in southern California.

Far from hurting the American economy, Japanese firms operating in the United States are helping it. Despite years of rising imports of manufactured goods from Japan, it was only when Japanese firms began to produce successfully in the United States that American firms began a dramatic reassessment of their production methods.

Just-in-Time Learning

In the 1980s, General Motors learned from its joint venture with Toyota that spending billions of dollars for high technology does not necessarily mean high performance.

Perhaps the best-known impact of Japanese transplant practice on American manufacturing has been the widespread adoption of just-in-time methods. Spurred by the successful use of such methods in the Toyota-GM joint venture at Fremont, they have been widely adopted within the automobile industry. Auto parts suppliers report sharp declines of as much as 50 per cent in the amount of space required for production and increases in overall productivity of as high as 30 per cent. In the computer printer industry, NCR has been able to turn around its Ithaca, New York, plant using just-in-time methods first publicized by Japanese transplants. Following the adoption of just-in-time, NCR-Ithaca reports a drastic reduction in on-hand inventory from 110 days' worth to just 21 days. Other improvements include an 80 per cent reduction in work in process and a 90 per cent reduction in manufacturing cycle time. Just-in-time methods do not work for every factory, of

course, but they have played a major role in revitalizing American manufacturing.

Turnaround in Steel

No American industry in recent years has benefitted more from Japanese technology and Japanese capital than the steel industry. Between 1982 and 1985, the American steel industry, faced with surging imports, excess capacity worldwide, ineffective diversification, and low productivity, recorded an unprecedented $11 billion in losses. No less than 20 per cent of domestic steel production was operating under Chapter 11 bankruptcy proceedings. Just a few years later, however, and against all expectations, conditions in the American steel industry improved dramatically. In 1988 and 1989, the industry revived to the extent of earning record profits. A restructured, if smaller, American steel industry, now benefitting from the sharp appreciation of the Japanese yen, has once again become internationally competitive in many important product lines.

While American steelmakers had been importing Japanese technology since the 1970s, it was only in the mid-1980s with the importation of Japanese management and capital that decisive changes in the industry's organization and product mix were finally achieved. In 1984, Japan's NKK Corporation acquired 50 per cent of National Steel's equity. This joint venture was soon followed by new partnerships between 1) Nippon Steel and Inland Steel; 2) Kawasaki Steel and Armco Steel; 3) Sumitomo Metals and LTV; 4) Kobe Steel and USX; and 5) Nisshin Steel and Wheeling-Pittsburgh Steel. These joint ventures, while putting the American steel industry on a stronger financial footing, accelerated the transfer of Japanese plant automation, computerization, and production control system technology. With the adoption of Japanese processing and surface-coating technology, made possible by these joint ventures, American producers have been able to compete at home and in overseas markets once again on the basis of quality as well as price.

The transfer of Japanese technology and methods through Japanese transplanted firms is not confined to manufacturing technology, to labor management, to assembler-supplier relations, or just to the automobile, computer equipment, or steel industries.

Friendly Rivalry

Americans continue to have many legitimate complaints about Japanese policies. Japan's agricultural protectionism not only raises food and real estate prices for Japanese families, it is wholly inappropriate for a country that should be bending over backwards to further continued international trade liberalization. Regulatory restrictions on stores in Japan have kept down competition from Japanese and foreign retailers alike.

High-volume retailers tend to scour the world for their products; their relative absence in Japan almost surely comes at the expense of the Japanese consumer.

These are the complaints of friendly rivals, not enemies. In sharp contrast to US-Soviet relations during the Cold War, the US and Japan are locked in a mutually beneficial embrace that extends from finance, trade, investment, and technology to the massive exchange of people and ideas. US-Japanese economic, social, and cultural integration has benefitted both peoples. These benefits will grow as the world's two most competitive market economies become even closer.