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AN ARAB BANK FOR DEVELOPMENT
(Arguments for the Establishment of an Arab Bank for Development)

by

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Licence ES - Sciences Economiques

THESIS

Submitted for the Degree of Doctor of Philosophy

to

The University of Glasgow

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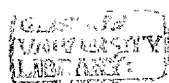


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A B B R E V I A T I O N S

A.D.B.	:	Asian Development Bank.
Af.D.B.	:	African Development Bank.
B.O.P.	:	Balance of Payments.
D.A.C.	:	Development Assistance Committee.
G.D.P.	:	Gross Domestic Product.
G.N.P.	:	Gross National Product.
I.B.R.D.	:	International Bank for Reconstruction and Development.
I.E.A.	:	International Energy Agency.
I.F.S.	:	International Financial Statistics.
I.M.F.	:	International Monetary Fund.
L.D.Cs.	:	Less Developed Countries.
L.T.	:	Long-Term
Mb/d	:	Million Barrels a Day.
M.N.O.C.	:	Multinational Oil Companies.
M.T.	:	Medium-Term.
M.S.A.C.	:	Most Seriously Affected Countries.
N.I.E.O.	:	New International Economic Order.
N.O.D.C.	:	Non-oil Developing Countries.
O.A.P.E.C.	:	Organization of Arab Petroleum Exporting Countries.
O.A.U.	:	Organization of African Unity.
OPEC	:	Organization of Petroleum Exporting Countries.
O.E.C.D.	:	Organization of Economic Co-operation and Development.
O.F.	:	Oil-Facility.
R. & D.	:	Research and Development.
S.D.R.	:	Special Drawing Right.
S.T.	:	Short-Term.
T.O.T.	:	Terms of Trade.
U.A.E.	:	United Arab Emirates.
U.N.	:	United Nations.
U.N.D.P.	:	United Nations Development Program.
Y.A.R.	:	Yemen Arab Republic.
Y.P.D.R.	:	Yemen People's Democratic Republic.

S U M M A R Y

AN ARAB BANK FOR DEVELOPMENT

(Arguments for the establishment of an Arab Bank for Development).

This study has been carried out having in mind a criticism made during the first seminar we attended at Glasgow University. The speaker said that research students from Developing Countries embark on sophisticated models that will be of no use to their countries. Accordingly, we shall not come up with a model. This work comprises five chapters. The aim of the first chapter, the resources of the Arab World, is to introduce the region to the reader. The economic and social needs of the population can be perceived through the levels of education, public health and unemployment. These problems are exacerbated by a high growth rate and a geographical mis-distribution of the population. In the second part of the chapter we consider the existing mineral resources that have to be used to satisfy the above requirements. These resources are manifold but we shall focus our attention on crude oil and, more precisely, on the structural and conjunctural economic and non-economic causes that led to the quadrupling of oil prices during the last quarter of 1973 and early 1974. This phenomenon will be referred to as the "oil crisis". These causes will be at play for several years to come. Consequently, Arab countries, at least until oil runs out, are assured of a steady flow of revenues. The logical question is, what are Arab countries doing with their oil revenues? However, given the current international financial, economic and trade setting, Arab countries' ways of using their resources are closely related to the question of how oil-importing countries are paying for their oil bills. This problem is treated in the second chapter. We divide oil-importing countries into O.E.C.D. and non-oil developing countries, N.O.D.C. Each country/group of countries' response to the oil crisis is a function of the impact of the latter on their economies. The fact is that for both groups the oil-induced balance of payments deficits have to be heavily financed. In this financing process, international financial institutions play a prominent role. As far as the oil crisis is

concerned, the combined activity of these institutions has come to be known as the recycling, or for others, the reshuffling of the petrodollars or Arab dollars. We opt for the concept of reshuffling.

The reshuffling of Arab dollars through international official and private financial institutions is considered in the third chapter. Amongst the official institutions we single out the case of The International Monetary Fund. Arab investments in real assets are also dealt with at this stage. The conclusion to be drawn from this chapter is that Arab oil revenues have been mainly channeled to the major O.E.C.D. countries (United States, Japan, West Germany, United Kingdom, Italy and France). This situation helped them to finance part of their oil-induced balance of payments deficits. It seems that non-oil developing countries did not benefit from this type of reshuffling process, especially the Eurocurrency and Eurobonds markets. On the other hand, the way the reshuffling occurred does not serve, on economic and political grounds, Arab countries either individually or collectively. This fact has been understood by Arab oil countries and, consequently, they set up their own channels to reshuffle part of their oil revenues to non-oil developing countries. The working of these channels is treated in the fourth chapter. The latter is opened by a survey of Arab countries' domestic banking systems and their role in the reshuffling process. This role has been negligible and, at best, Arab owned and organised banks remain an appendage of world banking centres that are located in the major O.E.C.D. countries. Furthermore, because of the domestic factoral distribution and the built-in constraints in agriculture, industry, technology and home-markets, Arab dollar investments, within individual oil countries, are unlikely to achieve non-oil self-sustained economies. On the contrary, they have introduced social, economic and institutional distortions which will impede future progress. However, what about the newly-created channels whose aim is to reshuffle oil revenues to non-oil developing countries? As a matter of fact, from 1973 onwards, several banks and funds, wholly owned and operated by Arab countries, were set up. They fall under several criticisms: their number, since they are over ten; low paid-up capital, lack of financial investment

expertise and absence of consultation and co-ordination between them. Without denying their positive aspect we can say that there is room for improvement. The ideal solution would be the creation of a single Arab Aid Fund by merging those banks and funds that deal specifically with non-Arab developing countries. As for the Arab countries themselves, their case is treated in the fifth chapter.

In the Arab World the present realities can be summed up as follows: On top of their geographical unity, individual Arab countries are characterized by a common history, language and religion. However, this is not enough in our current world. Nonetheless, these common features could play a strengthening role if Arab countries were to bank on their complementarities in the fields of agriculture, industry, labour force, markets and capital. In the past these economic and non-economic advantages have not been fully exploited. The reason put forward has always been that Arab countries lacked capital that is essential to any economic achievement. Now they have it. Finally, one should mention that there are ventures that no single Arab country can undertake by its own means; especially Research and Development if it has to lead to a technology more suitable to domestic economic and social conditions. To fulfil this purpose we suggest the establishment of an Arab Bank for Development. This institution has to be specifically designed for the Arab World and include poor and rich countries alike. Of course we do not suggest just another bank because we have stated that there are already too many. Our specific suggestion is to merge the existing funds and banks whose aim is to promote development within and between Arab countries. If this merging proves to be impossible our second best proposal would be to restructure the Arab Fund for Economic and Social Development (A.F.E.S.D.) more in line with the region's needs and financial abilities. The second proposal is less efficient because its working will be impeded by the existence of the funds and banks which have not been merged into the Arab Aid Fund.

This Arab Bank for Development should have more than the classical functions normally known to regional development banks and should have to pool existing Arab banking and investment expertise as well as tap other sources of capital. The impact and contribution of the bank we have in mind would be greatly enhanced if the Arab World had at its disposal an "inward-looking" financial market and a single Arab currency.

C H A P T E R I

THE RESOURCES OF THE ARAB WORLD

We assume that the geographical position⁽¹⁾, the past and recent history and the political systems of the Arab World are known. This gives to us the possibility to focus our attention on the resources of the Arab World. That is the purpose of this first chapter. We are faced with two kinds of resources: human and mineral resources and the structure of the chapter reflects this distinction. In the first section we deal with the human resources; a concept by which we mean the "energies, skills, talent and knowledge of people which are, or which potentially can or should be, applied to the production of goods or the rendering of useful services"⁽²⁾. These human resources will be assessed quantitatively and qualitatively, whenever possible. This problem has to be approached bearing in mind that it is impossible to draw a precise balance sheet in Developing Countries in general and especially in some countries such as both yemens. The second section deals with the mineral resources of the Arab World and more specifically with crude oil and the revenues derived from its exports. This chapter puts the problem into perspective: on one side we have the needs and on the other present and future abilities to satisfy those very needs.

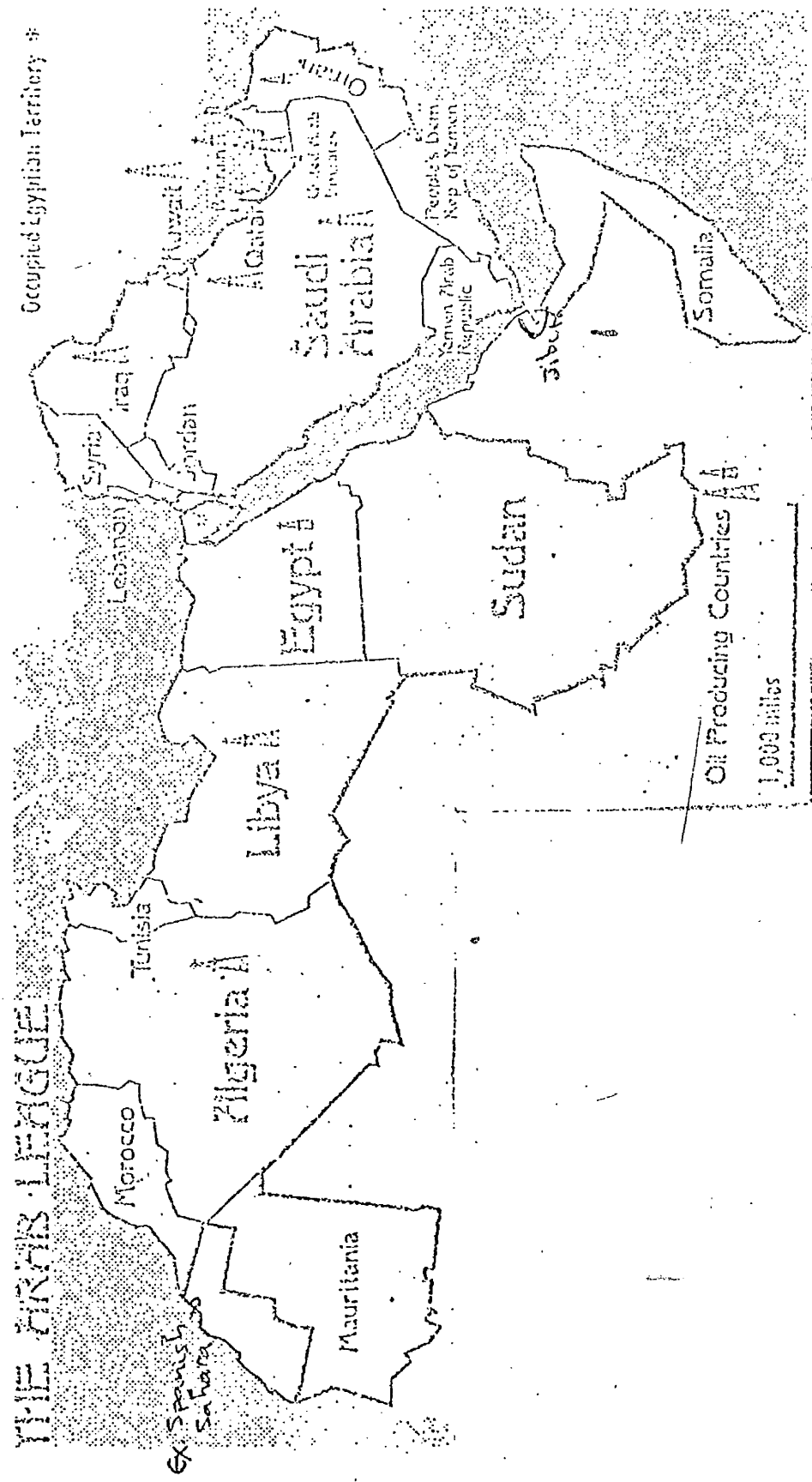
SECTION I - THE ARAB WORLD'S HUMAN RESOURCES

The most important resource of a nation or a country is its population and especially the level of education and state of health of the latter. We shall deal with these issues in this first section. However, as the previous map shows, we are concerned with twenty countries. It is therefore logical to present first the population

(1) cf. Map on Page 2.

(2) Frederick H. Harbison "Human Resources as the Wealth of Nations", Oxford University Press, New York, London, Toronto, 1973. Page 3.

TABLE 1 : Countries Members of the League of Arab States



distribution. This will be done at regional level but also at individual countries level.

SECTION I - 1: ARAB WORLD'S POPULATION DISTRIBUTION

As shown by Table 2 (Population, Density, Population Growth Rates and Rate of Urbanisation), the combined population of all Arab Countries amounts to just under 148 million inhabitants, spread over 13.5 million km². This leaves us with a population density of six inhabitants per km². However such a figure conceals other facts because of the uneven population distribution between the countries concerned.

The population distribution varies from one inhabitant per km² in Libya, Mauritania and the United Arab Emirate (U.A.E.) to 360 inhabitants/km² in Bahrain.

Furthermore, the situation of the Arab countries is very specific since the desert constitutes the greater part of them. For instance, 90% of Egypt is desert, geographically speaking, and if one considers arable area only, one is left with a population density of 1,000 Egyptians per acre, which is one of the highest figures in the World.

It is worth noting that in almost every Arab country part of the population is Nomad and therefore moving within the country or between neighbouring countries - Nomads account for 30% of the Libyan population. Although such a phenomenon is very well known, one has to bear it in mind when drawing final conclusions. However, putting aside such elements, Arab countries can be divided into two groups: either densely or sparsely populated.

The first group includes Egypt which accounts for one fourth of the total Arab population, Lebanon, Morocco and Syria. However, according to the same criterion, that is number of inhabitants per km², one can also add Bahrain and Kuwait. This is ironic because the population of the first country is just under a quarter million whereas that of the second country does not exceed one million inhabitants including foreign workers. On the other hand except Algeria, Sudan, Iraq and the Yemen Arab Republic (Y.A.R.), all other countries can be safely labelled as sparsely populated. For

TABLE 2 : The Arab World : Population, Density
Population Growth Rates and Rates of Urbanisation.

Countries	Area km. ²	Pop. 1974 mill.	Density Inhabitants per km. ²	Pop. growth rate %		% of urban to total pop. at end of 1960s.
				1960 -72	1965 -72	
Algeria	2,381,741	15.772	6	3.2	3.5	38 in 1974
Bahrain	598	0.224	360	n.a.	2.5-3 ^x	59
Egypt	1,001,449	36.000	33	2.5	2.5	40
Iraq	424,924	10.412	22	3.2	3.3	44.1
Jordan	97,740	2.577	24	3.3	3.5	42.2
Kuwait	16,000	0.833	47	3.8	10	80
Lebanon	10,400	2.600	268	2.6	2.7	+50
Libya	1,759,540	2.257	1	3.7	3.7	246 ^{xxx}
Mauritania	1,030,700	1,180	1	1.9	1.9	2.0
Morocco	445,050	16.309	35	2.7	2.5	n.a.
Oman	212,457	0.750	3	n.a.	2-3 ⁺	n.a.
Qatar	22,014	0.170	4	n.a.	2.3-3 ⁺	80 ^{xxx}
S. Arabia	2,149,690	8.443	4	1.7	1.7	20.6
Somalia	637,657	2.941	4	n.a.	3-3.5 ⁺	23
Sudan	2,505,813	16.901	6	2.8	2.8	6% 5 main towns
Syria	185,180	6.879	34	3.3	3.3	37.4
Tunisia	164,150	5.509	31	2.1	3.0	17% eight towns
U.A.E.	51,982	0.655	1	n.a.	3.5 ⁺	n.a.
Y.A.R.	195,000	6.062	29	n.a.	3 ⁺	n.a.
Y.P.D.R.	287,683	1.590	5	3.1	2.9	n.a.
Total Arab World	13,579,768	138.114	10			

⁺ rough estimate

^{xx} only the population of Tripoli and Benghazi were considered.

^{xxx} 80% of the population round the capital city Doha only.

Sources: Galal A. Amin : The Modernization of Poverty, a study on the political economy of growth in nine Arab countries 1945-1970, Leiden, E.J. Brill, 1974 Page 96.

"The Middle East & North Africa" 1974 - 1975, Europa publ. Ltd.

"the World Bank Atlas "Population per capita product & Growth Rates", the World Bank, 1974, Page 7.

instance Jordan could nourish a population twice the size of its current one. Even Saudi Arabia with around 9 million⁽¹⁾ inhabitants lacks the necessary manpower to develop its natural resources. Let us now consider the population distribution within individual Arab countries. We shall assess it by considering the rate of urbanization as shown in Table 2 (last column). We define the rate of Urbanization as the percentage of urban to total population. As expected data is not available from every country. In our opinion one can safely maintain that the rate of urbanization varies between 80% and 20%, although for most of the countries the figure is around 40-50%. It is worth noting that two towns, Manama and Muhara constitute 59% of the population of Bahrain and that 80% of the population of Qatar is spread around the capital city which is Doha.

Here too one can draw a rough line between oil producer and non-oil producers. Although the rate of urbanization is not over 21% in Saudi Arabia, one can safely state that the former are more "urbanized" than the latter. The correlation between oil industry and urbanization does exist, however, one cannot associate both phenomena very closely and state that all, and only all, oil producing countries are very urbanized. Furthermore, countries like Algeria and Libya seem to be aware of the phenomenon and are undertaking programmes of adequate reallocation of their human resources.

If the urban population were spread more evenly between the different regions and the main towns, the problem would have been less acute. This is not the case, since most of the urban population is concentrated in the capital cities.

Almost every Arab country has its primate city; this can be defined as being at least as large and more than twice as populated as the second most important city. As a matter of fact, the population of Cairo is twice as big as the population of Alexandria the second largest city. This relation holds true for Algiers and Oran in Algeria and in many other countries.

(1) There is no precise figure for the population of Saudi-Arabia. Estimates put it between 5 and 9 million inhabitants.

Furthermore, as mentioned earlier, Doha accounts for 80% of the entire population of Qatar.

If one looks more closely at the population distribution of the U.A.E. one might be inclined to label the Emirate as "capital-city-countries"⁽¹⁾.

The prospects are darker if one takes into consideration the rate of growth of the capital-cities. According to G.A. Amin during the 1960-66 period the annual growth rates of the population of Cairo, Damascus, Tripoli and Amman were 3.9%, 3.9%, 41.7% and 6.1% respectively. For others the situation is worse. During the 1961-65 period the annual growth rate of the population of Kuwait-city was 18% per annum.

These figures are more disturbing when we know that during their fastest urban growth at the end of the nineteenth century the rate of urbanization was no more than 2.1% per annum for most of the European countries. "Even in such countries as the U.S.A., Australia and New Zealand which received a large number of immigrants, the rate did not exceed 4.2% per year".⁽²⁾

The likely reasons explaining such a situation could be:

- the bias against rural life,
- the absence of any realistic regional balanced economic development in Arab countries,
- the concentration of all welfare amenities in the main towns, if not in the capital cities as will be shown in the following part (Section I-2).

All these problems as well as those deriving from education, public health and unemployment are made more acute by the population growth rate as represented in Table 2. According to this table the population growth rate of Arab countries is "high", just like other developing countries. During the 1965-72 period it varied from 1.7% in Saudi Arabia to 10% per annum in Kuwait. The case of Kuwait is a very special one and the very high population growth rate is

(1) The contribution to total population of the seven Emirates is as follows:

Abu Dhabi - 95,000 inhabitants ; Dubai - 100,000 inhabitants
 Sharjah - 55,000 inhabitants ; Ras el-Khaimah - 45,000 inhabitants.
 Fujairah - 15,000 inhabitants ; Ajman - 8,000 inhabitants.
 Umm el Quain - 7,000 inhabitants.

(2) G.A. Amin op. cit. Page 95.

essentially due to the large inflow of workers from the Indian Sub-continent and other Arab countries. The average population growth rate varies between 3 and 3.5% per annum. Table 2 provides us with two sets of population growth rates; for the 1960-72 and 1965-72 periods. By comparing both periods it appears that percentage-wise the population growth rate, already high, has been increasing. This is the case of Algeria, Iraq, Jordan, Kuwait, Lebanon, Tunisia. The population growth rate stabilized in the case of Egypt, Libya, Mauritania, Saudi-Arabia, Sudan, and Syria. The population growth rates seem to have decreased only in Morocco and the Yemen People's Democratic Republic. The main effect of this high increasing population growth rate is that all our countries are characterized by a young population: more than 50% is under the age of 18. As outlined earlier this situation will worsen the problem of education, health and employment.

SECTION I - 2. EDUCATION, PUBLIC HEALTH AND EMPLOYMENT

The performance of individual Arab countries in the fields of education, health and employment is outlined in the following table.

TABLE 3 : Illiteracy and Unemployment in The Arab World⁽¹⁾

Items Countries	Rate of illiteracy % of total pop. 1960s	Unemployment as % of Labour Force 1971-72.	Items Countries	Rate of illiteracy % of total pop. 1960s	Unemployment as % of Labour Force 1971-72.
Algeria	80	20 Urban 60 Rural	Oman	80	n.a.
Bahrain	40 M 67 F	-	Qatar	n.a.	negligible
Egypt	75 - 80	+	S. Arabia	95	-
Iraq	55	6.4	Somalia	95	+
Jordan	38	n.a.	Sudan	55	n.a.
Kuwait	55	2.04	Syria	64	4.3
Lebanon	10.2	6.38	Tunisia	n.a.	15
Libya	n.a.	-	U.A.E.	90	-
Mauritania	88	+	Y.A.R.	n.a.	n.a.
Morocco	n.a.	8.7 ^a	Y.P.D.R.	n.a.	n.a.

M : Male Population

F : Female Population

- : Deficit in manpower but non-available data.

+ : Surplus in manpower but non-available data.

a : For 1971.

Sources: "The Middle East and North Africa - 1974/75" and "Africa South of the Sahara 1974-75" published by Europa Publications Ltd., London, 1976 (confer - Surveys of individual countries).

I.L.O. Review, Volume 114 No. 2, September-October, 1976, P. 177.

(1) For further details confer Appendix: Estimates of Population, Labour Force, Employment, Unemployment and G.D.P. in South-west Asia and Northern Africa: 1960 - 1990.

It seems that the rate of illiteracy is very high in Arab countries. Except in the case of Lebanon and Jordan, more than half of total population is illiterate in Algeria, Bahrain, Egypt, Iraq, Kuwait, Mauritania, Oman, Saudi-Arabia, Somalia, Sudan, Syria and the United Arab Emirates. As far as the rate of illiteracy is concerned we do not dispose of information in the cases of Libya, Morocco, Qatar, Tunisia and both Yemens. In our opinion the situation in Morocco and Tunisia could be at best similar to that in Algeria. In the case of Libya one should expect a high rate of illiteracy too because the problem of education was not tackled until the early 1970s.

Furthermore, as mentioned earlier, Nomads represent an important section of the Libyan population, and this fact contributes in increasing the rate of illiteracy. This applied to every Arab country with a sizeable nomad population and is bound to hinder present and future efforts aimed at eradicating the problem of illiteracy. The case of Qatar and both Yemens is similar to that of the Arabian Peninsula. Furthermore the rate of illiteracy is higher amongst the female population.

It seems that concerning the problem of education the problem is similar in Arab countries either with or without oil resources. However, unlike other less-developed countries (or L.D.Cs.) the Arab countries have an asset in the sense that they speak the same language, Arabic. Consequently, provided there is a will, the problem can be tackled at regional level and by the same token it represents a field of co-operation between individual Arab countries. This co-operation has already started with the creation of a common satellite to promote education at regional level.

Illiteracy in the Arab World has also led to the appearance of another phenomenon: a small migration between Arab countries. Since the end of the 1960s a flow of teachers developed from non-oil to oil Arab countries. We consider this basically as a positive trend; nonetheless it does contain some negative elements. For instance if one considers the problems in terms of, say, pupils/teacher ratio one finds that the oil exporting countries are doing better. It follows that the flow will in the long term occur at the expense of non-oil countries. One can label this phenomenon as an "inter Arab World brain-drain". A controlled flow favourable to both groups has to be

worked out.

Finally, in financial terms the problem of illiteracy outstrips the ability of all non-oil countries. This is another field of co-operation between Arab countries. Furthermore, if there was to be a regional effort to tackle the problem of illiteracy this effort should also focus on correcting the deficiencies of present education systems in Arab countries, systems that have to be harmonized. The deficiencies are mainly bias against technical and irrational training, inadequate and low output and brain-drain from the Arab World to the Rest of the World.

Let us, now, turn our attention to the public health sector. As in other L.D.Cs. one expects a poor health service in the whole region with the non-oil countries in a worse situation. In drawing our conclusions we shall consider the situation in some oil countries, as shown in the following table.

TABLE 4 : Public Health in Five Arab States, end 1974

Countries	Number of Inhabitants per Hospital Bed	Number of Inhabitants per Doctor.
Algeria	6632	7886
Bahrain	250	2000
Egypt	n.a.	2500
Lebanon	250.60	n.a.
Qatar	173.46	447

Source: Several sources and mainly, "The Middle East and North Africa 1974-75", Europa Publications, op. cit.

It seems that, even between the so-called oil exporting countries, one can witness a wide disparity. The width of such a gap could be illustrated by the cases of Qatar and Algeria. There are on average 6632 Algerians per single hospital bed whereas the ratio is 173.46 to one in Qatar. Algeria has more than 38 times the figure of Qatar. Finally there are 7886 Algerians per doctor whereas the figure is 447 for Qatar; that is 18 times less. However, the

figures for Bahrain are very significant. This country is characterized by a relatively low inhabitant/bed ratio - 250, but on the other hand, the inhabitants/Doctor ratio amounts to 2,000. In our opinion the explanation could be that, given its financial resources Qatar has little difficulty or, indeed, hardly any in building and equipping hospitals, but it encounters many difficulties in providing them with the adequate staff. This emphasises our previous conclusion that human resources do constitute the "Achilles' Heel" of the Arab countries, whatsoever their classification.

Finally one has to mention that oil exporting countries are making outstanding progress and by early 1978 most, if not all of them, have secured free medicine for their population. For instance in the United Arab Emirates free medicine is available even to Arab nationals from other countries. On the other hand, there is no free access to medicine and sometimes even to education in most other Arab countries. Furthermore, existing facilities for both education and health are concentrated in and around the main cities, this is very grave in countries with a sizeable nomad population. According to a United Nations' Report tens of billions of U.S. dollars are necessary to solve the problem of illiteracy let alone the problem of health. Furthermore, the consequences of a high rate of illiteracy and an inadequate and insufficient public health system could be aggravated by the number and distribution of jobs in individual Arab countries. As said earlier, we consider the problem rather in terms of unemployment and Table 3 gives us an idea about the situation. According to available official data only four countries, namely Bahrain, Libya, Saudi Arabia and U.A.E., experience a deficit in labour force. All are oil exporting countries with massive development projects on the stream, especially in Saudi Arabia and Libya. We do not have available data for Jordan, Oman, Sudan and both Yemens. In our opinion all but Sudan suffer from unemployment. Finally, in the remaining countries the rate of unemployment is very high. This includes the three Maghreb countries, Iraq, Lebanon and Syria. The figures are from 1971-72. It means that some progress has been made especially in the oil countries such as Algeria. On the other hand the rate of growth of the populations are very high. In our opinion all in all the situation could be similar in 1978 especially

in the labour force surplus countries.

Finally one has to mention the fact that those figures do not include Algerian, Moroccan and Tunisian workers in West European countries. Had they been included or had they to go back at short notice the situation could be worse.

At regional level the main conclusion to be drawn is that we have a labour force deficit in some countries and a labour force surplus in others. The existence or inexistence of oil resources is not a dividing line in this case. The ideal solution could be a flow of labour force from one group to another. As a matter of fact such a flow has already started in the education sector as mentioned earlier. Sometimes migrations might even take the aspect of "permanent settlement". In Kuwait and Bahrain a high percentage of the population is constituted by citizens from other Arab countries.

Finally it is worth mentioning the case of the pilot scheme of Egyptian peasant agriculturists being transferred in Iraq near Baghdad. This example denotes two elements; on the one hand that the flow of workers is occurring even in sectors other than education, on the other hand that it is organized and aimed at permanent settlements. Up till now the migratory flows have been the main result of individual decisions. In our opinion it is time that it occur^{red} on an official basis within an institutional framework.

Before closing this section we shall consider the sectoral employment. It seems that the primary sector absorbs most of the labour force in most of the Arab countries. For instance, in Mauritania 92 per cent of the labour force is engaged in agriculture. For other countries the figure is not so low since in 13 out of 20 countries the Primary Sector occupies the biggest share of employment.

In half of the total Arab countries representing around 80m. people, or more than two-thirds of the total population, the percentage of the labour force in agriculture to that of the total labour force is higher than the average world rate 51%. As far as employment is concerned, there is no Arab country in which the industrial sector occupies a prominent position. This means that employment in services occupies the second place. However, it is the most important one in only three countries, Bahrain, Kuwait and Lebanon. The first two are oil producers with small populations engaged in trade and doing

administrative jobs, and it is no secret that the Lebanese live from trade, banking and tourism.

To the classification of first agriculture, second services and third industry one could find a set of explanations:-

- Industry is not very developed when it exists.
- Faced with unemployment but unable to undertake adequate reforms Arab governments have always tried to resolve it by duplicating jobs in public administration. Sometimes this has been done openly with central government explicitly asking administrations to overstaff themselves. This happened mainly in Egypt.
- Unemployed individuals without any qualifications engage in small trade, as street sellers, and therefore join the tertiary sector.
- Agriculture is dominant because most of the Arab states can be labelled as subsistence economies. This is the case of both Yemen, Mauritania, Somalia, Sudan and Morocco. Even in countries such as Algeria, 70% of the population live from agriculture.

Some countries from the lower Gulf, given their harsh natural conditions, the size of their population, and their human potentialities can do nothing but develop services. Some of them fill the function of entrepot for other bigger countries such as Saudi Arabia or even Iran.

The demographic characteristics of the Arab World can be summarized as follows⁽¹⁾:

- High population growth rates with a regional average of 3% per year,
- High illiteracy rates with a regional average between 60 and 80% of total population.
- low levels of education.
- Poor health service

(1) "Goals for Mankind : A Report to the Club of Rome", General Editor Ervin Laszlo, published by Hutchinson of London, 1977, p. 156.

- Predominantly rural population, around 60-80%. The nomadic population constitutes around 5% of total population.
- High migration rates to the main cities if not to the capital cities.
- About 50% of the 138 million regional population is under the age of 18.

From these characteristics it appears that Arab governments are left with an important challenge to provide these populations with the basic social requirements. Their success or failure could be partly due to the means at their dispositions. These means are a function of the resources available. A quick appraisal of those resources is presented below.

SECTION II - THE MINERAL RESOURCES OF THE ARAB WORLD

The Arab World is characterized by a very vast area that has not been totally prospected. But in spite of that it is well known that it enjoys several raw materials such as chromium, chromite, copper, manganese, cobalt, iron ores, phosphates, natural gas and finally crude oil. However not all these mineral resources are exploited. Phosphates constitute the main foreign exchange earning item in Morocco, Jordan and Mauritania. The controversial Spanish Sahara contains vast deposits too. However from 1973 onwards it is mainly crude oil and marginally natural gas that have constituted the main source of exports and therefore of earning in most Arab countries. Consequently we shall focus our attention on crude oil.

SECTION II - 1: CRUDE OIL AND NATURAL GAS RESERVES IN THE ARAB WORLD.

There is little consent about the exact magnitude of the reserves. Figures advanced by Arab governments are said to be deliberately inflated for political purposes and figures published by the Multinational Oil Companies (M.N.O.C.) are said to be deliberately reduced for economic or political reasons. It follows that every source is subject to criticism from the other side. As far as we are concerned we shall quote the figure published by Nicolas Sarkis, an expert on Arab oil, who has been advising The Saudi, Iraqi and

Algerian government on oil matters. His estimates are contained in Table 5. Our approach shall be to state the reserves of each country and to consider that country's share as a percentage of total Arab World reserves of oil and natural gas.

A. - Distribution of Oil Reserves Between Arab Countries:

According to Table 5 all the Arab countries except Jordan, Mauritania, Somalia, Sudan and both Yemens, have oil resources. However, as expected, the regional distribution is not even. Saudi Arabia, with 17,600 m. tonnes or 41.38% of the total Arab World reserves, has the major portion. Apart from this country, the "First League" could comprise Kuwait, Iraq, Libya and the U.A.E. with respectively 24.78%, 11.43%, 7.38% and 6.73%. The five countries enjoy some 92% of the total Arab World combined reserves.

In the Second League one could include Algeria with 3.15%, Qatar with 1.78% and finally Oman with 1.05% of the combined reserves.

Finally, the last group could embrace all other countries with negligible reserves such as Bahrain, Egypt, Morocco, Syria and Tunisia. The reserves of these five states do not exceed 2.27% of the combined Arab reserves; they just suffice to supply their national needs. But Egypt and Syria export negligible quantities of oil. As far as natural gas is concerned the situation is not very different.

B. - Distribution of Natural Gas between Arab Countries.

Algeria enjoys the largest reserves; 3.990 bn/m^3 or 39.88% of the Arab World reserves. The following countries could be classified as holding major reserves: Saudi Arabia with 16.84%, Kuwait with 12.29%, Libya with 8.13%, Morocco with 7.07%, Iraq with 6.22%, U.A.E. with 4.24% and even Qatar with 2.24% of the combined reserves. These countries have combined reserves of 97% of the Arab World. All other countries have to be relegated to the second league with comprises Egypt, Oman, Bahrain, Tunisia and finally Syria.

It appears that by world standards, although not for Algeria in the case of oil, both products are concentrated within a handful of Arab countries, namely Saudi Arabia, Kuwait, Iraq, Libya, Algeria and the U.A.E. Both products derive their importance from their industrial applications and the extent of their quantities since the Arab World possesses 49.4% and 28.4% respectively of world oil and natural gas reserves. Although unevenly distributed among Arab

TABLE 5 : Arab World's Oil and Natural Gas Reserves (end of 1973)

Countries	O I L		N A T U R A L G A S	
	Reserves 1-1-74 M/t.	% of the Arab World	Reserves 1-1-74 M/m ³	% to total Arab World
Algeria ^x	1,341	3.15	3,990	39.88
Bahrain ^x	372	0.87	54	0.54
Egypt ^x	278	0.65	118	1.17
Iraq ^x	4,864	11.43	623	6.22
Jordan	-	-	-	-
Kuwait ^x	10,540	24.78	1,230	12.29
Lebanon	-	-	-	-
Libya ^x	3,140	7.38	814	8.13
Mauritania	-	-	-	-
Morocco	100	0.23	708	7.07
Oman	448	1.05	71	0.70
Qatar ^x	760	1.78	225	2.24
S. Arabia ^x	17,600*	41.38	1,685	16.84
Somalia	-	-	-	-
Sudan	-	-	-	-
Syria ^x	168	0.39	20	0.19
Tunisia	56	0.13	41	0.40
U.A.E. ^x	2,864	6.73	425	4.24
Y.A.R.	-	-	-	-
Y.P.D.R.	-	-	-	-
Total Arab World	42,531	100.00	10,004	100.00
% Total World	49.4%		28.6%	

Source: Nicolas Sarkis, pp. 312-313.

M/t - Million tonnes M/m³ - Million of m³

* Excluding the 7 bn. barrels deposit found by ARAMCO during the second quarter of 1976.

^x Countries members of OAPEC (Organisation of Arab petroleum exporting countries).

League members, it appears that, for the time being, oil and natural gas constitute the only source of revenue for the Arab countries as a whole. Furthermore as compared with oil revenues, earnings from natural gas exports are marginal for the time. Consequently, for the sake of simplification, we shall refer to earnings from both sources as oil revenues.

SECTION II - 2: THE ARAB OIL REVENUES

A -- Causes of the Oil Price Increases.

Oil revenues are a function of the prices and quantity sold. As outlined by the subsequent table price has been quite unstable during the years.

We shall not consider the causes which led to the oil price fluctuations from 1958 to 1973, but focus our attention on the end of the 1973/1974 period, because the change was so dramatic: in three months or so oil prices quadrupled. It is this fourfold increase which increased the revenues of OPEC countries and led to the so-called "oil crisis". The reasons for such an increase were manifold and we shall limit ourselves only to mentioning them.

First the change in ownership of crude oil. The ownership passed from the M.N.O.C. that discovered, extracted, transported and marketed crude oil to the oil producing countries. It occurred either through nationalizations (Algeria, Libya) or negotiations (Kuwait, Saudi Arabia and so on).

Secondly, economic causes. Some were of a conjunctural nature such as the closures of the tapline in 1969 and 1970, the Libyan production cuts in 1971 and the unforeseen increase in demand by European and Japanese consumers⁽¹⁾.

Structural economic causes were not absent either; the main one being the increase in cost of production not in the OPEC countries but outside them especially in Alaska and the North Sea. As early as 1953 the Petroleum Press Service (P.P.S.) writes that,

(1) Up to 1970 demand rose by about 8% yearly but in 1973 it rose by 13.3% in Europe and 20% in Japan.

TABLE 6 : Average Price of One Barrel of Oil Paid by Consumer at OPEC Port of Delivery (1) 1958-1974 (SI61).

	Middle East		North Africa			Total	Venezuela	Indonesia	Nigeria	Average OPEC
	Gulf	Mediterr.	Libya	Algeria	Total					
1958	1.05	1.35	-	-	-	1.10	1.55	1.70	-	1.30
1959	1.00	1.30	-	-	-	1.05	1.50	1.65	-	1.25
1960	0.95	1.25	-	-	-	1.00	1.45	1.60	-	1.20
1961 to 1964	0.90	1.20	1.30	1.50	1.40	0.95	1.40	1.55	-	1.15
1965 to 1969	0.95	1.25	1.40	1.60	1.45	1.00	1.45	1.60	1.40	1.20
1970	1.00	1.35	1.55	1.95	1.65	1.05	1.50	1.65	1.45	1.30
1971	1.40	1.95	2.30	2.60	2.35	1.45	1.95	2.40	2.10	1.75
1972	1.50	2.20	2.45	2.75	2.55	1.55	2.15	2.90	2.20	1.85
1973	2.10	3.20	3.75	4.50	4.00	2.20	3.15	4.10	3.30	2.65
1974 ²	8.10	11.10	13.00	13.25	13.10	8.25	9.20	10.80	10.65	9.15
Increase 1974 in relation to 1973	6.00	7.90	9.25	8.75	9.10	6.05	6.05	6.70	7.35	6.50

(1) Average, on the one hand, of "tax-paid" cost price for oil exported by international companies and, on the other, selling price of oil exported by OPEC nations or their domestic companies.

(2) 1974 average prices calculated on the basis of production figures for 1973.

Source: "Petroleum, Raw Materials and Development" Memorandum submitted by Algeria on the occasion of the Sixth Special Session of the United Nations' General Assembly, April 1974, p.177.

"since June 1953, there have been further advances in the cost of equipment and wages, while the increasing effort put forth in the search for new reserves has likewise raised unit costs".

The periodical continued:

"The US industry is today making capital outlays in finding, developing, and producing crude oil of the order of US\$ 4,000m. a year, of which the bulk has to be found and developed comparatively cheaply in the past, at prices which do not cover today's costs of replacement. It cannot continue to do this indefinitely".⁽¹⁾

What was the proposed solution? At that time some voices suggested some "kind of correction, a change in the present climate" and the P.P.S. expressed itself more openly by writing that "on a cost basis the case for an increase in U.S. crude oil prices is quite a strong one".⁽²⁾ This trend has been amplified as years went by and if we consider the whole "world market" the situation is worsened by the fact that, as world consumption increased, more oil had to be moved from one place to another and this increased transport costs again; since longer and wider pipelines and larger fleets were needed. Those were the factors militating for an oil price increase.

There have also been non-economic structural causes. The main one being the appearance of OPEC, O.A.P.E.C. and Arab-national oil companies. This led to the formulation of a strategy by OPEC government within and outside the OPEC organization. This strategy was based on four fundamental considerations -

- Oil is an exhaustible resource even though the reserves are vast as in the case of Saudi Arabia, say.
- Oil revenues represent from 50 - 60 to 98% of OPEC countries' export revenues. Therefore it is the cornerstone of their economic life.
- OPEC countries had no control whatsoever on the oil industry and before 1973 their revenues consisted of taxes and royalties.

(1) Petroleum Press Service (confer Article "Will crude prices rise?") Ethelburga House, Bishopsgate, London; Volume XXIII No. 5, May 1956 p.p. 184-185.

(2) Ibid.

In spite of their oil resources OPEC countries were and still are under-developed countries. In the case of Arab countries, as shown in the previous section, it means high rates of illiteracy and unemployment, low level of education, absent or poor public health system, unbalanced domestic economy and so on. Finally one has to mention that in their increased political awareness OPEC countries were just following the lead of West European countries⁽¹⁾ that wanted to withdraw themselves from the tutelage of the American oil companies.

All these economic and non-economic, conjunctural and structural causes led to the fourfold oil prices increase. For the OPEC as a whole the average price of one barrel of oil jumped from \$2.65 in 1973 to \$9.15 in 1974. From that day on they kept on increasing, at least on nominal terms. The prime consequence of such a phenomenon is that OPEC countries' export earnings rocketed. The magnitude of such an increase is simple to calculate, one has just to multiply the volume exported by the price of one barrel of oil. Several commentators did such a calculation. We shall refrain to do so in order to focus our attention on the wealth of individual Arab countries.

B - Implications of the Increased Arab Oil Revenues

Obviously their implications are world wide and this problem will be discussed in the following chapters. Concerning the Arab World we shall consider the problem from the point of view of individual countries' wealth as measured by the G.D.P. and G.N.P. per capita. Our approach will be to consider the total G.N.P. at market prices in 1974. The percentage of total G.N.P. of each country that will be compared to individual countries' percentage of total Arab population. Finally we shall also present the percentage change of G.N.P. per capita from 1972 or 1973 to 1974. Those elements are contained in the following table.

In 1973 the total G.N.P. at market price was U.S. \$ 58,334.5 millions and as a result of the fourfold oil price increase it reached U.S. \$ 109,696 millions in 1974 that is an increase of 88.04 per cent. However individual Arab countries did not obtain the same advantage from

(1) The C.F.P. or Compagnie Francaise des Petroles was the first one to be created in 1925. Confer Raymond Vernon, "Sovereignty at Bay", Publisher Longman Group Ltd., London, 1971, p. 36.

TABLE 7 : Arab World : G.N.P. at Market Price and G.N.P. per capita - 1974.

Countries	G.N.P. in Million U.S.\$ 1974	% of total G.N.P. 1974	% of total population mid-1974	G.N.P. per capita in U.S. \$ 1974	% change in G.N.P. per capita 1974-73
Algeria	11,100	10.1	11.0	730	61.86
Bahrain	580	0.53	0.19	2,350	250.74 ^a
Egypt	10,210	9.3	26.5	280	13.82
Iraq	12,000	10.94	7.86	1,110	66.41
Jordan	1,120	1.02	1.89	430	22.50
Kuwait	9,330	8.5	0.7	10,030	247.05 ^a
Lebanon	3,290	3.0	2.26	1,070	47.38 ^a
Libya	10,430	9.5	1.8	4,440	99.7
Mauritania	380	0.3	0.9	290	67.63 ^a
Morocco	7,070	6.4	11.9	430	40.06
Oman	1,250	1.14	0.56	1,550	213.20 ^a
Qatar	1,380	1.26	0.07	7,240	205.48 ^a
S. Arabia	22,670	20.7	5.8	2,830	126.03 ^a
Somalia	290	0.26	2.30	90	12.50 ^b
Sudan	3,460	3.20	11.0	230	91.66 ^a
Syria	3,990	3.64	5.2	550	57.30 ^a
Tunisia	3,560	3.25	4.0	650	43.80
U.A.E.	6,060	5.52	0.16	11,060	251.11 ^a
Y.A.R.	1,160	1.06	4.65	180	100.00 ^a
Y.P.D.R.	360	0.33	1.20	220	120.00 ^a
Arab World	109,696	100.00	100.00	798	86.01

a. - 1972 b. - 1971

Sources: N. Sarkis op. cit. p.p. 310 - 311 and
 A. El. Sherbini and R. Sinha, "Arab Agriculture : Problems
 and Prospects" published in Food Policy, April 1978.

this increase and as expected it concentrated in the oil exporting countries. The increase is reflected in the G.N.P. per capita that is given by the last column of Table 7. (page 21). According to the latter all Arab countries witnessed an increase in their G.N.P. per capita. The highest occurred in Bahrain with 250.74%; Kuwait with 277.05%; Oman with 213.20%; Qatar with 205.48%; Saudi Arabia with 126.03%; U.A.E. with 251.11%; the Yemen Arab Republic with 100% and finally the Yemen People's Democratic Republic with 120.0%. However, if one considers the real size of the G.N.P. per capita, as given in column 4, one notices that the G.N.P. per capita of the last two countries is U.S. \$ 180 and U.S. \$ 220 respectively and this with Somalia puts them at the bottom of the league. Furthermore the percentage change in the average G.N.P. per capita of the Arab World being 86.01% Sudan with 91.66% increase might appear to be amongst the rich Arab countries. This is not so because it is considered by the International Organizations as one of the poorest countries. As proof its 1974 G.N.P. per capita was U.S. \$ 230 whereas that of the oil exporting countries is measured in four figures. Finally it appears that in terms of G.N.P. per capita the rich Arab countries are Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia and the U.A.E. A complementary study that confirms the view just expressed can be found in the first section of the final chapter⁽¹⁾. Another way to distinguish between 'rich' and 'poor' Arab countries is to consider the relation between their share of the total Arab World G.N.P. and total population; both items are given in columns 2 and 3 respectively. We shall consider a country rich when its share of total G.N.P. is greater than its share of total population. According to this criterion the rich countries are Bahrain, Iraq, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia and the U.A.E. Before going further let us consider the case of Lebanon which, according to our previous criteria, is a rich country. According to Table 5 (page 16) this country has no oil or natural gas. Furthermore the recent civil war destroyed the Lebanese economy and for the time being Lebanon is far from being a

(1) Confer Table 44 "Economic Prospect of Thirteen Arab Countries : Population, G.N.P. and G.N.P. per capita (1970 - 1984)".

rich country. However this is the picture at the end of 1974 and the wealth is based on crude oil and natural gas. It is therefore logical to take into account the reserves of both resources. The latter are given in Table 5 (Page 16) according to which Bahrain, Oman and Qatar have negligible reserves. If it has to be based only on the above mentioned natural resources the wealth of the three countries is short-lived. In our opinion the rich Arab countries are by order of size Saudi Arabia, Kuwait, Libya, the United Arab Emirates and even Iraq although it is not always considered to be so. In our thesis we shall refer to this group of countries as the "have" and all other countries, except Algeria, Bahrain, Oman and Qatar, as the "have-not". Let us now turn our attention to the future wealth derived from crude oil and natural gas.

C -- Future Arab Oil Revenues

The level of prices in nominal terms depends on several factors. The overriding question is if the causes that led to their quadrupling in 1973-74 will disappear in the medium-long term. These causes have already been dealt with earlier in this chapter, and in our opinion they will be present in the medium term at least. For instance the change of ownership is an irreversible step. It is very unlikely that the cost of production will decline either in or outside the Middle East. Furthermore, apart from oil production OPEC, and therefore Arab countries, will be present in other fields of the oil industry such as transport and refining. It is estimated that by mid-1980s their own fleet will be transporting around two-thirds of their own production. By that time one has also to consider the fact that their refining capacity would be greatly expanded. On the top of these factors one ought to mention that by 1985 the Arab World will be a net exporter of fertilizers⁽¹⁾. Exports earnings from natural gas will also be very important in countries such as Algeria. Finally, as it will be presented in Chapter III, part of the oil revenues are being invested abroad, consequently they are bound to produce financial

(1) Arab countries are now cutting down the scale and number of their fertilizer plants in order to avoid a glut by mid-1980s; but in spite of that their share of the market will be larger than that of the mid-1970s.

earnings⁽¹⁾. The political will that led to the creation OPEC that played an important role in quadrupling the prices of oil is a permanent feature of the future relations between oil producers and consuming countries. All these factors led to an increased bargaining power of OPEC countries. However that bargaining power sprung mainly from OPEC countries' role as main suppliers of crude oil to the U.S.A., Japan and Western Europe. From 1973-74 onwards the latter countries took some steps to limit their dependence on OPEC oil. These measures were mainly conservation, increased production of domestic oil and promotion of alternative sources of energy. Several institutions and commentators considered the impact of such measures on OPEC export. The International Energy Agency, specifically created to deal with the energy problem for the O.E.C.D. area, comes up with the following forecast.

TABLE 8 : IEA Forecasts of Consumers' Oil Demand and Net Import (1974-1985)

Period	1974	1980		1985	
Countries	Actual	(1)	(2)	(3)	(4)
USA					
Demand	15.9	18.8	21.4	18.7	23.7
Imports	5.9	7.8	8.6	4.3	10.9
EEC					
Demand	11.1	11.3	12.8	11.8	13.7
Imports	11.1	9.0	9.5	8.5	10.4
OECD Pacific Japan					
Demand	5.8	7.9	10.2	9.6	12.1
Imports	5.5	7.5	9.8	9.0	11.7
Total OECD					
Demand	37.2	43.7	51.6	46.6	57.3
Imports	25.1	27.3	32.1	24.1	37.8
Other non-communist					
Demand	7.0	9.9	12.2	12.2	13.7
Imports	3.8	4.6	4.2	4.2	5.7
OPEC Exports	28.9	31.3	37.7	27.7	42.9

Source: The Economist April 10, 1976, pp.107.

(1) It is estimated that Saudi Arabia's accrued dividends from financial investments in OECD countries were \$ 6-7bn. in 1977.

The I.E.A. made the following assumptions:

- (1) OECD annual growth rate 4.3% 1974-80 - no extra conservation.
- (2) OECD growth rate 4% 1980-85 - no extra conservation.
- (3) OECD annual growth rate 1980-85 - 4% - conservation programme and accelerated investment in alternative fuels.
- (4) OECD growth rate 4.5% 1980-85 - no extra conservation.

These assumptions seem realistic to us since oil demand is a function of three factors:

- the growth rate of the country or group of countries concerned.
- energy conservation programmes.
- and the available supply from other sources of energy.

Given the forecast the worst that can happen to the OPEC would be to export by 1985 1Mb/d less than 1974, and this "shock" can be offset by Saudi Arabia very easily, as it is being done in 1978⁽¹⁾.

It seems that, on the volume of export side, the OPEC countries are safe. In our opinion nominal oil prices will not decrease in the medium-term. As a proof several commentators predicted that by the end of the 1980s OPEC will break up and that means lower oil prices. Five years have already passed and nothing of the kind occurred and by 1978 the oil crisis approached in terms of quintupling and not quadrupling of oil prices.

One can safely maintain that the Arab World is assured of increased oil revenues for several years to come. How sizeable these revenues will be is a matter of speculation and assumptions - we shall refrain from giving a definite figure. On the other hand we shall present in the following table the projections made by other people and institutions.

(1) Confer: Interview of Sheik E. Yamani on B.B.C. "The Money Programme", "What to do with \$100 million a Day", May 13th 1978 at 4.40p.m.

TABLE 9 : Projections of 1980 OPEC Financial Accumulations
(in billions of dollars)

	Current Dollars	Constant 1974 Dollars
Hollis B. Chenery (January 1975)	n.a.	\$300
Edward R. Fried (1974)	n.a.	152
EXXON (Spring 1975)	\$330-380	200-240
First National City Bank (June 1975)	189	141
IBRD (July 1974)	653	approx. 400
IBRD (July 1975)	200-400	120-250
Irving Trust Case I (March 1975)	248	158
Irving Trust Case II (March 1975)	22	14
Walter J. Levy (June 1975)	449	286
Mobil Oil (Spring 1975)	303	178
Morgan Guaranty (January 1975)	179	114
OECD (July 1975)	n.a.	215
Thomas D. Willett et al. (Jan-May 1975)	n.a.	175-250

Source: T.D. Willett "The Transfer Problem and International Economic Stability", Essays in International Finance No. 113, Princeton University, U.S.A., December 1975 p. 6.

As it can be seen several attempts were made to calculate OPEC's financial accumulations. The common feature of these projections is that they do not agree with one another. For instance in current U.S. dollars the gap is very wide between EXXON's \$330-380 bn. figure and an Irving Trust Case II that puts the financial accumulations at \$22 bn; though both were made in Spring 1975. However when it comes to projections in constant 1974 dollars the gap is less wide since it varies to \$14 bn. according to Irving Trust Case II and the IBRD (July 1974). Our purpose is not to say which is wrong and which right although they are all accurate within the assumptions they made. However as more than four years have already elapsed it is more realistic to look for the right projection in the top side of the above-mentioned figures. For instance, according to Morgan Guaranty

OPEC investments were around \$200 bn.⁽¹⁾ by the end of 1977. This is well above its own projection made in January 1975 that was 179 bn. current dollars. Nowadays the most common figure advanced is \$300 bn. of accumulated financial resources. The previous figures have the advantage of giving to us the financial surplus that is the oil revenue not domestically spent; on the other hand their disadvantage is that they do not give separate projections for the Arab World. However, as seen in the beginning of this section, most of OPEC's oil reserves and production are concentrated within the Arab World, therefore most of the financial accumulations will be concentrated in the same hand. This holds true when one knows that the major non-Arab countries, that is Iran, Nigeria, Mexico and Venezuela, started borrowing from the Euro-markets as early as mid-1977.

CONCLUSIONS

The Arab countries either densely or sparsely populated, either with or without oil reserves, are still under-developed. This is a fact and it is obvious in the rates of illiteracy and unemployment, the state of the public health sector and the level and characteristics of the system of education. The position of the agricultural sector, measured either in its contribution to G.D.P., share in active population, shows the characteristics present in most developing countries.

On the other hand the Arab World enjoys several raw materials. We have focused our attention on crude oil whose price quadrupled in the space of three months. We have also shown that these prices, at least in nominal terms, are unlikely to decline. Therefore in the years ahead a steady flow of revenues will be accruing in the hand of those countries that we decided to treat as a bloc.

(1) The Financial Times, cf. Article "OPEC's investment seen at \$200 bn." by Francis Ghiles, Sunday-Monday 28-29-X-1977.

The logical question is whether these revenues will be used to satisfy the basic, social and economic needs of those 140 million people. This is not an easy task that can, and will be, complicated by the very nature of those revenues. We mean the way they are kept and invested. This problem cannot be dissociated from the question of how the oil consuming countries will be paying for their increased oil bill. This constitutes the substance of our next chapter.

CHAPTER II

PAYING FOR OIL

INTRODUCTION : THE PROBLEM

The 1973 oil crisis introduced profound changes into the world economy and, indeed a situation where most OPEC countries witnessed swollen balance of payments (B.O.P.) surplus, whereas oil-importing countries recorded big B.O.P. deficits. The magnitude of the long term politico-economic consequences of such a novel situation has yet to be discerned.

However, a situation of B.O.P. disequilibrium is not new in the annals of history. Massive international transfers stretch from the eighteenth century to our present time and involve several countries. The main examples being :

- Britain which, from 1773 to 1816, witnessed an outflow of funds to her Allies,
- France, which, during the 1811 - 1875 period, had to pay war damages to the Prussian Empire,
- Germany, after her defeat during World War I. This case is very interesting because it involves several countries; and
- The United States which, from 1950 to 1963 undertook sizeable investments in Western Europe. The American case can be extended up to the early 1970s by the inclusion of the Vietnam War.

It goes without saying that those examples boosted the theory of international economics. From David Hume onwards the list of writers whose works focused on these topics is very long. Amongst others it includes, F. Machelup, Denizet, S.S. Alexander, H.G. Johnson, A.C. Habberger, T. Scitovsky, J.M. Keynes. Obviously one does not claim to have presented an exhaustive list in this field.

Whether their theories are applicable to our case-study will not be discussed here. However, one fact is true, and hence has to be mentioned : their examples were concerned with countries or groups of countries at more or less similar levels of development. For instance, concluding his introduction to a book containing fourteen articles from twelve economists, R.N. Cooper writes that:

"most of the essays are addressed to the problems facing the economically advanced countries, but many of the principles apply to the L.D.Cs. as well. None, however, is addressed to the particular problems of the L.D.Cs. where foreign exchange considerations often exert a powerful influence on plans and prospects for economic development."⁽¹⁾

The incorporation of the L.D.Cs. in our case constitutes a new feature and is bound to complicate the problem. On the other hand, if one had to include our case in a broad theoretical framework one would choose the sphere of transfer theory which :

"has generally been developed and applied in the analysis of such standard problems as reparation payments and international flow of long-term capital. It has, however, a far wider application in the field of B.O.P. theory, since any actual B.O.P. disequilibrium involves a transfer in some form from the surplus to the deficit country (or countries), and the problem of rectifying the disequilibrium can be framed as the problem of creating a transfer of equal amount in the opposite direction⁽²⁾."

However the problems involved are a function of the magnitude of the financial transfer. Thus, a comparison between oil revenues and other data could be useful.

First let us compare Arab oil revenues to other data (cf. Appendix III - Table 1). Considering the Arab oil revenues at 61.8bn. dollars for 1974, as Nicolas Sarkis does, it appears that such a sum is twice as much as the total assets of the M.N.O.C. EXXON by the end of 1974, or just above the French national budget for fiscal 1975. Compared with the space programme of both the USSR and the USA up to the end of 1974, the A.O.R. (Arab Oil Revenues) do not constitute more than 39% of the latter.

(*) R.N. Cooper: "International Finance: Selected Readings", Penguin Modern Economics Readings, Middlesex, England, 2nd Ed., 1971, p.21.

(1) H.G. Johnson, "The Transfer Problem and Exchange Stability", cf. R.N. Cooper, op. cit. pp. 77-78.

Finally, if one considers other aggregates the Arab oil revenues would appear less important, for they represent 20.94%, 19.93%, 19.68%, 12.87% and 4.41% of the G.N.P. of France, the Treasury of the multinational companies, the 1974 U.S. budget, the G.N.P. of Japan and the U.S.A. respectively. On the other hand, if one considers the 1974 total oil bill at 80bn. dollars and if the whole amount had to be shifted in one time, it would have meant a reduction of 2% and 3% in the G.N.P. of the OECD and Third World countries respectively.

However, the 1974 oil revenues are just part of the long lasting flow of funds to be paid to OPEC countries, and consequently it could be interesting to consider the relative importance of such a flow. The only other unit of measure involving several countries in recent years is the U.S. export of capital after World War II.

Taking the specific relations between OPEC countries and the O.E.C.D. countries, H.B. Chennery makes an interesting comparison between that case and the situation created by the oil crisis, as shown in the next table (table 10 p. 32).

"Case A" considers the situation of the European countries members of the O.E.C.D. vis-à-vis the U.S.A. and "Case B" considers the situation of the former group plus Japan - oceanic vis-à-vis the OPEC countries.

In both cases the same eight aggregates are presented. For obvious reasons the G.N.P., exports, imports, net capital flow, total debt and hypothetical debt service are of different magnitude or, in other words, more important in Case B.

However, when the situation is approached in terms of ratio a different picture appears. In both cases the debt service/G.N.P. ratio are equal to 0.4% in base years (1947 and 1974), but in Case A it reaches 3.1% at the end of the period under study whereas in Case B it reaches its peak in 1980 and then declines to 1.6% in 1985.

A similar trend appears concerning the debt service/export ratio. In the Case A it equals 2.8% in 1947, 4% in 1955 and rockets to 13% in 1985. Concerning Case B it starts at a lower level in 1974 - 2.2% - reaches its peak - 9.2% - in 1980 and then declines to 6.5% in 1985.

TABLE 10 : Comparison of Adjustment Processes: 1947-55 and 1974-85
(billions of dollars in 1974 prices)

A. 1947 Adjustment (OECD Europe)

	1947	1950	1955
1. Gross National Product	350	435	578
2. Exports	51	94	134
3. Imports	75	90	116 ^a
4. Net Capital Inflow	31	11	2
5. Total Debt	31	74	92
6. Hypothetical Debt Service ^b	1.4	3.6	17.9
7. Debt Service/GNP	0.4%	0.8%	3.1%
8. Debt Service/Exports	2.8%	4.0%	13.0%

B. 1974 Adjustment (OECD Europe and Japan-Oceania)

	1974	1980	1985
1. Gross National Product	1,921	2,695	3,082
2. Exports	361	524	776
3. Imports	329	460	710
4. Net Capital Inflow	40	45	34
5. Total Debt	40	285	500
6. Hypothetical Debt Service ^b	8	48	51
7. Debt Service/GNP	0.4%	1.8%	1.6%
8. Debt Service/Exports	2.2%	9.2%	6.6%

^aActual Imports were reduced to take account of the need to service hypothetical debts.

^bHypothetical debt service calculated at 5% interest, repayment of each year's borrowing over six years beginning in 1952 or 1974.

Source: H.B. Chenmery "Restructuring the World Economy", Foreign Affairs, (East Preston St.) Baltimore, U.S.A., Vol. 53, No. 2, January 1975, p.256.

It appears that for both ratios the trend is dissimilar. In the first case the progression is continuous whereas in case B the increase is very marked during the first couple of years and then the decline is very obvious. In our opinion the conclusion is that the burden is very important during and just after the oil crisis but afterwards it becomes lighter. As for Case A the burden required by the adjustment process grows steadily bigger.

H.B. Chenery's comment on the previous table is that:

"the adjustment to higher oil prices that is now required is shown to be of somewhat lower magnitude than the post-war adjustment process"...." (1)

Nonetheless, one has to mention that the 1947 adjustment process was successful because the U.S.A. - that is the surplus country - opened up credit to the European countries members of the O.E.C.D. Although our case is more complex this could serve as a historical precedent. First we are in presence of three groups instead of two only, the OPEC countries and the oil importing countries which have to be divided into O.E.C.D. and Non-oil Developing Countries - N.O.D.C.

Secondly OPEC countries are part of the L.D.C., consequently together with N.O.D.C. they are at lower level of economic development when compared with O.E.C.D. countries. These differences are bound to complicate our case-study. The East European countries will not be considered because of their special situation which made them play a small role in the oil crisis. Therefore they represent a marginal case for our period under study.

The oil crisis and its aftermath led to imbalances for each one of the three groups. As mentioned earlier OPEC countries recorded B.O.P. surplus. They will adjust to the new situation by increasing domestic spending and investing the financial surplus abroad.

The oil importing countries recorded B.O.P. deficits, therefore they have to adjust to the new situation by devising ways and means to pay for their oil bills. For doing so they are left with two options: either the "pay as you go" option that requires full real adjustment to the new situation, or the "take now, pay later" option. The latter means that oil imports will be just financed or

paid for with "I.O.U.s.". However each option comprises several subsets of measures; but not all oil-importing countries have the same latitude of choice between available measures. Specific measures are open to specific countries, as outlined by the following table.

TABLE 1.1 : Paying for Oil: Measures open to Oil-importing Countries

COUNTRIES	RANGE OF OPTIONS
Germany	- Relending of OPEC Inflows to the weak
United States	- Allowing exchange rates to rise (Trade Balance to fall) - Acquiescing in import restrictions of the weak - Controls on Capital Inflows
Italy	- "Soft" Borrowing - Devaluation - Import Controls - Recession
Bangladesh	- Widespread Suffering

Source: G.A. Pollack, "Are the Oil Payments Deficits Manageable?", International Finance Section, Princeton University, New Jersey, No. 111, June 1975, p.24.

It seems, then, that in their effort to adjust to the new situation the oil importing countries do not have a "unique" solution, but rather a spectrum of possible outcomes ranging from the relatively painless to the disastrous⁽¹⁾. G.A. Pollack distinguishes between weak and strong countries. In our opinion these concepts are quite obscure and consequently, as outlined earlier, oil importing countries will be divided into developed and developing countries.

(1) G.A. Pollack, op. cit. p. 23.

SECTION I - O.E.C.D. COUNTRIES' POLICIES TO THE OIL
INDUCED BALANCE OF PAYMENT DEFICIT 1974-77.

SECTION I - 1: THE MAGNITUDE OF THE OIL-INDUCED B.O.P. DEFICIT
1974-1977

It is not possible to present the adjustment process of the whole O.E.C.D. area, nor the case of each member of the Organisation. Therefore under O.E.C.D. countries we shall discuss The United States, Germany, Japan, United Kingdom, Italy and France.

We chose the 1974-1977 period because although most of the decisions leading to the oil crisis were taken in the final quarter of 1973, their impact was felt from 1974 onwards. Fiscal 1977 was chosen for the sake of presenting up to date information. However the choice between the various options is a function of the depth and length of the crisis itself, therefore it is logical to present, first, the impact of the fourfold oil prices increase on the economies of the main O.E.C.D. countries. In doing so we shall focus on its monetary aspect, or in other words the increased cost of oil imports.

TABLE 12 : Increased cost of oil-imports in the Main O.E.C.D. Countries
1974-77 (billions of dollars in 1974 prices).

Country or Region	Period				Total
	1974	1975	1976	1977 ^a	
United States	15.0	13.0	15.5	18.7	62.2
Western Europe ^b	34.3	30.5	28	21.2	118
Japan	12.5	11.3	10.3	10.4	44.5
Total	61.8	54.8	53.8	54.3	224.7

^a estimates: for the assumptions confer source of table.

^b Germany, United Kingdom, France and Italy.

Source: Higher Oil Prices and the World Economy : the Problem of Adjustment, Editors Edward R. Fried and Charles L. Schulze, The Brookings Institutions, Washington D.C., 1975, p.16.

The total increased cost of oil imports has been declining from 1974, \$61.8 bn., to just under \$54. bn. in 1976. A slight increase is expected in 1977, and it is mainly due to an increase oil consumption in the U.S.A.

However any sudden and sizeable increase in the price of an import item has an unbalancing effect on the balance of payments situation of the countries importing that very item. It is the case of crude oil and its impact on the balance of payments of the major O.E.C.D. countries is shown in the following table (Table 13 p. 37)

By comparing Tables 12 and 13 several remarks can be made. The increased cost of oil imports is greater than the current account deficit. The reason is that the current account contains also non-oil trade which in our case help reducing the impact of oil prices increase. This holds true for every country of the sample and for the whole 1974-77 period.

The increased cost of oil imports is also different from the basic B.O.P. as represented in Table 13 (Page 37); it is bound to be so because long-term capital flows are taken into consideration. Long-term capital movements can either solve the current account deficit by equilibrating the basic B.O.P. or aggravate it. First, one has to mention that long-term capital may include borrowing long-term to pay for oil import. We have particularly in mind Great Britain which borrowed over £1 bn. from Iran in 1974. From this point of view it is worth considering the direction of long-term capital movements. According to Table 13, for the 1974-77 period the U.S.A., Japan, France and West Germany witnessed an outflow of L.T. capital equal to \$/ 65.635bn. that on top of their increased cost of oil imports. The conclusion is that for the above-mentioned countries there was no financing of the oil bill through long-term capital movements. On the other hand Italy and United Kingdom, the worst hit by the oil-crisis amongst the sample recorded long-term capital inflow of \$/ 9.235bn. that helped cushion their current account deficit caused by the oil crisis. However such an inflow was not enough and more funds were required. As for the U.S.A., Japan, France and West Germany they required short-term capital to finance their global current account deficit and the outflow of long-term capital.

However as far as we are concerned we shall assume that B.O.P.

TABLE 13 : Balance of Payments of the Main O.E.C.D. Countries
1974-1977 (billions of U.S. \$)

Countries or group of Countries.	End of Periods Items	1974	1975	1976	1977 ^a
U.S.A.	Current Account ^b	- 5.000	+11.600	- 1.400	-17.600
	Long-Term Capital	- 6.702	-19.011	-14.168	- 5.608
	B.O.P.	-11.702	- 7.411	-15.568	-23.208
Japan	Current Account	- 5.000	- 0.700	+ 3.400	+10.000
	Long-Term Capital	- 3.956	- 0.820	- 0.728	- 0.443
	B.O.P.	- 8.956	- 1.520	+ 2.672	+ 9.557
France	Current Account	- 5.900	0.0	- 6.000	- 4.200
	Long-Term Capital	- 0.182	- 1.044	- 1.636	n.a.
	B.O.P.	- 6.082	- 1.044	- 7.636	n.a.
Italy	Current Account	- 8.000	- 0.500	- 2.9	- 3.2
	Long-Term Capital	+ 0.342	+ 0.702	+ 0.6	n.a.
	B.O.P.	- 7.658	- 0.202	- 2.3	-n.a.
West Germany	Current Account	+ 9.700	+ 3.900	+ 2.800	+ 4.600
	Long-Term Capital	- 2.272	- 6.870	- 0.148	- 1.047
	B.O.P.	+ 7.428	- 2.970	+ 2.652	+ 3.553
U.K.	Current Account	- 7.900	- 3.800	- 2.500	- 2.400
	Long-Term Capital	+ 4.238	+ 1.090	+ 1.171	+ 1.092
	B.O.P.	- 3.662	- 2.710	- 1.471	- 1.308
Western Europe ^c	B.O.P.	- 9.974	- 6.522	- 8.755	n.a.

a - First half of 1977.

b - Seasonally adjusted, annual rates.

c - France, Italy, West Germany and U.K.

Sources: 1. I.M.F., I.F.S. Volume XXX, Number 12, December 1977;

cf. countries concerned.

2. Bank of England Quarterly Bulletin, Volume 17, Number 4,
December 1977, p.417.

deficits are mainly caused by increased price of oil and consequently we shall focus particularly on the tools used to correct such imbalances. According to G.A. Pollack, ".... in coping with the B.O.P. strains of expensive oil, the importing countries face a number of alternatives, each of them substitutable to some extent for the others. They can reduce energy consumption, endeavour to achieve lower oil prices, expand exports to OPEC, finance their payments deficits and adjust to residual imbalances." (1)

However, as outlined in Chapter I it is not possible to achieve lower oil prices, at least in nominal terms. It is also not possible to cut down drastically OPEC-oil imports by reducing domestic consumption, promoting conservation measures and stimulating domestic sources of energy; particularly non-oil sources. The only way left was to slow down the level of domestic activity.

SECTION I - 2: THE SLOW DOWN OF THE LEVEL OF DOMESTIC ACTIVITY

We shall present the whole 1973-77 period because we consider fiscal 1973 as a normal year. We rely on two indicators; namely industrial production and employment. The evolution of both indicators is contained in the following table (Table 14 p. 39).

As far as industrial production is concerned we notice from the previous table that it decreased during 1974 and 1975 consecutively in U.S.A., West Germany, Japan and the U.K. In the case of Germany and United Kingdom the figures for 1977 are below those of fiscal 1977 by 0.3% and 6.5% respectively. For France and Italy a fall in industrial production was experienced only in 1975. Concerning employment the situation is quasi-similar because both indicators are connected. However, one has to mention that in this field Japan was the most hit since unemployment rose during the whole 1973-1977 period and in 1977 it was 9.1% below its 1973 level. All in all it seems that 1975 was a bad year and that the recovery started from 1976 onwards.

(1) G.A. Pollack, "Are the Oil Payments Deficits Manageable?"
op. cit. pp.23-4.

TABLE 14 : Industrial Production(A) and Employment(B)
in the Main OECD Countries; Percentage Changes from
the Previous Year: 1973-1977

End of Period Countries		1973	1974	1975	1976	1977	1973-7 ⁴
U.S.A.	A ^x	+ 8.46	-0.4	- 8.8	+ 10	+6.0 ^a	+6.0
	B ¹	+ 4.33	+2.0	- 1.1	+ 3.1	+2.8 ^b	+6.2
West Germany	A ^x	+ 5.92	-2.4	- 6.1	+ 8.5	-0.1 ^a	-0.3
	B ²	+ 0.20	-2.5	- 6.5	+ 6.8	n.a.	n.a.
Japan	A	+15.62	-3.1	-11.1	+13.6	+5.8 ^b	+3.6
	B ³	+ 0.30	-0.6	- 5.4	- 2.7	-0.8 ^a	-9.1
U.K.	A ^x	+ 7.50	-3.6	- 4.8	+ 0.8	+0.97 ^b	-6.5
	B ^x	+ 2.64	+0.3	- 0.6	+ 0.59	n.a.	n.a.
France	A ^x	+ 8.10	+2.5	- 9.0	+ 9.0	+3.2 ^b	+ 5.8
	B ²	+ 1.49	+0.3	- 1.2	+ 1.8	n.a.	n.a.
Italy	A ^x	+ 9.68	+4.5	- 9.3	+12.4	+4.0 ^a	+ 7.1
	B ³	+ 0.78	+3.9	+ 0.28	+ 0.27	n.a.	n.a.

1 - Non-Agriculture Employment

2 - Industrial Employment

3 - Manufacturing Employment

4. The last column is not the sum of the five other columns because that table gives figures at end of periods and not the average figures.

^x - Seasonally Adjusted.

^a - May 1977

^b - April 1977

Source: I.F.S. by I.M.F. Volume XXX No. 8 August 1977 & No. 12, XI1 - 1977.

O.E.C.D. countries managed to curtail the level of their domestic activity by increasing the rate of discount⁽¹⁾ which, except for U.K., reached its peak in 1974 for all our sample countries: 13% in France, 6% in West Germany, 8% in Italy, 9% in Japan and finally 7.75% per annum in the U.S.A. These rates are very high when compared with 1972 figures. By comparing the rates of discount and the level of domestic activity we can say that the restrictive measures were taken in 1974 and their impact was felt in the subsequent year. What about oil imports then? Total O.E.C.D. imports of crude oil and semi-processed feedstocks from outside O.E.C.D. area fell from 1,135.8 million m/t in 1973 to 1,108.4 million m/t in 1974 and then again to 1,040.0 million m/t in 1975⁽²⁾. Such developments do not appear on the B.O.P. nonetheless they remain part of the adjustment measures undertaken by the O.E.C.D. countries. However adjustment through the domestic level of activity is obviously limited. Cutting down oil imports is evidently the best way to write off the B.O.P. deficits but the application of such a remedy requires time and in present circumstances it would be a painful process that the O.E.C.D. countries cannot afford in political terms. Consequently the oil importing countries are left with the following options:-

- Use of previous savings, that is international⁽¹⁾ owned reserves;
- Borrowing from the International Monetary Fund,
- And increased exports mainly to OPEC countries in order to achieve a surplus in their non-oil trade balance.

These ways and means will be considered in the following paragraphs in order of presentation.

(1) cf. Appendix III-2 Discount Rates, end of periods 1972-77.

(2) O.E.C.D. "Oil Statistics : Supply and Disposal", 1975, p.21

SECTION I - 3 : USE OF OWNED INTERNATIONAL RESERVES.

Having recourse to previous savings to pay for present imports is a normal reaction. However even under normal conditions the scope of such an operation is limited in time and magnitude because international reserves are themselves limited. Furthermore, given the suddenness and magnitude of the oil price increases, the oil-induced B.O.P. strains do not represent anymore a normal situation, consequently international reserves will be of a lesser help. The following table gives to us a picture of the evolution of the international reserves of our sample countries from 1972 to 1977. In our opinion such a table could show to what extent international reserves were used to pay for the oil bill.

TABLE 15 : Evolution of the International Reserves of
U.S.A., Japan, France, Italy, Germany and U.K.
1972-1977, (billions of U.S. dollars).

End of Periods Countries	1972	1973	1974	1975	1976	1977 ^a
United States	13.15	14.38	16.06	15.88	18.32	18.79
Japan	18.36	12.24	13.51	12.81	16.60	19.97
France	10.01	8.52	8.85	12.59	9.72	10.06
Italy	6.08	6.43	6.94	4.77	6.65	11.06
West Germany	23.87	33.17	32.39	31.03	34.80	35.69
United Kingdom	5.54	6.47	6.93	5.45	4.23	20.44
Total	77.01	81.21	84.68	82.53	90.32	116.01

a. October 1977.

Source: I.M.F., I.F.S. Volume XXX, Number 12.

December 1977, cf. countries concerned.

What are the conclusions to be drawn from this table? The first remark is that the combined international reserves of the six countries declined only in 1975 as compared with their previous level.

However this negligible decline of \$2.15bn. is not commensurate with their \$54.8bn. combined increased cost of oil imports.

However, if we take the countries individually, other remarks can be made. For instance the international reserves of Japan during the whole 1973-76 period were well below their 1972 level. This has to be linked to the fact that Japan is a heavy importer of OPEC oil and has no immediate alternatives.

In 1973 and 1974 France's international reserves were also below their 1972 level. In 1976 they also declined by a third comparatively to their 1975 levels. In the case of Italy, during the whole 1972-74 period they stabilized around \$6bn.; however in 1975 they were 32% below their previous level. These three countries also had a current account deficit during almost the entire period under study. During the whole 1974-1977 period West Germany had sizeable international reserves; it is also this country that never recorded any current account deficit. The existence of high international reserves is therefore comprehensible.

United Kingdom's international reserves increased in 1973 and then again 1974 but they declined during the subsequent two years, and again rocketted in 1977 when the positive impact of North Sea Oil was being felt.

According to the previous table the international reserves were marginally used by the major O.E.C.D. countries to pay for their oil imports. This is very understandable because this table does not tell us the whole story and it also may be due to the fact that it does not and cannot contain all the elements at play. We shall limit ourselves to one factor not usually referred to; the mid-December 1974 Martinique Summit between presidents G. Ford and Giscard d'Estaing and its consequences; especially as far as the future of gold prices were concerned. They agreed on "the valuation of countries' gold reserves at market prices"⁽¹⁾. The official price of gold was \$34 per ounce as fixed by President Roosevelt in 1934 and \$42.5 per ounce as a result of

(1) Financial Times, cf. article "Fort de France Summit hailed as the start of a New Era", 18 December 1974, p.6.

the Smithsonian Agreement. Whereas the market price rocketted to just under \$200 per ounce by the end of December 1974. The Financial Times writes that as a result of such a decision "the book value of French reserves will rise from its present level of \$4.3bn. to as much as \$18.3 bn. at current market prices"⁽¹⁾. What does this mean in practical terms for us? It means "that countries with comparatively high proportion of gold in their reserves, like Italy and France, will be much better equipped to deal with their payments problems caused by the quadrupling of oil prices"⁽²⁾. The OPEC countries were variously aware of the implications of such an agreement. For instance Iraq was mainly worried ^{by} its inflationary aspect because it will increase world liquidity⁽³⁾. On the other hand the Shah of Iran knew that it was an attempt designed to cancel part of the oil price increase and therefore he threatened to retaliate by a further increase in oil prices. It is hard to know to what extent the valuation of gold reserves at market prices helped individual countries; however nobody can deny that it did cushion the impact of the oil prices by improving the international reserves position of oil-importing countries and especially the major O.E.C.D. countries since they were the largest holders of gold reserves.

Another way to consider the extent to which international reserves were used is to find out the number of countries drawing on their owned reserves number which "rose sharply from 2 in 1971 and 3 in 1972 to 6 in 1973, 13 in 1974 ... and 16 in 1976"⁽⁴⁾, that is well over half of the O.E.C.D. countries. It seems, then, that smaller O.E.C.D. countries had more recourse to their international reserves during the 1973-75 period. The combined amount drawn was not negligible either. Even if one excludes the reserve-currency countries - U.K. and the U.S.A. - such a drawing: "...increased from \$0.3bn. in 1971 to

(1) Financial Times, cf. article "Fort de France Summit hailed as the start of a New Era", 18 December 1974, p.6.

(2) Financial Times, cf. article "U.S., France Agree on Market Value for Gold Holdings" 17 December 1974.

(3) Financial Times, cf. article "Sadam Hussein on Gold and the International Monetary System" 28th December 1974.

(4) Department of Economic and Social Affairs "Supplement to World Economic Survey, 1975: Fluctuations and Development in the World Economy", United Nations, New York, 1977, p-p.32-3.

\$0.7bn. in 1972 to nearly \$9bn. in 1973, \$4bn. in 1974 and over \$8bn. dollars in 1975"⁽¹⁾.

The final way to assess the relation between the oil-crisis and the international reserves situation of the O.E.C.D. countries is to consider the import value of the latter. From this point of view, "....the proportion of developed market economies whose international reserves at the end of the year (1975) were equivalent to less than two months' imports was twice as high in 1975 as in 1970: to Denmark, Finland, Greece, Sweden, United Kingdom and Yugoslavia has been added Canada, Iceland, Italy, New Zealand, South Africa and the United States".⁽²⁾ However this relation could be not so accurate, because the fall of the ratio of international reserves to imports could be the result not only of a fall of the international reserves but also of an increase in the value of imports especially in the price of an important item rose sharply. In our opinion we think that both factors were at play and it is hard to dissociate them. All in all we can safely advance that international reserves were used to pay for part of the oil imports. However, given their respective magnitude, international reserves were not the sole option used otherwise they would have been exhausted. Therefore the O.E.C.D. countries had access to other parallel sources; one of them was borrowing from the International Monetary Fund.

SECTION I - 4 : USE OF DRAWINGS FROM THE INTERNATIONAL MONETARY FUND (I.M.F.)

The I.M.F. ~~function~~ has always provided its members with funds to solve their B.O.P. difficulties. The use of I.M.F. borrowing to pay for oil imports is not a final payment because the money borrowed will have to be paid back within a period of 3 - 5 years (an early payment to the I.M.F. is also possible). It follows that the use of I.M.F. facilities is part of the financing process. In spite of this it is interesting to see to what extent such facilities were exploited by oil importing and particularly O.E.C.D. countries. The following table represents the main industrialized countries total drawings from

(1) Idem; p.33.

(2) Ibid.

the I.M.F. during the 1974-77 period.

TABLE 16⁽¹⁾ : Drawings from the I.M.F. :
United States, France, Germany, Italy, United Kingdom, Japan 1974-77
(Millions of S.D.Rs.)

End of Periods	1974	1975	1976	1977 ^a	Total
Countries or Group of Countries					
U.S.A.	-	-	-	-	-
France	45.0	-	78.3	-	123.3
West Germany	123.5	30.4	-	-	153.9
Italy	1,642.8	1,080.2	-	90.0	2,813.0
United Kingdom	-	-	2,400.0	2,250.0	4,650.0
Japan	-	-	-	-	-
Total	1,811.3	1,110.6	2,478.3	2,340.0	7,740.2
Industrial Countries	1,955.1	1,122.7	2,478.3	2,369.4	7,945.5
World	4,053.1	4,658.1	7,009.9	3,218	18,939.1

a - End of third quarter of 1977

- - Nil

Source: I.M.F., I.F.S. Volume XXX, Number 12, December 1977, p.14

The first observation is that the U.S.A. and Japan did not use the I.M.F's. facilities. This could be due to the fact that both countries enjoyed high international reserves during the whole 1974-77 period. Amongst other things it means that only four of our sample

(1) Table 16 does not include repayments made by O.E.C.D. countries to the I.M.F.

countries did. Furthermore amongst the latter I.M.F. drawings were mainly made by the United Kingdom and Italy. They borrowed 95.4% of our sample countries' total borrowing; 93.9% and 34.9% of the combined borrowing of the industrial countries and the World. This means that the United Kingdom and Italy, the worst hit by the oil crisis, took the lion's share of the I.M.F. facilities. It follows that other countries had access to other sources of funds or adopted other measures to solve their oil-induced B.O.P. deficits. One of the logical measures to undertake in similar circumstances is to pursue a trade policy aimed at expanding exports to OPEC countries.

SECTION I - 5 : EXPANDING EXPORTS TO OPEC COUNTRIES: 1974-1977

As a matter of fact the effect of increased exports to OPEC countries on the main O.E.C.D. countries' B.O.P. has already been presented because we have already presented their current account, cf. Table 13 (Page 37). However that table does not refer specifically to OPEC's import from our sample countries. The following table fills this gap.

TABLE 17 : O.E.C.D.'s Increased Exports Over 1973
to OPEC countries, 1974-1977; bn. of 1974 dollars.

Countries	Years				Total
	1974	1975	1976	1977 ^a	
United States	2.6	5.1	8.1	10.1	25.9
Western Europe ^b	5.3	10.4	16.5	20.6	52.8
Japan	2.3	4.5	7.0	8.7	22.5
Total	10.2	20.0	31.6	39.4	101.2

a - Estimates; for assumptions of sources.

b - West Germany, United Kingdom, France and Italy.

Source: "Higher oil prices and the World Economy : the Adjustment Problem"
edited by E.R. Fried and C.L. Schultze, op. cit. p.16

According to this table the sample countries did not take equal advantage of the new markets opened by the oil crisis. However it seems that each one of them tripled its exports to OPEC countries during the 1974-76 period. In 1977 the rate of increased exports was expected to slow down. This is due to the fact that OPEC countries revised downward their domestic spending. Several factors could explain such a change of heart.

As far as C.E.C.D. countries are concerned their increased exports to OPEC countries was expected to reach \$101.2bn. for the 1974-77 period whereas their combined increased cost of oil imports totalled \$224.7bn. for the same period. It means that more than 45% of their oil imports were paid for in commodities. It seems that up till now increased exports to OPEC countries has constituted the most important and efficient single option used by our sample countries. This holds true especially when one compares it to their recourse to owned international reserves and borrowing facilities provided by the I.M.F.

Before concluding this part we shall refer to H.G. Johnson who divides the transfer problem into two stages. The first one being "whether the process by which the transfer is financed in the transferor country and disposed of in the transferee will affect each country's demand for imports (at constant prices) sufficiently to create the trade surplus and deficit necessary to effect the transfer"⁽¹⁾. As far as the U.S.A. are concerned oil imports were paid for by printed dollars. Consequently there was no decrease in that country's demand for imports. On the other hand, OPEC's demand for imports are bound to be high. Then, it seems that the first stage worked only in one way. Finally we have to mention that this logical drive for imports by OPEC countries is concomitant with the policies undertaken by C.E.C.D. countries and aimed at reducing their B.O.P. deficit through the manipulation of prices, exchange rates and trade measures. In our opinion those measures will

(1) H.G. Johnson, "International Trade and Economic Growth : Studies in Pure Theory", published by G. Allen and Unwin Ltd., London, 1958, p.170.

generally tend to magnify the impact of OEEC's imports on O.E.C.D. countries' B.O.P. situation. Therefore it is necessary to consider those policies.

A -- Adjustment Process and Price Developments in O.E.C.D. and Arab Countries

Concerning the role of price-changes in the mechanism of transfer there are two schools of thought. The first one, led by Professor B. Ohlin minimizes "the importance of price movements ... and indeed..." contests "... the necessity for the transfer of unilateral payments, of any price movement at all."⁽¹⁾ In other words, it maintains that in both countries with B.O.P. deficit and surplus, the movement of prices will be parallel. On the other hand, the second school, having J.M. Keynes as leader:

lays great stress on the necessity of opposite price movements in the two countries concerned. It considers that under unfavourable circumstances these price movements would have to be so large that serious difficulties might arise, rendering transfer, in extreme cases, absolutely impossible.

However, how could such theories apply to our case? Let us, then, consider the evolution of domestic prices in both oil importing and exporting countries. In the former group we shall present the case of the U.S.A., Japan, the United Kingdom, West Germany, France and Italy.⁽²⁾

(1) - G.V. Harbeler, "The Theory of International Trade with its Applications to Commercial Policy", translated from German by A. Stonier and F. Benham, Publ. William Hodge & Co. Ltd., London, sixth impression, 1956, p.66.

(2) - For other O.E.C.D. countries confer Appendix II-3 p 253.

TABLE 18 : O.E.C.D. Countries' Consumer Prices, Percentage Changes
from Previous Year 1974-77 (Seasonally Adjusted)

End of Periods Countries	1974	1975	1976	1977	1973/77
U.S.A.	+11.0	+ 9.0	+ 5.6	+ 6.6 ^a	+36.6
Japan	+22.6	+12.1	+ 9.6	+ 8.2 ^a	+63.1
United Kingdom	+16.0	+24.2	+16.6	+15.6 ^b	+94.3
West Germany	+ 7.0	+ 6.0	+ 4.5	+ 4.5 ^a	+24.0
France	+13.7	+11.7	+ 9.2	+ 8.5 ^b	+50.6
Italy	+11.9	+11.6	+16.7	+15.8	+88.4

a - June 1977 : b - May 1977

Source: I.M.F., I.F.S. December 1977.

The first observation is that consumer prices increased in all our sample countries, although the rate of increase started declining from 1975 onwards for most of them. If one compares 1977 and 1973, the increase was most important in United Kingdom with 94.3%, Italy with 88.4% and Japan with 63.1% per annum. On the other hand it was the least marked in West Germany whose rate of inflation was no more than 24% during the same period.

Such developments have to be compared with the situation in the oil exporting countries. The next table considers the case of all Arab countries plus major non-Arab OPEC members, that is Iran, Mexico, Nigeria and Venezuela.

TABLE 19 : Evolution of Consumer Prices in Arab Countries, End of Period
Changes Relative to Previous Year: 1973-1977 (%)

Countries	Years	1973	1974	1975	1976	1977 Oct	1973-77
Algeria		6.10	4.78	8.19	9.45	n.a.	29.58 ⁽²⁾
Bahrain		14.29	24.39	16.19	14.91	16.01	92.68
Egypt	(1)	6.79 4.27	14.39 10.83	7.50 9.69	7.72 0.33	8.28a 13.03b	43.45 51.63
Iraq	(1)	4.59 4.86	12.52 8.31	10.46 9.45	11.12 10.33	7.03d 7.69e	31.39 30.04
Jordan		10.47	20.00	11.98	15.00	31.70d	103.53
Kuwait	(1)	17.50 8.40	14.89 13.19	8.37 8.96	6.63 5.75	9.87d 9.75	45.87 43.17
Lebanon		6.09	10.96	n.a.	n.a.	n.a.	n.a.
Libya		7.65	7.76	9.11	5.07	n.a.	25.53 ⁽²⁾
Mauritania		7.65	12.22	12.31	14.32	9.24b	57.42
Morocco		4.16	17.68	7.93	8.53	n.a.	51.64
Oman		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Qatar		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Saudi Arabia		16.51	21.41	34.63	31.55	8.89f	134.17
Somalia		6.42	18.20	19.43	14.06	9.12a	75.75
Sudan	(1)	15.61 15.30	27.25 26.09	15.49 23.98	n.a. 1.68	n.a. 7.06i	46.97(3) 70.21
Syria	(1)	33.36 19.81	13.41 14.96	7.69 16.43	11.86 14.70	n.a. 50.70g	40.15(2) 68.50
Tunisia	(1)	5.32 4.63	21.16 4.25	9.48 9.51	1.24 5.35	5.05b 9.64	41.11 31.88
U.A.E.		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Y.A.R.		43.00	26.57	23.75	16.51	n.a.	59.66 ⁽²⁾
Y.P.D.R.		35.07 19.74	42.18 20.25	17.75 11.95	6.36 3.13	n.a. n.a.	83.71(2) 43.07(2)
Other O.P.E.C.							
Iran	(1)	11.31 9.81	16.97 14.19	7.93 12.78	9.00 11.33	17.33 31.86c	61.48 69.81
Mexico	(1)	15.65 11.16	22.52 22.51	10.51 10.90	22.26 16.11	46.79d 29.12d	113.03 114.65
Nigeria		5.36	13.44	33.80	21.48	22.38b	125.69
Venezuela		4.14	8.22	10.27	7.57	9.22c	40.23

1 - Wholesale Prices; 2 - 1973-76 period; 3 - 1973-75 period;
a - May 1977; b - June 1977; c - September 1977; d - August 1977;
e - July; f - March 1977; g - April
Source: I.F.S., I.M.F. Volume XXX Number 12, December 1977.

According to Table 19 (Page 50) consumer prices increased in all our sample countries. In some countries such as Jordan, Saudi Arabia, Mexico and Nigeria they more than doubled during the 1973-77 period. All these countries except Jordan are major oil exporters and therefore major goods and services importers from the O.E.C.D. area. The increase in consumer prices was quite steep in Iran and Bahrain too. Let us, now, compare tables 18 and 19 in order to draw some conclusions. First it appears that consumer prices increased in both groups of countries. At first sight this situation seems to contradict J.M. Keynes because, according to him, they should have fallen in O.E.C.D. countries, and increased in OPEC countries. Let us also take J.M. Keynes' statement at face-value and apply it to our case-study. It would mean first, larger volume of oil importing countries' goods will be required to command the same barrel of oil. In G. Harberler terms this can be:

"expressed by saying that the real ratio of change or the barter terms of international trade has moved against"⁽¹⁾ the oil importing countries, and this adding another burden to the latter.

Second, if by virtue of the transfer commodity prices in oil exporting countries increase the terms of trade move further against oil importing countries, this adding a third burden.

However, for Professor B. Ohlin, J.M. Keynes reasons in terms of unaltered demand, he himself maintains that financial transfer means transfer of purchasing power. This fact coupled with J. Rueff "Principle of the Conservation of Purchasing Power" leads to the conclusion that although at world level demand is constant, it has nonetheless undergone profound changes. It has shifted in favour of the OPEC countries.

Taking the case of Germany (B) and the Allies (A) Professor B. Ohlin writes that after the transfer:

"there is a market in A for more B's goods than formerly. On the other hand the market in B for A's goods is not as big as it was before."⁽²⁾

(1) - Ibid, pp. 66-7.

(2) - G.V. Harberler op. cit. p.70.

Does this hold true in our particular case?

First of all one important point has to be stressed. Both J.M. Keynes and Professor Ohlin reason in terms of competitive goods. In other words they implicitly assume that both countries can equally produce the same basket of goods and that those goods produced in either country can equally satisfy demand in both countries. It is not our case where both groups of countries enjoy a monopoly on different goods: OPEC in oil and oil importing countries (for the time being we do not distinguish between O.E.C.D. and L.D.C. countries) in the field of technology and know-how.

The second point is that both economists assume a situation of plenty, whereas our case is characterised by scarcity. Scarcity of oil either real or artificial and scarcity of know-how; each one is vital to the other group of countries.

In our case, OPEC countries did in fact acquire more purchasing power however they cannot produce the goods they need most for their economic development and consequently demand for those goods will be by necessity greater from the OPEC side.

Furthermore J.M. Keynes takes implicitly the case of a non-inflationary situation whereas our sample countries evolve in an inflationary environment especially from 1973 onwards. When this point is considered J.M. Keynes' statement means that consumer prices will increase less in O.E.C.D. countries than in OPEC countries. Such an interpretation explains the evolution of consumer prices in both groups of countries that ultimately confirms J.M. Keynes' opinion.

Finally there is an important factor that one has to mention when considering the price fixation mechanism in both countries; namely the bargaining power of each group. As outlined in Chapter I crude oil prices increased partly because the bargaining power of OPEC at world level increased. In our opinion the bargaining power of each group - O.E.C.D. and OPEC - will play an important role in the movement of prices and consequently the "Invisible Hand" of Adam Smith might not be enough to explain their fluctuations. However the question of bargaining power deals with export prices that has not and could not be dealt with by Professor B. Ohlin and J.M. Keynes. As a matter of fact as far as our case-study is concerned the increase of consumer prices in oil exporting countries cannot be used by the oil importing

countries to solve their B.O.P. problem. From this point of view consumer prices evolution in OPEC and Arab countries can be said to be "neutral". The only price which matters for O.E.C.D. countries is that of crude oil. It follows that even in a situation characterized by high rate of inflation in OPEC and Arab countries, e.g. Table 19 (Page 50), O.E.C.D. countries still have room for manoeuvre in order to achieve a more satisfactory B.O.P. situation through increased exports to the former group.

Our case-study has another novel feature that we shall present as a criticism to both Professor B. Ohlin and J.M. Keynes. This feature has to do with the distinction between domestic prices and export prices in the O.E.C.D. countries. As far as the oil crisis is concerned little research has been done in this direction, in spite of the fact that the phenomenon is not new. The L.D.Cs. have complained for a long time that the industrial countries were characterized by two sets of prices and two different rates of inflation. According to OPEC countries the differences between the two sets of prices increased from 1974 onwards. Amongst other things such a situation explains the fact why OPEC and Western countries never were in agreement when it came to calculating the rate of inflation usually used by the former to increase oil prices.

Although all OPEC countries were aware of the fact Saudi Arabia seems to be the first country to take practical steps against what it calls, "inflated bids set by western companies"⁽¹⁾. In 1977, for instance, a major telecommunication contract was estimated at \$6.7bn. by Philips whereas the Saudi's estimate was \$1.12bn., that is a fivefold gap. The contract was cancelled and given to South Asian companies (Pakistan, Singapore etc.). This is just one example, but the practice was very common on the part of western companies. One can always say that this shows that there is still competition when it comes to the supply of technology. Nonetheless we have to mention that the allocation of the contract was not done through the market but by state-decision.

(1) - The Financial Times, March 15, 1977, back page.

It seems that contrary to the standard theory's views, consumer prices did not even stabilize in the deficit countries. Furthermore, instead of cutting their prices down, the deficit countries increased their export prices. This can be partially explained by the huge demand of OPEC countries as a result of their increased revenues but principally by the fact that the main O.E.C.D. countries hold the sources of technology. Further, Philips is not an isolated case because according to Saudi Arabia "foreign companies were conspiring to inflate business tenders"⁽¹⁾. It seems that the increase of export prices was a deliberate and collective move undertaken by the O.E.C.D. countries in order to adjust more easily to the new situation. The existence of a "differential" inflation has also been pointed out by M. Chatelus. He writes that, "In 1974 price increases in the main industrialized countries suppliers (of goods and services) to OPEC countries vary between 7% (West Germany) and 26% (Italy); that is an average of about 14% for the O.E.C.D. countries. However import prices of OPEC countries increased to 40 to 60%..."⁽²⁾ Of course, as he puts it, this fact cancels part of the oil price increases. However, before drawing our conclusions let us consider the exchange rate policies pursued by our sample countries because their effects are similar to those price movements.

B - Adjustment Process and Exchange Rates Development

The standard theory states that in case of a B.O.P. disequilibrium involving two countries, the country suffering from the deficit will have to devalue in order to expand its exports to the surplus country. We shall try to find out whether such a view applied to our case-study. However before doing so one has to recall a necessary background. As a matter of fact the oil crisis closely followed the 1971 suppression of the gold convertibility of the U.S. dollar. This led to several attempts to create a more flexible, although still stable exchange rate by taking into consideration the economic changes which occurred within the O.E.C.D. itself. The most ambitious

(1) - The Daily Telegraph, March 5, 1977, p.5.

(2) - M. Chatelus, "From the Oil rent to Economic Development: "Hold-up of the Century" or New Hopes for the Third World", Revue d'Economie Politique, Edition Sirey, Paris, January-February 1976, No. 1., p.34 (translated from French).

attempt has come to be known as the Smithsonian Agreement⁽¹⁾.

However, such an attempt was doomed to failure because of the economic changes which occurred during the subsequent year. Such a frustration led some currencies to float by the end of 1972: the Canadian dollar and the British pound and associated currencies. However, the exchange rates, although "market determined" were still "officially managed".

The second devaluation of the U.S. dollar drove other currencies to the Floating Exchange Rate System. The European Countries⁽²⁾ managed to agree on a joint float which came to be known as the "European Snake".

The main O.E.C.D. countries "entered" the oil crisis period with their currencies floating. The evolution of their exchange rates for the 1974-77 period is represented in the next table. The exchange-rate changes are calculated in relation to the S.D.R. and not to the U.S. dollar. The reason is that, given its very composition, the S.D.R. is more stable.

TABLE 20 : Exchange Rates of the O.E.C.D. Countries
Percentage Changes from Previous Period 1974-77

End of Periods Currencies	1974	1975	1976	1977 (June)	1973/7
U.S. Dollar ^a	-17.0	+0.9	- 5.0	+0.6	- 2.6
Yen	- 9.1	+3.1	+ 4.8	+3.3	+ 7.6
Pound Sterling	- 0.4	-9.9	-15.3	+0.7	-23.4
Deutsch Mark	+ 9.6	-0.6	+10.6	+0.7	+16.5
French Franc	+ 4.2	+3.6	- 8.1	-0.7	- 0.9
Lira	- 8.4	-6.4	-27.0	-1.5	-40.7

a - Period Averages.

Source: I.M.F., I.F.S. op. cit. December 1977.

(1) - The Smithsonian Agreement was concluded on December 1971. It provides the devaluation of the U.S. dollar by 7.89% against gold and the appreciation of the Japanese Yen and German Deutschmark by 13.9% and 13.6% respectively. The reason for such an upward adjustment was that Japan and West Germany were running the largest B.O.P. surplus within the O.E.C.D. group.

(2) - These countries were: West Germany, France, Sweden and the Netherlands.

It would have been more interesting to have average changes relative to the S.D.R. However in the absence of such a data we prefer the end of period changes relative to the S.D.R. to average changes relative to the U.S. dollar. The reason is that the latter is more volatile as shown in the previous table. The U.S. dollar depreciated by 17% relative to the S.D.R. for 1974; appreciated in 1975 by 0.9%, depreciated by 5% in 1976 and again was 0.6% higher by the end of June 1977. In spite of all these ups and downs the U.S. dollar value depreciated by 2.6% in 1977 as compared to its 1973 level. The situation concerning other currencies is not that different. The yen depreciated only in 1974 by 9.1% and appreciated in the following year and by mid-1977 its value as compared to the S.D.R. was 7.6% higher than that of 1973.

The Deutsch Mark depreciated only in 1975 by a mere 0.9% and appreciated during all other years including 1974. It has been the strongest currency and its mid-1977 value was 16.5% higher than its end-1977 value.

The French Franc appreciated during the first two years of the crisis and subsequently depreciated in 1976 and 1977. However by mid-1977 its value was lower by no more than 0.9% as compared to the end of 1973.

Finally, the evolution of the pound sterling and lira has been similar; both recorded steep depreciation from 1974 to 1976 and by mid-1977 they were still depreciating but at a slower pace. By June 1977 the pound sterling has already lost 23.4% of its recorded end of 1973 S.D.R. value. The case of the lira is worse since for the same period it has lost 40.3% of its value with respect to the S.D.R.

That is the picture of the six currencies. The main observation is that they floated well beyond the "usual margin". Furthermore if one applies the standard theory to our case-study and given the impact of the oil crisis and consequently the magnitude of the required adjustment the oil-importing countries would be left with no option but devaluation of the main currencies and especially the pound sterling, the Italian lira and the U.S. dollar. This situation did not occur. Why, then? For some, the main O.E.C.D. countries used the Floating Exchange Rate Mechanism to ^{divert the attention} form effective devaluations and thus avoid the social, political and especially economic problems which

would have arisen from official devaluations. This state of mind could be well encouraged by the fact that the fluctuations were too marked. As an illustration we shall take the case of the U.S. dollar. Our choice is not fortuitous because the price of crude oil is fixed in this currency on the one hand, and on the other hand, the bulk of the financial surplus of oil exporting countries is denominated in the U.S. currency. Table 21 gives us the exchange rate relation between the U.S. dollar and Arab and major OPEC currencies for the 1973-77 period.

From Table 21 the obvious conclusion is that the U.S. dollar depreciated against all our sample countries' currencies except the Syrian and Sudanese pounds and the Mexican Peso: the latter currency was officially devalued. By the end of 1977 the U.S. dollar lost more than 10% of its 1973 value against the Bahraini, Kuwaiti and Libyan Dinars, the Saudi Riyal and the U.A.E. Dirham. Those currencies are those of the major Arab Oil exporting countries. The U.S. Dollar lost 8.1% and 6.77% of its 1973 value against the Algerian Dinar and Iranian Rial respectively. Those seven OPEC members represent the major source of demand for O.E.C.D. export products. Furthermore it is also worthwhile mentioning that the depreciation of the Pound Sterling was more marked than that of the U.S. currency. The question is why both countries did not devalue in order to increase their export to OPEC and Arab countries. Part of the explanation has been given when we considered the developments which occurred in the field of consumer prices.

On the other hand, concerning the manipulation of exchange rate as a tool of adjustment process our opinion is that the devaluation of a single currency will achieve no more than an external balance at the expense of other O.E.C.D. countries. This holds true especially when we recall that the bulk of their trade is carried out between themselves. It is not a collective solution whereas the new situation requires a collective slow adjustment.

In practical terms a devaluation also means adding a double burden on the top of the initial oil price increase. It will also have likely brought an increase in oil prices by OPEC. It is the least the O.E.C.D. countries wanted to achieve. However, one cannot close this part without mentioning development which occurred during the second half of 1977, and which involve smaller O.E.C.D. countries

TABLE 21 : Exchange Rate Evolution between the U.S. Dollar and Arab
and some OPEC Currencies. Percentage changes from Previous Period
Average Market Rate. 1973-1977

Countries	Period					
	1973	1974	1975	1976	1977 Oct	1977-72
Algerian Dinars	-11.71	+ 5.59	- 4.54	+ 5.42	- 0.84	- 8.1
Bahraini Dinars	- 9.85	- 1.45	+ 0.20	+ 0.03	+ 0.02	-10.85
Egyptian Pound	-10.18	- 0.84	NIL	NIL	NIL	-11.11
Iraqi Dinar	-10.18	-0.83	NIL	NIL	NIL	-11.11
Jordanian Dinar	- 9.10	- 2.12	- 0.34	+ 3.81	- 1.85	- 9.55
Kuwaiti Dinar	-11.31	- 0.54	- 1.11	+ 0.82	- 2.37	-14.91
Lebanese Pound	- 4.44	-10.83	- 0.79	+25.72	- 6.65	- 1.51
Libyan Dinar	-10.18	- 0.17	NIL	NIL	NIL	-11.11
Ouguiya (Mauritania)	-11.71	- 1.42	- 4.42	+ 4.11	+ 2.64	- 8.52
Moroccan Dirham	-10.64	+ 6.40	- 7.27	+ 9.05	+ 2.09	- 1.83
Omani						
Qatari						
Saudi Riyal	-10.70	- 4.10	- 0.82	+ 0.35	- 0.23	-15.03
Somali Shilling	-10.00	+ 0.21	NIL	NIL	NIL	- 9.81
Sudanese Pound ^a	-11.11	+17.11	NIL	NIL	NIL	+ 7.90
Syrian Pound	NIL	- 2.58	- 0.61	+ 5.06	+ 1.60	+ 3.40
Tunisian Dinar	-11.99	+ 3.92	- 7.84	+ 6.58	+ 0.34	+ 9.83
U.A.E. (Dirham)	- 8.51	- 0.94	+ 0.05	- 0.21	+ 1.40	-11.13
Yemen Rial (Y.A.R.)	- 1.57	- 0.91	- 0.21	- 0.07	NIL	- 2.82
Yemen Dinar (Y.P.D.R.)	- 9.85	- 1.14	NIL	NIL	NIL	NIL
Major OPEC Countries						
Iranian Rial	- 9.07	- 1.83	+ 0.02	+ 3.81	+ 0.57	- 6.77
Mexican Peso	NIL	NIL	- 0.02	+23.42	+47.01	+81.42
Nigerian Naira	- 0.17	- 4.44	- 2.16	+ 1.78	+ 3.81	- 1.00
Venezuelian Bolivare	- 2.12	- 0.46	+ ≈	+ 0.11	+ 0.06	- 2.45

a - End of Period (Market Rate): - ≈ : Very Marginal Appreciation.

Source: International Financial Statistics, I.M.F., Volume XXX,
Number 12, December 1977.

a series of devaluations happened in the Scandinavian countries⁽¹⁾. However those developments were marginal.

In our opinion the O.E.C.D. countries understood the fact that any devaluation - that is a likely remedy advocated by the standard theory for a country with a B.O.P. deficit - "... would tend to raise the local currency prices of all imports, not just oil, and many internal prices as well"⁽²⁾.

Furthermore even if a devaluation with all that it means is socially and politically acceptable to the country concerned, it is very likely that its major trading partners would not accept and consequently they would react either by a devaluation of their own currencies or by using trade controls. However, those effects would not occur if the currency devalued were the U.S. dollar because oil prices are fixed in this currency. But here again OPEC countries would feel frustrated and would increase the nominal price of oil to maintain its purchasing power. Some suggested that the adjustment process can be realized through flexible exchange rates. First, the fact is that exchange rates act only after the initial shock and even after secondary B.O.P. effects are fully felt. These effects will either appreciate or depreciate some currencies.

Second, the flow of OPEC surplus will add up to the previous effects. The ultimate result will show some countries with current account surplus and some countries with deficits: the currencies of the former will appreciate and those of the latter will depreciate. The question then, is whether this situation can be solved through exchange rates. Gerald Pollack maintains that:

"the particular payments situation resulting from high oil prices and OPEC's limited absorptive capacity provides a relatively inauspicious setting for a solution in which exchange rate adjustment plays an important role."⁽³⁾

(1) - Devaluation of the Swedish Krona and the Danish and Norwegian Kroner during the first half of 1977.

(2) - G.A. Pollack, "Are the Oil Payments Deficits Manageable?"
op. cit. p.14.

(3) - G.A. Pollack, op. cit. p.p. 15-6.

The main reason being that:

"a system of fully flexible exchange rate in which market forces were permitted to work out their effects would ultimately "pass" the buck to the nation best able to bear it."⁽¹⁾

G.A. Pollack's statement is confirmed by three facts. First, exchange rates were not "permitted to work out their effects" in the sense that they were officially "managed". Second, there was no devaluation during the 1974 to early 1977 period. The Scandinavian countries appear to be no more than an exception. Third, the prime aim of the O.E.C.D. economic policy was to avoid "beggars the neighbour" policy, or in other words, to "pass the buck" to next-door neighbours. This is also confirmed by the fact that they tried to avoid trade restrictions as we shall see when the trade policy of the O.E.C.D. countries will be considered.

Those are the main points to be made concerning the exchange rates role in the adjustment process as seen by the standard theory.

However, when one considers the oil crisis and its aftermath from the angle of exchange rates new elements appear especially when one recalls that the standard theory did not completely apply to our case. It seems to us that the exchange rate relations between O.E.C.D. OPEC and Arab currencies do not matter that much; the reason being that OPEC and Arab countries' currencies are just for domestic use. In practical terms their imports from O.E.C.D. countries are calculated and paid for in the so-called hard currencies but mainly in U.S. dollars. This is very different from the case treated by Professor B. Ohlin and J.M. Keynes where the currencies of the two countries were used for international transactions. OPEC countries were worried by the U.S. dollar depreciation only with regards to the real value of their oil and the stability of their assets held in O.E.C.D. countries.

However, as outlined earlier, the adjustment process can be undertaken through prices and exchange rates manipulation but also through trade policy and each one tool is substitutable to others. The relation between exchange rate and trade policy has been perfectly

(1) G.A. Pollack, op. cit. p.p. 15-6.

illustrated by an American Official who recently stated that "every percentage point in the fall of the dollar is as good as a percentage point increase in U.S. tariff Walls"⁽¹⁾. It is therefore necessary to consider the trade policy pursued by the O.E.C.D. countries.

C - Adjustment Process and Trade Policy in the O.E.C.D. Area.

In similar circumstances by trade policy we usually mean quotas and higher tariff imports. Was such a policy put into practice by O.E.C.D. countries? As a matter of fact import restrictions were used by Italy first but other countries followed suit by taking more or less open restrictive trade measures: Denmark, Iceland, Finland, Australia, Britain, France and Portugal. The measures varied a great deal in terms of form, intensity and period of application. Some were specifically designed for 1974. In spite of that such a trend was worrying in itself and consequently, anxious to avoid "beggar the neighbour" policies which prevailed during and precipitated the Great Depression, the O.E.C.D. countries within the context of their organisation:

"on May 30, 1974 ... committed themselves to a standstill

pledge. They agreed for one year not to adopt new import

restrictions or measures to stimulate exports artificially."⁽²⁾

Furthermore, as will be seen in the next Chapter, the I.M.F. came with the so-called "oil-facility scheme" for 1974 and 1975. One of the conditions of having access to it was that the borrower country would undertake not to introduce restrictive trade measures. In 1975, the O.E.C.D. countries pledged another standstill agreement, but by then the situation has deteriorated for some countries. For instance "... the United Kingdom renewal was made conditional on the availability of finance to cover B.O.P. deficits".⁽³⁾

It follows that trade restrictions were not used because they would have harmed inter-O.E.C.D. trade and precipitated another Great Depression without solving their individual or combined oil induced

(1) - The Guardian, cf. Article "America Shrugs off Drop in the Dollar" by Hella Pick, Manchester, Saturday February 25, 1978.

(2) - G.A. Pollack, op. cit. p.18.

(3) - G.A. Pollack, op. cit. p.18.

B.O.P. deficits. We have seen the remedy advocated by the standard theory in case of a B.O.P. deficit, namely the slowing down of domestic activity, the manipulation of prices and exchange rates and the setting up of trade restrictions. The last three tools affect the terms of trade of both groups that it is worthwhile considering.

D - Adjustment Process and Terms of Trade Developments : 1973-1977.

In our opinion the terms of trade (T.O.T.) between oil exporting and oil importing countries will shed more light on our analysis. It is not possible to consider the T.O.T. of each Arab and OPEC country, consequently we shall rely on the cases of Saudi Arabia and Algeria which, in our opinion, are representative of our sample countries. The former is the major oil exporting country with a limited absorptive capacity, the latter is a medium oil exporter but with huge development needs and a much larger absorptive capacity than Saudi Arabia on geographical ground. They represent Eastern and Western part of the Arab World.

The T.O.T. of both countries is represented in the subsequent table.

TABLE 22a : Saudi Arabia's Terms of Trade with
Major O.E.C.D. countries : 1973-77

End of Period Countries	Unit U.S. \$				
	1973	1974	1975	1976	1977 ^a
United States	144.15	404.44	388.98	401.58	419.71
Japan	126.07	349.83	376.18	410.12	401.89
Germany	122.28	376.58	389.87	375.66	379.17
United Kingdom	139.33	405.47	374.95	407.84	379.52
France	122.03	372.53	337.96	369.60	377.92 ^b
Italy	131.54	368.22	350.76	397.45	377.94 ^b

a : September 1977; b : July 1977.

TABLE 22b -- Algeria's Terms of Trade with
Major O.E.C.D. Countries : 1973-1977

End of Period	Unit : U.S. \$				
	1973	1974	1975	1976	1977 ^a
Countries					
United States	181.30	408.62	363.22	380.19	403.23
Japan	158.56	353.45	351.26	388.70	386.50
Germany	153.79	371.39	326.69	356.04	364.27
United Kingdom	175.23	421.74	350.10	386.54	364.62
France	153.47	376.38	315.58	350.30	363.08 ^b
Italy	167.44	372.03	372.53	376.69	362.91 ^b

a : September 1977 ; b : July 1977.

Source: I.F.S. by I.M.F. Volume XXX Number 12, December 1977
p.p. 32 and 40-41.

We shall not comment on the T.O.T. of Saudi Arabia and Algeria with each one of its O.E.C.D. trading partners. We shall limit ourselves to the general trend. It appears that the T.O.T. of both countries improved by more than 100% in 1974 as compared to 1973. The explanation is obvious: the quadrupling of oil prices which were fully reflected in 1974. However, in average their terms of trade declined during 1975 and 1976. This can be explained by the fact that oil price increases led to a higher rate of inflation in O.E.C.D. countries which cannot be wholly explained by oil prices alone. The second explanation is that during 1975 and 1976 OPEC did not drastically increase the price of oil. In 1977 the T.O.T. of both countries experienced a slight improvement but in spite of that it was, in most cases, below its 1974 level. For Saudi Arabia it is the case of its relation with United Kingdom alone. For Algeria the situation is worse because its 1977 T.O.T. with U.S.A., Germany, France and Italy were below their 1974 level. It happens that those four countries provide it with the bulk of its imports. In our opinion it is possible to generalize such findings to most OPEC and Arab countries. The deterioration of their T.O.T. coupled with higher import requirements

provide the best way for O.E.C.D. countries to achieve their adjustment process by making "goods follow money". The logical question is whether O.E.C.D. countries achieved their adjustment process. For the time being we shall assess the extent to which the measures put into practice helped solve or cushion the impact of the quadrupling of oil prices.

According to Table 12 (Page 35) the combined increase of oil imports for our sample countries totalled 224.7 billion in 1974 U.S. dollars during the 1974-1977 period. According to Table 16 (Page 45) \$7,945.5 bn. or 3.53% of the combined cost of oil imports was paid for by borrowing from the I.M.F. As it has been said earlier 45.03% of which was paid by increased exports to OPEC countries. Part of the oil bill was settled by using existing international revenues whose contribution is difficult to quantify. If one assumes that the \$21 bn. drawn by the developed market countries went to our sample countries during the 1974-77 period this would account for no more than 9.34% of the combined oil bill. It seems that all in all no more than 62.79% of the oil bill was paid for through the option "pay as you go" and financing through non-Arab countries. It means that 37% of the oil bill will have to be settled in one way or another, but mainly through the option "take now - pay later". Before considering such an option we shall consider first the case of the N.O.C.D.

SECTION II - NON-OIL DEVELOPING COUNTRIES' POLICIES TO THE OIL-INDUCED B.O.P. DEFICIT : 1974-77.

We shall use the method previously followed to consider the case of the N.O.D.C. that is present the impact of the quadrupling of oil prices and then the adjustment process which was put into practice. However, before considering the impact of and adjustment to the oil crisis one has to draw at least a rough picture of the environment in which the crisis occurred.

The situation is different from that of the O.E.C.D.'s. The economies of the L.D.Cs. are fragile and the governments of these countries never had any influence on external shocks and worldwide events. This holds true, especially in the case of oil. They are parties neither at the production nor at the distribution levels. They have no M.N.O.C. through which they could interfere in the "market".

On the other hand, the L.D.C's expression covers a wide range of economies which differ at more than one level. Consequently they will be diversely affected by the oil crisis. For instance, not all the L.D.Cs. took advantage of the pre-crisis economic expansion recorded by O.E.C.D. countries. Such an expansion led to higher demand, and consequently higher prices for some of L.D.C's export commodities.

However, even such an upswing remains to be seen as a temporary cyclical phenomenon due to higher demand. But this does not mean that the prices of commodities exported by non-L.D.Cs. did not increase. The fact is that, according to H.B. Chenery:

"at the peak of the boom in early 1974 basic foodstuffs were up by 100%, fertilizers by 170% and petroleum by more than 350%, however, other primary commodities averaged only 25% higher."⁽¹⁾

Most of the L.D.C's export commodities belong to the last category. On the other hand, higher oil prices do not present a temporary problem since the oil crisis introduced structural changes in the world economy, and they are not the sole burden either, because the price of other major products will be maintained at high levels for many years to come. We have to focus on the oil crisis and consequently we have to distinguish between oil crisis-induced effects and non-oil crisis induced effects.

SECTION II - 1 : THE MAGNITUDE OF THE OIL-INDUCED BALANCE OF PAYMENTS DEFICIT : 1974-1977.

First, some points have to be clarified. Although we are concerned with all N.O.D.C., for practical reasons we shall focus on the Most Seriously Affected Countries⁽²⁾ or (M.S.A.C.).

Our approach is different from that used for O.E.C.D. countries. The effects of the oil crisis will be analysed in terms of foreign exchange earnings.

(1) - Hollis B. Chenery, "Restructuring the World Economy", op. cit. p.244.

(2) - For the identification of the M.S.A.C. cf. Appendix II-4.

Such an approach adopted by Wouter Tims⁽¹⁾ is justified by the fact that the availability of foreign exchange conditions the import capacity and therefore the development effort of the N.O.D.C. and indeed of all the Third World countries. Such a fact has also been recognised by R.N. Cooper (cf. the present Chapter).

To this a political element must be added. The N.O.D.C. backed the OPEC in its move; and given the long time proclaimed "collective self-reliance" of the Third World countries, the N.O.D.C. were expecting a more or less quick "redistribution" of oil revenues. In our opinion the previous upswing in export earnings combined with the 1973-4 political euphoria dedramatised the oil crisis for the N.O.D.C. This holds true for some Arab countries which later will be classified as M.S.A.C. On the other ^{hand} the O.E.C.D. reduced their domestic economic activity by taking restrictive measures which were reflected on the N.O.D.C. The forms under which this repercussion occurred will be presented at a later stage. This being said, one can consider the impact of the oil crisis on N.O.D.C. However, before that we shall try to eliminate other commodity effects on the N.O.D.C.

As in the case of energy, the N.O.D.C. relied too much on available and cheap foodstuffs (wheat) and fertilizers, both being imported from the O.E.C.D. group. Consequently, by 1974:

"the rise in import requirements combined with large price rises have had as damaging an effect on the growth prospects of many developing countries as have rising oil prices"⁽²⁾

Furthermore

"for the poorest people in these countries the impact of high food prices and shortages is much more serious since most of their income is spent on food".⁽³⁾

For instance, for 1974 alone, the increased prices of food and fertilizers added an additional 6bn. dollars to the N.O.D.C's import bill.

However, this figure, in no way diminishes the effect of higher oil prices in the N.O.D.C. and our intention is not to do so either. Such an impact, for 1974 and 1977 is outlined in the following table.

(1) - E.R. Fried and C.L. Schultze, op. cit. cf. Chapter V (p.p. 169-195).

(2) - H.B. Chennery, "Restructuring the World Economy", op. cit. p.244.

(3) - Ibid.

TABLE 23 : Incremental Cost of Oil Imports for N.O.D.C.
Estimate for 1974 and Projections for 1977

	1973	1974		1977	
Non-oil Developing Countries	Estimated Population in Millions	In Billions of 1974 Dollars	As % of G.N.P.	In Billions of 1974 Dollars	As % of Projected for 1971
	1,797	-10.1	- 1.7	-10.4	- 1.5

Source: Higher Oil Prices and the World Economy : The Adjustment Process,
Edited by E.R. Fried and C.L. Schultze, op. cit. of Table 1-11
p.36.

Then, it seems that until the end of 1970s the additional oil bill will stabilize around \$10bn. a year or about 1.5% of the N.O.D.C.'s combined G.N.P. Such a figure did more than offset the previous gains consequent to the 1972-73 O.E.C.D. economic boom.

However, oil is just one item of the trade relations between OPEC and N.O.D.C. According to the Development Assistance Committee, the latter's "trade deficit vis-à-vis OPEC rose from \$3bn. in 1972 to an estimated \$16bn. in 1975 and in 1976"⁽¹⁾. The oil crisis also affected N.O.D.C. by affecting their trade relations with O.E.C.D. area. As it has been mentioned the quadrupling of the prices of petroleum led to an economic recession in the O.E.C.D. countries. This means less imports from N.O.D.C.; or in other words the volume and price of exports of N.O.D.C. to developed economies will decline. As a consequence their "trade deficit ... vis-à-vis O.E.C.D./D.A.C. doubled from \$9bn. in 1973 to \$18bn. in 1974 and widened to an estimated \$31bn in 1975."⁽²⁾ In 1976 the trade deficit was just over \$22bn. because of an economic recovery in the O.E.C.D. area.

The combined current account deficit of the N.O.D.C. jumped from \$12bn. in 1973 to \$39bn. in 1974 to an estimated \$49bn. in 1975;

(1) -"Development and Co-operation : Efforts and Policies of the Members of the Development Assistance Committee", Report by Maurice J. Williams, Chairman of the D.A.C.; O.E.C.D. Paris, November 1976 p.38.

(2) *ibid.*

and in 1976 it was around \$41bn. The problem, then, is how they are going to balance such a situation? In answering this question we shall follow the method used when we tackled the case of the O.E.C.D. countries. It seems that the same options are open to them, that is recourse to international reserves and I.M.F. credit facilities.

The latter and other options are contained in the following table.

TABLE 24 : Financing of Non-Oil Developing Countries
Current Account Deficits, 1974-1976.

Financing Items	1974	1975	1976
1. Official transfers.....	7.81	8.45	9.17
(of which: Technical			
Co-operation).....	3.26	3.55	3.80
a) DAC.....	5.03	5.94	6.60
b) Multilateral agencies.....	1.34	1.48	1.70
c) OPEC.....	1.37	0.96	0.80
d) Centrally planned economies	0.07	0.07	0.07
2. Long-term official and private			
capital.....	19.07	26.10	25.15
ODA.....	5.25	6.11	6.50
a) DAC.....	2.46	3.07	3.30
b) Multilateral agencies.....	1.02	1.35	1.50
c) OPEC.....	0.83	1.07	1.00
d) Centrally planned economies	0.94	0.62	0.70
OOB.....	3.88	7.09	6.65
a) DAC.....	1.31	2.72	1.50
b) Multilateral agencies.....	1.84	2.23	3.00
c) OPEC.....	0.61	1.99	2.00
d) Centrally planned economies	0.12	0.15	0.15
Private (DAC).....	9.94	12.90	12.00
a) Direct investment.....	4.50	6.00	5.50
b) Portfolio investment.....	3.73	4.60	4.00
d) Export credits.....	1.71	2.30	2.50
3. Other.....	9.43	10.33	8.50
a) IMF Oil Facility.....	1.15	2.43	
b) Use of other IMF credit....	0.38	0.30	3.50
c) Euro-currency borrowing....	7.90	7.60	5.00
4. Change in reserve position....	+1.52	-3.53	(+5.00)
5. Short-term capital - errors			
and omissions.....	+4.21	-0.59	+3.18
Total 1 + 2 + 3.....	36.31	44.88	42.82
Total 1 + 2 + 3 - 4.....	34.79	48.41	37.82

Source: Development and Co-operation : Efforts and Policies of the D.A.C."
Report by M.J. Williams, op. cit. p.40.

Some of the items such as I.M.F. oil facility and Euro-currency borrowing will be considered in Chapter III. For the time being we shall focus only on financing through international reserves and use of I.M.F. credit facility other than Oil Facility.

SECTION II - 2 : USE OF OWNED INTERNATIONAL RESERVES

It is a fact that L.D.Cs. have always been characterized by small international reserves as compared to developed countries. However, in spite of this, N.O.D.C. used part of their international reserves to finance partially their oil bill. As outlined in the case of the O.E.C.D. such an operation is very limited in time and in magnitude. However, the richer of the N.O.D.C. such as Portugal, Turkey, Peru and Argentina drew as much as possible on their reserves. According to the D.A.C. 1976 annual report "the poorer countries were forced to draw down their reserves in 1975 by about \$1.1bn."⁽¹⁾ Such an operation has had the effect of cutting down their already meagre international reserves and "for the group as a whole reserves covered only fourteen weeks' imports at end-1975 by comparison with twenty-three weeks' imports in 1974"⁽²⁾. Furthermore to be more precise we give the case of N.O.D.C. for the 1973-75 period. (Table 25).

According to Table 25 the reserves as a percentage of annual imports of the N.O.D.C. declined drastically. For instance in 1975 they represented no more than 5% of annual imports of Zaïre. They were 7% and 9% for the cases of Egypt and Sri Lanka respectively.

On the other hand if one considers Table 24 (Page 68) one notices that the reserve position of the N.O.D.C. moved from +\$1.52bn. in 1974 to -\$3.53bn. in 1975. In other words it means that from end-1974 to end-1975 they drew \$5.03bn. from their international reserves. In spite of that such a sum did not represent more than 50% of their 1975 oil bill or just above 10% of their current balance deficit for the same year. This means that in order to balance their deficit the N.O.D.C. will have to use other remedies. One of the latter is the facilities offered by the I.M.F.

(1) and (2) Ibid.

TABLE 25 : Reserves as a Percentage of Annual Imports
of 16 Non-Oil Developing Countries : 1973-75

End of Periods Countries	1973	1974	1975 ^b
Argentina	67	41	13
Brazil	104	42	33
Peru	52	51	22
Uruguay	93	50	33
Egypt	25	12	7
Kenya	43	21	22
Zambia	36	22	16
Portugal	103	55	43
Turkey	113	55	25
M.S.A. Countries			
Bangladesh	18	14	14
India	37	26	26
Pakistan	46	24	18
Sri Lanka	23	12	9
Sierra Leone	38	28	15
Tanzania	33	8	10
Zaire	26	11	5

b - Provisional

Source: "Development Co-operation : Efforts and Policies of the Members of the Development Assistance Committee", Report by Maurice J. Williams, op. cit. p.48, and p. 45 for M. S. A. C.

SECTION II - 3 : USE OF DRAWINGS FROM THE INTERNATIONAL MONETARY FUND

The I.M.F. does represent an option but a limited one because drawing from the I.M.F. to finance B.O.P. deficits is function of the member's quota in the Fund. As a matter of fact the L.D.Cs. in general and N.O.D.Cs! quotas in particular are small relatively to those of the O.E.C.D. member countries.

Being aware of the magnitude of the N.O.D.C's deficit the I.M.F. was conscious of the fact that its then facilities were not able to bridge the financing gap; consequently it opened up new sources such as the Special Account and the Oil Facility Schemes that will be dealt with in the next Chapter. For the time being we shall focus on the increase in credit tranches and the creation of the Trust Fund. Meeting in January 1976 in Kingston (Jamaica) the I.M.F. Interim Committee agreed to a 32.5% increase in the members' quota and more importantly an increase of 45% in credit tranches. The last increase was to cover only the medium-period. Both decisions will benefit all the Fund's members. However, two other decisions taken at the same meeting were specifically designed to help the N.O.D.C. The first one relates to the liberalization of the compensatory Financing Facility which enables the I.M.F. to assist a member in its early stage of development in case of a shortfall in export earnings. Such a shortfall was very common for N.O.D.C. during the 1974-1975 period. The second decision was more important because it refers to the creation by the I.M.F. of a "Trust Fund with the specific purpose of providing special balance of payments assistance on concessional terms to developing I.M.F. member countries with per capita income not in excess of S.D.R. 300 (about \$375) in 1973. The resources of the Trust Fund are derived from sales of I.M.F. gold, supplemented by national contributions."⁽¹⁾ The creation of the Trust Fund led the N.O.D.C. to take advantage indirectly of the Martinique Summit we evoked at an earlier stage of the present Chapter. The Trust Fund represents an important boost to N.O.D.C's ability to finance their current account deficit. For

(1) "Development Co-operation : Efforts and Policies of the Members of the Development Assistance Committee, op. cit. p.51.

instance the January 4, 1978 monthly gold auction brought the Trust Fund total to \$1.03 billion⁽¹⁾. Such a figure is not represented in Table 19 (Page 50) according to which N.O.D.C. drew \$4.18bn. from the I.M.F. to finance its deficit from 1974 to 1975. This represents less than 3.5% of their combined current balance deficit during the same period. As it has been seen both sources were not able to bridge the gap and therefore N.O.D.C. and especially M.S.A.C. will need access to other sources of financing. Apart from the I.M.F. Oil Facility borrowing from the market will also be presented in the next Chapter.

However, as outlined in the previous section, the O.E.C.D. countries managed to cushion the impact of oil prices by expanding their export to OPEC countries. Unfortunately, as it has been mentioned earlier, N.O.D.C. recorded trade deficits with both OPEC and O.E.C.D. countries. Part of this situation can be explained by the fact that their terms of trade with OPEC and O.E.C.D. countries deteriorated. Then it seems that N.O.D.C. were cornered; therefore it will be interesting to study how they adjust to the new situation.

SECTION II - 4 : N.O.D.C. ADJUSTMENT PROCESS 1974-1977

We shall present the adjustment process of the N.O.D.C. in the trade, fiscal and monetary fields.

In the trade field most N.O.D.C. tried to expand exports particularly to OPEC countries and to cut down imports from both OPEC and O.E.C.D. groups. However, as far as exports to OPEC are concerned, it is clear that few N.O.D.C. could take advantage of the Booming Middle Eastern Markets because they did not have the adequate industrial capacity to do so. But some countries with the economic recession in O.E.C.D. in mind tried to redirect their exports from the O.E.C.D. to OPEC countries. As a matter of fact, "Pakistan exports to the Middle East in 1974-75 accounted for 29% of total exports, as against 14% in 1969-72⁽²⁾". On the other hand they introduced measures aimed at saving their foreign exchanges, they did so by passing restrictive import laws.

(1) - I.M.F. Survey, January 9, 1978, p.10.

(2) - Development Co-operation : Efforts and Policies of the Members of the D.A.C.", Report by M.J. Williams, op. cit. p.46.

For instance Sudan, Tanzania and Zaire tightened their import controls. Other countries such as Malawi, Sierra Leone and also Zaire introduced more severe payment regulations. Finally imports surcharges and imports deposits were put into practice especially by Pakistan and Upper Volta. It goes without saying that they did their best to promote domestic sources of energy and also to cut down oil imports by introducing conservation measures. However, in spite of those measures, the foreign exchange earnings of most of the M.S.A.C. decreased during the 1974-77 period.

It is not possible to consider the case of all N.O.D.C. We shall then content ourselves with some examples from the M.S.A.C. ; the foreign exchange reserves of four countries - Bangladesh, Pakistan, Kenya and Zaire; decreased in 1974 and 1975⁽¹⁾. For Sudan, an Arab country, the decrease was recorded during the whole 1975-77 period. By mid 1977 the foreign exchange reserves of Pakistan, Sudan and Zaire were respectively 12.4%, 49% and 49.2% lower than their 1973 level.

The reality is worse because those figures include financial transfers received from institutions such as the World Bank, the D.A.C. and OPEC.

What about the measures in the monetary field, and the exchange rate policy pursued? More attention shall be devoted to the latter.

As in the case of the O.E.C.D. countries we reserve a special place for exchange rate policies. As a matter of fact the N.O.D.C., and indeed all the L.D.Cs. were not safe from the developments which occurred in this field in the early 1970s, developments already outlined. Unfortunately their effects, although strongly felt by the L.D.Cs., remained in the shadow of the international monetary crisis which precipitated them. These developments, mainly the Smithsonian Agreement and the second devaluation of the U.S. dollar, are worthwhile recalling. According to the United Nations, the first led to an increase of 7% and 6%⁽²⁾ in L.D.Cs' imports and exports costs respectively; the ultimate

(1) - The following percentages derive from calculations based on figures published by the International Monetary Fund, I.F.S. August 1977 (Volume XXX No. 8).

(2) - "United Nations, Department of Economic and Social Affairs, Supplement to World Economic Survey, 1975", op. cit. p.199.

result being a one per cent point deterioration in their T.O.T. The second led to a deterioration just below one per cent point.⁽¹⁾

On top of that the floating of the major currencies coupled with the abolition of official convertibility of the U.S. dollar brought other problems to the L.D.Cs., problems summarised by the United Nations' Department of Economic and Social Affairs as follows:

"the value of external assets and liabilities denominated in foreign currencies ... became less certain and each country was faced with a new need to decide the value of its own currency and to devise ways and means of maintaining that value. The circumstances of making such decisions were moreover, particularly unfavourable. The value of every currency was being eroded by the general inflation though at different rates. Like the smaller developed market economies, the developing countries tended to feel victims of the changing monetary system rather than shapers of it."⁽¹⁾

With more or less difficulties, depending on their existing financial expertise, the L.D.Cs. managed to adapt themselves to the new situation. They went through different phases and, generally, ended up by pegging their currencies either to the S.D.R. or to a basket of "hard currencies", the choice depending on their respective trade links. Basically it means that L.D.Cs' currencies were floating along with the hard currencies. But for some countries very flexible exchange rates were not adequate to cope with the new situation and consequently they opted for forthright devaluations. For example it is the case of Thailand, Singapore, Malaysia and the Republic of China in 1974. In 1975 Bangladesh devalued its Taka by 58%; and in 1977 Kenya followed suit.

On the other hand, other monetary devices were used and some measures were taken collectively. For instance:

- (1) - United Nations, Department of Economic and Social Affairs,
"Supplement to World Economic Survey, 1975", op. cit. p.199
- (2) - United Nations, Department of Economic and Social Affairs,
"Supplement to World Economic Survey, 1975", op. cit. p.194.

"as part of the general reform of the monetary system of the Franc Area countries, the basic central bank discount rate was raised in July 1975 to 8% bringing the structure of interest rates throughout the area more closely in line with World capital market conditions. The reform also helped stem the pressure for capital outflows associated with previous interest differentials."⁽¹⁾

Let us, then, consider the price policy followed by N.O.D.C. Here again we shall distinguish two types of prices; namely the prices of products domestically consumed and those of the products for exports.

For the first set we shall consider consumer prices which, as a matter of fact, are affected by home-produced and "imported" inflation. Consequently they are bound to increase⁽²⁾. However these prices are not very telling about foreign exchange earnings of the N.D.D.C. It is better to consider the prices of their export products which are influenced by the decisions taken by O.E.C.D. countries in order to cope with their deteriorating B.O.P. situation.

At this stage a historical case is worth mentioning. R. Triffin takes the case of Britain with a payment imbalance leading the British Authorities to tighten their credit policy.

In sum, a situation similar to the one resulting from the oil crisis, but our case is more delicate because instead of having one country tightening its economic policy we have most of the O.E.C.D. countries. This will tend to swell or to magnify the effects.

R. Triffin:

"conjunctures that Britain, by tightening credit, could induce a favourable movement in its terms of trade, and since it was a heavy purchaser of food and materials abroad, this change could reduce a deficit - but at the expense of primary producing countries of the World."⁽³⁾

(1) - World Bank "Annual Report, 1976", pp.30-31.

(2) - cf. Appendix II-5 p 261.

(3) - R. Triffin, cf. R.N. Cooper, International Finance, op. cit. p.10.

Of course one assumes here that N.O.D.C. are exporters of primary products and that is the case.

In our opinion, nobody would contest R. Triffin's statement and therefore we shall focus, not on the direction, but on the intensity of the effects. Our case will be presented within the theoretical framework of world economic fluctuations, or, in other words, the business cycle.

From this point of view several elements have to be mentioned and clarified; the two chief ones being the N.O.D.C's propensity to import and capacity to export. From this point of view and comparatively to developed market economies, one can safely assume that Third World countries, including N.O.D.C., are characterised by a high marginal propensity to import. The reason being that they have a narrow industrial base and given their development effort and given the existing poles of technology sources, the situation is more acute from 1974 onwards, a period characterized by shortages and high prices of foods, oil and fertilizers.

On the other hand, their capacity to export is high too. They have to rely on a handful of products, such as sugar, rice, cotton (non-processed or semi-processed) to earn foreign exchanges indispensable to satisfy their high import requirements. The next logical step is to ask ourselves about the origin of and destination of N.O.D.C's imports and exports respectively. Given the present situation of world trade and technology there is no doubt about the predominance of O.E.C.D's share in N.O.D.C's trade. This being said, it follows that any trade decisions taken by the O.E.C.D. countries will not only be transmitted to N.O.D.C. but will greatly affect them. In our opinion the economic measures undertaken by O.E.C.D. countries during the 1974-77 period affect both prices and volumes of N.O.D.C's imports and exports.

The United Nations' Department of Economic and Social Affairs sums up the effects of the crisis as follows:

"The weakening in demand for raw materials for developed market industry in 1974 brought the upswing in export prices to an end. By the first quarter of 1975 the index of agricultural raw material prices had receded by over a fourth from the

peak of a year earlier and there was a further decline of 6% in 1975. And the prices index of non-ferrous metals exported by developing countries was halved between mid-1974 and the end of 1975."⁽¹⁾

Further, on top of lower prices came smaller export volume by N.O.D.C. to O.E.C.D. countries. On the other hand the crisis did also affect the prices of commodities exported by O.E.C.D. countries to N.O.D.C. The latter had to pay higher prices for their imported equipment goods and services, much needed to fulfil their development target. These increases, although concrete and significant are difficult to quantify. The combination of all these elements led to a deterioration of the N.O.D.C.'s terms of trade with the rest of the World. In our opinion the next table gives us a fair idea of the extent of this deterioration.

TABLE 26 : Terms of Trade⁽²⁾ of some M.S.A. Countries
(Ethiopia, Kenya and Sri Lanka), 1973-76. Change Over Previous Year

Country	1973	1974	1975	1976
Ethiopia	-- 5%	- 8.24%	-21.7%	-20.7%
Kenya	- 6.2%	- 8.7%	-21.2%	n.a.
Sri Lanka	-22.2%	-31.5%	-45.4%	n.a.

Source: I.F.S. of Country's aggregate, Volume XXX No. 8, August 1977.

It follows that according to the previous table the three countries have seen the terms of trade (T.O.T.) with the rest of the World being continually eroded.

For Ethiopia, which did not take advantage of 1972/3 commodity - prices increases, the T.O.T. deteriorated by 5%, 8.24% in 1973

- (1) - United Nations' Department of Economic and Social Affairs,
"Supplement to World Economy Survey, 1975", op. cit. p.206.

- (2) - The terms of trade has been calculated by using the formula:

$$Tc(t) = 100 \times \frac{Px(t)}{PM(t)}$$

Tc(t) represents The terms of trade at period (t)

Px(t) The index of the prices of the country's commodities at exports at period (t).

PM(t) The index of the prices of country's commodities imports at ~~the~~ period (t).

and 1974 and then by 21.7% and 20.7% in 1975 and 1976 respectively.

Kenya had a greater deterioration for 1973 - 62% and for the subsequent two years the rates were similar to those of Ethiopia's namely 8.7% in 1974 and 21.2% in 1976 respectively.

Finally, the case of Sri Lanka is worse - its T.O.T. deteriorated by more than a fifth, almost a third and by just under a half in 1974, 1975 and 1976 respectively.

In other terms this means that the import value of N.O.D.C.'s exports decreased. With respect to this point the World Bank estimates that,

"the volume of exports which purchased a dollar of imports during the year ending June 1973, bought only fifty-two cents worth in Bangladesh, sixty-three cents worth in Sri Lanka, seventy cents worth in India and eighty-four cents worth in Pakistan during fiscal 1975, after a continuous sharp deterioration in the previous twelve months."⁽¹⁾

It goes without saying that those developments affect the foreign exchange reserve situation of the N.O.D.C.

From another point of view, N.O.D.C. had to struggle against external inflation which soared import costs; mainly capital equipment and services. On top of that, with their newly acquired financial resources, the OPEC countries were heavy purchasers of those very products. In other words, it means that N.O.D.C. had to compete with OPEC countries for:

"construction contracts and services. For example the dollar cost per hectare of irrigation projects in Chad and Niger have about doubled in the past two years, as have the cost of road projects already underway in Benin, Cameroon and Mali."⁽²⁾

These developments combined to impede the development progress of the N.O.D.C. and some of the M.S.A.C. recorded a fall in their G.N.P. per capita growth rate. For countries which live just above, or flatly below the absolute level of poverty, there will be grave repercussions for their future well being.

(1) & (2) - World Bank: Annual Report, 1975(July 1974 to June 1975) p.36.

It seems that the adjustment measures taken by N.O.D.C. and especially the M.S.A.C. range in the lower end of P.G.A. Pollack's chart, that is devaluation, import controls, economic recession and this leads to a widespread suffering for already poor populations.

On the other hand, by the end of 1977 O.E.C.D. countries were better off but this does not mean that they managed to pay in real terms for their oil imports. However, one has to mention that since 1974 West Germany has been the first country to record trade surplus with OPEC countries as a whole. For other O.E.C.D. as well as N.O.D.C. they seem to have exhausted their short-term financing facilities and of course they have done their utmost to expand their exports, but it was not enough. Therefore other sources of financing have to be forged in order to finance their oil bill for the interim period. The next section deals with part of this problem.

SECTION III - THE FINANCING CHANNELS

In this section we shall content ourselves with presenting only the channels through which oil importing countries are likely to finance their oil bill. The real financing process will be presented in detail in Chapters III and IV. However, before that we shall consider the financing of a B.O.P. deficit in a broader framework, such as during a trade cycle and precisely during a slump.

SECTION III - 1 : FINANCING PROCESS DURING A TRADE CYCLE : CASE OF SLUMP

First of all one has to mention that our case occurs in a recession. Recession in the O.E.C.D. and L.D.C. countries at the same moment and given the economic strength of the OPEC countries their boom becomes more or less marginal at World level, especially during the first year of the crisis. The slump has been transmitted from abroad (O.E.C.D. + OPEC) to L.D.Cs. whereas in the case of the O.E.C.D. part of the recession originated from abroad (OPEC) and part is due to domestic policy. In other words, the economic policy pursued by O.E.C.D. countries tended to magnify the slump originating from OPEC's decision.

Second, the financing process has to be seen as the last card used by oil importing countries to cope with the new situation. It complements the adjustment process. Therefore it is only a matter of time for the deficit countries to have recourse to the financing process which is a "solution" only for the interim period. In the long term one can talk about a second stage of the adjustment process when ultimately goods follow money.

Third, if we had only two countries/groups of countries, (A-OPEC and B-oil importing countries) the financing problem would be much simpler. The surplus of A will be invested - or would save to buy goods - in B, and we will end up with an automatic financing of both disequilibria. However, in our case we are in presence of three distinct groups - OPEC, O.E.C.D. and L.D.C. countries - and even distinct countries within each group.

In our opinion, given the present international setting, OPEC financial surplus - and to be precise Arab countries' financial surplus because most of non-Arab OPEC members were in deficit by mid 1977 - will be automatically transferred to oil importing countries as a group (O.E.C.D. - L.D.Cs.). We agree to call this first step the recycling process. The second step is the redistribution of the A's surplus between oil importing countries. We shall call this stage the reshuffling process.

It will be very unlikely that the reshuffling process will satisfy every member of B's financial needs. The reason being that factors such as premium risks, industrial endowments, political activations and the international financial system will be at work, consequently some countries might be handicapped by such elements. Then, what is the solution? As a matter of fact in the case of an economic recession some suggestions had already been made to solve the problem of both groups of countries (A and B). For instance, after recognizing that in similar circumstances the deflationary policy suggested by the old-fashioned theory is in conflict with full employment, an imperative of our present day, R.C.O. Matthews thinks that:

"the government of any country experiencing a contraction in demand should make available to other countries an amount of

its currencies equivalent to the fall in the value of its imports compared with a "normal" year, receiving in return a corresponding amount of the currencies of other countries.

In this way the supply of international currency reserves would in effect be increased whenever the need arose."⁽¹⁾

R.C.O. Matthews's aim is to maintain world trade level by avoiding the transmission of any country's contraction to the rest of the World by means of restrictive measures. Such a suggestion contains some limits, limits recognised by Matthews himself. The main one being the agreement of the governments concerned, the determination of the cause of the fall in imports and thus the exact amount of currency to be transferred. In our case, other difficulties, due to the nature of the countries involved, arise. R.C.O. Matthews does not differentiate between the nature of the currencies involved and thus he implicitly assumes that any country's currency is acceptable to other countries. It seems obvious to us that in his mind both A and B countries are developed economies. It goes without saying that the existence of developed and L.D.C. countries and the existence of convertible and non-convertible currencies change the whole picture. Such a suggestion cannot apply to our case. However, the author's second suggestion is more realistic since, according to him:

"a similar effect would be produced if the government of country A in those circumstances were to make loans to foreign countries or were to buy foreign goods on its own account."⁽²⁾

In this case A represents OPEC countries that do not experience any contraction in their demand. In our opinion loan granting could be adequate as a solution although the existence of the three groups makes it more complex. Such a suggestion has also been raised as a possible solution to the oil crisis. For instance, Paul Streeten, to the existing developed and developing countries division suggests a new triangular world system in which:

(1) - R.C.O. Matthews, "The Trade Cycle," A study in the Theory of Economic Fluctuations, Cambridge Economic Handbooks, Cambridge University Press, Cambridge, Reprint 1970, p.269.

(2) - R.C.O. Matthews, op. cit. p.269.

"the oil-producing countries would lend and invest part of their surplus earnings in the Third World. The Third World would then use this money to buy equipment and materials from the industrial countries of Western Europe from America and Japan. And these countries would use the receipts from their sales to pay for their oil imports." (1)

In this translateral scenario, P. Streeten suggests even the setting up of an aid fund by Arab countries.

If such a solution were to be put into practice, OPEC countries may feel they are bearing the burden.

Professor D. Seers is another economist who suggested a: "big aid programme (for the Third World) which diversify the assets of petroleum exporting countries, increase their political power and reduce international criticism of high oil prices. It would be a mighty boost to the Third World Development even if 10% of the proceeds of oil exports were used in this way." (2)

It follows that Professor D. Seers' idea goes beyond curbing the oil crisis impact on N.O.D.C., it could be a solution to the foreign exchange shortage which has characterised the I.D.Cs. well before 1973.

Furthermore, it is worthwhile mentioning that both P. Streeten's and Professor D. Seers' suggestions do not fall within R.C.O. Matthew's - the O.E.C.D. group is not taken into consideration. On the other hand, by suggesting:

"broadening and a more concentrated aid programme directly related to the countries in clear and desperate needs." (3)

Professor H. Singer brings back the O.E.C.D. group to the picture. This is an implicit suggestion of a flow of aid and loan from OPEC plus O.E.C.D. countries to N.O.D.C.

(1) - Paul Streeten: "Aid and the Oil Crisis", op. cit. p.108. The same idea was expressed by the same author in a second article: "Oil and Development: a Steady Tripod", in conjunction with Mrs. F. Stewart. Report of Select Committee on Overseas Development pp. 103-105.

(2) - D. Seers, "The Rise in the Price of Oil. Terrible Disaster or Great Opportunity", cf. Report from the Select Committee on Overseas Development, op. cit. p.55.

(3) - Professor H. Singer, op. cit. p.55.

In our opinion, the Third World market is important to O.E.C.D. countries' export sector and consequently a shortage of foreign exchange or other means and ways of buying in the former will lead to an economic contraction of the latter. This contraction, in turn, will reach OPEC countries. Thus the N.O.D.C. are necessary if the machine is to be kept going. On top of that, OPEC and especially Arab countries have special reasons to take N.O.D.C. into consideration; these reasons will be outlined in Chapter IV.

Finally, one has to stress that such a:

"proposal does not call for any great altruism on the part of" OPEC and O.E.C.D. countries,

"though it may appear to, since:"
they:

"will benefit by the maintenance of foreign demand"⁽¹⁾
for their respective products.

However, in order to be carried out, such a proposal requires institutional support or, in other words, financial channels which might not exist yet. Several different ways and means can be thought of and used but all of them can be grouped under the heading of reshuffling process.

SECTION III - 2 : THE RESHUFFLING PROCESS

The reshuffling process will occur through either ante- or post oil crisis channels or, in other words, through channels existing well before the crisis and channels deriving from the crisis itself. Both types will be reviewed. However, for the time being we shall only mention their existence and the direction towards which they will work. The financial result of their working, or, in other words, the real financing process will be presented in Chapters III and IV for O.E.C.D. and N.O.D.C. countries respectively.

A. - Existing Financing Channels

These channels regroup international financial institutions and World banking centres.

(1) - R.C.O. Matthews, op. cit. p.269.

-- International Financial Institutions

This heading excludes private institutions and by it we understand institutions such as the World Bank and its affiliates and the I.M.F. Given our scope the latter is more important because it has been more active. Thus we shall focus on its activity but in Chapter IV.

- World Banking Centres

Most western industrialized countries' banking institutions - Switzerland's, West Germany's and France's - played a more or less active role during the oil crisis, but it remains that New York and London were, and still are, the prominent centres and consequently we shall limit ourselves to both of them.

Concerning London's likely role in reshuffling financial oil surplus between oil importing countries, H.M. Treasury considers that given the purely short-term nature of the:

"new deposits placed in sterling... and the fact that they fall short of the prospective external financing needs of the United Kingdom, make it inappropriate to consider any recycling of funds placed in sterling in London in present circumstances."⁽¹⁾

Such a statement, beyond confirming the old saying that "charity starts at home", excludes any possibility of reshuffling oil revenues to other O.E.C.D. countries and, of course, to N.O.D.C. London is also an important pole in the Eurocurrency markets that will be presented in Chapter III.

There is no reason to expect a different and more altruistic behaviour from the New York based financial centre. Our opinion is confirmed by the fear expressed by some O.E.C.D. countries that New York might prove an endless capital sink. They expressed this fear because they were relying on it to accomplish their financing process.

From another point of view, the oil crisis has a novel feature, namely that oil bills are paid in U.S. dollars and Pounds Sterling and the revenues kept almost exclusively in those currencies. Such a fact directs the working of the international financing markets in a very specific direction. With regard to this point, undertaking

(1) -"Oil Revenues, International Financial Markets and the Less Developed Countries," Memorandum submitted by H.M. Treasury, cf. Rep. from Select Committee on Overseas Development op. cit. p.85.

a study of international money H.G. Aubrey recognized:

"the capability of a reserve currency country to secure alternative "credit" in the form of liquid liabilities that are a counter part of its B.O.P. deficits."⁽¹⁾

However, one can always retort that such a statement has been made well before the collapse of the Bretton Woods System, but few would dispute the fact that, in spite of that, the U.S.dollar does still fulfil the function of a reserve currency. This being settled, the second part of H.G. Aubrey is more interesting because, according to him:

"a reserve currency country has the ability to run deficits for some time because the credit standing of a banking centre is such that it can in effect borrow to meet its needs in almost an imperceptible fashion without the necessity of arranging and negotiating loans as other borrowers must do."⁽²⁾

Given these facts and given the respective importance of New York and London as World banking centres, the working of international finance could finance primarily the U.S.A.'s B.O.P. deficits resulting from the oil crisis. The United Kingdom's B.O.P. deficit was only marginally financed as this country had to negotiate government to government loans - with Iran especially - and to have recourse to other channels.

However, other O.E.C.D. countries, in varying degrees, managed to take advantage of the more or less distributive role of New York and of their own financial network.

On the other hand, Professor M. Lipton doubts the adequacy of World Banking Centres to respond to N.O.D.C's needs because according to him, "the major reason is that World Banking is not geared to flow in this direction."⁽³⁾ This applies even to socialist countries and can be explained by factors such as solvency and indebtedness.

(1) - H.G. Aubrey, "Behind the Veil of International Money", International Finance Section, Department of Economics, Princeton University, Princeton, New Jersey, No. 7. January 1969 p.p. 10-11.

(2) - Robert V. Roosa in Testimony before the Sub-Committee of International Exchange Payments (Joint Economic Committee of Congress Hearings, Outlook for The B.O.P., p.119 13 November 1972) quoted by H.G. Aubrey, op.cit. p.13.

(3) - Professor M. Lipton, "Implications of Oil Price Changes for Less-Developed Countries", cf. Report from the Select Committee on Overseas Development, op. cit. p.53.

However, in spite of the fact that such a source is denied to the majority of the N.O.D.C. some of them managed to access to it. To what extent and what countries benefited from this type of financing will be treated in Chapter III.

However, the combined working of both international financial institutions and World Banking Centres could not fill the financial gap of every oil importing country, therefore this led to the creation of new financing facilities.

B - Newly-created Financing Channels

There are several channels and we shall distinguish between those created by O.E.C.D. and OPEC countries.

As early as 1974 most of the major O.E.C.D. countries came with new schemes aimed at financing their own B.O.P. deficit. Whether these schemes were accepted and put into practice and to what extent they contributed to alleviate the financing difficulties of the countries concerned will be treated in the subsequent chapter. OPEC countries were not short of ideas either. But we shall concentrate only on channels wholly or partly Arab-owned and Arab-organized. These channels regroup several banks and funds whose purpose is to provide B.O.P. support and also, sometimes, development aid to N.O.D.C.

At this stage one has to mention that some suggested the setting up of special prices of oil to the M.S.A. countries. This scheme is not workable for several reasons. First, it would mean that the same product has two market prices. Second, OPEC countries have maintained that their crude oil has been underpriced, consequently, they would contradict themselves by fixing a second set of lower prices.

In our opinion, given present circumstances, it would be more subtle on the part of OPEC to take from N.O.D.C. with one hand and to give back to them with the other. The result would be the same but it would have the advantage of avoiding O.E.C.D.'s criticism and creating more inter-Third World links.

Finally, there is another obstacle, because, according to Mrs. Edith Penrose:

"the oil companies are equally opposed to special prices

for L.D.Cs. They consider it unworkable, but probably of equal importance is their objection to the existence of government-to-government arrangements that would be involved and which are a threat to their own position on the international oil trade and to their view how it should be conducted."⁽¹⁾

It is for these reasons, coupled with the working of international private banking institutions that Arab countries were driven to set up their own channels. The working of these channels and whether or not they serve the interests of both granting and receiving countries will be tackled in Chapter IV.

CONCLUSION

According to the standard theory a country faced with a B.O.P. deficit, such as the one resulting from the oil crisis, has four options:

- to slow down its economic activity,
- to cut down its prices and devalue its currency in order to record a trade surplus with the surplus country. Prices and exchange manipulations are complementary and substitutable.
- to impose trade restrictions under the form of import quotas and higher tariffs.

On the other hand the surplus country's domestic economy will automatically adapt itself to the new situation through

- higher prices
- official or effective revaluation of the local currency,
- higher imports from the surplus country because of the differential prices.

One has to mention that in both cases the measures are substitutable and inter-related. The logical question is to ask if this theory applied to our case-study. In trying to answer this question we shall consider each measure in the case of each group of countries.

(1) Mrs. Edith Penrose, "The Price of Oil and Less-Developed Countries: Assistance and Permanent Adjustment". cf. Report from the Select Committee on Overseas Development: 1974 op. cit. p.126.

First, the domestic activity, as measured in terms of industrial output and rate of unemployment, slowed down in both O.E.C.D. and Non-oil Developing Countries. On the other hand from 1974 onwards the OPEC countries recorded a boom because they are adapting to the new situation by increasing their spending.

Second, the level of prices and exchange rates. Domestic prices increased in the three groups. However, given the nature of the three groups one has to go further by making a distinction between domestic and export prices. This represents a novel feature. In our opinion this distinction is justified on several accounts. In our case domestic prices are just for domestic use whereas in the standard theory case they are equal to export prices when one does not take into account transport costs. In the case of Arab and OPEC countries, domestic prices play a very small role in decision-making which are made mainly on the basis of the U.S. dollar. A parallel can be drawn with the case of United Kingdom and the U.S. because of the role played by their respective currencies in international trade.

That is why the exchange rates of the domestic currencies of OPEC countries are not very important. These important differences were not taken into consideration by the standard theory because when the latter was elaborated we had a different international trade and monetary system. Therefore it has nothing to do with the ability of, say, Professor B. Ohlin and J.M. Keynes, to see the problem. It is this fact which led us maintain at the beginning of the chapter that the existence of the three groups will complicate the problem. We did not have in mind that much the number of groups but their level of economic development and therefore the place they occupy in the present World trade and monetary setting. It was also this reason that led us not to present separately the different elements of the standard theory and their working and articulation; but rather present the case-study by referring to it when necessary and ^{take} ~~take~~ position only at the end of the chapter.

However, even if one takes into account the inflationary milieu one notices that domestic prices increased more in OPEC than oil importing countries. This goes in line with the standard theory but our own position is that the level of domestic prices in OPEC

and even N.O.D.C. has no influence on the adjustment process. What matters most is the export and import prices of the three groups. From this viewpoint one cannot refute or agree with the standard theory but note that in the O.E.C.D. prices were not cut and currencies were not devalued.

Let us now consider the final set of measures namely the trade restrictions. They were partly and selectively applied by both O.E.C.D. and N.O.D.C. countries; but given the magnitude of the oil induced B.O.P. deficit one would expect more restrictive trade measures if the standard theory approach to a B.O.P. deficit was to be fully applied. This did not occur for two main reasons. First, most of the international trade of individual O.E.C.D. countries is done within the O.E.C.D. area. Therefore, trade measures would solve the B.O.P. problem of some countries only and the bulk would be passed to the next country more able to bear it. The result would have been another depression. Secondly, according to the standard theory trade restrictions would aim at cutting the import of the product or products that caused the B.O.P. deficit. This does not make sense in our case-study because it is an oil-induced B.O.P. deficit but the O.E.C.D. countries cannot expand their domestic production of oil because they do not produce it, therefore there is no room for import substitution; at least in the medium term.

In concluding this chapter we can maintain that even if O.E.C.D. countries cut down their export prices and devalued their currencies they would not have fully adjusted to the new situation, because the volume of their exports are limited not because of their existing capacity to produce is limited but because of the import capacity of OPEC countries and specifically those with financial surpluses. This is explained by what is usually referred to as a low absorptive capacity. It follows that oil-importing countries were bound to finance part of their B.O.P. deficit. The likely ways this financing process will occur have been dealt with in the last section and the process itself will be presented in the following two chapters.

C H A P T E R I I I

ARAB DOLLARS RESHUFFLING THROUGH NON-ARAB FINANCIAL INSTITUTIONS

INTRODUCTION

As shown in the previous chapter, oil importing countries were not able to pay completely for their increased oil bill by a commensurate expansion of their exports to OPEC countries. They also used their international reserves (I.R.), borrowed from the I.M.F. and from one another, e.g. the West German's loan to Italy. On the other hand they feared that the market, i.e. private financial institutions - will not be able to arrange the needed financing of their oil-induced B.O.P. deficit, or to cope with the flow of pétro-dollars. Some predicted that the market will collapse. Consequently they thought that new channels were necessary to reshuffle the petro dollars between oil importing countries according to their financing requirements. This thinking appeared as early as 1974 and its prime implication was that almost every major O.E.C.D. country came up with its own proposal to achieve a harmonious "distribution" of the oil revenue surpluses.

These proposals will be presented as an introduction to the present chapter. In the first section we shall consider the composition of the financial surpluses of The Arab World. These surpluses will be equated to the international reserves. The second section deals with the reshuffling process through international financial institutions. The Third section considers the problem of Arab dollars reshuffling through private and public financial institutions, i.e. Eurocurrency and Eurobond markets. In the final section we shall present Arab direct investments because these investments do represent an inflow of capital that will indirectly help cushion the B.O.P. deficit of the host country. Finally we have to mention that each type of reshuffling will be studied from two points of view. The first angle is the direction of the reshuffling mechanism, or in other words which countries or group of countries benefited from it. The second angle concerns the advantages or disadvantages derived by the Arab World from each type of reshuffling.

As far as the proposals made by the oil importing countries we shall present the German, American and British proposals.

The West German Proposal : The International Investment Bank.

West Germany proposed the creation of an International Investment Bank (I.I.B.). Her idea was made known during the 1974 I.M.F. annual meeting. The International Investment Bank was to be created by and to function under the supervision of the I.M.F., the western industrialized countries, and the oil producers. However, only the oil producers would contribute to the International Investment Bank's capital. The International Investment Bank's function was to reshuffle⁽¹⁾ oil revenue from the oil producers to the western industrialized countries, such as the United Kingdom and Italy, thus leaving in the cold other developing countries. The only "positive" side to this "negative proposal" was to allow the oil producers to participate in the supervision of the International Investment Bank.

The proposals did not come into being and a full set of reasons could explain such a fate:

Firstly, it was far too early to bring together oil producers and western oil consumers whose self-confessed aim was to break the "OPEC cartel": a state of confrontation predominated at that time.

Secondly, some OPEC members did not see any difference between leading western countries and some international institutions such as the I.M.F.

Thirdly, the West German proposal "ignored" the Developing countries whose support was vital to OPEC's success in maintaining high oil prices.

The United States' Proposal : The Kissinger Bank.

It was better known as the "Kissinger Proposal". His aim was to establish a 25bn. dollar bank which would help western deficit countries. The proposal has two main characteristics. First in Dr. H. Kissinger's idea "since OPEC's financial surpluses would, in any event, have to be invested abroad and, as a practical matter, mainly in the O.E.C.D. countries. There was no doubt about the availability

(1) - As a matter of fact they used the term recycling.

of funds for the O.E.C.D. countries as a group. And the United States evidently wanted O.E.C.D. countries to look "within the family" for financial help, even though the credit risks would have to be borne by the O.E.C.D. governments, to shift the credit risks to OPEC could have made the western O.E.C.D. nations beholden to OPEC financial assistance"⁽¹⁾.

Secondly, oil producers were to be excluded from managing the bank.

The proposal did not get off the ground for several reasons: Given the U.S. position⁽²⁾ and her self confessed aim of breaking the "OPEC cartel", OPEC members were very suspicious of going along with any U.S. proposals.

The proposal excluded oil producers from the management of the bank: oil producers were to be invited when capital contribution was to be made but they were to be excluded when the council of the bank was to discuss capital commitments.

The bank's function was to reshuffle petro-dollars to western oil consumers only, thus ignoring the case of Non-oil Developing Countries (N.O.D.C.). However, the last quarter of 1974 was the period when the OPEC, under the pressure of Algeria, was trying to secure the Third World's support by putting the "oil crisis" into a world wide struggle for a New International Economic Order (N.I.E.O.).

The British Proposal : The I.M. Oil Fund

Through her Chancellor of the Exchequer, Mr. Denis Healey, Great Britain proposed an I.M.F. oil surplus fund whose capital would be around 6bn. and 12bn. dollars. This is perfectly in line with the attitude of Great Britain which wanted to solve its "oil deficit" by borrowing either from the market, from the oil producers directly, or from any other institution. Willing to win the oil producers' agreement, Great Britain suggested an increase of their I.M.F. quotas. The result was that another version of the British proposal was adopted: The I.M.F. Oil Facility.

(1) - G.A. Pollack, "Are the Oil Payments Deficits Manageable?" op. cit. p.7.

(2) - The International Energy Agency (I.E.A.) was created by the U.S.A. which also threatened to intervene militarily in the Middle East and take over oil wells.

It is worth noting that neither France nor Japan came up with similar proposals. France was against the creation of any western oil consumers' front. She thought, quite rightly, that such a front would lead to a state of confrontation, or rather would worsen an already bad situation. This explains why she stayed out of the I.E.A. Nearly all Japan's oil imports come from the Middle East and therefore Japan did her best to avoid making any "faux pas".

However, what is more striking is that no developing country or Third World organisation came up with a concrete proposal. For instance, the secretariat of the Organization of African Unity (O.A.U.) had no more than:

"taken a keen interest in various proposals made by western countries to recycle vast accumulated reserves of the Middle East producers."⁽¹⁾

It was not enough. However, the fact is that none of these proposals was adopted. Unexpectedly, the solution was found in the ability of the market and a reformed British proposal undertaken under the auspices of the I.M.F. Petro-dollar surpluses were, and still are, reshuffled through two main channels: international financial institutions on the one hand, and international private financial institutions on the other. However, before considering the reshuffling in itself, it could be interesting to present the Arab World's International Reserves.

SECTION I - COMPOSITION OF THE ARAB WORLD'S INTERNATIONAL RESERVES.

By international reserves we mean holdings of gold, S.D.R. and foreign exchange (F.E.). Foreign exchange is defined according to the I.M.F.⁽²⁾ that is holdings by monetary authorities (central banks, central currency boards, exchange stabilization funds and treasuries to the extent to which they perform similar functions) of claims on foreigners on the forms of bank deposits, Treasury Bills, short and long-term government securities and other claims usable in the event of a B.O.P. deficit, including non-marketable claims arising from inter-central banks and inter-governmental arrangements, without regard to whether the claim is denominated in the currency of the debtor or the creditor.

(1) - E.C. Chibwe, "Arab Dollars for Africa", Croom Helm Ltd., London. 1976, p.51.

(2) - International Financial Statistics (I.F.S.), September 1976, p.4.

The Arab World's International Reserves are compiled in the subsequent table.

TABLE 27 : Arab Countries' International Reserves in 1970 and 1976^x

(Units in millions)

Items & Periods	GOLD		SDRS		Foreign Exchange		Total I.R.	
Countries	1970	1976 July	1970	1976 July	1970	1976 July	1970	1976 July
Algeria	191	220	14	49	101	1,314	339	1,620
Bahrain	8.3	6	nil	nil	62.8	388.7	71.1	405.9
Egypt	93	97	nil	9	74	228	167	334
Iraq	143.5	164.6	nil	32.1	263.7	2,669.7	462.2	2,897.7
Jordan	27.9	32	2.7	8.5	228.9	449.2	255.6	496.3
Kuwait	86.2	182.1	nil	nil	83.4	800.6	203.3	1,831.1
Lebanon	287.5	376.9	nil	nil	95.5	1,199	385.5	1,578.5
Libya	85	98	nil	nil	1,499	2,391	1,590	2,496
Mauritania	nil	nil	1.7	1.7	1.5	97.2	3.2	98.9
Morocco	21	24	nil	15	119	401	140	440
Qatar ^x	6.5	7.6	nil	nil	11.3	75.8	17.8	98.6
Saudi Arabia	119	124	nil	nil	520	21,818	662	24,587
Somalia	nil	0.1	0.6	4.9	16.8	75.5	21.1	85.3
Sudan	nil	nil	0.1	0.7	26.1	25.1	21.7	25.8
Syria ^x	28	35	nil	8	27	1,160	55	1,205
Tunisia	4.4	5.2	nil	11.4	55.2	320.6	59.6	351
Y.A.R. ^{xx}	nil	nil	2.6	2.5	121.3	595.4	126.9	600.7
Y.P.D.R. ^{xxx}	0.6	0.7	1.7	4.3	53.3	50.2	59.3	54.7
Total A.C.	1,101.9	1,372.2	23.4	147.1	3,358.3	34,059	4,640.3	39,206.5
France	3,532	4,056	171	220	1,252	4,208	4,960	9,353
W. Germany	3,980	4,721	258	1,873	8,455	23,960	13,610	32,990
U.S.A.	11,070	11,030	850	2,320	630	860	14,490	17,780
Iran	131	150	1	70	76	6,992	208	8,426
Nigeria	20	23	17	70	174	5,376	222	5,852
Venezuela	384	448	48	144	472	6,150	1,021	7,285

x - Source compiled from I.F.S. September 1976.

x - Figures of first quarter 1975.

xx - Figures of 1973

xxx - Figures of December 1975.

By presenting such a table we hope to achieve two objectives. First to have an idea about the composition of the international reserves in real terms of individual Arab countries, that is the relative weight of gold, S.D.Rs. and Foreign Exchange. For this purpose we shall undertake an inter-Arab countries' comparison on the one hand and on the other hand the Arab World as a whole shall be compared to some OPEC and O.E.C.D. countries. Second, to have a picture about the geographical "concentration" if there is any, of the pétro-dollars within the Arab World. This "concentration" might help explain current investment policies of the Arab World and could even help us shape our suggestions concerning future investment policies. This table deals with the 1970-76 period. Although most people writing on the subject take 1973 as "floor year", we opted for 1970 because at that time no Arab or OPEC country started benefiting from increased oil revenues. The first country to do so was Algeria which nationalized French oil interest in 1971. Fiscal 1976 was chosen for the sake of having up to date data. Let us then consider the table by comparing, first, Arab and non-Arab countries.

SECTION I - 1 : COMPARISON OF ARAB AND NON-ARAB COUNTRIES' INTERNATIONAL RESERVES

By non-Arab countries we mean two different groups of countries.

Firstly, three western industrialized countries: the U.S.A., West Germany and France. Our criterion is that they are the three leading western countries. Japan is obviously not a western country and Great Britain and Italy were excluded because they were badly hit by the "oil crisis". The present "financial health" of the last two countries does not seem, in our opinion, to be representative.

Secondly, three main oil producers: Iran, Nigeria and Venezuela. The reason for their inclusion is just to find out what our "Next-door neighbours" are doing.

For the three groups the same trend appears: the Arab World's total international reserves jumped from just over 4.5bn. dollars to over 39bn. dollars or more than eight times from 1970 to 1976. The international reserves of our developed countries increased from 30bn. to 60bn. - they doubled. This upswing has surely to do with the

Martinique Summit which led to O.E.C.D. countries evaluating their gold reserves at market prices (cf. Chapter II). The combined international reserves of the three other OPEC members passed from less than 1.5bn. to more than 21.5bn.

After comparing the increases of the international reserves of the three groups one has to consider the composition of those very international reserves. It appears that Foreign Exchange constitutes the majority of the international reserves for every group. In 1976 Foreign Exchange represented 85% of the international reserves in the case of the Arab World; 66% in the case of the developed countries⁽¹⁾ and 86% for the third group. Next to Foreign Exchange is Gold and S.D.Rs. come last and third.

From the point of view of the international reserves' composition, the Arab World's behaviour is not different from that of both leading industrialized and other OPEC countries. However, in so far as our subject is concerned, an intra Arab World comparison has to be undertaken.

SECTION I - 2 : INTER-ARAB COUNTRIES' COMPARISON

The Arab World, taken as a whole, witnessed an increase in its international reserves; however, taken individually, the Arab countries did not register the same rate of increase in their international reserves. Most of the increase was due to oil producing countries' international reserves: Algeria, Bahrain, Iraq, Kuwait, Libya, Saudi Arabia and even the U.A.E. although they are not included in Table 27. Lebanon and Syria took advantage of the oil exports too. Moreover, increases differ even from one oil producer to another. For instance, Qatar's international reserves increased from 17.8m. dollars in 1970 to 98m. in 1976: more than 500%. Percentagewise, that increase is important; however it is still very insignificant compared with the "financial giant" of the Arab World: Saudi Arabia whose international reserves jumped from 662m. dollars in 1970 to \$24,587m. in 1976. That

(1) - The figure concerns only France and West Germany. This is so because of the actual characteristics of the I.M.S. The U.S.A. is a special situation since she has to keep most of her international reserves in gold (62%).

is more than thirty-seven times the level of 1970, whereas the average increase for the Arab World was just eight times.

As far as international reserves are concerned the importance of Saudi Arabia is outstanding. In July 1976 its international reserves account for around 64% of the total Arab World's international reserves. The international reserves of the main five Arab oil producers⁽¹⁾ - Saudi Arabia, Kuwait, Iraq, Libya and Algeria - were 33,431.8m. dollars or more than 85% of the total Arab World's international reserves. Arab countries keep most of their international reserves in foreign exchange; the causes and implications of such behaviour will be assessed later on. However, one has still to consider the importance of Gold and S.D.Rs.

A - Arab Countries' Gold Holding⁽²⁾

A couple of reasons militate for the Arab countries increasing their holdings in gold.

Firstly, most of them are still, financially speaking, conservative, in the sense that they are characterized by a great aversion to risk, and for this type of investor gold has always appeared to be a riskless "investment".

Secondly, gold has always played an important part in the day-to-day life of the Arab society as a whole.

Thirdly, Arab countries have been shaken by the successive devaluations of the U.S. dollar and the Pound Sterling during the late 1960s. to early 1970s.

However, one should be aware of the meaning and implications of an increased gold holding on the part of the Arab World in general and Arab oil countries in particular. In other words, it means that part of the petro-dollars is invested in gold. What would be the implications if Arab oil countries invested the bulk of their petro-dollars in gold. It would mean linking their wealth to the price of gold. In practical terms it also implies "pegging the price of oil to

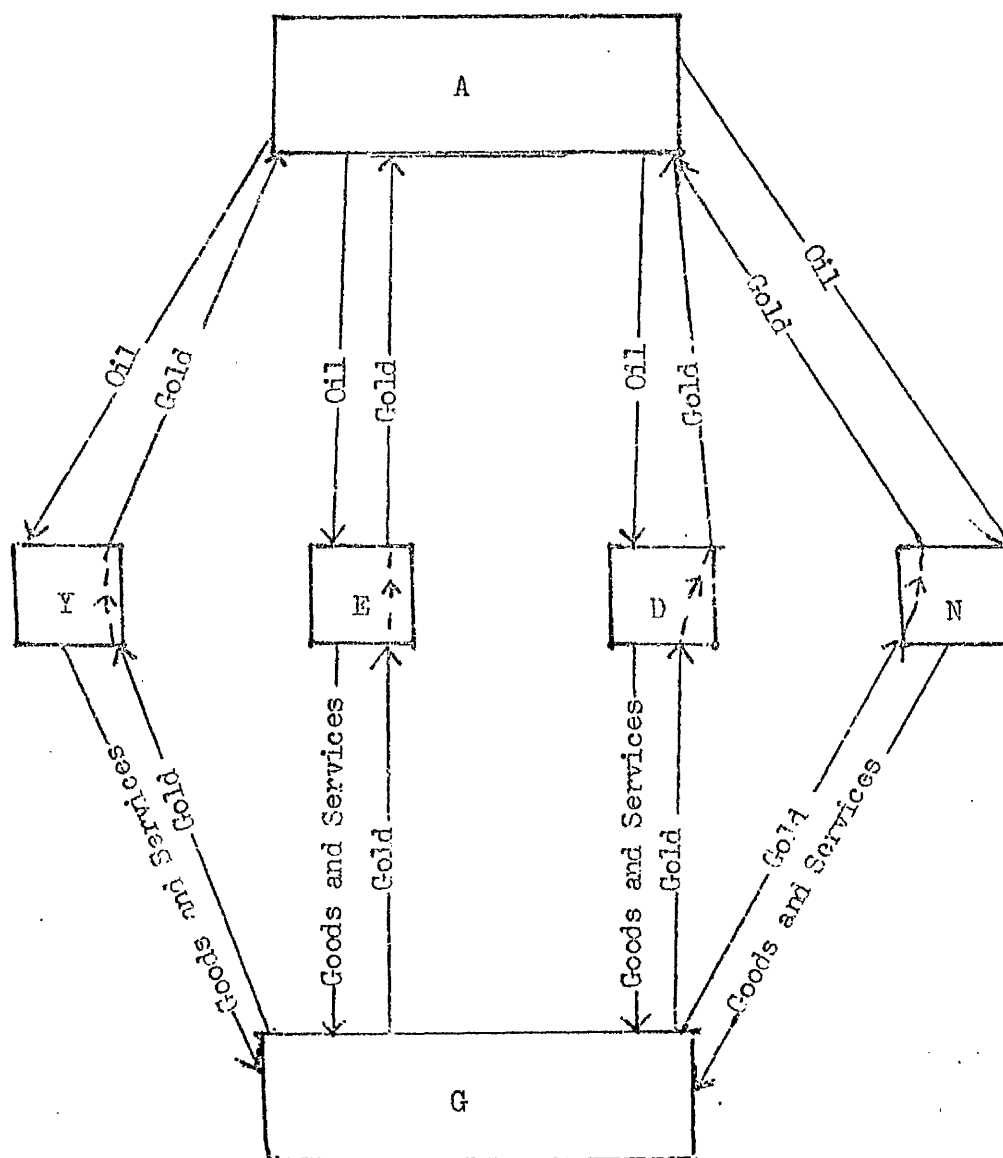
(1) Those are the countries we defined as the rich ones on the "have" in Chapter I, Section II.

(2) In the following part we are indebted to Jan Tumlir "Oil Payments and Oil Debt and the Problem of Adjustment, in "The Economics of the Oil Crisis", edited by T.M. Rybczynski, published by MacMillan for The Trade Policy Research Centre, London, 1976.

the price of gold. In such a situation and under a Gold Exchange Standard, the oil importing countries could not escape through inflation the real payment obligations. However, the Gold Exchange Standard is over, but in spite of that let us suppose that it is still "en vigueur". This presupposes a fixed and stable price of gold on the one hand. On the other hand the demand for oil being characterized by a low price-elasticity and a high income elasticity, the central bank of the oil importing countries would be soon emptied of their gold stocks. Consequently their demand for gold will increase. But the gold mining industry being characterized by high mining costs the World price of gold - and that of oil - would ultimately soar. This means the end of our gold based monetary system.

Let us even suppose that our gold based monetary system could still work. At this stage one has to ask whether gold holdings constitutes the ultimate result of a real or a financial transfer. It is commonly considered as financial transfer; consequently Arab oil countries will become a new type of "conquistadors" who mixed up acquiring and thesaurising gold and national wealth. Gold is thesaurised because Arab oil countries are characterized by a low absorptive capacity. The problem of absorptive capacity will be treated in the fourth chapter. Finally since gold is just a financial transfer one ought to consider how the flow of real transfer is going to occur. In the first stage we should witness a transfer of gold from oil importing to oil exporting countries. However, although for the O.E.C.D. countries which enjoy high gold reserves, they would not account for more than a marginal share of the oil bill. This is very much in line with what we wrote when the use of international reserves was considered in Chapter II. However, if OPEC countries keep on asking for gold and since the oil payments are bound to last many years; oil importing countries will have to earn new quantities of gold through export surplus vis-à-vis the gold producing countries. Ultimately we shall have the following scenario where A represents Arab Oil Countries and therefore the Arab World, Y Japan, E European Countries mainly France, West Germany, United Kingdom and Italy, N Non-oil Developing Countries and G the Gold producing and exporting countries.

TABLE 28 : Oil Revenues Invested in Gold and International Transfers.



According to the table all downwards flows are real transfer because they represent Arab countries' oil export to Y, E, D and N and that latter export of goods and services to G in the purpose of earning gold from it. One can go one step further and maintain that Y, E, D and N's strategy would be to achieve a trade surplus with G that would help restore their B.O.P. equilibrium with A. On the other hand, the upwards flows are financial transfer and ultimately end up with A.

If Y, E, D and N manage to achieve a trade surplus with G equal to their trade deficit with A, no reshuffling process is needed because the oil importing countries have efficiently completed their adjustment process. However, such a satisfactory situation is a function of the absorptive capacity of G that is mainly the U.S.S.R. and South Africa on the one hand and on the other hand a function of the physical capacity of Y, E, D and N to satisfy quantitatively and qualitatively the very needs of G. Furthermore their export proceeds so earned must equal their respective oil induced B.O.P. deficit. Given the actors concerned, particularly N, it is very unlikely that such an ideal situation would ever occur. Consequently a reshuffling mechanism must be worked out. Here one is left with two ways. If Gold is kept within A the latter open up credit to those countries unable to achieve a B.O.P. surplus with G⁽¹⁾. On the other hand, if gold is rechannelled from A to Y, E, D and N, or even an outside institution/s the reshuffling process will involve only those countries and the outside institution/s if there is any.

We shall go no further before considering whether, the basic assumption, that is Arab Oil Countries investing their surpluses in gold, materialized. As a matter of fact it seems that in spite of the above mentioned reasons official gold holdings of the Arab World were not commensurate with the increase of their international reserves.

From 1970 to 1976 the Arab World's gold holding increased by no more than 20% rising from 1,101.9m. dollars to 1,372.2m. However, these figures take into consideration only official holdings and if we were to add private holding to it the conclusions might be different.

In 1970 four Arab countries, Mauritania, Somalia, Sudan and Y.A.R., did not hold gold. The situation seemed similar in 1976 with the exception of Somalia holding a negligible amount of 0.1m. dollars. In so far as the Arab oil producing countries are concerned, the increase of their gold holding was less than proportional to the total increase in their international reserves. Their combined gold holding passed from 633m. dollars to 794m. during the period concerned, that is an increase of no more than 21%.

(1) - This is R.C.O. Matthews' suggestion, cf. Chapter II.

According to some oral reports, Arab oil producing countries were considering whether to invest some of their newly acquired wealth in gold. According to one oral report the move was to be carried out through Swiss banks. Their abstention could have an impact on gold's future role in any new International Monetary System. As far as the latter is concerned a clearer picture shall appear when the Arab World's S.R.D. holdings are considered.

B - Arab Countries' S.D.R. Holdings

In 1970 only seven Arab countries (Algeria, Jordan, Mauritania, Somalia, Sudan, Y.A.R. and Y.P.D.R.) held S.D.Rs. The total amount was 23.4m. dollars, with Algeria holding the bulk of it: 14m. dollars or around 60% of the total holding. It is worth noting that of these seven countries Algeria is the only oil producer.

In 1976 only six Arab countries did not hold S.D.Rs.: Bahrain, Kuwait, Lebanon, Libya, Qatar and Saudi Arabia. All of them, except Lebanon, are oil producers. In that year the total holding was S.D.R. 147.1m., that is more than seven times more.

However, the total combined S.D.R. holding of the three industrialized countries passed from S.D.R. 1,279m. to S.D.R. 4,413m. in 1976. In other words they multiplied their holding by 3.5. In 1976 the Arab World holding was just thirty times less than the combined holding of the three industrialised countries and just less than 50% of the combined holding of the three other OPEC members. The latter increased their holding from S.D.R. 66m. in 1970 to S.D.R. 284m. in 1976. This means an increase of 430%.

It appears that compared to both groups the Arab World's S.D.R. holding is lagging far behind. It would be interesting to find out the implications of such a situation as far as future developments of the I.M.S. are concerned. For instance, Libya, Kuwait and Saudi Arabia did not have any S.D.R. at all. The least one can say is that such behaviour is not strengthening the role of S.D.R. within the I.M.S.

From this broad picture of the Arab World's international reserves it appears that most of the combined holdings are kept in Foreign Exchange. The percentage was as high as 88% in 1976. However the term Foreign Exchange covers a wide range of items. It includes different currencies and several types of claims denominated in

different currencies. In our present circumstances the main currencies likely to be held by Arab oil countries are the U.S. Dollar, the Deutschmark, the Japanese Yen, the Pound Sterling, the Italian Lira and finally the Swiss and French Francs. These are the so-called hard currencies. It will be interesting to consider the structure of the foreign exchange reserves of the Arab oil countries.

SECTION I - 3 : STRUCTURE OF THE ARAB OIL COUNTRIES' FOREIGN EXCHANGE RESERVES

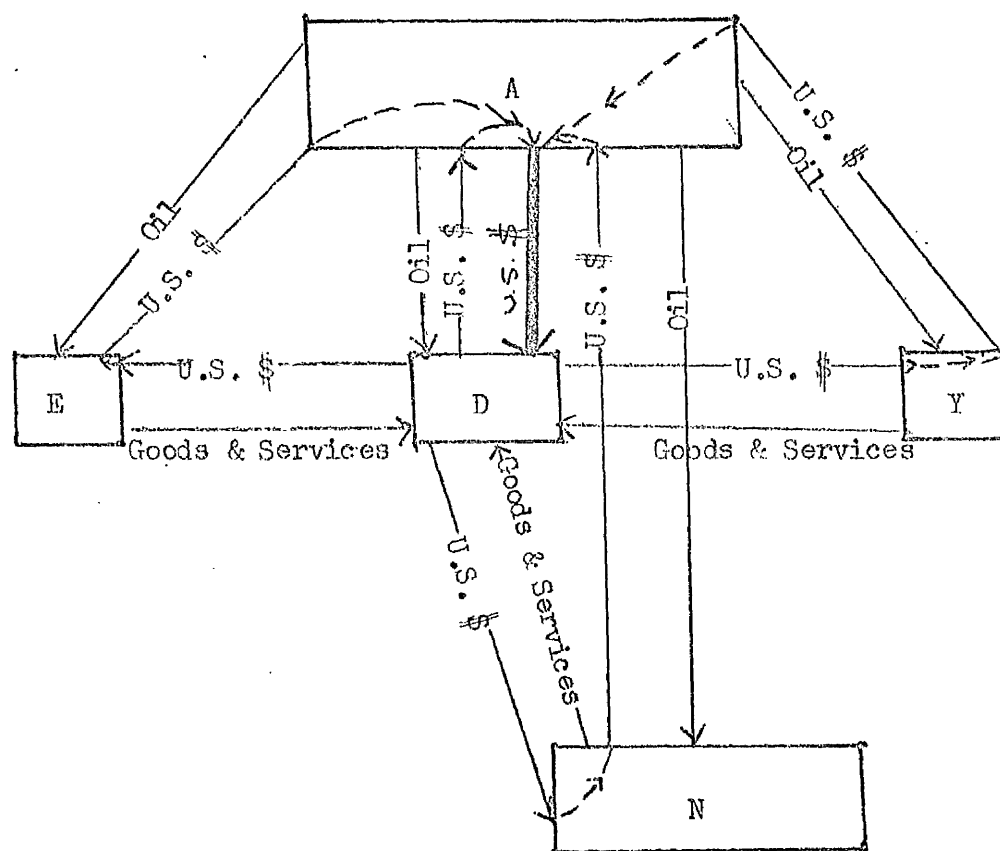
The structure of the foreign exchange reserves is important because in practical terms it is the very beginning of the reshuffling process. It also shows the direction of this very process. As shown earlier, the bulk of the oil revenues not spent on imports is held in financial assets. It follows that the oil producing countries have a choice between several currencies that will be used either to denominate their claims or to hold their liquid assets. Let us, ~~now, consider~~ ~~previous~~ Table 29 (Page 103) and assume that A has no preference whatsoever between the various foreign currencies and decides to hold all its export surplus with the U.S.A. in the U.S. Dollar, with Japan in Yen and so forth. It follows that there is no need to devise any reshuffling scheme for the countries whose currencies are held by Arab oil countries. Those countries happen to be the major O.E.C.D. members. In practical terms it means that Arab oil countries opened up unlimited credit to the latter countries. This credit is commensurate only with their oil-induced B.O.P. deficit.

Now what about the countries whose currencies are not accepted and held by Arab oil countries, that is the N.O.D.C. In this case Arab oil countries can lend to them either directly or through a third party.

However, the previous assumption is not wholly true because Arab oil countries do have preferences even between the hard currencies. As a matter of fact they prefer the U.S. Dollar principally and up till recently the pound sterling marginally, but for the sake of clarification let us suppose that they have an exclusive preference for the former. By taking the same countries⁽¹⁾ we end up with the following table showing the different flows.

(1) - Gold producing and exporting countries are excluded from the scenario.

TABLE 29 : Oil Revenues Held in U.S. Dollars and International Transfers.



If E, Y and N were certain that A would indefinitely hold its extra proceeds in liquid reserves and specifically in the U.S. Dollar they would, with the help of D, keep on borrowing from D with the latter printing paper money. This would put in D's hand a strong means of pressure on Y, E and N because lending has always been a discretionary operation, except this fact nothing would happen: D, E and Y and N's other bill would become a matter of money printing and book-keeping exercises. However such a situation is unlikely to happen because E, Y and N cannot be expected to accumulate indefinitely foreign debts. Therefore they must earn D's currency by experiencing a positive trade balance with D. As shown by our previous table our World trade would imply a flow of financial transfer from E - Y, D and N to A but ultimately a steady flow of commodities to D from E, Y, N and also A.

As a matter of fact in a second stage the financial transfer, equivalent to the extra proceeds, goes from A to D. Such a scenario is feasible only if D records an economic boom and does not deflate or take restrictive trade measures against E, Y and N.

What is the direction of the petrodollars reshuffling process under these circumstances?

First, D's oil induced B.O.P. deficit is automatically financed. This already has been shown in Chapter II Section III.

Secondly, D. receives the whole increased cost of E, Y and N's oil imports in the form of goods and service as shown in the previous table. Consequently only E, Y and N require the setting up of a reshuffling process. We shall not go further because A (Arab oil exporting countries) in investing their extra proceeds used all the options open to them. In the next Section we shall consider the extent and direction of the petrodollars reshuffling through official international financial institutions.

SECTION II - ARAB DOLLARS RESHUFFLING THROUGH INTERNATIONAL FINANCIAL INSTITUTIONS

By international financial institutions we mean mainly the I.M.F. and the World Bank. However only the case of the former shall be presented, because that institution reshuffled a bigger slice of the Arab dollars than the International Bank for Reconstruction and Development (I.B.R.D.). This deal also attracted more attention of the World opinion. This could be explained by the stature of the I.M.F. itself.

The deal was known as the I.M.F. Oil Facility (O.F.). First we shall present the scheme, then consider the Arab World contribution to it and finally tackle the problem of its implications, especially with regard to Arab and N.O.D.C. countries.

SECTION II - 1 : CHARACTERISTICS OF THE I.M.F. OIL FACILITY SCHEME

From the beginning it was clear that the operation would have a short life, only for 1974 and 1975. The O.F. can be considered from three angles:

Firstly, the formula calculating the access of capital-needy countries.

Secondly, under what conditions a country is entitled to accede to the O.F.

Thirdly, the rates of interest charged.
The I.M.F. operated two schemes: our approach will be to present both by comparing one with the other.

Access to the O.F.

For the 1975 O.F. the I.M.F. came up with two different ways of calculating two maxima: either 125% of the member quota in the Fund or 85% of the additional oil bill for that year. The oil bill was calculated as follows: either the oil import for 1972 or 1973 whichever was the higher multiplied by 7.5 dollars per barrel.

"This new formula gives greater weight to a member's quota in calculating total access and de-emphasizes oil import, as compared with the formula for the O.F. for 1974, which included 100% of the calculated rise of its oil import cost and only 75% of the member's quota".⁽¹⁾

The 1975 O.F. differs in two respects from the previous one:

Firstly, a country's international reserves were not taken into consideration, whereas in 1974 up to 10% of the international reserves were deducted from the maximum access.

Secondly, the I.M.F. introduced a lower-floor below which a country's maximum could not drop. This lower limit was either one third of the additional oil bill or the maximum access as defined by the 1974 O.F.

Conditionality of the O.F.

A tougher policy was introduced in 1975:

"under the O.F. for 1975 ... a member country will not only have to describe to the Fund its policies to achieve medium-term solutions to its B.O.P. problems, but the Fund will also have to assess these policies and find them adequate before the member country can make drawings under the O.F."⁽²⁾

(1) - I.M.F. Survey, 11 August 1975, p. 107.

(2) - I.M.F. Survey Ibid.

Furthermore, two other conditions were set, but were not subject to any assessment by the Fund.

Firstly, any policy aiming at conserving oil and developing alternative energy resources was to be described.

Secondly, any member country willing to take advantage of the O.F. had to avoid introducing or intensifying import restrictions. This point has been stressed in Chapter II.

Interest rates charged.

A comparison of both schemes is compiled in the following table:

TABLE 30⁽¹⁾ : O.F. Interest Rates Charged for 1974 and 1975

Lease O.F.	0-3 years	3-4 years	4-7 years	Average year Charge
1974	6 $\frac{7}{8}$ %	7%	7 $\frac{1}{8}$ %	7%
1975	7 $\frac{5}{8}$ %	7 $\frac{3}{4}$ %	7 $\frac{7}{8}$ %	7 $\frac{3}{4}$ %

Source: Compiled from I.F.S. op. cit.

Interest rates were higher in 1975 than in 1974. However, the 1975 O.F. left a margin of 0.5% for the Fund enabling it to cover its O.F. expenses.

These are the terms under which the O.F. schemes operated. However, given our topic we have to find out the amount of petrodollars reshuffled through this channel. We shall do so by considering the Arab World's and OPEC's financial contributions to both schemes.

SECTION II - 2 : THE ARAB WORLD'S CONTRIBUTION TO 1974 AND 1975 O.F.

It is true that only some Arab oil producers contributed to O.F. but we shall consider such a contribution under the title of the Arab World's contribution. This contribution is contained in the

(1) - Compiled from I.M.F. Survey Ibid.

subsequent table (p. 108).

The Arab countries' participation in both O.F. is very important. It amounted to 50% of the total contribution to the 1974 O.F. and less than 40% of the 1975 O.F. However, if one subtracts the S.D.R. 461m. remaining from the 1974 O.F., the Arab World's contribution to the 1975 O.F. would reach 45.2%. The OPEC's contribution was obviously bigger; 87% in 1974 and 61% in 1975.

One could always find ways and means to show the Arab World's and OPEC's contribution to O.F. For instance, relating the lender's contribution to its quota with the Fund or its international reserves would definitely show a bigger contribution of the OPEC members than the developed countries.

Furthermore, three major industrialized countries, namely U.S.A., Japan and France, did not participate in either of the O.F. schemes.

The OPEC contribution, and therefore the Arab World's can be explained by a kind of moral and political obligation hanging upon them. But there was no legal obligation. However, the fact is that the Arab World did contribute to the oil facility schemes and we have to assess the return of such a contribution.

SECTION II - 3 : ARAB WORLD'S RETURNS DERIVED FROM THEIR CONTRIBUTION TO THE OIL-FACILITY SCHEMES.

By returns we mean the economic and political aims achieved. This can be assessed by considering what countries and to what extent took advantage of the O.F. A country by country breakdown access to the O.F. can be found at the end of this chapter (Appendix III-1) and our conclusions are drawn from it.

Nicholas Fallon⁽¹⁾ divides the borrowers into four categories: Developed Areas, Latin America, Asia and finally Africa. Such a division is not acceptable because N. Fallon moves from an economic-political criterion - development - to a geographical concept (continents). In our approach we opt for the first criterion and

(1) - Nicholas Fallon, "Middle East Oil Money & Its Future Expenditure" Graham & Trotman Ltd. in Great Britain; Russak & Company Inc. in the U.S.A. and Canada, 1975, Table 93 p.189.

TABLE 31 : Borrowing Agreements under the Oil Facility for 1974
and for 1975 (Lending Countries)

Unit : Million of S.D.Rs.		
Lender Countries / Group of Countries	O.F. 1974	O.F. 1975
Abu Dhabi	100	nil
Central Bank of Kuwait	400	285
Central Bank of Oman	20	0.5
Saudi Arabia Monetary Agency (S.A.M.A.)	1,600	1,250
Total Arab Countries	1,520	1,535.5
Central Bank of Iran	580	410
Nigeria	100	200
Central Bank of Trinidad & Tobago	nil	10
Central Bank of Venezuela	450	200
Total OPEC countries	2,650	2,355.5
Austrian National Bank	nil	100
National Bank of Belgium	nil	200
Canada	246.9	nil
Deutsche Bundesbank	nil	600
Netherlands	150	200
Bank of Norway	nil	100
Sveriges Riksbank	nil	50
Switzerland	nil	150
Swiss National Bank	nil	100
Total Developed Countries	396.9	1,500
Grand Total	3,046.9	3,855.5 ⁽¹⁾

Source: I.M.F. Survey, April 5, 1976, p.102 (The dispositions of the table has been rearranged).

(1) - Purchases equivalent to S.D.R. 460.977 million under the 1975 O.F. were financed from borrowing agreements for 1974.

therefore divide the borrowing countries between developed countries and non-oil developing countries. However, in so far as our subject is concerned, we shall at a later stage devote special attention to Arab countries amongst N.O.D.C.

In 1974 the developed countries borrowed S.D.Rs. 1,469.6m. or 57% of the total available. During the following year their share increased to S.D.R. 2,894.01m. or 67% of the funds available for the year. In other words ten developed countries⁽¹⁾ took most of the sum available, whereas forty-seven N.O.D.C. shared the rest.

In 1974 only two Arab countries acceded to the O.F. by borrowing S.D.R. 40.5m. (Sudan borrowed S.D.R. 28,710m., and Yemen P.D.R. S.D.R. 11.8m.). The combined borrowing for both countries is negligible: less than 2% of the total available.

In 1975 five Arab countries⁽²⁾ borrowed S.D.R. 85.32m. or just over 2% of the total 1975 O.F.

Seen from another point of view, for both years only, out of a total of S.D.R. 3,055.5m. lent by Arab countries, only S.D.R. 125.82m. went to needy other Arab countries through the O.F.

From what can be said one can safely maintain that although the bulk of O.F. was financed by OPEC members, only a tiny part of it was reshuffled to other developing countries.⁽³⁾

(1) - cf. Appendix III-1.

(2) - The Borrowing occurred as follows: Egypt S.D.R. 31,680m., Mauritania S.D.R. 5.320m., Morocco S.D.R. 18m., Sudan S.D.R. 18.3m., U.P.D.R. S.D.R. 12.02m.

(3) - In relation to this point one has to mention the special account S.A. or "Subsidy Account" set up by the Fund. Contributions were to be made by oil exporters, developed countries and others able to do so. The aim of the S.A. was: "To reduce the burden of interest payments on O.F. drawing for the 'most seriously affected countries'." by 5% points. Therefore the goal of the S.A. was not to inject more capital into the needy countries but only to reduce the interest ratio from say 7% to 2%. This lacuna was to be corrected by OPEC members when they set up their 800m. dollar Aid Fund.

Another disadvantage is that those Arab loans to the I.M.F. are not inflation-proof, and therefore this means loss. The problem of inflation will be presented in Section III-2 (numerical example) when Arab dollar investments in the Eurocurrency markets will be dealt with.

Another disadvantage can be labelled "manoeuvring a winner". Everyone is conscious about the influence and advantages given by capital-money and its management. One can even go further and state that, given the present international setting, managing capital could be more important than owning it. The S.D.R. 3bn. odds contributed by Arab countries were managed by the I.M.F. and therefore those Arab lenders lost the influence and advantage that would have been derived from their management. However, in spite of all that, contributions to O.F. did not bring only disadvantages to Arab and OPEC lenders.

In our opinion OPEC members were under heavy pressure from western industrialized countries. If these were a kind of "International sociology or sociology of states' behaviour" they would definitely have to recognize the influence of these pressures on OPEC countries.

On the other hand, those OPEC countries did not want to alienate to themselves the backing of N.O.D.C. By contributing to O.F. Arab and OPEC countries hoped to prove two things:

Firstly, that they were responsible members of the International Community; and secondly that they were determined to help the developing countries, themselves being in such a state.

Did they succeed in so doing? Not completely in our opinion. For given the disbursements of the O.F. most of it went to industrialized countries, and Arab countries found themselves in a kind of "vicious circle": the more industrialized countries took from the oil revenue the more L.D.Cs. wanted too.

In concluding this section about O.F. we shall take up the argument widely used in Arab and Third World circles that this scheme was just part of a bigger scheme known as "recycling" whose aim was to deprive oil producers of their revenues. Only such an argument could explain the absence of two Arab countries with surpluses: Iraq, whose oil reserves are said to be able to outstrip Saudi reserves, and Libya the only Arab country able to challenge, if willing to do so, Saudi Arabia financially speaking.

Some argued that this contribution helped the Arab countries to increase their Fund's quotas. This is not true because according to the Fund's status members quotas have to be periodically viewed and according to the Fund's agenda it had to be done in 1974-75.

From another point of view one has to mention that the I.M.F. reshuffled only a tiny part of the OPEC and Arab dollars surpluses; \$7bn. or about 5% of the latter. Consequently this was only of marginal help as far as the oil induced B.O.P. deficit is concerned. The O.E.C.D. countries financed only 3.74% of their B.O.P. deficit through I.M.F. schemes whereas the financing amounted around 12.38% in the case of N.O.D.C. This is for the oil bill of 1974 and 1975.

Consequently since none of the proposals put forward by individual countries were adopted and since the international financial institutions' contributions to the reshuffling process were negligible it means that other channels took the lion's share of the petrodollars surpluses. Some of those channels could be the private financial institutions. In the subsequent section we shall consider the role of those institutions which are not partly or wholly Arab-owned.

SECTION III : ARAB DOLLARS RESHUFFLING THROUGH PRIVATE INTERNATIONAL FINANCIAL INSTITUTIONS.

In this section we shall be concerned with the role played by the Euro-currency and Eurobond markets in reshuffling the petrodollars surpluses. However such a role is a function of the share of surpluses placed in individual markets. Consequently one has to present an estimation of the deployment of the oil producers' surpluses.

SECTION III-1 : DEPLOYMENT OF THE PETRODOLLARS SURPLUSES

Table 32 gives an idea about the placement of OPEC's surpluses in the United Kingdom, the U.S.A., international organisations and other countries. This table contains the following weaknesses. First we know that the term "other countries" means Japan and the West European countries but it would have been better to have the precise figures for each country. Second it considers the OPEC as a whole whereas we are mainly concerned with Arab countries. Consequently

it will not be possible to determine with exact precision the placement of individual Arab countries of their surpluses in the various channels opened to them. However concerning the precise case of the Eurocurrency market Table 33 will shed more light.

Nonetheless, despite these weaknesses, some conclusions can be drawn; and in doing so we shall not go in deep details. It seems that during the 1974- 3rd quarter of 1977 OPEC countries recorded a surplus of \$156.7 billions. This sum was deployed as follows: \$34.5bn. or 22.0% in the United Kingdom, \$42.4bn. or 27.05% in U.S.A., \$70bn. or 44.67% in other countries and finally \$9.8bn. or just 6.25% was deposited with international organisations. However even those figures do not tell the facts because developed countries other than United Kingdom and U.S.A. as well as N.O.D.C. are included under the heading "other countries". As we know a sizeable share of the financial surpluses were invested in U.S. dollars outside the U.S.A. The reshuffling role of such an investment has already been outlined in Chapter II and earlier in this chapter. This leaves us with the conclusion that the share of OPEC surpluses directly or indirectly invested in the U.S.A. is predominant. However, as we have said earlier, the choice of the currencies in which the surpluses are held or claims denominated constitutes the first step of the reshuffling process. The previous table gives the opportunity to consider the extent of such reshuffling in the cases of the United Kingdom and the U.S.A. During the 1974-3rd quarter of 1977 period part of the oil revenues was invested in British Government Stocks, Treasury Bills and deposited in pound sterling. There was a net inflow of \$5.3bn. in 1974 and outflow of \$2.4bn. in 1976. At the end of the period United Kingdom recorded an inflow of \$2.9bn. that helped cushion the oil induced B.O.P. deficit. If one adds the \$0.2bn. received by the British government through foreign currency bonds the figure goes up to \$3.1bn.

The U.S.A. seem to have done better because if one considers the treasury bonds, notes and bills one finds out that \$14.5bn. were reshuffled to the U.S.A. On the other hand \$21.6bn. were invested in the U.S. under the form of holding of equities, properties etc. . It appears that without considering banks deposits the U.S.A. managed to attract \$36.1bn. or 23.03% of the total OPEC surpluses. On the other hand in Chapter II (Table 12, Page 35) we showed that the American

TABLE 32 : Estimated Deployment of OPEC's Surpluses :
1974 - 3rd Quarter 1977

Items	Period	1974	1975	1976	1st Otr	2nd Otr	3rd Otr ^c	Total
United Kingdom								
British GVT Stocks		0.9	0.4	0.2	- 0.1	- 0.1	0.1	1.4
Treasury Bills		2.7	-0.9	-1.2	-	- 0.1	0.2	0.7
Sterling Deposits		1.7	0.2	-1.4	0.2	0.3	- 0.2	0.8
Other sterling Investments (a)		0.7	0.3	0.5	0.1	0.1	0.1	1.8
British GVT Foreign currency bonds		-	-	-	-	0.2	-	0.2
Foreign currency Deposits(1)		13.8	4.1	5.6	2.0	1.4	0.5	27.4
Other Foreign Currency Borrowing		1.2	0.2	0.8	-	-	-	2.2
TOTAL United Kingdom		21.0	4.3	4.5	2.2	1.8	0.7	34.5
United States								
Treasury Bonds and Notes		0.2	2.0	4.2	1.0	1.0	0.7	9.1
Treasury Bills		5.3	0.4	-1.0	1.5	- 1.0	0.2	5.4
Bank Deposits		4.0	0.6	1.6	0.2	- 0.2	0.1	6.3
Others(a)		2.1	6.5	7.2	1.2	2.7	1.9	21.6
TOTAL U.S.A.		11.6	9.5	12.0	3.9	2.5	2.9	42.4
Other Countries								
Bank Deposits		9.0	5.0	7.0	1.5	2.5	2.0	27.0
Special Bilateral facilities and other investments ((a) and (b))		11.9	12.4	10.3	3.3	2.8	2.3	43.0
TOTAL Other Countries		20.9	17.4	17.3	4.8	5.3	4.3	70.0
International Organisations		3.5	4.0	2.0	0.1	0.1	0.1	9.8
GRAND TOTAL		57.0	35.2	35.8	11.0	9.7	8.0	156.7

(a) Includes holdings of equities and property, etc.

(b) Includes loans to L.D.Cs.

(c) Provisional. It is estimated to have been even lower than in the second quarter.

Source: (1974) The Banker, March 1977, p.91.

- 1975 onwards: Bank of England Quarterly Bulletin
Volume 17, No. 4, December 1977, p.442.

(1) Foreign currency deposits in London represent an important part of the Eurocurrency market. Consequently double counting could exist between Tables 6 and 7.

increased costs of oil imports amounted to \$62.2bn. for 1974-77 period. After comparing both Tables⁽¹⁾ we can conclude that around 58.03% of the U.S. oil bill was financed through the reshuffling process. If one suppose that the OPEC surpluses deposited with the U.S. banks in the U.S.A.; \$6.3bn; were also used to cushion the B.O.P. deficit the figure goes up to 68.16% of the oil bills. Only under such circumstances we can understand why the U.S. owned international reserves did not decline during the 1974-77 period (cf. Table 15, Page 41) and why the American government did not feel the need to draw money from the I.M.F. or even to take advantage of the O.F. schemes. These developments are well within the scenario which has been presented in Table 29 (Page 103). This is also very much in line with H.G. Aubrey since he maintained that a reserve-currency country can borrow in an "imperceptible fashion" and does not need the necessity to arrange loans in a case of B.O.P. deficit. If one takes into account the export record of the U.S.A. to OPEC and Arab countries one finds out that the U.S.A. have successfully coped with the new situation.

What about other O.E.C.D. countries and N.O.D.C. countries? Table 32 does not give us the extent and direction of the reshuffling process in the case of each country. The picture is obscure. However we know that OPEC countries deposited part of their surpluses also in west European countries. To illustrate the extent of this geographical deployment we shall take the case of Kuwait which developed several tools to achieve its "world-wide" investment policy. We opt for Kuwait because it was the first Arab and OPEC country to record financial surplus, and started foreign investment as early as 1964. Therefore one expects this country to have the best experience and the most sophisticated tools to implement its policies.

Our opinion is confirmed by the "Financial Times" when writing that the state of Kuwait's reserve:

"at the beginning of 1975 was rather more complex and more diverse than other Middle East countries' reserves."⁽²⁾

(1) In this calculation we did not deliberately take into account the fact that Table 32 goes only to the third quarter of 1977 whereas Table 12 (Page 35) considers the whole 1974-1977 period.

(2) Financial Times Survey- "Middle East Banking & Finance", cf. Article "Where the States Lodge Their Money", F.T. March 24, 1975.

Kuwait used the following financial institutions:

- Kuwait Investment Office which is the Ministry of Finance's representative in London. According to some reports Kuwait's oil revenues go first to this institution before a part of them is channelled to the Ministry of Finance.

- First National City Bank and Chase Manhattan Bank in New York.

- The Swiss Bank Corporation and Union Bank of Switzerland.

These institutions have been used in acquiring stocks from most West European countries.

- Credit Lyonnais in France.

- The Deutsche Bank, the Dresdner Bank and the Commerz Bank in West Germany.

- A further block of the reserve (about 15% of the total) was in bond mostly issued by the Government and government agencies. Arab participation in Eurobonds will be considered in paragraph 3 of this section.

- The remainder was in three blocks of property: Two were managed on the Ministry of Finance's behalf by the Manhattan Bank and Bank of America, and finally the third was managed by the Ministry of Finance.

However, what is the main conclusion to be drawn from the Kuwaiti case? It appears that investments were spread all over western European countries, including Japan. In other words, there is an almost perfect international diversification obviously aimed at an optimum investment or a minimum risk. For F.F. Rassi⁽¹⁾, "the consequence of the diversification of a portfolio is to ensure such a situation that the prices due to factors specific to enterprises and industries compensate or neutralise themselves." However, this does not mean that these investments are riskless since, according to the same author: "...Price variations induced by the market affect all the shares and can not be eliminated by the diversification."⁽²⁾

Stronger criticism will be made at a later stage. However, our immediate interest is to consider the extent and direction of the role played by those banks in the reshuffling process. It is not

(1) and (2) F.F. Rassi, "The Theory of International Diversification and Optimum Use of Petrodollar Surpluses", (Translated from French), *Revue d'Economie Politique*, January/February 1976, Number 1, p.112.

possible to tackle those banks individually. Therefore we shall consider them under the heading of Eurocurrency market. In our opinion such an approach is justified by the fact that the above-mentioned institution constitutes the most active elements of the banks composing that very market.

SECTION III - 2 : ROLE OF THE EUROCURRENCY MARKETS IN PETRODOLLARS RESHUFFLING

A - Arab countries holdings with the Eurocurrency market

This role can be assessed, first, by considering the amount of OPEC surplus placed in it. In doing so we shall consider the external position of the banks of the Group of Ten and Switzerland vis-a-vis the Arab World, cf. Table 33 (117). In this table a full country breakdown is not available for liabilities and assets of banks in Canada, Japan, Switzerland and U.S.A. Positions of banks in these countries have been allocated in the table by the following:

H. - Switzerland, C - Canada, J. - Japan, U. - U.S.A. The liabilities in the U.S.A. exclude U.S. Treasury bills and certificates in custody by the banks on behalf of non-residents. However in the case of the U.S.A. these treasury bills and certificates have already been presented in Table 32 (Page 113) and dealt with. Furthermore, Table 33 contains one limit. It considers Iran that is not an Arab country. However, financially speaking, if one takes the Arab World as a whole Iran's role could be negligible. This holds true especially from 1976 onwards when Iran started borrowing from the Eurocurrency markets.

Before drawing conclusions from this table, two anomalies have to be clarified, namely the cases of Egypt and Lebanon.

Egypt is not an oil exporter on the one hand and on the other hand her external debt is between £10 and £12bn.⁽¹⁾ and by the same token it contributed more than 600m. dollars to the euromarket. The fact is that Egypt is the developing country which took most advantage of the new oil prices: for one reason or another almost every Arab

(1) - Financial Times, January 20, 1977, front page article "Sadat Bows to Demands of Rioters".

TABLE 33 : External Position of the Banks of the Group of Ten Countries and Switzerland vis-a-vis the Arab World in 1975

Liabilities/Assets vis-a-vis		Liabilities	Assets
<u>a - Low Absorbers</u>	J ²		Millions
KUWAIT			
QATAR		24,570	1,163
SAUDI ARABIA			
UNITED ARAB EMIRATES			
<u>b - High Absorbers</u>	J ²		
BAHRAIN			
IRAN			
IRAQ		8,606	3,176
LYBIA			
OMAN			
ALGERIA	J	1,285	1,383
<u>c - Other Arab Countries</u>			
EGYPT	JU	1,521	914
JORDAN		414	56
LEBANON		2,515	390
MAURITANIA		56	6
MOROCCO	U	537	74
SOMALIA		74	7
SUDAN		141	254
SYRIA		775	35
TUNISIA		286	25
YEMEN A.R.		235	5
YEMEN P.D.R.		84	-
RES IDUAL ³	HCJU	6,523	1,294

Total Arab World

47,622

8,782

2 - Include positions of Japanese Banks vis-a-vis Kuwait, Saudi Arabia U.A.E., Iran, Iraq and Lybia only

Source: Compiled from the Bank of International Settlements, Forty-sixth Annual Report, (1st April 1975 - 31st March 1976), Basle, Switzerland, June 14, 1976, p.87.

oil exporter gave grants or easy loans to Egypt. In our opinion, Egypt was just keeping that money with international banks before spending it. Another figure corroborates our view. According to Table 27 (Page 94) Egypt's international reserves were no more than 334m. dollars in July 1976.

The second case is Lebanon which contributed more than 2bn. dollars to the eurocurrency markets. This is due to the role played by Beirut in the realm of Arab international finance. Beirut has always been the place where Arab individuals, mainly from Kuwait and U.A.E. kept their private fortunes. However, those fortunes were channelled towards the eurocurrency markets and, according to the B.I.S., "Lebanon's role was mainly that of a channel for funds from Middle Eastern oil producer countries to the banks of the Group of Ten."⁽¹⁾ In our opinion had it not been for the Lebanese civil war the amount would have been much larger. Without encroaching on the next chapter one can say that Beirut's function is similar to Manama's role (Bahrain).

Furthermore, the fact that every Arab country, including the poorest ones, is connected in one way or another to international capital markets, is not a surprise, because even the so-called Eastern Block maintains relations with the international capital market.

The main conclusion to be drawn from Table 33 is that the Arab World's contribution to the E.C.M. (Eurocurrency Market) was around 39bn. dollars for 1975. However, considering the Arab World as a whole could be misleading. A country by country approach is necessary. Such an approach reveals that this contribution comes mainly from the oil producers excluding Algeria. They are listed under items (a) and (b) of Table 33. If one accepts the assumption that Lebanon's contribution offsets Iran's, the Arab oil exporting countries' (different from OAPEC) contribution to the market was 38.8bn. dollars (liabilities minus assets).

The next logical question is to find out how these \$39bn. dollars were reshuffled between oil importing countries.

(1) B.I.S. Forty-sixth Annual Report, op. cit. p.89.

B -- The Reshuffling of Arab Countries' Holdings with the Eurocurrency Market

This reshuffling shall be assessed by considering what countries or group of countries recorded such borrowing from the Eurocurrency Market. Such information is contained in the next table that considers the sources and uses of Eurocurrency funds at the end of 1975.

Without going into great details it appears that, at the end of 1975, the net borrower groups are:

- The Reporting European Area with 16.5bn. dollars,
- Other Group of Ten Countries (G.10) with 13bn dollars,
- And finally Eastern Europe with 10.5bn. dollars.

These figures were obtained by subtracting "sources" from "uses". It is worth noting that the combined net borrowing of the three above mentioned groups equals 40bn. dollars, or, in other words, the very amount contributed by the Arab World and Iran. It has been argued that the Eurocurrency Market reshuffled Arab dollars to needy Arab countries. It cannot be so for two main reasons.

Firstly, according to Table 33 it is quite clear that the Arab countries, and therefore the Arab World as a whole, have not borrowed from the Eurocurrency Market.

Secondly, according to Table 34 the developing countries group to which all the L.D.C. non-oil producing countries belong, borrowed no more than 3.3bn. dollars until December 1975; 16.2bn. originated from them and they used 19.5bn. dollars. Therefore it is clear that the Eurocurrency Market is financing the developed countries or, in other words, taking coal to Newcastle. At this stage we shall not consider the logic behind this behaviour, however one has to recognize that from 1974 onwards the Eurocurrency Market's function has been to finance B.O.P. deficits and it happens that the industrialized countries enjoy a high rate of solvency. On the other hand our purpose will be to clarify the following question: What advantages does the Arab World as a whole derive from such a situation?

TABLE 34 : Estimated Sources and Uses of Euro-currency Funds

(Billions of U.S. Dollars)

End of month	Reporting European area		Other G-10 countries	Other developed countries	Eastern Europe	Off-shore banking centres ³	Oil-exporting countries ⁴	Developing countries	Un-allocated	Total
	Total ¹	of which Non-bank ²								
Uses										
1973 Dec. .	49.0	29.5	26.2	14.7	7.4	12.7	14.3		1.7	132.0
1974 Dec.I.	61.9	41.0	36.4	20.2	9.8	26.7	3.5	15.7	2.8	177.0
Dec.II	61.5	41.3	36.4	20.4	9.8	26.7	3.5	15.7	3.0	177.0
1975 March	64.3	44.3	35.5	21.7	11.9	29.4	3.8	15.8	3.6	186.0
June .	63.6	45.0	36.3	24.3	12.6	30.5	4.3	16.8	3.6	192.0
Sept. .	62.1	43.2	37.9	23.9	13.5	33.0	4.8	17.5	3.3	196.0
Dec. .	63.0	43.6	36.7	25.8	15.6	35.6	5.3	19.5	3.5	205.0
Sources										
1973 Dec. .	50.8	27.5	19.3	17.7	3.7	12.5	24.6		3.4	132.0
1974 Dec.I.	68.5	36.9	20.5	18.4	5.1	17.8	29.1	15.5	2.1	177.0
Dec.II	67.6	36.2	20.6	18.5	5.0	17.8	29.1	15.5	2.7	177.0
1975 March	73.0	37.8	21.3	17.8	4.5	18.2	31.8	16.1	3.3	186.0
June .	75.7	36.5	21.4	18.3	3.7	21.3	32.5	16.1	3.0	192.0
Sept. .	77.3	38.0	23.2	19.4	4.5	20.5	32.3	15.5	3.3	196.0
Dec. .	79.5	38.5	23.7	19.9	5.1	21.8	34.6	16.2	4.2	205.0

¹ Includes: (a) under "Uses", the banks' conversions from foreign currency into domestic currency and foreign currency funds supplied by the reporting banks to the commercial banks of the country of issue of the currency in question (such as DM funds deposited with German banks); (b) under "Sources", deposits by official monetary institutions of the reporting area, the banks' conversions from domestic into foreign currency and foreign currency funds obtained by the reporting banks from the banks in the country of issue of the currency in question (such as funds received in Deutsche Mark from German banks). ² On the sources side including trustee funds to the extent that they are transmitted by the Swiss banks to the other banks within the reporting area and to the extent that they are not reported as liabilities vis-à-vis non-banks outside the reporting area by the Swiss banks themselves. ³ Bahamas, Barbados, Bermuda, Cayman Islands, Hong Kong, Lebanon, Liberia, Netherlands Antilles, New Hebrides, Panama, Singapore, Virgin Islands, West Indies. ⁴ Algeria, Bahrain, Brunei, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad and Tobago, United Arab Emirates, Venezuela.

Source: B.I.S. op. cit. p.83.

C - Arab World's advantages and disadvantages from Eurocurrency

Market Reshuffling of Petrodollars.

The problem of advantages and disadvantages to oil producers from their financial investment has been tackled by several people, such as Haim Levy and M. Sarnat. Their paper analyses the behaviour of the Middle Eastern Oil Producer countries:

"in terms of a ... two-period portfolio model which hypothesises that the countries in question seek the optimal solution to the problem of diversifying their assets between oil reserves in the ground and other non-petroleum investment alternatives."⁽¹⁾

- (1) - Haim Levy and Marshall Sarnat, "The World Oil Crisis: A Portfolio Interpretation", Economic Enquiry Volume XIII, September 1975, p. 362. Most of their arguments will be taken up in this part of Section III.

From this point of view Arab oil producers are faced with economic "danger" and political disadvantages.

- Economic Danger for Arab Oil Investments.

From an economic point of view, the common danger is inflation. This danger can be found throughout all our research and therefore we feel the need to stress it.

Considering the case of inflation, the authors concluded that it is better for the oil producers to have oil in the ground than financial investment. The reason is that:

"The rate of return on financial investment in the developed countries is imperfectly correlated with inflation and as a result, the upward adjustment of minimal interest rates tends to lag behind the rise of prices."⁽¹⁾

The magnitude of the loss can be illustrated by the following numerical example. Say an Arab oil producer earmarks 10 dollars for financial investment with a rate of interest (r) equalling 7% per annum (e.g. Oil-facility) at the end of the year that country will receive:

$$Y1 = 10 (1-r) = 10(1 - 0.07) = 10(1.07) = 10.7 \text{ dollars.}$$

However, if that investment was to have an inflation-proof investment the rate of inflation has to be considered. Say the rate of inflation (g) is 14% per annum at the end of the year that country would receive:

$$\begin{aligned} Y2 &= 10 (1 - r) (1 - g) \\ &= 10 (1 - 0.07) (1 - 0.14) \\ &= 10 (1.07) (1.14) \\ &= 12.198 \text{ dollars.} \end{aligned}$$

The loss (L) is then

$$\begin{aligned} L &= Y2 - Y1 \\ L &= 12.198 - 10.7 \text{ dollars} \\ L &= 1.498 \approx 1.5 \text{ dollars} \end{aligned}$$

It appears that although that country gained 7% of its initial investment, it lost actually 15% of the purchasing power of its principal in one year. If one goes further and supposes that even interests were to be protected against inflation the actual loss would be higher than 15%. If the initial purchasing power was to be maintained,

(1) - H. Levy and M. Sarnat, op. cit. p.367.

H. Levy and M. Samat suggest two methods:

"Since we have seen that portfolio decisions are influenced by the introduction of purchasing power risk, one such policy would be to reduce the risk attached to financial investment by offering to the oil producing countries an inflation-proof investment outlet whose principal and interest rates are linked to a general index of the change in world prices."

or,

"... to pay for the oil in linked currency, e.g. in dollars of constant purchasing power."⁽¹⁾

These conclusions were reached under the assumption that future oil prices are uncertain. However, if it is certain that oil prices will, at best for some or at worst for others, maintain their current level and indeed it is so (cf. Chapter I), their conclusions will acquire more weight. Furthermore, there is another element which strengthens their conclusion: in early 1974 capital exporting Arab countries were "offered" negative interest rates mainly in the Swiss market. The truth is that neither of the two alternatives suggested by H. Levy and M. Samat apply to Arab capital exporters' current financial investment in western industrialised countries.

To the dilemma between oil in the ground and portfolio investment and given the above described situation, the two authors came up with the following conclusion:

"The expected effect of the type of inflation which has characterized the western world during the 1970s may well have been to reduce the developing countries' incentives to extract oil reserves from the ground on portfolio investment alone."⁽²⁾

However, one cannot consider Arab financial investments on portfolio considerations alone. Before moving to political considerations we feel the necessity to recall an argument we used when considering oil-facility.

For instance, the Arab World exported more than 39bn. dollars in 1975 to the Eurocurrency Market. This does mean that they are not contributing to the management of their new fund; no financial

(1) - H. Levy and M. Samat, op. cit. p.367.

(2) - Ibid.

expertise is gained from those billions.

- Political Disadvantages to Arab Financial Investments

Here again another argument has to be repeated: since they are not managing their own funds Arab capital exporting countries are bound to lose political gains or influences which are derived from fund managing.

Some Arab politicians voiced the fear that, although they are deposited with private banks, these funds could be frozen in case of political confrontation. The point is that it is needless to try proving the normal close relationship between western industrialized countries and major international banks. Such a fear could be justified, but with regard to it one has to recall two historical cases : India/Egypt and Algeria.

The Case of India and Egypt.

During the Second World War India and Egypt supplied British soldiers with food and war materials. By the end of the war, Britain owed a consistent amount of money to both countries, estimated to be around £1,600m. for India. In 1948 the Bank of England blocked the debt for both countries. India and Egypt were allowed to withdraw, since that debt became deposit, only a given part of it ... to buy British goods. Furthermore, Great Britain was just emerging from the war and she had "nothing to sell". History could repeat itself as far as Arab funds are concerned.

The Case of Algeria

During the Algerian War of Independence, the "Front de la Liberation Nationale" or F.L.N. used to deposit its funds with a Swiss Bank. After independence the Algerian government claimed the funds back. In the early 1970s a Swiss tribunal rejected the Algerian claim on the grounds that only the person or moral person who made the deposits have the right to withdraw them. In this case it was the Treasurer of the F.L.N. who is dead. What is the moral for us?

As a matter of fact one does not know whether Arab deposits in foreign banks are made in the name of financial institutions or ruling families. In the latter case and in the case of the disappearance of the ruling family - i.e. the current regime - the people of that very country might lose a lot.

Such fears are not baseless for as early as 1973, "Le Monde" suggested that Arab deposits could be "nationalised".

Furthermore, our view is corroborated by Mrs. Frances Stewart and Mr. Paul Streeten who feel that by investing the bulk of their surpluses in developed countries the OPEC, and consequently the Arab countries, face "the threat of expropriation and the weakening of their subsequent economic and political bargaining power."⁽¹⁾ If such a move does occur western countries will be just following the Arab oil producing countries' example.

From an economic point of view and if only domestic interests were to be considered, Arab oil producing countries would have stopped their capital exports years ago. However, political reality has its role to play too.

Another channel in the Arab countries' foreign investment is the International Bond Market (I.B.M.) which has to be considered too.

SECTION III - 3 : THE ROLE OF INTERNATIONAL BOND MARKETS (I.B.M.) IN ARAB DOLLARS RESHUFFLING AND ITS IMPLICATIONS.

A. - Role of the International Bond Market in Reshuffling Arab Dollars.

The role of the International Bond Market in absorbing Arab dollars has been increasing from 1975 onwards. The shift occurred from purely differential interest rates between the Eurocurrency Market and the International Bond Market. The evolution of both markets' interest rates is illustrated by the following table.

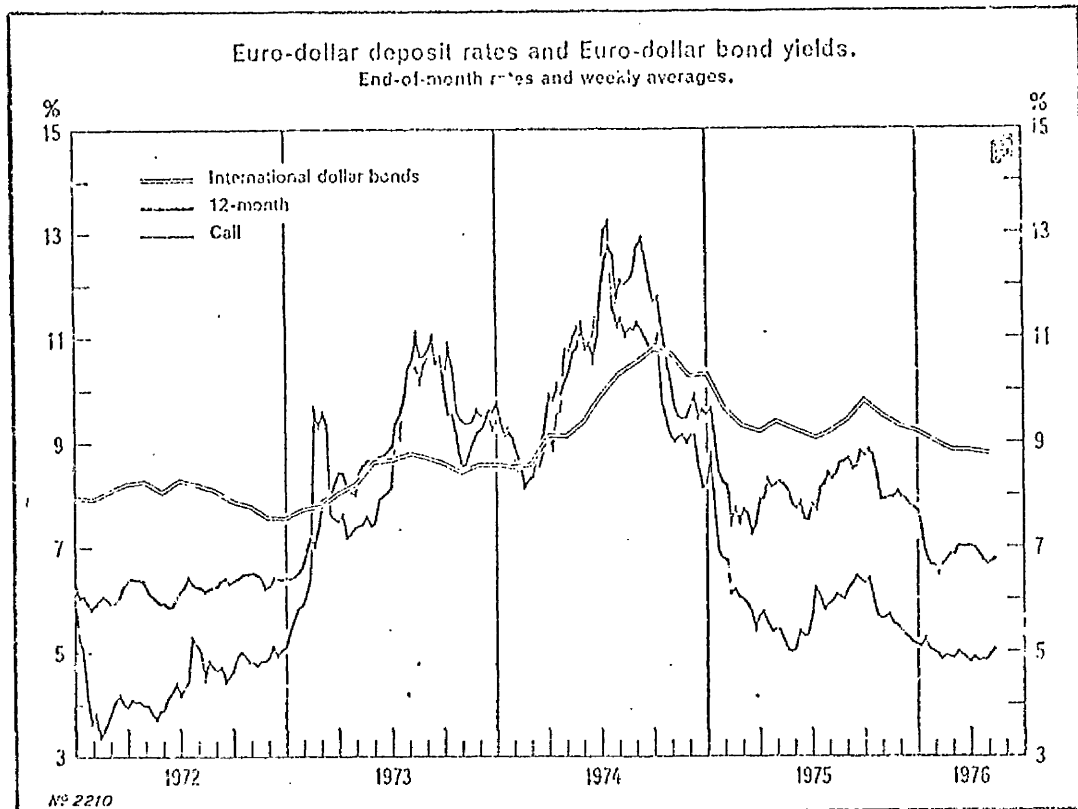
According to this table the Euro-dollar deposit rates were higher than the Euro-bond yields only from mid 1973 to the third quarter of 1974 with an upsurge during February 1973.

The 1975 Bank for International Settlements' Annual Report gives two reasons for this "spectacular come-back" of the Eurocurrency Market in 1975, the first one being, "...the easing of domestic monetary conditions and the restoration of confidence..."⁽²⁾, and the

(1) Mrs. F. Stewart and Mr. P. Streeten, "Oil and Developments, a Steady Tripod", op. cit. p.104.

(2) The Bank for International Settlements' Forty-sixth Annual Report op. cit. p.89.

TABLE 35 : Euro-dollar Deposit Rates and Euro-bond Yields
from 1972 to 1976



Source: Bank for International Settlements' Forty-sixth Annual Report,
op. cit. p.89.

second one is due: "... to the relaxation of United States monetary restraint..." and to, "...the fact that the market realised that the recession was deeper than anticipated." (1) Both reasons being out of control for the Arab World.

When tackling the role of the International Bond Market in reshuffling Arab dollars we need an approach different from the one adopted for the Eurocurrency Market. We cannot consider the Arab World's contribution to the market from the "sources side" since buyers are more or less anonymous.

(1) The Bank for International Settlements' Forty-sixth Annual Report
op. cit. p.89.

For instance, considering the diverse component of the Euro-bond Market the Banker wrote:

"there is no mystery about the borrowers, about the currencies used, about the terms on which the market deals or about the banks in it, although the earning of the individual banks from Euro-bond operations remains a subject of speculation. But no one knows for certain just who the investors are."⁽¹⁾

However, it is clear that the major international banks, those banks with which Arab countries deposit their funds, subscribe to the issues. Therefore, we think it is safe to say that there is an indirect Arab participation but, on the other hand, it is hard to reach an estimate for the Arab World as a whole or for any individual Arab country.

However, according to Table 32 (Page 113) the OPEC countries, therefore Arab countries, subscribed to American, British, European and even Japanese securities. But this contribution cannot be quantified. Then the only approach left to us is to tackle the problem from the "uses side". On the other hand this approach has the advantage of giving to us, at the same time, the direction of the reshuffling process. We shall do so by considering international bond issues. The following table gives to us those issues for the 1972-76 period.

This table gives us a broad idea and we are not going to dig behind every figure and every item. However, it is worth noting, that most of the issues were denominated in U.S. dollars. As far as the paragraph is concerned, the last item "International Bonds, totals of which issued by" is important.

From this item it appears that 71.308bn. dollars worth of International Bonds were issued by developed, developing countries and other international organisations. They issued 53.277bn. dollars 4.165bn. and 13.926bn. dollars respectively. Percentagewise, the total amount of 71bn. odds was shared as follows:

Developed Countries -	74.65%
Developing Countries -	5.83%
International Organisations -	19.52%

(1) -- The Banker, "Eurobond Market", The Banker Division of the Financial Times, London, November 1976, p.1249.

TABLE 36 : New International Bond Issues 1972-1976 (\$ Millions)

	1972	1973	1974	1975	1976*
EUROBONDS TOTAL	6,400	4,200	2,100	8,567	13,070
by category of borrower					
US companies	1,992	874	110	268	280
Foreign companies	1,759	1,309	640	2,933	4,865
State enterprises	1,170	947	542	3,093	3,714
Governments	1,050	659	482	1,658	2,064
International organisations	395	404	360	615	2,147
by currency of denomination					
US dollar	3,908	2,447	996	3,738	8,278
DM	1,160	1,025	344	2,278	2,411
FOREIGN BONDS OUTSIDE THE UNITED STATES, TOTAL	2,029	2,626	1,432	4,844	5,088
US companies	215	546	77	61	28
Foreign companies	345	396	455	1,386	1,001
State enterprises	249	446	568	1,314	1,624
Governments	146	297	138	765	958
International organisations	1,074	941	194	1,358	1,477
FOREIGN BONDS IN THE UNITED STATES, TOTAL	1,301	960	2,366	6,462	8,989
by category of borrower					
Canadian entities	957	865	1,962	3,074	4,949
International Organisations	250	-	610	1,900	2,200
Other	124	95	694	1,488	1,840
INTERNATIONAL BONDS, TOTALS OF WHICH ISSUED BY:					
Developed countries	9,696	7,779	6,832	19,913	27,147
Developing countries	7,335	5,739	5,065	15,213	19,925
International organisations	642	695	603	827	1,398
	1,719	1,345	1,164	3,873	5,824
* Jan/Nov					

Source: The Barker, "Survey of the Euromarkets", op. cit. January 1977, p.53.

The share of the L.D.Cs. is obviously negligible. Furthermore, even if one considers that all the amount raised by "International organisations" went to the L.D.C., their total share would be 18.051bn. dollars or just over a quarter of the total amount.

B. - Returns Derived from The International Bond Markets' Role in Reshuffling Arab Dollars.

Given the above described situation, there is no room for arguing that the International Bond Market finances L.D.C. economic development and therefore that Arab funds were channelled through it to Non-oil Developing Countries.

For a full set of reasons this market:

"is clearly no market for developing countries, who have accounted for only 5% of borrowing in all international fixed-interest markets this year (1976)"⁽¹⁾

A sort of discrepancy seems to emerge from our statement and the much heralded Third World indebtedness. In our opinion there is no discrepancy and the explanation being that the L.D.Cs. are indebted not to the Eurocurrency Market but to individual lending countries.

However, are the Arab capital exporting countries getting any benefit or advantages from the International Bond Market's role?

Let us consider the problem from an economic point of view. First, the Eurobond issues are managed by the top 20/25 international banks, most of whom are members of the so-called "golden circle" (around 40 banks) which manages Saudi Arabia's surplus. Obviously the investing countries are not gaining any financial expertise from this type of investment.

Secondly, since no Arab country is participating in the issuing Arab countries cannot even lay claim to the benefits and advantages of fees and commissions whose annual amount was around 300m. dollars in 1976.

Third and finally, even the nominal returns could decline. Let us consider the problem from a political point of view now. Given the structure of the market in question, investors, i.e. Arab countries,

(1) The Banker, "Eurobond Survey", op. cit. p.1245.

are anonymous. Therefore, from the lending side funds become "impersonal" and, among other things, this means that investors are not in relation with borrowers and therefore they cannot exercise any influence or pressure on them. This is argued bearing in mind that from pressures or influence investors could derive indirect benefits. It also means that Arab countries do not bear any risks when it comes to ultimate investments.

In concluding this section we shall draw the main conclusion namely that both the Eurocurrency and Eurobond Markets reshuffled the petrodollars towards developed countries. It seems that around a third of the extra proceeds was so reshuffled. The role of the Eurobond Market has also proved of growing importance for the O.E.C.D. countries. According to Table 36 (Page 127) their issues tripled from \$5.065bn. in 1974 to \$15.213bn. in 1975. The share of the L.D.C. has always been negligible although their issues increased from \$0.827bn. in 1975 to \$1.398bn. in 1976. The East European countries seem to be absent from the Eurobond Markets but their active presence is being more and more felt in the Eurocurrency Market since they borrowed \$10.5bn. from December 1973 to December 1975. All in all it is obvious that O.E.C.D. countries have extensively used both markets to finance their B.O.P. deficit. This trend has been strengthened by Arab direct investments because they happened mainly in the principal O.E.C.D. countries.

SECTION IV : ARAB REAL INVESTMENTS IN WESTERN INDUSTRIALIZED COUNTRIES

This type of Arab investment is included in this chapter because the Arab investors did not make it directly and personally. Both investors, private and official, used the West European and North American banking system to undertake this kind of investment. Second, the fact of buying up companies in the oil importing countries is a type of transfer because it represents an inflow of capital and therefore will tend to improve the B.O.P. situation of the deficit countries. This type of investment occurred almost exclusively in the O.E.C.D. area and this justifies our heading. This problem shall be tackled in two phases. First, by presenting the direct investment themselves and second their implications. These implications will be presented from the point of view of the Arab World interest.

SECTION IV - 1 : ARAB DIRECT INVESTMENT IN WESTERN COUNTRIES

Arab investors were not interested in every and any western country. Investments occurred only in a handful of countries: U.S.A., West Germany, Great Britain by the end of 1975 and Italy at the end of 1976.

Our aim is not to present a list of every investment in every western country. Although such a descriptive work could be done it would not lead us to different conclusions. Since our whole thesis is based more or less on a critical approach to the whole problem, as far as this part is concerned we shall focus our attention on the reaction of western countries to would-be Arab investments. Such behaviour will definitely shed some light on other types of Arab investments. It might also bring to light the western countries' attitude vis-à-vis the whole problem.

Since western reaction, reflecting domestic and international situations, differs from one country to another, we shall present Arab investment country by country.

A. - Arab Direct Investment in the United States.

The U.S.A. has always preached the free movement of capital throughout the World, and she did apply it. Consequently U.S. investments flooded Europe during the 1950s and 1960s. It occurred mainly in the car and computing industries. What was the U.S. reaction to Arab investments?

The fact is that the U.S. administration took precautionary steps to avoid: "...the kind of business take-overs practised on a large scale by Americans in Europe."⁽¹⁾ This move was illustrated by two Senate Bills. The first Bill: "requires disclosure of all foreign holding in the United States in excess of 10,000 dollars with penalties of fines and forced divestiture attached."⁽¹⁾ The second Bill empowered: "The President (of the U.S.A.) to ban foreign investment in U.S. Companies on the grounds of national interest."⁽¹⁾

(1) - The Banker, March 1975, p.225.

Would-be foreign investors had to go through lengthy administrative processes before finalising their deal. For instance, if the deal involves more than 5% of any U.S. company's share, foreign investors had to give a thirty day notice to the Securities and Exchange Commission.

In our opinion such a legislation was not justifiable on economic grounds because they were in B.O.P. deficit and therefore a capital inflow should be welcomed. Furthermore, by foreign investors was really meant Arab ones. With regard to this point "The Banker" comments:

"A further dig at the Arab states is the reward for those countries (Venezuela, Ecuador, Nigeria, Indonesia and Iran) of OPEC which did not take part in the Arab oil embargo of 1973. A Bill amending the U.S. Trade Reform Act to make these countries for preferable trade terms has been introduced to the Senate." (1)

As far as the U.S.A. is concerned, we did not witness any Arab investment on the scale anticipated by everyone. If, in the U.S.A., the dig was obvious and direct, in other western countries, although subtle, it was not less efficient.

B. - Arab Direct Investment in West Germany

Amongst the western European countries West Germany has the strongest economy. Therefore some Arab countries tried to invest in some sectors such as steel. This was to be done through Swiss banks.

The only important Arab deal was the Kuwaiti purchase of shares in Daimler-Benz (car industry). The deal cost D.M. 1bn. The West German government did not pass any prohibitive legislations although it was ready to do so in case of foreign participation involving 10% or more of the capital share. However, it is worth noting that West Germany has always been open to foreign capital, and mainly to U.S. investments. But Arab investments were prevented by the existence of a:

"gentleman's agreement amongst businessmen and bankers to keep the government informed of proposed extensive foreign participation." (2)

Furthermore, in some cases, even the management and shareholders were against Arab participation. For instance, in the company Mannesmann, a general meeting of the shareholders ratified a decision made by the Board of Directors to prevent any participation over 5% of the total voting right. However, here again it was Iran who succeeded to the best deal by purchasing 25% of the Krupp steel subsidiary.

C. - Arab Direct Investment in Great Britain.

Arab investors did not take over any big British industry, but on the other hand, it was in this country that most of Arab investment in real estate occurred. Kuwait excelled in this field. Kuwait even acquired a special tool to fulfil its policy in this sector: St. Martin's Property Corporations.

Great Britain has an ailing economy and was badly hit by the oil crisis and therefore one would expect it to welcome foreign capital, whatever its origin. It was the other way round. One of the obvious barriers was the famous "Clause 10 of the new Industry Bill...", empowering:

"The Secretary of State to issue a prohibition order against the transfer of control of any manufacturing industry contrary to national interest."⁽¹⁾

Furthermore, the Secretary of State had the legal power to "save" any "threatened company" by allowing the National Enterprise Board to take it over.

Furthermore, the Bank of England, depository of Arab funds, by sending a letter to authorized depositories, ensured that non-residents could not purchase or increase their previous participation to 10% or more of the total capital without specific exchange control.

D. - Arab Direct Investment in France.

In so far as foreign investment is concerned, France's position has always been different from that of other European countries. She has always been characterised by her reluctance towards American direct investments. The country was juridically armed to face any foreign investment and therefore she did not take any legal steps, for:

(1) - The Banker, March 1975, p. 297.

"there already exists a law requiring notification to the Ministry of Finance of any foreign purchase of shares amounting to 20% or more of the holding of any company."⁽¹⁾

If need arose this law could be applied to Arab investments.

Nevertheless some Arab countries invested in real estate, e.g. the Tour Manhattan purchased by Kuwait.

All this concerted set of judicial measures taken by western industrialized countries prevented, rather than discouraged, Arab direct investment in Europe and North America until the end of 1976 when Italy witnessed an important deal.

E. - Arab Direct Investment in Italy.

Libya is apparently the only Arab country investing in Italy and apparently it is also the only Libyan major investment abroad. For these two reasons we shall lay emphasis on this deal. A 9.6% holding in Fiat cost £250m. (around \$15m. dollars) to Libya, but the Agnelli family still retains control of the vast empire of the company. Compared to other Arab investments the Libyan deal brings two new elements: Firstly, the approbation of the Italian government, and secondly the involvement of an Arab bank. This deal, just like any Arab investment in industrialized countries, has been widely reported in the British Press and according to the Financial Times:

"two Libyan representatives will sit on the 15-man Fiat Board and one will join the 5-man executive committee which meets twice yearly."⁽²⁾

However, it was not a cheap deal for Libya, for according to the Financial Times, Libya:

"will subscribe first to a capital increase of nearly 15bn. Lire and to a convertible bond issue of some L.90bn."⁽²⁾

Libya's subscription could be transformed into new shares and consequently this would give to the investor:

"the option of raising its share stake in the company to 13%."⁽²⁾

(1) Ibid.

(2) Financial Times, December 2, 1976 front page (only source of information, since the deal is very new.)

Furthermore, Libya would make a 10 year loan of around 100m. dollars at a spread of 0.25% above the LIBRA.

The Libyan deal comes with several question marks. Does this deal emanate from new Arab philosophy in industrialized countries? Is the European attitude to Arab investment changing favourably? Especially when one recalls that the deal happened in a period when the Fiat company was "liquid". And of course, just like any other deal, one has to assess its implications for the investor, bearing in mind regional developments.

SECTION IV - 2 : CAUSES OF AND RETURNS DERIVED FROM INVESTMENTS IN WESTERN INDUSTRIALIZED COUNTRIES

First of all one has to wonder about the motives behind Arab investment in those specific countries. These motives vary from one country to another. Arab investments in the U.S.A. and West Germany are motivated by the fact that the American and West German economies enjoy the best productive capacities.

Arab investment in Great Britain proceeds from different reasons. This country enjoys a long standing political and cultural relationship with Arab countries. This holds true especially in the cases of Kuwait and Abu Dhabi. For instance, the majority of Middle Eastern officials studied in the United Kingdom and most of them still spend their holidays there. Such a reality could explain why London was next only to Beirut in attracting Arab investment in real estate.

In the course of this chapter we have repeatedly put forward the idea that managing funds could be more important than owning them. From this point of view, two realities appear.

Arab funds were directed to the International Market, or World Market. This World financial market is no less than the major West European and North American banks. The case of Kuwait is very revealing. However, Kuwait is not the only country in that case.

The investment board which advises Abu Dhabi relies on two main sources: Baring Bros. a merchant city bank, and an International Banking concern from New York. Furthermore, in the case of Saudi Arabia:

"...some 40 banks which are known as the 'Golden Circle' and

which include major British, U.S. and continental groups, play a central role in handling the flow of petrodollars case into the world's financial system,"⁽¹⁾ which they constitute.

As far as industrial investments are concerned, one has to assess them by considering the return they are procuring for their investors and the security of the investments themselves.

Concerning the return one needs time to find out how profitable they are. However, the sentries posted by Western Countries indicate that it is very likely that Arab investments occurred in ailing sections or companies of the concerned country.

Concerning this type of risk, in a special survey of petrodollars "Newsweek" reports:

"Nearly everything Tamraz⁽²⁾ has proposed so far seems to involve risk for the Arabs, who, for the most part are a financially conservative lot. But he contends Arabs must make such investments to show that they are bent not merely on taking over large, blue-chip U.S. companies "It is the tax you have to pay, he said..."⁽³⁾

In so far as the security of Arab investments is concerned, the question mark remains, but in case of nationalizations industrial countries would just be following the example set by the Arab countries themselves.

Again and again, there is no transfer of expertise: the D.M.lbn. worth stake in Daimler-Benz did not give to Kuwait the right to have one man on the board. The only likely advantage is to interest those companies and therefore the western industrialized countries in the economic development of the various Arab countries.

(1) - Financial Times Survey, "Middle East and Finance" cf. Article "Oil Dollars Flow to London", Financial Times 23-3-1975, p.16.

(2) - R. Tamraz has been involved in some of the most widely publicized international business transactions of recent years, such as the Intra Bank. He worked with Kidder, and acted as a broker for Arab investors. In 1974 he formed his own Beirut-based investment banking firm: First Arabian Corporation.

(3) - Newsweek, op. cit. February 10, 1975, p.41 (cf. Article "The First Arab of First Arabian").

In our opinion, it is not enough to assess Arab investments by considering only their financial returns, even though it is inflation proof, and the security of the investments themselves. One has to go further and consider the ultimate purpose of those investments. For they are made by governments and countries which do have domestic and regional responsibilities. This point is of major importance to us and it will be considered later.

CONCLUSION

In concluding this chapter we shall consider the problem of Arab dollars reshuffling by non-Arab institutions from two angles.

First it was almost exclusively the private market that channelled the petrodollars surpluses. Given the geographical location and past performance of this market the reshuffling process was completed for the benefit of the O.E.C.D. area primarily and marginally the Socialist and N.O.D.C. Countries. For the O.E.C.D. countries the existence of the Eurocurrency Market and Eurobond Market proved to be the most important source of financing. This type of financing was quick, efficient and less risky as compared to capital inflow derived from oil exporters' direct investments. Only under such circumstances one can understand why O.E.C.D. countries could afford refusing direct investments while recording big B.O.P. deficit.

For a whole set of reasons N.O.D.C. were less favoured by the reshuffling process through the Eurocurrency Market and Eurobond Market. Indeed they had the opportunity to improve their B.O.P. situation by borrowing from international organisations which themselves borrowed directly (I.M.F.) or indirectly from Arab oil countries. The effect of such financing was welcomed but it was not sufficient; furthermore in the case of N.O.D.C. one has to go beyond the need of B.O.P. deficit financing requirements. The financial gap has always been a structural problem for them.

In the light of what has been said it seems that, by now, the O.E.C.D. countries have efficiently coped with the oil crisis, at least as far as their B.O.P. deficits are concerned. It is not the case of N.O.D.C., therefore other channels are needed to respond to their needs.

Let us, now consider the situation from the point of view of the Arab countries and indeed the Arab World as a whole.

In our opinion it is safe to argue that there is a real "extra-territoriality" of oil because - oil is consumed outside the Arab World - and oil revenues are kept outside the Arab World, mainly in the United States, Great Britain and Western Europe.

One might be inclined to explain such a reality by the limited Arab oil exporting countries' absorptive capacity. This problem will be presented in the following chapter, however, what about other Arab countries' capital needs.

One can also be inclined to explain the situation by arguing that the Arab oil and capital exporting countries are in search of security. However, what are the guarantees offered to them by industrialized countries? Depreciation of the U.S. dollar and the British Pound, especially when one recalls that the oil bill is paid 75% in U.S. dollars and 25% in the British currency, risks of nationalization or confiscation or at least Arab external holdings can be frozen in case of crisis.

In our opinion, three factors could explain their behaviour:-

1. The attractive power of the international financial trusts and the major American and West European Banks, coupled with
2. The absence of regional or even local viable financial structures able to channel Arab dollars within the domestic and regional areas.
3. Finally, as far as Arab oil dollars are concerned, most of the Arab countries are taking the same stance as they did with oil: until very recently these countries thought that any "realistic" oil policy passes by the co-operation with international oil companies. Nowadays they think that any realistic policy in the financial field cannot be implemented without the co-operation of the I.M.F. and the major international financial trusts.

As long as the Arab World is following such a path their dependance in the financial field will grow and, if one can say, the Arab World will be and remain "financially underdeveloped".

The obvious consequence of the 1973 oil crisis is an increased U.S. predominance because the biggest financial trusts are Anglo-saxon just as the biggest oil companies were, and still are, American.

The reality being so, inflation and its baneful effects appear to be just a "last rank" danger, a danger which could be removed by setting up a New International Monetary System.

The real threat to the Arab World's future is the confiscation of the "oil rent" by Western Countries, the ultimate role of which will be to create new sources of energy to challenge the predominance of Arab oil. Another danger of the oil crisis is that it makes Arab oil exporting countries believe that they are really rich. However, it could be too early to draw a just and final conclusion since, according to Prince Fahd Ibn Abd-El-Aziz, a strong member of the Saudi throne:

"our first duty is to the inhabitants of our kingdom. Then we will take care of the Arab and Muslim countries which are our long-standing neighbours and friends. Then we will help the developing countries without distinction. They deserve our aid more than the rich countries." (1)

The main point is that we are faced with two problems. On the one hand we have the L.D.Cs. and particularly N.O.D.C. that could not cope with the oil crisis either by adjustment or financing processes. They require capital for B.O.P. and development purposes. On the other hand, we have the Arab oil countries with excess of capital but unhappy about the way it has been invested, reshuffled from others, up till now. Furthermore, as put by Prince Fahd Ibn Abd-El-Aziz, Arab oil countries are committed to help N.O.D.C. Consequently one problem solves the other provided there were Arab owned and organized channels able to direct Arab dollars surpluses to N.O.D.C. and L.D.Cs. Those institutions, since they do exist, will be treated in Chapter IV.

(1) - Newsweek, op. cit. p.41.

C H A P T E R I V

ARAB DOLLARS RESHUFFLING THROUGH ARAB FINANCIAL INSTITUTIONS

As outlined in the previous chapter, Arab Dollars reshuffled through international institutions and world banking centres to N.O.D.C. fell short of the latter financial requirements as derived from the oil crisis discussed in Chapter II. Consequently Arab Countries set up their own channels to respond to those needs. The present chapter deals with these institutions. Furthermore, we shall go beyond the oil crisis that required B.O.P. support, because we shall also consider Arab development aid to the L.D.Cs. in general. This includes non-oil Arab countries.

This Chapter contains four sections. The first section deals with the structure of domestic banking systems (B.S.) of Arab countries and the latter role in Arab dollars reshuffling. The second one deals with domestic placement of the surpluses in Arab oil countries specifically in agriculture and industry. The problem of the transfer of technology is dealt with in general terms. The last two sections consider the reshuffling process through bilateral channels and the multilateral institutions. These channels are either banks or funds.

SECTION I : DOMESTIC BANKING SYSTEMS OF ARAB COUNTRIES AND THEIR ROLE
IN ARAB DOLLARS RESHUFFLING

In this section and, indeed, in all our research, Arab private commercial institutions do not represent our concern. To name only some, these agencies are the type of the Kuwait Investment Company (K.I.C.), the Arab Petroleum Investment Company (A.P.I.C.) etc... Their aim is to find attractive outlets for private Arab capital. They are interested in return rather than in the contribution to the development. We have no objection if they could seek high financial return outside the region but give more weight to economic development when investing in the region.

This point being clarified, we feel the need to present a quick historical background of the development of banking activities in

Arab countries in general; that is to say not only Arab oil countries. Banking activities in Arab countries appeared at the beginning of this century, coinciding with foreign occupation. During the long period of direct or indirect occupation the main banks, if not the only ones, were foreign institutions. Their purpose was clear : facilitating the sale of the colonizing power's products and the exploitation of the colonized country's natural resources.

Iraq has been the first Arab country to set up its own central bank in 1947. Other Arab countries followed suit during the fifties and the sixties⁽¹⁾. However, it is worth noting that some Arab countries do not yet have central banks. It is the case of the Gulf countries such as Saudi Arabia where only monetary agencies exist and perform the role of central banks.

This having been said, we do not think that it is possible to present, within the framework of our study, the banking system of every Arab country. The main features of each one would seem to be enough. Our approach is to distinguish two types of banking system reflecting the economic system of the Arab countries themselves. As a matter of fact, Arab countries could be divided into two groups: countries with "planned" or "socialist" economies and countries adopting free enterprise⁽²⁾.

SECTION I-1 : THE BANKING SYSTEMS OF ARAB "SOCIALIST" ECONOMIES

Eight Arab countries fall within this group: Iraq, Syria, Somalia, the People's Republic of Yemen, Sudan, Libya, Egypt and Algeria. For these countries banking activities are but a part of the state's prerogatives. This means that after acceding to political independence they nationalised foreign banks and most of them even nationalised local interests.

- (1) - The creation of Arab central banks occurred as follows: Egypt in 1951, Syria 1953, Libya 1956, Tunisia 1958, Sudan 1959, Algeria 1963, Jordan 1964, Lebanon 1964, Kuwait 1968, Yemen Arab Republic 1971, People's Republic of Yemen 1972.
- (2) - To use the official terminology, since as far as the Arab World is concerned such a classification is very artificial especially with respect to the state's role in the economy. The so-called socialist countries are more often no more than "state capitalism", and the role of the state, mainly with the O.R. is absolutely predominant in the second group. Obviously there is no clear-cut distinction between both systems.

Egypt was the first Arab country to take such a step in 1961, followed by Syria in the same year. Then came Iraq in 1964, Algeria in 1967, the People's Republic of Yemen in 1969 and finally Libya, Sudan and Somalia in 1970.

These nationalisations varied in degree according to countries. For instance, in Libya only foreign participations were concerned by such a law.

Nationalisation meant reorganisation of the banking systems to suit local conditions and serve national purposes. This type of banking system is characterised by two elements: namely centralisation and specialisation.

"Banks were merged into few units to facilitate the control and supervision of the central bank, and be in a better position to extend credit and direct it according to plan and available resources. Moreover, the merging operations aimed at reducing administrative expenses".⁽¹⁾

However, specialisation remains the main characteristic. This specialisation was a function of the different sectors of the economy and the development strategy, if any, of the country involved.

In the case of Egypt⁽²⁾ specialisation is very pronounced: each nationalised commercial bank finances no more than one sector of the economy. According to the Decisions of July 1, 1972, the "Egyptian Real Estate Bank's" function is to finance the housing sector the National Bank of Egypt finances foreign trade, the Misr Bank finances internal trade with special emphasis on the marketing of agricultural products, the Bank of Alexandria for agricultural, industrial and handicraft productions, and finally the Bank of Cairo's role was to finance the services sector. So, in the case of Egypt, the economy is segmented and specialised banks are set up to fit in and serve this structure. Another feature of this type of banking system is its "Branch Banking". In the early stages of nationalisation the branches were not geographically spread to serve the country's national interest. Such a criticism is not valid any more. It was not a deliberate policy of the central authorities,

(1) - The Arab Economist, Beirut, Lebanon, August 1973, Number 55 p.19.

(2) - The banking system of Egypt has undergone profound changes since 1974/75, therefore some elements are outdated.

but rather an inherited situation which goes back to the pre-nationalisation period. Nowadays, the situation has drastically changed; for instance the National Bank of Algeria offers its services through more than one hundred branches spread all over the country. The official policy of this institution had always been to set up branches with the aim of stimulating economic activity and not to wait until there is such an activity to create new branches.

However, for Dr. H. Al-Bassat:

"It appears that the banking institutions in these countries have not yet been used rationally in the execution of economic development plans and as unified centres to effect payments among productive units and other public sector bodies".⁽¹⁾

Another criticism of the "centralised" banking system is its lack of efficiency. Such a state can be explained in two ways: Firstly, the absence of competition amongst local banks themselves, and secondly, the lack of experience, for this banking system is recent. However, its "young age" cannot explain everything. It is usually too bureaucratic and too "obscure" for the general public to understand. For instance, in the People's Republic of Yemen - a "one-nationalised-bank-system" - borrowers go to money lenders rather than to the bank which offers lower interest rates. The reason being that the latter requires too many conditions.

SECTION I - 2 : BANKING SYSTEM OF ARAB "FREE ECONOMIES"

Lebanon, Saudi Arabia, Tunisia, Morocco, Mauritania and the Gulf countries could be classified in this group. However, even in these countries not all the banks are privately owned; but again the situation differs from one country to another. The structure of those countries' banking system is shown by the following table.

(1) - The Arab Economist, op. cit. p.19.

TABLE 37 : Number and Nationality of Local Banks in Arab
"Free Economies" 1975-1976

Country	National Banks	Arab Banks	Foreign Banks
Bahrain	1	4	14
Jordan	6	1	2
Kuwait	All banks are national, with the state having some shares. The foreign presence is indirectly important.		
Lebanon	34	4	39
Morocco	10 ^a	1	2
Oman	3	1	10
Qatar	3	2	8
Saudi Arabia	2	2	8
Tunisia	10	1	3
U.A.E.	8	2	2
Y.A.R.	1	4	16
Mauritania	2	1	1

a - Only one or two banks are wholly locally owned, most of them being mixed or affiliate of foreign banks.

Source: Compiled from "Middle East and North Africa" and "Africa South of the Sahara", Europa Publications, 1975-6, op. cit.

These countries' banking system is characterised by three elements: lack of specialisation, presence of Arab banks and finally predominance of non-Arab banks.

- As far as economic development is concerned, the lack of specialisation on the part of local banks could be a serious handicap. On the other hand, as outlined earlier, the existence of specialisation means less competition and therefore less efficiency. A better balance has to be found between both systems: a certain specialisation combined with qualified staff could be the answer.

- The existence of banks from Arab countries is a promising sign. However, one has to differentiate between Arab public and private banks.

The latter are very common in the Eastern wing of the Arab World. Furthermore, apart from the ownership, one has to wonder about the ultimate aim of these institutions. Is their aim to stimulate economic development of the host country or merely gather and export funds? This question shall be dealt with when the banking system's role in petrodollars reshuffling will be presented.

- The predominance of foreign banks is an important factor too. In six Arab countries foreign banks outnumber the combined total of national and Arab banks. These countries are Bahrain, Lebanon, Oman, Qatar, Saudi Arabia and the U.A.E. However, one has to consider all this information with caution, for, sometimes the situation is very ambiguous. For instance in Kuwait all banks are "national" but more often than not Kuwaiti nationals serve as cover since the Kuwaiti Banking Law requires that the majority share must belong to local interests either private or public. In the former case Kuwaitis do not participate in management or in profit sharing. In some cases a kind of "salary" or "commission" (e.g. fixed percentage of the profit) is granted to them.

These are both banking systems. However, with regard to our research one has to wonder about the role played by both systems in channeling oil revenues.

SECTION I - 3 : ARAB BANKING SYSTEMS AND ARAB DOLLARS RESHUFFLING

The domestic banking system could either "attract" the petrodollars and invest them in local/regional economy or export them to foreign countries. If one has to consider the banking activities as a separate and distinct sector in itself this sector could be either "inward" or "outward" looking.

Although the origin of the funds is domestic, the role is different when one considers either type of banking system. In our opinion the question of the allocation of funds is important because in almost every Arab country private deposits constitute a high percentage of the bank's funds. This is true even in "socialist countries" and therefore denotes the importance of the private sector. Such a statement could be easily checked by considering the balance sheet of commercial banks.

In the case of "planned economies" the situation is obvious: there are no foreign banks and the existence of tough control makes it impossible for local banks to "export" the funds collected. Furthermore, the banks are just governmental tools and it would be against their nature to be "outward" looking.

The situation is different in the case of "open" economies because of the existence of the "foreign banks' element" whose importance has to be assessed.

A -- Importance and Role of Foreign Banks in the Banking System of Arab "Open" Economies

For two reasons we focus on the Lebanese case.

- Firstly Lebanon, especially Beirut, is well known for its "banking openness", and this is illustrated by the number of foreign banks -- 39 - out of a total of 77 banks.

- Secondly, as far as the banking activities are concerned, other Arab countries such as Bahrain and Kuwait are considering the problem in terms of "catching up" or challenging the Lebanese financial predominance. Furthermore, it is true that the "civil war" did affect the banking sector in the sense that most of the foreign banks left the country to set up their "Middle East Head Offices" in Cyprus, Bahrain and even Athens and London. However, the Lebanese government is doing its best to regain and maintain its financial predominance. Furthermore, since a "booming" banking system is quite a recent phenomenon in other Middle East countries, the Lebanese case constitutes a kind of "historical case" or a "precedent" and this situation will allow us, in a way, to generalise our conclusions.

It appears that foreign banks "monopolised" the banking sector during the period of colonisation. Their predominance being based on money, experience and political power and they:

"got more powerful when the "Banque de Syrie et du Liban"⁽¹⁾
... got the right to issue bank notes and to act as the
financial adviser of the government in all credit operations
and money transfers besides all the banking activities."⁽²⁾

(1) - The "Banque de Syrie et du Liban" is a French Limited Company and mostly foreign owned.

(2) - cf. Article "Lebanon: Growing Assets and Unrestricted Expansion", The Arab Economist, op. cit. p.48.

However, with respect to our study, by 'importance of foreign banks' we mean the magnitude of the funds they manage to gather. The following table gives us an idea of the situation.

TABLE 38 : Source of Funds of Commercial Banks in Lebanon : 1970-1972

	31.12.70	31.12.71	31.12.72
Savings Accounts	2,699	3,454	4,268
Checking Accounts	515	637	750
Current Accounts	616	718	810
Notice and Time Deposits	161	191	176
Other Credit Accounts	364	515	684
Total Deposits	4,355	5,515	6,688
Banks and Correspondents	916	1,054	1,531
Equity capital		417	439
Other		402	418
Total	5,271	7,388	9,076

Source: The Arab Economist, Number 55, August 1973, p.2.

The first conclusion is that in 1972 deposits constituted 74% of the commercial banks' funds. Furthermore:

"the structure of the deposits shows that saving deposits are by far the most important and represent 64% of the total in 1972, compared with 62.6% in 1971."⁽¹⁾

On the other hand the banks' own funds were no more than 16% of their total holding.

What is the importance of foreign banks as far as deposits are concerned? From available data it seems that they were preponderant

- more than half of the deposits went to foreign banks.

Their role can be discerned through the application of the funds collected.

(1) - Ibid, p.52.

The most recent data is for 1972. Such a time-lag has two explanations:

- Firstly, financial statistics take time to be published, mainly in the Third World.
- Secondly, the "civil war" has an impact in this field too.

Therefore we can draw our conclusions only from the following table.

TABLE 39 : Principal Applications of Funds of Lebanese Commercial Banks
1971-1972 (in L.L. Million)

ITEMS	31.12.71	31.12.72
Credit extended as loans	5,113	6,183
Bills portfolio	41	51
Foreign Holdings (net)	1,549	2,077
Buildings	127	133
Liquidity	537	568
Total	7,367	9,012

Source: The Arab Economist, op. cit. p.53

The study of the structure of the main applications of the funds shows the magnitude of the net foreign holdings. They constitute around 23% of the total funds. This means that the amount of funds transferred abroad by the commercial banks was LL 1,549 million, and LL 2,077 million in 1971 and 1972 respectively. The Arab Economist magazine draws the conclusions of this state of facts by affirming that:

"the structure of the utilisation reflects clearly the role of the commercial banks in Lebanon. Although these are mostly foreign banks or under foreign control, they participate on a small scale in financing economic activity. Their main concern is to get the largest amount of funds and invest them abroad at their head offices. The economic liberty they enjoy gives them the opportunity to do so."⁽¹⁾

(1) - Ibid. p.53.

The fact that this statement was made in 1973 does not affect its validity today. For the foreign orientation of the Lebanese banking system is still a fact. At this point it is worth pointing out that the same general trend can be detected when one analyses the structure of the insurance companies operating within the Arab World. Therefore it is safe to generalise our previous conclusions and mainly the outward looking or foreign orientation status.

Furthermore it appears that during the Lebanese civil war Manama (Bahrain) took over from Beirut and fulfilled the same role.

Another point to mention is that financial expertise is in short supply in the Arab World and, accordingly, some suggested the introduction of foreign banks - i.e. non-Arab concerns which, always according to them, would efficiently fill the gap. It has been said that these foreign banking interests enjoy a "comparative advantage" derived from their high level of expertise and long standing experience in the field. This is undeniable. But it remains to be proved whether such a "difference" in expertise would lead to a competition beneficial to local banks. The least one can say is that foreign banks are those which initiated the geographical maldistribution of branch that we mentioned earlier. More fundamentally one has to ask whether foreign banks, when setting up their branches or even gaining access to Arab countries⁽¹⁾ are interested in the economic development of the host countries. In other words, what are their objectives? Considering this very point and taking the case of Saudi Arabia, Professor John Bridge writes that foreign banks enter the market "... almost certainly not to provide small scale loans to merchants and craftsmen in Turaif, Al Jauif and Jaizan but rather to capture deposits at source for reinvestment in Europe and America. Thus the foreign bank element can co-exist with the local bank element and yet not assist in its internal development."⁽²⁾ One cannot be more explicit.

(1) This can be extended even to non-Arab Developing Countries.

(2) Professor J. Bridge, "Absorptive Capacity and Investment Policies in the Arab World", cf. Chapter VI in Ragaei El-Mallakh and Carol McGuire "Energy and Development", the International Research Centre for Energy and Economic Development, University of Colorado, U.S.A. 1974, p.76.

Under such a situation one can rightly wonder about the role or potential role played by Arab banking system in channeling Arab dollars. However, this has been done bearing in mind that oil revenues are state property and their use falls directly within the state's prerogatives. Or it happens that these states, as has been outlined in the previous chapter, keep their oil revenues outside the region. The fact is that Arab banking systems received only crumbs of the oil revenues as a result of transfer payments and so on. Furthermore, even these crumbs have been exported outside the local/Arab region by the foreign banks implanted within the Arab World.

Nonetheless, Arab owned banks played a role in channeling Arab dollars, a role summed up by the Banker magazine as follows:

"Nearly three years after the oil price explosion, the Arab oil states remain the single most important suppliers of funds to the International credit markets, but Arab owned and operated banks still play an insignificant role in world lending.... (they) are too small and ill-equipped to play more than a symbolic part in recycling the Arab surplus,"(1)

Such a statement reinforces the views that we have taken in the previous chapter. It follows that the least we can say is that Arab banks are still:

"losing income in commissions and fees to foreign banks."(2)

However, here again Arab interests, either private or public, seem to have chosen another path; namely joint-ventures banking schemes.

B - Joint-venture Banking Schemes.

Joint-ventures involving only Arab interests are scarce indeed, and it is more difficult to find them when only state-funds are involved. An example is the Libyan-Algerian Bank. The fact is that most of these ventures associate non-Arab interests. A comprehensive list of the joint-ventures is given in Appendix IV-1. From that list it appears that the idea of creating joint-ventures in the banking sector was put in practice well before the 1973-oil price explosion, mainly with the setting up of the "Union des Banques Arabes et Françaises" or U.B.A.F. This bank has greatly expanded with offices

(1) - The Banker, cf. Article "Arab Banks and International Lending Markets", op. cit. Volume 1262, July-December 1976, p.957.

(2) - *ibid.*

in most western industrialized countries.

What are the advantages, from the Arab point of view, of joint ventures?

Some put forward the argument that such undertakings will transfer a financial expertise to Arab countries. The same type of argument is advanced concerning the mushrooming of foreign banks in Arab countries themselves. For them the reason is that foreign interests enjoy a "comparative advantage" derived from their high level of expertise and long-standing experience in the field. This is undeniable but it remains to be seen whether such differences in level of expertise would stimulate Arab banks. These joint ventures are recent and therefore we cannot rely on their "behaviour" or operations to draw definite conclusions. However, we can always draw a parallel with their role in Arab countries. The truth is that despite their long-standing presence in the Middle East we did not witness any beneficial impact on local financial institutions. Had it been otherwise Arab banking systems would not be so inefficient. On the contrary, one can always argue that their presence in Arab countries could have "atrophied" local institutions and hindered the appearance of local skill.

As for the joint venture banks other elements militate in favour of our position.

- Firstly, they are physically implanted outside the Arab World since their head offices are situated in Paris and so on. This physical extraterritoriality does limit the impact on Arab institutions and could easily lead to extraterritorial operations.

- Secondly, most of the skilled staff is non-Arab, and if they are not very familiar with Arab economies it would be very difficult to grasp and solve the problems of the latter.

- Thirdly, the presence of non-Arab private capital gives more weight to purely financial factors when it comes to lending.

However, it has been repeatedly maintained that economic development, nowadays, is a political act and therefore based on political willingness. At least this is the Algerian view.⁽¹⁾

(1) - This position has been expressed in "La charte d'Alger" and the Introduction of the First Four-year Plan.

Another argument commonly put forward is that joint venture banks enable Arab interest to penetrate the international markets. In the light of our reading and with respect to what has been said in the previous chapter, our opinion is that the contrary is happening. These schemes are enabling international banks to penetrate more profoundly and officially the Arab markets. However, suppose Arab interests are indeed penetrating other markets one has always to wonder about the ultimate result of such a situation. The result will be no more than financial earnings. It is not worthwhile since some of our sample countries are suffering from excess of funds and economic underdevelopment. Neither problem is solved in this way. One has the certitude that Arab countries are just using western financial expertise, like foreign unskilled labour in their own countries, to acquire more financial return. Or, in other words, to increase their rent.

It appears that neither Arab nor foreign banks are really channeling Arab dollars for domestic or regional purposes. Given the prevailing situation such a role falls within the state's prerogative. Its assessment constitutes the substance of the next section.

SECTION II : DOMESTIC ALLOCATION OF ARAB OIL REVENUES

With respect to domestic affectation of oil revenues Arab governments are under some forms of pressure.

SECTION II- 1 : PRESSURES ON ARAB OIL COUNTRIES AND THEIR CONSEQUENCES

A. - Pressures on Arab Oil Countries' Governments.

These pressures are the result of internal and external forces.

External Pressures

The main, and perhaps most important pressure, comes from other Arab countries. In periods of political unrest, Arab governments, in general, come under strong attacks aimed at increasing the wellbeing of the population of the country concerned.

However, Arab governments pressurise Arab oil countries to give or increase economic aid or transfer payment to other fellow Arab

countries for various reasons that will be presented in the next section.

Furthermore, the present regional context is a pressure in itself. However in spite of all this internal pressures are stronger. However these pressures are less decisive than internal ones.

Internal Pressures.

Given the nature of the governments in power pressures do exist from within themselves. These pressures lead to transfer payments, expenditure on consumption aimed at gaining or maintaining political loyalty of some quarters of the population. The latter exerts its influence too. The people of these countries believe that oil is a national wealth and therefore the whole community must benefit from it.

Such a concept of sharing springs from tradition, nomadic societies, and Islamic teachings; especially when one recalls that the Prophet Mohammed himself said that water, fire and pastures must be shared. At that time these were the only national and natural resources.

These internal pressures can be felt at three levels and with respect to this point Ali Khalifa Al-Kuwari writes that:

"Internal sectors have greatly affected all the channels through which oil revenue is allocated. These pressures come from different sectors of society and are exerted in quite different directions. Members of the ruling families are pressing to keep, or even increase their allocations and privileges, the landlords to increase the allocation to the land purchase schemes, and the general public for easy well-paid governmental jobs, cheap public goods and services and increasing social transfer payments."⁽¹⁾

With respect to the first point one has to add that privileges are not confined to senior members only but to every member of the ruling families. Such privileges include even bodyguards and medical care abroad paid for by the Ministry of Health. The land purchase scheme led to the appearance of an important "sub-sector",

(1) - Ali Khalifa Al-Kuwari, "Oil Revenues in the Arabian Gulf Emirates: Patterns of Allocations and Impact on Economic Development", unpublished Ph.D. thesis, University of Durham July 1974, p. 226.

so rewarding financially speaking that some left governmental offices to devote themselves to the buying and selling of land. It goes without saying that from a purely economical point of view such activities are non-productive.

And finally the general public's aim is to secure free social amenities, no taxes, and as much transfer payment as possible. In Bahrain, for instance, the population refused to pay for water and electricity.⁽¹⁾ The result is an unfortunate situation where the governments are willing to buy political loyalty at any price and where this very political loyalty is for sale. Besides the implications of such pressures are dealt with in the following section.

B. - Consequences of the Pressures on Arab Oil Countries' Governments.

Those pressures lead to three main baneful consequences: the lack of adequate financial institutions, the appearance of "bad habits" and the increase of military and import expenditures.

Lack of Adequate Financial Institutions

In every modern society the collection of revenue is an important feature of any state's activities, but in some Arab countries the oil rent removes it by making the magnitude of the taxes collected negligible. This leads to an "unnatural" situation where the fiscal institutions' role is to distribute rather than to gather funds. The population is not even asked to pay for the cost of the social amenities it enjoys. In the future such behaviour by the state will definitely have grave implications. For, when the oil rent decreases or disappears in some cases, there will not be any adequate and well-established financial instruments to enable those countries to lead a more "normal life". Furthermore, these fiscal tools might be created, with time, but a positive response from the general public is doubtful. Bad habits easily become natural ones.

Appearance of "Bad Habits"

The relation between effort and reward constitutes the essence of every working and productive society. It is interesting to consider the impact of the oil rent on such a relation.

(1) According to one oral report the strike was politically motivated.

Oil production, and therefore oil revenues, did not necessitate any effort on the part of the population, especially at the early stages of the oil industry. Furthermore oil resources are seen as a gift and as proof, in October 1972, Shaikh Jaber Al-Ahmed⁽¹⁾ said that:

"...God has granted us wealth."⁽²⁾

A gift does not require any effort. On the other side, privileges are granted to every section of ^{the} society. This means that rewards are granted to everyone without asking for any effort in counterpart. It appears clearly that the relation between effort and reward is broken. It follows that by disconnecting effort and reward the oil rent is destroying the basis of those societies.

One has the conviction that those state-rentiers are on the verge of transform^{ing} their population into "society rentier". It is hard to foresee the full implications of such a trend; nonetheless one is sure that they could be catastrophic for the future generations. For the oil rent would have led to a state of drowsiness in these countries at both institutional and human levels.

Military and Import Expenditures⁽³⁾

Military expenditures do not appear on the purchaser's annual budget and for obvious reasons are not published by the seller country either. However, the following table provides us with the Arab countries' arm purchase for 1974.

Military expenditure has always constituted a favourite subject for controversy, and we are not going to contribute to it. Nonetheless, some remarks seem necessary, although they could be interpreted out of context.

(1) - Quoted by Ali Khalifa Al-Kuwari, op. cit. p.234.

(2) - Shaikh Jaber Al-Ahmed was the Kuwait Heir Apparent and Prime Minister. Now he is the leader of Kuwait.

(3) - Arab and OPEC countries' imports have already been dealt with in Chapter III, therefore the present part has to be seen as complementary.

TABLE 40 : Arab Countries' Defence Expenditure Estimates (1974)

Country	Defence Expenditure (\$ billion)	Per capita (\$)	% of GNP
Algeria	0.404	25	3.3
Bahrain	0.008	35	2.2
Egypt	3.117	85	35.8
Iraq	0.803	76	7.0
Jordan	0.142	54	10.9
Kuwait	0.162	154	1.5
Lebanon	0.133	42	4.3
Libya	0.402	178	3.5
Morocco	0.190	11	3.0
Oman	0.169	228	15.4
Qatar	0.023	130	1.1
Saudi Arabia	1.808	228	5.7
Sudan	0.118	7	5.9
Syria	0.460	65	16.4
Tunisia	0.043	8	1.5
U.A.E.	0.140	821	2.8
North Yemen	0.058	9	3.6
South Yemen	0.029	18	4.8
Total 18 Arab States:	8.209	60	7.1
Israel	3.688	1,131	42.4
Iran	5.328	165	13.3

Source: Dr. Yusuf J. Ahmed, "Absorptive capacity of the Egyptian Economy: An Examination of Problems and Prospects", Development Centre of the O.E.C.D., Paris, 1976.

Although by World or even regional standards the Arab countries, taken individually or collectively, are spending smaller percentages of their G.N.P. - 7.1% or G.N.P. per capita 60 dollars - than, say, Iran which is spending 13.3% and 165 dollars respectively, such expenditure remains a burden.

Military expenditure introduces several distortions:

- firstly, armed forces have "siphoned off" skilled workers, and even technicians from other sectors of the economy.
- secondly, the transport network has been materially affected because greater response is required for strategic needs and less for civilian ones.

Such effects have to be assessed bearing in mind a situation of lack of skilled labour and inadequate transport and communication system. Furthermore, such a burden might disrupt the economy by disturbing the intersectorial balance of resources and therefore set a new pattern of domestic and regional development. The above mentioned pressures affect also import expenditures. For the time being we shall consider only import for consumption, such as foods and capital goods.

Since 1973 their import has greatly expanded. This fact underlines three elements: population growth; ⁽¹⁾ rural depopulation which denotes the inadequacy of rural policies, if any, and finally and foremost the weakness of the agricultural sector to satisfy domestic needs.

As for capital goods, they are not produced by Arab countries. However, the increasing imports are a direct consequence of the oil revenues increases. It is true that such consumption is deliberately encouraged by the Central Authorities and, thus, there are no restrictions. However, if restrictions such as tax or quotas imports are eventually needed, it will be too difficult and too unpopular for any government to implement them.

As far as consumption is concerned, and taking the case of the U.A.E., Ali Khalifa Al Kuwari draws a parallel between individual and state behaviours when he writes:

"One might expect that a socially backward, uneducated and inexperienced person who inherited wealth would squander

(1) cf. Chapter I.

a considerable part of it on lavish consumption and luxury with little respect for the effort needed to accumulate it. In similar circumstances a state may be expected to behave similarly."⁽¹⁾

Furthermore, in the case of a state, a more permanent body than a person, the situation is worse in the sense that such behaviour will place an obstacle to future progress and development. With respect to this point Vivian Lewis writes:

"Above and over these wasteful expenditures, there is developing also - and perhaps more dangerously - what Ragaei El-Mallaleh in his study of Kuwait has called 'the wasteful attitude in human endeavour and productivity'. Capital formation in OPEC countries is often less well-rewarded than bureaucratic skills or traditional Levantine mercantile abilities."⁽²⁾

However, Arab oil countries are not spending their oil revenues on consumption only. Our task would be unfulfilled if we did not consider other types of local effectation. But before that we have to consider what amount of capital their domestic economies are ready to absorb.

SECTION II - 2 : ABSORPTIVE CAPACITY OR SPENDING CAPACITY IN ARAB OIL COUNTRIES

First of all the existence of funds surplus underlines the smallness of the absorptive capacity of the Arab oil countries. This is due to several built-in constraints.⁽³⁾

- weakness and non-organisation of the local market,
- shortage of stable and well-qualified work force and managerial and technical expertise,
- quasi absence of social and economic infrastructure,
- insufficient means of communication and transportation - either by road or rail.

(1) - Ali Khalifa Al-Kuwari, op. cit. pp. 228-9.

(2) - V. Lewis, "Is Oil Money Spurring Real Development?" in the Banker, op. cit. p.886.

(3) - Samir Nour, "The Conditions of Economic Development of Arab Oil Countries" (French), in Revue d'Economie Politique, ed. Sirey, Number 4, September-October 1974, p.633.

However, for others the constraints are not only physical. For instance, Ali Khalifa Al-Kuwari states that:

"the local economies were not able or ready socially, politically, or economically to absorb the revenue obtained from exploiting oil resources, in a more productive and economic way than they have done."⁽¹⁾

Both authors see the problems in terms of absorptive capacity. Such a view has been very common from 1973 onwards. However, Mr. Michel Chatelus takes a different position. He states that the concept of absorptive capacity is useless. He maintains that it is not valid for all the Third World countries. As for the Arab oil countries he writes that:

"in the case of a mining rent, such as the oil rent, the very conditions of appearance and allocation of the rent leave useless the references usually adopted to determine the absorptive capacity."⁽²⁾

The usual references being the ability to pay the external debt through revenues earned from new investment, the stimulation of domestic savings and the maintaining of some equilibria. These tools are irrelevant in our case, for the situation is completely different: excess of funds. At this stage it is worthwhile pointing out that the concept of absorptive capacity has always been approached in the context of capital aid, or, in other words, a situation of shortage of capital.

The same author maintains that it is not possible to take into consideration all the diverse costs involved (e.g. pollution). It follows that final choices are just arbitrary ones.

Furthermore, the selection of projects is a function of the volume of capital available, and therefore the Arab oil countries introduce a new element in the habitual handling of the problem.

Mr. Chatelus rejects the absorptive capacity approach for two main reasons. Firstly "the introduction of vague criteria to appreciate the differential profitability (such as the coefficients of different costs), and the persistence of a very different rate of discount, even in the industrialised countries, suffice to show the

(1) - Ali Khalifa Al-Kuwari, op. cit. p.228.

(2) - cf. P.159.

non-operational character of the theoretical approach."⁽¹⁾

- The second reason is that the absorptive capacity approach assumes the existence of a World optimum. With respect to this point the same author writes that: "... in the reality of the World economic system and unequal relations, there is no room for an "optimum" which would not be the norm of the most powerful. So we can admit that, for the countries concerned, since they are recognised as ^a political entity, there is indeed a zero opportunity cost for a certain type of capital formation at least, even if it is evident that for the whole world this notion cannot be accepted."⁽²⁾

For those reasons Mr. Chatelus states that it is more realistic to consider the problem in terms of spending capacity. The implications of this situation are assessed in terms of risks. However, what are the features of this spending capacity which is bound to be higher than the absorptive capacity?

The main factors which characterise Arab oil countries' spending capacity are the pressures that we mentioned earlier and time constraints that we present below.

A - Time Constraints on Arab Oil Countries

The Arab oil countries want to do everything in the shortest time possible. Such behaviour can be explained, but not justified, by four elements:

- The first time constraint is derived from the very nature of the oil rent itself: oil reserves are limited and therefore the oil rent too. From this reality arises the urge to use the oil rent to create "a non-oil based economy in a given period. This led to the appearance of "Economic Horizons", 1980 for Algeria, 1985 for Iraq. Some even talk in terms of economic "take-off" by that time.
- The second time pressure comes from the galloping population growth rate. This point has been treated in the first chapter.
- The third element is a political one. By speeding up the economic growth, which in our case means greater material welfare, every Arab

(1) - Michel Chatelus, "From the oil rent to Economic Development: Hold-up of the century or New Hopes for the Third World" (in French), in Revue d'Economie Politique, Edition Sirey, Number 1, January/February 1976, p.33.

(2) - Ibid.

government is hoping to neutralise existing or would-be political oppositions. By hoping to do so Arab regimes want to show to the people that they are conscious of the problems of the population and that their policies work. It follows that they have to remain in power.

- The fourth element springs from a kind of competition amongst Arab oil countries. This can be rightly extended to all OPEC countries. Every country wants to establish itself in the world market for a given product/products such as the petrochemical ones. These time restraints are determining factors in Arab economic policy, for they explain most of it.

On the other hand they transpose the problem from an absorptive to a spending capacity point of view, the latter being greater for in a situation of unlimited supply capital:

"It is possible to envisage a rapid accumulation of material capital, due to a massive recourse to technology, organisation, and foreign technicians and manpower."⁽¹⁾

It is the exact picture of the Arab oil countries. Furthermore this spending capacity is definitely more important when these countries are ready to accept, or rather afford, some risks. These risks being:

"...higher costs, shorter durability of the assets bought, an excessive capacity of production, and frequent stoppage of functioning."⁽²⁾

Every side of this quotation can be checked. Higher costs are obvious with galloping inflation.⁽³⁾ Furthermore, Arab oil countries suffer from differential rates of inflation which they have learned to live with. Shorter durability of capital is a fact with respect to defence expenditure. It is common that the first delivery brings obsolete weapons. Excessive capacity is the problem they have to face tomorrow. An example is the mushrooming of refineries and fertilizer plants.

(1) - M. Chatelus, op. cit. p.28.

(2) - M. Chatelus, op. cit. p.34.

(3) - The problem of inflation has already been dealt with in Chapter III.

Stoppages are very "frequent" in some countries such as Algeria. In some cases industrial plants did not even start functioning and they were faced with technical problems which led to long delays.

The total expenditure of seven Arab countries - Algeria, Iraq, Kuwait, Libya, Qatar, Saudi Arabia and U.A.E. - is given by the following table. The most important item of Arab oil countries' spending is "merchandise imports". All in all their combined imports increased from 16.2bn. dollars in 1974 to 33.5bn. dollars, that is more than doubled.

However, although instructive this item does not give us, for instance, the magnitude of food bills, durable goods for consumption, and equipment imports; the last being very important. On the other hand, it is interesting to wonder about the Arab oil countries' economic policies bearing in mind such an import bill and the previously mentioned pressures and constraints. These policies form the substance of the following part.

SECTION II - 3 : ARAB OIL COUNTRIES' INDUSTRIAL AND AGRICULTURAL POLICIES AND THEIR APPROACH TO THE TRANSFER OF TECHNOLOGY PROBLEMS.

Arab oil countries' strategies of development could be detected through their economic plans. However, given the number of countries considered it is not possible to present a thorough study of each plan. Therefore our approach will be to concentrate on agricultural and industrial sectors with a final bird's eye view of the way they are tackling the problem of transfer of technology.

A - Agricultural Sector

Arab countries could be divided between countries with negligible or large agricultural potential.

1. - Arab Oil Countries with Negligible Agricultural Potential

This group contains all the Arab oil countries except Algeria and Iraq. These countries are quasi desert with little or no agricultural surplus. They can, for the time being, afford an increasing food import bill. The presence of a huge oil rent makes any agricultural production "quasi nil".

TABLE A1 : Spending Capacity of Arab Oil Countries (1974-1976)

	Oil Revenue	Non-oil Exports	Total Revenue	Merchandise Imports	Net Service Payments	Grants/aid Disbursed	Total Absorption	Surplus (Deficit)
Algeria								
1974	3.7	0.4	4.1	3.7	0.5	0.0	4.2	(0.1)
1975	3.8	0.3	4.1	5.7	0.3	0.0	6.0	(1.9)
1976	3.9	0.5	4.4	6.2	0.6	0.2	7.0	(2.6)
Iraq								
1974	5.7	0.2	5.9	3.2	0.4	0.4	4.0	1.9
1975	8.0	0.2	8.2	6.1	0.8	0.1	7.0	1.2
1976	9.9	0.3	10.2	6.9	1.0	0.5	8.4	1.8
Kuwait								
1974	8.0	0.4	8.4	1.4	(0.5)	1.2	2.1	6.3
1975	7.8	0.6	8.4	2.2	(0.8)	1.8	3.2	5.2
1976	8.4	0.7	9.1	2.8	(1.2)	1.0	2.6	6.5
Libya								
1974	6.2	0.0	6.2	2.7	0.7	0.2	3.6	2.6
1975	5.9	0.0	5.9	4.6	0.8	0.4	5.8	0.1
1976	7.2	0.1	7.3	5.2	0.6	0.5	6.3	1.0
Qatar								
1974	1.6	0.0	1.6	0.2	0.1	0.2	0.5	1.1
1975	1.9	0.0	1.9	0.6	0.1	0.2	0.9	1.0
1976	2.2	0.0	2.2	0.9	0.3	0.0	1.2	1.0
Saudi Arabia								
1974	24.5	0.0	24.5	3.8	0.9	2.2	6.9	17.6
1975	26.8	0.0	26.8	6.5	0.6	1.9	9.0	17.8
1976	33.2	0.1	33.3	8.5	(0.3)	2.0	10.2	23.1
U.A.E.								
1974	6.0	0.0	6.0	1.2	0.1	0.6	1.9	4.1
1975	6.4	0.6	7.0	2.6	(0.1)	0.4	2.9	4.1
1976	8.3	0.5	8.8	3.0	(0.2)	0.5	3.3	5.5

1976 figures are forecasts of expected out-turn.

Source: The Banker, op. cit. March 1977, p.91.

The prospects for the agricultural sector, connected mostly with irrigation, tend to settle nomads here and bedouins there. Furthermore, there is no articulated plan to integrate agriculture to the whole domestic economy. From this point of view the future is not bright; as far as food imports are concerned, we foresee an increasing dependence. A regional solution could be the "way out" for them.

2. - The Case of Algeria and Iraq.

Both countries have undertaken effective and serious land reforms. For them agriculture should be the productive sector which will provide the required surplus which the whole economy has to be based on. Furthermore, the land reforms were designed to associate politically and economically the rural population. From this point of view even Libya could be rightly added to both countries. They also aim at creating inter-sector exchanges between agriculture and industry as will be seen in the following part.

B - Industrial Sector

With respect to the industrial sector, the criterion for distinguishing between the various Arab oil countries is the size of their population.

1. - Arab Oil Countries with small Populations.

Only Iraq and Algeria with viable populations will be excluded from this group. Despite all the publicity made about their development plan it seems that those countries do not have any long term strategy of development. They only have projects which will in no way lead to a self-sustained and self-centred economy. For, these projects, although physically implanted within the country/region are extraterritorial: Most of their inputs, from raw material to manpower and technicians are imported, and the outputs are intended to be exported.

One has the feeling that those countries see the problems still in terms of growth rather than development. Several criticisms are to be directed to their approach:

- From a technical point of view these projects can have problems at both ends: supply and markets.

- The "industrial sector" of these economies is becoming more and more an enclave or "foreign sector" within the domestic economy, just like the oil sector has always been.
- They do not increase inter-regional or inter-Arab trade since these countries have no comparative advantage at sub-regional level: that is the Arabic peninsula. These economies are characterised by excess of oil and natural gas, availability if not excess of funds and lack of know-how combined with small populations. On the other hand their projects might create competition which can be ruinous for all, since the success of any one country is subordinated to the failure of others. Fortunately some of them were aware of the problem and did not go ahead with every planned project. It is not enough.
- Their extraterritoriality increases the dependence of those countries on western industrialised countries without promoting long-term economic development.
- Finally, and foremost, one has to judge these projects with regard to their ultimate aim. In our opinion, apart from inflating their GNP, these projects will be just adding financial earnings to countries which are already witnessing financial surplus. In other words these countries are just consolidating their status of "state rentier", and therefore making their future even more fragile.

2. - The Case of Algeria and Iraq.

These countries seem to be tackling their under-development more seriously; however it is too early to draw final conclusions about what has become to be known as the "Iraqi way" or the "Algerian model". Nonetheless their main features seem to be more or less the following ones.

- The industrial sector is to be closely linked with agriculture. Furthermore, it is designed to serve and back agriculture with fertilisers, tractors and so on.
 - Domestic raw materials are used, iron ore and phosphates for Algeria and Iraq respectively.
 - Production or output is to be domestically consumed. This is possible because of the size of the home market.
- There is no extraterritoriality with the concept of "Industries Industrialisantes"⁽¹⁾ put into practice by Algeria. It appears that

(1) - It is the concept of Mr. G. De Bernis who has been one of the architects of the first Algerian "Quadriennial Plan".

both countries have decided to create a self-sustained and self-centred economy based on domestic considerations and conditions alone. However two main criticisms could be safely made of them.

- Firstly, they do not escape the time pressures whose consequences have already been analysed.
- Secondly, given the international setting sooner or later they will be faced with market problems. It follows that a regional approach, including non-oil producing Arab countries, is a necessity even for these countries.

This is the actual approach of the Arab oil countries to development; however the picture would not be complete without considering the transfer of technology problem.

C -- Approaches to the Problem of Transfer of Technology.

According to M. Chatelus⁽¹⁾, when one considers the problem of transfer of technology one is faced with the subsequent questions:

- firstly, how to consider the problem,
- secondly, how to transfer a useful technology,
- and thirdly, how to master and progressively produce the right technology.

Here again each group of countries follows a specific plan.

1. - Countries with Small Populations and Huge Funds.

As has been stated these countries see their problems in terms of growth and their technological choices derive from such a stance. Their aims are inflated G.N.P. and high growth rates. This requires the most modern equipment. They see the problem of the transfer of technology in terms of "catching up" with western industrialised countries. They catch up by acquiring considerable "stock" of equipment without taking into consideration their domestic socio-economical conditions. M. Chatelus maintains that those countries and mainly:

"...the Saudi and Kuwati models of growth consider the transfer of technology only under its very limited aspect: the progressive formation of local technicians."⁽²⁾

(1) - M. Chatelus, op. cit.

(2) - M. Chatelus, op. cit. p.42.

This means that they are trying to adapt their specific human conditions to foreign technology. If they persevere in such a policy the result would be a complete and permanent technological dependence on western industrialised countries. Technological dependence is a kind of "snowball".

2. - The Case of Algeria and Iraq.

Both countries are trying to adapt foreign technology to local conditions. However, from the aim to success there is a long way to go; but as some say a problem rightly seen is already "half solved".

For the time being it appears that the "technologist" tendency is not absent; especially when one refers to some projects contracted on a "turnkey" basis. The first Algerian contract on this basis has been applauded by the press and branded as "the way to beat time". The transfer of technology is a very important one, especially with regard to other L.D.Cs. If the Arab countries manage to solve their technological dead-end they would solve the problem of other L.D.Cs. For, the social and physical conditions are more or less similar: illiterate population, vast desert land, presence of underground water, pollution in arid zones etc. If the Arab oil countries manage nothing but attract heavy industries with their pollution, in our opinion the Arab oil countries have failed. For this is part of the new international division^{of} labour, the western industrialised countries are trying to set up.

In other words, if they fail to oblige the Multinational Companies to redirect their research and produce a new technology suitable to the Third World's conditions, the consequences will be disturbing for everyone. In our opinion this is the main responsibility of Arab oil countries towards other L.D.Cs, and not just giving transfer payments for them. Furthermore, the Arab aid programme is assessed in the following two sections.

SECTION III - PETRODOLLARS RESHUFFLING THROUGH ARAB BILATERAL AGENCIES

Four Arab bilateral agencies provide financial aid to other Arab and non-Arab countries. They are the Kuwait Fund for Arab Economic Development or KFAED, The Iraqi Fund of External Aid or IFEA, and finally the Saudi Development Fund or SDF. The KFAED was the first to be set up and enjoys the highest expertise and the greatest

performance as will be seen later. Furthermore it was this which inspired other funds which have been established in line with it. A reasonable approach would seem to us to focus our study on the Kuwait Fund for Arab Economic Development and to generalise cautiously our conclusions. However, a presentation of other funds, although rapid, seems necessary to us. It will be done beforehand.

SECTION III - 1 : BILATERAL AID AGENCIES OTHER THAN THE KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

A - The Abu Dhabi Fund for Arab Economic Development

This fund is based in Abu Dhabi and was established in 1971 with authorised capital of 500m. dollars.

The Abu Dhabi Fund for Arab Economic Development finances three types of operations: project loans, equity holdings and other forms of aid.

The terms of loans are very advantageous to the recipient countries: interest rates are lower than those offered by capital markets and even the World Bank. They vary from 2-3% per annum, with grace period of 2-4 years and repayment period of 11-12 years. The Grant Element⁽¹⁾ varies from 29 to 48% of the loan. The Fund grants loans for the subsequent sectors: industry, agriculture, infrastructure and even tourism. This agency imposes three limits on financing any one project. Firstly, loans must not exceed 50% of the project cost, secondly, or 10% of the funds capital, that is 50m. U.S. dollars, and thirdly, only foreign exchange requirements of projects are met.

(1) - In calculating the Grant Element Arab aid institutions use the D.A.C's formulae, that is:

$$s = \left(1 - \frac{i}{q}\right) \left(1 - \frac{e^{-qG} - e^{-qT}}{q}\right) \quad \text{where}$$

s = Grant Element as share of face value

i = Rate of Interest

q = Rate of Discount

G = Grace Period

T = Maturity

Source: Goran Ohlin, "Foreign Aid Policies Reconsidered", Development Centre, O.E.C.D., Paris, 1966, p.102 and p.103.

These conditions are very similar to those set by other Arab agencies, and therefore they will be assessed at the end of this section. It is too early to draw definite conclusions concerning the Fund's operations, for in its five year existence it has financed only twenty-seven projects totalling 279m. dollars. All but 100m. of this amount went to Arab countries. However, according to N. Fallon: "lending policy appears to be a matter of impulse rather than of planning, but if there is to be a greater co-operation between the Fund's granting aid, as some hope, Abu Dhabi is likely to contribute to take a full share." (1)

B - The Saudi Development Fund

Based in Jiddah with a capital of 2,900m. dollars the Saudi Development Fund is the most recent aid-giving Arab agency; established in 1974. This, among other things, means that data, such as the terms of loans and grant element is not available. This situation imposes some restrictions on our work. The only purpose of the Saudi Development Fund is to provide project loans for infrastructure, agriculture and industry. Three conditions characterise the Saudi Development Fund's loan policy:

- loans do not exceed 50% of the total cost of a single project,
- or 5% of the Fund's capital, that is to say 145m. dollars,
- and finally no country can benefit more than 10% of the Fund's total capital, i.e. 290m. dollars.

The Saudi Development Fund has a fourth characteristic which distinguishes it from other Arab funds, namely the Saudi Ryial being the unit of account. From 1974 onwards the Saudi Development Fund granted loans totalling \$330m.

C - Iraq Fund for External Development

It is also a very recent institution established in June 1974; unfortunately information concerning the terms of loans, the conditions of the loans and its sectorial emphasis are not available.

It is the least important of all Arab aid agencies for its capital does not exceed 160 million dollars.

For the time being it has financed only one project with 10m. dollars, although it intends to undertake project and technical assistance operations.

(1) - N. Fallon, op. cit. p.167.

Those are the main features of the Abu Dhabi Fund for Arab Economic Development, the Saudi Development Fund and the Iraq Fund for External Development which are, more or less, negligible comparatively to the Kuwait Fund for Arab Economic Development.

SECTION III - 2 : THE KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

A - Presentation of the Kuwait Fund for Arab Economic Development

The Kuwait Fund for Arab Economic Development, usually known as the Kuwait Fund, was the first Arab agency of its type; furthermore it served as a model for other funds and sometimes contributed in drawing their statutes⁽¹⁾. It was established in December 1961 with a moderate capital of KP. 200m, or 500m. dollars equivalent, but following the oil prices upsurge it was extended and enlarged in July 1974. Its authorised capital reached KP 1bn. or 3.4bn. dollars and its services were extended to non-Arab developing countries. However its headquarters are still in Kuwait-City and its staff does not exceed 24/30 people.

The Kuwait Fund for Arab Economic Development functions like the World Bank and it has been said that the structure of the latter inspired its architects.

The Kuwait Fund offers only project loans, provision of guarantees and technical assistance. Given the level of the Kuwait economy the Fund has little technical assistance to offer. On the other hand, during its decade or so of existence the Fund's principal activity has been to provide project loans.

The Fund⁽²⁾ charges 3 to 4% interest rate per annum plus 0.5% service charge, repayment and grace period are usually 10-25 and 4-5 years. It has been estimated that the Grant Element varies from 29 to 48%. According to its statutes the Fund is to give priority to infrastructure, agriculture and industrial sectors.

However like any other Arab institutions the Kuwait Fund imposes some conditions which are:

- The Kuwaiti Dinar is the unit of account,

(1) Drafted the statutes of the Arab Fund for Economic and Social Development.

(2) For further details cf.: A.Y. Al-Hamad*, "The Employment and Income Distribution : Objectives in the Kuwait Fund Development Assistance" and Galal A. Amin**"Project Appraisal and Income Distribution", World Development, Pergamon Press Ltd., Oxford, February 1978.

* A.Y. Al-Hamad is the Chairman of the Kuwait Fund for Arab Economic Development. (KFAED)

- No single loan could exceed 50% of total project,
- or 10% of the Fund's capital.
- Financing is restricted to foreign exchange requirements only,
- and finally projects must not be in conflict with Kuwaiti or Arab economic interests.

B - Performance of the Kuwait Fund

Table 42 gives an idea of the Fund's record from 1962 to 1976. What are the conclusions to be drawn? Since its creation to June 1976, the Kuwait Fund disbursed KD 320.36 millions or about U.S. \$1.089bn. The Arab countries share was 76.57% of the total amount. This is understandable because from 1962 to 1975 the Fund operated exclusively for the benefit of Arab countries. It was only after the oil crisis that it extended its facilities to other L.D.Cs. However, as shown in Table 42B, in one year the Kuwait Fund granted KD 75.05 million or U.S. \$255.17m. to other countries, that is just under one fifth of the total amount granted in its fourteen year existence.

Let us now consider the problem from a sectorial point of view. For the Arab countries 33.6% of the loans granted went to Transport, communications and storage. Then comes agriculture with 23%, electricity has been treated on equal footing with industry, just above 21% each. This sectorial distribution with so marked an emphasis on transport communications and storage will definitely expand the absorptive capacity of individual Arab countries by removing some bottlenecks. Concerning non-Arab countries, it seems that the lion's share went to electricity, 53.9% of the total loans. Then comes agriculture with 22.2%, industry with 16.0% and finally transport communications and storage with just 8.0%.

If one does not distinguish between Arab and non-Arab receiving countries the sectoral distribution is as follows: Agriculture 23.17%; Transport Communications and Storage 27.34%; Electricity 29.10% and finally Industry 20.08%. The main remark is that the combined share of agriculture, transport and electricity amounted to just under 80%. Those three sectors do not produce any quick returns. This underlines the fact that the Kuwait Fund for Arab Economic Development is ready to finance long-term projects.

TABLE 42 : Sectoral and Geographical Distribution
of The Loans ⁽¹⁾ Granted by
The Kuwait Fund for Arab Economic Development
(1 January 1962 - 30 June 1976)

A : Arab Countries

(Million KD)

Country	Agri- culture	Transport Communi- cations & Storage	Electricity	Industry	Total	% (1)
Algeria		10,000			10,000	4.1
Bahrain		.500	7,350	1,490	9,340	3.8
Egypt		27,800	10,000	13,700	51,500	21.0
Iraq			2,620	3,760	6,380	2.6
Jordan	6,480		3,260	6,980	16,720	6.8
Lebanon		.800	1,660		2,460	1.0
Mauritania		9,400			9,400	3.8
Morocco	10,050		3,500	9,250	22,800	9.3
Somalia	6,000		6,200		12,200	5.0
Sudan	20,310	7,000		7,670	34,980	14.3
Syria		7,000	9,900	2,000	18,900	7.7
Tunisia	5,200	13,750	8,350	4,500	31,800	13.0
North Yemen	5,020	1,780		3,000	9,800	4.0
South Yemen	4,530	4,500			9,030	3.7
TOTAL	57,590	82,530	52,840	52,350	245,310	100.0
% (1)	23.5	33.6	21.5	21.3	100.0	
B : Non-Arab Countries (1st April 1975 - 30 June 1976)						
<u>ASIA</u>						
Bangladesh	2,300		6,400		8,700	11.6
India			15,000		15,000	20.0
Malaysia	7,600				7,700	10.1
Maldives		1,500			1,500	2.0
Nepal			5,000		5,000	6.7
Pakistan			13,000		13,000	17.3
Sri Lanka				7,500	7,500	10.0
Thailand			1,000		1,000	1.3
<u>AFRICA</u>						
Comores		1,800			1,800	2.4
Guinea		2,700			2,700	3.6
Rwanda	1,000				1,000	1.3
Tanzania				4,500	4,500	6.0
Uganda	5,750				5,750	7.7
TOTAL	16,650	6,000	40,400	12,000	75,050	100.0
% (1)	22.2	8.0	53.9	16.0	100.0	

Source: Kuwait Fund for Arab Economic Development "Annual Report"
1975-1976, P-P. 107-8.

(1) KD1 = U.S. \$

Another satisfactory feature is the place of agriculture that took around 23% of the total loans granted. This development is likely to respond to L.D.C's needs because their agricultural population is very important. As far as Arab countries are concerned it has been outlined in Chapter I. However this does not mean that the four funds are safe of any criticism.

SECTION III - 3 : AIMS AND LIMITS OF THE BILATERAL ARAB AID FUNDS

A - Aims and Motives behind Arab Aid.

Either for bilateral or multilateral funds the Arab countries have, more or less, the same aims and motives. It follows that some elements of this section have to be extended to the next one. R. El-Mallaleh lists three types of motives: they are political, religious, economic and humanitarian motives.

The Politico-cultural Motives

R. EL-Mallaleh distinguishes between political and cultural motives, however as far as aid to fellow Arab countries is concerned, we do not. For it is hard to find a clear cut between cultural, religious, political and historical links and it is harder to deny their existence and the Arab countries' common drive towards unity. It is this common destiny, either past, present or future which not only justifies the flow of aid between Arab countries but puts it in terms of duty.

The Economic Motives

Every Arab government is conscious of the interrelation between Arab economies and the repercussions of any country's strength or weakness on the rest. Such an argument is more valid when that very country occupies a very important place given the strategy of the moment. Such a situation is very well exemplified by Egypt which, for the moment, constitutes the spinal bone of the Arab World. Egypt's current importance has been materialised by millions of dollars pouring into it. Furthermore, a special fund has been set up by Saudi Arabia, Kuwait and the U.A.E. to respond to Egypt's specific economic needs. This scheme, known as the Gulf Fund, is to provide Egypt with more than

2bn. dollars over the next five years. The last riots in Cairo, which led to more grants offered by Arab countries to Egypt, are very telling.

Finally the economic motive can better be explained by every Arab country's open aim to reach economic unity.

Humanitarian Motives

If some Arab countries such as Abu Dhabi, Kuwait and Libya enjoy one of the highest G.N.P. per capita in the World, other Arab countries such as Sudan and Somalia are classified amongst the poorest countries by international organisations. This means that any national calamity, such as a flood or drought, would bring down the latter to starvation level. It follows that:

"Humanitarian considerations reflect the normal principle of relative egalitarianism normally accepted within a single country and community must be recognised as an important factor in Arab aid giving."⁽¹⁾

This argument applies to non-Arab Developing and especially Muslim countries. However, as far as we are concerned, we will add another motive which has not been listed by R. El-Mallaleh, namely the impact of oil prices on Developing Countries' economies.

Oil Price Increases⁽²⁾

It seems that some support the view that OPEC countries in general underestimated the impact of oil price increases on the developing countries' economies. For instance, Maurice J. Williams writes: "...OPEC countries underestimated the importance of oil to them and tended to regard forecasts of the dire effect of oil price increases as part of the publicity campaign by industrial consumers against higher prices."⁽³⁾

This situation led to a campaign of propaganda between industrial and OPEC countries. The former maintaining that oil prices have

(1) Ragaei El-Mallaleh and Mihssen Kadaim, op. cit. p.479.

(2) The Oil Crisis' direct and indirect impact on N.O.D.C. has already been treated in Chapter II.

(3) Maurice J. Williams, "The Aid Programs of the OPEC Countries", Foreign Affairs, January 1976, p.311.

"shattered" the L.D.Cs' economies and the latter responding that oil prices contributed "only slightly" to an already inflationary situation and that:

"oil price rises should not be seen in isolation, but in conjunction with other factors causing additional B.O.P. burdens for developing countries including, in particular, price increases of manufactures, food and fertilizers." (1)

This polemical atmosphere did contribute to pushing OPEC countries, of which Arab oil countries, to give aid to L.D.Cs. in the aim of maintaining an already won support. It goes without saying that capital aid was only one of the several means used by the OPEC countries. (2)

Those are the aims and motives of Arab oil countries in giving aid; it is too early to assess the achievement of such a policy, but results are function of the means used. In our case these means are the institutions being set up by donor countries, and any built-in limits might impede or diminish their success.

B - Some Limits to the Arab Bilateral Aid Funds.

Some of the following limits apply to the Arab Multilateral Funds as well.

- The present paid-up capital of the above-mentioned four Funds is negligible comparatively to their authorised capital.
- The sum of pure grants in the loan is not very important, on the other hand, one has to recognise that the terms are more favourable than those offered by international lending agencies and the D.A.C. members.

"Aid is provided on a project by project basis... and this can be harmful for a number of reasons." (3)

(1) - Ibid, p.312.

(2) - The OPEC set up the "Special Fund Balance of Payments Support Program" and the "Project Lending Program" cf. Appendix IV-6 and IV-7.

(3) - R. El-Mallaleh and M. Khadim, op. cit. p.481.

Firstly, the funds cannot be allocated to other projects, or part of them, even though the latter are being delayed because of a shortage of funds. This is, indeed, very harmful particularly in the case of "planned" economies where all projects are, more or less, inter-related and therefore any delay or slowness will definitely have a chainy repercussion.

Secondly, when there are several donors, it will be hard for the recipient country to satisfy each one, for each one of them will propose to finance the most creditworthy project.

The fact of financing only the foreign exchange requirements of the projects is a problem too. The receiving country would be tempted to: "...maximise the foreign exchange component in proposed projects or neglect the development sectors, such as education and technical training in which import costs tend to be low."⁽¹⁾ The consequence is increased dependence.

During its decade or so of existence, the Kuwait Fund for Arab Economic Development concluded that one of the main reasons of the Fund's slowness is, on the part of the recipient country, the shortage of able staff competent enough to formulate projects worth supporting. This is very important when one recalls the Fund's emphasis on creditworthiness and feasibility mainly. One can always say that the Arab countries cannot help such a situation. On the other hand, receiving countries noticed that their demands to through lengthy administrative procedures within the Kuwait Fund itself.

Concerning this point N. Fallon writes:

"if this is the situation of the Kuwait Fund for Arab Economic Development which was established in 1961, and has accumulated both experience and competence it is certainly not a question whether the other funds can operate effectively until several years have passed."⁽²⁾

Furthermore, it can be reasonably assumed that bilateral funds are creating some kind of political influence within the Arab World. This can be very harmful if one considers the problem from the Arab unity point of view. This behaviour could be seen as nothing but a narrow individualism whose ultimate result is nothing but rivalries.

(1) - Ibid, p.477.

(2) - N. Fallon, op. cit. p.187.

Furthermore, up until recently there was no co-operation between the four funds. This is surprising at the time when international institutions were aware of the necessity for co-operation. For instance the United Nations through its Economic Commission for West Asia (E.C.W.A.): "...held a meeting with representatives of the Kuwait Fund for Arab Economic Development and the Abu Dhabi Fund for Arab Economic Development to discuss methods and procedures of initiating co-operation amongst them." (1)

The three institutions decided to hold regular meetings which were to be enlarged to include the Iraq Fund for Economic Development and the Saudi Development Fund.

The non-existence of such a co-operation will be dealt with at length at a later stage, however for the time being one can only bitterly deplore the fact that such an initiative, although beneficial, had to come from a non-Arab institution. If such a step were taken by the League of Arab states, it would have been, in our opinion, a very positive sign.

Those are the limits. However, it would be unfair to state that Arab aid contains only disadvantages. For, despite those limits which give room for improvement the quality of Arab aid has to be appreciated comparatively to aid provided by other countries and institutions.

- The flow of Arab aid does, indeed, constitute another source of funds for L.D.Cs.
- The vast literature devoted to western countries' aid accustomed us to accept the "quasi axiomatic" fact that external aid contains political and economic disadvantages. What about Arab aid then?
- As outlined earlier Arab aid is granted on more favourable terms than "western aid" for instance, with more important grant elements Arab aid is almost constituted of "clean loans". For Arab oil countries have no manufactured goods to export, therefore it cannot be tied.

For instance, it follows that "credit export" is ruled out and with their "hard currency" loan the receiving country can "shop around".

It appears that from an economic point of view the quality of Arab aid is high.

(1) - R. El-Mallaleh and Mihssen Kadhim, op. cit. p.483.

The second point is that although the D.A.C. countries set their own aid target of 1% of their G.N.P. they never managed to reach it. However, according to an O.E.C.D. report quoted by the Financial Times⁽¹⁾, Kuwait, Qatar the U.A.E. and Saudi Arabia gave 2.8%, 6.7%, 4.6% and 2.6% of their 1975 G.N.P.

One has to recognise that concerning these types of figures one is always faced with conflicting reports. For instance, according to Kuwaiti data this country is giving around 8% of its G.N.P. as aid. For M.J. Williams⁽²⁾ the D.A.C. gave 0.33 and 1.8 and OPEC 0.78 and 3.4% of their respective G.N.P. for 1974 and 1975 respectively⁽³⁾. In view of these figures one can safely advance that, although there is room for improvement, Arab countries are doing quite well. However, before condemning or praising Arab aid we have to consider the other channels used by Arab countries. These channels will be dealt with in the following and final section of this chapter.

SECTION IV : ARAB AID THROUGH ARAB MULTILATERAL AGENCIES

This section will be divided into three parts. The first one dealing with the resources and operations of Arab Multilateral aid giving agencies, the second one with motives behind Arab aid. As for the final one it deals with the criticisms which might be directed towards those agencies.

SECTION IV - 1 : Resources and Operations of Arab Multilateral Aid Agencies

Arab countries are using several channels to grant different types of aid to non-Arab developing countries. Some of those agencies are contributing to Arab oil and non-oil producing countries alike. This feature distinguishes them from the previous set of agencies. To differentiate between some of these funds we are, in a way, obliged to use artificial geo-political and religious criteria. We shall divide the recipient countries between Arab, Muslim and African ones.

(1) - Financial Times, February 25, 1977, p.24.

(2) - M.J. Williams, op. cit. p.323

(3) - For further details concerning O.A.P.E.C.'s aid cf. Appendix IV-3.

A. - Multilateral Aid Agencies for Arab Countries

There are two funds: The Arab Fund for Social and Economic Development and the Special Fund for Arab Non-oil exporting countries the former being the more important, therefore it will be dealt with more thoroughly.

1. - Arab Fund for Economic and Social Development

It was proposed by Kuwait to the 1967 Khartoum(Sudan) Arab Summit and established in May 1968 with headquarters in Kuwait-city. It was drafted by the Kuwait Fund for Arab Economic Development. However, given its multilateral status the Arab Fund for Economic and Social Development is not a 100% carbon copy of the latter although they are similar in some points. Its authorised capital is just under 347m. dollars and any Arab country may join, the membership subscription being function of the country's wealth.

The Arab Fund for Economic and Social Development provides two types of operation: project loans and technical assistance with special emphasis on industry and infrastructure. Interest rates vary between 4 to 6% per annum and repayments and grace periods are 12-20 and 4-5 years respectively.

The Arab Fund for Economic and Social Development imposes some restrictions too: the recipient must be a public or a private organisation in Arab countries, however, contrary to other funds equity participation is prohibited.

It appears that this Fund is characterised by its slowness: it started functioning four years after being set up. Furthermore, in the four succeeding years it granted no more than 102m. dollars. This is negligible when one recalls the huge capital requirements of Arab non-oil countries and capital surplus of Arab oil countries. One would have expected the Arab Fund for Economic and Social Development to create a link, a channel, between both groups but this has not been the case. On the other hand it will be interesting to consider the Arab Fund for Economic and Social Development's approach to the Arab World's development problems.

The Arab Fund for Economic and Social Development is not characterised by an active, let alone aggressive, approach to these problems. Up until now its role has been just to select loan

applications forwarded to it by individual countries or private or public bodies within the Arab World.

A.M. Underwood lists, quite rightly, several criticisms to this approach:

"initiation of projects by member countries is mostly guided by local and particularist considerations and rarely takes into account multinational interest."⁽¹⁾

It is a fact that a country's project cannot, by the nature of things, be otherwise. Given the political, economical and geographical competence of any given country even a neighbouring country's needs and potential cannot be assessed. Secondly,

"economic planning and programming in most member Arab countries is still in its infancy, and so project initiation is not likely to lead to optimal solutions."⁽²⁾

Furthermore, even fully-fledged planning aims at resolving local rather than regional problems. Therefore an inter-Arab Co-operation is required. Such a method can only lead to a worse scattering of the very scarce able human resources which characterise the Arab World (cf. Chapter I).

It follows that a more active approach on the part of the Arab Fund for Economic and Social Development is necessary. According to our previous author the Arab Fund should:

"take initiative in conducting the necessary research and pre-investment studies to conceive projects of direct impact for the achievements of its targets, and to promote the finances and entrepreneurship ... required for their implementation."⁽³⁾

However, given its statutes and paid-up capital can the Arab Fund afford an active approach? One can go further and wonder whether this Arab Fund was designed to carry out such a policy. In our opinion with an authorised capital of only 347m. dollars no fund can undertake a trully regional mission.

(1) - Source: A.M. Underwood, "Financial Flows Within and Between Selected Arab States", unpublished thesis, University of Durham, September 1974, p.35.

(2) - Ibid.

(3) - A.M. Underwood, op. cit. p.36.

An active approach must be based on a sound and appropriate organisation. Given the available qualitative and quantitative expertise at regional level and especially given the existence of the several other funds, the Arab Fund can hardly afford such an "indispensable luxury".

It has been suggested that an active approach can always be narrowed by a restrictive and conservative interpretation of the agreement on the part of member countries. It is, indeed, a risk but a risk which is not specific to the Arab Fund for Economic and Social Development of any other Arab agency.

From the various operations undertaken so far, mainly during the first year of existence, it appears that the Arab Fund functions in a way not very dissimilar to the Kuwait Fund for Arab Economic Development. The reason is that loans to local schemes were predominant and no "social" project was financed. It will surely be unfortunate to find out that the Arab Fund for Economic and Social Development is a duplicate of the Kuwait Fund for Arab Economic Development.

2. - Special Fund for Arab Non-oil Exporting Countries.

The Special Fund for Arab Non-oil Exporting Countries is a special fund for it was designed to have a short life. The Fund was established in June 1974 to fulfil the special purpose of supporting B.O.P. of Arab non-oil exporting countries. It follows that the Special Fund for Arab Non-oil Exporting Countries is a direct consequence of oil price increases. It could be interpreted as a kind of oil facility specific to needy Arab countries. Another characteristic of the Special Fund for Arab Non-oil Exporting Countries is that it is administered by the Arab Fund for Economic and Social Development. Furthermore, it is the only Arab agency whose authorised capital has been wholly paid-up: 80m. dollars, and by 1976 all its capital had been disbursed.

Although the amount provided is not large the creation of the Special Fund for Arab Non-oil Exporting Countries did help to cushion oil price increases for some Arab countries, for loans were granted on very favourable terms: zero interest rates and repayment was to occur over 10 years after a 10-year grace period. The grant

element accounts for around 80% of total loans. The Special Fund for Arab Non-oil Exporting Countries granted financial assistance to individual Arab states on the basis of previous oil imports, a similar approach was used by the I.M.F. concerning the oil facilities. This fund is not development orientated and therefore from a long term point of view it is of negligible importance to us. It happens then, that the only multilateral Arab agency for fellow Arab countries is the Arab Fund for Economic and Social Development which is not doing a lot. However, what about aid to non-Arab countries, such as Muslim countries.

B. - Arab Multilateral Aid Agency for Islamic Countries.

Only one institution serves this purpose.

1. - Islamic Development Bank or IDB

It was established in August 1974 with headquarters in Jiddah (Saudi Arabia). Its authorised capital is 910m. ^{US}dollars with the possibility of it being increased to \$2.5bn.; it is second only to ~~that~~ of the Kuwait Fund for Arab Economic Development.

The Islamic Development Bank serves many purposes such as participation in equity capital, loan and technical assistance for productive projects in the public and private sectors. It also undertakes research and promotion of foreign trade amongst member countries. The Islamic Development Bank offers its services only to a Muslim country or to a Muslim community within a non-Muslim country. Since it is mainly a Saudi project especially designed for the Umma (Islamic community), loans are granted interest free. However, equity participation is more emphasised than loans. Although loans can be extended to any project, the productive-oriented ones are preferred. However, if in terms of capital it is the most important multilateral agency it also happens to be very slow in starting. According to its first Annual Report (1975-76) by 1976 it has approved just one loan of ID 6 million for Cameroon. In 1977 it is known to have disbursed around \$ 50 millions. Furthermore the Islamic Development Bank brought a new problem when it came into being, for its capital was paid in Islamic Dinars (ID). It was the first time that such a currency was used and it was done at international level.

For N. Fallon: "...Islamic Dinars, a currency which was not familiar.. creates some confusion but when its constitution has appeared it would seem to be equivalent to the pre-1971 U.S. dollar or S.D.R." (1)

The problem was solved by another problem, however in spite of this, it does not mean that Islamic countries were neglected, for as part of the Third World they receive loans and aid through the multilateral Arab channels. Furthermore, in the eyes of Arab countries, the African continent occupies a special position and consequently specific institutions were set up to serve them.

C. - Arab Multilateral Aid Agencies for African Countries

Three different agencies were set up to help African countries.

1. - Arab Bank for Economic Development in Africa

This institution is also called the Arab Bank for Industrial and Agricultural Development in Africa or ABEDA. It was established in November 1973 with its headquarters in Khartoum (Sudan) with an authorised capital of 231m. dollars. It was the first Multilateral Arab Agency to be set up and this clearly indicates the importance accorded by the Arab World to the African countries. It follows that the choice of Sudan, although an Arab country, as the host country is not a mere symbolic gesture. The choice goes back to the role played by the Sudanese President in setting up this bank.

The Arab Bank for Economic Development in Africa started functioning in January 1975 and by March of that year no more than 33m. dollars were paid up. The paid-up capital occurred as follows: (2)
Saudi Arabia \$12.5m. dollars, Algeria, Kuwait, Qatar, \$5m. each, Morocco \$2.9m., Tunisia \$1.25m., Oman \$1m., Bahrain, Jordan and Sudan \$0.25m. each.

The Arab Bank for Economic Development in Africa imposes one single condition: the recipient must be a non-Arab African country. The Arab Bank for Economic Development in Africa was given the burden of administering the subsequent special fund.

(1) - N. Fallon, op. cit. p.186.

(2) - E.C. Chibwe, "Arab Dollars for Africa", op. cit. p.143.

2. - Arab African Oil Assistance Fund (AFOAF).

This fund was set up in March 1974, and is the equivalent of the Special Fund for Arab Non-oil Exporting Countries, because its only purpose is to finance the recipient countries' oil imports. It serves, then, as a B.O.P. support. The granting of a loan is based on previous oil import.

By the end of 1976 the Arab African Oil Assistance Fund had granted thirty-five loans amounting to 126m. dollars. The terms are very favourable and the quality of the loans is next to the Special Fund for Arab Non-oil Exporting Countries'; 1% interest rate per annum and 15 and 10 year repayment and grace periods respectively. The grant element is estimated to be as high as 71%. It appears that the recipient countries were divided into two groups⁽¹⁾; most seriously affected and others. The first group took around 121m. dollars of the total capital. It has to be noted that then the Arab African Oil Assistance Fund's whole capital, i.e. 200m. dollars, was committed by the end of 1976. Most of the African countries took advantage of the Arab African Oil Assistance Fund's facilities. Only four Arab countries, Sudan, Mauritania, Somalia and Morocco, were granted a combined loan of 26.5m. dollars. Consequently, as far as the Arab African Oil Assistance Fund is concerned, there is no room to argue that aid went mainly to Arab countries. Furthermore, African countries received aid through a third channel.

3. - Arab African Technical Assistance Fund or AFTAF

Established in January 1974 for the purpose of providing loans and know-how, only 1% interest rate per annum is charged and the grace period does not exceed 3 years. As the Arab Bank for Economic Development in Africa the recipient must be a non-Arab African country.

By the end of 1974, five African countries, namely Liberia, Mali, Rwanda, Uganda and Tanzania applied for loans. The Fund's sectoral emphasis is B.O.P. support. On the other hand, the Arab African Technical Assistance Fund differs from other Arab funds on two aspects.

(1) - cf. Appendix IV-2 for disbursements and commitment of Arab African Oil Assistance Fund's funds.

- Firstly, and unfortunately, it has the smallest authorised capital, that is \$25 millions.
- Secondly, it is the only Arab Multilateral Fund to be administered by the League of Arab States.

Those are, briefly presented, the six Arab Multilateral agencies whose performance has to be assessed. However in this context one ought to mention the Fund created by the OPEC countries.

4. - The Organization of Oil Exporting Countries' Fund.

It was established on January 1976 by the thirteen Finance Ministers of the OPEC. Its capital of \$800 millions was contributed as follows by the member countries.⁽¹⁾

- Iran: \$210 millions
- Saudi Arabia: 202 millions
- Kuwait: \$72 millions
- Nigeria: \$52 millions
- Libya and Iraq: \$40 millions each
- United Arab Emirates: \$33 millions
- Algeria: \$20 millions
- Qatar: \$18 millions
- Gabon: \$1 million

Originally the OPEC's aim was to gather \$1bn. but this was not possible with the absence of Indonesia and Ecuador and the symbolic contribution of Gabon. However it seems that by the third quarter of 1977, 9 other countries contributed and now the fund has a \$1bn. capital. Unfortunately we do not have figures about the second contribution.

The OPEC-Fund purpose is to grant long-term interest-free loans to Non-oil developing countries with preference to the Most Seriously Affected countries.

The OPEC Special Fund has contributed to United Nations' organisations⁽²⁾ such as the U.N.D.P. (United Nations' Development Program). On the other hand it has undertaken its own Balance of Payments' Support Program. A list of the recipient countries and amount of the loans granted is an Appendix IV-6. Furthermore the OPEC Fund set up a project lending programme.

(1) El-Moudjahid (Algerian National Newspaper), January 29, 1976, p.7.
(cf. Article: OPEC : \$800 million Aid to Poor Countries, (French).

SECTION IV - 2 : MOTIVES BEHIND AND PERFORMANCE OF ARAB MULTILATERAL AID AGENCIES

A. - Motives

Most of the motives do not differ from those outlined in the previous section, but some elements must be added. Firstly, the Arab World is a full member of the Third World. As far as financial agencies are concerned such a truth is already illustrated by two points:

- The establishment of an Arab Bank for Africa as early as 1964 and whose capital was increased from 18m. dollars to 50m. dollars in 1974 following oil price increases.
- The contribution of "poor" Arab countries, - Morocco, Tunisia, Jordan and Sudan - to the Arab African Oil Assistance Fund. This also underlines the importance of the "African connection" to the Arab World.

Secondly, political motives cannot be exaggerated for they cannot be absent from any type of aid and there is no reason to consider Arab aid as an exception. Arab countries' political aims are to establish, maintain and strengthen Third World support to the Arab World's interest. It is not easy to assess the result of such a policy.

B. - Performance and Criticism of Arab Multilateral Arab Aid Agencies

It is too early to give an able verdict concerning Arab aid. Therefore, our approach will be focused on whether Arab countries chose the right course and suitable method in giving aid.

Arab bilateral and multilateral agencies function in a very similar way, therefore all the criticism made on technical grounds formulated against the former is still valid for the latter (cf. Section III). Furthermore, by considering and comparing both types of agencies several other criticisms arise.

- Only a small portion of authorised capital has been paid, except in the case of the special oil funds, namely the Special Fund for Arab Non-oil Countries and the Arab African Oil Assistance Fund.
- In most cases disbursement lags far behind commitments. In the case of the Arab African Oil Assistance Fund although the whole 200m. was committed less than 126m. dollars were disbursed, just over 60%.
- There is an obvious preference for bilateral channels. The combined

authorised capital of the four bilateral agencies - Kuwait Fund for Arab Economic Development, the Abu Dhabi Fund for Arab Economic Development, the Saudi Development Fund and the Iraq Fund for External Development - amounts to 6,949m. dollars, whereas the combined capital of the seven multilateral funds totals 1,743 million dollars or just over 25% of the previous amount. Furthermore, the Arab Bank for Economic Development in Africa's intended initial capital was 125 million dollars, but:

"after criticism from Tanzania's Foreign Minister

and others the Bank's initial capital was raised to 231 million dollars."⁽¹⁾

Aid is often granted outside these funds and banks, during heads of states' visits. It is very difficult to follow up this type of aid. However, the subsequent table gives us a fair idea of Arab aid commitments to African countries during 1974 alone.

Although we do not have Arab aid granted under such circumstances for the 1975-77 period, we can draw more conclusions by comparing the amount of petrodollars reshuffled through Arab channels and the impact of the oil crisis. The latter desequilibrated the B.O.P. of N.O.D.C. From this angle one can notice that only two channels, the Special Fund for Arab Non-oil Countries and the Arab African Oil Assistance Fund, were set up to provide B.O.P. support. Their combined capital was \$.280 millions, that is 2.8% of the increased oil bill for 1974. If one adds aid granted outside the channels (cf. Table 43 Page 187) the figure goes up to 6.98% if increased cost of oil imports was estimated at \$10.bn. for 1974 (cf. Chapter II). This falls short of N.O.D.C's needs. However one can maintain that Arab countries went beyond B.O.P. considerations and their prime objective was to provide development aid. In this one should expect then to give more aid than B.O.P. deficit requirements. What are the figures? It appears that the combined authorized capital of the seven remaining banks and Funds is \$10.038bn. That is just the 1974 oil increase whereas this sum is to be disbursed during several years to come.

The obvious conclusion is that Arab countries did not satisfy N.O.D.C. economic needs and political expectations. Obviously we are not expecting their economic needs to be satisfied only by Arab countries.

(1) - E.C. Chibwe, op. cit. p.44.

TABLE 4.3 : Bilateral Aid Commitments from Arab to non-Arab African Countries, 1974 (USm. Dollars)

RECIPIENTS	DONORS							TOTAL
	Algeria	Iran	Iraq	Kuwait	Libya	Qatar	Saudi Arabia	
Burundi					1.0			1.0
Chad				8.3	7.6	1.9		17.8
Dahomey								0.0
Equat. Guinea				15.0	1.0			16.0
Ethiopia					1.0			1.0
Gambia					1.4			1.4
Guinea					10.1			10.1
Lesotho		1.0			0.5			1.5
Mali	1.2							1.2
Mauritania			2.5	3.3	5.1	9.9	35.2	71.0
Niger							15.0	0.0
Sahel region							6.0	6.0
Senegal		10.7						10.7
Somalia			17.5	7.0	9.6	14.0	30.0	97.6
Sudan		64.0	10.0	15.6		14.0	21.1	139.1
Togo					1.2			1.2
Uganda					14.9			14.9
Upper Volta					0.7			0.7
Zaire								26.0
Zambia	0.8						26.0	0.8
TOTALS	2.0	75.7	30.0	48.9	54.1	39.7	80.0	418.0

Source: E.C. Chibwe, op. cit. p.44.

Furthermore, given our opinion as to where the Arab People's future interest lay and given the political framework in which this piece of research is being undertaken we can reasonably compare quantitatively Arab aid and other types of placement of oil revenues. Given our conclusions in the previous chapter we cannot but agree with E.C. Chibwe that:

"It is certainly regrettable that the rich Arab countries are now the main contributors to the basic disequilibrium in economic relations..."⁽¹⁾

For the same author one of the several reasons of worsening the present disequilibrium which has not been created by Arab countries is due to the fact that the latter:

"have generously assisted the industrial countries financially in order to meet their B.O.P. deficits. While Europe and America have been assisted by loans which carry concessionary rates of interest of about 5%, African countries have to borrow the same funds on the Eurodollar markets at rates of interest which fluctuate between 15 and 20%!"⁽²⁾

Furthermore the L.D.Cs. access to these markets is not commensurate with their needs (cf. Chapter III).

The African opinion has also been expressed lately at the first Arab-African summit held in Cairo during the first weeks of March 1977. During this summit African Heads of State claimed that the capital flow from Arab countries was "insufficient" and "inadequate". As for the quantity of capital African countries were seeking aid of 2bn. dollars from the Arab World. It seems that Arab countries were expecting such a move since the capital of the Arab Bank for Economic Development in Africa was increased to \$706.5 million on February 19, 1977. As far as cash aid is concerned four Arab countries pledged a total of 1,453 million dollars⁽³⁾, with Saudi Arabia contributing 1bn. dollars and Kuwait, the U.A.E. and Qatar the rest. However, what is important in our opinion is the Economic Declaration which laid down the foundations for future financial flow between the two blocks of

(1) - E.C. Chibwe, op. cit. p.45.

(2) - Idem, p.46.

(3) - Financial Times, March 9, 1977, p.6.

countries, since it called for:

"promoting the placement of Arab capital in African countries whether in the form of direct investments, loans or deposits." (1)

It is very important to ask how Arab countries are going to channel these placements, especially when one recalls that African countries complained that Arab aid was "inadequate". As far as the flow of Arab aid is concerned one can safely extend the arguments of African countries to other L.D.Cs., especially since at the beginning of this section we stated that the African continent occupies an important place in the eyes of the Arab World. Therefore we do consequently expect the best effort of Arab countries to have been devoted to that continent.

As a matter of fact the term "inadequacy" raises the problem of methods which, in itself, refers to the institutions or channels used by the Arab countries. Since we are concerned about that efficiency the existing channels are to be the subject of some criticisms in the following part.

C. - Criticisms of Arab Countries' Aid Giving Method

Several criticisms are to be directed to the Arab Funds and Banks set up.

Excluding international institutions such as the I.B.R.D., the I.M.F., the United Nations' Development Work, Arab countries are using eleven purely Arab funds and banks, six of which were set up in 1974. What are the implications of this "mushrooming" of Arab agencies? According to R. El-Mallaleh and M. Kadhim this proliferation leads to six baneful consequences:

Firstly, diffusion of an already scarce manpower; the shortage of the Arab World's human resources being shown in the first chapter. Instead of doing their best to use optimally those resources the Arab World is scattering them. The direct result is the creation of inefficient small units. Furthermore, the situation is worsened when some of those units are given the responsibility to draft the statutes of or administer other units. For instance, it is worthwhile recalling and stressing that the most experienced of the Arab agencies,-

(1) - Quoted by the Financial Times, March 8, 1977, p.7.

i.e. the Kuwait Fund for Arab Economic Development - has a staff of no more than ~~seven~~ people!

Secondly, use of several different criteria and methods for project appraisal. Such a situation does not favour the appearance of a uniform regional criterion, either at sectoral or country levels. The existence of such criteria would greatly enhance the prospect of future regional economic uniformisation or integration.

Thirdly, absence of integrated programmes of aid to a specific individual Arab or non-Arab country. The problem is tackled on a project basis whereas it should be at country level at least. However, a regional view of the problem remains the best way. The only "country package" being actually undertaken is for Egypt where through the Gulf Development Fund, Saudi Arabia, Kuwait and the U.A.E. are trying to alleviate that country's economic problem. This package led to the creation of an Economic Committee composed of the Finance Ministers of the four countries concerned. It is an improved method, the result of which cannot yet be assessed.

Fourthly, rocketing administrative costs if one considers the number of Funds and Banks. Every type of administrative cost has to be considered, from staff to buildings. In our opinion an administratively complex and unique agency or administration will definitely be less costly and more efficient.

Fifthly, inability of any of the several agencies to carry out comprehensive studies of a recipient or even donor country. It is surprising to note that even American and western European countries with huge human resources felt the need to gather within organisations such as the D.A.C. etc., and that Arab countries are still not aware of such a necessity.

Sixthly,

"Increase the donor's non-development considerations since a national lending institution is more likely to be subject to narrow political pressure than a multinational agency.

Moreover, multinational aid agencies which include the recipient country even if on a modest scale, increase the sense of involvement and participation of the latter in the aid programme to the benefit of all concerned."⁽¹⁾

(1) - R. El-Mallaleh and M. Kadhim, op. cit. p.483.

Seventhly, our study of Arab agencies allows us to add the following points. No Arab country is able, from every point of view, to bear indefinitely the burden of an aid agency, especially if the latter is to work on an on-going basis. With this respect the Kuwait Fund for Arab Economic Development's history is very telling, for in 1972/3 the Kuwait Fund's aid commitments suffered a cut-back. The cause being that Kuwait found out that its oil reserves would be exhausted in twenty-five years or so. Consequently, "Kuwait decided to build up its general reserves at the expense of its aid programmes in preparation for oil running out..."⁽¹⁾

This is a natural reaction for any country and although on the one hand in Kuwait's mind the Fund was not to be abandoned and on the other hand the increased oil revenues of the state after 1973 boosted the fund, this short-lived set back still remains a very significant fact in itself. In our opinion a multinational agency might be less subject to this type of misfortune.

Eighthly, what is more astonishing is that:

"Currently the bulk of Arab aid is not channeled through these lending institutions but provided according to bilateral agreements between individual states."⁽²⁾

This leaves these institutions less useful and less efficient. This set of disadvantages does apply to both Arab Funds and Banks directed either to Arab or non-Arab countries, and even if their aim is B.O.P. support or long term economic development.

The solution to this proliferation of "inadequate" Arab agencies is obvious and has either been suggested or clearly stated by some. Firstly, by bringing together the Abu Dhabi Fund for Arab Economic Development and the Kuwait Fund for Arab Economic Development and trying to add the Iraq Fund for External Development and the Saudi Development Fund, the United Nations, through its E.C.W.A. was trying to do nothing but create a type of co-operation, or at least a formal link, between those funds.

Secondly, commenting about the number of Arab aid agencies R. El-Mallaleh and M. Kadhim write that:

(1) - Middle East Economic Digest: Less Credit from the Kuwait Fund for Arab Economic Development in 1972/3", 23 November 1973, p. 1357.

(2) - R. El-Mallaleh and M. Kadhim, op. cit. p.484.

"A higher level of co-operation and co-ordination between the various Arab funds may eventually lead to their consolidation or perhaps specialisation."⁽¹⁾

In our opinion, a necessary co-operation and co-ordination go far beyond the funds and ought to embody Arab banks too.

Secondly, another economist, N. Fallon, criticizes the proliferation of Arab agencies and he is more categorical about mutual relationship, for he writes that:

"Those who have argued for some form of merger (of the agencies) would seem to have a case."⁽²⁾

It is exactly this case we are advocating.

CONCLUSION

The local banking systems of individual Arab oil countries was not ready to "absorb" and channel their newly acquired wealth due to higher oil prices. Furthermore, bringing into the picture foreign banking interests either directly through the appearance of Offshore Banking Units (e.g. Manama in Bahrain), or indirectly through joint ventures will not remedy the situation. One can go beyond such a fact and maintain that, given the way Arab oil countries channelled the bulk of their surpluses; they did not give the chance to their domestic banking systems to adapt to and take advantage of the new favourable situation. Five years after the oil crisis erupted, Arab-owned and organized banks have not yet played the role everyone was expecting: they remain no more than an appendage of the so-called international banking system whose work has been outlined in Chapter III. Consequently Arab banks played a minor role in placing Arab financial surpluses either domestically or regionally. Furthermore, this placement, except in the case of Algeria and Iraq, thanks to larger populations, because of a bad factoral distribution is not going to lead ^{to} non-oil based economies.

Finally one must confess that the bulk of Arab aid, either for balance of payments support or development purpose, to Non-oil Developing Countries was channelled mainly through purely Arab

(1) - Ibid, p.483.

(2) - N. Fallon, op. cit. p.187.

financial institutions. However, as far as this aid is concerned we see the problem more in terms of inefficiency than adequacy. Their aid policy has to be rethought. In our opinion the best way remains the re-organization of the various banks and Funds by merging them into a single Arab Aid Fund.

Finally, as for the solution of the Arab World's problems deriving from economic development, either at local or regional level, it will be presented in the final chapter: we suggest the creation of a single Arab Bank for Development.

CHAPTER V

CREATION OF AN ARAB BANK FOR DEVELOPMENT

In the previous chapter we pointed out that some commentators such as N. Fallon suggested the merger of Arab Development Banks. We are advocating the same solution. In the framework of the present chapter we shall present the kind of institution we are suggesting. This chapter contains three sections.

In the first section we present the economic and non-economic arguments militating for a single Arab Bank for Development. In a way this section is complementary to the first section of the first chapter.

The second section deals with the structure of the institution we have in mind. By structure we mean purpose, investment criteria and security of investment, capitalisation and management of the Arab Bank for Development. The case of other regional development banks is superficially presented.

The third and final section presents the problem of the unit of account of The Arab Bank for Development. Here again we consider the case of the Asian and African Development Banks, the International Bank for Economic Co-operation and the E.E.C's. experience.

When formulating our proposal, the criticisms we directed at the Arab bilateral and multilateral institutions -- cf. Chapter IV -- even though not directly referred to, have to be taken into consideration. We are aware of the fact that our project will be:

"justified only if it introduces new elements and taps new sources of finance rather than replaces existing resources or undertook familiar functions."⁽¹⁾

We are also aware of the fact that such a project cannot be implemented without obstacles and difficulties. However, our approach will consist of stressing the arguments militating for its creation and the advantages which will be derived from it. In other words, we shall lay emphasis on uniting factors without ignoring obstacles.

(1) -- H.W. Singer, "International Development : Growth and Change McGraw-Hill, New York, London, 1964, p.213.

SECTION I : ARGUMENTS FOR THE CREATION OF AN ARAB BANK FOR DEVELOPMENT

These arguments are manifold and for the sake of simplification we shall divide them into economic and non-economic arguments.

SECTION I - 1 : ECONOMIC ARGUMENTS

We have several economic arguments and some of them are derived from the oil crisis itself whereas others are due to the specific conditions of the Arab World.

A - Economic Arguments derived from the Oil Crisis

The "misuse" of Arab oil revenues, which has been dealt with in Chapter three represents an argument for Arab countries to look for other directions. Our criticism of the methods used by Arab Oil countries to reshuffle oil revenues to other Arab countries (cf. Chapter four) constitutes another strong argument. In the same chapter we showed that some commentators such as N. Fallon and R. El-Mallaleh; suggested a kind of merger of Arab banks and Funds whose purpose is to reshuffle part of the petrodollars to Non-oil Developing Countries. Such a suggestion constitutes a strong technical justification of an Arab bank for Development (A.B.D.).

We also showed that the amount of Arab dollars reshuffled through existing Arab-owned and organized institutions fell short of N.O.D.C's financial requirements as derived from the oil crisis. If one goes beyond B.O.P. support as a consequence of the quadrupling of the oil prices and considers the L.D.C's financial needs for development purposes the share of Arab dollars reshuffled to them seems insignificant.

Our project does not deal with the entire Third World countries but specifically with the Arab World. In this context another element appears. In our opinion the transfer problem as a consequence of the oil crisis is due not that much to the deficit countries' inability to produce and export but to the Arab oil countries' inability to absorb their newly acquired revenues. To cut short, the transfer problem is due to a small absorptive capacity on the part of Arab oil countries and specifically Saudi Arabia, U.A.E.,

Kuwait and Libya. In our opinion the creation of the Arab Bank for Development could solve this problem by increasing the absorptive capacity of the Arab World. To be more precise we can even maintain that absorptive capacity is there. The Arab Bank for Development will just make it concrete under the form of higher imports. These imports will come mainly from the O.E.C.D. countries which will be able to pay in goods and services (cf. Chapter II) for their oil imports. This also means an increased domestic economic activity in the latter countries and this in turn will be reflected into higher imports from N.O.D.C. Consequently our project will have world wide implications, however the magnitude of these repercussions are a function of the Arab Bank for Development's capital. This problem shall be presented at a later stage.

Furthermore the creation of a single Arab Bank for Development could be justified by other economic arguments that are principally related to the Arab World.

B - Other Economic Arguments⁽¹⁾

These arguments treated below as advantages, are derived either by the 'have' or 'have-not' Arab countries and sometimes involve both of them.

1 - Economic Advantages for "Have-Not" Countries

These advantages are substantial in the field of capital funds, employment and energy.

The shortage of funds has always constituted one of the main constraints on the "have-nots" economic development programmes⁽²⁾. It is obvious that a continual flow of capital funds will surely free them from such a constraint. In the past, and to some extent even currently, just like any L.D.C., the poor Arab countries tried to compensate such a handicap by having recourse to external aid. This led them to be either "pro West" or "pro East", depending on the circumstances, and more dangerously this created inconsistencies in their programmes for they had more often to submit to the whims of donor countries.

(1) - Arguments stated in this part are linked to those expressed in Chapter One (First Section).

(2) - Other commentators such as Alfred G. Musrey (An Arab Common Market) link previous failures in Arab economic co-operation with the lack of capital.

As outlined in Chapter IV the existence of several lending agencies could lead to some rivalries and therefore, to crystallize further those very alliances we want to remove. The fact is that the "have-nots" have already accepted and requested the flow of aid and loans from the "have".

Another advantage is the security, and sometimes cheaper, energy the "have-nots" will be enjoying. This is very crucial especially at a time when the world is expecting physical oil shortage by the end of the present century.

2 - Economic Advantages for the "have" Countries

This group of countries will derive advantages in the field of agriculture, manpower and political and military security.

Agriculture

Excluding Iraq and Algeria, the Arab oil countries have a very negligible agricultural sector. Furthermore, despite their financial possibilities they are unlikely to develop in a reasonable period of time an agricultural sector able to support the domestic population. This problem has to be seen having in mind that in 1973/74 the western countries threatened to resort to the "food weapon" to respond to the "oil weapon". On the other hand countries like Sudan, Morocco, Syria, Algeria and Iraq enjoy an important agricultural potential. Unlike oil, land is not an exhaustible asset like oil and it is hard to green the desert. It follows that in the field of agriculture, Arab "have" and "have-not" are naturally complementary.

Manpower

The Gulf countries are also characterised by small, illiterate populations; for instance by 1984 the population of Saudi Arabia will not exceed 10m. inhabitants. It is also ^awell known fact that in 1977, when only "modest" projects are being undertaken, these countries have to rely on foreign skilled and unskilled labour. Furthermore, countries like Sudan and Egypt constitute a huge human reservoir of skilled and unskilled manpower. On the other hand, most of the "have-not" suffer from unemployment (cf. Chapter I). It follows that in the field of manpower a human flow will definitely serve the interests of both groups.

One can be more specific and take the case of the North African countries - Algeria, Morocco and Tunisia - part of whose labour force is immigrant in Western Europe. The redistribution of such a labour force with an already "industrial mentality" will solve some problems of "have" and have-not" alike.

Security on Military Fields

Small populations also mean militarily weak countries whose security and territorial integrity can be threatened either at sub-regional or world level. They were not even able to resist or challenge the M.N.O.C. and no wonder the challenge came from Iran in the 1950s and Mexico and Algeria in the 1970s. As a matter of fact those are political elements but it is a very well-known fact that political factors do influence economic development and with respect to the size of the country, Mr. Keesing claims that one of the obvious difficulties which handicap economic development in a small country:

is its "political military weakness and its vulnerability to interference and manipulation by the larger powers, with little opportunity to reciprocate in kind. This may be, in its own right, a crucial obstacle to development, if the great powers stand actively opposed to the type of internal policies and leadership that are essential to successful development." (1)

There is no need to comment further on this quotation. Finally it is worthwhile presenting the situation from a market point of view.

Market

A small population means a small market which will definitely impede economic development. It is true that the Gulf countries felt the need to create a larger entity. However, the "timid" step towards that end, in that part of the Arab World, is not going to solve their above-mentioned weaknesses. The reason being that they do not enjoy any comparative advantages (Chapter IV). They cannot escape the smallness of their market by integrating into the world economy for they would have to challenge experienced international competitors.

(1) - Quoted by Ali Khalifa Al Khuwari, op. cit. p.229.

The result of the challenge is obvious. In our opinion only a wider entity, at the entire Arab World level will bring positive and complementary solutions to both types of countries. Furthermore, the Arab World as a whole is potentially an immense market waiting and willing to be developed and exploited. At this stage it is necessary to present an argument commonly used against Arab economic unity; namely that they are in different stages of development.

We are not advocating an economic union but our purpose is to establish a single institution regrouping specific bilateral and multilateral lending agencies. However, we have to confess that the ultimate aim of the institution we have in mind is to speed up and strengthen the regrouping of Arab countries in every field.

As for the different level of economic development of individual Arab countries, we have to recognise it. However if one takes the case of the E.E.C. one has to recognise the wide gap between the economic power of, say, West Germany and Italy or Ireland and even the less fortunate of the Western European countries such as Spain, Portugal which have applied for the community membership and which, incidentally, are backed by West Germany.

Secondly, on general grounds such as language, culture and religion, the Arab World is more coherent than the E.E.C.

Thirdly, in the light of our previous remarks, it is wise to claim that the move has to start "Now or Never" for the gap will keep on widening.

The roots of the economic arguments can be summarised⁵ as being the need for an additional inflow of capital within a more efficient system, and the need for co-operation. For historical reasons, Inter-Arab trade is negligible, for Arab countries' most important trading partners are their former colonies. Considering the case of African countries H.W. Singer writes that: "the need for co-operation of African countries will each other is perhaps the most striking argument for creating instrument of regional co-operation in financing, although by no means in financing alone"⁽¹⁾ This argument applies for the Arab countries as well. Furthermore, on top of the above-mentioned arguments we can also put forward non-economic arguments.

(1) - H.W. Singer, op. cit. p.210.

SECTION I - 2 : NON-ECONOMIC ARGUMENTS

In our opinion the Arab Bank for Development can also be justified on political religious-cultural and humanitarian grounds.

A - Political Arguments

It is hard to distinguish political from non-political argument and the so-called political ground is always "slippery" and hazardous, however, in spite of that we do have some elements favouring closer links.

- Firstly, we are living in a world of large entities, e.g. the U.S.A., the U.S.S.R., and Canada. Some, such as the E.E.C., are still in formation; this means that although time is running out, it is not too late, for the stronger other units are, the more difficult it is for tiny "city states" to conglomerate.

- Secondly, if countries such as France and the United Kingdom which shared and divided, at will, the entire Arab World and more, felt the need to form a larger entity with other fellow European countries, such a need must be stronger in the case of the Arab countries. However, through the wide literature concerning the Arab World, one argument repeatedly comes to the surface -- namely that Arab states have different political regimes. The fact is that on political grounds Arab countries face intermittent crises for historical reasons. Just like the African countries, all of them were colonised at one time or another and their current borders were drawn on political and diplomatic grounds reflecting the strength of the colonising or decolonising powers. Therefore they do not make sense from an economic point of view. Their borders, when they exist, often cut across natural resource deposits such as oil between Saudi Arabia and Kuwait, Libya and Tunisia. The Nile river supplies both Egypt and Sudan and the Euphrates fulfils the same function for Iraq and Syria.

Sometimes frontiers have not yet been defined, especially in the Arabic peninsula. To overcome such potentially disequilibrating factors a great deal of maturity was required on the part of the countries concerned and this does constitute an encouraging sign. Considering the case of African countries H.W. Singer sees the creation

of the African Development Bank as an answer to the:

"need to overcome some of the national and regional divisions which have marked the present history of the continent and the emergence of African countries into independence."⁽¹⁾

We maintain that the Arab Bank for Development can play a similar role concerning the Arab community.

Furthermore, to reinforce our position other elements can be added.

- Firstly, within their own boundaries Arab countries are more coherent than African countries.

- Secondly, the political aspirations of the Arab masses have to be considered, especially at a time when the "new breed" of Arab leaders are giving more say to those very masses.

Finally, the E.E.C. is still subject to political difference within its own ranks. According to some a socialist take over in France and Italy is inevitable, whereas the North of Europe - including West Germany - is not affected. It is hard to foresee the impact of such development on the cohesion of the E.E.C. and we will not try to do so. However, the quasi-sure acceptance of Spain and Portugal, in spite of their political tendencies, is long telling about political differences.

Furthermore the religious and cultural links existing between the Arab countries constitute strong unifying factors.

B - Religious and Cultural Arguments

In these fields Arab countries enjoy several common features in addition to their geographical unity, these being mainly the religion, Islam, and the language, Arabic.

Although within the Arab World citizens enjoy the freedom of cult, Islam remains the predominant religion. That is why it is the official religion in most Arab countries. Religious feeling remains very strong in every single country and especially in Saudi Arabia, Kuwait, the U.A.E. and Libya which happen to be the highest capital surplus countries. More importantly these feelings can be expressed in "financial terms", for they have already been put into practice with the creation of the Islamic Development Bank (cf. Chapter IV).

(1) - H.W. Singer, op. cit. p.120.

Furthermore, the Arabism of the Qura'n (Holy Book of Islam) is another strengthening element.

Arabic is used by every Muslim and, therefore, by almost every Arab as a language of prayer, whatever his or her native tongue. It is true that during the long period of western domination Arabic suffered a great handicap but it never disappeared because it has been used as a shield against that very influence. Furthermore, after gaining its political independence, every Arab country proclaimed Arabic as the official language. This move underlines nothing but the sense of belonging to a certain community, the Arab World. According to G. Chejne:

"the full importance of Arabic in Arab Muslim society can be categorized as, ... instrument of religion, ... medium of culture and mainstay of contemporary nationalism."⁽¹⁾

The fortunate combination of Arabic and Islam does constitute one of the most powerful: "bonds of kinship among emerging Arab States,"⁽²⁾ or what comes to be known as Arabism: a complex and meaningful word combining Arab culture and aspirations. Arabism means also Arab nationalism. However, one has to wonder about the true motives behind and the magnitude and capacity of Arab nationalism. Concerning this point E. Bustani wonders if Arab nationalism is:

"a widespread sentiment expressing genuine aspirations of the masses and denoting a popular desire for unity or ... the pretext for ambitious men lusty for power and exploiting religious prejudice and popular sentiment in their machination for political ascent?"⁽³⁾

In our opinion Arab nationalism is a genuine feeling which refers not only to the past - a medium of liberation - but it does also constitute the basis for common drive towards political, cultural and economic Renaissance. The above-mentioned author goes along with our opinion

(1) - Anwar G. Chejne, "Arabic: Its significance and place in Arab Muslim Society", The Middle East Journal, Volume 19, Number 4, 1965, p.449.

(2) - Ibid, p.447.

(3) - Albert Badr, "Arab Economic Development Between Foreign Ideologies and Native Sentiments", Middle East Forum, Volume XXXIV, Number 3, 1959, p.13.

when he writes that:

"it is wise to recognise that there are issues and circumstances which can elicit a spontaneous uniform reaction among all the Arab masses, they are calls capable of combining a common sentiment and sustaining for great lengths of time coherent attitudes from Morocco to Iraq."⁽¹⁾

Only crucial issues are capable of arousing such a type of reaction, and it is needless to stress the magnitude and importance of the challenge facing the Arab World, namely the social and economic development.

C - Humanitarian Arguments

On the one hand, as stated in Chapter IV, humanitarian considerations are part of the several motives behind Arab lending agencies. It is therefore safe to suppose that this argument is still valid whatever the forms and structure of the lending agency. On the other hand, Arab countries have been divided between "have" and "have not", and for the sake of simplicity of analysis we shall settle for such a classification. In terms of G.N.P. per capita a wide gap exists between the two groups⁽²⁾, one which is already followed, on humanitarian grounds, by a flow of aid and loans from the "have" to the "have not".

What, however, about future trends? The following table gives us an idea, and despite the fact that it does not include all the Arab countries it still has the advantage of considering both poor and rich alike.

From this table the following conclusions can be drawn. As stated in Chapter One, Arab countries are characterised by high birth rates. The direct result will be population explosion for "have" and "have not" alike, but given the level of national income of both groups, in practical terms, it will mainly impoverish the poor Arab countries. The fact is that the combined population jumps from 108.8 million in 1974 to 164.1 million in 1984 and that the combined G.N.P. jumps from 44.58bn. dollars in 1974 to 455.68bn., i.e. from

(1) - Ibid, op. cit. p.14.

(2) - cf. Chapter I, Section I.

TABLE 44 : Economic Prospect of 13 Arab Countries:
Population, GNP and per capita income. (1970 - 1984)

Items	1970	1974	1980	1984	% Average Growth Rate 1974-1984
Saudi Arabia GNP	3,040	13,300	50,384	18,994	24.6
Pop	6m	7m	9m	10m	
Per capita income	\$506	\$1,900	\$5,598	\$11,899	
Libya GNP	3,116	10,198	29,172	47,609	16.7
Pop	2m	2m	3m	3m	
Per capita income	\$1,558	\$5,099	\$9,724	\$15,870	
Egypt GNP	7,463	9,886	16,341	25,322	9.9
Pop	34m	37m	42m	47m	
Per capita income	\$219	\$267	\$385	\$539	
Algeria GNP	4,638	9,850	24,938	42,806	15.8
Pop	14m	16m	19m	22m	
Per capita income	\$331	\$615	\$1,312	\$1,945	
Iraq GNP	3,102	8,400	25,800	62,843	22.3
Pop	9m	11m	13m	15m	
Per capita income	\$345	\$764	\$1,985	\$4,189	
Kuwait GNP	2,545	7,900	28,280	60,900	22.8
Pop	0.7m	0.9m	1m	1.3m	
Per capita income	\$364	\$8,780	\$28,280	\$4,685	
Morocco GNP	3,413	5,945	13,500	22,815	14.4
Pop	15m	16m	19m	22m	
Per capita income	\$228	\$371	\$710	\$1,037	
UAE and Bahrain GNP	1,300	5,600	16,500	26,000	16.6
Pop	0.6m	0.7m	1m	1.8m	
Per capita income	\$2,160	\$8,000	\$16,500	\$14,444	
Lebanon GNP	11,548	3,071	9,662	19,050	20.1
Pop	3m	3m	4m	4m	
Per capita income	\$516	\$1,023	\$2,416	\$4,763	
Syria GNP	1,684	2,876	6,573	11,968	15.3
Pop	6m	7m	8m	10m	
Per capita income	\$280	\$410	\$821	\$1,196	
Sudan GNP	1,814	2,470	4,700	7,071	11.1
Pop	16m	17m	20m	23m	
Per capita income	\$113	\$145	\$235	\$307	
Oman GDP	335	1,092	3,411	5,966	18.6
Pop	0.5m	0.6m	0.8m	1m	
Per capita income	\$67	\$182	\$426	\$596	
Jordan GNP	623	950	2,345	4,335	16.4
Pop	2m	3m	3m	4m	
Per capita income	\$311	\$316	\$781	\$1,084	

These figures are for gross national product at factor prices and incorporate exchange-rate projections. They assume also a 10 per cent annual inflation rate. They accordingly yield figures that contract markedly with some now current. They are based on information supplied by First National CityBank.

average G.N.P. per capita of 409.71 dollars to average \$2,776.83. However, these figures hide other realities, namely that the increase in G.N.P. is due to oil revenues which are not evenly distributed among individual Arab countries⁽¹⁾. For this reason the existing gap will definitely keep on widening in the coming years. According to our table the extreme cases are very telling: namely Libya and Sudan, which incidentally share a common border. By 1984 Libya's income per capita will reach \$15,870 whereas Sudan's will be just 307 dollars. That is just under 53 times less.

If we consider Saudi Arabia, Libya, Iraq, Kuwait, the U.A.E. Bahrain and Algeria as the "have" and the remaining countries - Egypt, Morocco, Lebanon, Syria, Sudan, Oman and Jordan - as the "have not" the average income per capita of the first group will be 6,758 dollars. On the other hand, the average income per capita of the second group will be no more than 869.6 dollars by 1984, or just under 13% of the previous total. However, the situation is, in fact, worse because of the following reasons.

Firstly, amongst the "have not" we included Lebanon and this inflates the performance of the group because, on the one hand, according to Table 44, Lebanon will have higher income per capita than Iraq and Algeria, and on the other hand the prospects were made before the Lebanese civil war and therefore it is highly doubtful that that country may well reach such a performance.

Secondly, the table includes all the Arab oil countries but does not take into consideration the less fortunate of the "have not" such as Somalia, Mauritania and the Yemens. Had they been included the performance of the "have not" would have been poorer. Therefore, because of the "push effect" exercised by the inclusion of Lebanon and the "pull effect" as a result of the exclusion of some "have not", it is safe to assume that the gap between both groups will surely be wider than suggested by the previous table.

Then, it seems that on economic grounds either derived from the oil crisis or not, on political, religious-cultural and humanitarian grounds too, the creation of an Arab Bank for Development is justified, desirable and even a necessity. However before closing this section another point has to be mentioned; namely that the League of Arab States is undertaking a study of its institutions and

agencies with the purpose of re-organising them more efficiently. Although we ignore the extent and the progress of such a reassessment it seems that it is the right time to put forward our proposal.

According to us, a fully-fledged Arab Financial Institution is possible on economic, cultural, humanitarian and political grounds. We shall now move to consider its structure.

SECTION II : STRUCTURE OF THE ARAB BANK FOR DEVELOPMENT

We are not the first to advocate the use of oil revenues to finance Arab Economic Development. Therefore, it is necessary to consider previous proposals.

SECTION II - 1 : PREVIOUS ATTEMPTS TO FINANCE ARAB COUNTRIES' ECONOMIC DEVELOPMENT

We assume to call the first attempt the "Bustani Project" after the man who suggested it.

A - The Bustani Project

It was made in 1961 when Emile Bustani, a Lebanese, suggested the creation of a:

"scheme to finance development in the "have-not" Arab states by an annual investment of 5% of oil profits by the 'producing' Arab countries and western oil companies." (1)

This project is subject to several criticisms.

- Firstly, the author did not come up with, or suggest, any institutional framework. Given the relations existing at that time between American oil companies Arab oil producing countries it was rather a plea ... "to America to invest in poor Arab countries". This is more or less obvious in other parts of his article.

Even if it had been possible to institutionalise the scheme, strong reservations would have remained.

- Investment decisions were to be taken from outside the Arab region. The complementarity between the western aims and local aspiration could only be "hazardous". As a matter of fact foreign investment did occur in Arab countries and the method used and the sectors in which this was undertaken did not co-incide with local needs. Had it been otherwise

(1) - E. Bustani, "Arab American Relations", Middle East Forum, published by the American University of Beirut, Volume XXXVII, March 1961, p.40.

our project would lose its "raison d'être".

- A given percentage of oil revenues was to be invested; such a method suffers from three disadvantages:

- It is hard to fix the right percentage for those earmarked sources might not match with real requirements.

- The author based the scheme on "oil profits" whose real magnitude was very hard to quantify given the secrecy around the oil business.

- No field of investment and no priority were put forward.

Finally, if in spite of all these insufficiencies and disadvantages the project were realised, what would have been its impact on the Arab World?

It was more likely to divide than unite Arab countries for it put side by side U.S. oil companies and the Arab oil countries. It follows that the "have-not" could be very easily inclined to associate both entities and it is everyone's guess as to the dividing effect it would have had in the Arab World.

Finally, the "have-not" are seen as passive recipients for they were not associated with the project and this makes its success doubtful had it got off the ground.

The second proposal to finance Arab economic development mainly with oil revenues, is the Arab Fund for Economic and Social Development. It is an improvement compared with the "Bustani" project but it contains several deficiencies that have been outlined in Chapter IV (cf. pp. 178-180).

Our project is different from both of them, particularly when one considers the aims of the Arab Bank for Development.

SECTION II - 2 : AIMS OF THE ARAB BANK FOR DEVELOPMENT

The objectives of regional development banks are more or less the same: the promotion of economic and social development for the region as a whole. However, on practical grounds some differences exist between them because each region has specific economic conditions and this requires specific priority. These differences will be reflected in the types of projects to be financed. In our opinion the Arab Bank for Development can fulfil a useful role in fields such as joint-projects, technical assistance and inter-Arab trade.

A - Joint Projects

The Arab Bank for Development will finance three types of projects, namely projects put forward by a single or a "two-plus" Arab countries or projects with regional implications selected and promoted by the Bank itself. Its efforts should be focussed on the last two types. In our opinion joint project does not necessarily mean cutting across two or more member countries, it also means:

"that even though the project might not be regional in nature yet its markets or source of supply should be regional, and the development of related projects of this kind would require regional understanding and regional co-operation." (1)

Given the present level of Arab World economic development, there is wide room for such projects.

In the industrial sector large scale plant should be given priority. Arab countries could find a useful inspiration in the specialisation system in practice in the Eastern countries without losing their independence.

Agriculture must be predominant, especially if one refers to the Arab World's increasing food deficit. A co-operation which does not allow the Arab World to feed itself is not a co-operation. Joint irrigation schemes and the use of river water will surely result in regional advantages.

Regional project can also materialise in the field of education. This is facilitated by the use of a common language, Arabic, and the presence of teachers from other Arab countries. The education system can be unified: this is already happening between Egypt and Sudan.

B - Technical Assistance

In this field the Arab Bank for Development has to rely heavily on non-Arab skill, but in spite of that it can play an important role because:

- All its members will be developing countries where the public sector plays an important role. This leads to the need for economic planning and the Bank can help in shaping and financing their development programmes. This of course can be done only at the request of member

(1) - H.W. Singer, op. cit. p.211.

countries. However, if the Bank manages to form a "pool" of competent experts in this field the "have-not" who cannot afford expensive private consultants will definitely have an incentive to use the Bank. Furthermore, with time this pool will become more and more qualified in Arab economies for the basic conditions are similar.

- Finally, in the technological field everything remains to be done. No Arab country, including Saudi Arabia, is able to undertake alone the permanent financial burden of research and development in say, the field of energy. We chose energy as an example because the Arab World is spending oil wealth without giving enough attention to its requirements when the oil runs out.

In our opinion the Arab World should direct its efforts towards solar energy⁽¹⁾ because its geographical position gives it an advantage since it receives four times as much ^{sun} as Western Europe. Furthermore, in the field of home-made technology and in every other field, the Arab World requirements are quasi-unlimited.

C - Other fields of Inter-Arab Co-operation

Although the possibilities are numerous we shall limit ourselves to communications, labour and trade.

1. - Communications

Few Arab countries can undertake, within their own boundaries, an adequate and efficient network of transport and communications. The Arab countries have already felt the need for such a co-operation and the proof is the creation of an Arab satellite which is an encouraging sign in itself on the one hand, and on the other it underlines the correctness of our analysis.

The Bank can fulfil an important role in this field through all the stages of the projects from their suggestion and technical feasibility to their financing. One of the first advantages is the standardization of the system in question. However, transport and communication has to be carried out in such a way as to promote the flow of inter-Arab trade.

- (1) - The First meeting to discuss the solar energy application in the Middle East (The Middle East Solar Technology Exhibition and Conference) was held in Manama Bahrain on April 24-27, 1978. Another "International Symposium - Workshop on Solar Energy" will be held in Cairo on June 18-24, 1978.

Source: OAPEEC, New Bulletin, Volume 4, Number 2, February 1978. p.30.

2 - Labour

The flow of manpower has already been considered. Treating the case of African countries H.W. Singer talks about "Migrating Labour Link" amongst the members of the African Development Bank. Here again, by regulating the labour flow at a regional level, the Arab Bank for Development can find an important field of operations. However, one has to recognise that this point could be very delicate especially if one refers to the Comecon's experience. Romania⁽¹⁾ has always opposed such a movement of manpower.

Two remarks must be made:

- We are not considering the free circulation of labour just as N. Khrushchev proposed explicitly the 'movement of resources from one country to another' with resources being understood as both capital and labour. What we have in mind is no more than organised flow satisfying the need of two or more member countries.
- It is not our aim to evaluate the relative strength of socialism and Arabism in this field; we shall consider facts. The fact is that there already exists a migratory movement between the "have" and the "have-not". Such a movement has to be organised and not to suffer from temporary political problems between the countries concerned.

3 - Trade

As explained earlier, the trend of individual Arab countries for historical reasons, has moved away from the Arab region. Another reason is the absence of joint ventures. It then follows that by the creation of trully regional projects the volume of inter-Arab trade is bound to imcrease; on this ground a wide complementary appears in the field of agriculture and industrial products provided a regional specialisation could be worked out. There is no doubt about fruitful investments for the Arab Bank for Development, whatever the criteria used in selecting projects.

- (1) - At a Comecon meeting a Romanian Delegate claimed that:
 "this notion of the international "migration" of the population is incompatible with socialism - we know only too well that at the time of the bourgeoisie there were situations when the inhabitants of our country had to leave ... in order to look for jobs even beyond the Atlantic Ocean; we have seen only too well how things develop in the Common Market, which has secured the 'free circulation of labour force!'. we have never imagined that a thesis could be voiced concerning the possibility and utility of a similar process within the framework of the world socialist system".

cf. M. Kaser, "Comecon Integration Problems".

SECTION II - 3 : INVESTMENT CRITERIA AND SECURITY

A - Investment Criteria

Investment criteria cannot be separated from the nature of the Arab Bank for Development itself which is a development institution, from the source of the funds to be invested - publicly owned in our case - and finally from the specific characteristics of the region itself which is an underdeveloped area.

From a general point of view any project submitted to a development bank for financing can be classified either as a bankable or a non-bankable project. When development banks were first set up a bankable project was defined as a profitably self-financing project. It means that, in a given period, the sought investment will generate enough revenue to cover its own operating costs, pay the principal plus interest charges and produce high enough profits to help the entrepreneur remain in business. This definition of a bankable project led to what has come to be known as a "conflict of purpose", the conflict arising from the nature and the purpose of the bank itself. On the one hand, as a financial institution the bank's capital must revolve, on the other hand as a development institution the bank must create the missing factors that are essential to promote economic development. These factors are capital, availability of foreign exchange, capital market activity and no less important elements such as entrepreneurship, managerial and technological abilities. Consequently and very often "the bank's development purpose comes into direct conflict with its functioning as a bank."⁽¹⁾

Basically the Arab Bank for Development does not escape such a conflict of purpose. However, through the years the concept of a bankable project has evolved and nowadays it can be defined, "as one which the principal and interest can be expected with an acceptable profitability distribution, to be repaid according to a pre-determined schedule. Bankable projects for development banks are not necessarily restricted to those which are self-liquidating."⁽²⁾

(1) - Joseph A. Kane, "Development Banking", Lexington Books (D.C. Heath & Company), London, 1975, p.17.

(2) - J.A. Kane, "Development Banking", op. cit. p.18.

This new concept does increase the number of bankable projects and therefore the field of financing of a development bank itself, because according to J.A. Kane, "any project with a significant impact on development should potentially fall within the scope of development banks financing subject only to the constraint that it can reasonably be expected that the borrower will be able to repay the loan."⁽¹⁾ However, in spite of this favourable evolution, given its limited resources, a development bank cannot finance every bankable project submitted to it. Therefore a second type of classification between bankable projects themselves is necessary.

In selecting its projects a development bank has at its disposition two sets of weight: a development impact scale and monetary returns scale. The ideal solution would be to finance projects with high development impact and high monetary returns at the same moment. Unfortunately it is hard to find projects which embody both qualities, for more often projects with high development impact are not necessarily economically important and vice-versa.⁽²⁾ Then, the problem is which scale is to be given more weight? The source of the funds can helpⁱⁿ settling the problem. In our case, given the fact the Arab Bank for Development's funds are publicly owned, the institution we have in mind should not try to maximize its profits, consequently the development impact scale will be given more weight. However development criteria vary with time, space and institutions. At a national level the usual development criteria are mainly the priority assigned to the various sectors of the economy, the forward and backward linkage effects, the number and kind of jobs to be created which have to be compared to existing and future labour force and finally the foreign exchange cost incurred. The foreign exchange savings and earnings as a result of import substitution and increased exports respectively are also considered. Other factors could be considered when it comes to an international institution. In our case the foreign exchange side of the problem does not constitute a paramount constraint, because, as seen in Chapter III, most of the oil revenues are kept in foreign exchange. However in the long term

(1) Ibid.

(2) For instance a school is essential to economic development but does not produce any financial returns. The opposite case could be a "gambling casino".

the situation is different. In our opinion the linkage effects between economic sectors at national level and also between Arab economies must be given special attention.

Finally, we can always consider existing Arab Funds and banks' investment criteria as a precedent and try to adapt or adopt them. Concerning this very point G.P. Cassadio maintains that, "given the capital resources of the Arab World and the present stage of underdevelopment of the area, it would be more appropriate to use less stringent criteria than hitherto in evaluating projects to be financed with a lower rate of opportunity cost for capital used by the funds."⁽¹⁾ It follows that it is desirable for the Arab Bank for Development to use more flexible investment criteria than existing Arab lending institutions.

At this stage it is worthwhile mentioning the case of the Comecon countries. Concerning this experience M. Kaser distinguishes between passive and active industrialisation, a distinction illustrated by the First Deputy Director of the Romanian Institute of Economics who argues that, "efficiency should be a criterion only at a second stage, the first stage being the acceleration of industrial growth in the present underdeveloped world."⁽²⁾ We accept such an attitude only if specifically designed for the medium-term period. However, in the mind of the Romanian economist the term underdeveloped world means the poorer members of the Comecon, or the equivalent of the "have not" in the context of the Arab World.

In our opinion, only with such active industrialization can we develop an aggressive Arab Bank for Development.

As a matter of fact, one of the less fortunate members of the Comecon was Mongolia to which the collectivity concerned concentrated its aid under the form of projects within its long-term national economic programme. Concerning the advantage of such an approach to economic development M. Kaser writes that, "this ...

(1) G.P. Cassadio, "The Economic Challenge of the Arabs", Publisher : Saxon House, D.C. Heath Ltd., England, 1976, p.144.

(2) M. Kaser, "Comecon Integration Problems of the Planned Economies", Oxford University Press, 2nd Edition, London, England, 1967. p.211.

unquestionably has immense international significance serving as an example to many sovereign states of Asia and Africa."⁽¹⁾

This experience could be a useful example by the Arab Bank for Development. Consequently when proposing or selecting projects the Bank ought to give a certain priority to the "have-not". Our position is justified on two grounds. On the one hand it will tend to equalize Arab economies and this, in turn, will make easier any future steps towards economic harmonization or integration. On the other hand economic development, especially at a regional level is a deliberate political step therefore the inclusion of political factors in the decision taking process is fully justified.

However, when lending to a "have" or a "have-not" country for an economic project, e.g. productive unit or a non-economic project such as building a school, the financial and economic implications of the project concerned must be pointed out by the Arab Bank for Development to the host country. But for both types of project the final investment decision belongs to the debtor country or government because the latter is responsible for the repayment of the loan even in case of a financial failure of the project financed. Therefore, being the ultimate borrower and repayer the host country stands between the Arab Bank for Development and the project itself. This situation will be reflected in the security of the loan.

Let us, now, turn our attention to the problem of the terms of the loan.

B - Terms of Loans

By terms of loans we mean interest rates, maturity and grace periods.

- Interest rates: with respect to interest rates one can refer to the Comecon's case where, according to Marie Lavigne, "...until 1969 interest rates were 2% for payment credit ... in 1970 they were increased but without exceeding 6.5%,"⁽²⁾ per annum.

(1) - M. Kaser, op. cit. p.201.

(2) - Marie Lavigne, "The Socialist Economies of the Soviet Union and Europe", translated from French by T.G. Maxwell, Publisher Martin Robertson, United Kingdom, 1974, p.315.

In the same line of idea, M. Kaser adds that:

"the rate of credit to socialist countries had ... long been established at 2% (in at least one case - the Soviet loan to China - 1%); the Bank for International Economic Co-operation in 1964 set its top rate for short term lending at 1.5%, but has not yet given long term credits. In the industrialised capitalist economies, the marginal rate of return on long term capital may be put roughly at 5 or 6%; the World Bank levies 5.75%, and private investors lending abroad may be expected to seek 10%." ⁽¹⁾

It appears that within economic entities such as the Comecon, rates of interest more favourable than those offered by the market are customary.

In our opinion the Arab Bank for Development has not to be set up on a brotherly or religious basis. In other words loans are not to be granted interest-free, particularly when the institution has to operate on an on-going basis. Our position is different from those, who, during the 1950s claimed oil had been granted by God to the Arabs and consequently Arab non-oil countries have to take their share, even by force if need arises.

Furthermore, it is needless to try to invent the wheel again by justifying interest rate charges on economic grounds. It is also obvious that the "have-not" countries will benefit from the Arab Bank for Development even though interest rates equal those of the market, for the simple reason that those countries do not have adequate access to western capital markets (Chapter III). The availability of funds itself constitutes an advantage. However, in our opinion selected projects and "country-package" should benefit from adequate rates of discount, since it is the only way to incorporate grant elements.

Finally, it seems to us that interest rates currently charged by Arab lending agencies, i.e. 3 to 4% per annum, are reasonable. The fact of charging according to the project and the sector is a satisfactory principle too.

(1) - Michel Kaser, op. cit. p.209.

Grace Period and Maturity

Concerning the grace period, the methods currently used by Arab lending institutions are advantageous to the receiving country. They are function of the receiving country's economic situation, the project itself and so on.

In the case of the Arab Bank for Development interest rates, grace and repayment periods should take into consideration the subsequent elements:

- The impact of the project on the Arab World. A project whose unifying and co-ordinating impact is substantial on as many Arab countries as possible ought to have priority and better terms.
- The sector in which the operation is financed. The Kuwait Fund for Arab Economic Development, for instance, gives preference to some sectors, and its sectoral distribution of loans is as follows.⁽¹⁾ Transport, communication and storage 33.6%, Agriculture 23.5%, Electricity 21.5% and Industry 21.3%. The Arab Bank for Development will have to work out a similar system whose direct consequence will be to enlarge the absorptive capacity of the Arab World as a whole. The sectoral preference must be translated into different terms. For instance, for the Kuwait Fund for Arab Economic Development the grace period is around 4-5 years, and the maturity varies from 10 to 25 years. In our case different treatment should be applied to different sectors.

Finally we have to recognize that the terms of loans are a function of the security of investment. Given the fact that the Arab Bank for Development is an intergovernmental institution the problem of security takes ^{on a} new dimension. The measures usually taken by national development banks to ensure a minimum of security for their investment seem quite irrelevant to our case-study unless the Arab Bank for Development is investing in privately owned productive units. However, in spite of this, the legal framework does exist in the form of the Inter-Arab Investment Guarantee Corporation that has been promoted and drafted by the Kuwait Fund and which has been ratified by most Arab governments. The objective of the Corporation is to protect Arab private investments in other Arab countries.

(1) - Kuwait Fund for Arab Economic Development, "Annual Report : 1975-1976", Kuwait, 1977, p.109.

Therefore one is left with two options either to amend the existing Corporation by including the Arab Bank for Development's investments or to come up with a new agreement attached to the Arab Bank for Development's statutes, that will be signed by individual Arab countries when joining the Arab Bank for Development.

Finally we have to mention that the overall policy and objectives of the Arab Bank for Development are a function of the amount of funds put at the disposition of the Arab Bank for Development. We deal with this problem in the next step.

SECTION II - 4 : THE ARAB BANK FOR DEVELOPMENT'S CAPITALISATION AND FINANCIAL STRUCTURE

First we have to consider the case of other regional development banks.

A - The Case of Other Regional Development Banks

If one takes the case of the Asian Bank for Development and the African Development Bank one finds that they are different from one another although their aim is more or less similar, namely to contribute to the economic and social development of their member countries.

1 - The Asian Development Bank

For instance the Asian Development Bank's total subscribed capital is 2.770.72m. dollars with \$766.03m. or just under 28% of the total amount contributed by fourteen non-member countries. Of course the last contribution is not without counterpart since they were represented by four out of twelve members constituting the Board of Directors.

The participation of other countries causes several questions such as, which countries are allowed to contribute? What is their individual contribution? To what extent is the contribution of all the non-members permitted and desirable? And so on. All these questions have to be answered and the ultimate situation should be a balanced one facilitating the smooth development of the proposed institution without alienating other countries to the region's

interest. However, from this point of view the creation of the African Bank is more interesting.

2 - The African Development Bank

This case is interesting because the non-African countries' contribution was raised and rejected. A compromise was suggested with the creation of two types of shares:

"A - shares for African subscriptions with full voting rights in the Board of Governors ... and B - shares for non-African subscriptions with limited or no voting rights." (1)

Such a compromise was turned down and the ultimate solution was that subscriptions were to be made on a purely African basis. However, such an option does not constitute the panacea for all problems. Several other difficulties did exist, difficulties which will be presented within the context of our project.

However, before doing so we have first to consider the capital requirements of the Arab Bank for Development.

B - The Arab World's Capital Requirements

It is obvious that the capital requirements of a developing country are enormous and that those of a group of twenty developing countries are unlimited. Our objective is to calculate what would constitute a reasonable working capital for an institution of the size of the Arab Bank for Development. Our approach shall be to calculate first, the magnitude of the funds earmarked by the Arab oil countries for the economic development of other fellow Arab countries.

1 - Funds Earmarked for Arab Countries' Economic Development

This can be done through the lending agencies to fellow Arab countries. These agencies could be the Kuwait Fund for Arab Economic Development (3,380m. dollars), the Abu Dhabi Fund for Arab Economic Development (500m. dollars), the Arab Fund for Economic and Social Development (347m. dollars). Their combined capital is 4,227m. dollars. Furthermore, Arab countries do enjoy economic aid through the Islamic Development Bank (2500m.) and the Saudi Development Fund (2900m.). If one assumes that the last two agencies' capital is specifically earmarked for Arab countries, which it is not, one is left with a grand total of 9,627m. dollars.

(1) H.W. Singer, op. cit. p.215.

It has to be mentioned that the domestic development of the "have" countries is financed outside the five above-mentioned channels. What about the Arab countries' financial needs?

2 - Arab Countries' Financial Needs

As a matter of fact their needs seem almost unlimited. Two methods will be used whose aim is just to reach an idea of the required sum.

Firstly, according to Samir Nour:

"an approximate calculation based on a capital output ratio equal to 4 allows to estimate at 130bn. dollars the total amount of investment necessary to ensure ... 12% annual growth until 1980"⁽¹⁾

for eleven Arab countries, namely Egypt, Jordan, Lebanon, Morocco, Mauritania, Somalia, Sudan, Tunisia and both Yemens.

The author claims that it is reasonable to estimate that around two-thirds can be financed through domestic saving; this means that 45bn. dollars have to be provided by external sources.

Secondly, H. S. Nashashibi takes the case of Sudan - one of the several "have-not" countries - which benefits from the Arab Authority for Agricultural Investments and Development⁽²⁾ (AAAIID). He notes that:

"the Sudan programme contains some 100 integrated projects at a total cost of 6.0bn. dollars."⁽³⁾

These are the capital needs for just one sector in a single "have-not".

The conclusion is that between the capital earmarked by Arab oil countries - whose total has been inflated on purpose - for the economic development of "have-not" and the financial requirements of those very countries, the gap is wide. According to the first method the capital earmarked is no more than a fifth of the capital requirement of the "have-not" from 1974 to 1980, if they had to aim for a 12% annual growth.

(1) - Samir Nour, "The Conditions of Economic Development of Arab Oil Countries", Revue d'Economie Politique, Edition Sirey, September-October 1974, Number 5, p.636 (Translated from the French).

(2) - The Arab Authority for Agricultural Investments and Development is jointly formed by Arab states, and is entrusted with the implementation of a basic agricultural programme for Sudan and later for other Arab countries.

(3) - Hikmat S. Nashashibi, "Regional Investment for Arab Money", The Banker, May 1977, p.34.

As for the second method the financial needs of one sector - agriculture - in one poor Arab country, Sudan, is around two-thirds of the capital earmarked for all Arab countries.

This means that if the Arab Bank for Development is to be set up along the lines we proposed especially with the possibility of investments in Arab capital surplus countries themselves, more funds than those of the combined existing lending agencies will have to be earmarked for that purpose. Such a move will also redirect the reshuffling process towards needy developing countries. The Clare Group⁽¹⁾ beyond confirming our views that the latter countries did not benefit from the reshuffling process we experienced up to 1978 maintains that the adjustment problem of the O.E.C.D. countries, "would be eased if OPEC countries were prepared to accumulate assets in countries which are in a weak financial position, including the developing countries. It would be even better if they were more willing to make long-term loans on soft terms to these countries, or to make outright grants. The OPEC countries might also ease the position if they were prepared to spend large sums on such activities as solar energy research, exploitation of which might replace some of the revenue from oil as that becomes exhausted."⁽²⁾ After the criticism we directed to existing Arab lending agencies, the Arab Bank for Development represents the institutional framework through which such a change of policy of Arab oil countries can be put into practice. One has to bear in mind the fact that the Arab Bank for Development shall have to undertake research and development in the field of solar energy.

However, in spite of all these incentives to invest more oil revenues in developing countries and therefore in Arab countries, the discrepancy between funds already earmarked for the latter countries and their minimum capital needs urges us to be more cautious when considering the capitalisation of the Arab Bank for Development. Nonetheless its capital has to take into consideration the above-mentioned financial gap.

(1) The Group owes its origin to a meeting held in 1976 in Clare College, Cambridge. Its members are: A.B. Atkinson, Sir Alec Cairncross, C.H. Feinstein, J.S. Flemming, J.A. Kay, M.A. King, R.C.O. Matthews, P.M. Oppenheimer, M.U. Posiver, A.R. Prest, W.B. Reddaway, J.R. Sargent, A. Silberston and J.H.B. Tew.

(2) The Clare Group (C.H. Feinstein and W.B. Reddaway) "OPEC Surpluses, the World Recession and the U.K. Economy", Midland Bank Review, Spring 1978, p.11.

C - Capitalisation of the Arab Bank for Development

Before considering such a problem one point remains to be clarified. Firstly, the prime objective of the institution we have in mind is to contribute to development projects within the Arab World. This excludes any B.O.P. support operations. This function is fulfilled by the Arab Monetary Fund. It is such an idea which led us to exclude the Special Fund for Arab Non-oil Countries when we considered the amount of capital earmarked for the economic development of Arab countries.

In our opinion, subscriptions to the Arab Bank for Development can have three different sources: Arab public funds, Arab private capital and non-Arab funds. Subscriptions should be open mainly to Arab public funds, although Arab private capital can play a useful role in financing the Arab World's development, a role which will be outlined later.

The fact of relying exclusively on Arab public funds could lead to smaller authorised capital. With respect to this point a comparison between the African Development Bank and the Asian Development Bank could be significant. With twenty-seven member countries the Asian Development Bank has a capital of 2.77bn. dollars, that is an average of 102.6m. to be invested in individual countries. We exclude the contribution of the non-member countries for they do not take advantage of the Bank. On the other hand, with thirty-nine countries the African Development Bank has a capital of just U.A.⁽¹⁾ 400m. or just 482.54m. dollars, or, in other words, an average of \$12.35 millions per country.

There is a wide difference due partly to the contribution of non-member countries which amounted to a quarter of the total capital. In our opinion the problem of capital should not be seen as an obstacle given the current "liquid" situation of the Arab oil countries, and therefore contributions must be reserved exclusively for Arab countries.

After settling the question of who is allowed to contribute, one has to consider the extent of individual contributions. Several

(1) The rate of conversion being U.A.1 = U.S. \$ 1.20635 on October 1974.
cf. Europa Publications, op. cit. p.94.

methods can be used to determine their contributions, namely size of the population, size of the country and wealth. In our case there is no need to argue about the adequacy of each criterion, since the national wealth is obviously the best way. For if we base it on population or size of the country, we still end up with Sudan (a "have-not"), a needy country having to contribute more than Kuwait, a surplus or "have" country. This also means fixing specific "quota" to individual countries and that is unrealistic given the realities of the Arab World. We can also take the case of other regional banks and existing Arab financial institutions.

Concerning the first point it appears that the African Development Bank, the Asian Development Bank and the International Bank for Economic Co-operation member contribution is based on their individual wealth.

For the second point, the magnitude of national wealth plays an important role. However, concerning the Arab World another element has to be taken into account: the degree of political commitment of every country to the problems of the Arab region. For instance, if we take the case of the Arab Monetary Fund, Saudi Arabia and Algeria contributed equally - 130m. dollars - although the Saudi and Algerian wealth are hardly comparable. In our opinion there is no way, for there is no supra-national authority, to oblige any Arab country to contribute, let alone make specific contributions.

Therefore it is wise to leave the door open to contribution. The reason is simple: the crucial element behind the success of Arab co-operation, in any field, is nothing but the will and the free will of the Arab states. Furthermore, once Arab countries are convinced that they have too much to gain, e.g. the advantages presented earlier, and nothing or little to lose from such a co-operation, only technical obstacles will remain. It follows that it is hard to ascribe a specific capital, likely to emerge in the case of an "Arab Bank for Development" under one form or another is set up. However, our study requires us to come up with a proposal.

Given the fact that capital requirements are unlimited, we shall suggest a "floor". Such a floor has to consider the wide gap between resources and requirements of Arab countries, it must also

be a function of the objectives we set forth for the Bank. It follows that 15bn. dollars could be reasonable. In our opinion a regional bank with such a capital and working on an on-going basis can make a significant contribution to the development of the region concerned.

Such an amount is less than the oil revenues surplus for any one year within the Arab World. It does not lead to any disinvestment in the western countries on the part of the Arab oil countries. Furthermore, not all the 15bn. dollars will fall on their shoulders because the "have-not" must contribute, just like they participated in the Arab Monetary Fund. However, one of the criticisms we directed to the Arab lending agencies was that the paid-in capital was negligible.

If the Arab Bank for Development is to have an "aggressive" policy, as is desirable and necessary, it must enjoy consequent resources at hand. It follows that at least 50% of the authorised capital must be paid in; or in other words 7.5bn. dollars. It is not necessary to calculate the average contribution for Arab countries will not participate evenly. However, both the authorised and paid-in capital depend on the extent to which the Arab Bank for Development is allowed, encouraged or restricted to tap other sources.

Amongst those sources Arab private capital occupies a special place in the financing of the Arab World development.

Tapping Arab Private Funds

We shall consider the role of Arab private capital at a regional level only. Actually it is not easy to calculate the magnitude of these funds but, as a result of the 'spread effect' they are becoming increasingly important in the Arabian Peninsula. However, their existence does not mean that incentives already exist. These funds are not idle and therefore the Bank must come up with a whole set of incentives to attract them if willing to do so. For instance, H. Sh. Nashashibi takes the case of Arab private investments in western industrialised countries. Beyond confirming the arguments we expressed in Chapter III, the author comes up with

the conclusion that:

"in view of the restrictions, the surplus Arab countries have made increasing efforts to direct a part of their financial resources to the needy Arab countries."⁽¹⁾

This underlines the correctness of the opinion expressed earlier in this chapter, but it is concerned mainly with public funds. However his second conclusion is that:

"the last two years have seen a turning point in both levels and in the methods of private capital flow within the Arab region, coupled with the beginning of a shift in emphasis by Arab financial institutions and centres from international investments to regional and domestic investments. A process of 'involvement' in the region's growth has clearly set in ... At long last they have started to play the role anticipated from them, namely to bridge the region's demand and supply of loanable and equity funds..."⁽²⁾

This shift has not only to be welcomed but it has to be fully and advantageously used by the Arab World. What role can the Arab Bank for Development play in this field?

The Bank can take advantage of the Arab private capital in two ways, either by borrowing or by associating it directly with the financing of the projects. Borrowing can be either direct or take the form of bond issuing in countries where such funds are available, e.g. Kuwait, the U.A.E. and Saudi Arabia. As for the second alternative the terms and magnitude of this association raise several problems: such as security and adequate financial return, management and supervision of the operations. The appearance of an Arab financial market, autonomous and 'inward looking' will be very helpful, and poses less technical difficulties. However, we have to be aware of the fact that Arab private funds must be offered more attractive terms. Concerning this very point H. Sh. Nashashibi

(1) - Hikmat Sh. Nashashibi, "Regional Involvement for Arab Money", The Banker, May 1977, p.33. The author is an authoritative source because he is Head of the Kuwait International Investment Company, an investment company concerned with the investment of Kuwait private funds.

(2) - Ibid, p.34.

writes that the flow of private funds between Arab countries:

"has become an inevitable trend which extends beyond mere nationalistic considerations to represent in pure economic terms the most successful - and significant - financial flow among Arab countries." (1)

According to the same author, Arab borrowers raised around 112m. dollars in the Kuwait market in 1976; on the other hand institutions in charge of this "commerce" have been compensated because their financial earnings stepped-up during the same year. It seems that the problem of finance is more or less removed, provided that the Bank offers equal or better terms for Arab private capital.

In our opinion the problem of capitalisation can be summed up as follows: At least in the early stages contribution has to be made on a purely Arab basis, with reliance on public funds but the door must be left open to Arab private funds. In our opinion such a method minimizes the problems arising from the management of the Bank itself, which is presented in the following part.

SECTION II - 5 : MANAGEMENT OF THE ARAB BANK FOR DEVELOPMENT

A - Management

As a matter of fact the management of such a regional institution is function of its capitalisation, (i.e. member countries, the degree of political cohesion between the latter and finally individual contributions).

The first problem is the formation of the Board of Directors. This body will be constituted by finance ministers and/or central bank or monetary agencies' governors and ministers in charge of economic development in member countries. Our suggestion is not fortuitous.

Firstly, a truly regional co-operation necessitates harmonisation in the fields of economics and finance.

Secondly, Arab finance ministers are already members of the Board of Directors of the Arab Monetary Fund. This, in our

(1) - Ibid, p.34.

opinion, is a de facto harmonisation between both institutions whose fields of competence are different and complementary.

The second problem is the choice of the Executive Directors. Eight Arab countries form the executive Board of the Arab Monetary Fund. A quick look at the members⁽¹⁾ shows that the Arab countries succeeded in achieving a fair representation both on geographical and wealth levels. In our opinion it is an adequate principle and we see no reason why it should not be successfully applied in the case of the Arab Bank for Development. Consequently the executive boards of both institutions - Arab Monetary Fund and the Arab Bank for Development - will be more or less complementary.

The third problem is the choice of the Managing Director. For every regional bank the selection of the candidate for such an office is an awkward problem, for both politics and competence have to be considered. In our opinion it is wise to choose the present Managing Director of the Kuwait Fund for Arab Economic Development, and such a choice can be justified on several grounds.

Firstly, according to our project, the Kuwait Fund for Arab Economic Development will disappear.

Secondly, this institution has a long-standing experience in the field of financing Arab economies, and finally, Kuwait, in spite of its contribution to Arab economic development efforts is not a member of the Arab Monetary Fund's executive Board. Furthermore, Kuwait could even provide the Headquarters - the Kuwait Fund for Arab Economic Development's office - and thus solve another problem. Over the years the Arab Bank for Development will have more and more problems to tackle and, therefore, the creation of sub-regional offices is to be envisaged.

The fourth problem is the voting right system; two options are open to us; either according to the member's contribution or according to the principle "one country one vote". We shall settle for the method in practice in the Arab Monetary Fund and Islamic Development Fund in which the voting system is a function of the

(1) - The Executive Directors of the Arab Monetary Fund (A.M.F.) are supplied by Algeria, Bahrain, Egypt, Jordan, Mauritania, Saudi Arabia, Somalia and the United Arab Emirates.

The Managing Director was provided by Iraq (Mr. Jawad Hashim, a former planning minister).

member's capital contribution. Our choice has two advantages. On the one hand it has already been accepted as a principle by Arab countries and it is very likely to have a positive influence on the Arab Bank for Development's capital. In our opinion each Arab country shall try to have a maximum say and consequently they will make their maximal contribution. This opinion can be checked by *the fact* ~~that~~ Arab countries with surpluses have made the biggest contribution in the cases of the Arab Monetary Fund and the Islamic Development Fund.

The fifth problem is the decision taking process, three methods are available: simple or absolute majority or unanimous decision. It could be interesting to know the method used within the Arab Monetary Fund but, unfortunately, we are not in possession of such information. In our opinion a simple majority could be enough.

Finally there is another element likely to contribute to the Arab Bank for Development's success. As mentioned throughout this research and mainly in Chapter one, in the Arab World the level of literacy is very low. To be more specific, one can say that Arab countries are underdeveloped in the field of financial know-how.

Every bilateral or multilateral lending agency has to rely on foreign skill when it comes to the appraisal, financing and follow-up of projects. It is obvious that the Arab Bank for Development will not be immune to such a weakness but at least it will remove the duplication of the recourse to this type of skill. Furthermore, in the case of the Arab World, the Arab Bank for Development has already at its disposal a valuable asset, namely the staff of the institutions the Bank will have to englobe. Their financial expertise coupled with their knowledge of Arab countries' economies and problems will surely be useful to the new institution.

Before finishing this "technical part" one should refer to another organisational problem: the Arab Bank for Development's relations with other institutions.

B - The Arab Bank for Development's Relations with Other Institutions

Relations with as many entities as possible have to be envisaged.

1 - Relation With the League of Arab States

The Arab Bank for Development will be related to and autonomous from the League of Arab States. By being connected to the League of Arab States it will create and strengthen consultations between Arab common institutions. By being autonomous - like the International Bank for Economic Co-operation with the Comecon central authorities - from the League of Arab States, the Arab Bank for Development will not be under any political pressure from it, and, more importantly, the Bank will stay away from regular Arab internal set-backs bound to be witnessed by every entity on its way to formation.

2 - Relations with Member Countries

These links should be as close as possible, especially with domestic institutions concerned with finance and development. This link is more or less assured 'de facto' because member countries' finance and economic ministers are already members of the Board of Governors of the Arab Bank for Development. Furthermore, the creation of joint-committee grouping Arab Bank for Development's experts and officials/experts from member countries is to be promoted.

These relations are the most important ones because they are at the core of the project's success or failure. It is also a risky field because individual states' prerogatives on the one hand and a necessary "aggressive" policy on the part of the Bank on the other hand.

It follows that clashes between both bodies have to be avoided by all means.

3 - Relations with Arab Bilateral and Multilateral Lending Agencies

With the agencies concerned with development problems - Kuwait Fund for Arab Economic Development, Abu Dhabi Fund for Arab Economic Development, Arab Fund for Economic and Social Development, Islamic Development Fund and the Saudi Development Fund - already incorporated into the Arab Bank for Development, only funds concerned with B.O.P. support are left. It is preferable to see these funds merging into a single institution which has to be closely linked to

the Arab Bank for Development. On the other hand if things stay as they are the Arab Bank for Development must have relations with each one of them. Regular contact has to be established and if need arises joint committees have to be set up. The link between the Arab Monetary Fund and the Arab Bank for Development has already been referred to.

4 - Relations With Non-Arab Institutions

By non-Arab bodies we mean non-member countries and international organisations. With the former, especially those engaged in the economic development of the region, a member country's contacts are necessary de facto. It is these countries which are providing the bulk of expertise.

With the latter such as the I.M.F., the World Bank - institutions able to provide financial and technical expertise - official relations are a must.

In our opinion those are the management, technical and organisational difficulties that have to be dealt with. However, there is a problem that we have not yet mentioned and whose importance is paramount, especially in the context of the region we are concerned with: the unit of account of the Arab Bank for Development; which currency or currencies capital has to be paid in; which currency the Arab Bank for Development will be using and so on. These questions constitute the substance of the next section of our present chapter.

SECTION III : THE UNIT OF ACCOUNT OF THE ARAB BANK FOR DEVELOPMENT

This problem will be dealt with in three stages. Firstly a comparative study of other regional development banks, secondly, the current situation of the Arab World in the monetary field, and finally the case of the Arab Bank for Development will be presented. However, before dealing with these problems we have to settle the problem of stability of the currencies in which loans are denominated. In our opinion whatever the currency/currencies used by the Arab Bank for Development to denominate its loans in, including the S.D.R., they are being eroded. Every capital lending institution lives with

this problem, consequently one should not expect us to come up with any solution.

SECTION III - 1 : THE UNIT OF ACCOUNT OF OTHER REGIONAL DEVELOPMENT BANKS

By other regional banks we mean the Asian Development Bank, the African Development Bank and the International Bank for Economic Co-operation.

A - The Asian and African Development Banks

For the Asian Development Bank the unit of account is the U.S. dollar, but the contribution is not wholly paid in the American currency, but partly in gold and hard currencies and partly in domestic currency; more specifically:

"46.25% in gold or convertible currencies and 53.75% in the currency of the member." (1)

This system can be considered as a classical one for it does not contain any innovation and from this point of view does not present any importance comparatively to other institutions. The same judgement applies to the African Development Bank because:

"payment of the amount subscribed to the paid-up capital is made in gold and convertible currencies." (2)

However, both systems are understandable because both institutions were conceived in the early '60s (1964) when gold was the pillar of the international monetary system (IMS) and the American currency was enjoying a similar status. Since then, much water has run under the bridges and, on one hand, gold is being "phased out" of the I.M.S. on the other hand the World confidence enjoyed by the U.S. currency seems to have been damaged. In that sense, neither bank indicates future trends in the field of financial structure arrangements.

From this point of view the experiment of the Comecon countries is more worthwhile studying.

(1) - "The Far East and Australia 1975-76", Europa Publications Ltd. London, 1975, p.109.

(2) - "Africa South of the Sahara 1975-76", Europa Publications Ltd. London 1975, p.94.

B - The International Bank for Economic Co-operation

This case is more complex for it led to the creation of a "regional international payments" system based on the Transferable Rouble (T.R.). Trade between member countries is undertaken in national currencies with the possibility of converting the balance into Transferable Roubles. However, what is the Transferable Rouble? It is the equivalent of 0.987413 grammes of pure gold. But, according to M. Lavigne:

"the fact that the currency is the rouble gives no special advantages to the U.S.S.R."⁽¹⁾

The Transferable Rouble is not used by the nationals of the Comecon countries for their daily life. It is just a medium of payment between the countries party to the 1963 agreement which led to the creation of this monetary unit.

Furthermore, although the Transferable Rouble is not convertible, according to M. Lavigne:

"...there seemed to be a step towards convertibility in October 1965 when countries which were members of the banks decided to subscribe a part of its capital - 10% - in gold and convertible foreign currencies. A further 10% was freed in the same way in 1970."⁽²⁾

It follows then, that the move towards convertibility is taken step by step. From another point of view, it seems that the Transferable Rouble is backed by gold but not automatically convertible into gold; furthermore the Transferable Rouble: "as a unit of payment could not be displaced by gold and foreign currencies."⁽²⁾

However, since then, the situation has changed because: "a few months ago the regulations governing the functioning of the Transferable Rouble were revised to permit traders in non-communist countries to choose between stockpiling the proceeds of their exports to the East in Transferable Rouble account, and using them to buy goods from other countries in the region, things they were not previously encouraged to do."⁽³⁾

(1) - Marie Lavigne, op. cit. p.314.

(2) - Ibid, p.314.

(3) - The Observer, "Russia's Capital Idea", London, 20 March 1977.

The move has been taken towards the consolidation of the Transferable Rouble, a consolidation seen by some as a challenge to western currencies. The point to be made is that the Common Agreement led to the creation of a new currency different from every member's currency. The system has been operating for more than a decade and it gained in strength.

The question of the convertibility of the Transferable Rouble has been repeatedly raised and the U.S.S.R. always opposed it. The Soviet Union claimed that such a question has to be treated in the context of the Comecon's interest. The convertibility or non-convertibility of any Arab currency has to be considered in this light too. However, before treating the creation of such a currency, the experience of the European Economic Community or E.E.C. has to be considered.

C - The Case of the E.E.C. Countries.

In this field the E.E.C. is rich in contributions: the Werner Report, the creation of the Europa and finally the creation of the Eurostallie(ES).

Since the early 1970s the E.E.C. members set for themselves the difficult task of monetary integration. The proposals for such a scheme are contained in the Werner Report adopted by the E.E.C. in March 1971. The report aims at full economic and monetary union to be implemented in three stages over a decade, i.e. by 1981. This document is too complex and by far outstrips our current aims, that is why we put it aside.

The second contribution to our field is just a proposal made by nine West European prominent economists. They proposed the creation of a single European currency called EUROPA, with a constant purchasing power. With respect to our research two points deserve our attention:

- the issuing of the Europa is undertaken by the E.E.C. central banks.
- The Europa "...should be purchased by nationals of E.E.C. countries with their national money, at a variable exchange rate." (1)

The proposal is heavily based on central banks and private international banks. Given the present Arab countries' banking system -

(1) - The Economist, November, 1975, p.33.

The Manifesto of the nine economists is published by the above-mentioned magazine, pp. 33-38.

cf. Chapter IV - the realisation of such a proposal is unthinkable in the Arab World's context. Furthermore it has not even received great attention in the E.E.C. area and, therefore, we do not feel the need to carry out further investigations.

- Finally, the last proposal has been made by Jacques Riboud.

Jacques Riboud's Proposal : The Eurostable (ES)

We shall not undertake a thorough study of the Eurostable, but concentrate mainly on the originality of the project.

- The Eurostable is an abstract currency because it is not based on any resources.
- Its value proceeds from its constant purchasing power. Such a constancy is reached by using new techniques such as consumer price indexes.
- The Eurostable is not to be used within individual states for:
 "a unit of account extra-national, and exclusively extra-national, which does not serve for ultimate settlements within states can be adjusted relatively to national currencies in such a way as to maintain a stable value, the essential quality of a monetary standard."⁽¹⁾
- Another quality of the Eurostable is to be sufficiently available.
- The Eurostable is to be issued by member countries' central banks and the big private banks.
- The role of the Eurostable is to compete with the U.S. dollar and other strong currencies in the Euro-currencies Market.

The author raises several problems related to the creation of any currency, the main ones being: the rate of exchange between the Eurostable and European currencies, and the problem of speculation. According to J. Riboud Europe shall derive some advantages from the creation of a unique currency.

- According to the author, given the stability of the Eurostable, inter-European trade will be smoother.

(1) - Jacques Riboud, "A Currency for Europe : The Eurostable"

(in French), Edition Revue Politique et Parlementaire, Paris, 1975, p.231.

- European financial resources will not fly out of the country.
- Non-member countries will be inclined to transfer their resources to Europe, by countries J. Riboud specifically means the OPEC countries.
- Finally, raw material prices will be stabilised provided they are fixed in Eurostable.

Another advantage is that:

"the Eurostable, in circulation and in store, will affirm the monetary independence of Europe, a necessary condition for economic and political independence ... a monetary union will constitute for the World a proof of the European will for unity and independence." (1)

The creation of an Arab currency will have to take into account the experience of other regions and mainly its specific aims and conditions in the monetary, political and economic fields. This currency will not spring from nothingness because some realities exist and some steps have been taken; it is necessary to present all these elements. By realities we mean the growing use of some Arab currencies.

SECTION III - 2 : THE USE OF ARAB CURRENCIES

The use of Arab currencies, beyond their own frontiers, is a new phenomenon and could be considered, in some ways, as one of the positive effects of the oil crisis. After 1973 Arab oil countries became aid donors and "money lenders" and in that capacity and given their financial abilities they were in a position to decide the currency the loan had to be denominated in. The number of loans denominated in Arab currencies was high in 1973 and 1974. As a matter of fact, Arab currencies were being promoted in two different ways: either individually or baskets of Arab currencies.

A - The Growing Use of Individual Arab Currencies

A type of currency worth while mentioning is the kind resulting from the creation of multinational agencies. We have in mind particularly the "Islamic Dinars", created with the Islamic Development

(1) - J. Riboud, op. cit. pp.233-4.

Fund (IDF) that we presented in the course of our previous chapter.

However, the impact of such a currency has been negligible and therefore, from the point of view of the creation of an Arab currency, it is not important. It appears that the currencies promoted belong mainly to individual countries. But not all the Arab oil countries moved in this direction.

The absence of initiative cannot be explained by the magnitude of oil revenues, because in this field the Saudi Riyal is absent. Only three Arab currencies were promoted, namely the Lebanese Pound, the U.A.E. Dirham and the Kuwait Dinar. We shall present them in this order.

1. The Lebanese Pound

As a matter of fact the Lebanese Pound was the first one to be used for loans outside Lebanon and well before 1973. This was due mainly to the expertise of Beirut at that time because Lebanon was the "Switzerland of the Middle East". Ironically enough the 1973 oil crisis damaged the role and importance of this currency whose collapse can be explained by three reasons:

- The absence of any surplus funds on the part of the country concerned.
- The growing oil revenues in neighbouring countries and this gave more confidence to their nationals to promote their own currencies. This has been complicated by the Lebanese Authorities who discourage local institutions from participating in issues in other countries.
- Finally, the two-year civil war shattered any hope, if there was any, of seeing the Lebanese Pound re-emerging as a leading currency in the region. Other currencies took the relay.

2 - The U.A.E. Dirham

This currency appeared mainly in 1974 when a loan denominated in U.A.E. Dirham was granted to the World Bank. Another step has been a medium term loan for the benefit of Abu Dhabi Telegraph and Telephone Company. Several other private placements occurred. (cf. Appendix V-I).

3 - The Kuwait Dinar

Kuwait has long standing experience in this field too, because loans granted by the Kuwait Fund for Arab Economic Development are actually denominated in Kuwaiti Dinars. Two other local institutions - the Kuwait Investment Company (KIC) and the Kuwait Foreign Trading, Contracting and Investment Company (KFTCIC) - are active in this field too, however, "the most notable development in 1974 was perhaps the first appearance of public issues denominated in Kuwaiti Dinars."⁽¹⁾ The beneficiaries of the last two currencies are very numerous and cover a wide range of public bodies such as Algeria, Sudan, the World Bank, the Asian Development Bank and Ireland. For the full list up to 1974 (cf. Appendix V-1).

The main reason which explains the success of such developments is that loans denominated in Arab currencies leave intact the borrower's access to the Eurobond and Euro-currency markets. We shall not, at this stage, take up a position for or against because we have first to consider the second type of development.

B - Baskets of Arab Currencies

The purpose of these baskets or cocktails is two-fold: on the one hand to widen the market and on the other hand to avoid fluctuations. As a matter of fact the system is different from the previous one because loans are not denominated in any Arab currency or currencies. They are denominated in U.S. dollars mainly, the innovation appears in the fact that repayment is adjusted to several Arab currencies; only three cases occurred in the years 1973-74.

1. - First Case : The Oman Loan

Three financial institutions - Hambros Bank, the Kuwait Foreign Trading, Contracting and Investment Company and the Libya Foreign Arab Bank - managed a loan to the Oman government, a loan denominated in American dollars. However, repayment was to:

"be adjusted in accordance with six Arabian Gulf currencies - the Kuwaiti Dinar, the Saudi Riyal, the Qatar Riyal, the Bahrain Dinar, the U.A.E. Dirham and the Oman Riyal."⁽²⁾

(1) - The Banker, "Oil and Money", March 1975, p.287.

(2) The Banker, March 1975, p.289.

2. - Second Case : The Arab Currency Related Unit or ARCRU

The Arab Currency Related Unit was put into practice by the Hambros Bank. The value of the Arab Currency Related Unit is function of the movement of twelve Arab currencies, with the base date being June 8, 1974.

"in arriving at the value of the Arab Currency Related Unit on any one day, one excludes the two strongest and the two weakest currencies and calculates the value be reference of the remaining eight."⁽¹⁾

This formula has three advantages:

- The value of the Arab Currency Related Unit is calculated daily.
- The value and performance of Arab oil countries' currency is represented along with some "have-nots" currencies, the currencies involved being those of Algeria, Libya, Egypt, Iraq, Kuwait, Lebanon, Oman, Qatar, Sudan, Syria and the United Arab Emirates.
- Irregular - upward or downward - movements of any one single currency are eliminated.

One Swedish Firm was granted a loan this way.

3. - Third Case : The Banque Exterieur d'Algerie Loan.

This final experiment is mainly due to the innovation of a joint venture operation. Even though other financial interests were party to it, it was mainly managed by the First Chicago and the Kuwait Foreign Trading, Contracting and Investment Company. This 1974 project was a bond issue from the Banque Exterieur d'Algerie, however, it never got off the ground. The loan was about to be denominated in, and repayment to occur in, U.S. dollars. The innovation lies in the fact that repayment is function of the performance of three Arabian Gulf currencies; the Kuwait Dinar, the U.A.E. Dirham and the Qatar Riyal.

In our opinion the use of individual Arab currencies and composite units constitutes the main element of past trend, and before moving to likely future developments some conclusions have to be drawn.

(1) - Ibid.

- Firstly, the omnipresence of the Kuwaiti Dinar. This translates not only the capital surplus of the country concerned but also the newly acquired financial expertise of its nationals, mainly through the Kuwait Fund for Arab Economic Development.
- The role played by Hambros Bank deserves some attention. The quasi-lead taken by this institution is very telling in itself. The result is that in the monetary field - just like the financial field (cf. Chapter III), Arab countries still feel the urge to associate themselves with, or go through, non-Arab institutions. One is left with the feeling that a kind of "endorsement" must be given to Arab institutions. This could be useful to a certain extent. However, the ultimate result remains difficult to foresee. The past trend contains obvious disadvantages.
- There was no uniformity between or continuity in the diverse experiments. This led to a situation where several currencies were being promoted at the same time. Consequently a de facto competition emerged, one which victimized the Lebanese Pound.
- Although only regional currencies were concerned the experiments in themselves were "imported" and this underlines the "difficulty" of individual countries to come up with home-made and home-applied projects.

One has to concede, albeit happily, that the last criticism applies only to the period running up to 1976, because from then onwards some progress has been made, which will constitute the substance of our next section.

C - The Gulf States' Common Currency

As a matter of fact we are in possession of little information concerning the above-mentioned currency, because it has not yet been created. It is hoped that it will be introduced by mid-1978. Five currencies are expected to form it: the Kuwait Dinar, the Bahrain Dinar, the Qatar Riyal, the U.A.E. Dirham, and finally, the Oman Riyal. It is thought that this currency will be in the form of a dinar or a riyal.

According to Sheikh Abdul Aziz, the creation of a Gulf States' common currency constitutes the first step towards the establishment of a market for that specific region, the structure and

aims of such a market have to be clarified.

The second point is that not all the Arabian Peninsula countries are party to the project. The least one can say is that the absence of Saudi Arabia is too obvious.

As mentioned earlier, those countries do not enjoy any comparative advantages amongst themselves. Furthermore, in 1974 the combined population of four of the countries concerned by the project, Kuwait, U.A.E., Bahrain and Oman, was just over 2.2m. inhabitants. It is too small a population for a market.

In our opinion, given the volume of inter-Arab trade, and given the level of economic development of individual Arab countries, it is impossible that any individual Arab currency will emerge as a common currency for the entire region. On the other hand, the creation of several sub-regional currencies does not constitute the way out. The reason is that sub-regional currencies will have to be based on sub-regional markets, or, in other words, more viable political and economic entities and therefore less inclined towards a "regionalisation" of the solutions to intrinsically regional problems. In our opinion the solution is the creation of a single currency for the whole Arab World, one which we shall call Arab Dinar.

SECTION III - 3 : THE CREATION OF AN ARAB DINAR

The creation of an Arab Dinar (AD) is a necessity and, in the present context of the Arab World, has to be seen as inevitable; but in spite of that we feel the need to justify it.

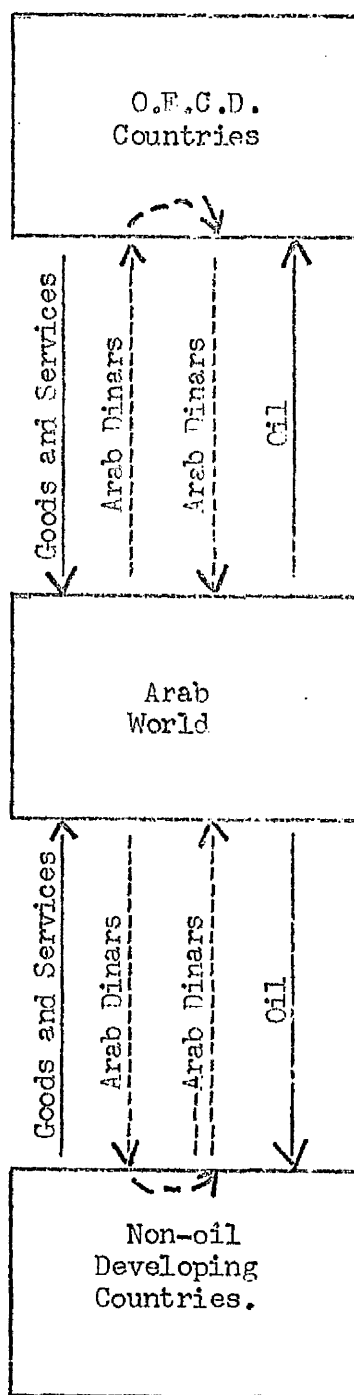
A - Justification of an Arab Dinar

The creation of a single Arab Dinar can be justified both on political and economic grounds.

- In Chapter II we showed the advantages accruing to the U.S.A. because oil revenues were paid and kept in its currency. If an Arab Dinar comes into being all of these advantages will accrue - and rightly so - to the Arab World.

This is shown in the next table.

TABLE 45 : The Reshuffling Process in Case of the
Existence of a Single Arab Currency



In this scenario the following assumptions are made.

- The Arab World is seen as a single economic unit. The subdivision of the other two groups in to countries would not affect our analysis.
- We distinguish between oil and non-oil trade.
- The Arab World experiences a surplus current account. This is a fact from 1974 onwards.
- The oil bills are settled in Arab Dinars. It does not matter if oil prices are calculated in another currency or group of currencies.
- The foreign trade of the Arab World is carried out in Arab Dinars. It means that the latter is on equal footing with the so-called "hard currencies" in which the World trade is undertaken.

Then what are the implications of such a situation as far as the reshuffling process is concerned?

According to the diagram the surpluses accumulated ^{are} in Arab Dinars and if one makes abstraction of the working of the World banking centres or one supposes that the Arab World has its own banking centre the surpluses are geographically located within the Arab World. This would have made it more difficult for ^{the} U.K. and particularly the U.S.A. to cope with the oil crisis (cf. Chapters II and IV). It would have also meant that the Arab World is primarily involved in the reshuffling process whereas up to now we have seen that it was a passive generator of funds.

On the other hand, the existence of a single Arab currency used by all the members of the League of Arab States would have had the effect of assimilating the Arab World as a single area and the present Arab countries as its composing regions. This situation would have partly contributed in solving the current payment imbalance existing between the three groups. In practical terms it would have increased Arab imports from O.E.C.D. and non-oil developing countries. As we said earlier, the Arab World as a whole has a large absorptive capacity, consequently a single currency would have transformed the latter into larger imports because it would have given to non-oil Arab countries the capacity to import more by paying with Arab Dinars with the latter being used by exporting countries to pay for their oil bill. Under similar circumstances the financing process would have been of a smaller size because goods

would have followed money.

However, the problem becomes more complex if one considers the power issuing the Arab Dinars. If the Arab Dinar is freely issued by Arab governments, a very unlikely situation otherwise it would not have a stable value, we would have had the scenario mentioned above and the oil crisis would have led to higher world activity instead of a recession. On the other hand, if the Arab Dinar is issued by a common institution such as the Arab Monetary Fund or the Arab Bank for Development, some kind of mechanism would have been necessary. We call this mechanism a reshuffling process. Under this circumstance the reshuffling process would not find ways and means to finance oil-induced B.O.P. deficit according to every country's requirements but distributing all or part of the surpluses between the non-oil Arab countries in order to satisfy their imports requirements for development purpose.

The conclusion is that either the Arab Dinar is issued by individual Arab countries or by a common institution its existence would have minimized the negative aspect of the oil crisis for the three groups of countries and primarily for the benefit of the Arab World.

The creation of an Arab Dinar would also mean other types of advantages accruing specifically to the Arab World. For instance the fact of issuing money has always constituted a privilege, called seigniorage, for the issuing authority.

- It also means a positive step towards the creation of a regional market which has to be defined, especially if one refers to the failure of the Arab Common Market. ⁽¹⁾

- For Jacques Riboud, the creation of an Eurostable has to be seen as proof of the E.E.C's will to unite and be politically and economically independent. The same argument applies to the Arab Dinar and the Arab World.

- Given the present chaotic situation of the I.M.S. a stable regional currency will constitute the Arab World's contribution to stabilise it.

(1) - An account of this project has been given by Alfred G. Musrey, "An Arab Common Market", Publisher Frederick A. Prayer, New York, Washington, London, 1965.

Before presenting our idea about a single Arab currency, a final element remains to be seen, the unit of account of the Arab Monetary Fund.

B - The Arab Monetary Fund's Arab Dinar

Since we started our present research we had in mind the creation of an Arab Dinar, and the fact that the Arab Monetary Fund's unit of account is an Arab Dinar is an encouraging sign for us for two main reasons. On the one hand it underlines the "correctness" of our perception of the Arab World's evolution, and on the other hand it means that this very Arab World has been improving. This improvement is mainly due to the fact that the Arab World has started to understand the real dimension of its problems.

However, is this last born currency the one we had in mind? According to the Economist, the Arab Monetary Fund's: "subscriptions are in fact denominated in Arab Dinars, a unit of account equivalent to three S.D.Rs."⁽¹⁾ It appears then that $AD1 \approx SDR,3$. Such an equation adds some problems because there are several ways to reach it, each of which will be presented.

- The first method could be to decide from the beginning that $SDR,3 \approx AD 1$. This means that the value of the Arab Dinar depends on the performance of the sixteen currencies composing one SDR. In other words it means that the Arab Dinar is cut off from every Arab currency because none of them is included in the basket composing the SDR. The value and performance of those sixteen currencies depend on the policies and decisions of non-Arab governments.⁽³⁾ Consequently it will be impossible for the Arab World to maintain a constant value of such an "outward-looking" currency. Furthermore even though such a stability could be maintained, there would be no link between individual currencies and the common currency, except via the SDR.

(1) - The Economist, cf. Article, "Arab Monetary Fund - The Dinar I.M.F.?", April 23, 1977, p.92.

(2) - The International Monetary Fund has only recently decided to include the currencies of two OPEC countries - Iran and Saudi Arabia - in its SDR basket. They will take the place of the currencies of South Africa and Denmark. This decision will become effective on July 1, 1978. cf. I.M.F. Survey, April 1978, p.108.

- The second method could be to take a basket of selected Arab currencies and with or without a system of weight to reach the above-mentioned equation.

The choice of those currencies -- say Arab oil countries' currencies -- and the relative weight of each one poses some difficulties. It also means that some Arab currencies are excluded and finally, the least one can say is that such a currency does not have the consensus of the whole of the Arab countries. Finally, the Arab Dinar would not reflect the performance of the entire Arab World economy.

- The third method could be to take the whole twenty Arab currencies and with or without an adequate system of weight to arrive at the value of three SDRs. The first advantage is that all Arab countries are more or less on an equal footing and therefore this constitutes an incentive, particularly for smaller countries, to undertake future co-operation in this and other fields.

However, the weight accorded to different currencies must be cautiously dealt with. In this case the Arab Dinar will be based on just four more currencies than the SDR. This could be easily manageable and one can expect that any fluctuations of any one currency can be more or less eliminated.

However we are just making speculations about the realisation of the Arab Dinar, used as a unit of account by the Arab Monetary Fund. According to the Economist such a unit of account does not constitute a single currency which is: "a long way off."⁽¹⁾

This means that the Arab Monetary Fund's Arab Dinar is not the currency we have in mind. Such a single currency raises several problems and must take into consideration several elements.

C - A Single Arab Currency : The Arab Dinar

Given the scope of our study it is not possible to come up with a definite and complete proposal concerning the creation of a single Arab currency, therefore what we shall do is just present the main issues around which such a currency is to be set up.

(1) - "Arab Monetary Fund - The Dinar I.M.F.?", The Economist, April 23, 1977, p.92.

A single Arab Dinar has to fill several gaps and contain several qualities indispensable to its being and success. Some of the gaps were put down when we treated the justification of an Arab currency.

We shall not put ourselves into inextricable speculations in the monetary field, therefore we shall limit ourselves to mentioning the main issues around which the creation of a single regional currency are centred. The issues being:

- Physical Availability;
- Stability and Attractiveness;
- Conversion of the Arab Dinar into national currencies, and vice-versa;
- The issuing power or powers;
- and finally its circulation.

Before concluding it is worth pointing out that the stability and success of the Arab Dinar will be enhanced, provided that other regional entities - Asian countries, Latin America, Africa south of the Sahara, the E.E.C. etc. - can come up with similar currencies. This will ultimately stabilise the I.M.S.

CONCLUSION

Our conclusion will be focused on two main points: the political and technical feasibility of the project itself.

From a political point of view a gradual move is necessary. The reality is that most Arab countries are newly independent and therefore they are very "jealous" of their political freedom. Although popular feelings are far from being anti inter-Arab countries' co-operation, "nationalistic" feelings must not be hurt. In other words, governments must not lose their national powers, or what is thought to be so, as a result of the creation of the Arab Bank for Development.

On the other hand, the Arab Bank for Development will have to undertake a kind of "Marshall Plan". If it is to succeed it has to have an 'aggressive' policy. Consequently some clashes might appear, therefore the project itself and the operations it will

undertake must be adequately timed and gradually implemented. The Arab Bank for Development and inter-Arab co-operation depend on the will of existing Arab governments. However, one has to recognise that every project, either within or outside the Arab World, depends on the good will of the countries concerned. This 'variable' is not specific to our project.

Finally, the technical feasibility can be summed up in three points: The existence of funds, the ability to set up the institution and the existence of adequate fields of operation. The first point has been dealt with in the first chapter. The third point has been treated within the context of the present chapter. As for the second point, the Kuwait Fund for Arab Economic Development can always play an important role along with other international organisations - World Bank and I.M.F. - and private consultants if need arises.

GENERAL CONCLUSIONS

The Arab World is characterized by three types of inequalities. Although we do not see the problem of economic development in terms of "catching-up" with industrialized countries, we can state that the Arab World lags far behind the economically advanced countries. On the other hand, there is a wide disparity between Arab countries and this disparity will keep on widening, both facts have been shown in the first Chapter. Finally, there are social, economical inequalities within individual countries. This has to do with the social and institutional organization of the countries concerned. The task to cope with these problems is tremendous. In the past any attempts to deal with these inequalities, especially the first one, has failed. The Arab World seemed to obey the old saying that poverty creates inequality. The explanation of these failures has always been that the Arab countries, taken either individually or collectively, lack funds.

However the quadrupling of oil prices that occurred during the last quarter of 1973 and early 1974 has removed, for the time being, that capital constraint. The logical question is whether the newly-acquired wealth will be properly used to tackle their social and economic problems. We have to mention that most of the commentators focused on the magnitude of the oil revenues and they put aside the magnitude of the challenge facing the Arab World.

Given the state of under-development of the Arab oil exporting countries, especially in the financial field, the bulk of the oil revenues is handled by the so-called world banking centres which are geographically located in the major O.E.C.D. countries and which, according to past and present experience, are geared to work in the direction of the latter. Consequently one can talk about extra-territoriality of oil in the sense that oil is consumed outside the region and oil revenues are kept outside the region too. The reasons for such a behaviour have been largely explained in Chapters II and III.

This situation adds another problem for the Arab World because part of the oil revenues is derived from exports to the non-oil developing countries. On the top of its well known development problem this group of countries has also to deal with balance of payments problems which are partly oil-induced. In the past their development problems, partly due to lack of funds, have been partially and "timidly" dealt with through foreign investments and aid that came mainly from the O.E.C.D. countries. But the major O.E.C.D. countries were coping with their own financing problems partly due to the oil crisis. The common fear was that oil may dry up.

On the other hand non-oil developing countries backed OPEC in its move to increase oil prices. Therefore OPEC and Arab countries felt politically indebted to other L.D.Cs. Everyone thought that this constitutes another reason to put into practice the much heralded Third World "collective self-reliance". Indeed OPEC countries in general and Arab countries in particular tried to channel part of their oil revenues to non-oil developing countries. Knowing the behaviour of World banking centres, they set up their own funds and banks for that purpose. Although if we consider the share of their G.N.P. given as aid OPEC countries are doing better than the members of the D.A.C., five years after the oil crisis their effort has been judged insufficient and inadequate. This criticism has been explained and justified in the framework of our research (cf. Chapter IV).

In our opinion, more aid has to be granted in a more efficient way. The best solution would be the merger of the several existing institutions into a single Arab Aid Fund whose prime purpose would be to provide development aid to non-Arab developing countries.

Let us now turn our attention to the Arab World itself. Arab oil countries are spending enormous funds in their domestic economies. But given the factoral distribution in each country, it will be unlikely to achieve non-oil self-maintained economies when oil runs out. On the other hand there are obvious economic complementarities within the Arab World. For instance, some

countries lack skilled and even unskilled labour - Gulf countries - whereas others - such as the North African countries - are struggling with unemployment problems. Most of them lack funds whereas others record surplus funds.

In countries such as Sudan, Syria, and Jordan there are wide agricultural development opportunities whereas most of the Gulf countries are barren lands. This economic complementarity is facilitated by existing links and similarities in historical, cultural and religious grounds. Here again Arab oil countries tried to channel part of their surplus oil funds to fellow poor Arab countries, witness the funds and banks set up for this purpose, but here again their effort fell short of the receiving countries' expectations. In our opinion trade is better than aid. The Arab countries should bank on their economic and non-economic complementarities. The ideal solution would be to merge existing funds and banks, whose objective is to channel Arab funds to Arab countries, into a single institution we call our Arab Bank for Development. This bank should have funds commensurate with the tasks we mentioned earlier. It would serve the interest of the three groups namely Arab countries, non-oil developing countries and O.E.C.D. countries. The reason is that the oil crisis, and therefore the accumulation of oil revenues, contributed to the economic recession the O.E.C.D. countries are dealing with. This means less import from non-oil developing countries. The recession is due to the fact that Arab oil countries, especially those of the Gulf, are characterized by a low absorptive capacity. The establishment of a larger institution with more funds at its disposal would expand O.E.C.D.'s exports to the Arab World because the non-oil Arab countries are far from reaching the limit of their absorptive capacity. O.E.C.D.'s exports and expansion mean more imports from non-oil developing countries, because they are the driving force in the World economy. Consequently the higher is the Bank's capital the more likely it will have a positive impact on World economy. Therefore the \$15bn. we suggested have to be seen as a minimum floor.

Obviously this proposal cannot be implemented without difficulties. On economic grounds the advantages to be derived, within and outside the Arab World, have been shown. But on political grounds the advantages are less discernable. However our argument is twofold.

First any project of such magnitude, this is involving several countries, lives with political uncertainty and risks. Second, Arab countries, rich and poor alike, have already undertaken several joint projects such as the Arab Petroleum Service Company (APSC), The Arab Ship-building and Repair Yard Company (ASRY), the Arab Transport Maritime Company (ATMC). In the financial field we have The Arab Monetary Fund (AMF) and the Arab Fund for Economic and Social Development (AFESD). Therefore the trend is positive. Further, the appearance of a fully-fledged regional financial market would help the Arab Bank for Development use Arab private funds to finance regional or domestic schemes.

We have to recognize the fact that the physical establishment of an Arab Bank for Development does not eliminate every problem. For instance, some problems could arise from conflicts within the management itself even if its individual members were fully dedicated to the regional cause of economic and social development. The policies and guidelines set for the Bank could lead to some difficulties too. For instance by promoting a given product the Bank could harm other L.D.Cs. that rely heavily on the same product for their foreign exchange earnings. Another problem is where is the Bank going to keep the funds put at its disposal? If they were to be kept in the same place (cf. Chapters II and III), our present World's imbalances would be perpetuated. However we have to confess that the options open to it are not numerous. All that the Bank can do is to inaugurate new trends and directions, and for doing so a big dose of imagination is needed.

Finally we have to stress that our proposal is against the interests of nobody. As for the advantages and risks - because no project is immune of risks - they have to be weighed from economic and political points of view.

The Arab World is given a historical chance to develop

itself and help non-oil and O.E.C.D. countries cope with the new situation; and more importantly, come up with the right answer to the energy problem. By the same token it would contribute in correcting some of our present time economic and social imbalances. If this opportunity is missed it could be harmful to everyone.

A P P E N D I X

TABLE I-1 : Estimates of Population, Labour Force, Employment, Unemployment and G.D.P.
in South-West Asia and Northern Africa : 1960-1990

Indicator	1960	1970	1973	1980	1990	Annual growth rate (%)			
						1960-70	1970-73	1973-80	1980-90
South-west Asia ¹									
Population ('000)	58 370	77 109	84 260	104 301	140 283	2.8	3.0	3.1	3.1
Labour force ('000)	22 200	27 376	29 310	34 962	45 938	2.1	2.3	2.5	2.8
Employment ('000)	20 850	25 996	28 080	33 600	44 400	2.2	2.6	2.7	2.9
Unemployment ('000)	1 350	1 380	1 230	1 362	1 538	.	.	.	.
Unemployment rate (%)	6.1	5.0	4.2	3.9	3.3	.	.	.	.
Employment (%):									
Agriculture	53.0	40.0	36.0	29.0	20.0	.	.	.	.
Manufacturing, mining, energy, transport	13.8	18.5	20.0	23.0	26.0	.	.	.	.
Services, banks, financial institutions	16.9	19.8	21.0	23.0	26.0	.	.	.	.
Construction, commerce, undetermined	16.3	21.7	23.0	25.0	28.0	.	.	.	.
GDP (US\$ million/1960)	13 900	27 300	33 700	57 800	122 500	7.0	7.3	8.0	7.8
Per capita GDP (US\$/1960)	240	355	400	555	875	4.1	4.2	4.8	4.6

(Continued on Page 253)

TABLE I-1 (Continued)

Northern Africa ^a									
Population ('000)	65 392	86 606	95 200	119 385	163 230	2.9	3.2	3.3	3.2
Labour force ('000)	18 882	23 600	25 560	30 965	41 850	2.3	2.6	2.7	3.0
Employment ('000)	17 527	20 880	23 580	28 600	38 700	1.8	3.1	2.8	3.1
Unemployment ('000)	1 355	1 820	1 980	2 365	3 150	.	.	.	.
Unemployment rate (%)	7.2	7.7	7.7	7.6	7.6	.	.	.	.
Employment (%):									
Agriculture	63.2	56.6	54.0	44.0	30.0	.	.	.	.
Manufacturing, mining, energy, transport	10.1	12.7	14.0	18.0	24.0	.	.	.	.
Services, banks, financial institutions	13.7	14.9	15.0	18.0	21.0	.	.	.	.
Construction, commerce, undetermined	13.0	15.8	17.0	20.0	25.0	.	.	.	.
GDP (US\$ million/1960)	9 100	15 500	19 100	32 700	70 600	5.5	7.0	8.0	8.0
Per capita GDP (US\$/1960)	140	180	200	275	430	2.6	3.8	4.6	4.0

^a Includes Arab countries (Bahrain, Democratic Yemen, the Gaza Strip, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, the Syrian Arab Republic, the United Arab Emirates and Yemen), Cyprus, Israel and Turkey. ^b Includes Algeria, Egypt, Ifni and ex-Spanish North Africa and Sahara, the Libyan Arab Republic, Morocco, the Sudan and Tunisia.

Source: Extracted from Yves Sabelo: "Employment and unemployment, 1960-90", in *International Labour Review*, Dec. 1975, pp. 401-417. More up-to-date projections of the labour force are being prepared by the ILO Bureau of Statistics.

Source: L.J. Berouti, "Employment Promotion Problems in Arab Countries", International Labour Review, Volume 114, Number 2, September-October 1976, p.p. 172-173.

TABLE I-2 : Labour Force Estimates and Projections in Arab Countries, 1970-1985

Country	Labour force projection ('000)				Annual growth rate (%)		
	1970	1975	1980	1985	1970-75	1975-80	1980-85
Algeria	3 369	3 894	4 545	5 362	2.9	3.1	3.4
Democratic Yemen	347	388	436	498	2.3	2.4	2.7
Egypt	9 174	10 357	11 741	13 426	2.5	2.5	2.7
Iraq	2 395	2 770	3 224	3 784	2.9	3.1	3.2
Jordan	564	641	737	857	2.6	2.8	3.1
Kuwait	282	431	637	911	8.8	8.1	7.4
Lebanon and Gaza Strip	864	986	1 112	1 264	2.7	2.4	2.6
Libyan Arab Rep.	488	550	625	721	2.4	2.6	2.9
Morocco	4 161	4 782	5 543	6 516	2.8	3.0	3.3
Oman, Bahrain, Qatar, United Arab Emirates	290	331	381	441	2.7	2.8	3.0
Saudi Arabia	2 109	2 355	2 649	3 025	2.2	2.4	2.7
Sudan	5 065	5 830	6 760	7 938	2.8	3.0	3.3
Syrian Arab Rep.	1 574	1 817	2 109	2 466	2.9	3.0	3.2
Tunisia	1 273	1 457	1 685	1 964	2.7	2.9	3.1
Yemen	1 689	1 911	2 178	2 512	2.5	2.6	2.9

Source: L.J. Berouti, op. cit. p.176.

TABLE I-3 : Oil Production of Selected Arab Countries
and Prices in U.S. Dollar/Barrel 1970-1980

Country and Region	1,000 b/d			
	1970	1973	1975	1980
Egypt	414	255	300	830
Bahrain	76	68	61	61
Iraq	1546	1932	2262	2800
Qatar	360	570	439	475
Kuwait	2735	2753	1838	2130
Oman	332	293	341	380
Saudi Arabia	3549	7344	6826	10650
Syria	84	110	183	380
U.A.E.	780	1527	1698	2000
TOTAL	9876	14852	13940	19706
Price in US \$/barrel (Ras. Tanura)	1.80	3.29	11.53	15.80

Source: Business News Survey Prospect, Swissbank Corporation,
Quarterly Review, 1977, Number 4, p.5.

TABLE I-4 : Relative Importance of Agriculture in Selected Arab Countries

Less than 5%	Between 5.1 and 10.0%	Between 10.1 and 20.0%	Between 20.1 and 40.0%	Over 40%
Agriculture's share in GDP (at market prices) ^x				
Bahrain (0.96)	Iraq (7.2)	Algeria (11.3)	Egypt (29.6)	Yemen AR (48.1)
Kuwait (0.2)	Lebanon (9.4)	Jordan (14.2)	Mauritania (33.9)	
Oman (3.1)		Syria (18.9)	Morocco (27.7)	
Saudi Arabia (1.0)		Tunisia (19.6)	Sudan (39.3)	
			Yemen D. (23.1)	
(Agriculture's share in active population) ^{xx}				
Kuwait (1.7)	Lebanon (13.5)	Libya (21.3)	Algeria (54.0)	
		Jordan (28.9)	Egypt (52.0)	
			Iraq (42.8)	
			Mauritania (84.8)	
			Morocco (53.4)	
			Saudi Arabia (62.5)	
			Syria (48.9)	
			Somalia (82.0)	
			Sudan (79.0)	
			Tunisia (44.1)	
			Yemen AR (76.7)	
			Yemen D. (61.1)	

NOTES: ^xFigures for African Arab Countries relate to the averages for 1965-73 and have been taken from IBRD (1976) World Tables 1976; figures for the Asian Arab Countries are taken from UN Economic Commission for West Asia (ECWA) (1977) Development Trends and Prospects in Selected ECWA Countries (Preliminary Draft). The data relate to 1974-75 except for Bahrain (1970-72), Kuwait and Lebanon (1971-73) and Oman (1974).

^{xx}FAO (1977) Production Yearbook 1976, Vol. 30, Table 3. The figures relate to 1976.

Source: Arab Agriculture : Problems and Prospects", by A. El-Sherbini and Dr. R. Sinha, op. cit.

A P P E N D I X I I

TABLE II-1 : Arab Oil Revenues Compared with some Data
of The World Economy (1974)

	bn. U.S. \$
Arab Oil Revenues (estimated figure)	61.8
Total Assets of Exxon (31-XII-1974)	27.8
Exports value of France	44.7
French Budget for fiscal 1975	51.7
Exports value of West Germany	88.6
Expenditure of the N.A.S.A. (1961-72)	77.8
Investments of the main M.N.O.C. in 1973	105.4
Military expenditure of N.A.T.O. (yearly average 1968-74)	108.7
U.S.A's and U.S.S.R's. costs of Space Programmes until the end of 1974	160.0
G.N.P. of France ^x	295.0
Treasury of M.N.C's (early 1974)	310.0
Budget of U.S.A. ^{xx}	314.0
G.N.P. of Japan ^x	480.0
G.N.P. of United States ^x	1,400.0

^xEstimates of McGraw Hill. ^{xx}for 1. 7.74 - 30. 6.1975 period.

For 1975-76 the budget was fixed at \$ 349.4bn. with \$ 95bn. (that is 150% as much as Arab oil revenues) earmarked for military expenditures.

Sources: Nicolas Sarkis, "Le Petrole à l'Heure Arabe",
op. cit. p.315.

TABLE II-2 : Discount Rates in the Major O.E.C.D. Countries
1972-1977 ; Percentage per annum

Periods Countries	1972	1973	1974	1975	1976	1977
U.S.A.	4.5	7.5	7.75	6.00	5.25	6.00
Japan	4.85	9.0	9.0	6.5	6.5	4.25
Germany	4.5	7.0	6.0	3.5	3.5	3.50
U.K.	9.0	13.0	11.5	11.25	14.25	7.00
France	7.5	11.0	13.0	8.0	10.5	9.50
Italy	4.0	6.5	8.0	6.0	15.0	11.50

Source: I.F.S. by I.M.F., Volume XXXI, Number 1, January 1978.

TABLE II-3 : O.E.C.D. : Consumer Prices, Percentage Changes from
Previous Period, Not Seasonally Adjusted
Averages for Calendar Years : 1964-1977

	At annual rate				
	Average 1964-74	1975	1976	1977	12 months to Dec. 1977
United States	4.7	9.1	5.8	6.5	6.8
Japan	7.9	11.8	9.3	8.0	4.8
Germany	4.1	6.0	4.5	3.9	3.5
France	5.6	11.7	9.6	9.5	9.0
United Kingdom	6.9	24.2	16.5	15.9	12.1
Canada	4.8	10.8	7.5	8.0	9.5
Italy	5.8	17.0	16.8	..	15.0(a)
Austria	4.9	8.4	7.3	5.5	4.6
Belgium	5.1	12.8	9.2	7.1	6.3
Denmark	7.5	9.6	9.0	11.1	12.2
Finland	6.9	17.9	14.4	12.7	11.9
Greece	6.3	13.4	13.3	..	13.1(a)
Iceland	14.6	49.1	33.0	29.9	30.2(a)
Ireland	7.7	20.9	18.0	13.6	10.8(a)
Luxembourg	4.4	10.7	9.8	6.7	4.3
Netherlands	6.1	10.2	8.8	6.7	5.4
Norway	5.9	11.7	9.1	9.1	9.1
Portugal(d)	8.6	20.4	19.3	..	18.9(a)
Spain	8.2	16.9	17.6	24.5	26.4
Sweden	5.7	9.8	10.3	11.4	13.1
Switzerland	5.2	6.7	1.7	1.3	1.1
Turkey	11.6	21.2	17.4	..	36.6(a)
Australia	5.6	15.1	13.5	12.3	9.3(a)
New Zealand	6.4	14.7	16.9	14.3	15.3(a)
Total OECD(e)	5.5	11.4	8.6	8.9	8.3
OECD Europe(e)	5.8	13.1	10.8	11.3	10.5
EEC(e)	5.5	12.9	10.3	10.0	8.4

(a) To latest available period.

(b) Third quarter 1977.

(c) Fourth quarter 1977.

(d) Lisbon, excluding rent.

(e) From 1975, weighted by 1975 private consumption and exchange rates.

Source: O.E.C.D. Information Service, Press Release, Paris,
9th February 1978.

APPENDIX II-4 : Identification of the Most Seriously
Affected Countries.

The Most Seriously Affected Countries are (by alphabetical order): Bangladesh, Ethiopia, India, Kenya, Pakistan, Sri Lanka, Sudan, Tanzania, Uganda and Zaire.

This list has been set up by Mr. Frank Ellis who used the three following criteria:

- (i) Per capita income and G.N.P. growth rates as approximate indications of the level of poverty and economic resilience.
- (ii) Dependence on petroleum and petroleum-based imports (especially fertilizers) as a proportion of total import bills,
- (iii) Final ability to meet the increased bills taking into account:
 - (a) The direct impact of the increased oil costs on their B.O.P. situation in 1974,
 - (b) Their reserve and debt burden situation and potential for borrowing from normal sources (e.g. I.M.F.) in 1974 and 1975,
 - (c) The impact of other price changes on the value of their exports and imports.
 - (d) The level of their present receipts of Official Development Assistance in relation to their needs.

Source: Frank Ellis, "Identification of the Developing Countries Most Seriously Affected by the increased oil Prices", cf. "Report from the Select Committee on Overseas Development", op. cit. p.p. 58-62.

TABLE II-5 : Evolution of the Consumer Prices in The N.O.D.C.
1974-77 (in % change)

End of Years Countries	1970	1974	1975	1976	1976	1977/
India	100	+27.7	+ 6.1	+ 8.1	+13.3 ^d	+40.7
Pakistan	100	+26.7	+20.9	+ 7.0	+57.4 ^d	+21.2
Bangladesh	100	+54.6	+24.3	- 9.6	+ 7.6 ^b	+27.0
Sri Lanka	100	+12.3	+ 6.5	+ 1.3	+ 1.0 ^d	+22.5
Kenya	100	+17.75	+19.2	+13.5	+ 9.3 ^d	+74.2
Uganda	100	+67.0	+20.3	+54.8	n.a.	n.a.
Ethiopia	100	+ 8.6	+ 6.5	+28.5	+ 9 ^b	+62.5
Sudan	100	+26	+24	+16.7	+ 7.0 ^d	+70.2
Tanzania	100	+19.6	+26.0	+ 6.9	n.a.	n.a.
Zaire	100	+27.4	+30.7	+185.0	n.a.	n.a.

d. March 1977

b. May 1977

Source: International Financial Statistics, Volume XXX, Number 8,
August 1977, cf. Individual Countries Data.

TABLE III -1a : Cumulative Purchases under the Oil Facility
1974 and 1975

Member	Oil Facility for 1974	Oil Facility for 1975
All Countries:	2,582.851	4,319.577
Industrial Countries:	675.000	1,780.240
Italy	675.000	780.240
United Kingdom	-	1,000.000
Other Developed Countries:	794.600	1,113.770
Finland	-	186.360
Greece	103.500	51.750
Iceland	17.200	21.970
New Zealand	109.300	129.370
Portugal	-	114.760
Spain	296.200	275.930
Turkey	113.200	148.110
Yugoslavia	155.200	185.520
Developing Countries:	1,113.251	1,425.567
Argentina	-	76.090
Bangladesh	51.500	40.470
Burundi	1.200	-
Cameroon	4.620	11.790
Central African Rep.	3.300	2.660
Chad	2.205	-
Chile	118.500	125.220
Costa Rica	18.837	18.830
Cyprus	8.100	21.970
Egypt	-	31.680
El Salvador	17.890	-
Fiji	0.340	-
Ghana	38.600	-
Grenada	-	0.490
Guinea	3.510	-
Haiti	4.800	4.140
Honduras	16.785	-
India	200.000	201.340
Israel	62.000	81.250
Ivory Coast	11.170	10.350
Jamaica	-	29.200
Kenya	36.000	27.930
Korea	100.000	152.690
Malagasy Republic	14.300	-
Malawi	-	3.730
Mali	5.000	3.990
Mauritania	-	5.320
Morocco	-	18.000

TABLE III.1a (Continued)

Member	Oil Facility for 1974	Oil Facility for 1975
Nicaragua	15.500	-
Pakistan	125.000	111.010
Panama	7.370	17.250
Papua New Guinea	-	14.800
Peru	-	52.660
Philippines	-	152.030
Senegal	15.525	9.910
Sierra Leone	4.914	4.970
Sri Lanka	43.500	34.130
Sudan	28.710	18.300
Tanzania	31.500	20.610
Uganda	19.200	-
Uruguay	46.575	49.070
Western Samoa	-	0.417
Yemen P. Dem. Rep.	11.800	12.020
Zaire	45.000	32.530
Zambia	-	29.720

Source: I.M.F. Survey, April 5, 1976, p.102.

TABLE III-lb : I.M.F. Oil Facility
Borrowers per Area : 1974, 1975.

Borrowers		
	At end Dec. 74	March 75
Developed Areas (7)	951.4	1469.6
including Italy	675.0	675.0
Spain	-	296.2
Latin America (8)	156.1	234.1
including Chile	41.5	113.5
Uruguay	46.6	46.6
Asia (6)	462.7	520.3
including India	200.0	200.0
Pakistan	97.9	125.0
Korea	90.0	100.0
Africa (14)	130.0	181.2
including Kenya	32.0	36.1
Tanzania	28.4	31.5
Sudan	28.7	28.7
Others (3)	15.7	79.4
TOTAL	1715.9	2484.6

Source: Nicholas Fallon, "Middle East Oil Money and Its Future Expenditure", op. cit. p.189.

TABLE IV-1 : Major Joint Banking Ventures
by Arab and Western Banks (1977)

The following is a list of consortium banks and banking partnerships bringing together Arab and Western partners.

EUROPE

Shareholders	Shareholdings %
Banque Franco-Arabe d'Investissements Internationaux (FRAB) Est. 1969, Paris, capital Fr. Fr. 70m.	
Societe Generale (France)	25.00
Societe Generale de Banque (Belgium)	7.00
Swiss Bank Corporation (Switzerland)	6.00
Banco Urquijo (Spain)	1.00
Industrial Bank of Japan (Japan)	5.00
Amsterdam-Rotterdam Bank (Netherlands)	5.00
National Investment Bank for Industrial Development (Greece)	1.00
KUWAIT GROUP:	26.50
Kuwait Investment Company	
Kuwait Foreign Trading, Contracting and Investment Company	
National Bank of Kuwait	
The Kuwait Insurance Company	
Commercial Bank of Kuwait	
Various companies and private individuals	
ARABIAN GULF GROUP:	3.32
Bank of Bahrain	
Bank of Oman	
Miscellaneous companies and private individuals	
LIBYAN GROUP:	3.50
Sahara Bank	
Libya Insurance Company	
TUNISIAN GROUP:	1.68
Banque de Tunisie	
Societe Generale d'Investissement	
SAUDI ARABIAN GROUP	12.00
ALGERIAN GROUP	1.50
MOROCCAN GROUP	1.50

TABLE IV-1 (Continued)

Union de Banques Arabes et Francaises (UBAF) Est. 1970, Paris, capital Fr. Fr. 110m.	
Credit Lyonnais (France)	31.95
Banque Francaise du Commerce Exterieur	8.00
Arab Bank (Jordan)	6.33
Banque Exterieur d'Algerie (Algeria)	6.33
Commercial Bank of Syria (Syria)	6.33
Libyan Arab Foreign Bank (Libya)	6.33
Rafidain Bank (Iraq)	6.33
Central Bank of Egypt (Egypt)	6.32
Arab African Bank (Arab multinational)	5.82
Banque du Maroc (Morocco)	3.57
Alahli Bank of Kuwait (Kuwait)	1.86
Riyad Bank (Saudi Arabia)	1.78
Bank of Jordan (Jordan)	1.07
Societe Tunisienne de Banque (Tunisia)	1.07
National Bank of Abu Dhabi (Abu Dhabi)	0.91
Ministry of Finance and Petroleum (Qatar)	0.91
Sudan Commercial Bank (Sudan)	0.71
Jordan National Bank (Jordan)	0.54
Banque Audi (Lebanon)	0.47
Banque G. Trad (Credit Lyonnais) Lebanon	0.47
Alahli Bank (Dubai)	0.45
Bank of Bahrain and Kuwait (Bahrain)	0.45
National Bank of Yemen (Yemen)	0.45
Yemen Bank for Reconstruction and Development (Yemen)	0.45
Banque Arabe Libyenne Mauritanienne pour le Commerce Exterieur et le Developpement (Mauritania)	0.45
Oman Currency Board (Oman)	0.45
Other	0.03
UBAF's Affiliates	
(i) UBAF Bank Ltd. Est. 1972, London, capital £10m.	
UBAF (Paris)	50.00
Midland Bank (United Kingdom)	25.00
Libyan Arab Foreign Bank (Libya)	25.00

TABLE IV-1 (Continued)

(ii) Unione di Banche Arabe ed Europee (Italia)	
SpA (UBAE Roma)	
Est. 1972, Rome, capital L5,000m	
UBAF (Paris)	51.00
Banco di Roma (Italy)	9.50
Banco Nazionale del Lavoro (Italy)	9.50
Instituto di Credito per le Imprese di Pubblica Utilita (ICIPU)(Italy)	6.00
Instituto Ligure Interessenze Industriali e Commerciali (Italy)	6.00
Societa Finanziamenti Idrocarburi SOFID)(Italy)	6.00
Societa Finanziari Telefonica per Azioni STET	6.00
Societa Italiana per Condotte d'Accua	6.00
(iii) Union de Banques Arabes et Europeenes (UBAE)	
Est. 1973, Luxembourg and Frankfurt, capital DM 30m.	
U.B.A.F. (Paris)	33.33
Arab Bank (Jordan)	33.33
Arab Bank Overseas (Switzerland)	
Bayerische Vereinsbank (Germany)	33.33
Commerzbank (Germany)	
Commerzbank International (Luxembourg)	
Westdeutsche Landesbank Girozentrale (Germany)	
(iv) Union de Banques Arabes et Nippon	
(UBAN-Arab Japanese Finance)	
Est. 1974, Hong Kong, capital HK\$ 25m.	
UBAF (Paris)	20.00
Alahli Bank of Kuwait (Kuwait)	7.00
Arab African Bank (Arab multinational)	7.00
Arab Bank (Jordan)	7.00
Libyan Arab Foreign Bank (Libya)	7.00
Banque Arabe Libyenne Mauritanienne pour le Commerce Exterieur et le Developpement (Mauritania)	2.50
Banque Audi (Lebanon)	2.50
National Bank of Abu Dhabi (Abu Dhabi)	2.50
Sudan Commercial Bank (Sudan)	2.50
Yemen Bank for Reconstruction and Development (Yemen)	2.00
Bank of Tokyo (Japan)	8.00
Long-Term Credit Bank of Japan (Japan)	8.00
Mitsui Bank (Japan)	8.00
Nomura Securities (Japan)	8.00
Sanwa Bank (Japan)	8.00

TABLE IV-1 (Continued)

UBAF Financial Services Ltd. Est 1974, London, capital Elm.	
UBAF (Paris)	35.00
UBAF Ltd (London)	7.50
UBAE (Luxembourg)	2.50
UBAE (Italy)	2.50
UBAN (Hong Kong)	2.50
Credit Lyonnais (France)	10.00
Hambros Bank (United Kingdom)	20.00
Midland and International Banks (United Kingdom)	20.00
UBAAB (New York) Est 1976, New York, capital \$25m	
UBAF (Paris)	12.00
Alahli Bank of Kuwait (Kuwait)	7.00
Arab African Bank (Arab multinational)	7.00
Arab Bank Ltd. (Jordan)	7.00
Central Bank of Egypt (Egypt)	7.00
Central Bank of Oman (Oman)	7.00
Commercial Bank of Syria (Syria)	7.00
Libyan Arab Foreign Bank (Libya)	7.00
National Bank of Abu Dhabi (United Arab Emirates)	7.00
Bancue du Maroc (Morocco)	5.00
Riyad Bank Ltd. (Saudi Arabia)	2.00
Sudan Commercial Bank (Sudan)	1.00
UBAF Ltd.	1.00
Unione di Banche Arabe ed Europee-UBAE (Italia)SpA	1.00
Union de Banques Arabes et Europeennes-UBAE (Luxembourg)	1.00
UBAN-Arab Japanese Finance Ltd.	1.00
Bankers Trust New York Corporation	5.00
First Chicago Corporation	5.00
Security Pacific Corporation	5.00
Texas Commerce Bancshares, Inc.	5.00
European Arab Holding S.A. Est. 1972, Luxembourg, capital Lux. Fr. 1,000m.	
FRAB Bank (see above)	10.00

TABLE IV-1 (Continued)

Creditanstalt-Bankverein (Austria) ^x	5.69
Deutsche Bank (Germany) ^x	5.69
Amsterdam-Rotterdam Bank (Netherlands) ^x	5.19
Midland Bank (United Kingdom) ^x	4.69
Banca Commerciale Italiana (Italy) ^x	5.69
Societe Generale de Banque (Belgium) ^x	4.99
Abu Dhabi Fund for Arab Economic Development (Abu Dhabi)	4.16
Banque Nationale d'Algerie (Algeria)	4.16
Arab International Bank (Egypt)	4.16
National Bank of Egypt (Egypt)	4.16
National Bank of Kuwait (Kuwait)	4.16
National Commercial Bank (Libya)	4.16
National Commercial Bank (Saudi Arabia)	4.16
Bank of Sudan (Sudan)	4.16
Central Bank of Syria (Syria)	4.16
Societe Generale (France) ^x	3.20
Credit Suisse (Switzerland)	2.84
Fuji Bank (Japan)	2.84
Industrial Bank of Japan (Japan)	2.34
Banque Marocaine du Commerce Extérieur (Morocco)	2.08
Issue Dept. (Oman)	2.08
Banque Libanaise pour le Commerce (Lebanon)	1.06
Banque Misr-Liban (Lebanon)	1.06
Credit Libanais (Lebanon)	1.06
Societe Generale Libano-Europeene de Banque (Lebanon)	1.06
Midland and International Banks Ltd. (United Kingdom)	2.00

^xDenotes member of EBIC - European Banks International Company

Note: When MAIBL took a 2 per cent holding, Midland Bank reduced its share by 1 per cent. All the other European banks involved reduced their holding by a fraction to make up the additional one per cent.

Subsidiaries of European Arab Holding SA

(i) European Arab Bank (Brussels) SA
Brussels, capital BF 500m
As above

(ii) Europaisch-Arabishe Bank GmbH
Frankfurt, capital DM 15m
As above

TABLE IV-1 (Continued)

Compagnie Arabe et Internationale d'Investissement (CAII) Est 1973, Luxembourg, capital \$30m	
Kuwait Investment Company (Kuwait)	n.a.
Government of Abu Dhabi	n.a.
Bank of Kuwait and the Middle East	n.a.
Banque du Liban et d'Outre Mer (Lebanon)	n.a.
Banque Nationale de Tunisie (Tunisia)	n.a.
National Commercial Bank (Saudi Arabia)	n.a.
National Investment Company (Libya)	n.a.
Banque Centrale Populaire (Morocco)	n.a.
Banque Marocaine pour le Commerce et l'Industrie (Morocco)	n.a.
Banque Nationale pour le Developpement Economique (Morocco)	n.a.
Qatar National Bank (Catar)	n.a.
Union Bancaire pour le Commerce et l'Industrie (Tunisia)	n.a.
Banque Nationale de Paris (France)	n.a.
Banque Nationale de Paris Internationale (France)	n.a.
Banco Central (Spain)	n.a.
Canadian Imperial Bank of Commerce (Canada)	n.a.
Oesterreichische Laenderbank (Austria)	n.a.
Union de Banques Suisses (Switzerland)	n.a.
Banco do Brasil (Brazil)	n.a.
Societe Financiere Europeene	25.00
Note: Shareholdings are distributed 50 per cent to Middle East interests, 50 per cent to Western interests.	

Subsidiary of CAII

(i) Banque Arabe et Internationale d'Investissement (BAII)

Est 1973, Paris, capital Fr. 50m.

As above

Iran Overseas Investment Bank

Est 1973, London, capital £5m.

Barclays Bank International (United Kingdom)	10.00
Bank Melli Iran (Iran)	10.00
Bank of America (USA)	10.00
Bank of Tokyo (Japan)	10.00
Deutsche Bank (Germany)	10.00

TABLE IV-1 (Continued)

Industrial Bank of Japan (Japan)	10.00
Industrial and Mining Development Bank of Iran	10.00
Manufacturers Hanover Trust (USA)	10.00
Midland Bank (United Kingdom)	10.00
Societe Generale (France)	10.00
Arab and Morgan Grenfell Finance Company Est 1974, London, capital £1m.	
Morgan Grenfell Holdings (United Kingdom)	50.00
Arab Bank (Jordan)	45.00
Arab Bank Overseas (Switzerland)	5.00
Arab International Finance Company (ARINFI) Est 1974, incorporated in Switzerland but operating out of Beirut, capital SwFr 14m.	
Marine Midland Bank (USA)	25.00
A.K. Holdings (Luxembourg)	n.a.
Kuwait International Investment Co. (Kuwait)	n.a.
Other Arab investors	n.a.
Banco Arabe Espanol Est 1975, Madrid, capital \$26m	
Libyan Arab Foreign Bank	30.00
KFTCIC (Kuwait)	30.00
Spanish institutions	40.00
Saudi International Bank Est 1975, London	
Saudi Arabian Monetary Agency	50.00
Morgan Guaranty (USA)	20.00
Bank of Tokyo (Japan)	5.00
Banque Nationale de Paris (France)	5.00
Deutsche Bank (Germany)	5.00
National Westminster (United Kingdom)	5.00
Union Bank of Switzerland	5.00
National Commercial Bank (Saudi Arabia)	2.50
Riyad Bank (Saudi Arabia)	2.50

TABLE IV-1 (Continued)

LEBANON

Banque d'Investissement et de Financement (INFI)
Est 1974, Beirut, capital Leb. £15m.

Banque Audi (Lebanon)	35.00
Caisse Centrale de Banques Populaires (France)	8.00
Hambros Bank (United Kingdom)	8.00
Mitsui Bank (Japan)	8.00
Nomura Securities (Japan)	8.00
Groupe Renault (France)	8.00
Non-institutional Arab shareholders	25.00

Arab Finance Corp.
Est 1974, Beirut, capital Leb. £6m.

Manufacturers Hanover Trust (United States)	18.00
Kuwait Investment Company (Kuwait)	18.00
Investment Promotion Group (Lebanon)	18.00
Banque de l'Union Europeene (France)	18.00
Bank of Tokyo (Japan)	10.00
Beirut-Riyad Bank (Lebanon)	9.00
Credit Libanaise (Lebanon)) and its Brussels subsidiary)	9.00
Banque Europeene pour le) Moyen-Orient)	

J. Henry Schroder & Co.
Est 1974, Beirut

J. Henry Schroder Wagg (United Kingdom)	65.00
Asseily family (Lebanon)	35.00

Societe Financiere pour le Moyen-Orient
(SOFIMO)

Est 1975, Beirut, capital Leb. £6m

Societe Generale (France)	42.50
Kuwait International Investment Company (Kuwait)	n.a.
Societe Generale Libano-Europeene de Banque (Lebanon)	n.a.
FRAB Bank (France)	n.a.
Almana Trading Co. (Qatar)	n.a.
Other Arab investors	n.a.

TABLE IV-1 (Continued)

Arab International Finance Company (ARINFI)	
Est 1974, Beirut, capital \$5.2m	
Marine Midland Bank (USA)	25.00
Tokai Bank (Japan)	12.50
A.K. Holdings (Luxembourg)	12.51
Kuwait International Investment)	
Company, private and corporate)	
Kuwaiti and Saudi Arabian)	50.00
investors)	
EGYPT	
Cairo Barclays International Bank	
Est 1974, Cairo, capital US \$10m	
Barclays Bank International (United Kingdom)	50.00
Banque du Caire (Egypt)	50.00
Chase National Bank of Egypt	
Est 1975, Cairo	
Chase Manhattan Bank (USA)	49.00
National Bank of Egypt (Egypt)	51.00
Misr International Bank	
Est 1975, Cairo, capital US \$2.5m	
Bank Misr (Egypt)	20.00
Commercial and industrial companies in which Bank Misr	
has a participation	10.00
Public subscription by Egyptian nationals	21.00
Banco di Roma (Italy-with Europartners)	19.00
UBAF Ltd. (United Kingdom)	10.00
First National Bank of Chicago (USA)	20.00
Egyptian American Bank	
Est 1975, Cairo, capital \$30m	
Bank of Alexandria (Egypt)	51.00
American Express (USA)	49.00
SHARJAH	
National Bank of Sharjah	
Est 1975, Sharjah	
Sharjah public	40.00
Other local interests	35.00
Government of Sharjah	10.00
Credit Suisse (Switzerland)	5.00
Mitsui Bank (Japan)	5.00
Hambros (United Kingdom)	

TABLE IV-1 (Continued)

AJMAN

Ajman Arab Bank

Est. 1975, Ajman, capital \$2.5m.

WFC Corporation (USA) 40.00

Government of Ajman 40.00

UAE public 20.00

DUBAI

National Bank of Dubai

Est 1963, Dubai, capital QDR18.3m.

National Bank of Kuwait (Kuwait) 30.00

Grindlays Bank (United Kingdom) 10.00

Bank of America (USA) 4.00

Local Dubai merchants 56.00

Commercial Bank of Dubai

Est 1969, Dubai, capital D 20m.

Commerzbank (Germany) n.a.

Chase Manhattan Bank (USA) n.a.

Commercial Bank of Kuwait (Kuwait) n.a.

Dubai Bank Ltd.

Est 1970, Dubai, capital D 11.5m

Hambros Bank (United Kingdom) 10.00

Wells Fargo (USA) 10.00

Banque de l'Union Europeene (France) 5.00

Local investors 75.00

Oryx Investments Ltd.

Est 1974, Dubai, capital US \$1.25m

Arbuthnot Latham (United Kingdom) 20.00

Standard and Chartered Banking Group (United Kingdom) 20.00

Arab shareholders 60.00

(from Abu Dhabi, Bahrain, Dubai, Kuwait, Qatar and Saudi Arabia)

HONG KONG

Kuwait Pacific Finance Company Ltd.

Est 1975, Hong Kong, capital \$5m

Kuwait Investment Company 35.00

Industrial Bank of Japan 32.00

TABLE IV-1 (Continued)

Yamaichi Securities Company of Japan	3.00
Bank of New South Wales	10.00
Canadian Imperial Bank of Commerce	10.00
Banco do Brazil	10.00
KUWAIT	
International Financial Advisers	
Est 1974, Kuwait, capital KD500,000	
Robert Fleming & Co. (United Kingdom)	15.00
William Kent & Co. (United States)	15.00
Banque Worms (France)	15.00
Private Kuwaiti individuals	55.00
Arab Financial Consultants Company	
Est 1974, Kuwait, capital KD500,000	
Kuwaiti interests	51.00
Other Arab investors	25.00
Arbuthnot Lathan (United Kingdom)	6.00
Taiyo Kobe Bank (Japan)	6.00
Philadelphia National Bank (USA)	6.00
Banque de Suez et l'Union des Mines (France)	6.00
Kuwait Financial Centre	
Est 1974, Kuwait, capital KD3.5m	
International Bank - Washington	21.00
Kuwaiti interests	79.00
Kuwait International Finance Company	
Est 1974, Kuwait, capital KD1m	
Bank of Credit and Commerce International	46.00
Kuwaiti interests	54.00
Arab Trust Company	
Est 1975, Kuwait, capital KD1m	
Samuel Montagu	10.00
Chase International Investment	10.00
Kuwaiti interests	80.00

TABLE IV-1 (Continued)

Kuwait Financial Group Est 1976, Kuwait, capital \$7m	
Bank of America (through Bamerical subsidiary)	40.00
Kuwait Real Estate Bank	30.00
Kuwait Projects Company	30.00
SAUDI ARABIA	
Al-Jezira Bank Est 1976, Jeddah	
National Bank of Pakistan	35.00
Saudi interests	65.00
Al-Bank Al-Saudi Al-Hollandi Est 1976, Jeddah	
Algemene Bank Nederland	60.00
Saudi interests	40.00
Saudi Investment Banking Corporation Est 1977	
Saudi Interests	65.00
Chase Manhattan	20.00
Industrial Bank of Japan	5.00
J. Henry Schroder Wagg	5.00
Commerzbank	5.00

Source: The Banker, op. cit. p.p. 97-105. March, 1977.
P.P. 97-105

TABLE IV-2 : Multilateral Arab Aid for Africa,
1974 and early 1975

1. (Most Seriously Affected countries - resulting from oil price rise) - 'MSA Group'.

	Commitments	Disbursements
	(\$ millions)	
Ethiopia	14.2	14.2
Tanzania	14.2	7.1
Sudan	10.6	5.3
Chad	8.8	8.8
Ghana	8.8	4.4
Mali	7.8	3.9
Senegal	7.5	7.5
Ivory Coast	7.2	3.6
Cameroon	5.7	2.85
Niger	5.4	2.7
Upper Volta	5.4	2.7
Malagasy Republic	4.8	2.4
Sierra Leone	3.6	1.8
Kenya	3.6	3.6
Lesotho	2.8	1.4
Dahomey	2.4	1.2
Central African Republic	2.4	2.4
Mauritania	2.1	1.05
Somalia	2.0	1.0
Guinea	1.6	0.8
Total	120.9	78.7

2. Other Countries.

	Commitments	Disbursements
	(\$ millions)	
Zambia	12.7	12.7
Zaire	12.4	-
Morocco	11.8	5.9
Uganda	11.3	11.3
Malawi	7.5	-
Botswana	5.4	5.4
Swaziland	4.2	2.1
Liberia	3.6	1.8
Mauritius	2.7	2.7
Burundi	2.0	1.0
Rwanda	2.0	2.0
Togo	1.8	0.9
Gambia	0.7	0.35
Guinea-Bissau	0.5	0.5
Equat. Guinea	0.5	0.5
Total for 'other countries'	79.1	47.15
Combined Total		
MSA plus other countries	200.0	125.85

Source: E.C. Chibwe, "Arab Dollars for Africa", op. cit. pp. 141-142.

TABLE IV-3

Total Commitments and Estimated Net Disbursements of Concessional Assistance
by OPEC Members in 1974-75

Donor Country	Year	Commitments			Estimated Disbursements						
		Bilateral	Multilateral	Total	Percent of Oil Revenue of GNP	Bilateral	Multilateral	Total	Percent of Oil Revenue of GNP		
Algeria	1974	3.0	129.0	132.0	3.4	1.40	3.0	62.0	65.0	1.7	0.7
	1975	4.8	25.8	30.6	na	0.23	2.0	13.8	15.8	na	0.1
Iraq	1974	419.0	69.0	488.0	6.8	4.8	180.0	43.0	223.0	3.1	2.2
	1975	199.8	41.8	241.6	na	1.6	170.0	34.8	201.8	na	1.4
Kuwait	1974	610.0	251.0	861.0	10.2	8.4	300.0	80.0	380.0	4.5	3.7
	1975	627.5	112.7	740.1	na	6.2	240.0	97.7	337.7	na	2.8
Libya	1974	182.0	244.0	426.0	6.0	4.1	75.0	59.0	134.0	1.9	1.3
	1975	57.3	43.5	105.8	na	1.0	70.1	55.9	125.9	na	1.2
Qatar	1974	95.0	65.0	160.0	8.9	7.6	45.0	16.0	61.0	3.4	2.9
	1975	133.6	25.5	159.1	na	6.9	85.0	21.9	106.9	na	4.7
Saudi Arabia	1974	1,601.0	436.0	2,037.0	6.8	6.5	775.0	130.0	905.0	3.0	2.9
	1975	1,514.9	237.6	1,752.5	na	4.5	670.0	231.4	901.4	na	2.6
UAE	1974	609.0	197.0	806.0	15.3	14.5	155.0	45.0	200.0	3.8	3.6
	1975	439.9	61.2	501.1	na	5.8	335.0	68.7	403.7	na	4.6

na = not available.

Sources: OECD, Development Assistance Committee Internal Report Addendum to DD403, first revision, 1974-75, p. 4 and OECD, working document, Development Assistance Directorate, DD-488, 1975, p. 7.

Source: "OPEC and The Middle East, The Impact of Oil on Social Development"
Edited by Russel A. Stone, op. cit. p.179.

TABLE IV-4

Contributions of Arab OPEC States to UN Agencies
(in thousands of dollars): 1973-1975

UN	Algeria	Iraq	Kuwait	Libya	Catar	Saudi Arabia	UAE	Total
UNDP	1973 340	300	350	315	200	350	150	2,005
	1974 391	345	350	350	200	1,500	240	3,366
	1975 430	500	400	500	200	1,500	500	4,030
WFP	1973-74 30	80	50	--	--	--	--	160
	1975-76 36	150	--	10	--	50,000	3,030	53,226
UNRWA ^a	1973 --	--	220	300	--	397	220	1,137
UNICEF	1973 73	118	20	35	--	20	--	766
	1974 na	na	na	na	na	1,000	na	na
UNFPA ^a	1973 --	--	--	5	--	--	--	5
UNHCR ^a	1973 9	16	3	5	5	9	13	59
UN agencies ^b	1975 0.5	0.7	5.6	1.0	0.2	64.7	4.2	76.9
UNESCO								
Special Account	1975 --	na	--	--	--	--	--	--
IDA ^b	1975 --	na	9.0	--	--	--	--	9.0
Third Window ^b	1975 --	na	--	--	--	25.0	5.0	30.0

na = not available. -- = nil. ^aFor UNRWA, UNFPA, and UNHCR, data for 1974 are not available

^bFor the Un Agencies UNESCO Special Account, IDA, and Third Window, data for 1973 and 1974 are not available.

Sources: OECD, Development Assistance Committee internal report, Addendum to DD-403, first revision, 1974-75 p. 8, and Organization for Economic and Cooperation and Development, working document, Development Assistance Directorate, DD-188, 1975-76, p.38.

Source: OPEC and the Middle East: The Impact of Oil on Social Development", Edited by Russel A. Stone, op. cit. p.186.

TABLE IV-5

Resource Flows from OPEC Member Countries to Other Developing Countries: 1973-1976
(Preliminary Statistics gathered by UNCTAD, November 4, 1977)

	Total Net Flows US \$ m				Percentage of GNP				Concessional Flows US \$ m				Percentage of GNP			
	1973	1974	1975	1976	1973	1974	1975	1976	1973	1974	1975	1976	1973	1974	1975	1976
Algeria	30	52	42	75	0.36	0.43	0.30	0.48	26	51	41	64	0.31	0.43	0.30	0.41
Iran	5	1.82	1.595	820	0.02	2.54	2.97	1.24	2	402	560	748	0.01	0.86	1.12	1.13
Iraq	11	436	288	91	0.21	4.12	2.18	0.57	11	418	235	85	0.21	3.95	1.78	0.53
Kuwait	581	1.369	2.112	1.807	9.69	12.56	14.12	11.08	371	627	907	500	6.19	5.75	6.06	3.07
Libya	414	218	367	262	6.41	1.83	2.99	1.71	218	147	212	135	3.38	1.23	1.73	0.88
Nigeria	7	135	545	337	0.05	0.60	2.15	1.15	6	15	14	82	0.04	0.07	0.06	0.28
Qatar	94	253	363	445	15.64	12.67	16.88	18.81	94	220	297	244	15.64	11.02	13.70	10.30
Saudi Arabia	342	2.372	3.870	3.625	4.21	10.51	11.65	9.03	312	1.049	2.068	2.296	3.84	4.65	6.22	5.72
United Arab Emirates	90	765	1.375	1.221	3.76	9.99	15.49	12.22	88	523	1.066	1.019	3.66	6.83	12.01	10.20
Venezuela	18	779	899	296	0.11	3.10	3.43	0.94	18	51	33	65	0.11	0.20	0.13	0.21

*The figures in this table present merely preliminary estimates before their review by the OPEC aid agencies concerned.

Source: Middle East Economic Survey, Volume 21, Number 26, 17 April 1978, p. IV.

TABLE IV-6 : OPEC Special Fund Balance of Payments Support Program

Loan No.	Recipient Country	Loan Amount US \$m.	Date of Payment of First Portion	Date of Payment of Second Portion
1	Sudan	7.45	2. 1.77	23. 1.77
2	W. Samoa	1.60	4. 1.77	31. 3.77
3	Sri Lanka	8.10	15. 2.77	2. 5.77
4	Guinea	2.35	8. 2.77	10.11.77
5	Pakistan	21.45	7. 2.77	23.12.77
6	C.A.E.	1.75	6. 2.77	7.11.77
7	Madagascar	3.10	22. 2.77	20. 6.77
8	Nepal	4.15	9. 2.77	6. 6.77
9	Mali	3.55	6. 5.77	16.10.77
10	Guinea Bissau	1.65	24. 3.77	26. 8.77
11	Cape Verde	1.55	15. 3.77	30. 9.77
12	Gambia	1.65	22. 3.77	19.10.77
13	Mauritania	1.60	4.12.77	
14	S. Yemen	2.40	1. 3.77	11. 7.77
15	Guatemala	1.75	25.10.77	
16	Guyana	1.60	3. 2.77	18. 4.77
17	Haiti	3.15	11. 3.77	15. 7.77
18	Afghanistan	3.75	14. 2.77	5. 4.77
19	India	21.80	9. 5.77	6. 9.77
20	Bangladesh	13.90	19. 4.77	31. 7.77
21	Lesotho	1.90	16. 3.77	19. 9.77
22	Burma	2.25	31. 1.77	16. 6.77
23	Somalia	2.05	10. 5.77	16. 8.77
24	Honduras	1.75	5. 4.77	
25	Tanzania	5.45	4. 5.77	3. 9.77
26	Uganda	4.55	17. 2.77	16.10.77
27	Egypt	14.45	4. 5.77	8. 6.77
28	N. Yemen	2.25	3. 4.77	
29	Upper Volta	2.25	7. 6.77	7.11.77
30	Kenya	5.00	24. 2.77	4. 5.77
31	Rwanda	1.70	23. 5.77	
32	Senegal	3.40	19. 7.77	
33	Chad	2.40	18. 5.77	
34	Ghana	7.80	25. 4.77	
35	Laos	2.15	15. 3.77	15. 7.77
36	Ethiopia	4.80	7. 7.77	
37	Sierra Leone	2.05	15. 4.77	
38	Niger	2.90	31. 5.77	13. 7.77
39	Burundi	1.70	7. 6.77	
40	Cameroon	4.95	20. 4.77	
41	Mozambique	6.55	5. 5.77	
42	Benin	2.00	4. 7.77	
43	El Salvador	1.75	19.10.77	
44	Sao Tome	0.35	28. 9.77	
45	Maldives	0.50	18. 8.77	
46	Eq. Guinea	0.50	18. 8.77	6.12.77
47	Grenada	0.35	12. 9.77	
48	Seychelles	0.30	25. 8.77	27.10.77
49	Comoros	0.50	13. 9.77	

Source: Middle East Economic Survey, Volume 2, Number 26,
17 April 1978 p.i.

TABLE IV-7 : Project Lending Program : Sectoral and Geographical Distribution of Committed Loans (US \$m.)
As on December 31, 1977

Geographical Area	Industry and Industrial Banks.	Transport and Roads	Power	Agriculture and Agro-Industries	Public Utilities	Communication	Total
ASIA							
Bangladesh		3.50					3.50
Burma					1.28	3.14	4.42
India	14.00						14.00
Jordan				1.65			1.65
Pakistan	11.00	8.25					11.00
Philippines							8.25
Sri Lanka			3.15				3.15
Thailand			7.00				7.00
TOTAL ASIA							52.97
AFRICA							
Botswana		1.00					1.00
Egypt	8.75				3.00		8.75
Kenya							3.00
Malawi		1.80					1.80
Morocco			3.00				3.00
Rwanda			2.35				2.35
Sudan		3.25					3.25
Upper Volta		2.10					2.10
TOTAL AFRICA							25.25
LATIN AMERICA							
Costa Rica		3.00					3.00
Dom. Republic			1.00	1.935			2.935
Honduras			1.70				1.70
Jamaica				3.00			3.00
TOTAL LATIN AMERICA							10.635
GRAND TOTAL	33.75	22.90	18.20	6.585	4.28	3.14	84.855
PERCENTAGES	37.98	25.78	20.48	7.40	4.82	3.54	100.00

Source: Middle East Economic Survey, Volume 21 No. 26, 17 April 1978, p.iii.

TABLE V-1 : The Growing Use of Arab Currencies

Kuwait Investment Company's KD issues for the World Bank					
Amount	Coupon	Issue Price	Date of Issue	Final Maturity	Final Maturity
15 m	6½%	99	Sept. 1968	1988	1988
30 m	7½%	100	Nov. 1971	1981	1981
20 m	6½%	99½	April 1972	1982	1982
15 m	7%	99½	Aug. 1972	1991	1991
25 m	7%	99	March 1973	1992	1992
25 m	7½%	100	Dec. 1973	1993	1993
KD1 = \$3.40					
Other issues in Kuwaiti Dinars 1974					
	Amount	Issue Price	Coupon	Final Maturity	Date of Issue
Philippines	KD 5 m		8%	1977	House
Oesterreichische Kontrollbank	KD 5 m	Par	8½%	1979	KIIC
Ireland	KD 5 m	99½	9%		KFTCIC
Private placements in UAE Dirhams 1974					
	Amount	Coupon	Final Maturity	Final Maturity	
Autopistas Mare Nostrum	DH 100 m		8½%	15 years	
Korean Development Bank	DH 75 m		8½%	15 years	
Industrialization Fund of Finland	DH 50 m		8½%	7-12 years	
DH 1 = \$0.25					
Private placements and issues in Lebanese pounds					
	Public/Private	Amount	Coupon	Maturity	Date of Issue
Regie Renault	Public	LL 50 m.	7½%	1985	March 1973
European Investment Bank	Public	LL 50 m	7½%	1985	Sept. 1973
State Bank of India	Private	LL 15 m	7½%	1980	Dec. 1972
National Bank of Algeria	Private	LL 50 m	7½%	1980	1973
World Bank	Private	LL 75 m	6½%	1978	1973
LL 1 = \$0.45					

Source: The Banker, cf. Article, "Oil and Money", March 1975, p.289.

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