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Hossein Askari and John Thomas Cummings

THE FUTURE OF ECONOMIC INTEGRATION WITHIN THE ARAB WORLD

I. INTRODUCTION

Like many other topics concerning the Middle East, intraregional trade will be greatly affected by the massive inflows of capital into the oil-producing states during the coming years. The history of such trade has been examined in detail before.¹ The region has even embarked on ventures designed to promote the movement of goods within the area, such as the erstwhile Syrian-Lebanese Customs Union and the Economic Unity Agreement of 1964, which envisaged the development of an Arab Common Market. We believe, however, that the momentous changes occurring at this time throughout the region require that questions regarding the likely future of any Middle Eastern economic union be reconsidered. Specifically, we propose to examine the prospects of economic integration in the region from Libya to the Persian (or Arab) Gulf. We begin by presenting a profile of the region's trade-dollar volume, principal commodities, and changes during recent years up to the increase in oil prices; then we project the data forward to consider the possible benefits and drawbacks of integration for individual nations.

II. ECONOMIC INTEGRATION: THE INGREDIENTS OF SUCCESS

The formation and functioning of a successful customs union or common market is clearly dependent on each member country reaping some benefit. The likelihood of the survival and development of the union would also increase if such benefits or gains were more or less equally shared by all the member nations.² As a result, it is important to explore the possible benefits of an Arab customs union and evaluate the chances and problems of its success in relation to the present and future economic situations of each of the likely members.

In the normal textbook analysis of a customs union, several effects are considered. First, following the elimination of trade barriers between the members, there will be an increase in trade. This increase in consumer surplus and the pro-

¹ Alfred G. Musrey, *An Arab Common Market* (New York: Frederick A. Praeger, Publishers, 1969). This work contains a detailed analysis of trade among the Arab States since the end of World War II.

² By equal shares of benefit we do not mean equal absolute amounts but equal percentages of Gross National Product.

duction gain by resource transfer, a benefit, is called trade creation. On the other hand, if a member country buys a commodity from a partner after the union at a price higher than the world price, then it is overpaying on every unit that previously could have been imported from the lowest-cost (nonmember) producers. Such a situation, resulting in a loss to the importer, is called trade diversion.

Besides the standard increases or changes in trade, which are basically indicators of consumption gains and losses, there are also advantages on the production side. Thus, there might be static gains if greater exports are possible as a result of securing preferential treatment in a larger protected market. In addition, there are dynamic gains from increased production. Such benefits are potentially much greater, since they are not limited to industries already existing when the union is initiated. In a considerably larger market, it is much more likely that the bottlenecks, though imposed on development by the indivisibilities first discussed by Paul Rosenstein-Rodan,³ could be overcome. Investments that might at best be of doubtful promise in any or all of the individual nations could become highly promising in a larger market. (It should be noted that such benefits can be gained in the long run even from situations which in the short run have all the hallmarks of trade diversion). Furthermore, if justification can be made on infant industry grounds⁴ for import restrictions in a developing country, then the concomitant market enlargement through integration, certainly in most cases, would favorably enhance the chances of the protected industry becoming competitive eventually.

In the broader market, not only would existing infant industries be more likely to mature (and to do so more rapidly), but industries, the foundation and protection of which would be quite thoroughly illogical in any one of several small countries, could become worthy of investment consideration. If we add to this consideration a rapidly expanding regional income and demand, the prospects of success are all the more heightened.

In static terms, after the founding of a customs union, trade diversion may in fact take place, but what might be called a market-creating effect, initiated along with the union, might well result in patterns of trade beneficial even in strictly economic terms, especially if the countries involved are undergoing a rapid growth in consumer and/or investment demand. Considerable increases in demand within relatively short periods could make pre-union trade patterns more or less irrelevant if much of this new demand might not have come into existence without the union.

On the supply side, bottlenecks in the affected industries would tend to lengthen their maturation period, but would only negate the long-run benefits of the union if upward pressures on costs resisted relief. To the extent the region possessed the

³ P. N. Rosenstein-Rodan, "Problems of Industrialization of Eastern and South-Eastern Europe," *Economic Journal*, 53 (June–September 1943), 202–211.

⁴ That is, industries that cannot currently compete on the world market, but for which the case is made that with some protection, they will become eventually sufficiently efficient to compete on the world market.

capital necessary to ease these bottlenecks through expanded imports of producer goods, for example, or rapid improvements in human and infrastructure resources, then supply problems would become more manageable.

There remain undoubtedly a number of industries which initially experience increased demand as a result of trade diversion but which despite the market and income growth are unlikely to become competitive within any reasonable period of time. It does not follow, however, that the protection of and/or investment in all such industries is contrary to the rational self-interest of the members of the union. We need only expand the familiar national security argument so often heard in past decades generally, if not exclusively, from more economically advanced countries, to include a recognition of the world's likely future of chronic shortages of critical materials. Not only the success of a development program but the very survival of a society could be at stake if such a shortage is in a sector like food, energy or organic chemicals. Standards of economic rationality cannot be applied in a vacuum. Political considerations can compel developing as well as developed societies to consider the advisability of subsidizing directly or indirectly critical sectors.

One further aspect of economic integration is relevant to the Middle Eastern situation. In a common market, factor mobility is an important building block in the structure of integration. In the European Economic Community (EEC) capital is relatively abundant in the more industrialized areas like the Rhineland or in the British Midlands, and scarce in less industrialized sections like Ireland or southern Italy. Capital from within the EEC is drawn to these regions not only by tax incentives and the potential higher rate of return but also by the fact that these capital-scarce regions are *within* the EEC. Economic and non-economic risks are thus reduced to the extent that the institutional framework of the community provides common enforceable "rules of the game" and guarantees continued free capital movement. It has not been, and still is not, easy for Europe to forget centuries of internecine warfare, yet the fact remains the nearly two decades of occasionally fitful progress toward economic integration now sees Milanese bankers lending capital to Ruhr industrialists for plants to be built in the suburbs of Dublin without even an undertone of politically motivated concern in any relevant quarter. The framework of economic integration may well require a few years' head start before such situations are commonplace, but the fact remains that, once off the ground, integration tends to provide the holder of capital with an intra-union investment zone increasingly less different as regards political risk from the home country.⁵ The relative attractability of investment opportunities outside this zone thus will reflect more and more the combined economic and political situation within the common market as a whole.

In general then, we hold that if the success (or failure) of any scheme for eco-

⁵ Which, of course, might seem very risky to the individual capitalist, particularly in a developing country. If the investors are not private, but, for example, member governments of the common market, then risk is primarily a function of the current and future status of the general relations between the union's constituent states.

nomie integration depends upon how the signatories evaluate their individual interests, such evaluation is likely to proceed on several levels, only one of which is within the conventional framework of trade-creation versus trade-diversion. Any increase in the *exports* of a member state due to either reason is probably, at least in the short-run, attractive to that state. The interests of those with chronic balance of trade deficits (as well as of consumers in general), however, are naturally furthered by cheap imports. Regional economic integration could thus be beneficial, from an orthodox trade theory viewpoint, only if it promised (within a reasonable time period) the welfare gain of at least slightly better than competitive sources of goods within the union. In this regard, we must point out that a country could obtain, in general, more than the amount of consumer surplus available under a customs union arrangement by simply eliminating all traffic vis-à-vis the outside world. Thus, the promise of any such union has traditionally included the possibilities of larger exports of presently manufactured goods and of dynamic gains.

If there is any basis for a customs union in the Middle East, then there obviously must be enough of the production gains, as mentioned above, so that each country would want to join and cooperate with its partners in the difficult transition period. If a country (or rather its leadership) possessed a reasonable time horizon, these gains could of course be of a generally long-run nature. In the context of this region in coming years, we will argue that to a far greater extent than has been true in the past, these potential partners (whether they now have surpluses or deficits with their neighbors or with the world at large) could justify their participation on grounds of *both* economic (traditional and nontraditional—such as the gains from investment of surplus capital) and noneconomic rationality. Furthermore, the crucial differences in future discussions of Middle East economic integration (which can, after all, only involve variations of schemes already proposed) are due to the capital-surfeit problem of the area in general and the major oil-producers in particular and to reasonable projections of worldwide chronic shortages in the next few decades. That the oil states themselves have been party to the first major shortage crisis is likely only to sharpen their sensitivity to the possibility of being caught on the other side—for example, the danger of being only one of the world's several food-deficit regions standing, hat in hand, in the next bad harvest period, before the handful of chronic food-surplus nations.

A final comment on the particular situation of the Arab countries is in order. Almost all these nations are, by any standard, underdeveloped regarding industrial and agricultural productivity. However, with the tremendous increase in oil prices, some of them could, in principal, both expand and develop rapidly and, with their capital, help their less well-endowed Arab neighbors,⁶ who would be partners within a regional economic union, to do likewise. We are in fact examining a region truly unique in modern economic history. These massive changes in govern-

⁶ The contrast is not only between the rich (Abu Dhabi) and poor (Jordan) but between extremes of reasonably well-developed industrial, agricultural and commercial sectors and states with little in one or more of these areas that merits designation.

mental and private purchasing power were compressed into a handful of years; this rapid expansion of demand provides the potential for considerable gains of the dynamic type discussed above—and gains telescoped into a span almost short enough for the observer to follow in a newspaper.

In the next section, we examine the relevant trade data to explore the potential overall and country-by-country benefits of expanded trade resulting from economic integration.

III. MIDDLE EAST TRADE PATTERNS: RECENT CHANGES AND PRESENT REALITIES

To begin with, both the Arab Middle East as a whole and most of the individual states have recently undergone massive increases in both exports and imports. Indeed, the growth rates of several countries in the region lead the list of world traders for the last two decades, as can be seen in table 1. Table 2 presents a profile of the trade performance of the major Arab states, comparing the changes in their commerce with the world as a whole with that conducted with their immediate neighbors—that is, the intraregional trade with which we are concerned in this study.

To be sure, the greatest changes have occurred in those countries (table 3) that have been fortunate enough to combine low population with extensive oil resource exploitation. Both Lebanon and Jordan, however, without a drop of petroleum beneath their soil, have certainly shared in this rapid expansion.

As can be seen from tables 2 and 4, for most of the countries listed, trade with their eight larger Arab neighbors has grown faster than that with the world as a whole. This is particularly notable for the non-oil states. Table 4 presents a more detailed breakdown of the intraregional changes affecting these major states, indicating shifts in the individual bilateral trade balances during the 1950s and 1960s, as well as in the share of intraregional trade. Similar comparative figures are not available for the smaller Gulf states.

The nine countries can be logically divided into two subgroups—four of them major oil producers (Saudi Arabia, Kuwait, Iraq, and Libya) and five of them not (Egypt, Sudan, Lebanon, Syria, and Jordan). We begin our discussion with the latter. From the data in the various tables, it is obvious that Lebanon shows the most dramatic changes in this group, with imports more than quintupling and exports up by nearly 1,350 percent between 1953/54 and 1972/73. Furthermore, Lebanon's export/import ratio rose dramatically from about 15 to nearly 42 percent. Though capital flows, tourist and banking services, and emigrant transfers have remained of major importance to the Lebanese economy during this period, the much more rapid growth of exports has been significant in determining the actual role of a potential foreign exchange constraint in the country's economic development.

Lebanese exports not only grew rapidly during this period, but notable shifts

TABLE I Comparative trade growth rates, 1952-1972
(In percent)

IMPORTS		EXPORTS	
Country	Growth rate	Country	Growth rate
<i>Libya</i>	19.03	<i>Libya</i>	31.13
Iran	14.99	Iran	22.58
Japan	14.97	Israel	17.02 ^b
W. Germany	13.36	Yugoslavia	16.19
<i>Saudi Arabia</i>	12.03 ^a	Lebanon	15.83
<i>Kuwait</i>	11.87	France	15.20
E.E.C.	11.15 ^c	Japan	14.77
Sweden	10.80	Venezuela	14.50
Israel	10.78 ^b	W. Germany	11.90
Nigeria	10.64	<i>Jordan</i>	11.37
Yugoslavia	10.27	E.E.C.	11.22 ^c
<i>Lebanon</i>	10.18	<i>Saudi Arabia</i>	10.37 ^a
France	9.58	<i>Iraq</i>	9.38 ^a
Canada	8.99	<i>World Average</i>	8.52
<i>Jordan</i>	8.55	Sweden	8.34
U.S.A.	8.43	Turkey	8.12
<i>World Average</i>	8.30	Canada	7.28
Venezuela	7.82	South Africa	7.26
<i>Iraq</i>	7.59 ^a	U.S.A.	6.65
Australia	7.49	United Kingdom	6.55
<i>Syria</i>	6.22	Brazil	5.55
Indonesia	5.47	<i>Syria</i>	5.55
United Kingdom	5.05	Nigeria	5.38
South Africa	4.32	Argentina	5.03
Turkey	3.93	Australia	4.67
Brazil	3.87	<i>Egypt</i>	3.79 ^b
<i>Egypt</i>	3.05 ^b	Indonesia	3.49
Argentina	2.89	India	3.08
U.S.S.R.	2.48	U. S. S. R.	3.07
India	2.37	Pakistan	2.02
Pakistan	1.21		

^a 1952-1971.^b 1953-1972.^c Original six members.SOURCE: United Nations, *Yearbook of International Trade Statistics*, U.N. Statistical Office (New York, 1973).

in the composition of this trade also took place. Exports of manufactures have paced the country's performance, particularly after 1965. The importance of the Middle East in Lebanon's rapidly growing manufactures exports was very impressive because about 55 percent of these goods were sold to its neighbors in 1973. A wide variety of commodities is involved, with the biggest customers being Saudi Arabia and Kuwait.

Jordan, the smallest trader among the eight, has shown the second largest growth in trade among the non-oil producers. The composition of its trade has

TABLE 2 Average annual growth rates for trade, 1953/54 to 1972/73
(In percent)

Country	Trade with	Imports			Exports		
		1953/54 to 1972/73	1953/54 to 1962/63	1962/63 to 1972/73	1953/54 to 1972/73	1953/54 to 1962/63	1962/63 to 1972/73
Egypt	World	3.4	6.2	0.9	4.9	1.7	7.9
	8 countries	4.3	6.3	2.5	4.6	1.8	7.2
Iraq ^a	World	7.7	6.2	9.0	3.6	-0.3	7.3
	8 countries	11.1	13.6	8.8	7.0	-0.7	11.7
Jordan	World	9.4	10.8	8.2	12.0	10.3	13.6
	8 countries	5.6	1.8	9.2	9.4	6.7	11.9
Kuwait ^a	World	13.4	15.3	11.7	16.0	9.3	22.4
	8 countries	10.9	6.9	14.6	30.9	42.6	21.2
Lebanon	World	9.3	10.3	8.3	15.1	9.0	21.0
	8 countries	2.7	3.8	1.8	15.6	9.4	21.6
Libya ^b	World	22.8	25.7	20.4	37.0	46.0	29.8
	8 countries	22.8	5.9	39.3	22.9	-22.1	73.5
Saudi Arabia	World	12.3	3.3	21.1	12.4	3.0	21.7
	8 countries	14.0	14.0	14.1	0.4	1.3	0.7
Sudan	World	5.3	7.5	4.3	6.4	7.4	5.5
	8 countries	3.1	0.0	6.0	7.0	5.1	8.8
Syria	World	7.0	3.9	9.4	5.3	4.7	5.8
	8 countries	5.1	-0.5	10.4	2.2	0.8	3.5

^a Excluding petroleum.

^b Base year is 1954.

SOURCE: United Nations, *Yearbook of International Trade Statistics*, 1975.

changed in favor of secondary goods, with a growth rate comparable to that found for Lebanon. Jordan's exports in the early 1970s, prior to the phosphate boom, were quite like Lebanon's in 1953, however, and it remains to be seen whether this momentum can be maintained. Regional sales remained concentrated

TABLE 3 Gulf states trade growth

Country		1962-63 Average (\$ millions)	1972-73 Average (\$ millions)	Average annual rate of growth (percent)
Bahrain	Imports	60.6	430.7	21.7
	Exports	133.9	248.5	6.4
Oman	Imports	12.0	198.0	32.4
	Exports	3.1	383.9	61.9
Qatar	Imports	25.4	332.8	29.3
	Exports	100.3	508.4	17.7
United Arab Emirates	Imports	22.7	657.6	40.0
	Exports	32.0	1240.1	44.2

SOURCE: International Monetary Fund and International Bank for Reconstruction and Development, *Direction of Trade Annual*, Washington, D.C., 1975.

TABLE 4 *Intraregional trade, 1953-73*
(U.S. \$ millions)

	Egypt	Iraq	Jordan	Kuwait	Lebanon	Libya	Saudi Arabia	Sudan	Syria	Regional Total	Regional percentage of World Total	
											World Total	Total
Egypt												
1953-1954	—	1.51	0.07	0.01	2.43	1.31	15.21	7.60	1.84	29.98	481.72	6.2
1954	—	0.30	0.06	0.01	3.07	1.62	4.64	15.43	1.34	26.47	391.36	6.8
Average	—	-1.21	-0.01	b	+0.64	+0.31	-10.57	+7.83	-0.50	-3.51	-90.36	
1962-1963	—	0.40	0.02	14.79	1.48	0.14	22.67	11.13	1.22	51.85	828.11	6.3
1963	—	0.81	2.76	2.02	6.33	1.57	4.78	10.58	2.16	31.01	459.34	6.8
Average	—	+0.41	+2.74	-12.77	+4.85	+1.43	-17.89	-0.55	+0.94	-20.84	-368.77	
1972-1973	—	12.62	1.70	2.07	20.44	1.88	0.74	19.64	7.05	66.14	906.34	7.3
1973	—	7.03	3.05	2.54	7.66	18.30	6.19	8.81	8.81	62.39	970.95	6.4
Average	—	-5.59	+1.35	+0.47	-12.78	+16.42	+5.45	-10.83	+1.76	-3.75	+64.61	
Iraq												
1953-1954	0.45	—	0.24	0.18	0.95	0.01	0.03	0.01	3.32	5.19	197.51	2.6
1954	1.13	—	1.02	3.61	3.39	b	1.46	0.16	2.86	13.63	51.86	26.3
Average	+0.68	—	+0.78	+3.43	+2.44	-0.01	+1.43	+0.15	-0.46	+8.44	-145.65	
1962-1963	0.73	—	3.33	0.02	4.88	0.01	0.14	0.84	6.41	16.36	339.95	4.8
1963	0.27	—	0.74	1.83	5.58	b	2.38	0.27	1.45	12.52	50.46	24.8
Average	-0.46	—	-2.59	+1.81	+0.70	-0.01	+2.24	-0.57	-4.96	-3.84	-289.49	
1972-1973	7.59	—	4.16	4.83	16.30	b	0.02	b	4.57	38.07	805.95	
1973	7.65	—	2.33	13.53	13.53	b	2.25	0.15	9.95	49.39	101.92	48.5
Average	+0.06	—	-1.83	+8.70	-3.37	b	+2.23	+0.15	+5.38	+11.32	-704.03	
Jordan												
1953-1954	0.94	2.19	—	b	10.24	b	1.24	b	7.38	21.99	53.53	41.1
1954	0.02	0.67	—	0.03	2.98	b	0.16	b	1.92	5.78	6.07	95.2
Average	-0.92	-1.52	—	+0.03	-7.26	b	-1.08	b	-5.46	-16.21	-47.46	

TABLE 4 (Continued)

		Egypt	Iraq	Jordan	Kuwait	Lebanon	Libya	Saudi Arabia	Sudan	Syria	Regional Total	World Total	Regional percentage of World Total
Jordan (continued)													
1962-	Imports	2.86	1.89	—	0.01	6.00	b	4.26	0.74	10.07	25.83	135.18	19.1
1963	Exports	b	1.56	—	2.17	2.61	0.01	1.51	b	2.54	10.40	14.63	71.1
Average	Balance	-2.86	-0.33	—	+2.16	-3.39	+0.01	-2.75	-0.74	-7.53	-15.43	-120.55	—
1972-	Imports	7.59	2.40	—	1.50	20.94	b	10.26	0.99	18.55	62.23	297.42	20.9
1973	Exports	1.40	3.73	—	5.05	6.13	b	7.44	0.17	8.18	32.10	52.56	61.1
Average	Balance	-6.19	+1.33	—	+3.55	-14.81	b	-2.82	-0.82	-10.37	-30.13	-244.86	—
Kuwait													
1953-	Imports	0.01	5.88	0.01	—	4.08	b	b	b	0.80	10.78	84.83	12.7
1954	Exports ^a	0.01	0.13	0.01	—	0.35	b	b	b	0.01	0.51	11.62	4.4
Average	Balance	b	-5.75	b	—	-3.73	b	b	b	-0.79	-10.27	-73.21	—
1962-	Imports	2.07	3.47	2.34	—	8.50	b	0.06	b	3.26	19.70	304.43	6.5
1963	Exports ^a	1.67	2.56	1.37	—	1.25	b	5.43	b	0.18	12.46	25.80	48.3
Average	Balance	-0.40	-0.91	-0.97	—	-7.25	b	+5.37	b	-3.08	-7.24	-278.63	—
1972-	Imports	3.01	14.63	6.85	—	42.97	b	3.49	0.74	5.25	76.94	919.61	8.4
1973	Exports ^a	1.29	8.79	2.05	—	7.10	0.35	49.68	8.77	2.92	80.95	243.11	33.3
Average	Balance	-1.72	-5.84	-4.80	—	-35.87	+0.35	+46.19	+8.03	-2.33	+4.01	-576.50	—
Lebanon													
1953-	Imports	1.85	7.34	3.46	0.29	—	0.11	3.47	0.15	45.73	62.40	193.03	32.3
1954	Exports	2.24	1.37	1.71	1.12	—	0.14	3.45	b	4.34	14.37	29.29	49.1
Average	Balance	+0.39	-5.97	-1.75	+0.83	—	-0.03	-0.02	-0.15	-41.39	-48.03	-163.74	—
1962-	Imports	4.99	10.47	5.83	0.82	—	0.06	15.38	0.99	48.39	86.93	466.84	18.6
1963	Exports	0.82	2.65	6.05	5.74	—	0.30	7.72	0.73	8.19	32.20	63.57	50.7
Average	Balance	-4.17	-7.82	+0.22	+4.92	—	-0.24	-7.66	-0.26	-40.20	-54.73	-403.27	—

TABLE 4 (Continued)

										Regional percent- age of	
										World	Total
										Regional	Total
										Syria	
										Sudan	
										Saudi Arabia	
										Libya	
										Lebanon	
										Kuwait	
										Jordan	
										Iraq	
										Egypt	
										Regional percent- age of	
										World	Total
Lebanon (continued)											
1972-	Imports	8.20	42.08	5.40	2.00	—	2.09	17.08	2.83	23.64	1036.94
1973	Exports	9.37	20.93	13.07	37.48	—	+33.11	+61.46	+0.43	+4.84	-610.40
Average	Balance	+1.17	-22.05	+8.27	+35.48	—	35.20	78.54	3.26	28.48	426.54
Libya											
1962-	Imports	1.31	0.01	b	b	0.28	—	b	b	0.10	1.70
1954	Exports	0.55	0.01	b	b	0.03	—	b	b	0.01	0.60
	Balance	-0.76	b	b	b	-0.25	—	b	b	-0.09	-1.10
1962-	Imports	2.01	0.01	0.01	0.01	0.20	—	b	0.37	0.15	2.76
1963	Exports	0.03	0.02	b	b	0.04	—	b	b	0.02	0.11
Average	Balance	-1.98	+0.01	-0.01	-0.01	-0.16	—	b	-0.37	-0.13	-2.65
1972-	Imports	17.69	b	0.01	b	50.67	—	b	2.62	5.02	76.01
1973	Exports	23.16	b	b	b	3.79	—	b	b	0.30	27.25
Average	Balance	+5.47	b	-0.01	b	-46.88	—	b	-2.62	-4.72	-49.76
Saudi Arabia											
1953-	Imports	4.75	1.40	0.15	b	3.30	b	—	1.80	3.35	14.75
1954	Exports	15.15	b	1.20	b	3.50	b	—	0.50	6.05	26.40
Average	Balance	+10.40	-1.40	+1.05	b	+0.20	b	—	-1.30	+2.70	+11.65
1962-	Imports	7.31	2.03	2.17	3.61	17.60	b	—	5.00	10.11	47.83
1963	Exports	16.70	0.01	3.49	0.19	8.91	b	—	0.33	0.56	30.19
Average	Balance	+9.39	-2.02	+1.32	-3.42	-8.69	b	—	-4.67	-9.55	-17.64
1972-	Imports	5.10	1.90	10.85	52.80	85.90	b	—	12.50	9.45	178.50
1973	Exports	0.50	b	7.45	3.20	15.50	0.05	—	0.65	1.00	28.35
Average	Balance	-4.60	-1.90	-3.40	-49.60	-70.40	+0.05	—	-11.85	-8.45	-150.15
											+5181.75

TABLE 4 (Continued)

	Egypt	Iraq	Jordan	Kuwait	Lebanon	Libya	Saudi Arabia	Sudan	Syria	Regional Total	World Total	Regional percent-age of World Total
Sudan												
1953-1954 Average	13.27	0.26	b	b	0.05	b	0.50	—	0.19	14.27	142.53	10.0
Imports	8.46	b	b	b	0.65	b	1.78	—	0.20	11.09	119.80	9.3
Exports	-4.81	-0.26	b	b	+0.60	b	+1.28	—	+0.01	-3.18	-22.73	
Balance	12.48	0.33	0.01	b	1.09	b	0.14	—	0.24	14.29	272.90	5.2
1962-1963 Average	9.93	0.69	0.57	b	1.11	0.08	4.33	—	0.57	17.28	227.81	7.6
Imports	-2.55	+0.36	+0.56	b	+0.02	+0.08	+4.19	—	+0.33	+2.99	-45.09	
Balance	12.41	0.35	0.23	6.56	4.55	0.05	0.69	—	0.64	25.48	416.44	6.1
1972-1973 Average	18.73	0.21	1.23	0.67	2.64	4.94	10.47	—	1.14	40.03	387.62	10.3
Imports	+6.32	-0.14	+1.00	-5.89	-1.91	+4.89	+9.78	—	+0.50	+14.55	-28.82	
Exports												
Balance												
Syria												
1953-1954 Average	1.28	3.31	3.96	0.11	16.42	b	6.07	b	—	31.15	163.16	19.1
Imports	0.90	4.67	5.92	0.80	30.91	b	3.36	b	—	46.56	116.98	39.8
Exports	-0.38	+1.36	+1.96	+0.69	+14.49	b	-2.71	b	—	+15.41	-46.18	
Balance	2.07	13.91	2.87	0.45	9.36	0.03	0.51	0.60	—	29.80	230.90	12.9
1962-1963 Average	0.76	6.29	8.32	1.95	27.06	0.23	4.96	0.23	—	49.80	177.56	28.0
Imports	-1.31	-7.62	+5.45	+1.50	+17.70	+0.20	+4.45	-0.37	—	+20.00	-53.34	
Balance	10.21	23.80	6.33	1.43	35.64	0.31	1.12	1.27	—	80.11	567.08	14.1
1972-1973 Average	8.96	5.68	7.05	3.52	34.00	2.37	8.36	0.21	—	70.15	313.22	22.4
Imports	-1.25	-18.12	+0.72	+2.09	-1.64	+2.06	+7.24	-1.06	—	-9.96	-253.86	
Balance												

a Excludes crude oil exports.

b Indicates less than \$5000.

Sources: United Nations, *Yearbook of International Trade Statistics*; International Monetary Fund, *Direction of Trade*; and various national statistical abstracts.

among agricultural products, with the oil states, Syria, and Lebanon the major customers.

Syrian commerce has grown notably slower than that of most other Middle Eastern nations. It has lacked the massive oil resources of its southeastern neighbors and the peculiar ability of Lebanese entrepreneurs; and Syria too began the period of our analysis in a far more developed condition than Jordan. Thus, on a comparative basis, its trade growth rates appear somewhat lower. Unlike Lebanon and Jordan, it has not found such rapidly growing trade with its Arab neighbors: imports from these countries were down relatively about a third compared with twenty years earlier, and intraregional exports were only about half as important. The composition of its exports shifted from an emphasis on agricultural to mineral products, reflecting not only the discovery of domestic petroleum deposits but also the growth of refinery capacity, which is linked to the pipeline system carrying Iraqi oil.

Certainly Egypt is the dominant nation, socially, politically, and economically, within the region of concern. The success or failure of any significant attempts at economic integration of the Middle East obviously depends to a major extent on the role played by Egypt, with more people than all the other Arab states in the area put together.

The exports of Egypt in 1973 were in large part what they always have been: the agricultural produce of the uniquely fecund Nile Valley. This emphasis is now shifting, however, most likely irreversibly, toward processed and manufactured goods since the policies of both al-Nasr and al-Sadat have been to capture for the national economy the value-added activities connected with Egyptian raw materials, such as cotton, and to further industrialization aimed at both local and export markets.

Since 1953, however, non-food raw materials have hardly gained in national export figures, declining relatively to about half of the total value. Food exports, particularly rice and sugar, have contributed to this change because crop yields have increased notably in the postrevolutionary era, and there has been an even greater improvement in exports of manufactures. But, from the viewpoint of our particular concern here, not much relative change has occurred regarding Egypt's commercial relations with its Arab neighbors. Its trade has grown slower than that of any of theirs, though the intraregional rate is notably greater than that which Egypt enjoyed with the world at large.

The major single export remains raw cotton, more than 45 percent of the value of all exports, but little of this goes to its neighbors, some of whom are also cotton growers. Woven cottons, rice, fruits, vegetables, and cement in 1973 made up the bulk of Egypt's exports to other Middle Eastern states. Though the imports of many of these neighbors concentrate on manufactured goods, Egypt is at best a minor provider of such commodities to them. Similarly, for its most significant imports, it is only peripherally dependent on its neighbors. Petroleum products

had been an exception, but domestic discoveries have made it increasingly self-sufficient.

In such a context, we should now consider the essential dilemma regarding the Egyptian role in Middle Eastern economic integration and development, if only to identify the problem. Egypt is essential to any scheme of significant proportion—it provides half or more of the potential market and a notably greater percentage of the available skilled and semiskilled labor, as well as the most fertile (if overcrowded) soil in a generally food-scarce region. Thus, it supplies the major share of all the factors needed for a successful Middle East Economic Community save the one it most obviously lacks, capital. But, if Egypt seems the natural partner for smaller neighbors who have capital in such superabundance that their endowment in this regard can be compared in its extremity only with their lack of consumers, labor and agricultural resources, the dilemma is implicit within the very contrast. If its neighbors need Egypt, and Egypt emphatically needs them just as much, Egypt's overwhelming size and their fear of future domination have combined to stifle the realization of any of the integrative proposals of the last dozen years. Such a history provides rocky soil for the growth of economic cooperation and integration.

Finally among the non-oil producers is the Sudan, whose underutilized land resources figure increasingly more prominently in discussions of the Middle East's future capacity to feed its growing population. Though Sudanese trade has grown quite a bit faster than Egypt's since the early 1950's it has shown considerably less tendency to change its composition, particularly with regard to exports. While manufactures grew from about 4 to nearly 26 percent of Egyptian exports from 1953 to 1973, they still found no place among Sudanese exports. Agriculture continued to provide nearly all of Sudan's foreign exchange earnings, with the major exports being cotton, oilseeds and cottonseed oil. Less than 10 percent of these sales in 1973 were to Arab neighbors, and most of these were to Egypt and Saudi Arabia. Regional imports accounted for about 8 percent of purchases; most prominent among them were light manufactures from Egypt and Lebanon.

If we now turn our attention to those countries previously defined as oil states, it seems self-evident that, in the context of our consideration here, we have to switch our concern to imports. Until the mid 1970s, three of the major oil producers, as well as the minor Gulf states, exported little else, and, awaiting considerable future development, possessed little capacity for nonpetroleum exports. Iraq alone has been the exception. As part of the historic Fertile Crescent (though now the less fertile part), it enjoys the possibility of becoming a major food surplus country. That eventuality will require considerable investment, but the basic requirements of reasonably fecund soil and surface water are naturally present.

Of all the Middle Eastern states listed in table 1, Libya has shown the most rapid growth during the past two decades in both imports and exports. Unlike

the other major oil producers, Libya is a comparative newcomer. Its export boom began in the late 1950s. Before the tapping of the petroleum reserves Libya was the poorest and most primitive country in northern Africa. Its few exports consisted of animal hides and wool, and its major source of foreign exchange was generated by British and American military bases.

Political independence, the discovery of oil, and the overthrow of the monarchy provided the growing momentum for change in Libya. Its imports have shifted with the government's outlook. Basic consumer goods such as foodstuffs and textiles are still important in a country which has been both incapable of feeding and clothing itself from its own agricultural sector and rich enough to overcome these handicaps through overseas purchases. The republican regime's emphasis on development has led to a considerable expansion in capital goods imports, while the much greater role of social welfare projects has set off a building boom in houses, schools, and hospitals designed to rapidly improve general living standards, and these projects also depend to a large extent on imported construction materials and equipment.

The nature of Libya's needs has not been such to involve it more extensively with its neighbors. Although imports from the region, coming almost entirely from Lebanon, Egypt, and Syria, grew by more than a hundred-fold, their share of total imports actually fell slightly from 1954 to 1973, when they claimed about 5 percent. In the late 1960s and early 1970s, however, regional imports grew nearly two and a half times as fast as total imports.

Like Libya, Saudi Arabian imports have grown much faster than both the world and regional average, though, inasmuch as the beginning of our period of concern saw an already well-developed Saudi oil sector, export growth rates in the past twenty years have not been as astronomically high. Again like Libya, Saudi Arabia's exports are almost totally petroleum. Although considerable investment in the last few years offers the possibility of a growing number of local products that could compete on the world market, particularly for petrochemicals and related products, practically nothing in this regard had yet shown up in the country's trade profile by the mid 1970s.

Regional imports maintained approximately the same proportion (one-fifth to one-sixth) in Saudi trade for more than twenty years, though they grew somewhat more rapidly than imports in general after 1967. The primary beneficiary was Lebanon, whose share about quadrupled from \$22.5 million in 1967 to an estimated \$90 million in 1973. The closing of the Suez Canal made Saudi Arabian purchases from Europe more expensive, with a resulting increase in the demand facing Lebanese producers, not merely of the foodstuffs which have long dominated Saudi-Lebanese trade, but also of a wide variety of processed and manufactured goods. Other Saudi trade within the region has remained mostly in the agricultural categories.

Kuwait is the smallest of the major oil-producing states, but more than two decades of increasing oil revenues have made it the wealthiest, if not necessarily

the most economically developed, country in the Arab Middle East. Until the mid-sixties, not much was done to promote investment in a local industrial structure, although considerable advancement in social welfare was financed from the state's coffers. The fairly widespread benefits have resulted in one of the world's most consumer-dominated economies. Like Libya and Saudi Arabia, Kuwait has been able to supply few of these consumer wants from the hostile domestic environment—for example, Kuwaiti agricultural output is even less than that of Libya and Saudi Arabia; except for a few experimental farms, it is nearly nonexistent.

Although the percentage of Kuwait's imports originating in the neighboring countries remains small, it has been growing at an increasing pace in recent years and again as with Saudi Arabia, the Lebanese economy has been a major beneficiary. Lebanon's sales about tripled from 1967 to 1973, and again the closing of the canal was a major factor. Not only was Beirut increasingly the port of entry and transshipment for the countries of the Arabian peninsula, but the many small expanding industries in its environs found a wealthy market nearby.

Alone among the major oil producers (including the smaller Gulf states), Iraq's economy is not totally dependent upon oil. Although nonpetroleum products account for less than 5 percent of total exports, the agricultural sector is quite large. For various reasons, Iraq has not been self-sufficient in food for several years, and the time when it was, in fact, a major food exporter seems but a fond memory. Most commentators agree, however, that a major infusion of investment into the agricultural sector coupled with a cessation of domestic strife would undoubtedly restore both self-sufficiency and export capacity. Even in the least successful recent crop years, Iraq has provided the bulk of her own food—a far cry from the situation prevailing among its southern neighbors.

Imports of Iraq originating within the Middle East have grown nearly twice as fast as the total, but they remain with a rather small share, around 5 percent. Again Lebanon gained the most from the Iraqi market. Much more than with other countries in the area, Iraqi trade tends to reflect its political alliances and conflicts of the moment. Wide fluctuations are noted during the last twenty years with larger partners like Egypt and Syria, and a similar pattern is found for trade with Jordan and Kuwait. At various times, normal diplomatic relations have been interrupted with three of these countries, and closed borders and nearly complete cessation of trade often resulted. These events make it difficult to analyze Iraqi regional trade, since it is nearly impossible to identify "normal" levels. Alone among the nine major states included herein, secular patterns affecting local commerce (except with Lebanon) are not readily identifiable for Iraq.

Among its major imports, only fruits, vegetables, tobacco, and cotton and textiles originate in significant portions in the neighboring countries. Of the non-oil exports, cement, cereals, dates, and other fruits comprise the bulk. The dates go to the world market, but cement and cereals are sold locally. Any major expansion of exports beyond oil, however, must await either significant improve-

ment in agricultural output or the fruition of development investment in those industrial sectors with export potential. In this regard, Iraq's interests are similar to those of the non-oil states. A wider market promises greater success to such industrial ventures, since in most cases, it is far more likely that locally produced goods will find sales within the region than in the more competitive world market.

Before concluding this section, a consideration of the trade of the smaller Gulf states is in order. These four independent nations—Bahrain, Oman, Qatar, and the United Arab Emirates—have only a slightly larger population than Kuwait in a region whose still indefinite borders enclose an area somewhat larger than Lebanon, Syria, and Jordan together. In microcosm, the 1,200 miles from Bahrain island south to the Oman-South Yemen border presents almost as much variety as the nine nations already considered. Oil is found in varying amounts throughout the region and in all four Gulf states. But the role of oil in these economies ranges from Abu Dhabi, the richest of the seven members of the United Arab Emirates (UAE) to the more modest situations of Bahrain and Oman. Each of the latter have more diversified resource bases, if somewhat less petroleum, than Qatar and the UAE sandwiched between them.

Reliable detailed trade data for most of the Gulf states have only become available in the last few years. These show quite rapid growth, as we have seen from table 3. Gains in Bahrain, the most mature of the Gulf economies, have been relatively modest, while those in the UAE and Oman have been nearly exponential. Several of the larger towns, particularly Manama and Dubai, have served major entrepôt roles for nearby countries, which tends to exaggerate the extent of intra-regional trade. Nearly 5 percent of Bahrain's imports (aside from crude oil destined for the island's refinery complex) came from the larger Arab states in 1973; for Qatar, Oman, and the UAE the regional shares were about 11.5, 10, and 7 percent, respectively. Lebanon provided about half of the Gulf state purchases which actually originated in the Middle East, and again fruits, vegetables, and light manufactures were the bulk of these sales. Nearly all Gulf exports in 1973 were still in the petroleum category, so of course little of this was headed for neighboring destinations. Significant regional exports from the Gulf states as from the larger oil producers await the broader industrial base now being built.

IV. MIDDLE EAST TRADE PATTERNS FROM THE PRESENT TO PROGNOSTICATION

Reasonably accurate forecasting requires first of all an understanding of the past. The data presented in the preceding section sketch not merely a static picture, but also indicate the changes and trends of the postwar period through 1973. Hopefully the result is a fairly clear evaluation of the regional interrelationship upon which any future trade structure would be built.

Just as important in forecasting, perhaps more so, is a realistic attitude about

the future. The highly dynamic economic situation in the Middle East today makes any projections all the more risky, but if all the major factors are considered, then some reasonable conclusions should be possible.

Since the benefits of a strong economic union could not be confined to the foreign trade sector, we should examine the market prospects, both demand and supply, in these national economies as they relate to domestic and foreign commerce. In table 5, we have linked a number of pertinent measures regarding present and potential market size at the time the region underwent the transformation of higher oil prices. Although national income figures are imperfect representations of purchasing power, they at least give us some idea of the trends of the 1960s and early 1970s. As would be expected, the oil states paced the region, but even Egypt, Jordan, and Syria enjoyed considerable growth in per capita income.⁷ Uneven distributions of income abound throughout the region, but the widespread growth in

TABLE 5 *Demographic and economic statistics, Arab Middle East*

Country	Population (thou- sands)	Area (1000 sq. kilometers)	Gross National Product			National Income		
			Total (\$ millions)	Per capita (\$)	Rate of growth (percent per capita)	Total (\$ millions)	Per capita (\$)	Rate of growth (percent per capita)
Bahrain	232	0.6	210	900	n.a.	n.a.	n.a.	n.a.
Egypt	35,912	1,000.3	8,820	250	5.2	6,657	200	5.6
Iraq	10,410	448.9	8,880	850	3.8	2,547	278	4.2
Jordan	2,540	97.2	870	340	4.8	633	273	5.0
Kuwait	880	16.0	10,610	12,050	1.1	3,073	3,703	2.5
Lebanon	2,977	10.4	2,790	940	3.2	1,454	521	3.4
Libya	2,160	1,760.2	7,620	3,530	20.6	3,318	1,651	19.4
Oman	720	212.5	610	840	32.2	149	240	23.7
Qatar	180	15.5	1,090	6,040	n.a.	n.a.	n.a.	n.a.
Saudi Arabia	7,745	2,254.2	12,470	1,610	8.6	2,517	344	8.4
Syria	6,948	187.2	2,800	400	4.9	1,904	295	4.9
United Arab Emirates	320	83.6	3,720	11,630	n.a.	n.a.	n.a.	n.a.

SOURCE: United Nations, *Yearbook of National Account Statistics*, Statistics Office (New York, 1972). World Bank, *World Bank Atlas* (Washington, 1975). Populations are according to *World Bank Atlas* figures for 1973. Area estimates are based upon approximate boundaries for Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Gross National Product data are for 1973. Other economic data are for 1968 (Saudi Arabia, Oman), 1969 (Iraq), 1970 (Egypt, Jordan and Lebanon), and 1971 (Kuwait, Syria, and Libya). Growth rates are based upon the following base periods: Egypt, 1960-1970; Iraq, 1960-1969; Jordan, 1960-1970; Kuwait, 1965-1971; Lebanon, 1963-1970; Libya, 1963-1971; Oman, 1963-1968; Saudi Arabia, 1963-1968; and Syria, 1963-1971.

⁷ Because more recent data are still sparse, these growth rates are drawn from periods which generally exclude the higher rates of inflation which have been felt in the Middle East as well as the world as a whole since 1970. Thus, though these figures make no allowance for inflation and to this extent exaggerate real growth, they at least are not masquerading very rapid price increases.

demand during the last decade for all kinds of consumer goods speaks for the increasing tendency for the expansion of national income to affect all social classes. Certainly in the oil states, all indications are that such tendencies, if anything, will be magnified during the next few years. Furthermore, since living standards are still quite low, except in Kuwait and a few smaller oil states, the growth in demand for both basic and more sophisticated consumer goods should continue. As we have already shown above, much of this increased demand has been in the past satisfied by the industrial and agricultural sectors of the non-oil states, with Lebanon in particular being the chief beneficiary in the last ten years.

If exponential growth in oil revenues ensures the presence of strong demand within the region, we ought now consider briefly the supply aspects, not just from the viewpoint of growth in exports, but in overall sectoral capacity. For the most part, the sectors that have provided most of the export expansion have grown as fast or faster⁸ than the economies as a whole. The manufacturing sector has certainly led the Egyptian economy, while in Jordan, both the agricultural and industrial sectors have registered relative gains. In Syria and Lebanon, manufactures and foodstuffs⁹ capacity seem to have grown in proportion to the overall economy. While supply bottlenecks might well be of considerable importance, particularly as expansion is speeded up, as seems likely in the next decade, they do not in the 1960s and early 1970s seem to have affected severely any particular sector.

If the past growth of demand and supply sets the stage for the future, a more solid base for prediction can be found in the commodity, oil, of which the continued production and export outside the region will provide not only much of the local purchasing power but also the investment funds needed to finance additional capacity in all pertinent sectors of the regional economy. The estimated annual revenues accruing as a result of such output levels greatly exceeds the total value of gross domestic product shown in table 5 for the four Arab states which are expected by the industrialized countries to provide the major portion of enlarged output—Saudi Arabia, Kuwait, Iraq, and the United Arab Emirates.

From our viewpoint here, these oil revenues certainly imply a growth in demand for all kinds of commodities even more rapid than that seen in the 1960s, as well as plentiful investment capital that could considerably expand the region's industrial and agricultural capacity. In this regard, the question of whether the oil states in fact agree to increase output to the *full* extent of these projected world needs is not as relevant as the realization that higher prices, coupled with either constant, moderately expanded, or greatly expanded oil production, will bring the region far

⁸ Again, such aggregate figures do not allow for price effects here of shifts, intersectorally, in factor prices. For example, increases in industrial relative to agricultural wages would show up as a sectoral gain for industry if both sectors were growing at the same rate in real terms. However, given the lack of more sophisticated data, the figures can at least offer some approximate idea of sectoral shifts.

⁹ Both total Lebanese agricultural output and exports have shown a strong upward secular trend in real terms in recent years. Thus, this relative decline may be due at least in part to differences in the way factor costs are changing in the various major sectors.

more revenues than they have received in the past. This is not to deemphasize the importance of settling the energy supply question for the world economy as a whole or for the Middle East as an increasingly more important part of that economy, but merely to point out that the scope of our concern is the extent to which these revenues are used within the region.

Obviously, one result of the higher national incomes of the oil states will be a continuation of the rapid growth in imports they have experienced in the past, and such an escalation has already been clearly seen. It is likely their citizens will continue to increase their purchases from both the world at large and from their Arab neighbors.

Whatever actual oil revenues or import increases may be, the accumulation of reserves by some of these countries will remain well above levels seen previously. Clearly, many of these funds will be unneeded for either consumption or capital goods used within the producing states and will find their way to investment opportunities throughout the world. We will argue below that not only does this provide the potential for the rest of the Arab countries to obtain the capital they have generally lacked, but also that it is in several respects within the limits of national self-interest of the surplus-earning states to channel a significant portion of their funds into their neighbors' economies, doing so within some kind of formally defined framework of economic integration.

Since we have provided evidence above for likely expansion in the demand of the oil states for the products of the non-oil states and for the potential realization of supply increases based on abundant capital availability, we must turn at this point to a brief discussion of political considerations only peripherally related to the economic argument for integration but vital to any realistic appraisal of the likelihood of success for any such venture.

The last two decades have seen the proposal of quite a variety of political unification schemes, most of which have enjoyed only a few months of life during which little but rhetoric was generated on their behalf. Only two have ever gained any substance—the federation of Egypt and Syria in the United Arab Republic between 1959 and 1961 and the United Arab Emirates, formed in 1971.¹⁰ The reasons for this rather unpromising history of attempts at unification are far too many to discuss with any balance in this context. At least part of the problem has been alluded to previously. Egypt is central to almost any conceivable proposal, but the very reason for this—its size—also gives rise to qualms on the part of potential partners. Egypt is not only bigger than its non-oil-producing neighbors, but its economy is generally more developed in the industrial sector. Thus, it would dominate doubly any merger with say Syria, Jordan, and/or Lebanon. On the other hand, it would not be unnatural for an oil state to wonder whether political union would not primarily benefit capital-starved Egypt. The wide diversity

¹⁰ Even this federation was smaller than when it was first proposed, since when no satisfactory formula for their inclusion could be devised, Bahrain and Qatar opted for separate independence.

in the general social and political structures of these countries would seem to rule out, at least for the near future, any significant political union.

Economic integration, on the other hand, need not be eliminated on the same grounds, particularly if we refer back to what might be called the first principle underlying such cooperation—mutual self-interest. Being more narrowly defined in its scope, an economic union would not, at least initially, have to concern itself with coordinating different political attitudes and systems. Republics and monarchies, one- and multi-party states would find it hard to co-exist in a true political federation, but the possibility is conceivable within a customs union or common market. Furthermore, since no state need be excluded merely because of the type of government it has, it is possible to speak much more realistically about the formation of an economic union with *several* members than it would be to consider a widely based political union. Thus, with more than just two or three signatories, mechanisms to assure the smaller members they will not be dominated by their larger partners can be built into the union's structure.¹¹

Economic integration is not unknown to the area. Lebanon and Syria were linked in a customs union as they gained *de facto* independence from France after World War II, but this tie was unable to survive the strains of the first few years. A wider grouping came into existence as a result of the Arab Economic Unity Agreement of 1962. Its objective was to attain complete economic unity throughout the Arab world and was signed by eight states.¹² The agreement came into effect in 1964 and was followed that year by the first meeting of the Economic Unity Council, at which the Arab Common Market (ACM) was founded. Only five states then joined the Market—Egypt, Jordan, Syria, Iraq, and Kuwait—and Kuwait never ratified the founding resolution.

More properly termed a free-trade area since it has never adopted a common external tariff, the ACM has moved to lower barriers to trade among its members. Although each was allowed to preserve restrictions on products amounting to no more than 20 percent of those previously subject to such regulation, other tariffs and obstacles were to be removed in stages. Progress has been slower than the agreements envisioned, but most agricultural and some industrial tariffs have been decreased or eliminated. Jordan's successful expansion of agricultural exports to Kuwait has been credited to the ACM. On the other hand, Lebanon, which has never joined, has enjoyed even greater export growth in this regard.

The ACM, though not merely another paper organization, has hardly been a prime element in the dynamics of recent regional economic change.¹³ The ques-

¹¹ And the larger nation(s) can be satisfied that a coalition of its smaller partners cannot get their way merely by majority voting. For example, the European Economic Community has required unanimity in most major decisions to obtain consensus in these areas during its formative period.

¹² Jordan, Kuwait, Morocco, Syria, Egypt, Iraq, Yemen, and Sudan. Morocco, however, never ratified the agreement.

¹³ It has not, for example, made any serious attempts to coordinate development efforts in the region, as has the sorely-beset East African Economic Community.

tion must then be asked: if the past experience of the Middle East with regard to economic integration has been so undistinguished, why, then, might we consider future prospects to be any brighter? The answer we propose is found in the opening sentences of this paper and has been reiterated many times since—the drastic changes now occurring in the area as a result of the explosion in oil revenues.

The analysis presented above has been designed to establish that the base exists on which economic integration can be built, that the economies are sufficiently complementary to supply a good portion of each other's needs, and that past growth in interregional trade is likely to continue, with greater national incomes both fueling demand expansion and providing the capital needed to supply the goods wanted by the regional market. Just because economic integration *could* flourish does not mean that it *will*; after all, the ACM has existed during a period of rapid growth in regional trade without having demonstrably done much to enhance such trade or having been strengthened and developed as an institution by it. It would seem that, in the decade or so after its formation, the success or failure of the ACM has not been a prominent concern to its members. As we have stated before, an economic union must benefit each of its members in some significant fashion if it is to be nursed and coaxed through the difficult early years of a supranational institution. Neither those who joined the ACM, nor those who did not, see enough gains from such an organization to make it into a major institution.

The most likely gainers, at least in the short run, from any economic union are the exporters, who with a larger protected market, should be able to realize higher sales with world market competition stifled or eliminated. These gains will continue and be consolidated if the exporters can expand their production significantly to take advantage of the dynamic economic effects of the union. It is only at this stage that the importers might start to realize any advantage. Expanded production might mean greater efficiency and lower prices. At least this would be the situation under ordinary circumstances, and thus successful common markets would be much more likely between countries all of which sell to each other. All would expect to enjoy some tangible short-run advantage as a result of the union, and if greater production for the larger market leads to lower prices in the future, so much the better. Again, in the critical early stages, if all get some benefit, they are likely to continue their efforts to solidify the institution.

On the other hand, if the prospective partners divide into exporters and importers, such all-round gains are not likely at the beginning. If we look at the ACM, we find exporters (Egypt, Jordan, and Syria) and importers (Iraq and Kuwait). Even Iraq in this context might be considered an exporter, since it was strongly interested in expanding sales of foodstuffs. At the risk of oversimplification, we could see the ACM as four countries trying to sell goods to Kuwait, who, of course, failed to ratify the union agreement.

All the countries we have considered in this paper can be generally classified as exporters which were the non-oil states, and importers, or the oil states. But the increased oil revenues introduce several new factors affecting the success of eco-

conomic integration not present in 1964, and these factors either promise some relatively short-run gains for the importers or tend to make them more sensitive to likely long-run gains.

In the short run, there is the possibility of at least a partial solution of the problem of where to invest the surplus capital already swelling the reserves of the oil producers. Productive investment opportunities are not only more plentiful in somewhat more economically advanced (if less wealthy) countries like Egypt, Syria, and Lebanon or in the agricultural potential of the Sudan than in narrow-based economies like the Gulf states, but at least to some extent they may offer greater security than those in the Western countries or Japan. If the Arabs are somewhat fearful that the West cannot be completely trusted, that, for example, some future conflict could lead to expropriation of Arab holdings in Europe or the United States, then the wisest course would be to spread their holdings around. To be sure, the conservative leadership of most of the oil states have always had their doubts about their less traditional neighbors, sometimes tinged with a bit of socialism. The framework of economic integration offers the means, if not to guarantee absolutely intraregional investment, at least to reduce the risks to an acceptable level.

Gains with a somewhat longer period before realization are not limited to possible lower prices, resulting from decreasing costs in industries expanding in a wider market. A perhaps more important advantage will arise in a world facing prolonged periods of chronic shortages of important commodities. In the context of the Middle East, food is the most relevant item in this regard. Sudan, Syria, Iraq, and to a lesser extent, Jordan have the potential to expand their output of cereals and other agricultural products, giving the region as a whole the chance to become self-sufficient in food, even to be a food-surplus area. The achievement of this goal within a relatively short period will obviously require considerable capital, and only Iraq will be able to generate it domestically. Oil money going to the rest of the Fertile Crescent and the Sudan would not only relieve the region's concerns about food during the rest of the century, but would probably also earn its owners financial returns comparable with other investment opportunities.

Another consideration that has become more prominent in the last year or two is the strong bargaining position a larger unified group of nations has in international negotiations. Certainly the almost unprecedented Arab unity in 1973 contributed heavily to the gains made in the following months. Regional economic development and preparation for the eventuality of depleted oil reserves will require considerable interaction with existing trade blocs in east and west. A Middle East Economic Community could speak from a stronger position than even a very wealthy single nation like Saudi Arabia or a group made up only of the oil producers.¹⁴

¹⁴ Another potential concern in this regard would be future relations between the Arab countries and Iran, which is sounding out its non-Arab neighbors on the possibility of embarking on some form of economic integration.

It should be pointed out that stressing the advantages to be gained by becoming a bloc in a world of blocs is not an argument for autarky, even if that were a reasonable goal for the Middle East. Despite what has been said above about present and potential intraregional trade, the area now conducts most of its trade with the rest of the world, and given its future needs for capital goods, this orientation will undoubtedly continue. What we are talking about is the need, based on regional security, to enjoy a certain maneuverability in relations with the rest of the world—not total independence, but enough so that interdependence does not degenerate into dependence.

In this regard, the agricultural sector is particularly significant. With the present state of the world food supply, it ought to be apparent to any country or region that, if at all possible, it ought not to become primarily dependent on foreign sources. In a major food crisis, those sources might well disappear. The Middle East is one area in the developing world where the governments can do much to avoid this problem, since they have, as a group, both the agricultural and capital resources to become self-sufficient. Moreover, they could contribute by becoming a food-surplus region, to the worldwide network of food reserves, which continued scarcity will compel sooner or later for a planet that has until now pretty much ignored this problem.

Finally, another medium to long-run consideration for the present importers—the oil states—in assessing the advantages to themselves of economic integration is the eventual success or failure of the industrialization programs upon which they have embarked in preparation for the day when the oil runs out. Most of the producers are now, and likely will continue to be, the equivalent of city-states. Along the Gulf from Kuwait to Sharjah is an inhospitable, largely uninhabited hinterland, dotted by less than a dozen modern cities whose comfortable living standards are directly dependent upon the flow of oil. Surely it would be highly unrealistic for Kuwait, to say nothing of Qatar or Abu Dhabi, to industrialize in a vacuum. These states have implicitly or explicitly rejected what we might call the Nauru Solution,¹⁵ that is, using today's revenues to build a trust fund, upon the future returns of which later generations will live a life of leisure and coupon clipping.

While investment returns will undoubtedly play a major role in the future prosperity of the Gulf region, all these states are investing a major portion of their present income in industrial projects designed in part for a local market, but also for a wider market. Some, like the Bahraini aluminum smelter or the Kuwaiti fertilizer industry, can probably be successful without regional economic integration, since the world market eventually would take all their output under profitable

¹⁵ The Republic of Nauru enjoys a per capita G.D.P. similar to that of Abu Dhabi. Its revenues come from extensive phosphate deposits on the small island which will be depleted in less than 20 years. For some time now the government has been using a large part of the phosphate revenues to build an investment portfolio which will permit Nauru to maintain its high living standards when the phosphates are gone.

conditions. Other potential schemes for the region need a local market bigger than the few hundred thousand consumers who live in the Gulf states. While the major gains to be realized in terms of both (unsubsidized) employment and profit for this region are likely to be a dozen or more years into the future, the same long-run time-horizon that pushes the Gulf states into these investments ought to sensitize them to the need of a wider market to ensure their own success and, if this is to be built, the necessity to offer now a *quid pro quo*. The basis for negotiation is economic integration, the bulk of the immediate gains of which will go to the non-oil states and investment in the industrial and agricultural sectors of these states, in return for the foundation, construction, and solidification of a Middle East Economic Community which by, say the 1990s, will have, among several other such regions, an industrial zone stretching along the southern coast of the Gulf.

Even the bigger oil producers, Saudi Arabia and Iraq, are affected by this argument, if to a somewhat less pressing extent. Many potential industrialization projects for each country would be more rational in a market, which by 1985 will have a population of a hundred million, than within the limitations of their national borders which at that time will contain perhaps some 7 and 15 million consumers, respectively. Iraq has more domestic investment opportunities than any other oil producer because of its larger population and considerable agricultural potential. Still, capital absorption difficulties in the short-run and the long-run attractions of larger markets for the future output of Iraqi investment projects provide strong arguments for economic integration.

Saudi Arabian development prospects are naturally much more complex and brighter than those of the Gulf states. It not only has a larger population, but its area (which covers about a fourth of the region we are considering) offers the strong possibility of other (non-petroleum) natural resources. Even the agricultural potential of Saudi Arabia is likely to be much better than has been previously estimated, given the availability of ample investment funds for the next several generations and the technical breakthroughs that might reasonably be assumed to occur during such a period. Even with all this in mind, it is clear that Saudi Arabia will enjoy a massive trade surplus and consequent growth in financial reserves with any reasonably conceivable expansion of imports. This money can flow to New York, Zurich, or Tokyo. Again, future citizens of the peninsula can survive, more than adequately, with even conservatively estimated returns on the foreign investment of this surplus. But the Saudi regime has committed itself to building a more productive future for the country and its inhabitants. It should carefully consider the importance of long-run gains to Saudi Arabia from a Middle East Economic Community whose successful development would depend, in large part, on both the investment contribution and longer time-horizon of the present "importers"—the oil producers.

We have argued that the Middle East in the mid 1970s shows clearly a *dual* need on the part of the potential partners in any economic union—the "exporters" (i.e., generally the non-oil states) need markets and capital sources—real development

in some areas like Jordan is hard to envision without some kind of integration. Even Egypt must proceed with plans the success of which is in large part dependent upon wider markets. Those states with capital needs must expect to pay some price to get it, and this may well cause problems since the oil states are generally more conservative and traditional in their social and political outlook than the former. Ideological compromise is made easier, however, if integration speeds up the process of bettering overall living standards and income distribution.¹⁶

On the other hand, the capital-surplus states also have needs and we believe that integration offers them at least some solutions. Their problems are generally of a more long-range nature such as protection against future shortages, particularly of foodstuffs, strengthening of the region's bargaining power vis-à-vis other political and economic blocs, and their own economic positions in the post-oil era. The surplus nations, too, must pay a certain price for integration, that is, the concession of the major share of the short- and intermediate-run benefits to the present "exporters" of the region. Their contribution of investment capital to the union would be a cost only if it involves foregoing more profitable opportunities elsewhere. Since the capital reserves of some are likely to be so large as to cause problems in finding good use for all the funds and since the Middle East as a region offers a plethora of promising investment projects, it does not seem their contributions are any more likely to incur costs than to register real gains. In fact, their opportunities to invest profitably in, for example, the developed western nations might, in fact, be enhanced if the latter realize they are not "the only fish in the sea." Furthermore, the investment attractiveness of the Middle East could well benefit from competition among potential investment sources. Industrialized western nations interested in comprehensive economic "packages" of agreements with individual states or the region as a whole would certainly be aware of the fact the region can generate its own investment capital.

V. SUMMARY AND CONCLUSION

As our main guidelines in judging the probability of success in the formation of an economic union, we have used past trade patterns to indicate complementarities between the prospective partners, oil revenue projections to estimate the degree of future expansion of both demand and supply, and the principles of mutual self-interest and universal gain to argue for the likelihood of cooperation of all mem-

¹⁶ Much of the increased purchasing power in the Middle East was spent within the region, despite the predilection among the oil states for massive purchases of capital goods from the industrialized countries. For example, from 1972 to 1975, Egyptian exports to its larger neighbors climbed more than 125 percent to about \$129 million, and even Syria's gain was nearly 50 percent, to more than \$103 million. More spectacular were the regional export surges in Jordan and Lebanon. In the former they went from \$25 million in 1972 to \$51.4 million in 1975 and to more than \$40 million in the first half of 1976. Lebanese sales to its prospective partners climbed more than 175 percent over 1972 levels to about \$525 million in 1974, and in 1975, when the country was racked by civil war, they continued to grow to about \$650 million.

bers. The essential participants in a Middle East Economic Community (MEEC), on these bases, would have to include most of the countries now producing food and other commodities in sufficient quantities for export to the partners, and enough of the major oil producers to provide the capital resources the community will need to accelerate its development during the next decade. At a minimum this would involve the Fertile Crescent, Egypt, Kuwait, and Saudi Arabia. The arguments put forward to indicate the interest of the last two countries in unification apply also to the other oil producers considered here—Libya and the smaller Gulf states. The need in the Middle East for enhanced food-producing capabilities recommends inclusion of the Sudan, though the latter suffers from internal political problems that might limit its participation in an essentially Arab enterprise.

We have not considered the possible participation of other neighboring states in a Middle East Economic Community—Cyprus, Iran, Turkey, or even, after a settlement with the Palestinians, Israel—in order not to further complicate the discussion. While none of these countries might be interested in full MEEC membership in the foreseeable future, each might find considerable advantage in some sort of a link, possibly like Turkey's current associate standing in the European Community. Possible Iranian interest would have the same basis as that of the Arab oil exporters, promising investment opportunities in non-oil countries and a larger market in the long-run for new Iranian industries. On the other hand, Turkey is more like Egypt or Lebanon. It has already seen a considerable jump in its exports to the major Arab countries, from about \$71 million in 1972 to \$168 million, close to an eighth of all its exports, in 1975.

Although Iran's imports from the potential community members account for less than 1.5 percent of its total imports, 10 percent of the value of its non-petroleum exports are destined for these Arab States. Almost 16 percent of its food exports and over 11 percent of its manufactured exports constitute the major categories of Iran's exports to this market.

Cyprus, whose economy has suffered serious setbacks after the 1974 crisis, has, paradoxically had an extremely healthy growth of exports to these Middle Eastern states. By 1975, the total value of Cypriot exports to these countries was nearly 270 percent of its 1973 export figures to the same market. The principal factor behind this remarkable expansion of trade was due to the civil strife in Lebanon which disrupted its exports of vegetable and food products to these countries. Cyprus immediately filled the gap left by the Lebanese civil war; it remains to be seen, however, how strong and permanent the Cypriot foothold is in this market, since the end of the disturbances in Lebanon.

Turkey imports 10 percent of its total imports from these countries and exports nearly 12 percent of its total exports to them. There is, however, a great difference in the composition of imports and exports. Eighty-eight percent of Turkish exports to these countries are varied. In terms of its total exports to this market, Turkey exports 36 percent in food products, 39 percent in non-fuel crude materials, and 15 percent in basic manufactures.

The truly unique set of economic circumstances taking shape in the Middle East offer the region a chance for rapid development that could even exceed that of post-war Japan or Stalinist Russia. Such massive capital inflows that the oil-producers are now and will continue to enjoy for several years have never previously been seen in such a short period by any people. The Arabs will add this ingredient to economic structures which have already undergone considerable modernization in the past two generations. Transportation networks, educational and public health systems, and administrative bureaucracies, among other infrastructure elements, throughout the area are fairly well developed, thanks in no small part to past oil-related revenues.

These oil revenues will bring their recipients sufficient wealth to provide adequately for their descendants, economic union or not. But, the degree to which their descendants live by their own economic activities, provided for by today's investments, and the extent that oil benefits will fuel regional development depend upon *whether*, *when*, and *how much* economic integration occurs.

Both oil and non-oil states could reap considerable benefits from an economic union, and given their mutual needs for each other, they all would enter serious negotiations from individual positions of strength. To no small extent, the success of an Arab union may be as much dependent on the progress of an Arab-Israeli peace settlement. But, the advantages of integration to the core states of the Arab world, we maintain, are clear, and the degree to which these advantages can be realized depends upon how early in the upsurge of oil revenues economic union advances to an operative level. Some important early steps have been the Economic Unity Agreement and the establishment of the Kuwait Fund, the Arab Fund, the Abu Dhabi Fund, and the Inter-Arab Investment Guarantee Corporation. Most of these proposals have not achieved their full potential, and more genuine commitment is needed.

Stirrings of movement toward such commitment were seen at the June 1975 meeting of the Arab Economic Unity Council. Rather than issuing still another call for immediate integration with more rhetorical value than economic content, the participants pledged a five-year effort to coordinate the policies of their governments with the aim of initiating a Middle East Economic Community in 1981. Of course, progress remains to be seen, but considerable political realism appeared to be shown at the 1975 AEUC meeting, recognizing the need for a step-by-step approach to integration, not only over the first five years, but also in the twenty-year period beginning in 1981 that was seen as necessary for complete implementation of the economic community.

The challenge to integrate facing the Arabs is not as drastic as the economic equivalent of life or death, but the way in which it is met is likely to determine whether they emerge from the next quarter century as the major world economic power that their numbers, history, and fortunate endowment of natural resources seem to make possible.

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