

THE ARAB WORLD IN THE 1980'S: MACRO-POLITICS  
AND ECONOMIC CHANGE

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TABLE OF CONTENTS

	<u>Page</u>
1. The Setting: New Concepts and New Realities.....	1
2. Macro-Politics: Systems of Conflict.....	4
3. Macro-Economic Change: Wealth and Power.....	5
4. Energy: Short and Long Run Issues.....	7
5. Manpower: Employment, Migration, and Development.....	10
6. Technology: Transfer and Adaptation.....	14
7. Banking: Development and Commercial Investments.....	16
8. Conclusion: New Interdependence and Power.....	23
Footnotes.....	25

"monarchies" or "dictatorships" as the case might be. Arab countries were regarded as "good" or "bad" depending on the cold war politics of the time. Arab states, whatever their form of government, were then defined as "pro-West," "pro-East" or non-aligned, the implication being that political choices were limited to these three possibilities.<sup>2</sup>

The events of the past decade have created new conceptions in the Arab world -- a new vocabulary and a new reality. The political vocabulary of the 1980's is one of interdependence, linkage among countries, proliferation and division of power, and integration of economic and political imperatives.<sup>3</sup> The concepts which now characterize Arab countries differ substantially from conventional categories -- no one today is particularly obsessed by "dictatorship", "democracy" or the "free world". Perhaps for the first time in the history of the region, a new effective exercise of national autonomy is becoming a reality. The nature and extent of this reality may differ from state to state, but the trend affects everyone.

So too, it is difficult to explain events in the Arab world in terms of conventional theories of "modernization" and "development". Theories developed in the West, based on the historical experience of 19th century industrialization and 20th century colonization are singularly inappropriate in a context where all the dimensions of national orientation -- factors of endowment and institutions both economic and political -- are undergoing rapid change. The failure to understand the Arab world today is in part the result of continued use of conventional categories to

define the region, and in part due to the rapid nature of the change itself which imposes a certain elusiveness of definition for scholar and policy maker alike.

Four sets of events -- not the subject of this article but its setting -- have created the background for the transformations at issue. First, the oil price increase which revolutionized energy markets and posed critical challenges to the West. Forecasts of oil prices made in 1970 were singularly off the mark.<sup>4</sup> Second is the war of 1973, which was clearly a victory for the Arab states. Yet in early 1973, neither political analysts nor intelligence agencies had been close in their predictions for war nor of eventual outcomes. Third is transformation in Egypt's role. Camp David and its aftermath had critical effects on everyone in the region, regardless of political disposition. Predictions of the collapse of Egypt's position had been premature. Fourth is the revolution in Iran, initially a national transformation of political authority, but increasingly becoming of greater religious and political significance. At that time, predictions had been that revolution could not last beyond initial enthusiasm. Again, predictions were off the mark.

The combined effects of this fourfold set of events were extensive new shifts in the structure of the region and a new interdependence in the Arab world. With this came new interconnections between politics and economics, both nationally and internationally. This article reviews the structural change that has taken place, the critical undercurrents. Because of the rapid nature of change in the Arab world, the logic of our review may not stand the test of time. But our argument is this. The

Arab world is characterized by new, critical parameters: their evolution and interconnections will define politics and economics for decades to come. The critical parameters are energy resources, manpower development and interdependence in labor forces, technology adaptation and change, and commercial and development banking. This article reviews the essential elements of those parameters. Their outcome is a new robustness in regional integration and new interdependence in policy planning.

## 2. MACRO-POLITICS: SYSTEMS OF CONFLICT

The Arab world is an area where four conflict systems converge, each with dynamics of its own, each influencing the political economy of the region, and each defining the possibilities for the future.<sup>5</sup>

The first conflict is the cold war: contrary to popular conceptions, the cold war is not completely dead; its effects remain pervasive, for it defines relations between Arab states and the super powers.

The second conflict is that with Israel. The reality of the Palestinian position cannot be ignored. It is acquiring legitimacy and shaping relations among the Arabs themselves.

The third conflict is that between producers and consumers of petroleum: the Arab states are centrally involved, some are major oil producers, tied to the cold war powers with formal alliances, and critical to both process and production policies of the future. The oil-related conflict is an economic one, but its roots and effects are profoundly political.

The fourth conflict system is elusive yet explicit: it is in

the nature of inter-Arab politics. Its roots lie in the colonial past, in accommodations with the superpowers, and in contending views of politics and leadership in the region. Inter-Arab conflicts are always fluctuating, within bounds set by goals of unification and communality of purpose.

These are the conventional conflicts: their shape changed over time. But together they have defined politics for the Arabs. A new conflict system is now emerging, one which might supercede the others in importance, but its definition is ambiguous and its implications obscure.

This fifth conflict system is determined by religious and sectoral divisions, ethnic considerations, and demographic differences. It is a new form of conflict which surfaced as a function of the convergence and interconnections among the four conventional conflicts of the region. The new system intersects with economic changes and economic prospects, but it has a logic of its own. Ethnic differences, for both populations and leadership, emerge as critical elements, as do the potentially powerful traditional religious forces. The age of affluence in the Arab world has generated fertile ground for new animosities.

Day to day politics among the Arabs will continue to operate within these bounds, and decision-making at national levels will be influenced by what is perceived as possible within the constraints of five systems of conflict -- four conventional ones and the new addition.

### 3. MACRO-ECONOMIC CHANGE: WEALTH AND POWER

The oil price increase of 1973 was a successful, though not the first, attempt to change the price structure in the world oil

market. The success is due partly to market changes, to changes in relations between oil companies and producer governments, and to a new technological competence among oil exporting countries themselves. The war of 1973 provided the trigger for price increase; the stage was set.<sup>6</sup>

Large scale capital flows resulted from economic power exerted by oil exporting countries. The issue then was not so much a prospect of oil being used as a "weapon", but the reality that oil, when translated into dollar sales, generates massive financial resources which themselves constitute "power" and can be viewed as a potential "weapon". Internal adjustments in individual economies became necessary. New international connections were created.

The immediate effect of the new prices was soaring investments by oil rich countries in economies of the West, and massive imports of goods and services from the West. Expanding demand and ambitious development plans provided the economic agenda of the day, affecting all sectors of the economy, with the most pervasive expansions occurring first in construction. The building of infrastructure on a large scale, with attendant investments, generated employment demand and labor shortages.

Demand for labor -- of all types, but mainly for construction workers -- clearly emerged as the most important constraint for growth and realization of investments. Wages increased, employment opportunities grew, and labor from other countries responded rationally -- that is, by moving from low wage areas to prospects of higher wages. The war of 1973 and Egypt's "open

door" policy had removed political obstacles to movement of labor, resulting in new, massive large scale shifts of manpower throughout the region as a whole.

The overall effects of such changes was development of new institutions, and fundamental transformations of economics and politics in the area as a whole. Greater government to government relations emerged, for political discussion to be sure, but principally for regulation of economic processes. The development of commercial and banking infrastructure and lending facilities became a necessity. Local as well as regional banks were established.

But undoubtedly the most critical of these ventures was the emergence of development banks and development assistance. "Surplus" resources were now channelled into areas where returns on investments in terms of development impact were deemed plausible. Arab countries themselves became both agents and donors for their own transformation.

With this last link we have come full circle: price changes in 1973 provided those resources that are now being channelled for economic changes. Use of financial instruments for commercial and developmental purposes, at the discretion of Arab governments and private individuals, expanded the exercise of national autonomy and the use of discretionary power.

#### 4. ENERGY: SHORT AND LONG RUN ISSUES

In the short run, energy in the Arab world means oil. Critical policy issues pertain to prices, production, investments in exploration and development, and expansion of production capacity and capacity utilization. The energy agenda for the short term



is defined as follows: oil related revenue (income) will be critically allocated to domestic development, expansion of a varied portfolio of investment, emergence of assistance programs, concern for balanced growth and a practical approach to diversification of economic activity.

In the longer run, energy in the Arab world means the following: development of alternative sources of energy, acquisition of knowledge and skills necessary for expansion of resource base, conservation of fuels, diversification of energy uses, and expansion of technology required for economic diversification. Parameters of the future will, by necessity, be shaped by policies for the short run.

Price of oil, the immediate policy concern, is essentially a political statement made possible by existing market conditions and economic relations.<sup>7</sup> The price increases of 1973 signalled more than simply a change in the rate and medium of exchange. They were a reaffirmation that the terms of exchange would be strongly influenced, if not set, by oil exporting countries. With the benefit of hindsight, we now see that the initial price increases propelled fundamental structural changes.

Relations between producer and consumer countries changed. The role of the international oil companies adjusted accordingly. Although international oil companies remain as global regulators of the industry worldwide, their immediate influence is reduced, partly by the emergence of direct producer-consumer interactions, partly by the establishment of national oil companies. National oil companies are assuming responsibilities that had earlier been

relegated to international concerns, thereby also reducing the technological monopoly of global companies. In Europe, at least, there is a commensurate development in expansion of the role of state-owned oil enterprises.

If maximizing the present discounted value of future income streams was the only objective of oil exporting countries, then setting the optimal price of oil is a fairly straightforward proposition. But governments, unlike firms, seek to attain (not necessarily maximize) numerous objectives, only one of which pertains to profit. In Arab countries political memories are strong: today's decisions encompass today's politics, as well as those of the past. Goals are national, but their international effects are also scrutinized. The Arab world and Islamic communities together are becoming the broader constituents served by today's decision-making.

In the short run, claims on oil revenues are extensive. There is no historical experience in which countries, on such short order, embark on such ambitious political and economic agendas with as massive resources available. But even oil related decisions must take into account changes in the oil market that do not bear directly upon oil exporting countries themselves. The role of new entrants -- the North Sea, Mexico, even Egypt -- might provide new constraints in the short run, but will certainly shape the bounds of decision-making for the future.

In the longer run, energy issues in the Arab world entail uses of investments in associated gas products and expansion of alternative energy sources (in terms of investments and access to technology). Expansion of potential hydroelectric power is a

possibility for some countries. Nuclear power is already on the drawing board for some countries. Natural gas uses are gradually emerging (beyond Algeria) and possibilities for acquiring and commercializing solar technology appear imminent. Coal is not abundant in the Arab world and its prospects as an alternative source of energy are dim.

With the exception of hydroelectricity, alternatives are not yet commercially viable. Thus it is the ultimate irony that, in the longer run, policy issues in the energy area will bear more directly upon areas other than energy. Energy issues will become almost exclusively issues of macro-economics. At the core of such concerns, now as in the future, will be technology and labor. At the risk of oversimplification: energy issues are technological ones and create necessities for expansion of manpower skills and capabilities.

##### 5. MANPOWER: EMPLOYMENT, MIGRATION, AND DEVELOPMENT

The Arab world has conventionally been viewed as a closed system, with little inflow or outflow of population. The establishment of Israel constituted a massive intervention in the demographics of the area. But other than concerted migration of workers from Algeria to France, the region remained fairly contained from a demographic point of view.

Economic changes induced by the events of 1973 created a dynamic process that fundamentally changed both view and reality for the Arab world. For example, in 1962 there were 100,000 Egyptians abroad, mostly permanent migrants; in 1980 there are close to 1.5 million Egyptians elsewhere in the Middle East. Of

these, migrant workers constitute about 10-15 percent of the country's labor force. Regardless of accuracy or precision, such general magnitudes represent qualitative changes in labor force structure and composition. Between 1973 and 1980, however, employment and labor force structure of Arab states had undergone substantial transformations and phased adjustments.<sup>8</sup>

The traditional labor profile prior to 1973 for the Middle East as a whole can be summarized as follows: there were countries that exported unskilled or relatively unskilled labor (Algeria, Turkey); there were countries that imported skills of all sorts (the Gulf region and Libya); there were countries that were exporters of highly skilled labor (Egypt and Jordan); and there were states that could be termed self-sufficient in manpower requirements (Morocco and Tunisia).

Demand for labor in the oil rich countries disturbed this fairly robust equilibrium. Responses to higher wages were extensive. Flux of labor contributed to new adjustments and new equilibrium, resulting in a change in labor force patterns and employment profiles for everyone.

From 1973 to 1976 or thereabouts, labor force changes created a new profile and typology for the region. Some countries exported unskilled labor (Algeria continued to do so, and now Tunisia emerged as a new exporter). Some continued to import all skills (the oil rich countries). Exporters of skilled labor like Egypt became a major source of exports of all skills. There appeared to be no self-sufficient states (Morocco began to encourage outmigration). Some countries imported and exported labor (Iraq was a case in point, as was Oman, each with a

different economic necessity and political rationale).

The period of 1973-76 was a particularly dynamic one in the history of the region. The new equilibrium was transitional at best, and new changes were in the offing. Convergence of labor shifts, economic change, investment programs -- all contributed to the emergence of new trends.

By 1976 or so a new phenomenon emerged which threatened to further transform the labor structure of the Arab world, namely large scale migration of Asian labor. Pakistanis, Indians, Koreans, Baluchis and others responded strongly to demand for labor. The new supply came from countries that traditionally had little concerted contact with Arab economies. The new flows were partly a response to market conditions and partly fueled by political concerns. They contributed the residual -- making up for the difference between demand for labor and supply from Arab sources.<sup>9</sup> It remains a question of substantial debate whether importing countries "prefer" Arab labor or foreign labor. Arguments on both sides abound. In the last analysis, however, market conditions might shape political preferences.

In some sectors the "residual" may be assuming major proportions. For example, in construction, Korean, Indian and Pakistani labor appear to predominate in some importing countries. The picture is not entirely clear. Census material, residence permits, labor permits and the like, when pieced together, provide a picture of what might have been happening from 1976 on.

But the present is transitional as well. Labor issues in the 1980's will be determined not only by magnitude of demand, but

more directly by structure and composition of demand. Transformations in the economies of the importing countries generate demand for new "mixes" of skills, and responses to this demand will inevitably influence labor force completion of sending countries.

The most visible, important and salient changes are in the construction sector. And construction can be substantially retarded by bottlenecks in labor. Massive investment programs in oil rich countries have "pulled" labor from Egypt and other places. The expansion of investments in Egypt, in response to changing political conditions, created massive construction activity, unprecedented in the country's modern history, thereby requiring additional labor inputs. Demand for labor in Egypt exploded precisely at a time when demand for Egyptian labor in oil rich countries was at its highest. The result, predictable in economic terms, was twofold: skyrocketing wages in the construction sector, and high responses to such hikes from other sectors. Workers were in effect being "pulled" out of agriculture, in responses to higher wages for construction, and flowing into a sector where the shortages were acute. The effects on agriculture, as an example, were also predictable: skyrocketing wages, impending shortages of labor, and intensification of the inflation-cycle already in place.

Thus, in the space of a few years, Egypt, the conventional "labor surplus" country, became one of labor shortage. Domestic demand for labor was becoming acute, due to two convergent developments: reconstruction in the Canal zone and investments in construction for new cities. Such investments were,

obviously, the product of changes in the conflict systems that characterized the Arab world, as reviewed in an earlier section of this paper. Egypt had made a commitment in the cold war; changed its posture in inter-Arab politics; began to feature, though marginally, in oil issues due to its export potential, and appeared to place internal development higher in the structure of national priorities.

At the same time, the country's traditional role as supplier of administrators, teachers, and clerks to other Arab countries continues. This is one set of services the Asian labor cannot replace entirely, or even marginally. Connections with Arab states continue, in spite of inter-governmental difficulties, nurtured by structural bonds created by past commitments and solidified by the economic changes of the 1970's. Egypt's predominance as a labor supplier can be viewed in yet another context, namely as a purveyor of knowledge and skill (technology) for the rest of the Arab world.

#### 6. TECHNOLOGY: TRANSFER AND ADAPTATION

Technology transfer is a diplomatic term that fails to convey that goods and services are bought and sold on open markets. The commercial reality of the transaction is obscured by the term employed. It is this reality that has enabled Arab states, both oil exporting and non-oil exporting, to obtain access to knowledge and skills and to the wide range of elements that are commonly regarded as "technology" -- from information to equipment, machinery and complex industrial designs.

The oil price increases of 1973 made it possible for conven-

tional knowledge and skills, traditionally obtained from Egypt, to be complemented by access to sophisticated technology, commercial designs, and industrial designs and inputs into industrial processes. The sheer magnitude of the resources available allowed purchase of whatever technology was required. The critical issues that remained, then, pertained to choice of technique. It is in this regard that Arab states still remain dependent on external inputs and assistance.

Oil rich countries have continued that dependence on information, technology and technical assistance from the West. Because of demographic constraints and inability to expand national skills, the commercial aspect of technological acquisition has become paramount. Thus decisions on criteria for technological choices have become imperative. It is not at all obvious that Arab states have learned to make appropriate decisions, or to determine the basis upon which decisions pertaining to technology should be made, or even to decide whose advice should be taken. For most Gulf states the influence of the colonial past remains particularly strong. British technology is respected and bought. For Saudi Arabia in particular it is the United States that provides technical knowledge and skills, almost indiscriminately and without sufficient evaluation on the part of the Saudis themselves. This is hardly a mechanism for enhancing Saudi technology. In the last analysis, importation may be a short cut to technological change, but it is not an effective means of establishing a robust -- or even marginal -- national technological base.

The lesson from Saudi Arabia is this: if one has sufficient



resources one can import almost any technology; but importation in itself does not ensure adaptation, survival, or even contribution to national growth. Saudi Arabia, as the archetypical importer of the Arab world, is in close danger of becoming technically dependent upon the United States. This dependence, if unchecked, may amount to a new form of colonialism, one dictated by necessity rather than by economic weakness. Such a dependence will be extremely costly for the Saudis (as well as for other countries of the region), and the costs will be paid in political currencies rather than economic ones. The same can be said for any country of the region that foregoes the possibility of choice by binding itself to one particular source.

In the last analysis, it appears self evident that only technology that is effectively learned and adapted to national conditions will take long term roots in Arab countries. Arab states by their very nature have developed considerable resistance to foreign intervention and influence. Short term presence of the West -- or other sources of influence -- may be precisely that, short-term. Hence, developing a national cadre of knowledge and skills becomes imperative. The challenge of the 1980's is to establish the basis for exercising autonomy in technical choices. The ability to pay for imports of technology is clearly present. The ability to make the appropriate choices remains to be developed.

#### 7. BANKING: DEVELOPMENT AND COMMERCIAL INVESTMENTS

The 1980's will exhibit considerable expansion of both com-

mercial and development lending. The decade of the 1970's generated extensive resources in the Arab world, the mobilization and investment of which appear to be expanding extensively during the early part the 1980's. The significance of this development is twofold: first, for the first time in their history Arab states have at their disposal resources that are to be allocated in accordance with their own discretion. Second, these resources are being mobilized in both commercial and developmental veins. The commercial elements have deep historical roots given the entrepreneurial background of some states, but the development aspects are new. Arab states are now establishing lending facilities designed explicitly to provide services to each other -- technical assistance, infrastructure investments, balance of payments assistance.

Rendering a complete review of banking institutions in the region is too complex a task for this article. Suffice it here to note the sheer proliferation of national and international banks, with headquarters in Arab states and with basic capital from Arab sources. Among the difficulties involved in reviewing trends in recent years is that since many loans are committed but not disbursed for several years, it is difficult to obtain accurate figures on effective commitment. Actual disbursements may not be at the same level as reported and wording of commitments can often be vague. Nonetheless, some trends appear.<sup>10</sup>

Committed aid by Arab institutions from 1974 to the present is quite competitive with World Bank and International Development Assistance loans to Arab countries. However, terms are far more concessionary. In many instances Arab commitments are more

extensive and equal or even exceed sums committed by these international institutions.

Lending can often be quite complex, given scarcity of personnel and difficulties in evaluating projects. The Abu Dhabi Fund (ADFAED), Saudi Development Fund (SDF), Iraq Fund for External Development (IFED), and Kuwait Fund for Arab Economic Development (KFEAD) are all bilateral, administered by one country, and generally disbursed to individual recipients or occasionally an organization. Multilateral funds include Arab Fund for Economic and Social Development (AFSED), Arab Bank for Economic Development in Africa (ABEDA), and the OPEC Special Fund. Other lending facilities include the Arab Authority for Agricultural Investment and Development, the Arab Monetary Fund and the Arab Africa Oil Assistance Fund.

All funds concentrate the majority of their lending to projects involving power generation or industrialization. Support for agriculture and irrigation and improvements in transportation facilities and road building schemes is extensive. This trend reflects perhaps the paucity of infrastructure development in the recipient countries. There is only marginal allocation for technical assistance. With the exception of funds whose mandates commit their activities to a particular region (such as the AFESD for Arab states, ABEDA for Africa, and the OPEC Special Fund for non-oil states), the Arab world broadly defined accounts for the vast majority of committed aid.

Arab states have also been involved with several major projects to which a large amount of money was allocated in a

short period of time. Assistance for front line states (100 million dollars committed at Rabat, October 1974) included balance of payments assistance for Egypt in a particularly difficult year (1977) when Egypt experienced a combined debt of about 12 billion dollars, 2.1 billion of which was short term commitments. The Gulf Organization for Development in Egypt (GODE) was briefly created, to which Saudi Arabia, Kuwait, Qatar and the UAE were members and contributed 2 billion dollars, which was extended in three tranches at 5% interest, at which time GODE was eliminated as its capitalization was depleted. In November of 1979 at a Tunis Summit Conference, Saudi Arabia, Kuwait, Libya, Iraq, UAE, Algeria, and Qatar agreed to contribute jointly 400 million dollars a year for reconstruction budgeted for five years.

African countries suffering from balance of payments difficulties enlisted 1.4 billion dollars from four Gulf states at the Cairo Conference in 1977. Saudi Arabia pledged to double its contribution to ABEDA up to 240 million dollars a year and to funnel 850 million to the African Development Bank and 16 million for technical feasibility studies. Kuwait pledged 200 million dollars to products through the KFAED, an additional twenty million dollars to ABEDA, ten million dollars to the African Development Bank, and ten million more to the African Development Bank and five million dollars to feasibility studies. Qatar pledged fifty million dollars to the National Bank of Qatar, their aid distributing agency, an additional twenty million to ABEDA, five million to the African Development Bank, and one million for feasibility studies. Aid to African countries through the OPEC

Special Fund has been averaging from sixty to eighty million dollars a year, although much of this is for balance of payments loans rather than direct contributions to development projects.

In August 1979 the Middle East Economic Digest reviewing lending practices (MEES) indicated that Arab institutions actually committed 82.5 percent of their pledged 1.4 billion dollars.<sup>11</sup> Of the Arab development funds, the ADFAED is among the most conservative, concerned with the profitability of projects that they finance: no project may receive more than ten percent of the fund's capital; no project may receive more than fifty percent of its estimated cost; and no project will be funded in conflict with Abu Dhabi or Arab interests. The ADFAED resists too much "exposure" in any one country. Among the notable projects supported by the ADFAED are the phosphate industry in Jordan, one large mine in Mauritania, rural development in South Yemen, dam projects in Pakistan and Nepal, and a large scale agriculture project in North Yemen. Funds were cut off from Egypt following the Camp David agreement, and no allocations are made to countries sympathetic to Israel. The government of the UAE also extends direct government to government concessionary loans. For example, fifty million dollars were extended to Sudan (four percent interest) in April 1980, a pledge of 108 million dollars to Syria for an airport, and 38 million dollars to Guinea-Bissau for a dam.

The AFESD is the oldest of the multilateral regional funds and at the end of 1979 accounted for fifteen percent of the value of all aid from OPEC, Arab, and Islamic aid-giving organizations.

It is also the institution of greatest technical expertise; it makes direct loans to whole sectors or to individual projects, supports joint projects, and does technical assistance work as well. The Fund's largest commitments are to transportation, with massive investments in roadbuilding and railroad construction. ABEDA too has focused extensively on transportation, with concomitant assistance from rural development and power projects.

The Kuwait Fund for Arab Economic Development is the oldest national fund in the region, with the largest amount of resources to give out. In March 1974 the Fund expanded its mandate to include non-Arab-world countries requiring development capital. Technical assistance is also extended, despite the fund's small staff. Power projects are preponderant recipients of KFAED aid, and a larger proportion of lending goes to transportation than to industrialization. The government of Kuwait also extends aid directly through its Finance Ministry. From 1973 through 1979 Kuwait disbursed about 6.4 billion dollars of aid, over half of that amount being channeled through international institutions (IBRD, UN, and IDA). 1.4 billion went to multilateral Arab institutions, 1.8 billion through the KFAED, and the remainder through the Kuwait Finance Ministry. Kuwait aid is also channeled through a variety of commercial enterprises with developmental concerns.

The OPEC Special Fund is notable on two counts: over half of its resources come from Arab states, and nearly half of its loans and most of its disbursements have gone to international organizations. The Fund appears to be conservative and rather cautious. A considerable fraction of its resources goes to

specified fourth world countries for balance of payments assistance, to be met by matching funds from the recipient country for domestic projects. Power projects are given increasing attention and other sectors largely neglected. Excluding loans to international organizations, the Arab world has received less than 25 percent of loans. Latin American states have gradually been increasing their percentage of loans -- Venezuela is a major contributor -- while loans to Asia have declined.<sup>12</sup>

Since 1977 the Saudi Development Fund has been the largest donor in the Middle East. Again, power projects are predominant, but unlike other funds the SDF is more diversified in its lending. The Saudi government also extends development aid directly through government to government agreements. Through 1978 they had committed about 1.6 million dollars (roughly the same amount as through the SDF, but for generally more politicized or cultural projects -- mosques, emergency assistance, PLO, and aid to front line states, as well as direct balance of payments relief. The bulk of this aid goes to Arab states.

In addition to development funds, there is a complex network of commercial operations with a development focus. Most are in the nature of regional commercial joint ventures. Their concern is with the project or with broader mandate. For example, Kuwait investment houses in particular have been evolving into active short term lenders; consulting, undertaking feasibility studies, offering technical advice, managing projects, and so forth. Late in 1978 they began handling more Arab issues of bonds as well. Intergovernmental joint ventures have sprung up and mixtures of

private and public groups appear.

The clear conclusion is this: Arab states are disbursing aid for their own development. Assistance to other countries is extended, taking into account political and economic factors. Project availability is considered, but politics is not neglected. The unprecedented flow of resources into the area mobilized existing skills, resulting in an equally massive commercial and developmental investment. The outcome is a new form of regional politics and a new shape for regional economics in the 1980s.

8. CONCLUSION: NEW INTERDEPENDENCE AND POWER

The foregoing survey of changes in the Arab world represents qualitatively new conditions, not simply quantitative changes. The new horizon is one of extensive linkages among policy issues and among countries, in policy planning and decision-making. The parameters of change in Arab states will necessitate greater economic planning at the national level, and greater cognizance of transnational influences. One country's economic planning will inevitably take into account resources from another. For example, realization of investments in Saudi Arabia or other Gulf states is intimately tied to manpower availability. Migration of labor will continue to be essential to policy planning. By the same token, investments in the sending country, Egypt or Jordan for instance, will be affected by demand for labor in Saudi Arabia. The result is a close interconnection among labor forces: demographic structures will become even more highly intertwined.

Resources in Arab states, broadly defined to include oil,



money, manpower, and military capability, are at their historical peak -- but not the potential maximum. The challenge for the 1980s is to maximize gains for individual states and for the region as a whole. Planning in the context of potential wealth is a fundamentally different proposition than planning in scarcity. Arab states must now adjust to new realities.

FOOTNOTES

1. This article draws upon analysis in an ongoing Research Program on Political Economy of the Middle East, under the author's direction at M.I.T.
2. Any book on the Middle East written between 1950 and 1970 makes such suppositions. The volume The Political Economy of the Middle East: 1973-78 prepared by the Library of Congress is a noted departure.
3. I am grateful to Dr. Ijaz Gilani of Islamabad University for posing the issues so starkly.
4. For example, Levy, Walter J. "Oil Power". Foreign Affairs. No. 4, (July 1971), pp. 642-668; "World Oil Cooperation or International Chaos?" Foreign Affairs. Vol. 52, No. 4, (July 1974), pp. 690-713; and Adelman, M.A. "Is the Oil Shortage Real? Oil Companies as OPEC Tax-Collectors." Foreign Policy. No. 9, (Winter 1972-73), pp. 69-107.
5. Political changes of the early 1970s are reviewed in Nazli Choucri, International Politics of Energy Interdependence: The Case of Petroleum. D.C. Heath, Lexington Books, 1976.
6. For an analysis and computer simulation of the world oil market and price determination, see Nazli Choucri, International Energy Futures: Petroleum Prices, Power, and Payments. Cambridge, MA: M.I.T. Press, 1981.

7. An alternative to conventional views of OPEC is presented in Nazli Choucri. "OPEC: Calming a Nervous World Oil Market." Technology Review. Vol. 83, No. 1, October 1980.
8. These figures are based on data compilations of the Migration and Development Project, part of the Research Program on Political Economy of the Middle East. List of publications on migration can be obtained from the author.
9. For a detailed analysis of Pakistani migration see Ijaz Gilani, Pakistani Emigration to the Middle East: A Cost Benefit Analysis, July 1980.
10. The following observations draw upon an internal memorandum on development banking in the Middle East prepared by Peter Haas. Actual figures came from reports of the Middle East Economic Survey (MEES) and annual reports of the institutions in question. This review does not include transactions in 1981.
11. Middle East Economic Digest, August 3, 1979.
12. For financial assistance to Latin American countries, see Nazli Choucri, Energy and Development in Latin America. (D.C. Heath, Lexington Books, in press).