

974

96th Congress }  
2d Session }

JOINT COMMITTEE PRINT

THE POLITICAL ECONOMY OF THE  
MIDDLE EAST: 1973-78

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A COMPENDIUM OF PAPERS  
SUBMITTED TO THE  
JOINT ECONOMIC COMMITTEE  
CONGRESS OF THE UNITED STATES



APRIL 21, 1980

Printed for the use of the Joint Economic Committee

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## LETTERS OF TRANSMITTAL

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APRIL 10, 1980.

*To the Members of the Joint Economic Committee:*

I am pleased to transmit for the use of the members of the Joint Economic Committee, other Members of Congress, and the interested public, a compendium of papers entitled "The Political Economy of the Middle East: 1973-78." This is a compilation of research papers, prepared at our request by scholars and specialists dealing with the momentous events in the Middle East during recent years and their economic consequences for the nations of the Middle East and the rest of the world.

Events in the past few months have heightened awareness of the importance of this region. The taking of American hostages in Iran, the Soviet invasion of Afghanistan, the brief insurgency at Mecca and the latest round of OPEC oil price increases underscore the volatility of the region and United States and Western interests in it. I believe that the papers in this volume will be helpful to the Members of Congress in their deliberations over policy issues regarding U.S. relations with the countries of the Middle East, and also to scholars and the general public.

The volume was prepared through a collaborative effort of the Foreign Affairs and National Defense Division of the Congressional Research Service of the Library of Congress and the staff of the Joint Economic Committee. I wish to thank the Congressional Research Service and those scholars who contributed to this project.

It should be understood that the views expressed in these papers are those of the individual authors and do not necessarily represent the position of their respective governmental or nongovernmental organizations, the Joint Economic Committee, or members of the committee.

Sincerely,

LLOYD BENTSEN,  
*Chairman, Joint Economic Committee.*

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APRIL 7, 1980.

Hon. LLOYD BENTSEN,  
*Chairman, Joint Economic Committee, Congress of the United States,  
Washington, D.C.*

DEAR MR. CHAIRMAN: Transmitted herewith is a volume of papers on the economy of the Middle East entitled "The Political Economy of the Middle East: 1973-78." The volume contains papers written by scholars and specialists who were invited to contribute on the basis

of their expertise in Middle East affairs. The authors come from various universities here and abroad, private research organizations, and agencies of the Federal Government. The papers cover the broad range of major events that have taken place in the region in recent years and their economic consequences for the Middle East and the rest of the world, regional economic trends, foreign trade, foreign relations, national security, and the prospects for peace.

The planning, coordination, and editing of the contributions were performed by Richard F. Kaufman of the Joint Economic Committee staff and James Wooten of the Congressional Research Service of the Library of Congress.

The views expressed in these papers are those of the individual authors and do not necessarily represent the position of their respective governmental or nongovernmental organizations, the Joint Economic Committee, or individual members of the committee.

Sincerely,

JOHN M. ALBERTINE,  
*Executive Director, Joint Economic Committee.*

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## INTRODUCTION AND SUMMARY

By Richard F. Kaufman\*

The primary purpose of this volume is to assess the changes that took place in the political economy of the Middle East during 1973-78 and the prospects for the future.

The period 1973-78 was selected as the focus of the assessment because of the major events that occurred during that time and their far-reaching significance. The Arab-Israeli war of October 1973, the sharp rise in oil prices and the oil embargo that followed, by themselves had profound effects on the Middle East and the rest of the world. If one adds to these events, the tremendous wealth obtained by the oil producing states, the spur to economic development, the arms buildups, the political upheavals in countries such as Lebanon, Afghanistan, Iran, and the Horn of Africa, the Egyptian-Israeli peace agreement, and the resurgence of Palestinian militancy and Islamic fervor, it can be seen that this tumultuous period is filled with turning points for the region as a whole, many of the nations of the region and the international economy.

The region seems destined to be one of continuing conflict and crisis. There is a vast and growing literature about the recent wars and upheavals that have plagued this area. These problems are of great importance but by attracting extensive analyses they have drawn attention away from economic and related issues that are equally important and that have been largely overlooked or neglected. The essays that follow were planned to help fill this gap.

The essays are arranged in six sections. In section I, Regional Economic Patterns, economic trends are examined in the area as a whole. Charles Issawi discusses the economic effects on the region of the three most important sources of change: war, oil revenues and inflation. He concludes that despite the social stress and political turbulence associated with the influx of money and Western ideas, the greatly widened inequality of incomes, and the increase in corruption, profound and progressive changes are underway in the region which barring a catastrophe "should prove to be the most significant experience that has befallen it in the last thousand years."

Nazli Choucri's paper on demographic changes highlights the movement of workers from the non-oil to the oil rich countries and their political and economic implications. One important result of the increasing labor migration is the increased interdependence of the region. A more rational approach to national growth and regional development may be possible if access to skilled labor is facilitated, according to the author.

R. S. Eckaus assesses recent economic performance in the Middle East, a region of developing countries. He shows that economic

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\*Assistant director-general counsel, Joint Economic Committee.

growth has accelerated in the oil exporting and non-oil exporting countries. Resource availabilities have increased throughout the region as a result of increased oil revenues as well as internal growth and increased economic assistance from outside the region and both investment and consumption have expanded rapidly. However, the results in terms of the achievement of diversification, modernization, and stable growth have so far been uneven.

Fern Racine Gold and Charles K. Ebinger discuss the changes in the oil supply system that have taken place since 1973. The fundamental change was the transfer of control over production levels and prices from the international oil companies to the Middle East governments. Their interests are now determinative rather than those of the oil importers but there are interdependencies between the two groups that constrain the exporters' freedom of action. Moreover, each of the major oil exporting nations has to resolve the conflict between the need to satisfy the demands of the industrialized world, and the desire to shift to hydrocarbon-based industrialization while avoiding too rapid an industrialization program.

In section II the recent experiences of the major individual and groupings of states are spelled out in a series of country studies. These studies are instructive because of what they say about economic and political change in each of the countries and also because they provide different views of regional and intra-state developments and relationships.

The essays by P. J. Vatikiotis on Egypt and Bernard Reich on Israel inspect the changing nature and precariousness of the economies of those nations and the hopes within them that peace will bring a lesser military burden and greater prosperity. Although each government has adopted policies intended to reduce the economic role of the state, both have had to pay heavy prices for peace in the short run and both have become more dependent than ever on American assistance. But the longer term implications of a permanent peace are immense. Vatikiotis writes, "The vision of joint ventures by a technologically advanced Israel and a populous Egypt exploiting presumed oil and mineral resources in the Sinai and the Gulf of Suez could have vast economic repercussions for the core region of the Middle East."

The essays on Iran and Saudi Arabia are studies in contrast of the two major Persian Gulf nations. Leonard Binder identifies Iran's intensified economic development program, its management and its consequences as one of the major factors explaining that country's political crisis. According to Professor Binder, "The goal was rationalized modernization, to be pressed forward ruthlessly by means of science, technology, planning, and despotic authority. No element of tradition, no personal desire, no aesthetic value, no religious qualm, no philosophic hesitancy was to stand in the way." He believes that the extent of the opposition to the Shah was due primarily to the "outrageous simplemindedness" of the modernization program rather than to the repressive treatment of the opposition.

David E. Long asks whether the kind of disintegration that took place in Iran could occur in Saudi Arabia. He finds there is little likelihood that it could, partly because there has been a more measured pace of economic development in Saudi Arabia. The ex-

treme economic dislocations that Iran suffered were thereby avoided in the 1973-78 period, although some problems have been experienced. But Long concludes: "This is not to say that Saudi Arabia will always be free of such upheavals. The billions of oil dollars now being allocated to economic and social development are forcing social and economic change at an ever greater pace. The potential is therefore present in Saudi Arabia for social upheaval, followed perhaps by political upheaval as was the case in Iran. The form of such upheavals, however, would be very Saudi in nature and not greatly comparable to what happened in Iran."

The consequences of the pervasive changes throughout the Middle East are further explored in the studies of the other countries in the areas of the Mediterranean, the Persian Gulf, and the mouth of the Red Sea. John F. Devlin describes the frictions and close ties that exist among Syria, Lebanon, and Jordan, the costs of the Lebanese civil war and the possible implications of the Camp David accords for the nations of the area and the Palestinians.

John Duke Anthony surveys developments in the Arab states along the Persian Gulf and in Iraq and explains the linkages between the Gulf and the Arab-Israeli conflict, Iran, and the United States and the West. The most hopeful signs Anthony concludes, are those that indicate an American awareness that the previous supplier-client relationship between the United States and the Gulf States is being replaced by "a more genuine interdependence." The question is whether the United States can maintain a substantial share in the developing economies of the area in the face of the increasing role of other industrialized countries. The stormy developments between Ethiopia and Somalia and the shortcomings of U.S. policy in the "Horn of Africa" are the subject of William H. Lewis' essay.

The first two papers in section III, Foreign Trade and Monetary Issues, contain detailed analyses of Middle East trade relations with the West and the Communist countries. Francine B. Livaditis demonstrates that the Middle East since 1973 has become one of the world's fastest growing import markets and that roughly three-fourths of its purchases have been from the West. Oil exports have been such a lucrative source of revenues that the oil exporting nations have been able to maintain large trade surpluses despite the quintupling of import spending.

Orah Cooper shows that while Soviet and East European economic relations with the countries of the Middle East expanded in the 5-year period, 1973-78, their share of the region's fast growing trade declined after 1974. Moscow's reaction has been to pursue an aggressive sales campaign intended to increase its role in Middle East non-military and arms markets.

The next paper, by David Curry, discusses the financial and economic repercussions of the fact that the 1973-74 oil price increases caused a shift in the international terms of trade in favor of oil exporting nations who were not able to use all their receipts on imports.

R. D. McLaurin then reviews the policy issues in the transfer of technology to the Middle East, looking at the effects on the United States as well as on the recipient countries. McLaurin finds that of the various channels through which technology is transferred—

foreign aid, arms sales, and commercial transactions—"the dynamism of Middle East technology transfer derives largely from the capital flowing into the region as a result of petroleum commerce." However, because the leaders of most of the oil exporting nations see the current availability of capital as a temporary boon, economic development programs in those countries are designed "to construct a viable income and industrial platform for the period beyond the present."

Sections IV and V concern foreign relations and national security issues. The three papers on foreign relations scrutinize the roles of the principal actors in the region: The United States, the Soviet Union and Western Europe.

John Campbell provides a wide ranging analysis of the effects of the events of 1973 on the position of the Soviet Union and on Soviet-American competition in the Middle East. He reasons that while the momentum of recent developments such as those in Iran and Afghanistan have been running against the United States, and that while the Soviets will continue to have a presence and be influential in the region, the longer term trends have been more favorable to the United States. The Soviets obtained some immediate advantages from the crisis of 1973. For example, they were able to raise the price of their oil. But they were not able to expand their role in the Middle East economy as the oil exporting nations chose to spend and invest much of the hard currencies gained from oil in the West and Japan. Indeed, "The crisis produced a tacit understanding between the countries of the West and those of OPEC that the economic future of each depended on the other." In addition, U.S. diplomatic gains were achieved largely at Soviet expense: "The virtual exclusion of the Soviet Union from the settlement process, the ending of the Arab oil embargo, the deterioration of Soviet relations with Egypt, the independent stance of Syria, and the influx of Western business to Egypt and the Gulf region all had the effect of depriving the Soviets of positions they had taken 20 years or so to gain."

Bernard Reich reviews the background of U.S. involvement in the Middle East prior to and following the October war, assesses the part played by the United States in the Egyptian-Israeli negotiations and the increased importance of relations with Saudi Arabia, and describes the major American policy goals in the region. These goals—resolution of the Arab-Israeli conflict, avoidance of a conflict with the Soviet Union and prevention of Soviet dominance, continued access to the markets and participation in the development of the region—underline the interrelationships of the political, military, and economic issues.

Werner J. Feld analyzes the West European response to the oil crisis. Among the results of the crisis have been the abandonment by some governments of their traditional sympathies toward Israel, and occasional frictions with the United States over policies toward Israel and nuclear non-proliferation aims. Other outcomes include the strengthening of relations between the European countries and the Arabs, and improved procedures and mechanisms for European intergovernmental cooperation. The significance of the new arrangements, however, were not apparent for the period studied.

The papers on national security consider the military balance in 1978, Soviet arms aid since the October war, and strategic concepts and planning in the states involved in the Arab-Israeli conflict. Geoffrey Kemp and Michael Vlahos, in their assessment of the military balances in the Arab-Israeli confrontation zone and the Persian Gulf region draw several important conclusions. One is that Israel will remain the strongest local military power in the near-term future. On the other hand, Israel has reached "a plateau in military capability" and improvements in the capabilities of an Arab coalition could change the balance.

In the Persian Gulf, the balance relates more to prestige items and status symbols than combat capabilities. The authors write: "Instead of developing a sturdy, defensive army, like Serbia before World War I, Iran toyed with imperial dreams and spent its new-found wealth on the imperial trappings of a 'show' arsenal." As for Saudi Arabia, "Unfortunately, the emphasis in Saudi military policy remains rapid procurement of more and more sophisticated arms beyond realistic levels of assimilation, and realistic options for their use." With respect to the interest of the Western powers in preventing Soviet interruption of Middle East oil supplies, "in the last contingency, it may become necessary that the security of these supplies be maintained by military force."

Roger F. Pajak points out, in his country-by-country analysis of Soviet arms sales, that the Soviets have experienced serious problems with all their Arab arms clients before and since the October war. Nevertheless, political, strategic, and economic considerations assure that the Soviets will attempt to maintain and expand the flow of arms into the region.

Amos Perlmutter's paper provides a critique of Arab and Israeli military planning and speculates about the implications of the Egyptian-Israeli peace treaty for future Middle East coalitions.

Finally, section VI deals with the peace process and how it has been influenced by political, social, and economic changes. Bernard Lewis prefaces his inquiry into "The Bases of Political Power and Perceptions in the Middle East" with an account of the social, historical, and political differences that distinguish the nations and regimes in the area. A sometimes forgotten aspect of the Middle East is that geographically, culturally, and historically the territories north of the Soviet border in Transcaucasia and in Central Asia belong to the Middle East. These lands, occupied by Turkish and Persian speaking Muslims, were incorporated into the Russian empire in the 19th century and remain within the Soviet Union as the Republics of Azerbaijan, Uzbekistan, Turkmenistan and Tajikistan, among others.

Lewis reasons that the Arab self-confidence achieved in the October war boosted by the economic and political power implicit in the oil crisis and the acquisition of new wealth has brought about a new realism in international affairs and a new perception of regional and international problems. There is, Lewis states, an increased recognition "of dangers other than Israel and some believe in the long run greater than Israel—and more specifically the dangers of intrusion from outside the Middle East and subversion from within." The "genuine yearning for peace" and the "dawning

awareness of the threat from the north may lead to a reassessment of priorities by some Arab governments."

Elie Kedourie in his paper on Arab Nationalism makes a related point. He notes that Saudi Arabia's oil wealth since 1973 has transformed it into Egypt's successor as contender for Arab leadership but that the nature of the Saudi regime suggests it will be cautious in foreign policy and may not want to establish Arab unity under its own aegis. The divisions and rivalries, Kedourie argues, which have characterized inter-Arab politics have persisted and in some respects have become more serious. "The wealth brought by the rise in oil prices . . . has not made possible unquestioned assertion of leadership in the Arab world." He goes on to say that the recent events "in the Horn of Africa, in North and South Yemen, in Afghanistan, and in Iran raise the question whether the local rivalries, alliances and combinations within the Arab world will not be over-shadowed by more complicated, wider and more dangerous problems. If this should happen, then the new weight and importance which the Arab states acquired following the October war may be appreciably diminished."

Don Peretz traces the history of the Palestinian movement and the effects on it of the October war and the Egyptian-Israeli peace initiative. He believes there will be political uncertainty and instability in the region until Israel and the Palestinians resolve their disputes. Moreover, the Palestinians became more militant after Egyptian President Sadat's visit to Jerusalem in 1977. Yet, "despite opposition of most Palestinian organizations to the Camp David accords, an opportunity has been created for their participation in the peace process, with recognition by Israel and support from Egypt and the United States."

What if peace breaks out? Jerome F. Fried addresses this question with respect to the economic consequences of a peace between the Arab-Israeli confrontation states: Egypt, Syria, Jordan, Israel, and also the West Bank-Gaza territories. He draws an economic profile of each country showing their capacity and commitment to rapid economic growth but their exceptionally heavy defense burdens that constitute constraints on growth and their unusual dependence on foreign aid. Among Fried's major conclusions are that high defense costs may frustrate peacetime economic development plans and that reductions of defense costs are not likely until Egypt and Israel has had sufficient experience with normal relations and until the peace includes Syria, Jordan, and the Palestinians, a process that may take 5 to 10 years. During the initial 5 years of this period, an extraordinary level of foreign grants and loans will be necessary if high growth policies are to be followed.

## I. REGIONAL ECONOMIC PATTERNS

### ECONOMIC TRENDS IN THE MIDDLE EAST AND FUTURE PROSPECTS

By Charles Issawi\*

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#### INTRODUCTION

In the 1970's, and more particularly since 1973, the Near Eastern and North African economies have been shaped by three sets of forces: war, oil revenues and inflation. The 1973 war between Israel, Egypt and Syria was both preceded and followed by a huge build-up of armaments on both sides, amounting in some years to over 20 percent of GNP. Although the greater part of the cost of these armaments was borne by foreign donors (the United States

\* Princeton University.

for Israel and the Soviet Union and oil-rich Arabs for Egypt and Syria), they still amounted to a heavy burden; not only did they divert skills and other scarce human resources to military use but they made it necessary to reduce investment levels sharply, thus slowing down growth.

The smouldering conflict between Algeria and Morocco over the Spanish Sahara, which flared up in 1976, has had a similar, though far smaller, effect on those two countries, neither of which had hitherto allocated a large proportion of its resources to defense. The civil war in Lebanon, which started in 1975, has shattered the country's economy. Here too outside powers carried a large part of the arms burden and financial cost: an indicator of this is that in spite of the drastic reduction of economic activity and a considerable outflow of capital (partly offset by the continuing inflow of remittances from Lebanese emigrants) the exchange rate of the Lebanese pound, which had stood at 3.01 to the dollar in 1972 and risen to 2.30 by 1974, fell only slightly, to 2.90 in June 1978,<sup>1</sup> which seems to imply a huge influx of funds; another indicator is the sharp rise in Lebanon's foreign exchange reserves (see Table II). But the real costs, in the form of casualties, physical destruction and social disruption, will not be made good for years to come.

The other country directly involved in the Lebanese civil war is Syria and here too the effect was markedly adverse, especially after 1976. Already suffering from the disappearance of its oil revenues (some \$135 million a year), due to the stoppage of the flow of oil from Iraq through its pipelines because of the dispute between the two countries, it was further hurt by the rapid diminution of Arab aid, which in 1974-76 had amounted to \$1,545 million and fell to around \$250 million in 1977.<sup>2</sup> To this should be added the mounting costs of increased military intervention in Lebanon—perhaps \$2-3 million a day. Contrary to previous years, the balance of payments has probably shown heavy deficits since 1976. As a result, the 1976-80 Development Plan, which was far more ambitious than its predecessors, had to be scaled down from \$17.7 to 13.7 billion.

The rise in oil revenues, which accelerated after 1973, has had a profound effect on the numerous producing countries of the region and an important indirect one on several others. Moreover some of the latter benefitted from the rise in phosphate prices. As against that, all the Near Eastern and North African countries, like the rest of the world, suffered from the rise in the price of their imports. It therefore seems justified to treat the developments of the last few years in terms of the region as a whole, distinguishing however between the oil producing countries and the others.

<sup>1</sup> International Monetary Fund (IMF), *International Financial Statistics*, August 1978. (As a general rule when assessing the accuracy and applicability of the statistics offered in the following report, the reader should keep in mind their shortcomings. In particular, the statistics often require "translation." In the Middle East and North Africa, many of the nations have unique or individual ways of collecting, calculating, and analyzing particular statistics; and, Western analysts may have trouble correlating this data with their own.)

<sup>2</sup> Economist Intelligence Unit, *Quarterly Economic Survey, Syria, Jordan, (QER), Second Quarter, 1978.*

## TRENDS DURING THE 1960's

Before doing so, it is necessary to point out that in the ten years or so preceding the Tripoli-Tehran petroleum agreements of 1970-71, most of the Near Eastern and North African countries underwent an economic and social development that was swift, many-sided and sufficiently stable to be sustainable. A detailed study<sup>3</sup> showed that in 1960-71 the median rate of growth of GNP per capita in 21 countries of the Near East and North Africa was 2.8 percent per annum; in the sub-period 1965-71 growth was more rapid, at 3.6 percent per annum. For the Asian Near East, as distinct from North Africa, the rates were higher, 3.1 percent and 4 percent, respectively.<sup>4</sup> It should be noted that these high rates of growth per capita were achieved in spite of a very rapid population increase—nearly 3 percent per annum.

These figures compare very favorably with those for the other underdeveloped regions, Latin America, Asia and sub-Saharan Africa. This conclusion is reinforced by a comparison of various physical indices of economic activity and social progress in the Near East and other regions, a check rendered necessary by the unreliability of national income and price data in most LDC's. Both indices of activity (like Energy Consumption, Steel Consumption, Cement Production, Electricity Output and the Number of Commercial Vehicles) and indices of mass consumption (Sugar, Tea, Textiles, Paper and Radios) show a higher rate of growth in the Near East and North Africa than in both LDC's and advanced countries. Judging by figures on imports or registration of such items as passenger cars, television sets, refrigerators, air conditioners and other consumer durable, luxury consumption grew distinctly faster than mass consumption.

Considerable social progress was also made, as indicated by statistics on total school attendance, female school attendance, the number of physicians and hospital beds, the spread of electricity and drinking water, etc. All these indices show a steep rise, though often from a very low base.

## TRENDS SINCE 1973

*Oil Revenues*

In 1971-73 growth accelerated in both the Near East and North Africa. The 1973 oil agreements resulted in a huge expansion in revenues; for the principal Near Eastern and North African producers, they shot up from \$5,800 million in 1970 and \$16,700 million in 1973 to \$70,000 million in 1974, \$76,000 million in 1975, \$94,000 in 1976 and over \$105,000 million in 1977.<sup>5</sup> Exports of the non-oil countries (Egypt, Israel, Jordan, Lebanon, Morocco, Sudan, Syria, Tunisia and North and South Yemen) amounted to about \$23 billion. In addition, the oil countries earned several billion

<sup>3</sup> Charles Issawi, "The Economy of the Middle East and North Africa: an Overview," in A. L. Udovitch (ed.), *The Middle East: Oil, Conflict and Hope* (Lexington, Mass., 1976); the per capita figures are drawn from the World Bank, *World Atlas*, 1973.

<sup>4</sup> These figures include Turkey, which is not covered in the present study. Since, however, Turkey's rate of growth was only very slightly higher than the regional average, its inclusion does not affect the observations made in the following paragraph.

<sup>5</sup> *Petroleum Economist*, various issues.

dollars in investment income and the others a probably larger sum in payment for services. In other words, within the space of five years, the region received some \$500 billion, a staggering sum.

The impact of this upsurge in revenues may be judged from Table I, which compares the 1974 oil revenues with the GNP of the producing countries in 1972 and 1973. Except for Algeria—and of course Egypt, which is in a different category—the ratio was above unity for 1972 and even for 1973 was at least two-thirds of GNP. Clearly no comparable increment in income has ever occurred, not even in 16th century Spain, not even in California during the gold rush.

The greater part of these funds streamed back to the developed countries, from which they had come. In addition to the payment for goods, discussed below, tens of billions of dollars were spent on armaments, and a still larger amount was invested in the money markets of Western Europe and the United States; both these topics are discussed elsewhere in this volume. Substantial sums were used to increase official foreign currency reserves, which for the region as a whole rose by some \$57,000 million between 1972 and 1977 (see Table II), declining somewhat during the first half of 1978. These figures represent only short-term (one year or less) liquid assets held by the Central Banks and other official agencies of the various governments. Two additions should be made in order to obtain the total foreign assets held by these countries, long-term official assets and private investments. As regards the first, an unofficial estimate for Saudi Arabia in 1977 put them at \$50,000 to \$60,000 million, or nearly twice the short-term reserves. For Kuwait the ratio may be even higher, since that country started investing abroad much earlier. High ratios also probably prevail in the United Arab Emirates, Qatar and Libya. Iran's long-term government assets are probably far smaller than its short-term ones, and the same is true of Iraq and Algeria. As for private funds, they are probably highest for Saudi Arabia and Kuwait.<sup>6</sup>

### *Imports*

But that still left two large streams that had a major impact on the local economies: the huge expansion in imports of goods and services and the enormous increase in money incomes. Between 1973 and 1977, imports of goods into the region as a whole increased more than fourfold (see Table III). During those five years the aggregate value of goods imported into the region amounted to the enormous sum of nearly \$270 billion. The amount paid for services by both the government and the private sector must also have been enormous. Some examples are illustrative. In the years 1974–77, Iran's payments abroad on services, including investment

<sup>6</sup>Some information is available on the recent flow of funds from the oil exporting countries, as distinct from the cumulative stock of assets held by them. The total placed abroad by oil exporters (the bulk coming from the Near East and North Africa) was estimated at \$35.8 billion in 1976 and \$33.8 billion in 1977. The shares of the United Kingdom (mainly in the form of foreign currency deposits) were \$4.5 billion and \$4.1 billion, respectively; those of the United States (mainly in the form of Treasury bonds and notes and holdings of equities and property) were \$12.0 and \$9.2 billion; International Organizations received \$2.0 and \$0.3 billion; and the remaining \$17.3 billion and \$20.2 billion went to other countries in the form of bank deposits, equities and property in Continental Europe and loans to LDC's, IMF, IMF Survey, July 17, 1978. For 1978, IMF projections put the oil export surplus at \$20 billion, a marked decline from the average of \$37 billion in 1975–77 and the \$68 billion of 1974 (*ibid.*, September 18, 1978).

income, amounted to 43 percent of its imports of goods; for Israel the corresponding figure was also 43 percent, for Egypt 34 and for Tunisia 33 percent.<sup>7</sup> In Saudi Arabia, investment income, government expenditure abroad (including grants to Arab and Muslim countries—see below) and payments for other services vastly exceeded payments for imports of goods in every single year in 1972–1976.<sup>8</sup>

Of course, a substantial fraction of the increase in the value of imports of goods and services was accounted for by a rise in their price. The United Nations<sup>9</sup> calculated that, taking petroleum exporters as a whole (i.e. including in addition to the Near East and North Africa, Venezuela, Nigeria, Indonesia and a few minor producers, the combined oil exports and general imports of which are however only a small fraction of those of the region) the unit value of imports rose by 22.8 percent in 1973, 45.0 percent in 1974, 9.3 percent in 1975 and only 1.0 percent in 1976, averaging 14.6 percent per annum in 1971–76; the figure rose again in 1977. However, in 1971–76, the unit value of exports rose by 33.4 percent a year, showing a marked improvement in the barter terms of trade. This is spelled out in Table IV, which shows the upsurge in 1973 and 1974, followed by a levelling off.

The quantum of imports by oil producers rose by 16.8 percent in 1973, 20.6 in 1974, 37.0 in 1975 and 22.5 percent in 1976; indications are that here too there was also a sharp rise in 1977; and it is probable that the rise in the Near East and North Africa was greater than in the oil producing countries outside the region. The ratio of imports in 1975 to GNP in 1974 was as follows for the major oil exporters: Algeria 53 percent, Iraq and Libya 34 percent, Saudi Arabia 32 percent, Kuwait 26 percent and Iran 25 percent. These figures are not exceptionally high, and may be compared with those of the main non-oil producers of the region, whose imports of course also rose sharply (see Table III): Syria 42 percent, Egypt 37 percent, Morocco and Israel 36 percent and Tunisia 27 percent. But the difference is that in the case of the non-oil producers the 1974 GNP had reached its level by a process of small increments over a long period, whereas most of the oil producers had reached their level by a few high jumps after 1970. Hence the general absorptive capacity of the non-oil countries was far greater than that of the major producers. As for the smaller oil producers, the ratio was 200 percent in Bahrian, 72 percent in Oman, 44 percent in the United Arab Emirates and 30 percent in Qatar.

It should, however, be noted that the great inflow of money into the region has begun to slow down. Taking OPEC as a whole (the bulk of whose oil income is accounted for by the Middle East and North Africa), in 1974 the balance on current account was some \$71 billion. This figure fell to \$32 billion in 1975, and showed little change in 1976 and 1977, standing at \$36 billion and \$30 billion, respectively. For 1978 the balance is put at about \$6 billion and 1979 is expected to show either a small surplus or a small deficit, depending on the price set at the forthcoming meeting of OPEC.<sup>10</sup>

<sup>7</sup> IMF, *International Financial Statistics*.

<sup>8</sup> Saudi Arabian Monetary Agency (SAMA), *Annual Report 1397 (1977)*.

<sup>9</sup> United Nations, *Supplement to World Economic Survey*, 1976 (New York, 1978), 155.

<sup>10</sup> Somewhat different figures are given in the *New York Times*, Sunday, November 26, 1978, Section 3, but the fluctuations in both series are similar.

At present, only five OPEC members (Saudi Arabia, Kuwait, Libya, Qatar and the United Arab Emirates) are still in surplus.

### *Gross National Product*

Before discussing the impact on the economies of this stream of goods, it is necessary to examine the other stream, that of local money incomes. Table V shows the great rise in the nominal GNP of the various countries. In 1971-75, the major oil producers witnessed a fourfold or greater rise, Algeria alone falling below that level with an increase of 2.6 times. The small oil producers experienced a still steeper rise, with the GNP of the United Arab Emirates multiplying elevenfold. After that, however, the rise slowed down.

The rise in the GNPs of the non-oil producing countries was partly due to special circumstances: the sharp rise in phosphate prices initiated by Morocco in 1974 benefitted all the other major producers: Algeria, Tunisia, Israel, Jordan, Syria and Egypt. The flow of funds from the United States and other sources to Israel continued on a large scale, and United States aid to Egypt became substantial.<sup>11</sup> Gradually Jordan recovered from the losses it had sustained during the 1967 Arab-Israeli war and the Sudan, more slowly, from its civil war. But far more powerful in their total regional effect have been three mechanisms: financial flows from the oil producers to the other countries; remittances sent home by emigrants from the other countries to the countries; and increased intra-regional trade.

The financial flow from the oil producers consists in the first place of the loans made by the various Arab development funds. By 1976 there were 10 such funds, with a capitalization of over \$8,700 million; they had made some 68 loans, aggregating \$1,300 million, for development as well as over 40 loans to finance oil imports.<sup>12</sup> Far greater has been the direct aid, in the form of grants or loans, from such governments as Saudi Arabia, Kuwait, Libya, the United Arab Emirates and others to Egypt, Syria, Jordan and other Arab countries.<sup>13</sup> In addition, Iran has extended a \$320 million loan to Egypt and a significant amount to Syria. The figures for Egypt show the magnitudes involved. In 1973-76 it received over \$3,600 million in official grants and early in 1977 the newly formed Gulf Organization for Development in Egypt extended \$250 million. In addition, loans, excluding suppliers' credits and short-term commercial bank credits, aggregated over \$3,800 million, of which a little over half was used to repay outstanding short-term debts, and there was also a repayment of nearly \$500 million of debt to the Soviet Union.

<sup>11</sup> In 1973-77, unilateral transfers to Israel totalled \$9,992 million; of these \$4,158 million were inter-governmental and the balance came from private and institutional sources—IMF, *International Financial Statistics*, September 1978. For comparison, Israel's GNP in 1975 was put at \$13,160 million, *World Atlas*, 1977.

<sup>12</sup> See tables and analysis in Raga'ei El Mallakh and Mihssen Kadhim, "Arab Institutionalized Development Aid: an Evaluation," *Middle East Journal*, Autumn 1976.

<sup>13</sup> In 1962-77 Kuwait gave \$2,700 million in grants and \$2,300 million in loans; in addition \$1,700 million was subscribed to the capital of international or regional organizations such as the World Bank, the Arab Fund for Economic and Social Development, the Islamic Development Bank, etc.—*QER, Arabian Peninsula*, 2nd Quarter, 1978. In 1972-75 Saudi Arabia gave \$3,300 million in grants and \$3,200 million in loans and subscribed \$4,500 million to international or regional organizations—SAMA, *Annual Report*, 1936.

Intra-regional migration has also been a powerful force for diffusing the income created by oil. Since 1973, more than 2,000,000 people have moved into the oil-producing countries; at present it is estimated that there are over a million foreign workers in Iran, a million in Saudi Arabia, another million in the small Arab states of the Gulf and some 350,000 in Libya. Of these, about 1,000,000 have come from outside the region (Pakistan, India, Afghanistan, Bangladesh, Korea and other parts of Asia), 500,000 from North Yemen, 300,000 from South Yemen, 350,000 from Egypt, 150,000 from Jordan, and some tens of thousands from Sudan, Lebanon and Syria. The remittances sent home by those workers have risen rapidly, to \$1,000 million or more in each of Egypt, North Yemen, Pakistan and India in 1977, over \$400 million in Jordan and nearly \$200 million in South Yemen.<sup>14</sup>

Intra-regional trade has increased very rapidly in the last ten or twelve years, but except for a few countries (Jordan, Lebanon and Syria) it still represents a very small fraction of total foreign trade. On a rough reckoning, it rose from about \$500 million in 1965 to a little over \$1,000 million in 1972 and then soared to around \$4,000 million in 1976. These figures include intra-regional movements of oil but they also represent a relatively large flow of goods to the oil producers, generating significant income streams in the other countries.

The huge influx of funds and goods into the region has far exceeded its absorptive capacity. Neither the physical infrastructure nor the human resources nor the administrative systems were equal to the strains put on them, and the ability to expand capacity in the main productive sectors—agriculture, industry, construction and the various services—was severely limited. The result was a combination of inflationary pressures, physical congestion and shortage of goods that resulted in severe social strains. But before discussing these phenomena in detail, it is necessary to review the development plans drawn up by the various countries and to assess the amount of progress achieved in increasing the production of goods and services.

#### DEVELOPMENT PLANS

Their sudden affluence enabled the governments greatly to expand the scale of their development plans.<sup>15</sup> In Egypt, the 1976–80 Plan provides for an investment of \$11.5 billion, or 2.6 times the amount invested during 1970–75. In Morocco the 1968–72 Plan of \$2.7 billion was followed by the 1973–77 Plan of \$9.5 billion. In Sudan the 1970–74 Plan of \$1 billion was succeeded by the 1977–82 Plan of \$7.6 billion. In Tunisia the 1968–72 Plan of \$1.5 billion was followed by the 1973–76 Plan of \$3.6 billion and the 1977–81 Plan of \$9.7 billion. And even North Yemen has followed its 1974–77 Plan of \$210 million by one (1977–81) reportedly put at \$3.6 billion, 85 percent of which is to come from loans and grants from the other Arab countries.

In the oil producing countries the increases were even more spectacular. In Algeria the 1970–73 Plan of \$6.5 billion was suc-

<sup>14</sup> IMF, *IMF Survey*, September 4, 1978.

<sup>15</sup> The information in this paragraph has been obtained from various Central Bank reports and the QERs and *Annual Supplements* of Economist Intelligence Unit.

ceeded by one of \$27 billion in 1974-77 and a still bigger one is planned for 1978-81. In Libya there was a succession of revisions and new plans. The 1969-74 Plan of \$3.9 billion was replaced by one of \$4 billion for 1972-75, which in turn was replaced by the 1973-75 Plan of \$8.9 billion and succeeded by one of \$24.7 billion for 1976-80.

In Iran, the Fourth Plan (1968-73) providing for an investment of \$10.8 billion was followed by the Fifth Plan (1973-78) of \$46.5 billion which in 1974 was revised upward to \$69.6 billion.

In Iraq, the 1970-75 Plan of \$3.3 billion has been succeeded by the 1976-80 Plan which is believed to amount to \$33.8 billion. Saudi Arabia scaled up its planned expenditure even more drastically; whereas the 1970 Five Year Plan amounted to about \$11 billion, a plan of \$57 billion was drawn up in 1975 and then revised to about \$140 billion, but it seems to have tacitly accepted that the latter figure exceeds the country's absorptive capacity. The Gulf Shiekhdoms have raised their spending plans to match the huge increase in their revenues.

## RESULTS

### *Investment*

In the Near East, as in many parts of the world, Development Plans have only a tenuous connection with reality. But the huge increase in actual investment is clearly brought out by Table VI. In most countries there was a sharp rise in the investment rate, sometimes after a previous decline due to the burden of armaments and other factors, as in Egypt, Morocco and Syria. But even where the rate of investment actually fell, this was more than offset by the large rise in GNP, and the total amount invested greatly expanded. In Kuwait, for example, gross capital formation rose from KD 114 million in 1972/73 to 182 million in 1974/75 and an estimated 474 million in 1976/77.<sup>16</sup> And in Saudi Arabia the rise was from 3.5 billion Saudi riyals in 1971/72 to 9.2 billion in 1973/74 and an estimated 35.7 billion in 1975/76.<sup>17</sup>

A large proportion of this investment was mismanaged or wasted, but much was put to good use and resulted in a considerable rise in real GNP, increases of 15 percent or more being recorded in some countries in the years 1973-76 (see Table VII). Agriculture contributed little to this growth; as Table VIII shows, output continues to fluctuate sharply with the weather, the upward trend has at best kept just ahead of population growth and in several countries has fallen short of it. In this, of course, the experience of the Near East and North Africa is typical of that of the LDC's. In manufacturing, the region's performance has been very good and very high rates of growth have been recorded in some countries (see Table IX). Moreover there has been much industrial development as well as increase: many new industries have been established, producer and capital goods form a rapidly growing proportion of total output and linkages between industries are far more numerous than before. But it still remains true that the majority of industries in the region are high cost and uncompetitive and

<sup>16</sup> Central Bank of Kuwait, *Economic Report for 1977*.

<sup>17</sup> SAMA, *Annual Report 1397*.

that quite a few—e.g. some iron and steel and automobile plants—make a negative contribution to GNP.<sup>18</sup>

### *Growth and Strains*

It is however in construction, transport, power, and the services that growth has been most rapid, and it is here that strains have been most apparent. The first effect of the huge expansion in imports (Table III) was to clog the ports, roads and railways. In Iran, port facilities with a nominal capacity of 3,800,000 tons were stretched out to accommodate 9,800,000, delays of 40–150 days or more were experienced at the Gulf ports, demurrage fees amounted to \$1,000,000 a day and the concentration of goods in customs warehouses greatly increased risks—for example, a fire destroyed \$170 million of goods at Julfa.<sup>19</sup> Conditions in the Arabian ports were at least as bad,<sup>20</sup> the demurrage fees of Saudi Arabia were as high as those of Iran and, at one time, cement was being landed by helicopter at the cost of \$2 a bag. But this particular bottleneck has been broken, and by the end of 1977 waiting time had been reduced to a few days.<sup>21</sup> However, the congestion on the roads and railways remains and is being increased by the huge inflow of motor vehicles; in some countries, such as Saudi Arabia and some sheikhdoms, annual imports have been exceeding the total number registered at the beginning of the year.<sup>22</sup>

Electric power shortages also made themselves increasingly felt, in the form of blackouts and power cuts. Thanks to a great increase in capacity some improvement has been made, but the situation is still far from satisfactory.

No less serious is the housing shortage. This has been aggravated by both the immigration into the oil countries mentioned earlier and a huge migration from the villages to the cities, particularly the capital. A few figures are indicative:<sup>23</sup> between around 1966 and 1976, the population of Cairo rose from 4,900,000 to 6,800,000 that of Tehran from 2,700,000 to 4,500,000 that of Baghdad from 1,750,000 to 2,760,000, that of Damascus from 580,000 to 1,050,000, that of Amman from 330,000 to 630,000 and that of Riyadh from 220,000 to 670,000. In North Africa growth was equally rapid, Casablanca rising from 1,200,000 to 1,900,000, Algiers from 940,000 to 1,200,000 Tunis from 650,000 in 1966 to 1,000,000 in 1971 and Tripoli from 200,000 in 1964 to 550,000 in 1973—in other words at annual rates of 5 to 10 percent or more. As a result, except where held down by government controls, rents have skyrocketed and the shortage of housing has caused hardship to large strata of the population.

<sup>18</sup> This has been shown for Egypt by R. Mabro and S. Radwan, *The Industrialization of Egypt* (Oxford, 1976); B. Hansen and K. Nashashibi *Foreign Trade Regimes and Economic Development: Egypt* (New York, 1975); and M. Girgis, *Industrialization and Trade Patterns in Egypt* (Tübingen, 1977); and for Turkey by A. Krueger, *Foreign Trade Regimes and Economic Development: Turkey* (New York, 1974). Conditions in other countries are surely no better and generally much worse.

<sup>19</sup> *The Economist*, December 20, 1975 and September 16, 1978.

<sup>20</sup> See figures in *Gulf Weekly Mirror* (Bahrain) September 12, 1976.

<sup>21</sup> *The Economist*, December 10, 1977.

<sup>22</sup> For recent figures in imports, see U.S.-Arab Chamber of Commerce, *U.S.-Arab Commerce*, July-August 1978.

<sup>23</sup> Taken from the United Nations Demographic Yearbook, QER for various countries and other sources.

### *Inflation*

The rise in rents is only one aspect of the general upsurge in prices. With a couple of exceptions, Israel and Turkey, the countries of the region have had relatively stable prices in the post-war period, but the last few years have seen the rise in the Consumer Price Index accelerate to 10-20 percent per annum (Table X). But the official indexes probably understate the rise in prices by a wide margin. Moreover, it should be remembered that many governments are heavily subsidizing foodstuffs and other essential goods to protect consumers; in Egypt in 1975 subsidies cost over \$1,000 million, or 15 percent of GNP, and the oil countries have also spent huge sums for this purpose.

### *Other Problems*

Inflation, shortages, congestion and pollution are only some of the strains to which the societies are being subjected. The threat of war, very high defense costs and the diversion of scarce skills and energy to military purposes are another. The influx of money has by no means spread evenly and has greatly widened the inequality of incomes. The influx of immigrants has created social tensions and strains, and so has that of technicians and tourists from alien cultures. The onrush of unfamiliar Western ways, and more particularly the increasingly conspicuous part played by women, have offended Islamic and traditional sensibilities. The old cohesive ties of kinship or neighborhood (what the 14th century sociologist Ibn Khaldun called *'asabiyya*) have been loosened or snapped.

Appetites have been whetted and expectations raised far above the possibility of satisfying them. Corruption has greatly increased. At the same time the abundance of money has bred the belief that anything be imported—from an electronic defense system to garbage collectors—and that the lucky inhabitants of the oil-rich countries do not have to do any work. And modernization has greatly expanded the circle of both intellectuals, who are the carriers of revolutionary ideas, and of army officers, who in LDC's are often the chosen instruments of revolution.

The resulting discontents and frustrations have erupted as mob violence in Egypt, Iran and Syria—not to mention the civil war in Lebanon—and there is no reason to believe that the situation is better elsewhere. Clearly, the Near East's meteoric rise to affluence has carried with it great problems. This is hardly surprising when one recalls the difficulties which a far smaller accrual of gas wealth has brought upon such a rich, mature, cohesive, socially advanced and politically stable country as the Netherlands and the great apprehension voiced in and precautions taken by Norway.

### FUTURE PROSPECTS

One is inevitably led to think of the fate of Midas with his golden touch and to wonder whether, like 16th century Spain, the region will squander its wealth on wars, luxury consumption and ill-conceived or mismangaged investments. But one should also remember that although the main beneficiaries of the influx of American bullion were those countries (Netherlands, England and

France) whose dynamic economies and societies enabled them to supply Spain with the goods it desired but could not or would not produce at home, Spain too enjoyed its Golden Century of economic and cultural florescence. And in the Near East and North Africa, although the next decade or two are likely to see a continuation or intensification of the present social stresses, political turmoil and violence including several revolutions, profound changes are also under way.

The peoples of the region are taking a crash course, in which they are being provided with the tools of economic and social development and trained in their use. This is a bewildering and deeply disturbing process but, unless the region is engulfed by a catastrophe (which is most unlikely to remain confined within its borders) it should prove to be the most significant experience that has befallen it in the last thousand years.

### *Human Resources*

The most important aspect is the development of human resources. Health conditions have greatly improved and life expectancy at birth, which in 1950 stood at about 40 years, has risen to 55 to 60. Education has spread widely and rapidly. In Saudi Arabia, one of the most backward countries of the region, the school population rose from 299,000 in 1965 to 1,050,000 in 1976; of these, over one-third were girls, showing a far more rapid increase than boys. Between 1964 and 1974 the school population of Algeria rose from 1,364,000 to 3,173,000 of Iran from 2,536,000 to 6,333,000, of Libya from 188,000 to 670,000 and of Syria from 892,000 to 1,770,000.<sup>24</sup> In all these, and the other, countries enrollment at the secondary level grew much more rapidly than at the primary.

By the end of this century most countries should have a fully literate population. Several tens of thousands of students from the region are pursuing higher education in Europe, the United States or elsewhere, with the vast majority returning home, and hundreds of thousands more are enrolled in national universities. In this field, too, the progress of women is particularly marked. In other words, for the first time in their very long history, the Near East and North Africa have begun to use more than a tiny fraction of their rich human resources.

### *Infrastructure*

These people are being provided with the tools of development. Infrastructure is being laid down at a pace heretofore unknown anywhere. Output of electricity in the region rose from about 20 billion kwh in 1965 to 60 billion in 1975, or at over 11 percent a year, and the rate of advance is being maintained. Harbor capacity on the Arabian side of the Gulf is being more than doubled, from 130 berths in 1977 to 270 in 1980,<sup>25</sup> with further ones planned and there has also been much expansion in Iran and North Africa. Roads have been widely extended; again to quote an extreme example, Saudi Arabia's asphalted network increased from 5,179 kilometers in 1967 to 14,049 in 1976, and its feeder roads from 1,800 to

<sup>24</sup> SAMA, *Annual Report, 1997* and *UN Statistical Yearbook*.

<sup>25</sup> *The Economist*, December 10, 1977.

11,900 kilometers. Airport construction, expansion and improvement have also been particularly rapid all over the region. All this means that, particularly in the more deprived parts, such as Iran and the Arabian peninsula, the infrastructure needed to support a modern economy is becoming available. Of course there has been much costly waste, absurd duplication (e.g. between the Arabian ports and airports) and misinvestment. And the upkeep of this infrastructure will prove a heavy burden unless the productive capacity of the region is greatly expanded. Developments in this latter field can be studied under three headings, agriculture, manufacturing and services.

### *Agriculture*

Agriculture is, and is likely to remain, the lagging sector of the economy, partly because of unfavorable natural conditions but mainly because of inadequate investment and attention on the part of the governments. Moreover in several leading countries the price policy, designed to keep down the cost of living for urban consumers, discriminates against farmers and discourages production. As a result, output has lagged behind demand and imports have been soaring and will continue to do so. "Even with a reasonably high growth in food production, in 1985 the projected regional (including Algeria, Morocco, Tunisia, Mauritania and Somalia) deficits for major food commodities could amount to about 5 million tons of wheat, 2.5 million tons of sugar, 0.5 million tons of vegetable oils and 0.7 million tons of meat."<sup>26</sup>

At present the region is using only a small part of its potential. It has been estimated that by 1985 7 million additional hectares could be irrigated and 23 million added to the existing area of rainfed land.<sup>27</sup> In particular, the Sudan offers immense possibilities which have drawn the attention of both the various Arab Development Funds and foreign investors. In the other countries much could be achieved by intensification. At present, wheat yields are well below 1 ton per hectare, except in Egypt and tiny irrigated areas in Israel, Lebanon, Saudi Arabia and North and South Yemen, compared to over 3 tons in Europe. But even in Egypt, which produces 3 tons per hectare, it is believed that yields could be more than doubled. Some progress is being achieved in this direction.

Irrigation projects are being carried out, though some of the larger ones, like the Aswan High Dam and Euphrates Dam, have had unexpected side effects like erosion, water-logging and salination. Improved seeds are being used, but only on a small scale. Consumption of all chemical fertilizers has risen from 340,000 tons in 1960 to 1,100,000 in 1970 and over 2,000,000 in 1975, increasing the region's share from 0.6 to 2.3 percent of world consumption; application per hectare of agricultural land has risen from 6 kilograms to 14 and 25, respectively, but this still compares unfavorably with the world average of 59. Similarly the region's share of tractors has gone up from 0.8 to 2.0 percent, but here too the

<sup>26</sup> Food and agricultural Organization (FAO), *The State of Food and Agriculture, 1976* (Rome, 1977) p. 70.

<sup>27</sup> *Ibid.*, pp. 70-72.

number of tractors per cultivated acre is less than half the world figure.<sup>28</sup>

### *Manufacturing*

Manufacturing has been growing far more swiftly (see Table IX) and is diversifying. Countries like Israel, Iran and Egypt now have a wide range of industries; these include, unfortunately, a rapidly growing armaments industry and by the 1980's both Israel and Egypt are likely to be major exporters of weapons. But the sector that is of most significance for the world is the petroleum-related industry that is being built or projected in the Gulf. Refinery capacity is being doubled. Gas gathering systems on a scale far larger than any in the world are being built in Saudi Arabia and elsewhere and a vast array of fertilizer, plastics and other petrochemical plants have been built or are planned. Early in 1977, it was announced that investments in refineries and petrochemicals planned for 1975-80 in the Near East and North Africa would total \$74 billion,<sup>29</sup> but several of the projects have since been abandoned or postponed. Similarly several projected energy-using industries, like steel-making in Saudi Arabia, have been scaled down (from 5,000,000 tons to 300,000), but others like the aluminum plant in Bahrain seem to be functioning satisfactorily and another large plant is underway in Dubai. Altogether, it seems clear that the Gulf is emerging as an important world center of industry.

### *Services*

One last sector may be mentioned, services and in particular tourism. The Mediterranean part of the region is relatively poor in oil, but its climate, beaches, antiquities and shrines have for long attracted tourists. Barring local wars or a world-wide recession, Egypt, Israel and Morocco can anticipate tourist expenditures of \$500 million or more a year in the near future, and Tunisia, Jordan, Lebanon and Syria also receive large amounts. Egypt is earning an additional \$500 million a year from Suez Canal dues.

All of this represents a substantial increase in the productive capacity of the region. If they can weather the storms of the next decade or so, the Near East and North Africa should enter the 1990's as much healthier and more developed as well as more prosperous societies.

<sup>28</sup> FAO, *Monthly bulletin of Statistics*, March 1978.

<sup>29</sup> For details, see *Petroleum Economist*, January 1977.

TABLE I.—IMPACT OF OIL REVENUES

|                           | (1)                   | (2)                   | (3)                                   |              |              |                               |
|---------------------------|-----------------------|-----------------------|---------------------------------------|--------------|--------------|-------------------------------|
|                           | GNP 1972<br>(million) | GNP 1973<br>(million) | Oil<br>revenues—<br>1974<br>(million) | Ratio<br>3:1 | Ratio<br>3:2 | Oil<br>revenues<br>per capita |
| Algeria.....              | \$6,120               | \$8,340               | \$3,700                               | 0.60         | 0.44         | \$250                         |
| Egypt.....                | 8,340                 | 8,820                 | 1,700                                 | 0.08         | 0.08         | 20                            |
| Libya.....                | 3,820                 | 7,620                 | 6,000                                 | 1.57         | 0.79         | 2,200                         |
| Bahrain.....              | 150                   | 210                   | 1,280                                 | 1.87         | 1.33         | 1,200                         |
| Iran.....                 | 15,220                | 27,830                | 17,500                                | 1.15         | 0.63         | 600                           |
| Iraq.....                 | 3,730                 | 8,880                 | 5,700                                 | 1.53         | 0.65         | 700                           |
| Kuwait.....               | 3,440                 | 10,610                | 7,000                                 | 2.03         | 0.66         | 8,000                         |
| Oman.....                 | 320                   | 610                   | 1,900                                 | 2.81         | 1.50         | 1,200                         |
| Qatar.....                | 330                   | 1,090                 | 1,600                                 | 4.85         | 1.47         | 10,000                        |
| Saudi Arabia.....         | 4,160                 | 12,470                | 22,600                                | 5.43         | 1.81         | 3,800                         |
| United Arab Emirates..... | 830                   | 3,720                 | 5,500                                 | 6.63         | 1.48         | 9,900                         |

<sup>1</sup> 1975.

Source: World Bank, "World Atlas, 1974 and 1975; Petroleum Economist," July 1977; Exxon Background Series, "Middle East Oil" (EBS 8/76).

TABLE II.—INTERNATIONAL RESERVES

(In millions of dollars)

|                           | 1960               | 1970               | 1972   | 1975   | 1977             | <sup>1</sup> 1978   |
|---------------------------|--------------------|--------------------|--------|--------|------------------|---------------------|
| Algeria.....              | 266                | 339                | 1,493  | 1,353  | 1,917            | 1,409               |
| Egypt.....                | 264                | 167                | 139    | 294    | 534              | 398                 |
| Libya.....                | 82                 | 1,590              | 2,925  | 2,195  | 4,891            | 4,485               |
| Morocco.....              | 206                | 140                | 237    | 377    | 532              | 406                 |
| Sudan.....                | 167                | 22                 | 36     | 36     | 23               | 22                  |
| Tunisia.....              | 84                 | 60                 | 223    | 385    | 358              | 276                 |
| Bahrain.....              |                    | 71                 | 93     | 296    | 510              | 552                 |
| Iran.....                 | 183                | 208                | 960    | 8,897  | 12,266           | 12,068              |
| Iraq.....                 | 258                | 462                | 782    | 2,727  | 6,996            | .....               |
| Israel.....               | 213                | 449                | 1,222  | 1,182  | 1,571            | <sup>2</sup> 1,737  |
| Jordan.....               | 46                 | 256                | 271    | 492    | 678              | 812                 |
| Kuwait.....               | 72                 | 203                | 363    | 1,655  | 2,890            | 3,286               |
| Lebanon.....              | 138                | 386                | 675    | 1,579  | 1,960            | <sup>3</sup> 2,105  |
| Oman.....                 |                    | <sup>4</sup> 158   | 162    | 239    | 427              | 435                 |
| Qatar.....                |                    | 18                 | 29     | 104    | 162              | .....               |
| Saudi Arabia.....         | 185                | 662                | 2,500  | 23,319 | 30,034           | <sup>5</sup> 28,727 |
| Syria.....                | 28                 | 55                 | 135    | 735    | <sup>6</sup> 717 | .....               |
| Turkey.....               | 203                | 431                | 1,401  | 1,064  | 774              | <sup>7</sup> 900    |
| United Arab Emirates..... |                    |                    | 92     | 989    | 824              | 780                 |
| North Yemen.....          |                    |                    | 127    | 357    | 1,240            | 1,287               |
| South Yemen.....          |                    | 59                 | 67     | 55     | 101              | 136                 |
| Total.....                | <sup>8</sup> 2,395 | <sup>9</sup> 5,800 | 12,932 | 48,330 | 69,405           | .....               |

<sup>1</sup> June.

<sup>2</sup> May.

<sup>3</sup> 1971.

<sup>4</sup> March.

<sup>5</sup> September.

<sup>6</sup> 1973.

<sup>7</sup> Estimated.

Source: International Monetary Fund, "International Financial Statistics," August 1978.

TABLE III.—FOREIGN TRADE, 1971-77

[In million of dollars]

|                            | Exports |        |        |         | Imports |        |        |        |
|----------------------------|---------|--------|--------|---------|---------|--------|--------|--------|
|                            | 1971    | 1973   | 1975   | 1977    | 1971    | 1973   | 1975   | 1977   |
| Algeria .....              | 857     | 1,906  | 4,442  | 5,233   | 1,227   | 2,262  | 5,861  | 6,952  |
| Egypt .....                | 789     | 1,117  | 1,402  | 1,708   | 920     | 917    | 3,751  | 4,808  |
| Libya .....                | 2,695   | 3,995  | 6,837  | 10,113  | 701     | 1,807  | 3,554  | 5,148  |
| Morocco .....              | 449     | 877    | 1,543  | 1,302   | 699     | 1,016  | 2,568  | 3,199  |
| Sudan .....                | 329     | 413    | 437    | 661     | 355     | 480    | 957    | 1,059  |
| Tunisia .....              | 216     | 386    | 856    | 910     | 342     | 606    | 1,424  | 1,784  |
| Subtotal .....             | 5,335   | 8,694  | 15,517 | 19,927  | 4,244   | 7,088  | 18,115 | 22,950 |
| Bahrain .....              | 257     | 407    | 1,147  | 1,821   | 312     | 533    | 1,158  | 2,030  |
| Iran .....                 | 3,824   | 6,264  | 19,934 | 24,250  | 1,873   | 3,393  | 10,343 | 14,070 |
| Iraq .....                 | 1,530   | 2,195  | 8,434  | 9,664   | 694     | 906    | 4,205  | 4,052  |
| Israel .....               | 915     | 1,386  | 1,835  | 3,083   | 1,780   | 2,942  | 4,140  | 5,851  |
| Jordan .....               | 32      | 58     | 153    | 249     | 215     | 331    | 731    | 1,366  |
| Kuwait .....               | 2,573   | 3,822  | 8,990  | 9,835   | 650     | 1,052  | 2,390  | 4,796  |
| Lebanon .....              | 256     | 497    | .....  | 732     | 677     | 1,224  | .....  | 1,480  |
| Oman .....                 | 116     | 178    | 1,084  | 1,574   | 33      | 117    | 671    | 876    |
| Qatar .....                | 314     | 626    | 1,804  | 2,104   | 109     | 195    | 413    | 1,161  |
| Saudi Arabia .....         | 3,845   | 9,087  | 27,662 | 40,894  | 806     | 1,977  | 7,172  | 17,196 |
| Syria .....                | 207     | 351    | 930    | 1,063   | 438     | 613    | 1,668  | 2,657  |
| United Arab Emirates ..... | 897     | 1,936  | 6,879  | 9,490   | 309     | 821    | 2,669  | 4,583  |
| North Yemen .....          | 4       | 8      | 11     | 11      | 37      | 123    | 294    | 1,500  |
| South Yemen .....          | 106     | 113    | 187    | 1,200   | 158     | 171    | 312    | 1,350  |
| Subtotal .....             | 14,876  | 26,928 | 79,050 | 104,970 | 8,091   | 14,398 | 36,166 | 60,968 |
| Grand total .....          | 20,211  | 35,622 | 95,567 | 124,897 | 12,336  | 21,486 | 54,281 | 83,918 |
| Turkey .....               | 677     | 1,317  | 1,401  | 1,753   | 1,087   | 2,049  | 4,640  | 5,796  |

\* Estimated.

Source: International Monetary Fund, "The Direction of Trade" (various issues).

TABLE IV.—TERMS OF TRADE

|   | Annual average<br>1962-72 | 1973 <sup>a</sup> | 1974 <sup>a</sup> | 1975 <sup>a</sup> | 1976 <sup>a</sup> | 1977 <sup>a</sup> |
|---|---------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Industrial countries .....  | .....                     | -2                | -11               | 3                 | -1                | .....             |
| Primary producing countries:  |                           |                   |                   |                   |                   |                   |
| (a) More developed countries..  | .....                     | 11                | -12               | -6                | -½                | -2                |
| (b) Major oil exporters .....   | 1                         | 15                | 137               | -5                | 5                 | 1                 |
| (c) Nonoil developing countries .....                                       | .....                     | .....             | .....             | .....             | .....             | .....             |
| Reference: World trade prices (in U.S. dollars) for major commodity groups: |                           |                   |                   |                   |                   |                   |
| (a) Manufactures .....  | 3                         | 17                | 22                | 12                | 1                 | 9                 |
| (b) Petroleum .....   | 4                         | 40                | 226               | 5                 | 6                 | 9                 |
| (c) Nonoil primary commodities .....  | 2.5                       | 55                | 28                | -18               | 12                | 20                |

\* Change from preceding years.

Source: International Monetary Fund, "IMF Survey," September 18, 1978; see source for definitions of terms.

TABLE V.—GROSS NATIONAL PRODUCT

[Dollars in millions]

|                            | 1971   | 1973   | Percent<br>increase | 1974   | Percent<br>increase | 1975   | Percent<br>increase | 1976   | Percent<br>increase |
|----------------------------|--------|--------|---------------------|--------|---------------------|--------|---------------------|--------|---------------------|
| Algeria .....              | 5,260  | 9,750  | 85                  | 11,100 | 14                  | 13,680 | 23                  | 16,060 | 17                  |
| Egypt .....                | 7,540  | 8,970  | 19                  | 10,210 | 14                  | 9,540  | -6                  | 10,530 | 10                  |
| Libya .....                | 2,930  | 8,100  | 176                 | 10,430 | 29                  | 13,510 | 30                  | 16,000 | 18                  |
| Morocco .....              | 4,040  | 5,790  | 43                  | 7,070  | 22                  | 7,860  | 11                  | 9,220  | 17                  |
| Sudan .....                | 1,900  | 3,000  | 58                  | 3,460  | 15                  | 4,140  | 20                  | 4,610  | 11                  |
| Tunisia .....              | 1,670  | 2,940  | 76                  | 3,560  | 21                  | 4,090  | 15                  | 4,790  | 17                  |
| Bahrain .....              | 140    | 220    | 57                  | 580    | 164                 | 580    | 0                   | 660    | 14                  |
| Iran .....                 | 13,420 | 32,940 | 145                 | 41,440 | 26                  | 55,510 | 34                  | 66,250 | 19                  |
| Iraq .....                 | 3,560  | 9,120  | 156                 | 12,000 | 32                  | 13,880 | 16                  | 15,940 | 15                  |
| Israel .....               | 6,600  | 10,000 | 52                  | 11,630 | 16                  | 13,160 | 13                  | 13,980 | 6                   |
| Jordan .....               | 620    | 970    | 56                  | 1,120  | 15                  | 1,240  | 11                  | 1,710  | 38                  |
| Kuwait .....               | 3,200  | 8,250  | 158                 | 9,330  | 13                  | 15,270 | 64                  | 16,480 | 8                   |
| Lebanon .....              | 1,840  | 2,800  | 52                  | 3,290  | 18                  | 3,290  | 0                   | .....  | .....               |
| Oman .....                 | 270    | 810    | 200                 | 1,250  | 54                  | 1,790  | 43                  | 2,130  | 19                  |
| Qatar .....                | 300    | 1,150  | 283                 | 1,380  | 20                  | 2,200  | 59                  | 2,390  | 9                   |
| Saudi Arabia .....         | 4,010  | 16,000 | 300                 | 22,670 | 42                  | 33,240 | 47                  | 38,510 | 16                  |
| United Arab Emirates ..... | 740    | 4,990  | 574                 | 6,060  | 21                  | 8,880  | 47                  | 9,710  | 9                   |
| North Yemen .....          | 480    | 960    | 100                 | 1,160  | 21                  | 1,210  | 4                   | 1,540  | 27                  |
| South Yemen .....          | 170    | 300    | 76                  | 360    | 20                  | 410    | 14                  | 480    | 17                  |

Source: World Bank, "World Atlas" (various issues).

TABLE VI.—INVESTMENT RATES

[Gross fixed capital formation plus increase in stocks as percent of Gross National Product]

|                    | 1966-68 | 1970 | 1972 | 1974  | 1975  | 1976  |
|--------------------|---------|------|------|-------|-------|-------|
| Egypt .....        | 19      | 14   | 14   | 18    | ..... | ..... |
| Libya .....        | 20      | 18   | 25   | 30    | ..... | ..... |
| Morocco .....      | 14      | 15   | 13   | 17    | 26    | ..... |
| Sudan .....        | 10      | 12   | 12   | 17    | ..... | ..... |
| Tunisia .....      | 22      | 20   | 22   | 22    | 31    | ..... |
| Iran .....         | 19      | 19   | 23   | 18    | 30    | ..... |
| Iraq .....         | 16      | 15   | 19   | ..... | ..... | ..... |
| Israel .....       | 19      | 28   | 31   | 32    | 30    | ..... |
| Kuwait .....       | 18      | 11   | 10   | 5     | 8     | 13    |
| Oman .....         | .....   | 13   | 30   | 31    | ..... | ..... |
| Saudi Arabia ..... | 16      | 16   | 12   | 19    | 10    | * 20  |
| Turkey .....       | 17      | 20   | 17   | ..... | ..... | ..... |
| Syria .....        | 17      | 15   | 18   | 21    | 29    | ..... |

\* 1973.

\* Taken from various national sources.

Source: United Nations, "World Economic Survey," 1969-70 (New York, 1970); pp 209-210; "Item National Accounts Statistical Yearbook."

TABLE VII.—INDEX NUMBERS OF GROSS DOMESTIC PRODUCT, IN CONSTANT PRICES (1970=100)

|                            | 1965             | 1971 | 1972             | 1973             | 1974             | 1975             | <sup>1</sup> 1976 | 1977 |
|----------------------------|------------------|------|------------------|------------------|------------------|------------------|-------------------|------|
| Algeria .....              | <sup>1</sup> 70  |      |                  |                  |                  | <sup>1</sup> 150 | 164               |      |
| Egypt .....                | 89               | 104  | <sup>1</sup> 108 | <sup>1</sup> 113 | <sup>1</sup> 116 | <sup>1</sup> 127 | 135               |      |
| Libya .....                | <sup>1</sup> 80  |      |                  |                  |                  | <sup>1</sup> 148 | 165               |      |
| Morocco .....              | 81               | 105  | 110              | 112              | 122              | 125              | 149               |      |
| Sudan .....                | <sup>1</sup> 90  |      |                  |                  |                  | <sup>1</sup> 133 | 135               |      |
| Tunisia .....              | 80               | 110  | 131              | 132              | 145              | 160              | 174               |      |
| Bahrain .....              | <sup>1</sup> 60  |      |                  |                  |                  | <sup>1</sup> 300 |                   |      |
| Iran .....                 | 59               | 110  | 118              | 148              | 201              | 241              | 272               |      |
| Iraq .....                 | 83               | 107  | 102              | 124              | 128              | 150              | 160               |      |
| Israel .....               | 69               | 110  | 123              | 132              | 143              | 143              | 147               |      |
| Jordan .....               | <sup>1</sup> 100 |      |                  |                  |                  | <sup>1</sup> 128 | 136               |      |
| Kuwait .....               | <sup>1</sup> 70  |      |                  |                  |                  | <sup>1</sup> 127 |                   |      |
| Lebanon .....              | <sup>1</sup> 85  |      |                  |                  | <sup>1</sup> 150 |                  |                   |      |
| Oman .....                 | <sup>1</sup> 30  |      |                  |                  |                  | <sup>1</sup> 110 | 120               |      |
| Qatar .....                | <sup>1</sup> 50  |      |                  |                  |                  | <sup>1</sup> 179 | 200               |      |
| Saudia Arabia.....         | 65               | 113  | 132              | 159              | 183              | 188              | 215               |      |
| Syria .....                | 79               | 110  | 121              | 124              | 147              | 184              | 197               |      |
| Turkey.....                | 73               | 109  | 116              | 121              | 132              | 143              | 156               |      |
| United Arab Emirates ..... | <sup>1</sup> 30  |      |                  |                  |                  | <sup>1</sup> 260 |                   |      |

<sup>1</sup> Estimated.

Source: United Nations, "National Accounts Statistical Yearbook", 1976 vol. II; World Bank, "World Atlas", 1973 and 1977; United Nations, "Supplement to World Economic Survey", 1976 (New York, 1978) p. 158; Annual Reports of Central Banks of Egypt, Iran, Israel, Saudi Arabia and Turkey.

TABLE VIII.—INDEXES OF AGRICULTURAL PRODUCTION (1961-65=100)

|                   | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | <sup>1</sup> 1976 | <sup>1</sup> 1977 |
|-------------------|------|------|------|------|------|------|-------------------|-------------------|
| Algeria .....     | 111  | 109  | 110  | 103  | 98   | 96   | 97                | 64                |
| Egypt .....       | 123  | 127  | 129  | 130  | 129  | 131  | 135               | 129               |
| Libya .....       | 117  | 100  | 174  | 201  | 189  | 210  |                   |                   |
| Morocco .....     | 144  | 140  | 143  | 124  | 147  | 130  | 197               | 101               |
| Sudan .....       | 149  | 144  | 146  | 145  | 164  | 178  | 173               | 153               |
| Tunisia .....     | 118  | 148  | 144  | 154  | 161  | 188  |                   |                   |
| Iran .....        | 137  | 129  | 148  | 149  | 154  | 162  | 175               | 183               |
| Iraq .....        | 134  | 131  | 180  | 133  | 144  | 140  |                   |                   |
| Israel .....      | 146  | 164  | 180  | 179  | 191  | 180  |                   |                   |
| Jordan .....      | 48   | 68   | 81   | 41   | 91   | 58   |                   |                   |
| Lebanon .....     | 121  | 142  | 161  | 152  | 170  | 158  |                   |                   |
| Saudi Arabia..... | 130  | 131  | 130  | 166  | 152  | 154  |                   |                   |
| Syria .....       | 85   | 89   | 133  | 84   | 130  | 131  | 174               | 96                |
| Turkey.....       | 126  | 137  | 140  | 131  | 145  | 155  | 171               | 175               |
| North Yemen.....  | 82   | 108  | 116  | 114  | 110  | 150  |                   |                   |
| South Yemen ..... | 110  | 120  | 113  | 127  | 134  | 133  |                   |                   |

<sup>1</sup> Calculated on the basis of ratio of total cereals output in 1976 and 1977 to 1975.

Source: Food and Agricultural Organization, "The State of Food and Agriculture", 1975 and 1976.

TABLE IX.—MANUFACTURING PRODUCTION

|              | Index<br>1976<br>(1970=100) | Percentage change from preceding year |      |      |                   |
|--------------|-----------------------------|---------------------------------------|------|------|-------------------|
|              |                             | 1974                                  | 1975 | 1976 | <sup>1</sup> 1977 |
| Egypt.....   | <sup>1</sup> 130            | 4.7                                   | 9.5  |      | 11                |
| Morocco..... | 143                         | 2.4                                   | 6.3  | 5.9  |                   |
| Tunisia..... | 142                         | 7.2                                   | 0    | 6.0  |                   |

See footnotes at end of table.

TABLE IX.—MANUFACTURING PRODUCTION—Continued

|                               | Index<br>1976<br>(1970=100) | Percentage change from preceding year |      |                   |                   |
|-------------------------------|-----------------------------|---------------------------------------|------|-------------------|-------------------|
|                               |                             | 1974                                  | 1975 | 1976              | <sup>1</sup> 1977 |
| Iran .....                    | <sup>2</sup> 255            | 18.5                                  | 16.7 | <sup>1</sup> 14.8 | .....             |
| Iraq .....                    | <sup>2</sup> 213            | 6.7                                   | 18.8 | <sup>1</sup> 23.4 | .....             |
| Israel .....                  | 146                         | 4.6                                   | 2.2  | 5.0               | 6.4               |
| Jordan <sup>3</sup> .....     | 229                         | 4.3                                   | 7.3  | 28.3              | .....             |
| Saudi Arabia .....            | <sup>2</sup> 124            | 5.3                                   | -0.2 | .....             | .....             |
| Syria .....                   | <sup>2</sup> 148            | 13.1                                  | -4.8 | .....             | .....             |
| Turkey .....                  | 178                         | 7.2                                   | 8.7  | <sup>1</sup> 11.5 | .....             |
| All developing countries..... | .....                       | 6.2                                   | 2.9  | 7.8               | .....             |

<sup>1</sup> Estimated from various national sources.

<sup>2</sup> 1975.

<sup>3</sup> Manufacturing and mining.

Source: United Nations, "Supplement to World Economic Survey, 1976"; (New York, 1978) "idem, Yearbook of National Accounts Statistics, 1976."

TABLE X.—CONSUMER PRICE INDEX (1975=100)

|                    | 1971  | 1972 | 1973 | 1974 | 1976  | 1977               | <sup>1</sup> 1978 |
|--------------------|-------|------|------|------|-------|--------------------|-------------------|
| Algeria .....      | 80.2  | 83.1 | 88.3 | 92.4 | 109.0 | <sup>2</sup> 117.3 | .....             |
| Egypt .....        | 77.2  | 78.8 | 82.2 | 91.1 | 110.3 | 124.3              | 132.3             |
| Libya .....        | 79.2  | 79.0 | 85.0 | 91.6 | 105.4 | 112.0              | .....             |
| Morocco .....      | 74.0  | 76.8 | 78.8 | 92.7 | 108.6 | 122.2              | 130.3             |
| Sudan .....        | 48.9  | 55.5 | 64.0 | 80.7 | 101.7 | <sup>3</sup> 126.6 | .....             |
| Tunisia .....      | 82.0  | 83.7 | 87.6 | 91.3 | 105.4 | 112.4              | 119.0             |
| Bahrain .....      | 57.6  | 60.5 | 69.2 | 86.1 | 114.9 | 128.6              | 142.4             |
| Iran .....         | 66.4  | 70.7 | 77.6 | 88.7 | 111.3 | 141.7              | 153.8             |
| Iraq .....         | 76.4  | 80.4 | 84.3 | 91.3 | 110.3 | <sup>3</sup> 117.9 | .....             |
| Israel .....       | 38.0  | 42.8 | 51.4 | 71.7 | 131.4 | 176.9              | 229.0             |
| Jordan .....       | 62.3  | 67.4 | 74.4 | 89.3 | 111.5 | 150.8              | .....             |
| Kuwait .....       | ..... | 74.8 | 81.1 | 91.8 | 105.5 | 114.2              | .....             |
| Saudi Arabia ..... | 50.3  | 52.5 | 61.2 | 74.3 | 131.6 | 146.5              | 145.2             |
| Syria .....        | 61.0  | 62.0 | 75.0 | 86.0 | 111.0 | 125.0              | 131.0             |
| Turkey .....       | 56.1  | 62.8 | 72.4 | 83.9 | 117.3 | 149.2              | 190.7             |
| North Yemen .....  | ..... | 45.0 | 64.0 | 81.0 | 117.0 | .....              | .....             |
| South Yemen .....  | 58.9  | 62.0 | 74.3 | 89.3 | 103.1 | 108.7              | .....             |

<sup>1</sup> First quarter.

<sup>2</sup> First half.

<sup>3</sup> First 3 quarters.

Source: International Monetary Fund, "International Financial Statistics," August 1978.

# DEMOGRAPHIC CHANGES IN THE MIDDLE EAST

By Nazli Choucri\*

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## I. INTRODUCTION

The events of 1973 have had a dramatic effect on the demography of the Middle East, the implications of which are not yet fully appreciated in either academic or policymaking circles. The conventional view of the area as harboring countries with a common language and religion, a similar culture, and a shared history contributed to an image which tended to emphasize the homogeneity of the region, rather than the distinctiveness of its demographic characteristics. The rise in oil prices has emphasized the differences between rich and poor countries, but these differences are only the tip of an iceberg—of demographic, technological, and economic differentials.

This paper highlights recent changes in the demography of the region, most notably the extensive and large-scale movements of labor to the oil-rich countries from countries that are less fortunate in resource endowments. These movements are characterized by complicated ebbs and flows of migration, the effects of which are both political and economic in nature.<sup>1</sup> In this region, population

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<sup>1</sup> Nazli Choucri. "The New Migration in the Middle East: A Problem for Whom?" *International Migration Review*. Vol. II, No. 4, (Winter, 1977), pp. 421-443.

shapes the parameters of politics and, in turn, politics determines the extent to which population movements across national boundaries will be allowed to continue. In the last analysis, the economic determinants of migration will respond to political interventions and to policy responses. Unless these trends are recognized, their full implications will be only dimly understood.

Toward this end, we review briefly the traditional features of the population characteristics in the Middle East, noting trends in governmental approaches to population problems, and then describing the major aspects of recent changes in the demography of the area. Finally, we conclude with a determination of the political implications of population movements, and the range of alternative policies for the future.

## II. TRADITIONAL FEATURES OF REGIONAL DEMOGRAPHY

Popular views of the Middle East tend to overlook sharp differences in demographic patterns and in the movement of population across national boundaries. So, too, the great heterogeneity among these countries in terms of population size, composition, and distribution, combined with differences in density, resource availability, and level of knowledge and skills, remains insufficiently recognized, both here and abroad. It is precisely these differentials that provide the demographic context for political changes, and have shaped the patterns of inter-Arab politics.

Dramatic differences among the Middle East countries in terms of resource availability (as reflected in summary form by GNP per capita indicating oil money) reinforce differentials in population size. Indeed, the resource-rich countries are generally those with the smallest populations. This incongruous situation has tended to reinforce and consolidate patterns of migration from the more populous and resource-poor countries to those that are rich in resources but have relatively small populations. And when differentials in knowledge and skills are also taken into account—the high-population and resource-poor countries having a higher level of knowledge and skills—the movement of population across national boundaries approximates the conventional idiom of “push and pull”—“push” in that skilled workers are almost forced to the wealthy countries in order to find jobs with their skills and “pull” in that all workers are attracted to the wealthy countries because of higher wages and greater employment opportunities.

The most pervasive difference among the countries of the Middle East is not so much their fertility rate—they are all relatively high—but their population size, the characteristics of the labor force, and the patterns of population movement. It is these latter variables that place fertility rates in proper context and that, together, provide the demographic parameters for political development. Table 1 presents some demographic and economic characteristics for the countries of the region.

The differences among the countries of the region in population size are well recognized. These differences constitute a focal point of the region's demography, and shape conventional descriptions of the more recent changes. Among the Arab countries, Egypt is the most populous, a factor that has contributed to its traditional role

of leadership in the area. Algeria and Morocco are the next largest countries, although considerably smaller than Egypt by 20 million each. In 1977, only two other countries exceeded 10 million, and four registered populations of less than 1-million, Iran, Turkey, and Israel, the three non-Arab countries of the region, have distinctive demographic characteristics that elude any ready categorization. Iran is roughly similar to Egypt in its demographic features, although the differences in resource endowments overshadow the similarities in population. Turkey differs from both Iran and Egypt in its long tradition of encouraging labor movement to western Europe. Israel's composition is such that it warrants separate treatment, and the policy issues faced by the leadership in approaching population problems are also distinctive.

The least populated countries of the region have, traditionally, been in the Gulf area. The difficulties associated with prevailing estimates make it difficult to describe with any certainty the conventional features of demography in the Gulf. Except for Bahrain, they are all sparsely populated with low rates of density and low rates of urbanization. Their individual demographic profiles are dramatically different from those of large, more urban countries, and the policy problems associated with demographic issues are, therefore, fundamentally different.

TABLE 1.—SOME DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS

| Country                    | 1977 population size<br>(in millions) | Crude birth rate<br>(per thousand) | 1970-77 population<br>growth rate (percent) | 1977 population density<br>(per sq. km.) | Urban (percent) |
|----------------------------|---------------------------------------|------------------------------------|---|--|-----------------|
| Algeria .....              | 17.91                                 | 47.8 (1975)                        | 3.2   | 8  | 50 (1975)       |
| Bahrain .....              | .27                                   | 30.0 (1970-75)                     | 2.9   | 452                                      | 78.1 (1972)     |
| Egypt .....                | 38.74                                 | 37.7 (1975)                        | 2.1   | 39                                       | 44 (1976)       |
| Iran .....                 | 34.27                                 | 45.3 (1970-75)                     | 2.6   | 21                                       | 44 (1975)       |
| Iraq .....                 | 11.91                                 | 48.1 (1970-75)                     | 3.3   | 27                                       | 64.8 (1976)     |
| Israel .....               | 3.61                                  | 28.1 (1976)                        | 3.2   | 174                                      | 81.9 (1974)     |
| Jordan .....               | 2.78 (1976)                           | 42.5 (1976)                        | 3.2 (1970-76)                               | 28 (1976)                                | 42.0 (1974)     |
| Kuwait .....               | 1.13                                  | 47.1 (1970-75)                     | 5.9   | 71                                       | 22.1 (1965)     |
| Lebanon .....              | 3.06                                  | 39.8 (1970-75)                     | 3.1   | 294                                      | 60.1 (1970)     |
| Libya .....                | 2.54 (1976)                           | 45.0 (1970-75)                     | 4.1 (1970-76)                               | 1 (1976)                                 | 29.8 (1974)     |
| Morocco .....              | 18.24                                 | 46.2 (1970-75)                     | 2.9   | 41                                       | 38 (1975)       |
| Oman .....                 | .82                                   | 34.1 (1970)                        | 3.6 (1971-77)                               | 4  |                 |
| Qatar .....                | 1.20                                  | 51.9 (1970)                        | 12.7  | 18                                       |                 |
| Saudi Arabia .....         | 9.52                                  | 49.5 (1970-75)                     | 3.0   | 4  | 21 (1970)       |
| South Yemen .....          | 1.80                                  | 49.6 (1970-75)                     | 3.2   | 6  | 33.3 (1973)     |
| Sudan .....                | 16.95                                 | 47.8 (1970-75)                     | 2.4   | 7  | 20.4 (1976)     |
| Syria .....                | 7.84                                  | 45.4 (1970-75)                     | 3.2   | 42                                       | 46.6 (1976)     |
| Tunisia .....              | 6.07                                  | 39.4 (1975)                        | 2.4   | 37                                       | 47 (1975)       |
| Turkey .....               | 42.13                                 | <sup>2</sup> 39.6 (1970-75)        | 2.7   | 54                                       | 44.5 (1976)     |
| United Arab Emirates ..... | 1.694 (1976)                          | 38.0 (1970)                        | 25.5 (1971-76)                              | 8 (1976)                                 |                 |
| Yemen .....                | 7.08                                  | 49.6 (1970-75)                     | 2.9   | 36                                       | 9 (1970)        |

|                            | 1976 or 1977 GNP/capita<br>at current prices in U.S. dollars | 1976 GDP derived<br>from agriculture (percent) | Growth rate of real GNP or<br>GDP/capita: 1970-77 (percent) <sup>a</sup> |
|----------------------------|--|--|--|
| Algeria .....              | 858 (1976 GDP)   | 8  | 7.4 (1970-76 GDP)  |
| Bahrain .....              | 2,538 (1976)   |  | 20.3 (WBA)   |
| Egypt .....                | 484 (GDP)  | 30 (1975)                                      | 4.4 (GDP)  |
| Iran .....                 | 2,214  | 9  | 14.9   |
| Iraq .....                 | 1,385 (1976)   | 7 (1975)                                       | 15.3 (1970-76)   |
| Israel .....               | 2,501  | 7  | 1.0  |
| Jordan .....               | 591 (1976)   | 15 (1975)                                      | 0.7 (1970-76)  |
| Kuwait .....               | 12,072 (1976)  | 0 (1975)                                       | 12.0 (1972-76)   |
| Lebanon .....              | 1,183 (1974)   | 9 (1973)                                       | NA   |
| Libya .....                | 6,053 (1976)   | 3 (1975)                                       | 16.3 (1970-76)   |
| Morocco .....              | 542  | 24 (1975)                                      | 0.1  |
| Oman .....                 | 3,082 (GDP)  | 2 (1975)                                       | 34.0 (1971-77 GDP)   |
| Qatar .....                | 10,970 (1975)  |  | -0.4 (WBA)   |
| Saudi Arabia .....         | 5,787 (GDP)  | 1  | 9.8 (GDP)  |
| South Yemen .....          | 274 (1976)   | 19 (1970)                                      | -5.8 (1969-75 WBA)   |
| Sudan .....                | 354 (GDP)  | 22   | 5.9 (GDP)  |
| Syria .....                | 844 (GDP)  | 39   | 2.5 (GDP)  |
| Tunisia .....              | 833  | 17   | 5.7  |
| Turkey .....               | 1,055  | 27   | 4.3  |
| United Arab Emirates ..... | 13,991 (1976)  |  | 1.6 (WBA)  |
| Yemen .....                | 224 (1976)   | 61 (1973)                                      | 1.0 (1972-76)  |

<sup>1</sup> Alternative estimates of the populations of Qatar and the United Arab Emirates are 98,000 and 240,000 respectively. These estimates apparently exclude immigrants. We chose to use the higher estimates because the populations of other countries are either known or believed to include immigrants (Kuwait and Saudi Arabia, in particular). The population of 200,000 for Qatar comes from the "World Book Atlas for 1977". The population of 240,000 for the UAE comes from "The World Almanac and Book of Facts, 1979."

<sup>2</sup> Other sources estimate the crude birth rate for Turkey to be 32 per thousand.

<sup>3</sup> The growth rate of real GNP per capita was calculated from International Financial Statistics (May 1978 and February 1979). In order to adjust the GNP figures to real (1975) values, we divided the current GNP figure by the wholesale price index (item 63). If the wholesale price index was not given we used the consumer price index (item 64). The figures marked "WBA" come from the "1977 World Book Atlas" and are 1970-75 real GNP per capita growth rates.

Sources: International Monetary Fund, "International Financial Statistics," Washington, D.C., December 1978.

United Nations, "Demographic Yearbook," New York, 1976.

United Nations, "Population and Vital Statistics Reports," New York, 1975.

United Nations, "Statistical Yearbook," New York, 1977.

United Nations, "Yearbook of National Account Statistics," Washington, D.C., December 1978.

World Bank, "World Bank Atlas," Washington, D.C., 1977.

Table 1 presents estimates of population size in the latest year for which mid-year estimates are currently available. For the sake of convenience, the countries are listed in alphabetical order, although at least three distinct groupings are discernable. First, of course, are the high population countries of Egypt, Iran, Turkey and, to a lesser extent, Algeria and Morocco. Second are the mid-range countries in terms of population size, such as Iraq, Syria, Tunisia, Yemen and, if the estimate is believable, Saudi Arabia as well (subject to appropriate caveats regarding the basis on which this figure is derived). Third are the Gulf-region countries with small populations, such as Bahrain, Kuwait, South Yemen, Oman, the United Arab Emirates, and Qatar. Israel, Lebanon, and Jordan, roughly the same size, are countries with distinctive demographic conditions resulting from their particular historical situations. This classification is useful only for indicating the range of differences in size; but population size is only a point of departure, whose implications can be understood only with reference to the resource endowments and economic characteristics of the individual countries.

Rates of population increase for selected years, also presented in Table 1, are not uniformly due to natural increase, but also to patterns of migration. In Egypt, Iran, Algeria, Morocco and, to some extent, Libya, these rates represent the differences between live births and deaths. For the other countries, growth rates reflect natural increase as well as immigration. It is difficult to say with any degree of precision how much of the population increase in the Gulf region is due to fertility. However, the role of migration is undoubtedly the most extensive, if not the dominant, influence on this growth.

Until recently, the Arab Middle East was a closed system and, other than the establishment of Israel, its demographic characteristics had not been influenced by large-scale migration. Almost all movement across national boundaries was among Arab countries and usually of temporary duration. Prior to the events of 1973, traditional demographic features of the region could best be described in terms of four distinct types of population profiles. Together, they reveal the region's population characteristics in equilibrium—before the war and up to the oil price increases of 1973. These profiles can be described as follows:

(1) Countries with large urban populations, high rates of growth, high density, and which export skilled labor (such as Egypt, Lebanon, and Jordan);

(2) Countries with relatively low population size, low density, and which import a large or critical proportion of the labor force, particularly skilled workers (Kuwait, Libya, Saudi Arabia, and the United Arab Emirates);

(3) Countries with a large population size and high fertility rates, and which export labor to Western Europe (notably Algeria and Turkey); and

(4) Countries with high rates of population growth, but which are relatively "self-sufficient" in their manpower requirements in that they neither extensively export nor import labor (Tunisia, Iraq, and Morocco).

In addition there has been some major movement of Palestinians within the region and an inflow of Pakistanis and Indians, primarily to the states in the Gulf area.

The traditional demographic characteristics of the Middle East countries reflect a variety of interrelated considerations—high fertility, declining mortality, changing rates of population growth, differential size and patterns of movement—and few generalizations can capture the overall patterns in the area. There is some indication, however, that the prevailing trend is consistent with the theory of demographic transition despite the ambiguity of the evidence and the ambiguity of the “theory”. This “theory” stipulates that fertility declines are associated with economic development, and that as countries become more urbanized, more industrialized and more “developed”, their fertility rates will decline accordingly.<sup>2</sup> Its usefulness lies perhaps more as a description of historical trends in the developed states, thus alerting observers to anticipate trends in developing countries, than as a logically consistent statement of aggregate demographic behavior.

With placing undue emphasis on the transition perspective for interpreting recent trends in the Middle East, it is revealing to note some underlying trends that are obscured by observations in Table 1 for one point in time. In all countries of the Middle East, mortality rates have declined over the past 20 years. A change in crude births is discernable, but the trend is uneven, although the differences between birth and death rates remain extensive, due largely to more rapidly declining mortality rates. None of this ought to obscure the prevalence of persistently high rates of natural increase. Finally, it must be stressed that the traditional demographic characteristics in the Middle East region provided the basis for social and economic interdependencies, the nature of which were only barely discernable prior to 1973, and have come into sharper focus since then. *The movement of population across national boundaries is the key to this interdependence.* Population policies must now be extended beyond fertility control to the regulation of interstate migration as well.

The following section reviews governmental responses to demographic problems during the decades of the 1950's and 1960's. It is designed to provide a basis for indicating the extent of demographic changes since 1973, and the attendant reactions of the national governments.

### III. GOVERNMENTAL RESPONSES TO POPULATION TRENDS—PAST TRENDS AND FUTURE PROBLEMS

The four types of population profiles characterizing the traditional features of the region's demography prior to 1973 reflect different definitions of population problems, with different relationships

<sup>2</sup>In the May 1978 issue of *Studies in Family Planning*, Mauldin and Berelson argue that changes in socio-economic variables indicating economic development coincide with fertility declines (an  $R^2$  of 0.66), but the multiple correlation goes considerably higher if one adds the effect of having population control (generally family planning) programs— $R^2=0.83$ . In fact, the programs alone are more closely related to fertility declines than the socioeconomic variables ( $R^2=0.73$ ), but this should be tempered by the fact that those countries with population control programs (particularly strong programs) are much more likely to rank high on the socioeconomic variables. See W. Parker Mauldin and Bernard Berelson with a section by Zenas Sykes, “Conditions of Fertility Decline in Developing Countries, 1965-75.” *Studies in Family Planning*, Vol. 9, No. 5, (May 1978), pp. 90-147.

to social and economic problems and differing impacts for development planning as well as differing emphases on internal or external migration.

Countries from Group 1 have defined the population policies almost exclusively in terms of fertility control (Egypt), although this is generally accompanied by a concern for rural-urban migration. In some cases, there is also an awareness of the effects of fertility on the changing composition of the population (Lebanon and Jordan are the dramatic examples). However, this exclusive focus is currently being questioned, mainly in Egypt, and there is a new concern for the other aspects of the country's demography, such as migration across national borders.

Countries in Group 2 did not regard high fertility as particularly problematic; their key development issue pertained to the dearth of manpower and the long-term implications of an alien component in the total population. Developing means of curtailing natural increase was viewed as neither appropriate nor relevant. Kuwait, Libya, Saudi Arabia, and the United Arab Emirates have no family planning programs and except for Libya's pronatalist policy there are no formal population policies other than those pertaining to regulating migration. Yet, persistently high fertility rates will invariably pose those governments with developmental as well as distributional problems.

Countries in Group 3 viewed their population problem largely as one of high fertility rates. However, the governments in question tend to define that problem as a developmental one, and not exclusively in demographic terms. Algeria takes the view that any solution to the demographic problem lies in socio-economic development and not in family planning activities, although it does have a family planning program. Turkey has adopted voluntary planning of births as a national policy, but there is only a modest government effort in that direction. Both countries regarded the migration of labor to Europe as an integral aspect of their labor policies, but neither viewed external migration as central to their migration policies.

Countries in Group 4 have traditionally regarded high fertility as defining the central nature of their population problems, and birth-limiting policies are adopted for that purpose. The development programs of both Morocco and Tunisia comprise a strong rural development component, and controlling fertility may come to be regarded as an integral aspect of such development. Although Morocco's population program is largely in the nature of providing information and supporting services, there are some attempts to manipulate incentives, and to develop supporting social laws. By contrast, in the case of Tunisia, fertility control programs have been imbedded in a broader approach to social change, centering primarily around the modification of legal tenets affecting birth, marriage, abortion, inheritance provisions, and so forth. In this respect, Tunisia has gone farther than any other countries of the Middle East to intervene in the social processes that encourage a high birth rate.

All four groups of countries adopted policies that *in fact* have influenced the characteristics of their population. In almost all cases, there remains an unclear perspective on the full implications

of demographic trends, and the lack of clarity as to which population characteristics are, or ought to be, regarded as a problem. Table 2 presents, in summary form, the official policies pertaining to population in 16 Middle East countries. Prior to 1973, the emphasis has been overwhelmingly on fertility control.

As with other regions of the world, the relative isolation of population policy from economic policymaking or foreign policy is due, first, to the exclusion of demographic influences from economic planning, a consideration that is shared by almost all countries of the world; second, to the prevailing ambiguities regarding the actual impacts of demographic policies upon economic or foreign policy processes; and third, to the political sensitivity of formally seeking to manipulate demographic characteristics and the common preference of governments for avoiding that which might unnecessarily contaminate the minimum consensus required for the formulation of development policies. Again, none of these factors are idiosyncratic to the Middle East. What is distinctive about the area, however, is an emerging recognition of the interdependence of population and development problems, and new interest in influencing labor force characteristics and regulating manpower movements.

A closer look at the population policies of one country exemplifying each of the four demographic profiles prior to 1973 may reveal further the differences in demographic characteristics and traditional policy responses.

This review summarizes the policy approaches in the regional equilibrium of the past two decades. The events of 1973 disturbed the equilibrium, contributed to changes in population profiles and, by extension, in government policies toward population. Four countries represent well the demography of the region and attendant policy responses prior to the events of October 1973: Kuwait, Egypt, Algeria, and Morocco.

Kuwait illustrated importers of professional and semi-professional labor; Egypt reflected the exporters of skilled (professional) manpower; Algeria was indicative of countries exporting factory workers; and Morocco traditionally represented the comparatively self-sufficient states, although the government has recently sought to encourage migration to Europe. In the last respect, Tunisia might be a better example, but since the numbers were considerably smaller than Algeria and the type of manpower exported is generally relatively unskilled, and unlike the case of Egypt where the numbers were small but the composition represents a critical technical component of the labor force, the Moroccan case may well be sufficiently distinctive to warrant separate and closer examination.

TABLE 2.—GOVERNMENT POLICIES AND PUBLIC POSTURES ON POPULATION GROWTH AND MIGRATION

| Country and comment   | 1977 population<br>(millions) | Government<br>position<br>A, B, or C <sup>a</sup> | Year adopted |
|---|-------------------------------|---|--------------|
| Algeria.....<br>(Solution to the problem lies in social and economic development, but the government supports family planning for the purpose of "child spacing." With assistance from international agencies, plans are to reinforce the four centers now in operation and to expand the maternal and child health system through a training program to meet "spacing" needs. In 1973, the government suspended all new worker emigration to France.)  | 17.91                         | B   | 1971         |
| Bahrain.....<br>(In 1974, the government expressed its intention to launch family planning through the Ministry of Health. Immigration policy is liberal, i.e., it is easy to obtain work permits, but citizenship laws and requirements for naturalization are very rigid.)  | .27                           | B   | 1974         |
| Egypt.....<br>(The presidential decree of 1965 established a national policy to reduce the population growth rate. The target adopted in the Ten-Year Plan (1973-82) has been to reduce the crude birth rate by one point per year for ten years. The government encourages emigration through bilateral agreements to export workers and through legislation that has removed disincentives to migrate. The Third Five-Year Plan (1978-82) anticipates an increase in migration and actually makes provision for training facilities to foster migration.) | 38.74                         | A   | 1965         |
| Iran.....<br>(To facilitate socio-economic growth, the official policy is to reduce population growth rates from 3.2 percent to 1 percent over 20 years. Legislation pending to repeal restrictive abortion laws. Literacy, Health and Development Corps (military conscripts), Women's Corps, and Armed Forces health personnel are trained to work in the program. University and high school curricula include family planning materials. No official policy toward migration.)  | 34.27                         | A   | 1967         |
| Iraq.....<br>(Although Iraq has no population policy, with the assistance of W.H.O., the Iraqi Family Planning Association provides services in Ministry of Health Clinics. The Association was founded in 1971. All types of contraceptives are imported duty free. No formal policy toward migration.)  | 11.91                         | B   | 1972         |

Footnotes at end of table.

TABLE 2.—GOVERNMENT POLICIES AND PUBLIC POSTURES ON POPULATION GROWTH AND MIGRATION—Continued

| Country and comment   | 1977 population<br>(millions) | Government<br>position<br>A, B, or C | Year adopted |
|---|-------------------------------|--------------------------------------|--------------|
| <p>Israel.....</p> <p>(No official policy on population, but unquestionably pronatalist. Under the Law of Return of 1950, every Jew who enters Israel with an immigrant visa acquires automatic Israeli citizenship, unless the immigrant declares a desire not to be naturalized. Non-Jews are not covered by the 1950 Law of Return. Jewish immigration is encouraged by the Jewish Agency, which helps immigrants find jobs. Loans are made available on easy terms to assist immigrants who wish to start their own businesses and special privileges in education are given to immigrants in their first few years in Israel.)</p> | 3.61                          | C                                    | .....        |
| <p>Jordan.....</p> <p>(Jordan has no organized family planning program, but it has received support from the Pan Arab Medical Union and the Grand Muftie of Jordan. The government recognizes that emigration is a problem, but believes it can only impact marginally on the outflow of labor.)</p>  | 2.78 (1976)                   | C                                    | .....        |
| <p>Kuwait.....</p> <p>(There is no official population policy, but there is a tendency to pronatalism with regard to Kuwaitis. There are no organized family planning services, but both private and government medical services give family planning advice. Development plans have recognized the need to import foreign labor, but there is a determination to reduce this dependence. Foreign workers have no residence or naturalization rights, and their social and education opportunities are curtailed by law. The government discourages foreign workers from bringing their dependents with them.)</p>                      | 1.13                          | C                                    | .....        |
| <p>Lebanon.....</p> <p>(No formal policy regarding population growth exists. The traditional posture supports emigration and encourages foreign remittances and savings.)</p>   | 3.06                          | C                                    | .....        |
| <p>Libya.....</p> <p>(Official policy is frankly pronatalist.)</p>  | 2.54 (1976)                   | C                                    | .....        |
| <p>Morocco.....</p> <p>(The national policy is to reduce the crude birth rate from 50 to 45 per thousand by 1972. A demographic research center (CERAD) was opened in 1971. A national program of family planning is under way. In December 1971, Morocco housed an International Planned Parenthood Federation Seminar on "Islam and Family Planning." No formal policy toward migration.)</p>   | 18.24                         | A                                    | 1968         |

Footnotes at end of table.

TABLE 2.—GOVERNMENT POLICIES AND PUBLIC POSTURES ON POPULATION GROWTH AND MIGRATION—Continued

| Country and comment   | 1977 population<br>(millions) | Government<br>position<br>A, B, or C <sup>a</sup> | Year adopted |
|---|-------------------------------|---|--------------|
| Oman.....<br>(There is no official population policy, although the general sentiment is pronatalist. Since the change in government in 1970, there has been a liberalization of entry and exit permits. The deportation, in 1974, of Asians and Arabs who were working without permits, suggests that the government does attempt to control illegal migration.)  | .82                           | C   | .....        |
| Qatar.....<br>(Immigration policy is liberal, but citizenship laws and naturalization requirements are very rigid.)   | .10 (1976)                    | C   | .....        |
| Saudi Arabia.....<br>(The official attitude to population is pronatalist. Saudi Arabia has had a very liberal immigration policy favoring those who are highly educated and possess specialized skills. The Second Development Plan (1976-80) recognizes the importance of foreign labor for Saudi Arabia's economic development program. While the importance of foreign labor is also reflected in aspects of immigration, tax and labor law, Saudi migration policy reveals a determination to replace skilled foreigners with Saudis as soon as possible. The Labor and Workman Law (1969) embodies regulations that stipulate that in companies employing more than 100 workers, 51 percent of the total payroll must be for Saudis and 75 percent of the work force must be Saudis, unless the Ministry of Labor authorizes temporary reduction until skilled Saudis can be found. The government discourages families from immigration.) | 9.52                          | C   | .....        |
| South Yemen.....<br>(The government favors an increase in population. There are no Family planning services. The government has been actively encouraging its citizens working abroad to send remittances home. This active encouragement to remit money has been the result of a drastic decline in remittances following the nationalization that began in South Yemen after 1969, and the fear they engendered among Yemenis abroad of their remittances being confiscated.)   | 1.80                          | C   | .....        |

Footnotes at end of table.

TABLE 2.—GOVERNMENT POLICIES AND PUBLIC POSTURES ON POPULATION GROWTH AND MIGRATION—Continued

| Country and comment   | 1977 population<br>(millions) | Government<br>position<br>A, B, or C <sup>a</sup> | Year adopted |
|---|-------------------------------|---|--------------|
| <p>Sudan.....</p> <p>(Official concern about emigration dates back to only 1976. More frequently, the presumed benefits of emigration—a source of foreign exchange, a means of reducing unemployment, and a means of enhancing Sudan's international stature by supplying educated manpower to Arab countries which would also increase the amount of aid recipient Arab countries would provide the Sudan—are proclaimed by government officials. There are schemes to encourage remittances, especially from professionals outside the Sudan. The Land for Emigration Scheme provides first and second class housing in the Khartoum area in exchange for foreign-earned currencies. Given the shortage of housing in Khartoum, this is an incentive to return and to spend the foreign currencies in the Sudan. Another policy, the Nil Customs Policy, permits nationals to obtain imports custom-free, up to the amount of foreign currency held in their accounts at the Sudan Bank, provided the currency has been remitted from outside the Sudan and has been in the account for at least 6 months.)</p> | 16.95                         | C   | .....        |
| <p>Syria.....</p> <p>(No population policy although official interest in family planning has been expressed and a special unit for family planning and maternal and child health (MCH) has been created in the Ministry of Health. The government supports the Syrian Family Planning Association, formed in 1974. However, an official ban on contraceptives raises doubts about official policy on population growth. The government recognizes that the "brain drain" is a serious problem and has discouraged the emigration of skilled labor.)</p>   | 7.84                          | C   | .....        |
| <p>Tunisia.....</p> <p>(According to the provisional new plan for 1973-76, the national policy is to reduce the gross reproduction from 3.1 percent in 1971 to 1.2 percent in 2001. Bill No. 73-17, passed in March 23, 1973, created the Na-</p>   | 5.97 (1976)                   | A   | 1964         |

Footnotes at end of table.

TABLE 2.—GOVERNMENT POLICIES AND PUBLIC POSTURES ON POPULATION GROWTH AND MIGRATION—Continued

| Country and comment  | 1977 population (millions) | Government position A, B, or C <sup>1</sup> | Year adopted |
|--|----------------------------|---|--------------|
| Tunisia—Continued  |                            |   |              |
| tional Family Planning and Population Office to implement the government's population policy. The program, the most advanced in North Africa, provides free services within the government health system. Laws have been passed to: (1) Legalize the sale of contraceptives; (2) limit child allowances to the first 4 children; (3) increase minimum legal marriage to 20 for men, 17 for women; (4) legalize induced abortion on social grounds for women with five or more living children, and on therapeutic grounds to protect the physical or mental health of the women; (5) abolish polygamy; and (6) establish equal rights for women. Emigration is seen as a partial, short-term solution to unemployment in Tunisia. Labor migration is controlled by an organization within the Ministry of Social Affairs. This organization has made agreements with other countries to export labor. The government has an agreement with France for the immigration of French professionals to Tunisia.) |                            |   |              |
| Turkey.....  | 42.13                      | A   | 1965         |
| (The official policy, expressed in the family planning law, advocated voluntary planning for the desired number of children. The program is publicized through the mass media and by mobile teams, which also distributes contraceptive supplies. The IUD is the main method used in the program. Oral contraceptives are obtained through the private sector and account for much current practice.)  |                            |   |              |
| United Arab Emirates.....  | .24                        | C   | .....        |
| (No official population policy exists. There is apparently no problem for foreign workers to obtain work permits, especially if they have any skills.)   |                            |   |              |
| Yemen.....   | 7.08                       | C   | .....        |
| (There is no official population policy, but those family planning services that exist are reported to be in strong demand. Despite exporting proportionately more workers than any other country in the world, Yemen has restrictions on emigration. The government is considering a law that would permit foreign construction workers to immigrate to Yemen.)   |                            |   |              |

<sup>1</sup> Key: A—Official policy to reduce the population growth rate. In addition to supporting family planning to implement this policy, countries in this category also support family planning for reasons of health and as a human right.

B—Official support of family planning for other than demographic reasons. Countries in this category usually support family planning for reasons of health and as a human right, but an antinatalist effect is a by-product, not an objective.

C—Residual category countries neither have a policy to reduce population growth rate, nor do they support family planning programs for any reason. The list includes countries that are neutral toward their population growth rate as well as those that are pronatalist, but the distinction between "neutralist" and "pronatalist" is too conjectural to warrant separate categories.

Adopted from *Reports on Family Planning/Population*, October 1976. The Population Council. Entries based on data from the following sources: Sources: Stephen Adler. *Migration and International Relations: The Case of France and Algeria* (M.I.T.: Center for International Studies, 1977).

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## A. Egypt

Egypt has an official population policy—conceived largely in terms of family planning to assist in curtailing the birth rate—and there is a general recognition in government circles of the country's pressing population problem, which is defined in terms of high fertility, coupled with increasing pressures on arable land, and an attendant acceleration of migration rates from rural to urban area. This recognition is expressed in the 1973-82 Development Plan which has as an objective the reduction of the birth rate from 34 per thousand in 1973 to 24 per thousand in 1982.

The First Five-Year Plan (1965-70) did not consider instruments to regulate fertility or migration. It simply assigned a target of a 17 percent increase of employment over the Plan years. The Follow-up Report acknowledged that failing to meet projected targets was due, in part, to an unanticipated increase in fertility rates. The expectation has been for a growth rate of 2.4 percent annually; in retrospect the rate was 2.8 percent, representing an increase from 26.6 million to 29.5 million. The Follow-up Report recognized that this increase prevented any growth in per capita income, provided added pressures on public services, and diverted investments toward consumption, all of which were detrimental to economic growth.

The Egyptian case is thus one in which the failure of development was attributed in part to an unanticipated increase in fertility. The result was an official recognition of the need for formal measures of population control; but the attendant implication of the foregoing was not drawn—that there is a need for formal inclusion of the demographic variables and projections in the formulation of the economic analyses at the data basis for development planning. The fact that the government had conflicting economic priorities, with potentially conflicting policy instruments, simply accentuates the distorting effects of neglecting population

variables in development planning for a country whose major problem is acknowledged to be one of high fertility.<sup>3</sup>

Subsequent plans were interrupted by wars with Israel. Evolving government policy, however, was to affect demographic variables through social and economic variables, most notably those related to agricultural employment and incentives for reducing rural/urban migration. The government's persisting concern for welfare and equity has increased the priority of agrarian issues, social security legislation, and the like, in comparison with measures required to affect population variables directly.<sup>4</sup> More recently, the emphasis has been expanded beyond family planning and has taken a holistic view of the country's overall demographic profile. So, too, the economic implications of out-migration have, until recently, been ignored. Before 1973, no one in Egypt seriously considered emigration to other Arab countries as an important factor in the country's economy or in the region's development.

### B. Kuwait

Kuwait has no official population policy, nor explicit provisions for fertility control. An implicit pronatalist position is adopted, one that is moderated only by the potential political implications of such a posture.

The present population of Kuwait is subject to debate; estimates range from 700,000 to over 1 million, depending on inclusion of aliens. However, the historical trends are less ambiguous. From 1957 to 1975, the total population of the country rose from a little over 200,000 to close to 1 million with a growth rate of 8.9 percent per year. By 1975, 53 percent of the population was alien, and 73 percent of the labor force was non-Kuwaiti (78 percent of which was from other Arab states). Most skilled labor was Arab, particularly Palestinian, Jordanian, and Egyptian. The unskilled labor came traditionally from the Gulf area and South Arabian states.

The First Five-Year Plan (1967-72) stressed the need for the regulation of migrant workers and for the development of guidelines covering general population issues.<sup>5</sup> Of the eleven goals specified in the plan, four were concerned directly with population issues:

- (1) Increasing the Kuwaiti population to a majority status.
- (2) Assuring a Kuwaiti majority in the labor force.
- (3) Creating employment opportunities and expanding the size of the citizen labor force.
- (4) Restricting the use of migrant labor, except in highly skilled and technical vocations.

At the same time, official government policy was to provide incentives for young Kuwaitis to study abroad so as to eventually constitute the required majority in professional vocations. Since the end of the first Plan period, the government has restricted the flow of skilled manpower. As long as Kuwaiti salary scales are dramatically higher than other Arab states, and as long as the

<sup>3</sup> Robert Mabro and Samir Radwan. *The Industrialization of Egypt: 1939-1973* (Oxford: Clarendon Press, 1976).

<sup>4</sup> For a review of these changes, see Nazli Choucri and Richard S. Eckaus, "Interactions of Economic and Political Change: The Case of Egypt". *World Development* (in press).

<sup>5</sup> Ministry of Planning. *The First Five-Year Economic and Social Plan: 1966/67-1970/71*. Government of Egypt.

government seeks to collaborate economically and politically with its neighbors, a policy of total restriction of migrant workers is unlikely. Although planners were intuitively aware of the socio-economic and political implications of the demographic structure of the country, and good statistics were kept, there was an insufficient appreciation of the effects of varying fertility rates of the Kuwaiti population in the long-run upon projections for manpower requirements, educational opportunities, and economic investments by sector, or of different rates and composition of immigrant labor for the economy and the polity in the shorter-run. The events of 1973 and subsequent changes in the region's demography made population an even more salient policy issue for Kuwait.

### C. Algeria

The Algerian government has traditionally adopted the view that solutions to demographic problems are to be found in economic development, not in discrete investments in fertility control. Algeria has spearheaded the movement of those developing countries that argued at the World Population Conference in 1974 that the key issues at hand were developmental and not demographic, and that the debates ought to revolve around developmental policies and not demographic ones.

Although Algeria's rate of population growth is among the highest of the Middle East countries (3.2 percent), it does not consistently pursue any population control policy. On the face of it, it seems that this increase in population is contributing to accelerated rates of rural/urban migration and high rates of unemployment.

The migration of labor to France constituted an important backbone of the government's economic policies. The regulation of flows, the encouragement of remittances, and the development of viable long-term policies with the French were all evidence of official concern for controlling the characteristics and movement of the labor force, and for using migration as a means of reducing the social and economic impacts of growing unemployment.

Development plans did not consider, nor did they refer to, policies as instruments to lessen population pressure in urban areas; not because of the lack of recognition of economic difficulties related to population variables, but because of political and traditional interests that oppose direct interventions. Religious leaders were reluctant to accept the concept of population control as a legitimate instrument in development, and various political groups equate national strength with large populations. Even migration to France was regarded in some circles as counterproductive to the national interest. Consequently, a movement was begun in order to reincorporate return migrants into the economic fabric of the country.<sup>6</sup> In addition, Algeria attempted to further routinize the emigration of its labor to France, and to regulate the increase in the flow of workers from other Arab countries into Algeria.

By 1968, however, liberation of religious circles and an increased awareness of demographic-related problems contributed to official efforts toward incorporating population policies within the Five-

<sup>6</sup> For a review, see Stephen Adler, *Migration and International Relations: The Case of France and Algeria* (M.I.T.: Center for International Studies, Migration and Development Study Group, C/77-3, April 1977).

Year Development Plan (1964-73). Background work was well underway when the government reverted to its original position, and formally opposed the inclusion of population targets, or even any explicit reference to population control in the Five-Year Plan. Recently, it has retrenched its migration policy.

#### *D. Morocco*

Morocco was "self-sufficient" in its labor requirements relative to other states, although there was some labor migration in the late 1960's.

In 1968, the government adopted a policy of reducing the crude birth rates from 49 per thousand in 1972 to 45 per thousand in 1977. The focus was on a family planning program based largely on making information available for practicing voluntary fertility control. By 1969, it was estimated that the growth rate in Morocco was 3.3 percent and, despite the fact that the majority of the population lived in rural areas, rates of urbanization were growing at twice the population growth rate, further accentuating Morocco's population problems. The First Morocco Plan (1965-67) acknowledged the increase in population attributing it to high levels of fertility and to a decline in mortality produced by the government's health and sanitation program.

The 1968-72 Plan placed considerably more importance on job creation, but little emphasis was given to it at the implementation state. The 1973-77 Plan also stressed the reduction of unemployment as one of its major goals. In both cases, temporary migration as a short-term means of reducing the negative impacts of unemployment was raised as a policy option. However, of the emigrants between 1960 and 1971, 90,000 were Moroccan Jews emigrating permanently to Israel, and the government's encouragement of outmigration for Moroccan workers had only marginal effects. Despite the recent signature of labor conventions with West Germany, France, Belgium, and now Libya that provide further opportunities for concentrated out-migration, the incentives for such a movement have been too weak to result in any delineable effects.

The latest development plan placed greater emphasis upon family planning, but in the context of stressing the creation of education, information, and the training of staff. As yet, there is no substantial population component. Unlike the other three model cases, the events of 1973 have had relatively modest effects on Morocco's demographic characteristics, or on its population policies.

#### *E. New Trends*

Since 1973, the demographic characteristics of the Middle East have undergone such rapid transformation as to make the traditional policy responses that focused on fertility control singularly inappropriate. The demographic changes since 1973 have been so pervasive as to necessitate a reappraisal of population policy, economic policy, and even foreign policy for most of the countries in the area. The population "map" of the region is changing dramatically, necessitating a reassessment of traditional views of the Middle East.

#### IV. DEMOGRAPHIC CHANGES SINCE 1973

The petroleum crisis of October 1973 clearly dramatized the differences among the countries of the Middle East in terms of size and wealth. Except for Iran, the most populous countries continue to be the poorest in natural resources, while the richest countries remain the smallest in population. At the same time, differences in the level of technological development and manpower characteristics have been further accentuated. The largest countries in population continue to be most developed in terms of overall knowledge and skills. For the smaller but wealthier countries, technology and manpower availability have become perhaps the single most import constraint on economic development. Since 1973, traditional differences among the countries of the region have contributed to sharp patterns of migration across national boundaries and to the dramatic growth of both skilled and unskilled labor. This migration constitutes the most significant demographic change since 1973.

The events of 1973 have changed the migration patterns in the Middle East, necessitating the addition of three more demographic profiles to the four described earlier:

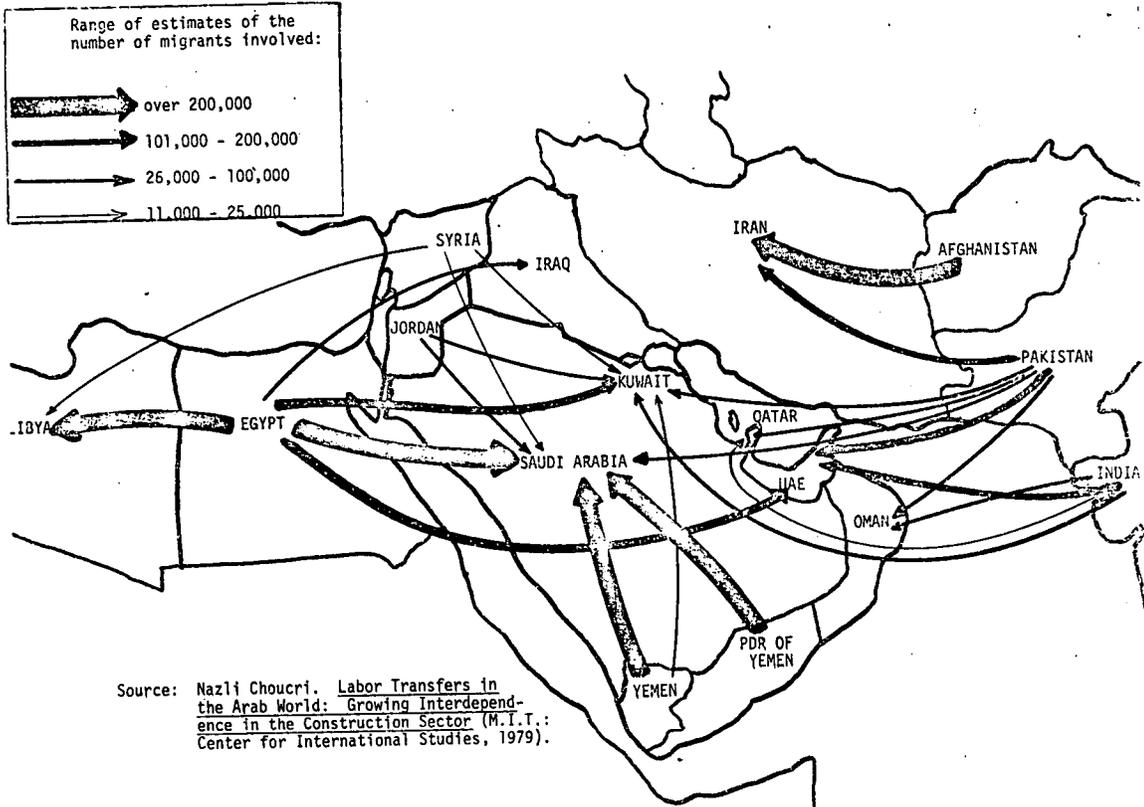
(5) Countries which both import and export labor, usually importing relatively skilled labor and exporting unskilled labor (Jordan and Oman).

(6) Countries which now import labor extensively from outside the region as a whole because of both lower wage rates and fewer problems with keeping the migrant workers separate from the native population (Kuwait, U.A.E., and Qatar).

(7) Countries which export generally unskilled labor (Yemen, South Yemen, and Sudan).

Clearly, these seven categories are not mutually exclusive. Countries are now exhibiting several distinct migration characteristics. The "map" of the region is becoming increasingly complex.

The issue of labor migration in the Middle East has, to date, been largely overlooked by political analysts, economists, and area specialists alike. Political scientists tend to concentrate on the cultural homogeneity of the Arab states, their conflict with Israel, and the dispute over petroleum prices. Economists typically focus on macroeconomic performance, on the effects of the new oil prices, or on sectoral problems, for one country or another. And area specialists have provided descriptively rich analyses of the region, but have expressed little concern for the apparent implications of the new labor movements. The dramatic changes in migration trends in recent years may well have major national as well as regional ramifications. That migration is characterized by a complex network of flows, with a web of in-and-out migration for almost every country in the region and is dominated by Egyptian workers in other Arab states. Figure 1 presents the major flows of 10,000 or more.



Source: Nazli Choucri. Labor Transfers in the Arab World: Growing Interdependence in the Construction Sector (M.I.T.: Center for International Studies, 1979).

Figure 1. — Major movements of migrant workers in the Middle East (1973 to present).

The distinctive features of this migration are the following:<sup>7</sup> First, it is a pattern of flow among developing countries; labor remains within the region, rather than migrating externally.

Second, it is composed neither of skilled nor unskilled labor alone; the entire structure of the labor force is involved in and, in turn, affected by this movement.

Third, no one "flow" is permanent in nature, but temporary, generally from one to four years.

Fourth, it is generated and maintained by underlying economic and political forces that create the incentives for movement and the regulations for sustaining the flows.

Fifth, it is recognized by both sending and receiving countries as an explicit feature of the political economy of the region, whereby both the political and the economic dimensions are given equal weight.

Sixth, these perceptions in policymaking circles are maintained by economic imperatives; the supply and demand for labor generate an underlying rationale that places pressures on policy responses to regulate and facilitate the movement of labor.

Together, these six characteristics of migration in the Middle East generate a pattern of movement that is distinctive to the types of economies in the region. The interdependence of economic and political factors shapes the new labor movements and may, in turn, transform both the politics and the economics of the area in what can only have profound consequences. Cultural similarities contribute to these patterns, but are not determinant in their influence. The costs and benefits of this migration have been examined elsewhere.<sup>8</sup> In many cases, the interstate migrants are more skilled, more educated, and more politicized than the local population. In addition, they command a monopoly of the skilled jobs. For this reason, they are increasingly perceived as potentially threatening to the established political order.

To a great degree, regional flows are determined by individual responses to economic and social incentives, yet shaped by political constraints. Economic incentives, such as higher wages and greater employment opportunities, are modulated by social incentives such as better quality of life, greater access to social services, and better prospects for social mobility. Political constraints on migration include new, direct governmental controls, encouraging or impeding movement as the case may be, the use of immigration laws as a foreign policy instrument, and the use of tax policies as a means of encouraging or hindering labor mobility.

The new migration in the Middle East is dominated by the movement of Egyptians to other Arab countries, motivated largely by economic incentives. Egypt has long provided the technocracy of the Middle East, exporting professional manpower and, more recently, relatively unskilled workers as well. Egyptian teachers, engineers, lawyers, doctors, and the like have migrated to other Arab countries in search of better opportunities. They have formed the backbone of the professional communities in Libya, Kuwait, Saudi Arabia, and the other Arab states in the Gulf area. It is not the

<sup>7</sup> See Choucri, "The New Migration in the Middle East", *International Migration Review*, 1977.

<sup>8</sup> Nazli Choucri, Richard S. Eckaus and Amr Mohie-Eldine. *Migration and Employment in the Construction Sector: Critical Factors in Egyptian Development* (M.I.T.: Technology Adaptation Program, October 1978) with respect to the construction sector in Egypt.

fact of Egyptian emigration that is novel, but its extent, rate of increase, and role in the economies of the recipient countries.

In the past, Egyptians who moved to other Arab lands went largely to Libya and to the Sudan. They were often skilled, yet represented only a small and relatively unimportant fraction of the labor force. There were also skilled Egyptians working in the Arabian Peninsula and the Gulf region for many years, but again the numbers have been small until recently. For example, in 1965, the census of Kuwait reported 11,021 Egyptians, compared to 500,000 Kuwaitis. In 1975, census reports placed this figure at 60,534.

It was not until the war of 1973 that a marked and accelerated increase in Egyptian migration took place. Although precise figures are not available, educated guesses of total migrant workers range from 250-600,000, and possibly as high as 1 million or 10 percent of Egypt's total labor force. The 1976 census estimates that there were 1.425 million Egyptians abroad, including dependents, during that year. Table 3 presents alternative estimates of the distribution of Egyptian workers in other Arab countries.<sup>9</sup>

In Kuwait, as well as Bahrian, Qatar and Saudi Arabia, it is government policy to plan for the eventual takeover of all alien jobs by nationals. It is difficult to envisage at this point how the transition could be accomplished without substantial dislocation, particularly in view of the politicization and potential mobilization of the migrant population. The Kuwaiti government has long been concerned with finding a means of promoting national development without substantially changing the nature of the political community or the privileged position of its citizens—and the issue of migration is of high political salience. But this predicament is not that of Kuwait alone; it is typical of those Arab states where professional, technically skilled manpower is the single scarcest resource.

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<sup>9</sup> Nazli Choucri. *Labor Transfers in the Arab World: Growing Interdependence in the Construction Sector* (M.I.T.: Center for International Studies, 1979).

TABLE 3.—ALTERNATIVE ESTIMATES OF EGYPTIAN MIGRATION TO OTHER ARAB COUNTRIES

| Destination        | International migration project (1), Egyptians |                      | International migration project (2) |            | MIT migration project |            | Al-Ahram         |            |
|--------------------|--|----------------------|-------------------------------------|------------|-----------------------|------------|------------------|------------|
|                    | Number <sup>1</sup>                            | Percent <sup>2</sup> | Number                              | Percent    | Number                | Percent    | Number           | Percent    |
| Libya .....        | 229,500  | 59.6                 | 336,000                             | 59.6       | 596,000               | 59.6       | 500,000          | 35.9       |
| Saudi Arabia ..... | 95,000   | 20.4                 | 122,400                             | 20.4       | 204,000               | 20.4       | 500,000          | 35.9       |
| Kuwait .....       | 37,558   | 9.5                  | 57,000                              | 9.5        | 95,000                | 9.5        | 150,000          | 10.8       |
| UAE .....          | 12,500   | 3.1                  | 18,600                              | 3.1        | 31,000                | 3.1        | 150,000          | 10.8       |
| Qatar .....        | 12,200   | 3.0                  | 18,000                              | 3.0        | 30,000                | 3.0        | 15,000           | 1.1        |
| Bahrain .....      | 2,500  | .6                   | 3,600                               | .6         | 6,000                 | .6         | .....            | .....      |
| Oman .....         | 1,500  | .4                   | 2,400                               | .4         | 4,000                 | .4         | .....            | .....      |
| Other .....        | 13,150   | 10.4                 | 62,400                              | 10.4       | 104,000               | 10.4       | 75,000           | 5.4        |
| <b>Total .....</b> | <b>403,908</b>                                 | <b>100</b>           | <b>600,000</b>                      | <b>100</b> | <b>1,000,000</b>      | <b>100</b> | <b>1,390,000</b> | <b>100</b> |

<sup>1</sup> When a range of numbers was provided, we used the median of the range as our estimate.

<sup>2</sup> These are the percentages provided by the International Migration Project. We applied the same percentages to other estimates of the total number of Egyptian migrants to get a country by country breakdown.

Sources: "International Migration Project"—J. S. Birks and C. A. Sinclair, Codirectors and Principal Researchers, "International Migration Project Country Case Study: Arab Republic of Egypt," International Migration Project, University of Durham, March 1978.

"MIT Migration Project"—Nazli Choucri, Richard S. Eckaus and Amr Mohie-Eldine, "Migration and Employment in the Construction Sector: Critical Factors in Egyptian Development," (MIT: Technology Adaptation Program, 1978).

"Al-Ahram"—"Al-Ahram," September 18, 1978.

Egypt's position as a major donor to other Arab states is due to a particular mix of supply and demand relationships.<sup>10</sup> On the supply side, three factors stand out. First is an extensive Egyptian infrastructure that produces a large number of university graduates every year. Second are the limited domestic opportunities for the employment of these graduates. Third is the resulting pool of employable manpower that is not absorbed by the internal workforce. These factors are reinforced by the social equity programs of the government and its commitment to the expansion of the country's educational base irrespective of employment opportunities.

On the demand side, the most important factors are the economic incentives in the Arab states that have provided the transitional motivations for emigration. These were reinforced by the petroleum crisis of October 1973, with the attendant price increases and the generation of surplus revenue enabling the oil-rich states to pay high wages. The formulation, often hasty, of elaborate development programs that called for mass reliance on imported labor provided a clear economic rationale for emigration.

The demand for Egyptian manpower is further reinforced by the longstanding role of Egyptians as mediators between Western technology and Arab requirements. A two-step flow of technology transfer in the Middle East has evolved during the past twenty years, channeling flows from the industrial states to Egypt and from Egypt to the other Arab countries. The brokerage role of Egyptians in technological transfers was reinforced once more by the increase demand for Western technology in the oil-rich states following the rise in petroleum prices.

In addition, some non-economic factors further affect the demands for Egyptian labor. In the area of manpower, Egypt's advan-

<sup>10</sup> Nazli Choucri, *Migration Processes Among Developing Countries* (M.I.T.: Center for International Studies, May 1978).

tage lies in the cultural similarity that reduces the difficulties of accommodation and adaptation to an alien environment. Although other Arab states import labor from elsewhere, most notably Iran, Pakistan, and India, Egyptian labor is clearly more desirable. So, too, the country's traditional role of political leadership in the Middle East is undoubtedly an important sociological consideration contributing to the demand for Egyptian labor. Egypt has long set the lines of regional policy, shaping ideological debates and serving as the hub of communication throughout the Arab world. Closely related is Egypt's position as cultural leader in the region, serving the educational requirements of all other Arab states.

The flow of manpower, however, is only partly determined by the supply of Egyptians and the demand in other Arab states. Migration has become, for both donor and recipient, an indirect and often inadvertent instrument of foreign policy. Regional politics and migration patterns are inextricably intertwined. Times of poor relations among the Arabs are reflected in the decline of migration; occasional inter-Arab detentes accelerate the flows. For example, the large-scale migration of Egyptians to Libya during 1069-73 and again in 1975-76 coincided with the period of closest Libyan-Egyptian economic and political cooperation. Since 1973, the issue of migrant workers has been used for political leverage by both Egypt and Libya. Periodic conflicts between the two countries have drawn attention to the importance of labor movements for both.

In the Middle East, political objectives have long dominated economic priorities and shaped economic policies.<sup>11</sup> Should migration be explicitly regarded as a political weapon, the volume of Egyptian workers in Arab countries would become a serious foreign policy issue for all states in the region.

The countries of the Middle East have uniformly recognized the interdependence, possibly to mutual advantage, generated by their respective demographic and economic characteristics. A general, though relatively unarticulated, awareness exists that the demographic structure of Middle East countries has contributed to set patterns of interstate migration. This migration provides the basis for economic cooperation and for the development of joint policies for the management of manpower requirements and for development planning. Increasingly, the development plans of one country are affected by the population, migration, and manpower policies of the other countries. National policies designed to influence demographic characteristics will invariably have regional implications.

## V. POLITICAL IMPLICATIONS AND POLICY ALTERNATIVES

The patterns of migration described in the previous section of this paper provide some clues for generating an initial assessment of possible policy interventions on both sides of the flow. Migration processes among developing countries are sufficiently distinctive that policy "importation"—from other patterns of migration—can only be a point of departure in any assessment of policy options.<sup>12</sup>

Typically, governments have found it difficult to regulate rural/urban migration. The incentives for movement virtually all work

<sup>11</sup> Nazli Choucri (with Vincent Ferraro). *The International Politics of Energy Interdependence*. (Lexington, Mass.: D.C. Heath, 1976).

<sup>12</sup> Choucri, *Migration Processes Among Developing Countries*, 1978.

in the direction of the city. Therefore, unless concerted efforts are made to enhance employment opportunities in rural areas or to equalize wages between rural and urban centers, cityward movements in the Middle East will not abate and may continue to be a prime source of labor for foreign destinations. Efforts to develop alternative urban centers and to "redistribute" population are still in the blueprint state.

The most well documented forms of migration of unskilled and semiskilled workers (e.g., Mexican, Turks, Yugoslavs, Algerians, and Portuguese) provide better insights into sets of appropriate policy interventions for regulating population movements among the countries of the Arab world. The Turks have opted for a "rotating" principle, whereby groups of workers are sent to Europe and are expected to return.<sup>13</sup> They are viewed as "guests" by the receiving country. At one point, Algerians opted for a similar approach, yet sought to integrate their migration policies more closely with their overall relations with France.<sup>14</sup>

To a large extent, the present patterns of policy intervention in the Middle East reveal similar features. Egypt officially supplies certain categories of workers to other Arab countries and, in turn, contributes to the setting of conditions for their employment. Egyptian nationals are not viewed as "guests", in accordance with the Arab predisposition to regard the citizens of the individual states as "brothers".<sup>15</sup>

Policy interventions for regulating illegal migration are less salient to the Middle East today since, with few exceptions, movements are legal and those that are not remain unpublicized lest they embarrass any of the Arab governments. Many states in the region maintain officially that there ought not to be any barriers to migration among Arab states. Only Iraq adheres to this policy, though. In fact, there are strong barriers, most notably in the Gulf countries.

Finally, there are the responses to refugees. Since the Palestinians constitute a high portion of the total population of Kuwait, Jordan and, to a lesser extent, Lebanon, the refugee issue has always been of concern to all Arab governments. Naturalization of the Palestinians has been a policy only in Jordan and, to a much lesser extent, in Kuwait. In many other Arab countries, the Palestinians are considered primarily as nationals in their own right. At the present time, the predisposition in the Middle East is not to distinguish between policies designed to regulate the movements of labor and those directed specifically to regulating the flow of refugees. The disposition now, unlike the early 1950's, is to focus on nationals and view the Palestinians as nationals of a state to be.

Relative to other Arab states, Egypt is a developed country, sending its skilled manpower in other Arab countries of the region. Egypt officially takes pride in this role of "technical assistance" which is frequently mentioned in governmental reports on manpower problems in Egypt and in the Middle East. However, there are political costs associated with this posture and other countries

<sup>13</sup> Suzanne Paine. *Exporting Workers: The Turkish Case* (Cambridge: Cambridge University Press, 1974).

<sup>14</sup> Adler, *Migration and International Relations*, 1977.

<sup>15</sup> The Egyptian Ministry of Labor is concerned with the working conditions of emigrant and attempts to prevent exploitation by contractors.

in the region have accused Egypt of "imperialism". Such accusations have periodically led to a reconsideration of the country's migration policies and their political consequences.

The fundamental changes in regional policies, characterized by a movement from ideological politics to pragmatic stances and by Egypt's willingness to relinquish a position of dominance in the Arab world, contributed to the reduction in inter-Arab hostilities.<sup>16</sup> The Sadat regime liberalized domestic politics and, following the 1973 war, proclaimed an "open door" policy. To the Egyptians, it signified not only the possibilities of foreign investment in Egypt, but prospects for Egyptian migration abroad. In contrast to emigration restrictions in the earlier years, the new Sadat migration policy has become singularly "open". In effect, Egypt argued for an appreciation of the new leverages associated with oil revenues and recognized the consequences of alienating the oil-rich states by pursuing the old Nasser strategy of Egyptian dominance. By accepting, even arguing for, a new role in Arab politics before the Egyptian-Israeli peace treaty was signed, Sadat allayed his neighbors' suspicions and, more important, indirectly reaffirmed Egypt's cultural and political importance to the other states in the region. As of now, it is too early to tell what trends will develop as a result of the treaties.

This shift in *realpolitik* has had significant effects upon patterns of migration throughout the region. The demand of other Arab states for skilled manpower could not be met by the outflow of Egyptians without immediate political obstacles being interposed. In short, while the increase in petroleum prices and attendant growth in surplus revenues of the oil-rich states resulted in an immediate growth in demand for skilled Egyptians, the ability of the Sadat government to convince neighboring Arab states of its benign political intent was undoubtedly the most important factor directly responsible for increased migration. Other than an occasional recognition of the potential importance of Egypt's manpower as a national resource, its workers have usually been ignored. There are signs of change. In 1974 and 1976, the government signed labor protocols and agreements with Qatar, Greece and the Sudan governing conditions for the exportation of Egyptian labor. But aside from these agreements and a set of ad hoc procedures with other Arab countries, Egypt still has no concerted migration policy.

Egyptians tend to move for short periods. Existing rules and regulations are such that they reinforce short durations. Should these change, it is likely to be largely in response to economic pressures in Arab states, not to political pressure exerted by the government of Egypt. In addition to the Palestinians, Egyptian manpower comprises the backbone of the educated personnel in the Arab countries of the Gulf area. These trends persist. However, unskilled workers have also been migrating to the Gulf. To the extent that such flows persist, they may well constitute a net drain on Egyptian manpower resources at some levels, one that might impact upon the skilled and perhaps the unskilled components of the labor force.

<sup>16</sup> See Chapter 4 of Choucri, *International Politics of Energy Interdependence*, 1976; and Nazli Choucri, *Continuity and Change in Egyptian Politics* (unpublished manuscript).

The growing interdependence among the countries of the Middle East, generated in large part by the increasing flow of Egyptian labor, has created a situation where the search for mutually beneficial policies is becoming more salient. From the donor's perspective, at least four policy options emerge, with varying implications for the recipients.<sup>17</sup>

First is the policy of levying a tax on individual migrant earnings. This possibility has been suggested in various circles, but never seriously entertained either in the Middle East or elsewhere. The difficulties of raising and collecting such a tax are extensive, given the problems of control, monitoring migrant earnings, and devising means of extraction. Further, such a tax would produce the same macroeconomic effects as capturing remittances.

Second is a bilateral state-based agreement which would entail an overall charge from the Egyptian government to recipient countries for the employment of migration, its duration, the tax structure of the recipient countries, and possibly the value of remittances.

A third possibility is to develop a consortium of major interests or parties participating in the flow of manpower by industry, activity, or occupation, and to devise exchange policies to be agreed upon, and implemented, at the state level.

A fourth policy option is to formulate a barrier function on the basis of international rules and regulations that establishes state-based contributions to manpower development on a regional basis. In this event, all participating countries in the Middle East will become involved in devising the means and procedure of exchange.

Options two, three, and four place the migration issue in an interdependence context and seek to employ labor movements as the focal point of an overall exchange among the countries of the Middle East. That exchange would be designed to enable each country to capitalize on its respective characteristics in the broad political economy of the region. The guiding principle for defining the nature of such an exchange is the following: to find a procedure for channeling national resources to support services that benefit the region directly or indirectly without jeopardizing national objectives. The underlying precept is to tax human capital movement and to organize physical capital flows so as to affect and/or maintain human capital flows. This tax thus represents only that part of an overall exchange framework that pertains to manpower flows.

From the exporters' point of view, the major incentive for such an exchange perspective—as opposed to a policy taxing the earnings of individual migrants or a policy of ignoring the migrants—is to protect its position of labor advantage. The importance of Egyptian knowledge and skills in the area may be of short duration unless attendant educational and other relevant institutions are expanded effectively. Unless that role is protected and utilized as a national resource, its usefulness for developmental purposes will be short-lived.

Discernible migration-controlling policies are now apparent in the recipient countries. The posture of the Arab states importing

<sup>17</sup> Choucri, "The New Migration in the Middle East," 1977; and Choucri, *Migration Processes Among Developing Countries*, 1978.

manpower has been one of dependence upon the Egyptians and other nationals, coupled with caution at times bordering on suspicion, if not hostility. Kuwait, for example, has effectively segregated its citizens from the alien population, and it has developed an intricate system of regulations to safeguard this segregation. To the extent that immediate "solutions" lie in separating the alien workforce and preventing its effective integration into the body politic, a two-class system will be consolidated leaving the migrant population essentially politically disadvantaged in their host countries. In short, what the other Arab states will do will inevitably affect the Egyptians. Similarly, Egyptian politics may well have reverberating effects. Again in these questions, the effects of the Israeli-Egyptians treaty remain incalculable for the movement.

Policymakers in the labor-importing countries are intuitively aware of the social, economic, and political implications of the demographic structure of the country, and good statistics are kept; yet there is an insufficient appreciation of the effects of restrictive or, alternatively, expansionary migration policies. Indeed, the contradiction between the country's avowed commitment of resources for Arab development and the restriction of Arab workers is not fully understood. The persistence of conflicting objectives, such as rapid economic development and manpower self-sufficiency, highlights the problems generated by alien workers in Kuwait. The Kuwait predicament is shared by other Arab countries that depend upon citizens of other countries for their professional manpower.

The dilemma of the government of Kuwait is to find a means of promoting national development without substantially changing the nature of the political community and the underlying demographic characteristics of the society. Professional manpower remains the scarcest resource. In confronting this dilemma, the government can adopt several alternative strategies. Among these are: (i) Placing a ceiling on the number of migrants; (ii) placing restrictions on the composition of the migrant population (in terms of country of origin, ethnic composition, linguistic dominance, etc.) so as to maintain the dominance of the Kuwait population; (iii) rendering preferential treatment to the Arab immigrants rather than to non-Arabs, such as Indians or Pakistanis, who today represent a sizable proportion of the migrant population; or (iv) rendering preferential treatment to non-Arab immigrants, in that they might be perceived as less threatening to Kuwaiti hegemony. There are other policy options as well.

Each of these potential strategies would require legal instruments on the issues of citizenship, employment opportunities, property ownership, housing, and so forth. They would involve constitutional questions, particularly on the issue of immigration from other Arab countries. Kuwait, like other Arab states of the region, regards itself as part of the larger Arab nation. Presently, the naturalization regulations for Arab immigrants are easier than for non-Arabs. What would Kuwait do if it decided to reduce the Arab component of its immigrant population? What would be the impact on the donor countries (most notably Egypt)?

The current political structure in Kuwait (a sheikdom) is based on a traditional, hierarchical ordering of society and, as a result, is freed of many of the ideological difficulties of denying citizenship

to about half the total population. Under the present system, citizen participation in government is limited. Citizenship is granted on the basis of value to the state and is limited to about 50 foreigners per year, although attempts are underway to permit certain categories of foreigners to acquire permanent residence. Policies designed to manipulate the flow of population and policies designed to respond to these flows will undoubtedly remain at the forefront of governmental concerns for years to come. In view of the magnitude of dependence on foreign labor, any policy changes in Kuwait will invariably affect the neighboring countries, particularly Egypt, Jordan, and Lebanon. But they will also affect the United Arab Emirates which rely heavily upon Kuwaitis for their educational system.

From a regional perspective, taking into account the consensus of both exporter and importer countries, a critical policy issue is that of skill redistribution. Since skilled (or professional) labor does not generally leave the area (they simply migrate to another part of the Middle East), the problems of the "brain drain" may not arise in the conventional guise.<sup>18</sup> There may be other effects at work that may be to the advantage (or disadvantage) of donor and recipient alike. These, as yet, have not been identified, nor addressed in systematic analyses of population movements in the region.

This situation points out the need for a careful assessment of the implications of interstate migration (and policies toward migration) for development planning in the Middle East. In terms of national development policies particularly, all these countries are deeply affected by the structure of their labor force. Patterns of migration are emerging as important parameters in economic equations, with accompanying political ramifications. Where manpower needs and manpower resources are so closely intertwined, often appearing in the nature of symbiotic relationships between donor and recipient countries, any sharp change in the migration or population policies of one state will have reverberating effects on its other social policies, and upon the other states as well. The patterns of interstate population movement in the Middle East appear such that a seemingly stable equilibrium could be readily disrupted. Such disruptions may have important and potentially unsettling effects upon other aspects of development planning for all countries in the region. The critical policy issue for the future, therefore, is devising equitable means of labor exchanges and transfers of skills across national boundaries.<sup>19</sup>

## VI. CONCLUSION

Labor migration in the Middle East is creating new bargaining power for all countries involved. How that power is used will not only have national implications, but regional implications as well. To fully appreciate the demand thus placed upon all governments, it is important to understand the characteristic features of such movements, the interdependence imbedded in the structure of migration among these countries, and the basic policy options available to donors and recipients.

<sup>18</sup> Jagdish N. Bhagwati and Martin Partington (eds.) *Taxing the Brain Drain: A Proposal* (Amsterdam: North-Holland Publishing Company, 1976).

<sup>19</sup> Choucri, *Labor Transfers in the Arab World*, 1979.

Migration among the countries of the Middle East is created by the political economy of the region and, in turn, will generate greater interdependence among sending and receiving communities. The policy options adopted by each must be coordinated such that the costs and benefits of population movement will be equitably distributed. The exchanges are complex, and any unilateral interventions may result in greater costs than benefits. All countries in the Arab world are beginning to appreciate the prospects of common gain from regulated access to the region's labor force. This appreciation is a necessary step toward the development of a more viable exchange.

From the perspective of the region as a whole, the major incentive for such an exchange is the possibility of encouraging short- and long-term skill redistribution in the region. Planning for technological change may be facilitated with the assurance of orderly access to regional skills. Such an exchange will facilitate the ordered channeling of the existing two-step flow of the transfer of technology in the Middle East—from the advanced industrial states to Egypt and from Egypt to other Arab countries—and will lead to more rational approaches to the utilization of existing skills for national growth and regional development. However, all of the preceding factors, in the short run at least, will be influenced in ways not immediately clear by the Treaty between Israel and Egypt.

# AN OVERVIEW OF REAL ECONOMIC DEVELOPMENT IN THE MIDDLE EAST

By R. S. Eckaus\*

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## I. INTRODUCTION <sup>1</sup>

The Middle East is a region of developing countries. Only by the crudest statistical standard of average income do any of the countries, and even then only few, give the superficial appearance of having achieved an advanced level of development. By nearly all other criteria, with only a single exception, the countries of the region show to different degrees the characteristic features of lack of development. These include, for example, heavy dependence on agriculture, oil or some other primary commodity as the major source of domestic income and foreign exchange revenues, low levels of industrialization, lack of infra-structure, widespread dependence on backward technologies, low levels of literacy and health care and limited degrees of political participation. The conditions are obviously characteristic of the non-oil exporting coun-

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<sup>1</sup> Inasmuch as a number of dimensions of economic development in the Middle East have been covered in other papers in this compendium, this survey is restricted to real economic changes as revealed by aggregate or moderately disaggregated data for those countries for which such information exists.

tries with the exception of Israel and are found as well in the oil exporting countries, despite the recent dramatic increases in their oil revenues and foreign exchange reserves and consequent growth in world wide economic significance. Thus recent economic progress in the Middle East and the prospective future, even for the "oil-rich" nations, must be judged as for developing countries.

The conventional view of the Middle East is dominated now by the oil exporting nations who have played such an important role in world economic events in recent years. Their oil revenues have also had a powerful influence on regional economic developments with their specific influences depending on their domestic economic programs, their differing political interactions, their size and their human resources. Yet there are many different economic patterns in the countries of the region. The "Middle East" is more than a geographical cliché but it contains countries of such diversity that it is necessary to guard constantly against unwarranted generalizations. A complete assessment of regional economic change since 1973 would require an appreciation of all the fundamental influences which have been operating in the Middle East in each country and their transmission among countries. Since major aspects of this task have been dealt with elsewhere, this paper will concentrate on reviewing real developments within the major countries of the region in order to arrive at an assessment of their overall performance.<sup>2</sup>

The next section will review the patterns of aggregate growth. Section III will survey the changes in total resources used for private and public consumption and for investment and Section IV will assess the evidence on the transformation of the structure of productive activity in the various countries. The international viability of the countries and the sources of the saving which sustains their investment will be investigated in Section V. Some overall conclusions will be presented in Section VI. Since it was not possible to obtain a consistent set of data for the smaller countries of the Arab peninsula or even to bring together, within the time available, enough information for a comprehensive view, these countries have been omitted from this review. Some partial indicators have been provided elsewhere.<sup>3</sup>

## II. OVERALL OUTPUT PATTERNS

The wide range of levels of output and income per head which exist in the Middle East is illustrated in Table 1 which lists the levels and growth rates of gross national product and gross national product per capita for the various countries. Within the region the variation in per capita income levels is almost as wide as on the entire globe. The region includes the country with the highest per capita income in the world but there is no country at the lowest levels of average income as found in some developing countries. However, the per capita gross national product of the Sudan, the Yemen People's Democratic Republic, Egypt and the Yemen Arab Republic are all so small that the conclusion is unavoidable that a substantial fraction of the populations in these countries

<sup>2</sup> Charles Issawi, "Economic Trends in the Middle East and Future Prospects."

<sup>3</sup> Ibid.

must live at per capita income levels as low as anywhere in the world. These contrasts demonstrate in a dramatic manner the heterogeneity of the region.

Another striking fact emerges from inspection of the per capita GNP levels in Table 1: the differences between the oil exporting and the non-oil exporting nations while on the whole quite clear at the extremes, fade, somewhat at the margins. That is, there are non-oil exporting countries which compare favorably in their levels and growth rates of gross national product per capita with some oil exporting countries. This suggests that oil wealth, while no doubt of great importance, is not a necessary condition for development within the region. Israel's per capita GNP is above that of a number of oil exporting countries; indeed Israel cannot be considered a developing country as are all the rest. In addition, prior to its internal strife, Lebanon has a level of per capita GNP which exceeded that of a number of oil exporting countries and the GNP per capita of Turkey and Tunisia are close to that of Algeria, the lowest ranking of the oil exporting countries on this scale.

TABLE 1.—GROSS NATIONAL PRODUCT PER CAPITA, LEVELS AND GROWTH RATES

| (1)                         | Per capita<br>1976 <sup>a</sup><br>(U.S. dollars) | 1970-76 growth rates<br>(percent) <sup>a</sup> |            | 1960-76<br>growth rate<br>per capita <sup>1</sup> |
|-----------------------------|---|--|------------|---|
|                             |   | Total  | Per capita |   |
|                             | (2)   | (3)  | (4)        | (5)   |
| Oil exporting countries:    |   |  |            |   |
| Kuwait .....                | 15,480  | 4.9  | -1.1       | -3.0  |
| Libya .....                 | 6,310   | 8.7  | 4.4        | 10.2  |
| Saudi Arabia .....          | 4,480   | 8.0  | 4.2        | 7.0   |
| Oman .....                  | 2,402   | 12.0   | 8.4        | .....   |
| Iran .....                  | 1,930   | 11.5   | 8.5        | 7.6   |
| Iraq .....                  | 1,390   | 10.4   | 6.8        | 3.6   |
| Algeria .....               | 990   | 6.0  | 2.7        | 1.7   |
| Nonoil exporting countries: |   |  |            |   |
| Israel .....                | 3,920   | 6.0  | 2.8        | 4.4   |
| Lebanon <sup>a</sup> .....  | 2,382   | 8.3  | 5.2        | 3.1   |
| Turkey .....                | 990   | 7.9  | 5.3        | 3.9   |
| Tunisia .....               | 840   | 10.1   | 7.5        | 4.1   |
| Syria .....                 | 780   | 6.1  | 2.8        | 2.2   |
| Jordan .....                | 610   | 8.0  | 4.7        | 1.6   |
| Morocco .....               | 540   | 6.0  | 3.4        | 2.1   |
| Sudan .....                 | 290   | 5.7  | 3.5        | 0.4   |
| Yemen PDR .....             | 280   | -1.0   | -3.7       | -6.3  |
| Egypt .....                 | 280   | 5.7  | 3.1        | 1.9   |
| Yemen Arab Republic .....   | 250   | .....  | .....      | .....   |

<sup>a</sup> Source: IBRD, "World Development Report," 1978, Washington, D.C.

<sup>a</sup> Source: IBRD, "Economic Data Sheet," 1978.

<sup>1</sup> Levels and growth rates calculated to 1974.

The period from 1973 to the present which will be examined in detail includes a number of events of major economic significance: the rapid increase in oil prices in 1973-74, a regional war, a world wide recession and an uneven recovery, and major changes in foreign and domestic policy in a number of countries. Thus it is useful to start with an overall view of development in the region. The growth rates for per capita gross national product for the

period 1960-76 for the separate countries are listed in column (5) Table 1. It should be kept in mind that the average annual growth rate for this period for all "middle income" developing countries, the IBRD category into which all but a few of the countries of the region fall, was 2.8 percent. Thus, about one half of the Middle East countries did better than this world average and about one half did worse. The latter include two of the oil exporting countries. In these two, Kuwait and Algeria, their total gross national product climbed more rapidly. However, in the case of Kuwait, a rapid rate of growth of population, mainly from immigration, and in Algeria, a high rate of factor payments abroad held down the growth of their per capita gross national products. The lower than average performance of many of the non-oil exporting countries reflects high rates of internal population growth but also slower than average overall economic growth.

Between 1970 and 1976 the patterns changed somewhat. The performance in this period of the non-oil exporting countries of the region compares favorably with the roughly 3 percent average for all developing countries, with only few exceptions. The growth of the oil-exporting nations continued to be uneven. Kuwait continues to show the impact of large scale immigration and the slow growth pattern of Algeria persists as well.

In terms of growth of total gross national product the countries of the Middle East on the whole did somewhat better than the roughly 6 percent average for all developing countries, as shown in column (3) of Table 1.

One of the striking suggestions of the comparisons of Table 1 is that the events of 1973 and after did not act uniformly to improve the real per capita growth performance of the oil exporting countries. But those events did rather uniformly generate faster growth in the non-oil producing countries of the region.

TABLE 2.—GROSS NATIONAL PRODUCT; GROWTH RATES (CONSTANT PRICES)<sup>1</sup>

|                             | 1976-75 | 1975-74 | 1974-73 | 1973-70 | 1970-60           | 1970-60            |
|-----------------------------|---------|---------|---------|---------|-------------------|--------------------|
| Oil exporting countries:    |         |         |         |         |                   |                    |
| Kuwait.....                 | 0.145   | 0.328   | 0.139   | -0.083  | 0.075             | <sup>2</sup> 0.085 |
| Libya.....                  | .126    | .205    | .257    | -.012   | .202              | (*)                |
| Saudi Arabia.....           | .102    | .228    | -.132   | .105    | <sup>3</sup> .103 | (*)                |
| Iran.....                   | .138    | .042    | .102    | .138    | .103              | (*)                |
| Iraq.....                   | .092    | .245    | .022    | .092    | .064              | .099               |
| Algeria.....                | .095    | .066    | .005    | .065    | .013              | .081               |
| Oman.....                   | .165    | .356    | .318    | -.018   | .150              | (*)                |
| Nonoil-exporting countries: |         |         |         |         |                   |                    |
| Israel.....                 | .012    | -.004   | .080    | .093    | .089              | .114               |
| Lebanon.....                | (*)     | (*)     | .070    | .087    | .050              | .034               |
| Turkey.....                 | .081    | .080    | .074    | .080    | .059              | .063               |
| Tunisia.....                | .113    | .092    | .098    | .101    | <sup>4</sup> .045 | (*)                |
| Syria.....                  | .065    | .155    | -.016   | .057    | .066              | .034               |
| Jordan.....                 | .312    | -.060   | .105    | .053    | .060              | .092               |
| Morocco.....                | .098    | .015    | .112    | .046    | .039              | .016               |
| Sudan.....                  | .058    | .019    | .130    | .046    | .012              | <sup>5</sup> .037  |
| Yemen PDR.....              | .094    | .078    | .021    | -.079   | (*)               | (*)                |
| Egypt.....                  | .090    | .085    | .015    | .050    | .045              | .034               |

<sup>1</sup> Source: IBRD "Economic Data Sheets," 1978.

<sup>2</sup> 1955-60.

<sup>3</sup> 1963-70.

<sup>4</sup> 1961-70.

<sup>5</sup> 1955-60.

\* Not available.

A year-by-year examination of overall growth patterns for the period from 1973 to 1976 is shown in Table 2. This reveals a number of detailed characteristics of the growth patterns. The impact of the disruption of oil exports in 1973 was felt most obviously and immediately among the oil exporting countries by Kuwait, Libya and Oman. In these countries the total gross national product fell from 1970 to 1973. But these very countries were not hit so hard by the subsequent world depression and relative declines in demand for oil as were the other oil exporting countries. The year 1975 had the fastest real growth for most of the oil exporting countries. By 1976 the real growth rates had been reduced by one half or more from their peak in all the oil exporting countries except Algeria. Thus the "economic miracle" of oil production and export had already begun to pass by 1976 and a process of high, but not extraordinary growth began to be established.

The overall record of the non-oil exporting countries of the Middle East since 1973 is more varied. The gross national product of the People's Democratic Republic of Yemen actually fell from 1970 to 1973. In five of the other non-oil exporting countries there had been growth from 1970 to 1973 at about 5 percent per annum or more. The growth rates were substantially higher than this in Israel, Lebanon, and Turkey and in Tunisia which almost doubled that figure. The effect of the military conflict in 1973 in the region is shown in the low or even negative growth rates from 1973 to 1974 of the countries most actively involved indicating the economic disruption and reallocation of resources which were generated. However, those countries not actively involved in the conflict maintained substantial growth. Yet the growth rates in the latter countries declined subsequently, reflecting in some degree the worldwide recession of 1974-75. The subsequent recoveries often reflect changes in internal policy rather than foreign influences. This appears to be the case in both Egypt and Syria, whose growth in 1974 is particularly striking, as is the steady pace of overall Tunisian advancement. By 1976, the growth patterns had returned to those existing prior to the events of 1973 with some striking exceptions again. Israeli growth had slowed but growth in Jordan, Morocco, the Yemen People's Democratic Republic and Egypt accelerated sharply.

Levels and growth rates of per capita gross national product measured in constant prices are presented in Table 3 and show the influence of population growth, both natural and by migration and, thus, reflect important characteristic features of the growth process in some countries. Perhaps the most striking examples of this are the negative rates calculated for some of the countries for various periods. These are often due to real declines in gross national product resulting from disruption of oil exports, conflict or world recession. However, in a number of cases the declines in per capita gross national product are associated with high rates of immigration. The growth patterns for Kuwait show this effect most clearly. From 1960 to 1970 the average annual growth rate of total real gross national product was about 7 percent, certainly a respectable achievement. However, in order to do this well, it seems to have been necessary to have such a high rate of immigration that the real per capita growth rate was actually negative. The

characteristics of this migration are described elsewhere and will not be discussed here.<sup>4</sup> At this point, it is useful to emphasize that, in effect, the immigration into the oil exporting countries has been breaking the bottleneck of scarce labor resources. The effect has been to contribute to raising overall gross national product, though per capita GNP may have fallen. And what is true so obviously of Kuwait is true as well, but not revealed in such a dramatic fashion, in other countries receiving migration.

The numbers also indicate the distorted impressions that can be associated with an average. Although income distribution figures are not available, it would be difficult to believe that the per capita incomes of the nationals of the oil exporting countries in the upper part of the income scale have either fallen or risen more slowly because of the immigration into these countries. Immigrants might compete with domestic wage labor, but presumably, adding immigrants at the low end of the income scale has permitted the rental and profit incomes to rise more rapidly. The latter provide most of the income at the high end of the income distribution scale.

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<sup>4</sup> See N. Choucri, "Democratic Changes in the Middle East: New Factors in Regional Politics," Library of Congress, Congressional Research Service, Compendium, *The Political Economy of the Middle East—Changes Since 1973*, (1979).

TABLE 3.—GROSS NATIONAL PRODUCT PER CAPITA LEVELS AND GROWTH RATES

[Levels in U.S. dollars at constant 1970 prices]<sup>1</sup>

|                                     | 1976  |        | 1975  |        | 1974  |        | 1973  |        | 1970 <sup>2</sup> |        | 1960 <sup>3</sup> |        |
|-------------------------------------|-------|--------|-------|--------|-------|--------|-------|--------|-------------------|--------|-------------------|--------|
|                                     | Level | Growth | Level | Growth | Level | Growth | Level | Growth | Level             | Growth | Level             | Growth |
| <b>Oil exporting countries:</b>     |       |        |       |        |       |        |       |        |                   |        |                   |        |
| Kuwait .....                        | (*)   | 0.081  | 3,115 | 0.250  | 3,074 | 0.061  | 3,091 | -0.133 | 3,220             | -0.021 | 4,051             | -0.016 |
| Libya .....                         | (*)   | .084   | 2,521 | .161   | 2,306 | .203   | 1,860 | -.051  | 1,703             | .156   | 388               | (*)    |
| Saudi Arabia .....                  | 952   | .070   | 893   | .191   | 822   | -.157  | 652   | .073   | 390               | .074   | 242               | (*)    |
| Iran .....                          | 582   | .108   | 545   | .014   | 537   | .072   | 496   | .105   | 364               | .071   | 178               | (*)    |
| Iraq .....                          | (*)   | .058   | 567   | .205   | 483   | -.011  | 466   | .056   | 331               | .031   | 244               | .067   |
| Algeria .....                       | 458   | .062   | 455   | .030   | 418   | -.029  | 456   | .033   | 338               | -.016  | 396               | .058   |
| <b>Non-oil exporting countries:</b> |       |        |       |        |       |        |       |        |                   |        |                   |        |
| Israel .....                        | 958   | -.014  | 1,222 | -.036  | 1,803 | .046   | 1,848 | .060   | 1,866             | .053   | 2,157             | .058   |
| Lebanon .....                       | (*)   | (*)    | (*)   | (*)    | (*)   | .039   | 832   | .056   | 565               | .024   | 461               | .009   |
| Turkey .....                        | 342   | .066   | 371   | .047   | 365   | .049   | 342   | .054   | 359               | .030   | 614               | .037   |
| Tunisia .....                       | 534   | .086   | 525   | .065   | 454   | .072   | 440   | .077   | 282               | .023   | 286               | (*)    |
| Syria .....                         | 312   | .030   | 317   | .117   | 283   | -.046  | 287   | .023   | 268               | .032   | 209               | -.001  |
| Jordan .....                        | 374   | .269   | 277   | -.088  | 349   | .071   | 317   | .020   | 270               | .028   | 205               | .063   |
| Morocco .....                       | 315   | .065   | 323   | -.009  | 302   | .085   | 295   | .022   | 225               | .014   | 196               | -.010  |
| Sudan .....                         | 233   | .036   | 225   | -.003  | 225   | .109   | 203   | .023   | 190               | -.010  | 211               | .021   |
| PDR Yemen .....                     | (*)   | .064   | (*)   | .049   | (*)   | -.006  | (*)   | -.104  | (*)               | (*)    | (*)               | (*)    |
| Egypt .....                         | 280   | .063   | 261   | .060   | 246   | -.009  | 248   | .026   | 209               | .020   | 212               | .010   |

<sup>1</sup> Source: IBRD "Economic Data Sheets", 1978.

<sup>2</sup> 1970-60.

<sup>3</sup> 1970-63.

<sup>4</sup> 1970-61.

<sup>5</sup> 1960-50.

<sup>6</sup> 1960-55.

<sup>7</sup> 1963.

<sup>8</sup> 1961.

<sup>9</sup> 1960-55.

\*Not available.

TABLE 4.—POPULATION GROWTH RATES

|                             | 1973/1965 | 1973/1960 | 1960/1950 |
|-----------------------------|-----------|-----------|-----------|
| Oil exporting countries:    |           |           |           |
| Kuwait.....                 | 0.081     | 0.089     | 0.108     |
| Libya.....                  | .042      | .040      | .037      |
| Saudi Arabia.....           | .028      | .027      | .016      |
| Iran.....                   | .030      | .029      | .028      |
| Iraq.....                   | .033      | .033      | .030      |
| Algeria.....                | .035      | .029      | .021      |
| Oman.....                   | .030      | .030      | (*)       |
| Nonoil exporting countries: |           |           |           |
| Israel.....                 | .030      | .034      | .053      |
| Lebanon.....                | .027      | .027      | .025      |
| Turkey.....                 | .025      | .025      | .028      |
| Tunisia.....                | .023      | .021      | .016      |
| Syria.....                  | .032      | .033      | .036      |
| Jordan.....                 | .034      | .032      | .028      |
| Morocco.....                | .024      | .024      | .026      |
| Sudan.....                  | .022      | .023      | .023      |
| PDR Yemen.....              | .032      | .032      | .026      |
| Egypt.....                  | .024      | .024      | .025      |

\*Not available.

Source: IBRD country data sheets.

As Table 3 indicates, the effects of deflating the countries' gross national product by population growth has the expected effect of deflating the overall achievement.

The recent acceleration of growth rates of total gross national product, which was suggested by the data of Table 1 for the non-oil exporting countries, is confirmed in the detail of Table 3. The growth rates from 1975 to 1976 in most of these countries exceeded that of the most previous years and preliminary evidence seems to suggest that 1976-77 will show a similar pattern.

Population growth rate data are presented separately in Table 4. Because of immigration into the oil exporting countries, this data overstates the natural rate of population growth. And in some of the non-oil exporting countries the emigration may result in an overstatement of population growth. However, since it is not generally the practice for the emigrants to be permanent, they are typically not removed from the population count of the countries of origin and thus do not deflate the latter's natural growth rates. For purposes of comparison it is useful to note that the average rate of population growth from 1970 to 1975 in all middle income developing countries, which includes nearly all of the non-oil exporting countries of the Middle East, was 2.7 percent. This rate was equalled or exceeded by the Yemen People's Democratic Republic, Jordan, Syria, Lebanon and Israel and in none of the non-oil exporting countries was the population growth rate less than 2 percent per annum.

### III. PATTERNS OF AGGREGATE DEMAND AND SOURCES OF GROWTH

It can be particularly misleading to apply to the countries of the Middle East as a group the conventional diagnoses for developing countries of sources of growth and constraints on growth. There

are a number of countries in the region in which, as pointed out elsewhere, the most constraining factor on economic growth has been the availability of labor rather than, as for many of the developing countries of the world, new investment. The binding labor constraint is particularly characteristic of most, though not all, of the oil exporting countries. However, it is true to some extent of a few of the non-oil exporting countries as well. This is partly because the labor shortages of the oil exporting countries have resulted in major withdrawals of critical types of labor from some of the non-oil exporting countries, and, in turn, have created labor constraints there.

Yet, it is still true in the Middle East, as in all developing countries, that it is necessary to have new investment in order for the countries to transform themselves and even to overcome labor shortages. The significance of the relative labor shortages which exist in many countries should be appreciated in part as constraining the rate of investment. Thus, the rates of investment achieved in the Middle East, as in other countries of the world, still provide one of the most significant indicators of success in achieving the transformations necessary in the course of development.

The allocation of resources to private and public consumption also provide revealing insights. Public consumption includes a wide variety of expenditures. Some of them provide public services essential for individual welfare. In many of the Middle East countries, both oil exporting and non-oil exporting, important components of various types of individual consumption are provided directly by governments or subsidized. Expenditures on military manpower and equipment are also included in public consumption and can be another major drain on resources.

TABLE 5.—DISTRIBUTION AND RATES OF GROWTH OF THE USE OF TOTAL RESOURCES FOR PRIVATE AND PUBLIC CONSUMPTION AND INVESTMENT

[In percent]<sup>1</sup>

|                             | 1976                |                    |                  | 1975                |                    |                  | 1974                |                    |                  | 1973 <sup>2</sup>   |                    |                  | 1970 <sup>3</sup>   |                    |                  |
|-----------------------------|---------------------|--------------------|------------------|---------------------|--------------------|------------------|---------------------|--------------------|------------------|---------------------|--------------------|------------------|---------------------|--------------------|------------------|
|                             | Private consumption | Public consumption | Gross investment | Private consumption | Public consumption | Gross investment | Private consumption | Public consumption | Gross investment | Private consumption | Public consumption | Gross investment | Private consumption | Public consumption | Gross investment |
| Oil Exporting countries:    |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |
| Kuwait:                     |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |
| Shares .....                |                     |                    |                  | 39.9                | 39.8               | 20.3             | 40.2                | 40.1               | 19.7             | 41.3                | 38.7               | 20.0             | 44.0                | 36.2               | 19.8             |
| Growth .....                |                     |                    | -12.8            | 18.1                | 18.1               | 23.2             | 7.4                 | 14.3               | 8.5              | 2.4                 | 6.8                | 5.0              | .5                  |                    | 6.3              |
| Libya:                      |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |
| Shares .....                |                     |                    |                  | 39.5                | 36.4               | 24.1             | 43.5                | 30.2               | 26.3             | 44.2                | 26.5               | 29.3             | 51.6                | 28.4               | 20.0             |
| Growth .....                |                     |                    | 21.5             | 3.9                 | 38.1               | 4.6              | 49.3                | 72.6               | 36.2             | 12.6                | 15.8               | 34.7             | *11.6               | *24.1              | *8.5             |
| Saudi Arabia:               |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |
| Shares .....                |                     |                    |                  | 64.7                |                    | 35.3             | 67.7                |                    | 32.3             | 71.1                |                    | 28.9             | 76.8                |                    | 23.2             |
| Growth .....                |                     |                    | 15.0             | 20.1                |                    | 37.3             | 32.5                |                    | 55.5             | 8.5                 |                    | 19.7             | *8.3                |                    | *13.2            |
| Oman:                       |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |
| Shares .....                | 11.3                | 46.3               | 42.4             | 3.8                 | 50.3               | 45.8             | 7.3                 | 36.8               | 55.9             | 24.0                | 37.3               | 38.6             | 41.5                | 27.1               | 31.4             |
| Growth .....                | 210.6               | -4.3               | -3.7             | -30.2               | 85.1               | 11.1             | -28.7               | 130.9              | 239.3            | 7.4                 | 43.2               | 38.0             | *2                  | *100.5             | *6.7             |
| Iran:                       |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |
| Shares .....                | 43.8                | 21.8               | 32.4             | 45.4                | 22.5               | 32.1             | 52.0                | 24.4               | 23.6             | 54.7                | 21.9               | 23.4             | 61.5                | 17.3               | 21.2             |
| Growth .....                | 12.1                | 7.9                | 12.1             | 10.7                | 16.8               | 72.2             | 15.7                | 35.8               | 23.3             | 5.6                 | 18.7               | 13.4             | 9.1                 | 14.1               | 9.7              |
| Iraq:                       |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |
| Shares .....                |                     |                    |                  | 61.6                |                    | 38.4             | 66.6                |                    | 33.4             | 75.5                |                    | 24.5             | 55.8                | 24.9               | 19.3             |
| Growth .....                |                     |                    | 1.3              | 21.4                |                    | 50.7             | 33.5                |                    | 106.6            | 4.0                 |                    | 15.2             | 4.6                 | 7.8                | 3.5              |
| Algeria:                    |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |
| Shares .....                | 44.3                | 13.1               | 42.6             | 40.4                | 13.4               | 46.2             | 40.6                | 13.1               | 46.3             | 49.5                | 12.5               | 38.0             | 41.6                | 20.0               | 33.4             |
| Growth .....                | 14.5                | 1.8                | -3.8             | 10.7                | 14.6               | 11.1             | -7.1                | 18.2               | 37.7             | 22.6                | -1.1               | 15.3             | -8                  | 2.0                | 3.5              |
| Nonoil exporting countries: |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |
| Israel:                     |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |                     |                    |                  |
| Shares .....                | 48.3                | 31.1               | 20.6             | 44.2                | 32.5               | 23.3             | 45.5                | 29.7               | 24.8             | 44.2                | 30.5               | 25.3             | 48.3                | 28.7               | 22.9             |
| Growth .....                | 5.0                 | -8.2               | -14.7            | -1.4                | 10.9               | -5.0             | 8.4                 | 2.6                | 3.3              | 7.8                 | 13.3               | 14.8             | 7.5                 | 15.6               | 8.6              |

|              |      |      |      |       |      |      |       |      |      |      |      |      |       |      |      |      |
|--------------|------|------|------|-------|------|------|-------|------|------|------|------|------|-------|------|------|------|
| Lebanon:     |      |      |      |       |      |      |       |      |      |      |      |      |       |      |      |      |
| Shares ..... |      |      |      |       |      |      |       |      |      |      | 72.4 | 7.8  | 19.3  | 72.7 | 9.9  | 17.4 |
| Growth ..... |      |      |      |       |      |      |       |      |      |      | 9.3  | 1.2  | 14.4  | 4.2  | 5.4  | 6.6  |
| Turkey:      |      |      |      |       |      |      |       |      |      |      |      |      |       |      |      |      |
| Shares ..... |      |      |      | 65.6  | 12.4 | 22.0 | 67.5  | 11.9 | 20.6 | 68.7 | 12.9 | 18.4 | 67.9  | 12.1 | 20.0 |      |
| Growth ..... |      | 6.5  | 6.5  | 6.5   | 13.0 | 16.9 | 11.1  | -1.0 | 18.3 | 6.9  | 11.0 | 5.8  | 4.8   | 6.3  | 8.9  |      |
| Tunisia:     |      |      |      |       |      |      |       |      |      |      |      |      |       |      |      |      |
| Shares ..... | 62.4 | 14.2 | 23.4 | 62.4  | 13.9 | 23.7 | 66.7  | 13.7 | 17.1 | 67.7 | 14.4 | 1.9  | 64.6  | 16.4 | 19.0 |      |
| Growth ..... | 11.2 | 14.2 | 9.8  | 1.3   | 9.4  | 30.6 | 13.0  | 8.8  | 25.8 | 11.0 | 4.7  | 7.0  | 73.2  | 75.2 | 76.0 |      |
| Syria:       |      |      |      |       |      |      |       |      |      |      |      |      |       |      |      |      |
| Shares ..... | 60.4 | 21.6 | 18.0 | 58.3  | 20.3 | 21.4 | 63.2  | 20.7 | 16.1 | 69.3 | 20.6 | 1.1  | 72.0  | 19.2 | 13.6 |      |
| Growth ..... | 14.3 | 17.2 | -7.1 | 9.2   | 16.1 | 57.0 | 2.5   | 12.8 | 79.1 | 6.2  | 10.2 | -2.5 | 84.8  | 89.8 | 86.6 |      |
| Jordan:      |      |      |      |       |      |      |       |      |      |      |      |      |       |      |      |      |
| Shares ..... |      |      |      | 59.0  | 22.7 | 18.3 | 63.4  | 20.5 | 16.1 | 61.5 | 24.1 | 14.4 | -61.6 | 23.2 | 15.2 |      |
| Growth ..... |      |      |      | -11.7 | 5.1  | 7.6  | 22.2  | .8   | 33.1 | 1.3  | 2.7  | -4   | 4.8   | 7.0  | 7.3  |      |
| Morocco:     |      |      |      |       |      |      |       |      |      |      |      |      |       |      |      |      |
| Shares ..... | 56.8 | 15.2 | 28.0 | 60.1  | 15.0 | 24.9 | 67.6  | 13.9 | 18.5 | 71.4 | 15.0 | 3.6  | 70.8  | 13.7 | 15.5 |      |
| Growth ..... | 7.4  | 14.9 | 27.4 | -7    | 20.9 | 50.4 | 7.8   | 5.5  | 54.6 | 1.1  | 4.1  | -3.4 | 4.1   | 4.9  | 8.8  |      |
| Sudan:       |      |      |      |       |      |      |       |      |      |      |      |      |       |      |      |      |
| Shares ..... |      |      |      | 68.9  | 13.7 | 17.4 | 68.7  | 13.5 | 17.8 | 70.6 | 16.1 | 3.3  | 64.4  | 22.6 | 13.0 |      |
| Growth ..... |      |      |      | .5    | 1.6  | -2.3 | 10.4  | -4.9 | 52.1 | 7.5  | -7.0 | 5.1  | -8    | 10.1 | .4   |      |
| Yemen PDR:   |      |      |      |       |      |      |       |      |      |      |      |      |       |      |      |      |
| Shares ..... |      |      |      |       |      |      |       |      |      |      |      |      |       |      |      |      |
| Growth ..... |      |      |      |       |      |      | -15.0 |      | 25.6 |      |      |      | 67.9  |      |      |      |
| Egypt:       |      |      |      |       |      |      |       |      |      |      |      |      |       |      |      |      |
| Shares ..... | 57.9 | 20.7 | 21.4 | 56.3  | 20.8 | 22.9 | 60.2  | 23.1 | 16.8 | 62.6 | 25.5 | 11.9 | 64.6  | 23.8 | 11.5 |      |
| Growth ..... | 5.6  | 2.3  | -3.9 | 9.6   | 5.5  | 59.7 | .3    | -5.7 | 47.3 | 3.7  | 7.2  | 5.9  | 4.6   | 10.5 | 4.9  |      |

<sup>1</sup> Source: IBRD, Economic Data Sheets, 1978. Shares are in percent and growth rates are annual percentage growth rates.

<sup>2</sup> Growth rates are average annual rates from 1970.

<sup>3</sup> Growth rates are average annual rates from 1960 unless otherwise noted.

<sup>4</sup> Growth rates calculated from 1962.

<sup>5</sup> Growth rates calculated from 1963.

<sup>6</sup> Growth rates calculated from 1967.

<sup>7</sup> Growth rates calculated from 1961.

<sup>8</sup> Growth rates calculated from 1963.

Table 5 provides some of the basic data necessary to appreciate the allocation of resources to development. That table presents the percentage shares of private consumption, public consumption and investment in the total real resources which have been available to each country. These total resources are calculated by adding imports and returns from factor services abroad to the gross domestic product and subtracting exports and payments to factor services abroad. The result is the net real resources available for satisfying the various types of demands within the country. For those oil exporting countries which export capital, the net flow of exports and factor payments abroad will make the real resources which are used less than the gross domestic product. While for the capital importing countries with a net deficit in the comparison of imports and exports and factor payments, the real resources available for use will be greater than the gross national product. Also included in the table are the growth rates of the various resource uses.

One of the striking features of Table 5 is the contrast between the share of real resources allocated to investment in the oil exporting countries as a group as compared to the non-oil exporting countries, although there are important exceptions. In the oil exporting countries, typically 25 to 40 percent or more of resources have been devoted to investment and the shares rose sharply after 1973. By comparison, in the non-oil exporting countries, again with some exceptions, the proportions of investment in total use of resources almost never reaches 25 percent and, more typically, are closer to twenty percent. It should be noted that the proportions of investment of total resources available of the oil exporting countries of the Middle East are high, not only by comparison with the non-oil exporting countries of the region, but with respect to developing countries as a whole. Certainly this reflects the much higher per capita incomes of the oil-exporting countries and their abilities to satisfy public and private consumption demands while maintaining high investment rates.

Another important impression from Table 5 is the change in the proportion of resources going to investment over time. There has been a clear tendency for this proportion to increase in both the oil and non-oil exporting countries, reflecting somewhat different forces. In all of the oil exporting countries, the proportions of resources going to investment have increased from 1970 to 1976, but unevenly and to different degrees. To some extent the increases reflect the substantial growth in resources available after the oil price increases of 1973-74. To some extent, however, they reflect the growing ability of the oil-exporting countries to absorb and make use of the resources. The unevenness is also in part due to the changes which have occurred in the rates of growth of total resource availabilities, as a result of the world recession of 1974-75.

The impression of growing absorptive capacity, while undoubtedly correct, is tempered somewhat by inspecting the growth rates in investment and the size of the absolute increases in investment as compared to increases in the other categories of demand. Table 5 shows that, while the growth rates of investment in the oil-exporting countries have, indeed, been high, the growth rates of private consumption have often been nearly the same and the growth rates of public consumption have in a number of cases been even higher.

This is all the more significant when it is noted that both public and private consumption are typically larger than investment so that larger absolute increments are necessary to achieve the same growth rate as in investment.

There are significant differences in the patterns of use of resources among the oil-exporting countries as well, as compared to the non-oil exporting countries of the Middle East. In Kuwait there has been relative stability in the proportions allocated to the various uses over time, although all uses have grown relatively rapidly. Kuwait is among the countries in which public and private consumption have had growth as rapid as that of investment in a number of years and investment actually fell in 1976 as compared to 1975. It is also clear that the absolute increments in consumption have been much larger than those in investment. Interestingly, Libya has had a relatively larger share of investment in total resources used and continuing growth in investment in 1976 as compared to 1975. But the share of investment in the use of total resources in Libya declined from 1973 to 1975 with increases in the proportions of private or public consumption.

Perhaps Saudi Arabia, Iran and Iraq show the clearest suggestions from these overall data of growing absorptive capacities as investment shares and absolute magnitudes have climbed relatively consistently. Correspondingly, private and public consumption have not grown to the same extent. The patterns in Algeria are less consistent. There was a large jump in the investment rate in 1974 a year later than the increase started in the other oil-exporting countries, and a subsequent relative decline with an absolute decrease in 1976 as compared to 1975. It is also worth noting, where the data permit, that the share of public consumption in the use of total resources is lower in both Algeria and Iran than in the other oil-exporting countries with Algeria at a strikingly lower level.

It is not possible from the data available to identify the character of the increases in public consumption which have typically occurred. To some extent they reflect provision of a larger amount of public goods, including military expenditures and, to some extent, public provision of private goods.

The data for Oman are too striking to escape comment. The total resources available to the country grew rapidly at the beginning of the 1970's and the growth accelerated after 1973. According to the available data, private consumption first grew and then declined in absolute amount while public consumption and investment spurted. While the changes in consumption may reflect the increasing role of the state in providing services, the numbers are so remarkable as to require deeper study.

The number of oil exporting countries and the time period covered are both too small to justify sophisticated analysis and rough impressions may be misleading. With this caveat some comparisons with the growth rates in Tables 1, 2 and 3 might offer some tentative insights. Kuwait almost consistently had the lowest proportion of the use of resources for investment among the oil-exporting countries after 1973, yet it had overall and per capita growth in real gross national product which were among the highest if not the highest. These facts suggest that in Kuwait the problems of

effective use of resources began to be dealt with relatively effectively by the early 1970's. Though Algeria in a number of years had the largest proportion of resources devoted to investment in many years it had the lowest real aggregate and per capita GNP growth rates. Libya, with unexceptional investment proportions did relatively well in terms of GNP growth, better in a number of years than Saudi Arabia with a substantially larger share of total resources being devoted to investment. Both countries show signs of deceleration toward the mid-1970's. Saudi Arabia, Iran and Iraq, in which the proportion of resources devoted to investment was among the highest, also had growth rates among the highest, but those growth rates were also often irregular.

The non-oil exporting countries of the Middle East with lower proportions of investment in their use of total resources are more like conventional developing countries than the oil exporting countries as a whole. Moreover the proportions of investment in total resource use tends to fall as income falls with the exception of 1975 as an unusual year and Morocco as an unusual country. Israel is also in many ways different in its use of resources from the other non-oil exporting countries of the Middle East. Its allocation of resources available to investment has been higher than that of other countries in the group, except for the most recent years. Turkey and Tunisia have also tended consistently to have a relatively high proportion of resources devoted to investment.

There has also been a clear growth in investment proportions in all the non-oil exporting countries after 1973. There are somewhat different reasons for this phenomenon in each of the countries. Morocco has embarked on a more ambitious development program. Egypt has also adopted major new programs of development associated with realignment and redirection of its economy. Tunisia has steadily improved the effectiveness of the mobilization of its resources.

To some extent a number of these non-oil exporting countries have directly or indirectly benefitted from the rapid expansion of incomes of the oil exporting countries. The direct benefits have come in part through the expansion of loans and grants from the oil exporting countries to this group. The indirect benefits have flowed to a few of the countries through the emigration of a part of their labor force with consequent increased labor earnings and a large return flow of remittances. It should be noted, however, that the emigration of skilled workers has also contributed to bottlenecks to investment and growth in the countries of origin.

To some extent there has been increased regional trade which has benefitted the non-oil exporting countries. These benefits have supported the expansion of both consumption and investment in the latter countries. In some cases the effects of the expansion of commercial bank lending to all developing countries which started in 1970 can be seen in the group of countries. Both Turkey and Egypt, for example, participated in the growth of this type of lending which permitted them to sustain their investment rates at relatively high levels during the world recession of 1974-1975. The other consequences of this increased dependence on foreign lending will be taken up below.

Where data permit comparisons, it is also clear that the non-oil exporting countries tend to have a much larger proportion of their resources directed toward private consumption. This must be due largely to their relative poverty and the difficulty of encouraging voluntary savings or generating forced savings at low income levels. Interestingly, Israel is more like an oil-exporting country in this respect, reflecting in part the relatively large amounts of foreign economic assistance it receives. Nonetheless, there are striking differences in the group of non-oil exporting countries in the proportions of total resources directed toward public consumption. Turkey, Tunisia, Morocco and the Sudan consistently have shares among the lowest in this group of countries. Again the explanations vary from country to country reflecting different commitments to military expenditures which fall under this category of resource use. Although no recent data from Lebanon are included, reflecting the civil strife there, it is clear that prior to the outbreak of internal disorders the share of resources going to public consumption was much lower in Lebanon than in any other country of the Middle East.

With the same qualifications as were applied to the oil exporting countries, it is useful to try to associate the allocation of resources with the growth experience of the non-oil exporting countries. Perhaps the most striking fact is that with the increased allocation of resources to investment which occurred after 1970 and, particularly after 1973, there was an acceleration of growth in nearly all of the countries. With respect to the individual countries, just as the ratios of investment to total resources tend to drift down as the levels of real gross national product per capita fall from country to country, so also do the growth rates. The exceptions are interesting ones. The tendency is clearer during the entire period from 1960 to 1976 than after 1970, with Tunisia standing out as exceptional over the entire period. In the period since 1970, the relation between growth in overall gross national product and investment proportions has so many exceptions as to call it into question, although it still seems to exist for per capita gross national product. Tunisia again is clearly unusual. This may reflect several factors: its avoidance of military conflict, a relatively stable political environment which has also supported a program of radical social change, and a continuing commitment to development. While some or all of these factors characterize other countries in the group as well, they have worked most efficaciously for Tunisia.

On the other hand, the comparisons also make clear that growth has not been tied closely to investment allocations. The connection seems clear in the case of Morocco, for example, but cannot explain the developments in Jordan and Syria which have had somewhat similar increases in the share of resources going to investment but different growth experiences.

#### IV. TRANSFORMATION OF THE STRUCTURE OF ECONOMIC ACTIVITY

The transformations which occur in the process of development are widespread, affecting the polity and society as well as economy. The characteristic economic transformations which take place are in the changing importance of the various producing sectors, in

production methods used in each sector, in the structure and functioning of markets and the role and functioning of government. This is not to assert that traditional values cannot be maintained or that the transformations and new patterns must be uniform across countries. The great variety which advanced countries show in important social and economic dimensions is *prima facie* evidence that new developing countries also can each be expected to generate their own somewhat unique patterns of development. Thus, every country will have its optimum pattern of change, which is difficult enough to determine for one country and impossible to generalize about in a survey. As a result, although development does require transformation of the economic structure, it is not possible to make easy associations between such transformations and progress toward development. In addition, the information which is usually available about the kind of transformations which are occurring within any one country is, at best, incomplete and rather aggregate in nature. Nonetheless it is useful to survey the data which does exist in order to identify some of the changes which are occurring and their significance.

The set of Tables 6 list, for the countries for which information is available, the shares of each producing sector in the generation of gross domestic product measured at constant factor cost as well as the growth rates of the output of each sector. Changes in the percentages reflect the changing importance of the sector in the economy as a whole and show roughly the directions in which the transformations are occurring. The sectoral growth rates indicate the absolute magnitudes of the changes.

TABLE 6.1.—LIBYA

[Percentage shares of sectoral output in gross domestic product and annual sectoral growth rates measured at constant factor cost]

|   | 1975    |                    | 1974    |                    | 1973    |                    | 1970    |                                 |
|---|---------|--------------------|---------|--------------------|---------|--------------------|---------|---------------------------------|
|   | Shares  | Annual growth rate <sup>1</sup> |
| Agriculture .....                         | 4.09    | 41.5               | 2.89    | -7.4               | 3.12    | 25.2               | 1.59    | -19.1                           |
| Mining .....                              | 20.08   | -17.4              | 24.31   | -36.1              | 38.07   | -14.9              | 61.86   | 13.2                            |
| Manufacturing .....                       | 5.25    | 9.4                | 4.80    | 9.1                | 4.40    | 22.2               | 2.41    | -10.8                           |
| Construction .....                        | 13.87   | 3.5                | 13.40   | 24.5               | 10.76   | 26.5               | 5.31    | -4.1                            |
| Electricity, gas, and water .....         | .75     | 23.0               | .61     | 10.3               | .68     | 14.8               | .45     | -1.3                            |
| Transportation and communication .....    | 13.03   | 3.5                | 12.59   | 28.3               | 9.81    | 25.9               | 4.91    | -4.3                            |
| Trade .....                               | 11.07   | 4.1                | 10.63   | 27.0               | 8.37    | 25.2               | 4.27    | -10.7                           |
| Banking, insurance, and real estate ..... | 4.26    | 5.2                | 4.05    | 34.6               | 3.01    | 28.8               | 1.41    | -8.8                            |
| Public administration and defense .....   | 13.26   | -1.8               | 13.50   | 36.9               | 9.93    | 2.7                | 9.18    | -3.0                            |
| Ownership of dwelling .....               | 6.10    | 7.0                | 5.70    | 13.5               | 5.02    | 5.4                | 4.29    | -15.1                           |
| Services .....                            | 8.28    | 10.0               | 7.53    | 10.4               | 6.82    | 16.4               | 4.32    | -5.1                            |
| Other branches .....                      |         |                    |         |                    |         |                    |         |                                 |
| Statistical discrepancy .....             | -.03    |                    |         |                    |         |                    |         |                                 |
| Total .....                               | 1,261.2 | 7.7                | 1,171.5 | 8.0                | 1,085.1 | .6                 | 1,066.9 | 23.3                            |

<sup>1</sup> 1970-1962.

Source: IBRD, "Economic Data Sheet," 1978.

TABLE 6.2.—SAUDI ARABIA <sup>1</sup>

[Percentage shares of sectoral output in gross domestic product and annual sectoral growth rates measured at constant factor cost]

|   | 1975     |                    | 1974     |                    | 1973     |                    | 1970     |                                 |
|---|----------|--------------------|----------|--------------------|----------|--------------------|----------|---------------------------------|
|   | Shares   | Annual growth rate <sup>2</sup> |
| Agriculture .....                         | 3.61     | 0.8                | 3.58     | -9.6               | 3.96     | -11.2              | 5.66     | -7.8                            |
| Mining .....                              | 53.63    | -7.3               | 57.87    | 1.8                | 56.86    | 6.7                | 46.86    | 1.0                             |
| Manufacturing .....                       | 6.38     | -3.3               | 6.60     | -8.2               | 7.19     | -9.2               | 9.61     | 1.3                             |
| Construction .....                        | 6.72     | 22.0               | 5.51     | 8.5                | 5.08     | -1.8               | 5.37     | -2.6                            |
| Electricity, gas, and water .....         | 1.41     | 6.8                | 1.32     | -5.0               | 1.39     | -4.0               | 1.57     | 6.4                             |
| Transportation and communication .....    | 8.36     | 18.6               | 7.05     | 4.9                | 6.72     | -2.0               | 7.14     | 4.2                             |
| Trade .....                               | 5.97     | 16.1               | 5.14     | 2.8                | 5.00     | -4.8               | 5.79     | 1.2                             |
| Banking, insurance, and real estate ..... | 1.64     | 9.3                | 1.50     | -2.0               | 1.53     | -9.1               | 2.04     | 1.3                             |
| Public administration and defense .....   | 7.49     | 8.6                | 6.90     | -4.2               | 7.20     | -9.3               | 9.65     | -9                              |
| Ownership of dwelling .....               | 2.95     | 7.7                | 2.74     | -4.2               | 2.86     | -9.0               | 3.80     | -3.3                            |
| Services .....                            | 1.00     | 2.0                | .98      | -5.8               | 1.04     | -8.8               | 1.37     | -1.2                            |
| Other branches .....                      | .85      | 7.6                | .79      | -32.5              | 1.17     | -6                 | 1.15     | 2.2                             |
| Statistical discrepancy .....             |          |                    |          |                    |          |                    |          |                                 |
| Total .....                               | 32,560.8 | 3.2                | 31,543.1 | 4.7                | 27,495.4 | 16.5               | 17,398.6 | 9.8                             |

<sup>1</sup> Saudi Arabia data at constant market prices.<sup>2</sup> Growth rate for period 1970-63.

TABLE 6.3.—IRAN

[Percentage shares of sectoral output in gross domestic product and annual sectoral growth rates measured at constant factor cost]

|   | 1975    |                    | 1974    |                    | 1973    |                    | 1970    |                                 |
|---|---------|--------------------|---------|--------------------|---------|--------------------|---------|---------------------------------|
|   | Shares  | Annual growth rate <sup>1</sup> |
| Agriculture .....                         | 9.90    | 2.4                | 9.67    | -2.0               | 9.87    | -2.6               | 10.69   | -6.3                            |
| Mining .....                              | 38.64   | -15.9              | 45.94   | -8.1               | 49.97   | -4.3               | 57.07   | 2.6                             |
| Manufacturing .....                       | 11.17   | 12.0               | 9.97    | 9.4                | 9.11    | 7.7                | 7.29    | 0.6                             |
| Construction .....                        | 5.71    | 31.3               | 4.35    | 24.3               | 3.50    | -2.9               | 3.82    | -3.2                            |
| Electricity, gas, and water .....         | .90     | 9.8                | .82     | 10.8               | .74     | 4.4                | .65     | 11.4                            |
| Transportation and communication .....    | 3.89    | 26.7               | 3.07    | 8.9                | 2.82    | 6.7                | 2.32    | -5.5                            |
| Trade .....                               | 5.70    | 12.6               | 5.06    | 3.5                | 4.89    | 4.9                | 4.24    | -3.1                            |
| Banking, insurance, and real estate ..... | 5.28    | 20.8               | 4.37    | 22.8               | 3.56    | 14.0               | 2.40    | 4.7                             |
| Public administration and defense .....   | 9.39    | 7.7                | 8.72    | 12.1               | 7.78    | 3.0                | 7.13    | 1.5                             |
| Ownership of dwelling .....               | 6.36    | 18.7               | 5.36    | 1.7                | 5.27    | 35.5               | 2.12    | -3.3                            |
| Services .....                            | 3.05    | 13.4               | 2.69    | 8.0                | 2.49    | 3.0                | 2.28    | -1.6                            |
| Other branches .....                      |         |                    |         |                    |         |                    |         |                                 |
| Statistical discrepancy .....             |         |                    |         |                    |         |                    |         |                                 |
| Total .....                               | 3,271.9 | 4.3                | 3,137.9 | 8.1                | 2,902.7 |                    | 2,314.1 | 11.0                            |

<sup>1</sup> Growth rate for period 1970-60.

TABLE 6.4.—IRAQ

[Percentage shares of sectoral output in gross domestic product and annual sectoral growth rates measured at constant factor cost]

|   | 1975    |                    | 1974    |                    | 1973    |                    | 1970    |                                 |
|---|---------|--------------------|---------|--------------------|---------|--------------------|---------|---------------------------------|
|   | Shares  | Annual growth rate <sup>1</sup> |
| Agriculture .....                         | 9.21    | -26.0              | 12.44   | -6.3               | 13.27   | -7.9               | 16.99   | -0.2                            |
| Mining .....                              | 29.05   | 3.0                | 28.21   | -16.2              | 33.66   | 5.6                | 28.56   | -2.6                            |
| Manufacturing .....                       | 10.28   | 5.9                | 9.71    | -8.0               | 10.55   | 0.1                | 10.52   | .9                              |
| Construction .....                        | 3.89    | -27.2              | 5.34    | 42.0               | 3.76    | 2.7                | 3.47    | -1.6                            |
| Electricity, gas, and water .....         | 1.32    | 12.8               | 1.17    | -8                 | 1.18    | 1.5                | 1.13    | 5.8                             |
| Transportation and communication .....    | 6.93    | 31.7               | 5.26    | -3.7               | 5.46    | -4.1               | 6.20    | -1.2                            |
| Trade .....                               | 7.73    | 1.4                | 7.62    | 7.3                | 7.10    | -5.7               | 8.46    | 4.0                             |
| Banking, insurance, and real estate ..... | 2.40    | 11.6               | 2.15    | 70.6               | 1.26    | -7.1               | 1.57    | .2                              |
| Public administration and defense .....   | 17.47   | 17.9               | 14.82   | 30.8               | 11.33   | 0.7                | 11.08   | 3.2                             |
| Ownership of dwelling .....               | 3.86    | 12.2               | 3.44    | -12.9              | 3.95    | -3.5               | 4.39    | 7.6                             |
| Services .....                            | 7.86    | -20.1              | 9.84    | 15.9               | 8.49    | 3.7                | 7.62    | 1.2                             |
| Other branches .....                      |         |                    |         |                    |         |                    |         |                                 |
| Statistical discrepancy .....             |         |                    |         |                    |         |                    |         |                                 |
| Total .....                               | 1,774.4 | 12.1               | 1,583.1 | 16.4               | 1,360.0 | 6.7                | 1,120.2 | 6.0                             |

<sup>1</sup> Growth rate for period 1970-60.TABLE 6.5.—ALGERIA<sup>1</sup>

[Percentage shares of sectoral output in gross domestic product and annual sectoral growth rates measured at constant factor cost]

|   | 1975     |                    | 1974     |                    | 1973     |                    | 1970     |                                 |
|---|----------|--------------------|----------|--------------------|----------|--------------------|----------|---------------------------------|
|   | Shares   | Annual growth rate <sup>2</sup> |
| Agriculture .....                         | 6.36     | -3.0               | 6.56     | 9.2                | 6.01     | -18.1              | 10.93    | -5.7                            |
| Mining .....                              | 35.45    | -4.9               | 37.26    | -12.3              | 42.49    | 21.6               | 23.64    | 7.1                             |
| Manufacturing .....                       | 10.49    | .5                 | 10.44    | 1.2                | 10.32    | 6.8                | 8.48     | 2.6                             |
| Construction .....                        | 10.54    | 4.3                | 10.11    | 24.0               | 8.15     | 19.1               | 4.82     | 3.7                             |
| Electricity, gas, and water .....         | 1.18     | 16.8               | 1.01     | 11.0               | .91      | 6.7                | .75      | 0.3                             |
| Transportation and communication .....    |          |                    |          |                    |          |                    |          |                                 |
| Trade .....                               |          |                    |          |                    |          |                    |          |                                 |
| Banking, insurance, and real estate ..... |          |                    |          |                    |          |                    |          |                                 |
| Public administration and defense .....   | 10.04    | 3.5                | 9.70     | 11.6               | 8.69     | -0.2               | 8.75     | 1.8                             |
| Ownership of dwelling .....               | 25.94    | 4.1                | 24.92    | 6.4                | 23.43    | -18.1              | 42.63    | -1.7                            |
| Services .....                            |          |                    |          |                    |          |                    |          |                                 |
| Other branches .....                      |          |                    |          |                    |          |                    |          |                                 |
| Statistical discrepancy .....             |          |                    |          |                    |          |                    |          |                                 |
| Total .....                               | 51,890.0 | 7.1                | 48,470.0 | 0.8                | 48,105.0 | 5.5                | 40,939.7 | 2.9                             |

<sup>1</sup> Data at market prices (constant).<sup>2</sup> Growth rate for period 1970-60.

TABLE 6.6.—ISRAEL

[Percentage shares of sectoral output in gross domestic product and annual sectoral growth rates measured at constant factor cost]

|   | 1975     |                    | 1974     |                    | 1973     |                    | 1970     |                                 |
|---|----------|--------------------|----------|--------------------|----------|--------------------|----------|---------------------------------|
|   | Shares   | Annual growth rate <sup>1</sup> |
| Agriculture .....                         | 6.80     | 7.9                | 6.30     | 5.0                | 6.00     | -2.6               | 6.49     | -3.3                            |
| Mining .....                              |          |                    |          |                    |          |                    |          |                                 |
| Manufacturing .....                       | 24.50    | 0                  | 24.50    | 0                  | 24.50    | 0.6                | 24.08    | 4.0                             |
| Construction .....                        | 12.30    | -3.1               | 12.70    | 0.8                | 12.60    | 1.4                | 12.09    | 12.2                            |
| Electricity, gas, and water .....         |          |                    |          |                    |          |                    |          |                                 |
| Transportation and communication .....    | 9.00     | -3.2               | 9.30     | 0                  | 9.30     | 1.4                | 8.91     | 4.2                             |
| Trade .....                               | 20.00    | -0.5               | 20.10    | -3.4               | 20.80    | -3.6               | 23.20    | -5.0                            |
| Banking, insurance, and real estate ..... |          |                    |          |                    |          |                    |          |                                 |
| Public administration and defense .....   | 19.70    | -0.5               | 19.80    | 0.5                | 19.70    | 0.6                | 19.35    | -0.9                            |
| Ownership of dwelling .....               | 7.70     | 5.5                | 7.30     | 0.9                | 7.10     | 6.5                | 5.88     | -11.6                           |
| Services .....                            |          |                    |          |                    |          |                    |          |                                 |
| Other branches .....                      |          |                    |          |                    |          |                    |          |                                 |
| Statistical discrepancy .....             |          |                    |          |                    |          |                    |          |                                 |
| Total .....                               | 21,675.0 | 2.2                | 21,208.0 | 4.8                | 20,237.0 | 8.1                | 16,007.0 | 8.5                             |

<sup>1</sup> Growth rate for period 1970-68.TABLE 6.7.—LEBANON<sup>1</sup>

[Percentage shares of sectoral output in gross domestic product and annual-sectoral growth rates measured at constant factor cost]

|   | 1975   |                    | 1974    |                    | 1973    |                    | 1970    |                                 |
|---|--------|--------------------|---------|--------------------|---------|--------------------|---------|---------------------------------|
|   | Shares | Annual growth rate | Shares  | Annual growth rate | Shares  | Annual growth rate | Shares  | Annual growth rate <sup>2</sup> |
| Agriculture .....                         |        |                    |         |                    | 6.94    | -8.8               | 9.15    | 0.2                             |
| Mining .....                              |        |                    |         |                    |         |                    |         |                                 |
| Manufacturing .....                       |        |                    |         |                    | 15.00   | 3.4                | 13.58   | .1                              |
| Construction .....                        |        |                    |         |                    | 4.23    |                    | 4.48    | -2.0                            |
| Electricity, gas, and water .....         |        |                    |         |                    | 2.13    | -1.9               | 2.32    | .04                             |
| Transportation and communication .....    |        |                    |         |                    |         |                    |         |                                 |
| Trade .....                               |        |                    |         |                    |         |                    |         |                                 |
| Banking, insurance, and real estate ..... |        |                    |         |                    |         |                    |         |                                 |
| Public administration and defense .....   |        |                    |         |                    | 7.15    | -6.4               | 8.71    | 1.2                             |
| Ownership of dwelling .....               |        |                    |         |                    |         |                    |         |                                 |
| Services .....                            |        |                    |         |                    |         |                    |         |                                 |
| Other branches .....                      |        |                    |         |                    | 64.56   | 1.5                | 61.76   | -.02                            |
| Statistical discrepancy .....             |        |                    |         |                    |         |                    |         |                                 |
| Total .....                               |        |                    | 6,680.0 | 7.0                | 6,242.0 | 8.7                | 4,866.0 | 5.0                             |

<sup>1</sup> Data in constant market prices.<sup>2</sup> Growth rate for period 1970-60.

TABLE 6.8.—TURKEY

[Percentage shares of sectoral output in gross domestic product and annual sectoral growth rates measured at constant factor cost]

|   | 1975   |                    | 1974   |                    | 1973   |                    | 1970   |                                 |
|---|--------|--------------------|--------|--------------------|--------|--------------------|--------|---------------------------------|
|   | Shares | Annual growth rate <sup>1</sup> |
| Agriculture .....                         | 24.69  | 0                  | 24.69  | 1.5                | 24.33  | -5.8               | 29.11  | -3.3                            |
| Mining .....                              | 1.88   | -1.1               | 1.90   | 11.8               | 1.70   | 0                  | 1.70   | -0.8                            |
| Manufacturing .....                       | 20.25  | -0.4               | 20.34  | -1.1               | 20.56  | 5.3                | 17.59  | 4.4                             |
| Construction .....                        | 6.69   | -0.6               | 6.73   | -1.0               | 6.80   | -2.4               | 7.32   | 1.2                             |
| Electricity, gas, and water .....         | 1.56   | 4.0                | 1.50   | 6.4                | 1.41   | 4.1                | 1.25   | 3.0                             |
| Transportation and communication .....    | 9.44   | 4.3                | 9.05   | 0.3                | 9.02   | 0.7                | 8.84   | 2.7                             |
| Trade .....                               | 13.44  | 0.8                | 13.33  | 0.2                | 13.31  | 5.2                | 11.43  | 2.3                             |
| Banking, insurance, and real estate ..... | 2.44   | -3.2               | 2.52   | 0.4                | 2.51   | 2.7                | 2.32   | 2.3                             |
| Public administration and defense .....   | 9.63   | -3.0               | 9.93   | -2.0               | 10.13  | -0.5               | 10.27  | 0.5                             |
| Ownership of dwelling .....               | 4.81   | -3.2               | 4.97   | -1.2               | 5.03   | -0.4               | 5.09   | -1.7                            |
| Services .....                            | 5.19   | 0.4                | 5.17   | -0.2               | 5.18   | 0.6                | 5.09   | 0.02                            |
| Other branches .....                      |        |                    |        |                    |        |                    |        |                                 |
| Statistical discrepancy .....             |        |                    | -14    |                    |        |                    |        |                                 |
| Total .....                               | 160.0  | 8.8                | 147.0  | 8.7                | 135.2  | 6.5                | 112.0  | 5.6                             |

<sup>1</sup> Growth rate for period 1970-60.

TABLE 6.9.—TUNISIA

[Percentage shares of sectoral output in gross domestic product and annual sectoral growth rates measured at constant factor cost]

|   | 1975    |                    | 1974    |                    | 1973   |                    | 1970   |                                 |
|---|---------|--------------------|---------|--------------------|--------|--------------------|--------|---------------------------------|
|   | Shares  | Annual growth rate | Shares  | Annual growth rate | Shares | Annual growth rate | Shares | Annual growth rate <sup>1</sup> |
| Agriculture .....                         | 20.98   | -5.5               | 22.20   | 1.4                | 21.89  | 2.4                | 20.39  | -2.4                            |
| Mining .....                              | 5.75    | -1.2               | 5.82    | 3.4                | 5.63   | -7.8               | 7.18   | 11.3                            |
| Manufacturing .....                       | 10.29   | -3.3               | 10.64   | 2.3                | 10.40  | 5.5                | 8.86   | 0.7                             |
| Construction .....                        | 7.59    | 11.0               | 6.84    | 2.2                | 6.69   | -1.8               | 7.07   | -0.2                            |
| Electricity, gas, and water .....         | 1.75    | -5.9               | 1.86    | 2.2                | 1.82   | -0.2               | 1.83   | 8.2                             |
| Transportation and communication .....    | 6.13    | 1.0                | 6.07    | -5.9               | 6.45   | -2.6               | 6.98   | 4.2                             |
| Trade .....                               | 14.0    | 0.1                | 13.99   | -0.5               | 14.06  | 4.4                | 12.35  | -2.2                            |
| Banking, insurance, and real estate ..... |         |                    |         |                    |        |                    |        |                                 |
| Public administration and defense .....   | 14.08   | -0.4               | 14.13   | 4.1                | 13.57  | -4.6               | 15.64  | 1.0                             |
| Ownership of dwelling .....               | 5.57    | -6.2               | 5.94    | -7.8               | 6.44   | -5.0               | 7.52   | -3.1                            |
| Services .....                            | 9.59    | 0.9                | 9.50    | -1.5               | 9.64   | 1.4                | 9.25   | -1.4                            |
| Other branches .....                      | 4.27    | 42.3               | 3.00    | -12.0              | 3.41   | 4.6                | 2.98   | 19.1                            |
| Statistical discrepancy .....             |         |                    |         |                    |        |                    | -04    |                                 |
| Total .....                               | 1,135.1 | 8.9                | 1,042.3 | 10.4               | 944.4  | 9.7                | 715.9  | 4.8                             |

<sup>1</sup> For period 1970-61.

TABLE 6.10.—SYRIA

[Percentage shares of sectoral output in gross domestic product and annual sectoral growth rates measured at constant factor cost]

|   | 1975    |                    | 1974    |                    | 1973    |                    | 1970    |                                 |
|---|---------|--------------------|---------|--------------------|---------|--------------------|---------|---------------------------------|
|   | Shares  | Annual growth rate <sup>1</sup> |
| Agriculture .....                         | 21.49   | -4.7               | 22.55   | 27.5               | 17.69   | -6.8               | 21.85   | 0.1                             |
| Mining .....                              | 6.17    | 29.4               | 4.77    | 11.7               | 4.27    | 20.7               | 2.43    | .....                           |
| Manufacturing .....                       | 15.68   | -3.6               | 16.26   | 1.1                | 16.08   | 1.3                | 15.48   | -2.0                            |
| Construction .....                        | 4.04    | 22.4               | 3.30    | 22.7               | 2.69    | .1                 | 2.68    | -4.0                            |
| Electricity, gas, and water .....         | 1.51    | 8.6                | 1.39    | 5.3                | 1.32    | 1.8                | 1.25    | .....                           |
| Transportation and communication .....    | 13.89   | 9.5                | 12.68   | -16.2              | 15.13   | 8.0                | 11.99   | .....                           |
| Trade .....                               | 10.26   | 1.0                | 10.16   | -4.0               | 10.58   | -7.9               | 13.55   | -2.5                            |
| Banking, insurance, and real estate ..... | 1.69    | -17.2              | 2.04    | 2.0                | 2.00    | -5.1               | 2.34    | -6                              |
| Public administration and defense .....   | 10.86   | -7.1               | 11.69   | -22.3              | 15.05   | 3.0                | 13.79   | 6.3                             |
| Ownership of dwelling .....               | 5.74    | -6.5               | 6.14    | -5.0               | 6.46    | -1.6               | 6.79    | -3.5                            |
| Services .....                            | 8.67    | -3.9               | 9.02    | 3.3                | 8.73    | 3.6                | 7.85    | 1.3                             |
| Other branches .....                      |         |                    |         |                    |         |                    |         |                                 |
| Statistical discrepancy .....             |         |                    |         |                    |         |                    |         |                                 |
| Total .....                               | 7,214.5 | 12.4               | 6,421.3 | 8.8                | 5,903.8 | 4.9                | 5,110.3 | 6.5                             |

<sup>1</sup> Growth rate for period 1970-60.

TABLE 6.11.—JORDAN

[Percentage shares of sectoral output in gross domestic product and annual sectoral growth rates measured at constant factor cost]

|   | 1975   |                    | 1974   |                    | 1973   |                    | 1970   |                                 |
|---|--------|--------------------|--------|--------------------|--------|--------------------|--------|---------------------------------|
|   | Shares | Annual growth rate <sup>1</sup> |
| Agriculture .....                         |        |                    |        |                    | 14.09  | -2.3               | 15.11  | -0.8                            |
| Mining .....                              |        |                    |        |                    |        |                    |        |                                 |
| Manufacturing .....                       |        |                    |        |                    | 19.77  | 10.8               | 14.54  | 1.3                             |
| Construction .....                        |        |                    |        |                    |        |                    |        |                                 |
| Electricity, gas, and water .....         |        |                    |        |                    |        |                    |        |                                 |
| Transportation and communication .....    |        |                    |        |                    |        |                    |        |                                 |
| Trade .....                               |        |                    |        |                    | 18.74  | -2.3               | 20.07  | -9                              |
| Banking, insurance, and real estate ..... |        |                    |        |                    |        |                    |        |                                 |
| Public administration and defense .....   |        |                    |        |                    | 18.20  | -3.1               | 20.01  | 1.3                             |
| Ownership of dwelling .....               |        |                    |        |                    |        |                    |        |                                 |
| Services .....                            |        |                    |        |                    | 29.21  | -1.2               | 30.27  | -4                              |
| Other branches .....                      |        |                    |        |                    |        |                    |        |                                 |
| Statistical discrepancy .....             |        |                    |        |                    |        |                    |        |                                 |
| Total .....                               |        |                    |        |                    | 204.4  | 4.8                | 177.4  | 6.1                             |

<sup>1</sup> Growth rate for period 1970-60.

TABLE 6.12.—MOROCCO<sup>1</sup>

[Percentage shares of sectoral output in gross domestic product and annual sectoral growth rates measured at constant factor cost]

|   | 1975     |                    | 1974     |                    | 1973     |                    | 1970     |                                 |
|---|----------|--------------------|----------|--------------------|----------|--------------------|----------|---------------------------------|
|   | Shares   | Annual growth rate <sup>2</sup> |
| Agriculture .....                         | 21.94    | -12.0              | 24.92    | 3.4                | 24.11    | -4.3               | 27.48    | -0.6                            |
| Mining .....                              | 3.69     | -26.3              | 5.01     | 3.1                | 4.86     | 2.0                | 4.58     | -2.6                            |
| Manufacturing .....                       | 13.45    | 6.0                | 12.69    | -5.8               | 13.47    | 2.4                | 12.56    | 0.4                             |
| Construction .....                        | 8.14     | 67.1               | 4.87     | 5.9                | 4.60     | -3.8               | 5.17     | 3.9                             |
| Electricity, gas, and water .....         | 3.26     | 7.6                | 3.03     | -1.9               | 3.09     | 6.1                | 2.59     | 2.7                             |
| Transportation and communication .....    |          |                    |          |                    |          |                    |          |                                 |
| Trade .....                               | 21.31    | 5.8                | 20.15    | -2.5               | 20.67    | 0.8                | 20.17    | -0.4                            |
| Banking, insurance, and real estate ..... |          |                    |          |                    |          |                    |          |                                 |
| Public administration and defense .....   |          |                    |          |                    |          |                    |          |                                 |
| Ownership of dwelling .....               |          |                    |          |                    |          |                    |          |                                 |
| Services .....                            |          |                    |          |                    |          |                    |          |                                 |
| Other branches .....                      | 28.20    | -3.9               | 29.33    | 0.4                | 29.21    | 2.1                | 27.45    | 0.4                             |
| Statistical discrepancy .....             |          |                    |          |                    |          |                    |          |                                 |
| Total .....                               | 16,542.0 | 0.1                | 16,518.0 | 10.3               | 14,970.0 | 3.4                | 13,536.0 | 4.1                             |

<sup>1</sup> Data is in constant market prices.<sup>2</sup> Growth rate for period 1970-60.

TABLE 6.13.—SUDAN

[Percentage shares of sectoral output in gross domestic product and annual sectoral growth rates measured at constant factor cost]

|   | 1975    |                    | 1974    |                    | 1973    |                    | 1970    |                                 |
|---|---------|--------------------|---------|--------------------|---------|--------------------|---------|---------------------------------|
|   | Shares  | Annual growth rate <sup>1</sup> |
| Agriculture .....                         | 38.74   | 19.2               | 32.49   | -15.1              | 38.26   | 4.8                | 33.28   | 0.1                             |
| Mining .....                              |         |                    |         |                    |         |                    |         |                                 |
| Manufacturing .....                       | 10.65   | 21.7               | 8.75    | 10.2               | 7.94    | -9.8               | 10.81   | 2.0                             |
| Construction .....                        | 4.86    | -29.2              | 6.86    | 34.0               | 5.12    | -2.9               | 5.59    | -5.5                            |
| Electricity, gas, and water .....         | 1.39    | 15.8               | 1.20    | -41.7              | 2.06    | -5.1               | 2.41    | 7.5                             |
| Transportation and communication .....    | 6.64    | -10.1              | 7.39    | -5.1               | 7.79    | -4.3               | 8.89    | 5.6                             |
| Trade .....                               | 24.40   | 14.1               | 21.39   | -4.8               | 22.48   | 0.4                | 22.20   | -6.5                            |
| Banking, insurance, and real estate ..... |         |                    |         |                    |         |                    |         |                                 |
| Public administration and defense .....   | 13.28   | -11.1              | 14.94   | -8.6               | 16.35   | -1.0               | 16.83   | 8.0                             |
| Ownership of dwelling .....               |         |                    |         |                    |         |                    |         |                                 |
| Services .....                            |         |                    |         |                    |         |                    |         |                                 |
| Other branches .....                      |         |                    |         |                    |         |                    |         |                                 |
| Statistical discrepancy .....             |         |                    | 7.0     |                    |         |                    |         |                                 |
| Total .....                               | 1,510.8 | 2.2                | 1,478.7 | 13.1               | 1,307.0 | 4.6                | 1,143.2 | 2.5                             |

<sup>1</sup> Growth rate for period 1970-67.

TABLE 6.14.—PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

[Percentage shares of sectoral output in gross domestic product and annual sectoral growth rates measured at constant factor cost]

|   | 1975   |                    | 1974   |                    | 1973   |                    | 1970   |                                 |
|---|--------|--------------------|--------|--------------------|--------|--------------------|--------|---------------------------------|
|   | Shares | Annual growth rate <sup>1</sup> |
| Agriculture .....                         | 22.88  | -2.0               | 23.35  | -2.5               | 23.96  | 3.3                | 21.74  | -1.9                            |
| Mining .....                              |        |                    |        |                    |        |                    |        |                                 |
| Manufacturing .....                       | 7.21   | 7.8                | 6.69   | 8.1                | 6.19   | 6.9                | 5.07   | -10.9                           |
| Construction .....                        | 6.44   | 2.5                | 6.28   | 24.1               | 5.06   | 51.7               | 1.45   | -14.2                           |
| Electricity, gas, and water .....         | 1.92   | -1.5               | 1.95   | -8.9               | 2.14   | -2.2               | 2.29   | -0.4                            |
| Transportation and communication .....    | 8.17   | 13.5               | 7.20   | 12.3               | 6.41   | -4.0               | 7.25   | -0.1                            |
| Trade .....                               | 19.23  | -9.7               | 21.30  | -6.7               | 22.83  | -8.9               | 30.19  | -0.3                            |
| Banking, insurance, and real estate ..... | .67    | 8.1                | .62    | -7.5               | .67    | 3.7                | .60    | -1.6                            |
| Public administration and defense .....   | 17.40  | 9.8                | 15.84  | 7.5                | 14.74  | 4.8                | 12.80  | 9.0                             |
| Ownership of dwelling .....               | 5.58   | -4.8               | 5.86   | -5.3               | 6.19   | 0.2                | 6.16   | 3.9                             |
| Services .....                            | 10.48  | -3.9               | 10.91  | -7.6               | 11.81  | -1.7               | 12.44  | -0.7                            |
| Other branches .....                      |        |                    |        |                    |        |                    |        |                                 |
| Statistical discrepancy .....             |        |                    |        |                    |        |                    |        |                                 |
| Total .....                               | 104.0  | 7.0                | 97.2   | 9.3                | 88.9   | 2.4                | 82.8   | 0.2                             |

<sup>1</sup> Growth rate for period 1970-69.

TABLE 6.15.—EGYPT

[Percentage shares of sectoral output in gross domestic product and annual sectoral growth rates measured at constant factor cost]

|   | 1975    |                    | 1974    |                    | 1973    |                    | 1970    |                                 |
|---|---------|--------------------|---------|--------------------|---------|--------------------|---------|---------------------------------|
|   | Shares  | Annual growth rate <sup>1</sup> |
| Agriculture .....                         | 21.74   | -6.5               | 23.25   | -7.2               | 25.05   | -2.3               | 26.87   | -2.1                            |
| Mining .....                              |         |                    |         |                    |         |                    |         |                                 |
| Manufacturing .....                       | 18.84   | 2.1                | 18.46   | -3.9               | 19.21   | -3.9               | 21.67   | 0.8                             |
| Construction .....                        | 3.40    | 40.5               | 2.42    | -31.1              | 3.51    | -8.9               | 4.65    | 4.2                             |
| Electricity, gas, and water .....         | 2.11    | 5.5                | 2.00    | 0                  | 2.00    | 1.2                | 1.93    | 9.6                             |
| Transportation and communication .....    | 6.91    | 22.1               | 5.66    | 2.0                | 5.55    | -0.8               | 5.69    | -2.5                            |
| Trade .....                               | 9.76    | 0.6                | 9.70    | 3.4                | 9.38    | 1.3                | 9.02    | -1.3                            |
| Banking, insurance, and real estate ..... |         |                    |         |                    |         |                    |         |                                 |
| Public administration and defense .....   |         |                    |         |                    |         |                    |         |                                 |
| Ownership of dwelling .....               | 3.85    | -6.8               | 4.13    | -5.1               | 4.35    | -4.7               | 5.02    | -0.1                            |
| Services .....                            | 33.39   | -2.9               | 34.39   | 11.1               | 30.95   | 7.2                | 25.14   | 2.3                             |
| Other branches .....                      |         |                    |         |                    |         |                    |         |                                 |
| Statistical discrepancy .....             |         |                    |         |                    |         |                    |         |                                 |
| Total .....                               | 3,390.5 | 9.6                | 3,093.0 | 8.0                | 2,863.2 | 6.5                | 2,367.4 | 4.8                             |

<sup>1</sup> Growth rate for period 1970-60.

In Libya one of the most striking aspects of the change in relative importance of the various sectors is the decline in the share of gross domestic product generated by the mining sector, which overwhelmingly is petroleum production. This relative decline reflects an absolute reduction in the output of this sector measured in constant prices since a peak in 1969, while the value of output in current prices has continued to rise. Although the contribution of the petroleum sector to total output has been declining, there has been rapid growth in all other sectors of the Libyan economy since 1973 both in absolute and in relative terms. The growth in agriculture actually started in 1972 and reversed a declining trend in the 1960's. On the other hand, the growth of the manufacturing sector has been continuing. However, both sectors remain small in relative terms. One of the most striking growth patterns occurred in the construction sector, reflecting the high rate of investment which is taking place in the economy. It may also be noted that this observation reinforces that made elsewhere, with respect to the importance of the immigrant labor force for Libya in which construction workers are a major component.<sup>5</sup> There has, as well, been substantial growth in the "infrastructure" sectors such as electricity generation and transport. It is also clear that the government sector is one of the largest in the economy as a whole. The transformation of the Libyan economy is still at an early stage but it does appear to be in process.

The pattern of change in Saudi Arabia is strikingly different from that of Libya. The petroleum producing sector has virtually maintained its relative position in a rapidly growing economy. Although agriculture and manufacturing have grown, their growth rates have not, in general, been as rapid as the economy as a whole so that in absolute terms, their relative importance has been declining slightly. The other relative changes in the Saudi Arabian economy have also been modest. The share of construction activity in the total economy has increased somewhat but not dramatically from 1970 to 1975 or even from what it was in the mid-1960's. The share of public administration and defense in total gross domestic product has also grown only modestly. The sectoral patterns of the Saudi Arabian economy do not, therefore, suggest, as of the end of 1976, the major transformations which might be expected in the course of diversified development.

The changes in relative sectoral importance in Iran are somewhat different from those which have occurred either in Libya or in Saudi Arabia. The absolute growth which has taken place in agriculture has not been sufficient to maintain its relative position. The share of the petroleum sector in total gross domestic product has actually declined over time as in Libya. The share of manufacturing in 1976 was somewhat greater than in 1970 and 1973, again as in Libya. The relative growth in other major producing sectors has helped to make up the relative decline in importance of the petroleum sector. There has also been a substantial growth in the role of construction, again reflecting the high rate of investment in the economy. However, the relative growth in the share of housing

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<sup>5</sup> See N. Choucri, R. S. Eckaus and Amr Mohie-Eldine, "Migration and Employment in the Construction Sector: Critical Factors in Egyptian Economic Development," Cairo University/MIT Technology Adaptation Program, 1978.

suggests that a large proportion of the investment has gone into this sector. In the basic infra-structure sectors it is only transportation whose relative share has grown substantially. And there has been growth in the relative share of the government sector. Thus, by the last date for which information is available, the basic structural transformations which would ordinarily be expected in the course of development are clearly, but somewhat unevenly, under way.

The sectoral patterns in Iraq have been among the most stable. Except for the major increase in 1973, which was short-lived, the share of petroleum sector in the economy has remained virtually unchanged since the 1960's. The contribution of agriculture has declined in absolute as well as relative terms from a peak in 1968. There has been substantial absolute growth in petroleum and manufacturing, but the share of manufacturing has essentially been unchanged since 1970. There has been a slight increase in the contribution of the basic utility sectors but a relative decline in the share of housing. The role of government in the economy clearly has increased more rapidly than any other sector, but it is difficult to identify this as leading clearly to development. Thus, on the basis of this evidence, Iraq has yet to start its evolution from a primary producer of oil toward diversified development.

The Algerian patterns of sectoral change are a mixture of what appears to be diversification and increased reliance on primary production. The share of the petroleum sector in total gross domestic products increased from its early development in the mid-1960's and then leveled off and declined somewhat. But this reduction is related to agricultural growth which resumed only in 1974 after a decline starting in 1968. There has been more consistent growth in manufacturing and even more rapid growth in the construction sector. A relatively large service sector, which may, however, include some other activities, has declined in absolute as well as relative terms while the share of public administration and defense has grown somewhat.

Thus, reviewing the sectoral information, which is available for the most part only up to the end of 1976, for the oil-producing countries of the Middle East, one can only conclude that as a group they do not yet show a clear transition to a pattern of diversified growth which is generally associated with development. Although the dependence on petroleum production has tended to fall relatively, that has not been true of all the countries. Where it has occurred, the decline has not been made up mainly by improvements in agriculture or manufacturing though some countries have experienced rapid growth in these sectors. The compensating changes have tended to concentrate in the construction and service sectors. However, it is possible that the investment programs, which are reflected in the relative growth in construction in most of the oil exporting countries and which have often generated more than proportionate growth in the infrastructure sectors, may yet yield a more diversified production base.

The non-oil exporting countries show characteristic differences, as could be expected, from the oil exporting countries. With small, even negligible proportions of their gross domestic product generated by primary production of minerals or oil, a more important role

is played by the agricultural and manufacturing sectors in the generation of their gross domestic products.

Israel is unusual in a number of respects in the group of non-oil exporting countries in the distribution of its sectoral output. A relatively small proportion of its gross domestic product is generated in the agricultural sector and in this, it is, for different reasons, like an advanced country and like the oil exporting countries of the Middle East. But the growth rate of the agricultural sector in Israel has been relatively rapid as compared to a number of the oil exporting countries and all of the non-oil exporting countries. Israel is also like advanced countries in having a large share of manufacturing in total output but unlike them in the relatively large proportion of construction. The latter is higher than in any of the non-oil exporting countries and, in this respect also, Israel is like an oil exporting country.

The recent data for Lebanon is too distorted by the internal unrest to be revealing except to confirm the relative importance of the trade and service sectors in the economy.

Turkey is more clearly than most of the countries of the Middle East in the process of transformation to the diversified pattern of output of advanced countries. The share of the agricultural sector is declining in spite of relatively rapid growth in this sector in absolute terms. The share of manufacturing is rising, reflecting the sector's higher than average growth rates. Turkey remains one of the most agricultural countries of the Middle East but has become one of the most industrialized as well.

Tunisia is somewhat like Turkey but is neither as agricultural a country nor as industrialized. It has a larger share of output from the extractive sector and the tertiary sectors than has Turkey.

The more or less constant pattern of sectoral output in Syria confirms previous indications of relative lack of change. Although there has been growth in agriculture, it has been uneven and has not resulted in change in the relative importance of the sector, as is true also of manufacturing. The relative importance of the construction sector, while not as great as in the oil-exporting countries or even in some of the other non-oil exporting countries, has grown and suggests tentatively that some transformations may be starting.

The recent data for Jordan are too scanty to provide a basis for analysis but its relative dependence on trade and services is striking.

Morocco is like Tunisia in many respects, but there is a suggestion in the data that it has been concentrating somewhat more on the provision of basic "infrastructure". The acceleration of the output of its construction sector in recent years suggests further transformations are in process. On the other hand, industrialization in Morocco has been proceeding less rapidly than in Tunisia.

The changes in the sectoral patterns in the Sudan have been irregular and trends are difficult to discern. Unlike many developing countries, the share of agriculture in gross domestic product has risen, but unevenly, over time. The share of manufacturing has not changed substantially since 1970 but both agriculture and manufacturing have suffered years of absolute setbacks. The construction component has varied dramatically, showing, perhaps, the

influence of the initiation and completion of particular projects. It is clear that the unevenness in the aggregate growth pattern of Sudan has its counterpart in the sectoral patterns.

The economy of the Yemen People's Democratic Republic suffered a general decline at the very end of the 1960's and in the early 1970's. The sectoral patterns of the early 1970's reflect the recovery from that decline perhaps as much as basic growth trends. Most of the decline was in the transportation, communication and trade sectors. The agricultural and manufacturing sectors, whose development had not proceeded far in any case, were relatively unaffected except that there was little growth until the early 1970's. After 1972 the growth in manufacturing became substantial, although it is still a small sector, and the trade and service sectors began to recover. The small size of the construction sector and its modest growth suggest that major transformations in the country are yet to be put underway.

Egypt is at once the largest of the Middle East countries in terms of its population, the most advanced in terms of industrialization, except for Israel and Turkey, and one of the poorest in terms of its per capita income. As might be expected, in developing country the share of the agricultural sector in gross domestic product has declined in recent years and that relative decline has been accompanied by a modest absolute growth. After only small increases in a number of years in the late 1960's and early 1970's, growth in manufacturing accelerated sharply in 1975 and 1976. The uneven pace of advancement of the construction sector indicates it is one of the major bottlenecks to investment and growth in Egypt, as has been reported in detail elsewhere.<sup>6</sup> It is clear also that the various service sectors, including new government, have expanded at a rapid rate, confirming the conventional view of economic trends in Egypt.<sup>7</sup>

The non-oil exporting countries of the Middle East are, therefore, in quite different stages of transformation of their economies. Israel is essentially an advanced country. Other countries, like Turkey, have already progressed rather far toward becoming modern, diversified economies. Tunisia and Morocco are making good progress. Other countries like Egypt, though having achieved some degree of industrialization, are now proceeding at relatively slow rates in this direction.

Each country deserves its own study and it is not possible to generalize in a survey such as this. The impacts of the world recession, domestic economic restructuring, access to foreign economic assistance, internal strife and external wars have all been different from country to country. These influences have led to differences among the Middle East countries which become even more clear in examining their sectoral development patterns than in their aggregate growth rates.

<sup>6</sup> *Ibid.*

<sup>7</sup> For a more extended analysis of recent developments in Egypt see N. Choucri and R. S. Eckaus, "Interactions of Economic and Political Change: The Case of Egypt," *World Development*, Vol. 7, pp. 783-793.

## V. INTERNATIONAL VIABILITY

The stimulus for the acceleration of growth of the oil exporting countries after 1973 came, of course, from the large increase in the revenues from their exports. That is shown in Table 7 which identifies 1974 as the year in which the major growth in export revenues occurred, although the rate of expansion in 1973 was, in a number of cases, not much smaller. This expansion is described elsewhere so will not be covered here in any more detail.<sup>a</sup> It is interesting to note that, subsequently, with the exception of Iraq, the oil exporting countries all suffered declines in export earnings as a result of the 1974-75 recession. After 1975 the growth in export earnings resumed, although at a much slower pace than previously and, in the case of Iran in 1977 as compared to 1976, there was a barely discernible increase.

It has been widely noted that the oil exporting countries have been able to increase their imports at a faster rate than had been anticipated after the increase in oil prices in 1973-74 so sharply raised their export revenues. That phenomenon is also apparent in Table 7. The growth in oil revenues from 1973 to 1974 was almost matched in the same year by growth in imports in the case of Kuwait and more than matched by Iraq. Although this was not the case in the other oil exporting countries, the rate of expansion of their imports was nonetheless quite high. The growth of imports continued at rapid but somewhat slower rates in 1975 and 1976 reflecting, perhaps, the almost uniform slump in export earnings. The deceleration in the rate of growth of imports continued until 1976 in most of the oil exporting countries when there was a subsequent acceleration again in 1977. The exceptions are Saudi Arabia, for which 1976 was the year of the fastest export growth with deceleration in 1977. In Iran, instead of import growth in 1977 there was an absolute decline.

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<sup>a</sup> Charles Issawi, *op. cit.*

TABLE 7.—ANNUAL GROWTH RATES OF EXPORTS AND IMPORTS IN CURRENT PRICES <sup>1</sup>

|                                    | 1977-76       |              |         | 1976-75       |              |         | 1975-74       |              |         | 1974-73       |              |         | 1973-70           |                   |                   |
|------------------------------------|---------------|--------------|---------|---------------|--------------|---------|---------------|--------------|---------|---------------|--------------|---------|-------------------|-------------------|-------------------|
|                                    | Total exports | Major export | Imports | Total exports     | Major export      | Imports           |
| <b>Oil exporting countries:</b>    |               |              |         |               |              |         |               |              |         |               |              |         |                   |                   |                   |
| Kuwait (oil) .....                 | -0.6          | -0.1         | 17.5    | 19.9          | 19.1         | 30.7    | -11.3         | (*)          | 33.5    | 80.7          | (*)          | 69.5    | 36.9              | (*)               | 10.5              |
| Libya (oil) .....                  | 17.3          | 17.4         | 20.5    | 43.3          | 43.3         | 1.6     | -11.8         | -11.8        | 16.9    | 102.7         | 103.5        | 84.6    | 7.2               | 7.2               | 35.7              |
| Saudi Arabia (oil) .....           | 11.7          | 11.8         | 36.5    | 37.3          | 37.5         | 82.2    | -10.6         | -10.8        | 60.0    | 296.0         | 297.3        | 75.0    | 44.6              | 44.5              | 28.6              |
| Iran .....                         | 0.5           | 1.2          | -2.0    | 23.3          | 23.4         | 30.2    | -5.2          | -5.1         | 76.0    | 245.8         | 272.0        | 80.4    | 28.5              | 28.6              | 26.3              |
| Iraq (oil) .....                   | (*)           | (*)          | (*)     | (*)           | (*)          | (*)     | 17.7          | 17.7         | 49.6    | 213.8         | 224.8        | 221.1   | <sup>2</sup> 18.9 | <sup>2</sup> 19.5 | <sup>2</sup> 15.4 |
| Algeria (oil and gas) .....        | 12.6          | 19.0         | 30.5    | 23.1          | 29.6         | 9.4     | -4.3          | -6.4         | 47.2    | 149.5         | 179.7        | 69.7    | 14.9              | 19.7              | 18.5              |
| <b>Nonoil exporting countries:</b> |               |              |         |               |              |         |               |              |         |               |              |         |                   |                   |                   |
| Israel .....                       | 25.4          | (*)          | 1.1     | 28.7          | (*)          | -9      | 7.7           | (*)          | 10.0    | 27.1          | (*)          | 25.6    | 17.5              | (*)               | 20.3              |
| Turkey .....                       | 11.6          | (*)          | 11.7    | 47.1          | (*)          | 13.3    | -9.4          | (*)          | 24.7    | 15.0          | (*)          | 77.2    | 23.4              | (*)               | 22.8              |
| Tunisia .....                      | 20.4          | (*)          | 24.5    | -3.5          | (*)          | 12.9    | -6.7          | (*)          | 26.2    | 115.1         | (*)          | 62.8    | 22.6              | (*)               | 21.0              |
| Syria .....                        | -1.3          | (*)          | 21.9    | 20.4          | (*)          | 55.1    | 17.6          | (*)          | 35.8    | 117.7         | (*)          | 81.1    | 14.9              | (*)               | 12.7              |
| Jordan .....                       | 18.9          | (*)          | 33.4    | 42.3          | (*)          | 47.1    | -2.4          | (*)          | 48.6    | 108.8         | (*)          | 46.3    | 21.9              | (*)               | 14.4              |
| Morocco .....                      | (*)           | (*)          | (*)     | -14.2         | (*)          | 25.9    | -11.0         | (*)          | 42.2    | 84.9          | (*)          | 61.4    | 16.2              | (*)               | 11.7              |
| Sudan (cotton) .....               | 10.6          | 1.5          | 1.7     | 50.4          | 107.9        | -11.4   | 6.1           | 43.5         | 35.9    | -13.6         | -49.1        | 60.5    | 9.1               | 3.5               | 1.5               |
| Egypt (cotton) .....               | 22.3          | (*)          | 6.0     | 8.0           | -11.4        | 2.3     | -7.1          | -47.5        | 33.6    | 65.6          | 42.9         | 102.0   | 0.8               | 6.1               | 3.4               |
| Yemen Arab Republic .....          | 7.6           | (*)          | 49.7    | .8            | (*)          | 102.8   | 23.1          | (*)          | 26.3    | (*)           | (*)          | (*)     | (*)               | (*)               | (*)               |

\* Data not available.

<sup>1</sup> Source: IMF, "Balance of Payments Yearbook", Vols. 28, 29, 1977, 1978.<sup>2</sup> 1975-70.

In the non-oil exporting countries, as would be expected, the patterns of export and import development are generally quite different than in the oil exporting countries, but there are some striking parallels. The year 1974 was a year of unusually rapid expansion of exports for all the non-oil exporting countries except Turkey and the Sudan. The year 1975 was a year of export decline but not so uniformly as in the oil exporting countries. With some exceptions there was recovery in export in 1976 and 1977 and the rates of expansion often approached those achieved in the oil-exporting countries.

The rapid growth of exports for a number of the non-oil exporting Arab countries in 1974 suggests again that there were important spillover effects from rapid growth in incomes of the oil exporting countries. The declines in 1975 again reflected world recession but in Syria, the Sudan and the Yemen Arab Republic, though they were not completely immune, there was only a decline in the rate of expansion, still reflecting the prosperity in the economies of the oil exporting countries.

The growing balance of payments problems of the non-oil exporting countries of the Middle East are shown in the rapid expansion of imports in 1974 and the failure of most of the countries to adjust the rate of growth of their imports downward as rapidly as the rate of growth of their exports fell. This has clearly been the case for Turkey, Tunisia, Syria, Jordan, Morocco and the Yemen Arab Republic. In some years it has been characteristic of Egypt as well. In some of these countries imports actually grew while exports declined, opening a wide current account deficit. This is true of Turkey in 1975 and 1977, of Tunisia in 1975 and 1976, of Jordan in 1975 and 1977 and Syria in 1977 and the Yemen Arab Republic in 1976 and 1977.

The differences in the balance of payments conditions of the oil exporting and the non-oil exporting countries is made clear in Table 8 which shows the ratio of the current account surplus or deficit to the gross national product of each of the countries. In 1960 nearly all of the countries of the Middle East, oil exporting and non-oil exporting alike, had a current account deficit. By 1970 that was still true for all of the non-oil exporting countries, with only a few exceptions, but was not true of the oil exporting countries except for Iran and Algeria, where the deficits were small.

For the most part, after 1973 the oil exporting countries had current account surpluses, but the relative magnitudes were quite different among the countries. In Kuwait and Saudi Arabia the surpluses were at least one-third, but more often close to two-thirds of their gross national product. The surpluses were much smaller in all of the rest of the oil exporting countries and in some countries in some years became deficits.

On the other hand, current account deficits were a regular condition of life in the non-oil exporting countries and, in some of those countries, the deficits were regularly a large fraction of their gross national product. For different underlying reasons, Israel and Jordan provide the most consistent and conspicuous examples in the 1970's, but the same has been true since 1973 for the Yemen People's Democratic Republic and since 1974 for Egypt. In most of the other non-oil exporting countries in most years the deficits

have been relatively small fractions of their gross national product. While in general this should imply that they were relatively manageable, that has obviously not been the case for a number of the countries which have had to make extraordinary efforts to cover their foreign deficits.

TABLE 8.—RATIO OF CURRENT ACCOUNT SURPLUS (+) OR DEFICIT (–) TO GNP IN CURRENT PRICES<sup>1 2</sup>

|                             | 1976  | 1975  | 1974   | 1973   | 1970   | 1960   |
|-----------------------------|-------|-------|--------|--------|--------|--------|
| Oil exporting countries:    |       |       |        |        |        |        |
| Kuwait.....                 |       | + .61 | + 0.68 | + 0.56 | + 0.35 | + 0.37 |
| Libya.....                  |       | – .05 | + .14  | + .05  | + .21  | – .04  |
| Saudi Arabia.....           |       | + .63 | + .64  | + .37  | + .11  | – .29  |
| Oman.....                   | – .01 | – .02 | + .06  | – .15  | + .40  |        |
| Iran.....                   | + .11 | + .08 | + .25  | + .14  | – .04  | – .04  |
| Iraq.....                   |       | + .06 | + .24  | + .16  | + .03  | – .01  |
| Algeria.....                | – .06 | – .15 | + .03  | – .12  | – .08  | – .03  |
| Nonoil exporting countries: |       |       |        |        |        |        |
| Israel.....                 | – .26 | – .30 | – .25  | – .27  | – .21  | – .14  |
| Lebanon.....                |       |       | – .05  | – .06  | – .03  | – .08  |
| Turkey.....                 | – .05 | – .05 | – .03  | + .02  | – .01  | – .03  |
| Tunisia.....                | – .07 | – .05 | – .002 | – .04  | – .07  | – .10  |
| Syria.....                  | – .19 | – .11 | – .09  | – .02  | – .04  | – .01  |
| Jordan.....                 | + .04 | – .29 | – .18  | – .22  | – .20  | – .25  |
| Morocco.....                | – .16 | – .07 | + .03  | – .01  | – .05  | – .02  |
| Sudan.....                  |       | – .10 | – .03  | – .01  | – .01  | + 1.00 |
| PDR Yemen.....              |       | – .20 | – .27  | – .17  | + .005 |        |
| Egypt.....                  | – .16 | – .24 | – .15  | – .06  | – .06  | – .003 |

<sup>1</sup> Source: IBRD, "Country Data Sheet," 1978.

<sup>2</sup> 1961.

Further evidence on the international viability of the various countries of the Middle East is provided in Table 9. For purposes of comparison, the final row in the table lists data for all middle income developing countries. Prior to the increase in oil prices in 1973–74, debt service was not an inconsequential fraction of either the gross national product or exports of Iran, Iraq, and Algeria among the oil exporting countries. It is quite striking that, according to these variables, Algeria in 1976 was in a much more exposed position than in 1970 while, more in line with expectations, Iran and Iraq reduced the burden of the foreign debt which they carried. The Algerian position reflects the continuing substantial current account deficits in relation to GNP indicated in Table 8.

Among the non-oil exporting countries there was in general a growth in the burden of the external debt, but there have been important exceptions, Turkey, Tunisia and Syria, which include both relatively rapidly and relatively slow-growing countries. However, in the case of Turkey, although the ratios were reduced from 1970 to 1976, they remain comparatively high. The debt burden on the Sudan has increased substantially in the 1970's. For Egypt, the ratio of debt service to exports has actually declined, but remains at the highest level in the region.

In terms of their coverage of imports by foreign exchange reserves, the non-oil exporting countries as a group are clearly quite

different from the oil exporting countries, with Algeria again being an exception among the latter. It is worth noting that the decline in the debt burden of Syria was at the expense of reducing its import coverage by reserves to one of the lowest levels in the Middle East. However, clearly Egypt and the Sudan are at great risk.

TABLE 9.—MEASURES OF INTERNATIONAL VIABILITY<sup>1</sup>

|   | Debt service as a percentage of<br>GNP and exports of goods and services |      |      |      | Reserves, <sup>2</sup><br>1976 |
|---|--|------|------|------|--------------------------------|
|   | 1970   | 1976 | 1970 | 1976 |                                |
| Oil exporting countries:                  |  |      |      |      |                                |
| Kuwait.....                               |  |      |      |      |                                |
| Libya.....                                |  |      |      |      | 5.4                            |
| Saudi Arabia.....                         |  |      |      |      | 14.7                           |
| Iran.....                                 | 3.0  | 1.5  | 12.2 | 4.3  | 6.2                            |
| Iraq.....                                 | 0.9  | 0.4  | 2.2  | 0.9  | 5.2                            |
| Algeria.....                              | 0.9  | 5.7  | 3.2  | 14.1 | 3.0                            |
| Nonoil exporting countries:               |  |      |      |      |                                |
| Israel.....                               | 0.7  | 4.0  | 2.6  | 12.1 | 2.1                            |
| Lebanon.....                              | 0.2  |      |      |      |                                |
| Turkey.....                               | 1.3  | 0.7  | 21.4 | 11.2 | 2.3                            |
| Tunisia.....                              | 4.4  | 2.4  | 17.1 | 6.8  | <sup>a</sup> 2.6               |
| Syria.....                                | 2.1  | 1.7  | 11.0 | 7.9  | 1.7                            |
| Jordan.....                               | 0.7  | 1.8  | 3.6  | 2.8  | 4.5                            |
| Morocco.....                              | 1.8  | 2.5  | 7.7  | 12.6 | 1.6                            |
| Sudan.....                                | 1.2  | 2.6  | 10.3 | 16.7 | 0.3                            |
| Yemen PDR.....                            |  |      |      |      |                                |
| Egypt.....                                | 4.1  | 6.6  | 28.7 | 17.6 | 0.8                            |
| Yemen Arab Republic.....                  |  |      |      |      | 14.9                           |
| All middle income developing countries... | 1.4  | 2.0  | 7.5  | 8.0  |                                |

<sup>1</sup> Source: IBRD, World Development Report, 1978.

<sup>2</sup> In months of import coverage.

<sup>a</sup> 1975.

Another type of overall insight into the relative dependence of the various countries on domestic and foreign sources for growth is shown in Table 10 which lists public, private and foreign saving as a percentage of gross domestic investment, for those countries which rely on foreign saving. And for those countries which are accumulating foreign reserves, that amount is shown as a ratio of gross domestic investment. It should be noted that the total of the various types of saving may not add to one hundred per cent because some of the saving may be used for repayment of foreign loans or accumulation of reserves.

Among the oil exporting countries, clearly only Kuwait and Saudi Arabia have been consistent capital exporters with Libya, frequently in that position but occasionally drawing down reserves or borrowing abroad and Algeria borrowing abroad even more frequently. The latter is, undoubtedly related to the relatively high rate of investment which Algeria has maintained by comparison with the other oil exporting countries.

It is not surprising to find the non-oil exporting countries relying heavily on foreign saving however, the differences in the uses of that saving source among the countries are striking. In Israel foreign saving has often been used to offset the government budget deficit. That has, to some extent been true as well in Syria and Jordan.

TABLE 10.—PUBLIC, PRIVATE, AND FOREIGN SAVING OR ACCUMULATION OF FOREIGN RESERVES (\*) AS PERCENT OF GROSS DOMESTIC INVESTMENT

|                             | 1976 Saving |         |         | 1975 Saving |         |         | 1974 Saving |         |         | 1973 Saving |         |         | 1970 Saving |         |         | 1960 Saving |         |         |
|-----------------------------|-------------|---------|---------|-------------|---------|---------|-------------|---------|---------|-------------|---------|---------|-------------|---------|---------|-------------|---------|---------|
|                             | Public      | Private | Foreign |
| Oil exporting countries:    |             |         |         |             |         |         |             |         |         |             |         |         |             |         |         |             |         |         |
| Kuwait .....                |             |         | * 93.0  |             |         | * 83.8  |             |         | * 118.8 |             |         | * 677.9 |             |         | * 269.0 |             |         | * 289.5 |
| Libya .....                 |             |         |         |             |         | * 15.4  |             |         | * 48.1  |             |         | * 14.3  |             |         | * 106.6 |             |         | * -8.9  |
| Saudi Arabia .....          |             |         |         |             |         | * 584.9 |             |         | * 548.6 |             |         | * 202.1 |             |         | 52.9    |             |         |         |
| Iran .....                  |             |         | 37.3    | 58.6        | 68.4    | 27.1    | 118.3       | 122.4   | * 140.8 | 40.7        | 131.0   | 71.8    | 24.4        | 55.6    | -19.9   |             |         | -20.5   |
| Iraq .....                  |             |         |         |             |         | 15.6    |             |         | 89.1    |             |         | 71.2    |             |         | 17.2    |             |         | -5.9    |
| Algeria .....               |             |         | 11.2    |             |         | 26.8    | 69.6        | 36.9    | 6.6     | 37.7        | 34.1    | -28.0   | 30.8        | 47.3    | -21.7   |             |         | -8.5    |
| Nonoil exporting countries: |             |         |         |             |         |         |             |         |         |             |         |         |             |         |         |             |         |         |
| Israel .....                |             |         | -100.0  |             |         | -96.8   | 58.1        | 82.3    | -75.7   | -65.5       | 83.5    | -82.0   | -53.8       | 77.4    | -76.3   | .2          | 48.4    | -51.2   |
| Lebanon .....               |             |         |         |             |         |         |             |         | -22.3   | -3.1        | 72.7    | -30.3   | -2.8        | 82.6    | -18.0   | 16.8        | 30.8    | -52.0   |
| Turkey .....                |             |         |         |             | 21.8    |         |             |         | -23.2   |             |         |         | 11.8        | 35.8    | 57.3    |             |         | -6.8    |
| Tunisia .....               | 16.2        | 62.0    | -21.6   | 22.7        | 60.6    | -16.6   | 31.4        | 67.7    | -7      | 24.4        | 57.1    | -18.3   | 16.7        | 47.8    | -35.3   |             |         |         |
| Syria .....                 |             |         | 65.0    |             |         | 35.5    |             |         | -37.8   | -26         | 116     | -12     | -32.7       | 103.8   | -28.8   |             |         |         |
| Jordan .....                |             |         |         |             |         | 104.2   |             |         | 80.3    | -58.7       | 35.1    | -123.6  | -70.0       | 58.6    | -111.6  | -72.5       | 15.2    | -157.3  |
| Morocco .....               | 2.6         | 39.4    | -57.8   | 15.0        | 55.3    | -29.5   | 14.2        | 107.5   | 21.7    | 20.1        | 89.1    | 9.3     | 21.2        | 44.7    | 33.9    | -16.5       | 136.3   | 19.7    |
| Sudan .....                 |             |         |         |             |         |         |             |         |         |             |         |         |             |         |         |             |         |         |
| Yemen PDR .....             |             |         |         |             |         | 98.9    |             |         | 150.0   |             |         | -109.8  |             |         | .2      |             |         |         |
| Egypt .....                 |             |         | -63.4   |             |         | -84.4   |             |         | -84.5   | -7.4        | 65.6    | -41.7   | 12.4        | 42.6    | -44.8   |             |         | -2.9    |
| Yemen AR .....              |             |         |         |             |         |         |             |         |         |             |         |         |             |         |         |             |         |         |

Table 11 which lists the ratios of the balance on trade account to imports suggests important current trends. The oil exporting countries almost uniformly have surpluses on trade account, but these surpluses are typically larger than the surpluses on the current account because of net payments on services and outflows of unrequited transfers which are overwhelmingly remittances. The trends in the trade account surpluses are, with only few exceptions, downwards over time, reflecting increasing import capacity, slower increases or absolute declines in exports of oil and, on some occasions, net factor payments abroad and movements in the terms of trade against this group of countries.

The non-oil exporting countries, in contrast with the oil exporting countries, almost uniformly have deficits on trade account. Their current account balances are typically not so bad as they often have net earnings on service account and are net recipients of emigrant remittances in the form of unrequited transfers. There is, in general, a tendency in the non-oil exporting countries for the trade account deficits to increase over time as a ratio of total imports. However, in some countries such as Israel and Egypt, again for different reasons, the rising trend of the early 1970's was reversed in the mid-1970's. Moreover, in Egypt and in a few other countries such as the Yemen Arab Republic the increasing emigrant remittances have helped to offset the trade deficits. In Turkey, Tunisia and Syria this type of offset to trade deficits has been of less importance and accounts in part for the increasingly difficult international payments position in which they find themselves.

TABLE 11.—RATIO OF INTERNATIONAL BALANCE OF TRADE TO IMPORTS<sup>1</sup>

|                             | 1977             | 1976             | 1975             | 1974             | 1973             | 1970             |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Oil exporting countries:    |                  |                  |                  |                  |                  |                  |
| Kuwait.....                 | +147.6           | +193.2           | +253.1           | .....            | .....            | .....            |
| Libya.....                  | +99.1            | +104.5           | +45.0            | +92.5            | +75.4            | +255.6           |
| Saudi Arabia.....           | +179.2           | +241.1           | +352.6           | +710.5           | +258.1           | +151.9           |
| Iran.....                   | +53.9            | +49.9            | +58.4            | +194.2           | +0.53            | +45.7            |
| Iraq.....                   | .....            | .....            | +99.4            | +15.3            | +15.90           | +137.0           |
| Algeria.....                | -4.3             | +10.8            | -18.5            | +25.4            | -14.4            | -6.8             |
| Nonoil exporting countries: |                  |                  |                  |                  |                  |                  |
| Israel.....                 | -37.7            | -49.8            | -61.4            | -60.6            | -61.0            | -58.1            |
| Lebanon.....                | ( <sup>2</sup> ) |
| Turkey.....                 | -66.0            | -57.0            | -66.9            | -54.4            | -29.8            | -30.8            |
| Tunisia.....                | -46.1            | -44.3            | -34.7            | -11.6            | -33.1            | -35.7            |
| Syria.....                  | -58.9            | -49.3            | -34.7            | -24.6            | -37.3            | -40.8            |
| Jordan.....                 | -79.6            | -77.1            | -76.4            | -64.0            | -74.8            | -79.1            |
| Morocco.....                | .....            | -57.1            | -36.9            | 0.85             | -11.9            | -21.9            |
| Sudan.....                  | -2.4             | -5.8             | -44.5            | -29.0            | +31.9            | +6.0             |
| Yemen Arab Republic.....    | -97.9            | -97.1            | -94.2            | -94.0            | .....            | .....            |
| Egypt.....                  | -51.6            | -58.1            | -60.2            | -42.6            | -30.0            | -24.6            |

<sup>1</sup> Source: IBRD, World Development, 1978.<sup>2</sup> Not available.

## VI. CONCLUSIONS

Since the economies of the Middle East are for the most part still in the early stages of their development, it cannot be said that the patterns of their futures are yet clearly established. It is clear that, for different reasons in different countries, the period since 1973 has been one of acceleration of growth in both the oil exporting and non-oil exporting countries. Due to the large increases in oil prices especially in 1973-74, the resources available for use expanded most rapidly in the oil exporting countries. However, resource availabilities in the non-oil exporting countries have also grown substantially. The latter has been in part a result of spillover effects from the revenues of the oil exporters but also in part because of increased economic assistance from outside the region and of internal growth itself.

These increased resources have contributed in most of the countries to a rapid expansion of consumption as well as investment. It is the latter on which, ultimately, the modernization and diversification of the economies must depend.

It is still too early to assess the effects of the high rates of investment which have, in general, prevailed in the Middle East since 1973. Some of the permanent effects can already be discerned but by no means all of them. The investments in "infrastructure", housing, schools, roads, hospitals and buses, will undoubtedly generate quite widespread improvements in the standards of living. What is more questionable is the rate at which the investments in agriculture and industry will result in increases in output in these latter sectors.

We do know that investments in primary and processing industries have been undertaken on a large scale, as part of the high rate of investment pointed out above, although there is no systematic collection of data on the sectoral allocation of investment. The high cost and possible wastage in such investments have been noted elsewhere.<sup>9</sup> We also know that, in the oil exporting countries, there has been no overall investment rationale and therefore some duplication of investment in refining and petrochemical facilities may have occurred. Since the gestation periods of the industrial investments are three to five years, it is only within the next few years that the effects of the ambitious investment programs will be seen.

It is reasonable to expect that the investments will, "pay off," if not to the extent originally expected, then at least to some degree. However, the degree is important and it would be dangerous to make predictions without more evidence and closer scrutiny. There are examples of large projects in other developing countries which were based on inadequate analyses and which, as a result, have added relatively little to growth. Unfortunately the scanty reports which are available suggest that some of the investments undertaken may not have been the result of careful investigations and decision processes which would help assure the returns projected for them.

It is clear from the survey above that there is considerable diversity among both the oil exporting and non-oil exporting coun-

<sup>9</sup> Ibid.

tries of the Middle East in the extent to which they have yet achieved diversification and modernization of their economies and reasonably stable growth patterns. There have indeed been some outstanding successes; there are cases of actual retrogression for some periods of time. And there are countries in which the changes are too gradual or uneven to permit projection of any pattern.

There is another aspect of the development of the oil exporting countries which emerged from the previous survey and other studies in this compendium which is worth emphasizing. The oil exporting countries have been the recipients of large numbers of immigrant workers. These have, to a considerable extent, been absorbed in the investment sector and in the service sectors rather than in processing industries. That is the case simply because there is yet relatively little in the way of processing industry capacity which could absorb labor. In the future, as investments in the processing industries mature, the demand for labor in these industries will expand. The oil exporting countries will then be faced with the immediate reality of whether the increases in output on balance will benefit their own nationals more than the immigrant workers who are providing such a large fraction of their labor forces.

The growth and transformation of some of the countries particularly the major oil exporting countries have been accomplished without substantial weakening of their international debt and reserve position. However, in other cases, including oil, exporting countries and, particularly, the non-oil exporting countries, the size and burden of the foreign debt has grown so much as to potentially endanger the future ability of the countries to finance their deficits.

The period since 1973 has been one in which important economic transformations have begun or accelerated in most of the countries of the Middle East. There are countries in which the effects of the transformations are barely visible now and other countries which are more clearly fully involved. This period will, in the future, be regarded in many countries as the base during which the successes as well as, perhaps, some of the defects of their growth processes originated.

# ECONOMIC CHANGE IN THE OIL EXPORTING COUNTRIES OF THE MIDDLE EAST

By Fern Racine Gold\* and Charles K. Ebinger\*

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## INTRODUCTION

All forecasts of future energy supply/demand developments agree on certain fundamental points. First, oil will continue to be the major energy source for the Free World for the foreseeable future. Second, Free World oil demand will continue to increase in volumetric terms. Third, for the industrial countries reliance on oil as an energy source is equal to dependence on imported oil.

There also is substantial agreement as to the possible sources of oil imports in quantities sufficient to meet increasing volumetric demand. Even assuming increased oil production outside the Middle East, dependence on imported oil is tantamount to dependence on Middle East oil. More particularly, as other, current oil exporters see their production peak and begin to decline because of resource and technical constraints, the importance of those countries of the Persian Gulf with the ability to continue to increase production will be accentuated.

All these factors were recognized prior to 1973-74 developments in international oil. Nevertheless, the 1973-74 oil embargo and oil price increases did signify changes in the international oil supply system. The changes had been incubating for some time but the oil supply system was fundamentally altered in 1973-74 with the transfer of control of oil production levels and prices from the international oil companies to the governments of the oil exporting countries.

Post-1973-74, the economic, political and security interests of the oil exporting countries—individually and collectively—will be the major determinants of oil production levels and prices. The needs of the oil importing countries, along with commercial considerations, will be viewed from the perspective of this collection of exporters' interests.

The extent to which oil demand will be met in the intermediate term (to 1990) and at what price depends on the investment and production decisions of the relatively small group of oil exporters having the capacity to vary oil production levels—Saudi Arabia,

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Kuwait, the United Arab Emirates and Iraq. This analysis attempts to assess selected post-1973-74 economic developments and their implications for the ways in which these pivotal exporters define and pursue their interests. These in turn may determine, in part, the adequacy of oil available for international trade.

#### POST-1973—PANIC AND EUPHORIA

The most immediate and obvious result of the 1973-74 oil price increases was a transfer of resources from the oil importing countries to the oil exporting countries, all of whom, by standard economic criteria, are developing countries. Revenues accruing to the members of the Organization of Petroleum Exporting countries (OPEC)<sup>1</sup> increased from about \$22.5 billion in 1973 to over \$100 billion in 1974 for roughly equivalent levels of oil production. Saudi Arabia alone saw its oil revenues increase from \$11 billion in 1973-74 to \$34 billion in 1976-77. Iran's oil revenue went from \$2.2 billion in 1972-73 to \$18.5 billion in 1974-75 and \$20 billion in 1977-78.

The current account balances of the OPEC group improved markedly. The surplus soared to some \$60 billion in 1974 before declining to the still-respectable sum of approximately \$35 billion in 1976. The net external assets of the Middle East countries rose from \$3 billion in 1973 to over \$150 billion in 1977.<sup>2</sup>

The response to this massive shift of resources from the oil importing to the oil exporting countries was panic in the West and euphoria in the OPEC countries. The West not only belatedly recognized the importance of the security of their oil supplies and the potential consequences of dependence on foreign sources for a commodity of such critical importance to their economies and societies but also feared for the stability of the already-shaky international monetary system. Similarly, concern was expressed over possible OPEC purchases of Western businesses and industry.

Finally, a point emphasized again and again by the oil exporters gave rise to fears that future oil production levels would be limited by the presumed inability of some of the major oil exporters to use their increased revenue effectively. The argument ran that since the absorptive capacity—the ability to use funds for internal development—of some of the key exporters, particularly Saudi Arabia, was limited by resource, manpower, technological and other constraints, such exporters would have little incentive to increase production. Some exporters, particularly Saudi Arabia and Kuwait, denied that they had an interest in even maintaining their current production levels, asserting their ability to live on far less income.

OPEC euphoria had both political and economic dimensions. Politically, OPEC served as a symbol for all countries which, having freed themselves from political colonialism, found themselves bound by ties of economic imperialism. OPEC had wrested control of its natural resource—for many members their only significant resource—from past colonial masters or the companies associated in the minds of OPEC producers with Western imperialism.

<sup>1</sup> OPEC members include Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, The United Arab Emirates and Venezuela.

<sup>2</sup> *Middle East Economic Survey*, 5 December 1977.

To the less developed countries, OPEC had righted a past wrong by redistributing the benefits to be derived from the exploitation of their natural resource in their favor. It hardly mattered that it was the shift in the international oil market more than OPEC *per se* which achieved the goals long cherished by many developing countries; the symbol was larger than life.

OPEC then became an example, an ally, a spokesman and a source of funds for other developing countries. Middle East producers, in part because they could best afford it, undertook sizable aid programs. Concessional aid commitments from the Middle East to other developing countries increased from \$1.1 billion in 1973 to \$5.2 billion in 1976.<sup>3</sup> Much of this aid was channeled to Arab and/or Islamic countries either bilaterally or through the newly-created multilateral investment funds.

Nor was financial assistance limited to the developing countries. Loans were extended to developed countries—Italy and the United Kingdom—and additional assistance was funneled through international institutions such as The International Monetary Fund. Combined with the enhanced importance of Middle East oil money was a demand by the Arab oil exporters for a greater voice in the management of international monetary affairs.

Euphoria, however, was most apparent in the ambitious development plans instituted immediately after the oil price increases of 1973-74. Freed from economic exploitation, the belief was widespread in the Middle East that the greater availability of capital would suffice to solve the problems of economic development; whatever was needed could be purchased.

Typical of the vastly expanded development plans is Saudi Arabia's Second Five-Year Plan (1975-80), estimated to cost about \$140 billion. By way of comparison, the Second Five-Year Plan represents a sixfold increase over the actual disbursements attained in the First Five-Year Plan (1970-75).<sup>4</sup> Gross domestic product is expected to increase at an average annual rate of 10 percent, including 15 percent for non-oil mining and quarrying, 14 percent for non-oil manufacturing, 15 percent for power, construction, wholesale and retail trade, transport and communications, and other services, and 4 percent for agriculture.<sup>5</sup>

The plan's objectives are to: (1) Diversify the economy and reduce the overwhelming dependence on oil for the major share of government revenues (95 percent), foreign exchange earnings (virtually all), and gross domestic product (87 percent); (2) develop a broad industrial base as a means of diversification; and (3) capture an increasing proportion of the value added in the petroleum sector. All this is to be accomplished while increasing standards of living, developing human resources and maintaining Islamic values.<sup>6</sup>

The centerpiece of the plan is the massive gas gathering scheme. Managed by ARAMCO, the gas gathering effort is designed to utilize associated gas produced as a by-product of oil production, most of which currently is being flared and wasted. The gas plan envisions an expansion of ARAMCO's existing natural gas liquids

<sup>3</sup> *Middle East Economic Survey*, 17 April 1978.

<sup>4</sup> *The Financial Times*, "Saudi Arabia," March 28, 1977.

<sup>5</sup> Fern Racine Gold and Melvin A. Conant, *Access to Oil: The United States Relationships with Saudi Arabia and Iran*, (U.S. Government Printing Office, 1977), p. 44.

<sup>6</sup> *Ibid.*, p. 43.

plant, with some of the increased production available for export, some for use as a feedstock in prospective petrochemical enterprises and the remainder for use as a domestic industrial fuel.<sup>7</sup> Saudi Arabia's major industrialization efforts will revolve around the more effective utilization of petroleum resources.

In Iran there was a similar expansion of the development plan. The revised Fifth Five-Year Plan (1973-78), announced in August 1974, projected fixed investment of \$115 billion.<sup>8</sup> In the immediate term the plan emphasized petroleum-based industrialization activities, including export refineries and petrochemical developments. Although Iran's gas reserves are huge, it was planned that much of this would be returned to the oil fields in a massive secondary oil recovery program. Longer-term, the plan called for diversifying the economy away from its current oil dependence to greater reliance on nuclear power. Only time will tell how much of this plan survives the overthrow of the Shah and the transition of a new government.

Kuwait's Five-Year Plan (1977-81) envisages expenditures of about \$18 billion.<sup>9</sup> The plan includes sizeable social welfare projects, housing construction, expansion of electricity generation and water desalinization capacity, extension of the road network, infrastructure development and a second liquefied petroleum gas plant. Fertilizers, natural gas liquids, and refined petroleum products are worth more than twice the value of the combined output of all other Kuwaiti industries.<sup>10</sup>

In Iraq, the original Third Five-Year Plan expenditures were revised upward from \$17 billion to \$34 billion. The revised plan continued Iraq's emphasis on agriculture but vastly increased the resources devoted to industrial and infrastructure developments. Planned expenditures for industrial projects, including steelmills, chemical and petrochemical complexes, cement works, aluminum smelters and manufacturing facilities, jumped about 300 percent.<sup>11</sup>

The increase in oil revenue brought about an enormous spending spree, assisted by eager salesmen from the industrialized countries. Of necessity, the plans involved a large increase in imports of goods and services, particularly from the developed countries.

Saudi Arabia's imports in 1975 totalled approximately \$7.2 billion; by 1976 the similar figure was estimated to be \$13.2 billion, an increase of 83 percent in one year. Freight and insurance charges increased from \$0.4 billion in 1974 to \$1.7 billion in 1976. In the same period imports of services increased from \$1.2 billion to \$5.3 billion. For Kuwait, imports rose by 49 percent in both 1974-75 and 1975-76.<sup>12</sup> Imports to the United Arab Emirates increased from \$1.7 billion in 1974 to \$4.4 billion in 1977.<sup>13</sup> For Iran, expenditures of goods and services went from \$3.0 billion in 1972-73 to \$5 billion in 1973-74 and \$10.0 billion in 1974-75. Estimates for 1975-76 put Iranian imports of goods and services at \$15 billion.<sup>14</sup>

<sup>7</sup> *The Financial Times*, "Saudi Arabia."

<sup>8</sup> *Middle East Annual Review*, Economist Intelligence Unit, 1977.

<sup>9</sup> *The Financial Times*, "Kuwait," February 27, 1978.

<sup>10</sup> *Ibid.*, p. 18.

<sup>11</sup> Theodore H. Moran, *Oil Prices and the Future of OPEC*, (Washington, D.C., Resources for the Future, 1978), p. 42.

<sup>12</sup> *The Financial Times*, "Kuwait," p. 19.

<sup>13</sup> *The Financial Times*, "Survey: The United Arab Emirates," June 26, 1978, p. 31.

<sup>14</sup> *The Economist*, *Survey of Iran*, p. 22.

By 1976 it became apparent that neither panic nor euphoria was fully justified.

#### Post-1976

In the West, concern with the adequacy and security of foreign oil supplies will remain operative as long as oil remains the primary energy source for the Free World and oil resources are concentrated outside the major oil consuming countries. Nevertheless, the wide degree of freedom of maneuver attributed to the Middle East oil exporters in 1973-74 appeared to be narrower by 1976.

Fears of currency speculation and manipulation were not borne out. The international monetary and financial systems not only survived the enormous transfer of resources to the oil exporting countries but proved adept at managing the recycling of petrodollars assisted by the increased purchases of the oil exporting countries. The record is uneven, with some oil importers suffering greater consequences from the oil price increases, but on balance the situation appears to be under control.

Fears regarding direct foreign investment in the industrialized countries gave way in the face of: (1) The caution of the oil exporting countries; and (2) the recognition in some industrialized countries that exporters' investments in the developed countries contributed to security of oil supply and international financial and monetary stability by increasing the stake of the oil exporting countries in the health of the world economy.

In addition, by 1976, it became evident that the surplus was declining from its 1973-74 peak and levelling off at about \$35 billion a year. In 1976, almost 34 percent of the total surplus of the oil exporting countries was invested in the United States. Some \$7 billion represented equity and property holdings; the remainder took the form of U.S. Treasury bonds and notes and bank deposits. An additional 12 percent of the exporters' surplus went to the U.K., largely in the form of foreign currency deposits. The remaining 52 percent of the surplus, or about \$19 billion, was placed in the Eurocurrency markets, special bilateral facilities and investments (including loans to the less developed countries), and international organizations.<sup>15</sup> The quality of investments also improved as the preference for short-term, liquid assets gave way to longer term, higher yield instruments.

Among exporters also, the record is uneven. Some Middle East exporters, including Iran and Algeria, began borrowing on the international financial markets while the surplus increasingly was concentrated in four oil producing countries. The United Arab Emirates, Kuwait, Saudi Arabia and Qatar account for approximately 80 percent of OPEC's overall current account surplus and 66 percent of total OPEC foreign assets.

The net effect of increased Middle East investments in the industrialized countries and the international financial system was to contribute to a growing web of interdependence between oil exporters and oil importers. It was not so much that the original fears of the industrialized countries proved wrong—rather, countervailing factors came into play which demonstrated that disruption could be as costly to oil exporters as oil importers.

<sup>15</sup> *Middle East Economic survey*, 8 May 1978, p. 7.

Nevertheless, the concentration of financial resources in those countries of the Middle East with low absorptive capacity continue to generate concern that these exporters would resist oil production increases should increases become necessary to meet world oil demand. Moreover, the concentration of oil reserves in these countries meant that if higher oil production levels were in fact needed to balance Free World energy supply and demand, increased production could come only from the Middle East, and particularly the low absorbers of the Arabian peninsula and Iraq.

While the industrialized countries still had reason to be concerned about the adequacy, security and price of foreign oil supplies, the post-1976 situation appeared far more complex and less totally favorable to oil exporters than was anticipated in 1973-74.

By 1976, it was becoming painfully apparent to many of the OPEC nations that something was seriously wrong with the execution of their development programs. Infrastructure capacity did not keep up with government spending; prices soared as a result of domestic and foreign inflation; and even the large influx of foreign labor, which posed serious social and political issues, could not break the bottlenecks posed by inadequate skilled and unskilled manpower resources. Waste and corruption proliferated; the massive infusion of oil wealth undermined traditional values and there was a growing perception that foreign economic interests were reaping benefits from extended delays and large cost overruns for key industrial projects. By 1976 it was apparent that capital alone could not bring modernization. Moreover, the effort to speed the pace of development squandered capital resources.

Although in 1976, development plans began to be reassessed, by and large they were not abandoned. In Saudi Arabia some projects were scaled down, including the gas gathering scheme, and the perception emerged that the entire plan might take much longer to accomplish than the five-year period originally envisioned. Spending plans were curbed and anti-inflation measures were adopted. Priorities were shifted with increased priority given to overcoming the infrastructure bottlenecks.<sup>16 17 18</sup>

As in the case of Saudi Arabia, in Kuwait a slower pace of development was also implemented. Following the 1973-74 oil price increase and the associated increase in government revenue, Kuwait found itself in the midst of a frenzy of real estate and stock market speculation, which burst in 1977-78 with a rapid decline in real estate values and stock prices. Although Kuwait, with its relatively well-developed infrastructure and human resources, and its emphasis on foreign investment, was better able to cope with increased revenues than some of the other Middle East oil exporters, problems with port congestion and spiralling inflationary pressures led to an economic slowdown in 1977.

Similar reassessments and a reordering and a rescheduling of developmental priorities occurred in Abu Dhabi, the rest of the United Arab Emirates (UAE) and Iraq. In the UAE, inter-tribal rivalries resulted in each of the sheikhdoms planning individual projects which led to costly duplications of efforts in key economic

<sup>16</sup> *The Financial Times*, "Saudi Arabia," p. 14.

<sup>17</sup> *The Washington Post*, "Oil Boom Times Over, Abu Dhabi Is Undergoing Slump." October 30, 1977, p. K9.

<sup>18</sup> *Middle East Economic Survey*, May 22, 1978.

sectors, such as port development. Likewise, the suspicions among the leaders led to the lack of any coherent national energy plan being implemented for the entire Federation. However, by 1976 the UAE leaders saw the long-term implications of their policies and began, albeit slowly, both to slow the pace of development and to coordinate the policies of the various sheikdoms.

In Iran, delays and cost overruns, poor management and supervision of projects, port and infrastructure congestion, shortages of equipment and manpower and scarcity of housing, water, communications facilities and electric power contributed to high rates of inflation, waste and corruption. High rates of inflation and rising expectations following the 1973-74 euphoria resulted in growing discontent with prevailing income distribution and the continued large gap between the rich and the poor. Although the government adopted food subsidies, large wage increases and punitive action against "hoarders," there was a rising perception in Iran more than anywhere else in the Middle East that the benefits of the oil boom were accruing predominantly to a small elite and a growing number of corrupt foreign interests. The rigid political control of the Shah, including the use of torture, led to rising dissatisfaction with the regime.

By 1976, the Iranian development plan was also being reassessed, eventually resulting, in the summer of 1977, in a new government, headed by the former Finance Minister, which was installed to demonstrate the seriousness with which the Shah viewed the economic situation and his intent to introduce a greater degree of rationality into the Iranian economic development process. The development plan was reduced and austerity measures adopted. Priorities were shifted toward infrastructure developments and for the first time it was publicly announced that the goals of the Fifth Plan would not be fulfilled and that some major projects would be deferred to the Sixth Plan for implementation.

Nonetheless, despite these reforms, resentment against the Shah and the disruptions in the Iranian social and economic system, unleashed by the frantic pace of modernization, continued and culminated in the overthrow of the Shah in January 1979.

By 1976, the early euphoria that had prevailed throughout the Middle East in 1973-74 had evaporated and a deeper pessimism and suspicion began to simmer throughout the region. Increasingly, the blame for poorly conceived and executed plans was attributed to over-zealous salesmen from the industrialized nations. There was an emerging sense that the industrialized countries had managed somehow to erode the financial gains made by the Middle East oil exporters in 1973-74.

While imported inflation had been responsible for most of the rapidly escalating costs, on a more sinister level there was a feeling among the oil producers that Western contractors may have been less than honest in their assessments of how easily developmental goals could be achieved. As a result, by 1977, several Middle Eastern countries began rejecting those Western bids which they considered exaggerated in favor of bids from Third World countries like Taiwan and South Korea. Not only were Third World bids considered more economical but Third World contractors also pro-

vided a package for the full implementation of a project, including an apolitical, temporary, labor supply.

By 1976-77, the surplus OPEC nations also complained that the value of their foreign investments was not keeping pace with the rate of inflation. Because some 60 percent of OPEC's net foreign assets, about \$96 billion, is denominated in dollars, the decline in the value of the dollar became of vital concern to the Middle Eastern oil exporters, who not only receive payment for oil exports in dollars but who also have invested heavily in the United States and in dollar-denominated eurocurrency instruments. As a result of the dollar's erosion on international currency markets, one recent study indicates that OPEC's assets have declined in value to \$69 billion in constant dollars.

Because of OPEC's concern that the benefits of increased oil prices have been seriously diminished, there has been an increased emphasis placed on developing petroleum-based industrialization projects as a means of increasing income in a more reliable manner than via the instrument of higher oil prices *per se*. As a result, in spite of the reassessment of development plans, hydrocarbon-based industrialization continues to receive top priority. Increased oil production has been tied to industrialization assistance.

While some of the export refineries, gas projects and petrochemical plans have been reassessed, Middle East producers have clearly signaled their intent to move into these areas in a major way. Furthermore, they insist that they be allotted a share of the growth in the market for these products in the industrialized countries regardless of the cost to existing facilities. An additional condition for increased oil production in the future will be guaranteed access to the markets of the industrialized countries.

A second effect of the end of euphoria has been a redefinition of absorptive capacity. Because the Middle East producers have been able to utilize more of their increased income than was originally believed, their current account surplus has begun to decline. Greater spending capacity has resulted from a number of factors. First, the projects which are to be implemented in spite of the reassessment of development plans are capital intensive and hence subject to more rapid rates of inflation than that prevailing in the economy as a whole. In effect, although many projects have been scrapped, the staggering costs of even a few large-scale petroleum-based industries may prove to be as expensive as the projects in the original development plans.

In addition, because the development plans often were prepared in a hurry without detailed feasibility studies, costs were often underestimated. For example, as a result of delays and inflation, the costs of Saudi Arabia's development plan have escalated from \$142 billion to \$296.5 billion.<sup>19</sup>

Still another factor influencing absorptive capacity has been the increasing ability of Middle East exporters to actually utilize the sums allocated. In the past the difference between appropriations and actual expenditures has been vast; this gap is now closing and a greater proportion of the total budget is being spent. Even where

<sup>19</sup> Theodore H. Moran, *Oil Prices and the Future of OPEC*. (Washington, D.C., Resources for the Future, 1978), p. 14.

expenditures have not kept pace with allocations, they have increased substantially.<sup>20</sup>

While inflation accounts for some of the increased spending, an additional factor relates to increasing current expenditures. Development expenditures still lag behind appropriations, causing expensive delays, but current expenditures more clearly approximate allocations. The previous emphasis in the definition of absorptive capacity on development expenditures seriously underestimated large increases in expenditures for current consumption.

Rising administrative costs, higher wages, and food and housing subsidies all add to current expenditures. Moreover, while development plans may be pared (albeit without necessarily inducing a commensurate reduction in spending because of inflation), it is far more difficult to reduce current expenditures once they are undertaken. These are the expenditures designed to ease the pains of economic and social development and to provide the basis for political support and stability. Food subsidies, public housing and urban services, and rural development, while expensive, are politically essential.

Another area which has witnessed a substantial increase in spending is the defense sector. Defense spending includes: purchases of military equipment; spending on military training, military salaries and benefits; and the construction of military facilities. Intra-regional rivalries, increasing involvement in international affairs—now as sources of influence and as attractive, rich targets—and greater concern with domestic stability, combined with the availability of financial resources, have resulted in a military spending spree.

Between 1971 and 1975 Iran's defense expenditures rose ten-fold. In 1975-76 Iranian defense spending represented 14 percent of GNP and amounted to approximately \$10 billion.<sup>21</sup> In Saudi Arabia, 1975-76 defense appropriations increased by 38 percent over the previous year, reaching \$10 billion, excluding funds allocated for the police force and internal security services.<sup>22</sup> Even tiny Kuwait has expanded its purchases of military equipment in response to sporadic threats emanating from neighboring Iraq. Increased international influence, protection money and security are costly.

While until late 1978, the Iranian approach was to develop Iran into the major military actor in the Gulf and the Arabian Peninsula littoral, Saudi Arabia, with a much more limited military potential, has utilized its financial power as a tool of foreign policy. The Saudis picked up the tab for the October 1973 Arab-Israeli War and have been subsidizing Egypt—perhaps to the tune of \$2 billion a year—ever since. Although the Saudis may cut off or reduce the level of their aid to Egypt because President Sadat signed a separate peace agreement with Israel which bypasses the rights of Palestinians, Saudi Arabia is likely to resume its support to Egypt to keep its influence in Cairo intact and thus guard the Saudi flank against attack by the more radical front line Arab states.

<sup>20</sup> Donald H. Wells, *Saudi Arabian Development Strategy*, (Washington, D.C., American Enterprise Institute for Public Policy Research, 1976), p. 25-26.

<sup>21</sup> *The Economist*, p. 13.

<sup>22</sup> *The Financial Times*, "Saudi Arabia," p. 13.

The Saudis have also used their financial capabilities as a source of leverage in intra-Arab affairs (Syria-Lebanon), and to woo countries (Somalia, North and South Yeman, Oman) and wings of insurgent groups (Eritrean Liberation Front, Afar Liberation Movement) either away from or in opposition to Soviet influence. Although these efforts have temporarily failed in South Yemen, in general Saudi policy has been quite successful. Kuwait and the UAE, also with scant military potential, use aid and investment to promote the economic development and generally favorable political relations which they believe serve their security interests.

In effect, a wider definition of absorptive capacity including: (1) The effects of inflation; (2) continued emphasis on hydrocarbon-based, capital intensive industrialization; (3) current consumption; (4) locked-in expenditures (expenditures difficult to abandon once undertaken); and (5) high-cost security and international influence shows that the ability to vary production levels may not be as extensive as was once imagined.

Clearly, there is a great deal of room for discretion—countries could abandon or reduce their development and/or military plans—and the definition of need is a task for individual countries. Nevertheless, there may be less freedom of maneuver for the oil exporting countries than either they claim or importing governments have attributed to them.

#### THE IRANIAN CRISIS

The toppling of the Shah of Iran in January 1979 and the emergence of the Islamic fundamentalist regime of Ayatollah Khomeini may bolster the position of those forces within some of the exporting countries who had already begun to question the cultural, economic, and political implications of rapid modernization.

While it is still too early to make a prognosis on what type of regime will finally emerge in Iran, the events of recent months demonstrate the political fragility of the regimes in the region and how local events in the Middle East can produce chaotic disruptions in the international petroleum market.

The removal of Iran as the security guarantor of the region may lead to political upheavals along the Arab side of the Gulf. In order to reduce the threats posed to their regimes, Gulf leaders may use the lesson of Iran to justify lowering their oil production levels on the grounds that the income generated by high production rates causes social disruption at home and finds inadequate avenues for investment abroad.

The surging spot oil prices, arising from the fall in Iranian oil production, and the change in the way Iranian oil is marketed may presage a fundamental change in the political economy of the Middle East and the world at large. The decisions by Libya and Iraq to reduce long-term oil contract sales in favor of spot sales may lead to further dramatic price rises for oil throughout the globe. Increasingly, crude oil short companies may find their access to oil in sufficient quantities to meet the needs of their customers severely circumscribed.

If oil prices stabilize at prices above \$16 per barrel, it will be possible for some of the major oil producing countries to curtail

production while still generating the revenues necessary to meet their development requirements. If such a scenario develops, it cannot be assumed that oil will necessarily be made available in the quantities demanded by the industrialized nations.

Ironically, as oil prices rise and the economic stability of the world is threatened, it may become necessary for the oil producing nations to increase their expenditures on internal security and military provisions, thus requiring more oil production to generate the revenues necessary for these purchases.

What emerges from the above analysis is that although there is still a coincidence of interests between the oil producing and oil consuming states, this duality of interests is eroding and there is great room for political miscalculation. Given the chaos that further political instability in the region could pose for the industrialized world, there is a potential for a major political and/or economic crisis.

### CONCLUSIONS

The four major post-1973 developments identified here as potentially influencing the interests of oil exporters, and hence their production and pricing decisions, are: (1) The interdependence of oil exporters and oil importers; (2) the emphasis on hydrocarbon-based industrialization; (3) the greater-than-anticipated absorptive capacity of the Middle East oil exporting countries; and (4) the change in perceptions unleashed by the Iranian crisis.

Interdependence entwines the interests of exporters and importers. The markets for Middle East oil are in their OECD countries. The fruits of Middle East industrialization efforts will require markets in the industrialized countries. The imports of goods and services needed by the oil exporters come very largely from the OECD countries. The value of their investments, which are placed in the developed countries, depends on international monetary stability and the health of the world economy. Recession and inflation in the OECD countries, to the extent that they are exacerbated by higher oil prices or supply constraints, are not in the interest of the surplus Middle East producers.

Middle East exporters also rely on the West for security and defense. Even Iraq might not like to see the United States disappear from the Middle East, given the implications of such for Iraq's ability to maintain some freedom of maneuver vis-a-vis the U.S.S.R. Other Middle East exporters also see the U.S. as their guarantee against encroachments from the Soviet Union and/or their neighbors.

From the perspective of the oil exporters, Middle East security calculations must also include the potential for Western overt or covert military action against one or more of the oil exporters themselves if it is perceived that vital oil supplies are being deliberately withheld. These considerations also form a part of the question of future oil production levels.

Interdependence argues in favor of exporters meeting some level of Free World oil requirements.

The Middle East oil producers are caught in a web of having to adopt one or another set of policies, either one of which may be detrimental to their security interests.

Plans for hydrocarbon-based industrialization may force higher oil production levels. Expansion of electricity generation and water desalinization facilities, and natural gas liquids projects in Kuwait, imply an oil production level of 3 million barrels a day (MMB/D). Kuwait currently imposes a 2.0 MMB/D production limit and 1977 production stood at 1.8 MMB/D. Similarly, it is estimated that Saudi Arabia's gas gathering scheme will require 12 MMB/D of production if the gas facilities are to be operated near capacity.

At the same time increased domestic utilization of hydrocarbons may mean less oil available for export. It almost certainly will mean that the trend will be away from exports of crude oil to exports of refined petroleum products and petrochemicals. This will be a long-term trend. Given the very real commitment of the Middle East exporters to these downstream investments and the importance of Middle East oil, exporters could tie the purchase of crude oil to the purchase of petroleum products. The economic viability and the impact on intra-OPEC affairs of these projects may be far less important than this political reality.

The drive to achieve hydrocarbon based industrialization poses threats as well as opportunities for the Middle Eastern oil producers. As noted, the shift from crude oil to product exports may lead to new tensions with the oil consuming states. At the same time, the Iranian crisis demonstrates too that a rapid industrialization program may lead to socio-economic dislocations which threaten the political stability of one or more of the oil producing regimes.

In view of this dilemma it is difficult to assess whether the freedom of maneuver of oil exporters in reducing production levels is more or less limited than originally believed. While there is undoubtedly room for discretion, in the future the relevant question may be which threat (creating havoc in the industrialized world by restraining production or creating socio-economic disruption at home) is perceived as greater in each of the oil producing countries.

To the extent that concern for the economic well-being of the industrialized world is perceived as the paramount consideration therein lies the case for greater oil exporter-importer cooperation. While the case put forward by the oil exporting countries as to the sacrifices and political risks they make in increasing oil production levels may not be totally valid, clearly, neither is it totally false.

Increased Middle East oil production requires investments in producing facilities and it now is to a greater extent than before the countries themselves who will be called upon to make the investment. However, given the Free World's vital interest in access to adequate oil supplies, it may not be unreasonable to pay a quid pro quo to see investments directed at increasing oil production levels. While industrialization assistance and the opening of Western markets to petroleum products are two areas of cooperation that need to be examined further, the industrialized world must also consider whether, in concert with a decision by one or more of the oil exporters to continue to meet the world's petroleum requirements, the western nations and Japan must not also, if

requested, be prepared to make a national security commitment to these regimes. While the issues involved are complex and controversial, they need to be addressed by the highest levels of governments.

In the preceding analysis, we have presented a broad outline of post-1973 developments likely to affect future oil production levels. The positions of individual exporters vary and these have not been detailed. Moreover, the developments outlined here serve only as part of the complex of factors which will influence oil decisionmaking. There are others, including energy demand, intra-OPEC politics and the arab-Israelic conflict, which will also play a major role. This analysis can form only a piece of the much wider and more detailed assessment required to project future oil production levels and prices.

## II. COUNTRY STUDIES

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### EGYPT

By P. J. Vatikiotis\*

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#### INTRODUCTION

This is intended more as an essay on Egypt since 1970 from which members of Congress, concerned with the consideration of alternative policies for the United States towards Egypt in particular and the Middle Eastern region in general, may derive an overview and a perspective of political and economic trends in that country. It has not been prepared in the form of a working brief or "reference source" on Egypt today. Research institutes and other specialized organizations are the proper sources for such briefs and reference compendia. However, no individual scholar or student of Egypt—or any other country for that matter—can or should attempt them. Moreover, much of this essay is based on recent visits to Egypt and a continuous and close relationship going back to the nineteen forties with Egyptians in government, journalism, higher education, letters and the arts.

Perhaps it is best to begin with a few general remarks about the Arab Middle East. The influence of external powers—great or super—on the region to the contrary notwithstanding, inter-Arab politics have their own dynamism and constitute an autonomous "system" of interaction. This interaction and the conflict it generates cannot be understood as a function primarily of ideological differences among Arab states and/or rulers. In other words, it cannot be explained—perhaps only justified for propaganda purposes—in strictly ideological terms.

1973 did not radically alter the patterns of interaction and conflict among the Arabs. However, for the period since 1967, one can point to one significant new factor affecting inter-Arab relations, namely, the financial and economic power of the oil-producing

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countries in the Arabian Peninsula and the Gulf. For the period since 1973, one can identify three to four broad areas of changing patterns and developments in the region. Firstly, there are the expanding boundaries of what is officially and politically referred to as Arab—Somalia, Jibuti, the Comore Islands, Eritrea—all of these have or are in the process of applying for Arab League membership. This very development raises anew the question, Who is, or What constitutes, and Arab nation-state? One recalls that the condition attached to Algeria's joining of the Arab League was its commitment to a programme of Arabization. In short, the concept of Arabism has become ambiguous, and invites clash and conflict between it and Islamism and Africanism.

Secondly, there had been since 1973 a changing Arab regional balance of power illustrated in the new relationship between Egypt and Saudi Arabia, with the former in some decline (in Arab terms) and the latter in some ascendancy. It was 1973 which gave Saudi Arabia a certain credibility—even legitimacy—as a leader of the Arab cause, however this cause may be defined. But this relationship, when viewed from the perspective of the other salient new factor of wealth derived from petroleum and the new sharp division it introduced in the Arab region between rich and less rich states, could well become the source of future conflict. Given the disparity in the educational and social levels of development between the two countries, the economic-financial domination of the less developed one, Saudi Arabia, could lead to a general lowering of social-cultural standards, religious revisionism and extremism. On the other hand, it could well become the basis of a new equilibrium in the Arab region from the combination of Saudi money and Egyptian expertise. What it does mean though in practical political terms for the Arab region is that, for the time being, neither Egypt, which is economically weak, nor Saudi Arabia, which is otherwise incapable can dominate or hegemonize the Arab region.

A corollary of this development has been the shift in alignments between other states in the region. Thus there is now a joint attempt by Syria and Iraq at the control of the Fertile Crescent area in the Middle East. Although they justify their recent rapprochement by their confrontation with a hostile Israel, it is none the less motivated by their strategic objective of countering Egypt which, in their view, had disengaged from the Arab struggle against Israel. Another consideration is Syria's involvement in the Lebanon, and her desire to retain some control over the Palestine Liberation Movement. Yet another factor is the competition between this new constellation of Arab states on one side and Egypt on the other for Saudi financial help and political cooperation. Theoretically, a Syrian-Iraqi alliance can also act, for the moment, as a makeweight to the Cairo-Riyadh axis in the rivalry for Arab leadership. To this extent it provides a new form and level of regional conflict.

Since then there has been an added, nay urgent, reason why Iraq should wish to get closer to its neighbour, though erstwhile enemy, Syria, namely, events in Iran. The majority of Iraq's population is Shia. The recognized head of the Shii religious institution sits in Najaf. In the past when the Iraqi Shia felt discriminated against by the Sunni establishment in Baghdad they always looked to

Tehran for support. The younger among them often joined the Iraqi Communist party.

Thirdly, ever since 1967 and more so after 1973, one observes the increasing involvement of non-Arab Middle Eastern states in the regional "system", namely, Israel and Iran and, to a lesser extent, Turkey. In addition to the occupied territories since 1967 of Gaza and the West Bank, Israel has been involved in the Lebanon ever since the outbreak of the civil conflict there nearly four years ago. Iran became actively involved in the Gulf after 1971, had been concerned with the Kurdish rebellion in Iraq for a much longer time, and until very recently had been supplying oil to Israel. Depending on the outcome of the current upheaval in Iran, there is the prospect of yet further realignments in the Middle East. Indications for the present are that whatever its outcome, Iran will shift the emphasis of its involvement in the regional politics of the Middle East probably towards a strident anti-Western, anti-Israel, or generally less moderate, posture and approach.

Developments in Iran, some believe, are already affecting the negotiating attitudes of Egypt and Israel respectively. Fearing wider repercussions of the Islamic protest movement in Iran on the Arab states, President Sadat of Egypt is loath to become more isolated from the Arab Middle East and wider Islamic community than he already is because of his peace with Israel policy. Israel, on her part, is more reluctant to relinquish control over the Sinai oilfields without securing the best possible peace treaty terms with Egypt now that Iran will no longer supply her with nearly 60 percent of her crude oil requirements.

Turkey, for her purposes relating to Cyprus and the confrontation with Greece over the Aegean, has been wooing the Arab states and seeking their support by attending Islamic conferences and generally laying renewed claim to an older religious-traditional identity, the Islamic one, which she abandoned in the nineteen twenties.

On the basis of these developments one could argue the case for a possible transition in the area from an Arab to a genuinely Middle Eastern region, that is, one encompassing both Arab and non-Arab states. One also observes that this transition may occur, indeed may be helped to occur, under the aegis of American initiative. There are those who foresee a Pax Americana emerging in the region. A more accurate interpretation is perhaps a decision by the United States to "stabilize" the region preferably without the involvement of its rival superpower, the Soviet Union. The latter disposes of a proximate military presence of sorts, either at the core of the region (viz., Syria, Iraq) or on its peripheries (viz., Southern Yemen, Libya, Ethiopia, the Mediterranean and Indian Ocean), to allow for a Pax Americana. Even the American attempt to "stabilize" the region may not succeed by simply reaching a settlement of the Arab-Israel conflict or devising some means of controlling it. The elements and causes of instability in the region are deepseated and complex, and the conflict may shift to other parts of the region, as it already has, if developments in Iran and what may flow from them by way of their impact on the Gulf and the surrounding areas is considered.

Finally, the sources of instability in the Arab Middle East remain more or less essentially what they have been in the last twenty-five years, namely, the nature of the political regimes and inter-Arab state relations. Then, one long-standing issue, the resolution of the Arab-Israel conflict, including the aspirations of the Palestinians, and two newer ones, namely, the poor versus the rich Arab nations, and the problem of effective political participation, continue to plague the region and may lead to renewed conflict. This constellation of problems and unresolved issues could conceivably lead, for the first time in over fifty years, to the partial re-drawing of the Middle Eastern map. It is not only the possible outcome of Egyptian-Israeli peace negotiations that provides one source of map re-drawing. The impact of a prospective peace treaty between them on the contiguous Arab states may be incalculable. The vision of joint ventures by a technologically advanced Israel and a populous Egypt exploiting presumed oil and mineral resources in the Sinai and the Gulf of Suez could have vast economic repercussions for the core region of the Middle East. Closer ties between Egypt and the Sudan in this overall arrangement could affect defence and strategic developments in the Red Sea as well as at the crossroads between the Arab West and Arab East. Their combined economic-Technological-industrial potential could be unmatched. One should not overlook on the other hand the potential rivalry implicit even in the framework of normalized state relations between Egypt and Israel under a formal peace treaty. On the basis of potential and capability one may risk describing them as the only two credible "imperial" powers in the region.

Events in Lebanon are another basis of map redrawing which needs no further elaboration. The momentum of a developing, rich Saudi Arabia in the Peninsula in relation to the United Arab Emirates, the Gulf region and the Yemen is yet a third. Irredentist claims and counter-claims between Arab states ranging from the head of the Gulf to the Maghreb is a fourth.

Nor should one ignore the new political "forces", if one can call them that. Thus, there is widespread political alienation among Middle Easterners, a disbelief in the integrity of their rulers, and general distrust of domestic prospects and a resentment of external influences. The eruption of a popular Islamic mass protest movement in Iran is neither novel nor phenomenal. Nor is it isolated in kind, only in degree of intensity, if one recalls parallel sporadic episodes in Egypt between 1968 and 1977, the periodic proclamations of Libya's Colonel Kadhafi on affairs of state and international relations, or developments in Pakistan.

The assertion of an Islamic opposition to and rejection of so-called modernizing rulers is also a rejection of an alien culture and civilization, the Western or European one. Of course, although Islam has always been a social force in Middle Eastern society, it remains to be seen whether it can also become a potent and workable political factor. What is certain is that its recrudescence, including its use by leaders or rulers for political purposes is now and will remain for the immediate future a source of domestic and external conflict and therefore instability. It may even become a new form of power, especially if it is effectively conjoined with economic and military power.

On the other hand, the potent mix in the Middle Eastern mosaic of sectarian divisions and ethnic or communal diversity has always been a source of domestic instability and an attraction for external interference. It has also exacerbated the conditions of civil peace and strife, inter-state relations and regional contests. The eruption of Islamic sentiment against the alarmingly disrupting and disorienting breakdown of traditional ways as a result of new wealth and the relentless impact of "modernity" may not be able to deal with internal contradictions. In fact, it may threaten further disintegration in Iran and Turkey, and perhaps elsewhere in the region.

Silent for the moment though terrifyingly devastating in its potential consequences is the demographic problem in the Middle East; what the Egyptians call the "bread problem." While one may assert the existence of a new form of power deriving from the vast natural sources of energy in the Middle East, this could be dissipated, undermined or rendered ineffective by a combination of the problems and instability arising from demographic profusion in certain parts of the Middle East and its mobilization by popular mass Islamic movements.

The availability of vast arsenals of military hardware in certain parts of the region facilitates the outbreak of violent conflict. It also maintains, albeit in the last ten years only in the background, the military establishments in the Middle East as the final arbiters of political power. At the same time, it promotes further the patron-client relationship between Middle Eastern states and one or the other of the two superpowers with all the implications of this type of dependent relationship.

The so-called Islamic revival with its reassertion of an essentially religious political identity in the sense of a declared adherence to the ethic and values of Islam is the result of the disorientation caused by rapid economic development and the disaffection with social change brought about by the transplantation of secular modernity. When one also takes into account the existence of armed ethnic-sectarian and nationalist separatist groups from Iran to North Africa, the perception of the region in comfortable terms of stability is precluded. Moreover, newly found financial-economic power inevitably affects both the region and the rest of the world. Other conflicts peripheral to the region, such as the one in the Eastern Mediterranean or those in Africa tend to add to the region's instability.

The internal contradictions in the Middle East are now being aggravated by the spreading Islamic rejection of an alien order which many Muslims consider unsuitable and inadequate for their societies, even hostile and evil. Their disillusionment with native rulers whose power rests on the use and spread of this imported or transplanted alien political and economic culture is now expressed in a traditional-religious idiom of immense popular force. It reflects the traditional Islamic ethic of the vast populace upon which native rulers and foreign, non-Muslim powers have imposed a secular political, economic and legal order of infidel provenance. How far or well this raw native force can be translated into political power and an effective instrument of policy for the attainment of as yet unclear, undefined objectives is a question that cannot be easily answered at this time. The fact remains that it can be

ignored by non-Middle Easterners only at their peril. Challenge and defiance in politics or the relations between states, not to speak of cultures or civilizations, are never wholly rational approaches. They unfortunately exceed the limits of political competition and compromise; they tend toward total, salvationist political constructs in the expectation of the ideal political reality and universal triumph to come.

#### SADAT'S PERCEPTION OF THE RESOLUTION OF THE CONFLICT WITH ISRAEL

It is no secret that the perception of the United States by the Sadat regime in the last five years at least is related to the American role in the Middle East conflict. Stated briefly, this perception arises from the belief that only the United States—to the exclusion of the other superpower, the Soviet Union—can have a positive, decisive role in a settlement of the Middle East conflict. It is also based on the belief, rightly or wrongly, that however denied or qualified, Israel remains a client state of the United States. To this extent the United States has been in a position to exert pressure on Israel to reach an accommodation with Egypt at least if not the other Arab states for the moment.

Official attitudes to the United States are governed by this essential perception of its role in the region. These attitudes, it must be noted moreover, are not unrelated to the Egyptian experience of a close relationship with the Soviet Union between 1956 to 1972. They are also coloured by the personal preferences and predilections of President Sadat himself, some of his senior military commanders, and the whole new group of "opinion makers" in the press and media who have replaced the old Nasserite guard. The perception of and attitude to the United States, that is, may also be considered by-products—if not direct consequences—of a successor though differently orientated regime to Nasser's, and to the different style of its leader.

Sadat believes that the difficulties of Egypt after 1955 were due in a fundamental way to Nasser's anti-American policy, and is determined that this should not happen again. One might say that much of his recent policy—of the last five years—flows from this simple though basic perception. Sadat seems to reason that the United States is in a better position than the Soviet Union to help negotiate a peace settlement in the Middle East. But he also believes that the Soviet Union is not interested in a peace settlement; on the contrary, it is keen on maintaining tension in the region. America's need, for the foreseeable future, of Arab oil and its close ties with Saudi Arabia, Sadat contends, impose upon it the task of actively seeking a peace settlement. Moreover, an Egypt free of the spectre of renewed war and on the road to economic recovery becomes an attractive partner in the stabilization of the region as well as of another area in turmoil, the Horn of Africa and the Red Sea.

It is difficult to credit Sadat's peace initiative strictly to whim, tactical manoeuvre or a desire to attract massive American assistance. If that alone were the case and allowing for the fact that in Egypt everyone follows the ruler's cue whether he agrees with him

or not, there would not have been the massive and surprisingly unsolicited support for that initiative on the part of Egyptians. One must look for more substantial reasons and deeper foundations for this initiative.

The genuine desire and real need of Egyptians for a peace settlement with Israel has been gestating at least since 1970. This was partly reflected in Nasser's own impatience and disappointment with his Arab allies in 1969-70, before he died, and his intense feeling of insecurity over Soviet military assistance between January and April 1970 which forces him to press the Soviets into a more direct involvement in the defence of his country. At the same time, however, he accepted the Rogers Plan for a ceasefire on the Canal. The desire and need acquired intensity and urgency after the October 1973 War, though in an historically and nationally more characteristic way. Egyptians for the first time in twenty-five years reverted to a more insular perception and articulation of their national interest. They sped to a recitation of their modern nationalist hagiography from Muhammad Ali the Great and Ibrahim Pasha to Khedive Ismail and Orabi Pasha. Soon their reconstituted pride in an Egyptian national identity found added support in the invocation of the 1919 Revolution and its leadership.

It could be argued that these are superficial shifts in national trends which reflect the reaction and response of Egyptians to external events. Even if that were the case, what is significant is the connection between these trends and a more practical perception of Egyptian state and national interest. Egyptians believe historically and feel nationally that their country represents one of the oldest civilizations in the world; that their state is the oldest and most experienced in the region. To this extent they have a secular perception of—and an instinct for—survival. They view their quarrel with Israel as being mainly one over territory; they want Sinai back. They do not ignore however the potential rivalry between them and Israel in the region. At the same time they argue that, despite their opposition, other Arabs for the moment can do very little about Israel without Egypt's leadership and support. Nor can they deny Egypt a role in the Arab world by virtue of its sheer size, the dynamism of its experience and momentum of its human resources. On a more popular though muted level, Egyptians deplore the possibility that they "may have missed the bus" so speak, of the last thirty years, as a result of their involvement in a regional conflict which forced them to fight four wars against Israel and one in the Yemen. In more general, but for the moment guarded, terms one observes a quiet though perceptible determination on the part of Egyptians for a partial disengagement from the vagaries of the Middle East conflict and a thunderous re-adoption of the old slogans "Egypt for the Egyptians" and "Egypt first above all else".

Among the average Egyptian in the street, there prevails the oft-repeated argument that Egypt has done a great deal for the Arabs; that Egyptians have fought the Palestinians' battles. The reward for all this effort, the average Egyptian feels, has been economic deprivation, the accumulation of unresolved social problems, the impeding of progress in educational, cultural and other spheres of national activity. In short, it all cost Egypt dearly, whereas the

returns have been meager. Arab ingratitude has also been part of the bargain.

Sadat's earlier visits to the United States and Europe were seen by most Egyptians as part of his strategy firstly to influence public opinion and national leaders, and secondly to embarrass Mr. Begin with Jewish opinion abroad and Israeli opinion at home. In view of President Carter's success in pushing through Congress his recommendation to sell aircraft to Egypt and Saudi Arabia and the President's subsequent leadership at Camp David, Sadat has enjoyed some success.

Moreover, in facing the Arab Rejection Front, one of Sadat's strongest arguments against it has been that most of the Arab states who adhere to UN Resolution 242 and the decisions of the Rabat Summit in 1974 have effectively renounced war with Israel. His peace initiative, Sadat always argued, is within this framework. It was, alas, Israel, the Egyptians were then saying, which rejected UN Resolution 242. The harder and more intransigent the position of Israel in the negotiations became, the Egyptians argued further, the more negative the cumulative Egyptian perception of her became too, without however causing an immediate change in attitude regarding the needed review of Egypt's role in the Arab world. By extension, the hardened Israeli position before Camp David inevitably affected the Egyptian perception of the United States as an effective peacemaker.<sup>1</sup>

In this connection, some Egyptians, especially among the intellectuals, mistrusted the American role or at least its effectiveness, because they believed Israeli strategy to be based on three basic objectives. First, so long as the Arab confrontation states remain militarily weak and politically divided, Israel would attempt to procrastinate over the negotiations with Egypt in order to gain time. Second, they would insist on so-called secure or defensible boundaries, while recognizing "international frontiers", say, for Egypt in Sinai with a view to retaining a military presence and possibly more territory. Third, they would insist on such an arrangement for a period ranging from five to twenty-five years on the assumption that the "natural impact of historical events and change" will accustom the Arabs to the Israeli presence. The inference here was that Israelis were more interested in the retention of territory than in a peace settlement. Their hope was that time and the pressure of events will force the Arabs to "accept" them. Needless to say, there were tremendous risks involved in this kind of Israeli policy, ranging from jeopardizing the American connection to the splitting of international Jewish opinion which could jeopardize support for Israel. An added danger, imponderable as it may seem, was the possible emergence of an Arab constellation of power strong enough to challenge Israel. In the meantime, there would also be the effect of an unsettled garrison state condition on the Israelis themselves.

<sup>1</sup>This general mood can be gleaned from the public debate in the Cairo press during the summer of 1978.

## THE RESPONSE AND REACTION TO SADAT'S PEACE INITIATIVE

President Sadat's peace initiative has had a tremendous impact on the domestic and wider Arab scenes. But it has also created problems, the resolution of which can only be speculated upon. Let us first take the impact on the domestic scene and the reaction of certain categories or groups of Egyptians.

If one considers the writers and journalists in Egypt one can distinguish two, three or even more groups. One of these may be crudely identified as the "Egypt first" camp. Many of its adherents were politically active or aware before 1952 as Egyptian Nationalists who always viewed Egypt's involvement in Arab affairs with suspicion, misgiving, and discomfort. They believe that an active or strident Egyptian Arab policy has been the cause of many of the country's present problems and, some among them would aver, its ruin. These may also be generally described as the "secularists" of the country. Even if they disagree with Sadat's approach, they agree with the possible outcome of his policy, namely, a greater disengagement from the Arab political arena and a more direct concern with Egypt's domestic problems. A leader of this group recently went on public record as favouring a state of neutrality for Egypt parallel if not similar to that of Switzerland.<sup>2</sup>

This position is not confined to the press, media and other articulators of public opinion. It is also, perhaps surprisingly, to be found among high ranking army officers. These are convinced that Nasser's policy was largely responsible for the "destruction" of the Egyptian army, the erosion of its morale and its other known vicissitudes. They further argue that the army needs a guaranteed period of peace in order to recover its morale—even its discipline—and in order to reorganize its structure and training. Moreover, some among them feel the army must be reduced in size in the face of dire national economic need. They are not particularly worried over the shift to Western sources of arms, equipment and training. Their perception of a military relationship with the West is not gloomy or despondent when they contrast this as yet unknown factor to their bitter experience with Soviet military advisers. Many of the latter, some of these officers assert, were more interested in the control of officers' affairs and internal security than they were in offering military assistance and dispensing military advice to their Egyptian colleagues.<sup>3</sup>

It is noteworthy, because this could affect Egyptian perceptions of the United States, that both these groups of civilians and soldiers are not too happy about the long-term impact of a close relationship with Saudi Arabia, for they believe this would erode Egypt's "secular" national unity. They therefore support President

<sup>2</sup> There was a prolonged and, in parts, acrimonious debate in the columns of *al-Ahram* early in 1978 occasioned by Tawfiq al-Hakim's suggestion that Egypt should opt for a state of neutrality. He was attacked by those left of centre, among his colleagues and lawyers, including Ahmad Bahaeddin, Yusef Idris and Louis Awad. The last was in turn attacked for being committed to a naturally Coptic-Egyptian nationalist view. Clearly though Hakim's suggestion was wild. It reflected all the same the immediate concern of Egyptians to disengage from the Arab arena.

<sup>3</sup> Senior officers, among them the one-time chief of armour, told this writer that during the 1968 serious demonstrations his own Soviet military advisor appeared in his office with maps of the city urging him to quell the disturbances.

Sadat's decision to seek an accommodation with Israel, even an eventual normalization of relations with her.<sup>4</sup>

A third group is led by the Egyptian Left. Allied with it are the remnants of the Nasserites in the country. Both partners in this group have suffered a sharp drop in popularity. The credibility of the Left in particular is at a low point, if it has any at all. Not simply because the experience of the relationship with the Soviet Union has been a bitter one, but also because much of the Left's leadership had actively participated in promoting that relationship and, from a popular viewpoint, is seen to be quite affluent amidst glaring and massive misery. In any event, Leftists and Nasserites oppose Sadat's peace initiative not really because it tends to isolate Egypt from the rest of the Arab world, but actually because it keeps the Soviet Union outside the peace-making process. To this extent their opposition is largely motivated by their own position in the Egyptian political scheme of things today. Their perception of and attitude to the United States is one of suspicion. In their view, the United States currently leads a vast, diabolical conspiracy to dominate the Middle East.

There is also the vast majority of the Egyptian population, ranging from minor government officials to small merchants and the man in the street. There are indications of wide support from this quarter for Sadat's peace initiative. The hope is that the end of the state of war with Israel will revert to their benefit, since the government—any government—may have to occupy itself and expend more of its resources on the tackling of domestic problems. As for their perception of the United States, it is a simple one: America is rich and powerful, and could not be worse than the Soviet Union.

### THE DOMESTIC SCENE

The poor state of the Egyptian economy is obvious to the naked eye to the observer. It becomes substantially clear as soon as one probes systematically into the economic, administrative, educational and other social problems of the country. Issues such as the availability of trained human resources, emigration, inflation, housing, the relationship with the richer Arab states and foreign powers are a few of the current preoccupations. The great burden of defense expenditure together with the pressure of population on the economy, the breakdown of services in urban areas, are all sources of general disquiet, disorientation and insecurity.

Egypt needs the peace settlement. But it should be noted that much of the economic mess is perceived by the Egyptians to be the result of the political bankruptcy of the 1952 regime. What is interesting is that most groups of Egyptians, including the youth, recognize this and are anxious for the restoration of a plural political system. Thus secular Egyptians, civilians and soldiers, feel uncomfortable about the recrudescence and widespread resurgence of religio-political groups and movements among the youth, in the lower ranks of army officers and the state bureaucracy. They as-

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<sup>4</sup> At least six senior officers (Major and Lieutenant Generals) asserted to this writer early in 1978 that the infiltration of the Muslim Brethren in the lower officer ratings (captains and lieutenants) was causing some concern and anxiety to them. Needless to say, I had no way of checking the accuracy or exaggerated claim of this allegation.

cribe this phenomenon in part to the connection with Saudi Arabia, and somehow hope that in the event of a peace settlement this tie may be loosened. At the same time they suggest that one of the dangers of Israeli intransigence in the peace negotiations is the further strengthening of these extreme, fanatic groups in Egypt. "Fanaticism", they argue, "tends to be fought by a counter-fanaticism." Thus, in the latest student union elections of the university of some 120 offices, the religio-political Right secured about 90. On the basis of this specific instance, as well as recent events connected with the group known as *Al-hijra wa'takfir*, secular Egyptians allude to a wider nexus of trouble: the closer Egypt's involvement with the Arab political labyrinth, the more powerful the religious-traditional currents in their country's politics become. Similarly, the more intransigent the Israeli government becomes over a peace settlement, the more likely the spread of such traditional rejectionist trends in Egypt becomes.

This overall feeling explains in part the surprising enthusiasm for the new Wafd party in January-February 1978. Young and old Egyptians alike hailed it as a much needed mass centre political organization. They expected it to press for constitutional guarantees of civil liberties, check the excessive tendencies of one-man rule deriving essentially from the Nasser experience, help distinguish between an Egyptian state role in the Arab world on one hand, and an indiscriminate political involvement (as in Nasser's days) on the other, and promote and strengthen Egyptian national interest. Psychologically, it is the Egyptians' revulsion against the twenty-five year rule of the soldiers which led them to view the new Wafd as the harbinger of change. The military establishment itself moreover was on the whole in favour of the Wafd's return to political life for they hoped it would act as a counterforce to the infiltration of their lower ranks by the extremist religio-political organization, the Muslim Brethren.<sup>5</sup>

After his scathing attack on the Wafd in the summer of 1977, President Sadat was obliged to allow the party's formal return to public life partly for the same reasons but also because of external factors, e.g., the peace negotiations with Israel, and the recent policy of closer ties with the Sudan. After all, Egyptian patriotism and the so-called unity of the Nile Valley have always constituted the heart of the Wafd's political platform and programme. The as yet unknown consequences of Sadat's peace initiative moreover suggested to him the advantages of the availability of an alternative government formed by a party which surprisingly perhaps still

<sup>5</sup> The Society of Muslim Brethren was founded by Sheikh Hassan al-Banna, a school teacher in Ismailia in 1928. Intended at first as a society for the promotion of orthodox Islamic teaching and values, it soon attracted a mass following, especially among the youth in the economically difficult and politically turbulent period immediately preceding the Second World War. After the war it transformed itself into a powerful religio-political Islamic movement on any reckoning, with a following in other Middle Eastern states. It engaged in acts of violence ranging from assassinations to sabotage and guerilla warfare against the government, the British in the Suez Canal area and the Jews in Palestine. Its secret, underground military organization at one stage constituted a serious security threat in Egypt. In 1949, its Supreme Guide, Hassan al-Banna, was assassinated by government agents. When they posed a serious threat to the Nasser regime, the Muslim Brethren were proscribed and dissolved in 1955. They have however been active again among Egyptian students, workers and soldiers since 1968 and more so since 1973. Ostensibly they call for the establishment of an Islamic state. It is fair to suggest that the Muslim Brethren has been the most durable and massive "native" religio-political movement in the Middle East in modern times. For a detailed study of the Brethren, see Richard P. Mitchell, *The Society of Muslim Brothers*, O.U.P. London 1969. For its links with the 1952 military regime, see P. J. Vatikiotis, *Nasser and his Generation*, New York 1978.

commands immense popularity throughout the country. It was also in keeping with Sadat's so-called liberalization programme for the restoration of democracy in Egypt. More generally, the threat of communal differences in September 1977, the acrimonious debates over the government's economic policies later that autumn, and part of last winter (1978), and Sadat's dramatic visit to Jerusalem provided the kind of atmosphere for the support the new Wafd needed to press for its recognition and reinstatement. Even if reluctant, Sadat's response to these pressures was also motivated by a desire to avoid further trouble in the streets of the January 1977 variety.

The Left on the whole was in favour of the Wafd's return because it represented the only possible venue in the circumstances for their constituting its avantgarde wing. On its own the Left had hardly a chance of recognizing its ranks, outside the Khaled Mo-hieddin party in the People's Assembly, the NUPP.

That there was also opposition both to the Sadat regime and the return of the Wafd among remnants of the Nasserites there is no doubt. But one must gauge the effectiveness of this opposition against the reality of domestic and international factors. On the whole, the Nasserites are a dwindling breed for the simple reason that the military believes Nasser with his policies "destroyed the army", and the population at large believes that Nasser's economic policy at home and Arab policy abroad have been the main causes of their condition today. It was admittedly difficult to explain the apparent enthusiasm of the young for the Wafd. They constitute a generation that never knew the Wafd. Of course many of them belong to Wafdist families. It is also plausible to assume that their revulsion against the 1952 regime has been such that the return of the political party associated and identified with the Egyptian national movement was simply a welcome force to them.<sup>6</sup> Alternatively, any change, in their view, would have been better than no change. If the alacrity with which the over 50,000 copies of the *Ahali*, the newspaper of the NUPP, were snatched from news agents early in 1978 is any indication, Egyptians have been clearly bored with a style of government and politics which Louis Awad in 1974 described as "government by monologue".<sup>7</sup>

What may have been an added catalyst in the situation was the fact that the Sadat regime had already been reviewing—in many instances, undoing—the whole Nasserite economic policy, if not the Nasserite edifice itself. Legislation had been passed, and more was in the pipeline, which allowed a greater share in the economy to the private sector than heretofore, and which would engender serious competition for the highly bureaucratized and often corrupt public sector. At the same time, using extensively the foreign media and his *October* magazine, President Sadat had been trying to generate an atmosphere of public concern for individual freedom and initiative, for the further development of agriculture, while alluding to the "errors of the July revolution" over economic policy. He was also trying to create the impression that his regime

<sup>6</sup> This particular preference and feeling of that time (January-February 1978) prevailed among many fairly senior career officials of the administration, including the Ministry of Foreign Affairs. It was as if the Wafd, old or new, was seen as a permanent stamp on Egyptian national history.

<sup>7</sup> See his *Aqni 'at al-nāsiriyya al-sab 'a* (The Seven Masks of Nasserism), Beirut 1975.

was immediately concerned with internal matters, especially those of employment, nutrition, health and housing. What was also observable in the relatively new climate was the relative freedom of Egyptians to speak their minds openly on political issues; something that was hardly possible under Nasser. One had the impression in the spring of 1978 that the trend in the country at that moment was for Egypt to conduct itself as a state with clear interests to promote at home and abroad, not as a centre of revolutionary or liberation struggles in the region.

Many wonder who can oust Sadat from power. The simple answer is another soldier at the head of a military coup d'état. But coups are not as easy to organize or mount as they were twenty-five, even ten, years ago. The army then was small. Many of its younger officers were then involved in, or had connections with, radical movements going back to the 1930's and 1940's. Cabals and conspiracies were easier to organize.<sup>8</sup> Today the army is nearly 500,000 strong, and the officer corps is proportionately large. Many of the officers, moreover, are one to two year conscripts, usually with direct commissions as university graduates. Consequently conspiracies are difficult to organize and mature, and the risk of detection is high. From a purely organizational view therefore, the preparation of a coup is rather impractical—and dangerous. At the same time, the periodic purging of the officer corps continues, a practice begun under Nasser, even though it may not be massive or frequent today. There is also a reluctance on the part of soldiers to intervene in political matters, largely motivated by the vagaries of past experience. Thus, during the terrible food riots of January 1977 Sadat's—more precisely, Mamduh Salem's—request for army intervention was turned down by the commander-in-chief of the armed forces as well as by senior commanders. It should also be noted that the extensive changes in structure, organization and training introduced in the period between 1964 and 1973 have greatly affected the professional and career perceptions of army officers, as well as their attitude to the role of the army in politics. These reservations and qualifications, however, cannot preclude, under extraordinary circumstances, a military coup in the future. But the circumstances will have to be truly extraordinary. Generally speaking, the ease with which coups would follow each other twenty or even ten years ago, is not possible today. It is noteworthy that coups throughout the Middle East have been rare in the last decade.

#### THE FATE OF NASSERISM UNDER SADAT AS REFLECTED IN POLICY SINCE 1970

The main feature of Nasser's rule was the highly personalized "system" he devised. The brief period of collective decisions and responsibility under the Free Officer regime lasted barely two years from their taking power. By November 1954 Nasser was supreme. From a *primus inter pares* he had become a native sultan. The issue of his legitimacy was resolved, in a manner of speaking, by the charisma and his acceptance by an enthusiastic public. The people soon constructed their hero, and reaffirmed their loyalty

<sup>8</sup> See P. J. Vatikiotis, *Op. cit.*, esp. Part I.

and allegiance to him in a series of plebiscites from 1956 onwards. In the meantime, the centralization of power proceeded apace assisted not only by one-man rule, but also by the peculiar geography of Egypt and the military elitist provenance of the regime. The autocrat, moreover, tended to amalgamate and concentrate power in his own hands, helped by his chosen executive of lieutenants. Political competition was eliminated—the bureaucracy was further militarized—the society mobilized and regimented. Because Nasser believed he embodied the aspirations of the Egyptians and reflected their will, he saw no need for political representation for them. Political tutelage was considered to be adequate, since the elite Nasser chose to assist him in governing was not there to represent the people, but to guide them as per his instructions.

The stability Nasser provided in Egypt by his charismatic personal rule stood in sharp contrast to the instability of the institutions he experimented with. During his rule, he produced five parliaments with an average life of two years per parliament. He promulgated six constitutions. His cabinets had a life span of thirteen months. Even on the ideological front, Nasser exhibited successive changes in his commitment. One can only conclude that the stability of his sixteen year rule derived from his charismatic autocracy, or caesarist despotism. The President, in other words, became the lynch-pin of the new Egyptian political order. He had the right to interfere in all areas of national, political, social, economic and cultural life of the country.

Has there been a change in this central position of the President since 1970 or 1973? There are those who will respond unequivocally that no change has occurred: that Sadat is as much of a sultan as Nasser in terms of power concentrated in his person. There are others who will argue that a great deal of change has indeed taken place. Neither view is warranted, because it is inaccurate. What there has been is a process of reorientation, intimating a transition from an authoritarian to a plural regime of sorts, and from a denial to a recognition of civil rights. The process has been slow, gradual, at times abrasive and frustrating with an element of stop-go in it. Above all it has been a tightly controlled process. Thanks to the Nasser legacy of autocratic rule which he inherited, Sadat has been able to use it in order to direct this process from a position of strength. Without it, there could have well been a Portugal-type of chaos in Post-Nasser Egypt.

When did this reorientation begin? It is difficult to give an exact date. It had already begun under Nasser in 1968–70.<sup>9</sup> However, it became more perceptible after Sadat became his own man, so to speak; when he was no longer under the shadow of the departed visceral and charismatic founder of the Egyptian republic. In fact, Sadat's own legitimacy derived from two epochal events, one of them actually only an episode: his destruction of the Nasserites who challenged his authority in May 1971, and his going to war against Israel in October 1973. Soon thereafter he was emphasizing the importance for Egypt of moving from arbitrary power to the rule of law. With such an orientation went the lifting of censorship, the reform of the courts, selective desequestrations of property and assets, and a less clumsy use of the security services by the

<sup>9</sup> See *Ibid.*, ch. "The Lure of Arab Nationalism."

state. The next step was the introduction of a controlled multi-party system under which there were limitations on party activity imposed by the law of political parties. What was being introduced under this controlled change was not so much an element of pluralism in Egyptian political life as one of diversity. None the less, it was the first of its kind since 1952, or in nearly twenty-five years. It managed also to generate an atmosphere of security while at the same time further improving Sadat's political standing in the country.

There was not, however, any fundamental change in the composition of the elite, whether in cabinet or parliament; nor in the basis of its recruitment. On the other hand, there was a firmer determination to keep the army out of politics by a greater emphasis on its professional role. In fact, in the 1976 elections, the army was denied the vote. Generally, it was no longer the political force it had been under Nasser. Nevertheless, there was a reticence, born—one daresay—of fear, to permit any widespread liberalization and democratization of the regime. Events in January 1977 led to a retreat from any further travelling along the road of diversity. President Sadat espoused the major theme of law and order, until by mid-1978 the whole process of reorientation was qualified, if not in fact arrested, and the atmosphere of security disturbed. By June 1978, it looked as if the regime was preparing the way for the army to regain its old political role in the country. In the face of vehement attacks by the President and the administration the newly reconstituted Wafd party, for instance, disbanded itself. A pall of uncertainty now hangs over the political evolution of the country.

More marked—perhaps, lasting?—have been the changes introduced by Sadat in the area of social and economic policy. "Socialism" however defined under Nasser (say, extensive nationalization), was dropped in favour of an as yet unclear "democratic socialism". When it was first floated by Sadat, Egyptian rumour had it that he was enamoured of the Austrian model and experience. Whatever Sadat's understanding of democratic socialism may be, he has been moved lately to organize his own Democratic Socialist party. Be that as it may, the most important development which has resulted from all these changes and processes of reorientation since 1970 and 1973 has been the Open Door Economic Policy of the Sadat regime. It is in this policy, together with other general indicators, that one can hazard certain proportions about Egypt's political economy and its possible future evolution. But before we attempt this, a few more remarks of comparison and contrast between the Sadat and Nasser regimes are relevant.

The fact must be faced that a popular revolution is probably not a valid option in Egypt, for several reasons, most important among them the following: First, the vast majority of Egypt's rather poor population lacks political organization. Second, revolutionary trends can always be countered by a resort to religious symbols and the strongly held popular values associated with them. Third, Sadat is the beneficiary of an important Nasser achievement, namely, the absence of all other leadership—or at least, credible alternative leadership—in the country. To this extent, the powers of Sadat as President of Egypt have not changed since Nasser. Even though Sadat affects a different style, there is hardly anyone

else in the country with enough of a power base to challenge him, not even Nasser's engaging apprentice, Muhammad Hasanein Heikal. Moreover, the difference in style between the two men is marked. Thus, whereas Nasser had no social life to speak of, Sadat, some will aver, has too much of it. Furthermore, Sadat leads an easier life in contrast to Nasser's austere puritanism and obsessively intense preoccupation with power. Above all, unlike Nasser, Sadat truly delegates power to his most trusted and loyal lieutenants. In a sense, Sadat is the better juggler. Although both men may be characterized as pragmatic, non-doctrinaire political types with no serious ideological commitments, their personalities could not be more different. Significantly, Nasser was the typical product of urban Egypt in the nineteen thirties, intensely brooding, secretive and reticent, whereas Sadat is essentially a *rifi*, i.e., village type, who has maintained his close links with his village and visibly retained the popular-religious inclinations of the villager.

Despite the contrasts and changes, or attempted changes since 1970, the lingering influence of Nasser did act, for a time, as a constraint on Sadat. There was, for instance, Nasser's ghost, if one may call it that, among students. There was also the memory of Nasser's charisma. More practically, there were the residual foreign policy considerations from Nasser's legacy to contend with. It can be argued that it was Sadat's desire to escape from these which led him to the dangerous road liberalization. In social and economic terms, Nasser's economic policy, the main feature of which was the creation of a huge public sector, gave rise to a new social stratum in the country: an odd "capitalist class" consisting of army officers, public sector managers and a few remnants of the old regime. These acquired new social and economic status and, with it, power, mainly as a result of their peculiar role as "middle men" in the new highly regimented and overregulated state economy.

Sadat's decision to allow a measure of capitalism and a free market economy was linked to his political programme of liberalization. It would be a mistake, however, to say that capitalism and liberalism in Egypt or elsewhere in the Arab Middle East, are synonymous. After 1973, Egypt could not seriously contemplate the restoration of the Nasserite model which, in any case, had overexhausted its limits. Nor could she consider a radical socialist regime because of internal constraints and external factors, such as the growing dependence on Saudi financial help and, after the break with the Soviet Union, upon American assistance. She could, however, opt for a capitalist economy alongside an authoritarian state. All of these options, though, ran a very great risk of failure, because they could not be based on a middle-class movement. Even the comparatively small stratum in Egyptian society which approximates a middle-class would not be readily willing to commit itself to any of these options because it would place its very survival at great risk. Today, even Egyptian Marxists concede the fact that there is no middle-class in the country with a continuous tradition to speak of, or a working-class for that matter; they even have some difficulty in identifying the *petite bourgeoisie*. Only the

rural lower class, if you wish the *fellah*, seems to enjoy this continuity.<sup>10</sup>

Egypt under Sadat could, of course, opt for a certain kind of *immobilisme*, which permits the survival of a decadent social order. But since the most serious challenge to the regime—any regime in Egypt—comes from the staggering problems of the Egyptian economy, plainly from the question, Can the Egyptian government under any regime feed the teeming masses of the people, Sadat has opted for *infitah* or the Open Door Policy. Intended, in the first instance, to attract foreign capital investment into Egypt, this policy has been possible only by the regime's abandoning many of the provisions of a strictly state-controlled public sector economy, and eschewing its socialist pretensions. Stated differently, the Open Door Policy implies a grudging recognition of the advantages of a free market—capitalist—economy for the treatment of Egypt's terrible economic and social ills.<sup>11</sup> Whether capitalism as such is a viable solution for a country like Egypt is a serious and complex question. Some of its drawbacks will be outlined as we now turn to a consideration of the main features of the Open Door Policy, its effect so far on the country and its prospects.

#### THE "OPEN DOOR POLICY"

There are certain bare demographic facts about Egypt that must be borne in mind. The country has a very young population: 42 percent of its 40 million population (estimate end of 1977) are under 15 years of age. Yet the total working population is about 9.5 million, or just under 25 percent of the total population of the country. Despite the industrialization programs of the last 25 years and the expansion of the service sector with the structural changes these developments may have brought about, nearly half of this working population (44.7 percent) is still engaged on the land, 35.9 percent in services and only 19.4 percent in industry. In other words, the industrial labour force in Egypt today stands at just over 1.5 million, half of them employed in the private sector, of a total population of 40 million.

The background to the Open Door Policy, or the acts of power leading to it, do not really constitute the creation of a series of political structures or institutions in the true sense of these terms. Rather they established a number of political guidelines enunciated by Sadat, dating back to 1971. On 10 June 1971 he proclaimed his Plan for National Action. This was followed by a referendum and a constitution in September 1971. A further constitutional document was the "October Declaration" of May 1974, on the basis of which Investment Law No. 43/1971 was promulgated and decreed. This came to be the central feature of the Open Door Policy. Its chief purpose is to attract Arab and foreign investment capital under highly favourable—indeed, privileged—conditions. An Investment and Free Zones Authority was set up to deal with this very aspect of the new law. It may be said that the elections of November 1976 and the referendum of February 1977 further for-

<sup>10</sup> Cf. L. Binder, *In a Moment of Enthusiasm*, Chicago 1978.

<sup>11</sup> See R. Jeffries, "Political Radicalism in Africa: 'The Second Independence,' *African Affairs*, vol. 77, No. 308, July 1978, pp. 335-346.

malized, if not sanctioned, the public "acceptance" of these important measures.

It is too early to say whether the Open Door Policy has led to serious economic changes in the country, or that it has created new economic structures. What it seems to have done so far is to have established and expanded a parallel market for foreign exchange, reduce exchange restrictions, reformed banking laws, and to some extent decentralized the making of economic decisions. More important perhaps, it has increased the participation of the private sector in the economy and thus introduced an element of greater competition for the public sector.

The Egyptian authorities have claimed so far that the Open Door Policy has increased the flow of foreign private and public investment into the country, increased exports in petroleum and manufactured goods, encouraged a feverish development of tourism and attracted ever greater amounts of expatriate remittances. Until now, however, one is confined, for an evaluation of results, to the investment opportunities advertised by Egypt under the new law, and to a few figures available on the development of the oil and construction industries. The former, by definition, has a clear long-term economic impact; the latter can be of temporary or transient benefit.

According to the law, under the Open Door Policy, priority is given to projects which increase Egyptian technology, promote exports, encourage tourism and reduce the need to import basic commodities. Thus agricultural projects including land reclamation (fruit and vegetable production, animal and poultry feed mills, fisheries) top the list or order of priorities. Industrial projects, including building materials, food processing, mining and metallurgy, engineering and electronics are also high on the list. Tourist projects, especially hotel construction and the development of recreational complexes are also of relative importance.

So far, however, only oil and construction seem to have attracted a study flow of foreign investment. It is reported that there are 26 international companies prospecting for oil in Egypt in co-operation with the state-owned Egyptian General Petroleum Corporation. Within 3 years (1974-77) Egyptian crude production tripled (from 7.6 million to 20.9 million tons, or 500,000 bbl. per day), and it is estimated to rise by a fourth in 1978, to 25.8 million tons, or 600,000 bbl. per day. The most successful fields are in the Gulf of Suez and Sinai. Although Egypt retrieved the Abu Rudeis field in Sinai in 1975, the Israelis still hold al-Tur at the southern end of the Peninsula (200,000 bbl. per day). This may partly explain why the Egyptians are anxious to recover all of Sinai, especially when a quarter of its off-shore area is still in Israeli hands.

The spurt in the Egyptian oil industry has had some salutary effects on the economy. Though still a modest industry by international standards, it has already had some impact on Egypt's trade balance. There has been, for example, a 45-percent drop in oil imports in 1977, a saving of 150 million dollars. Exports to the U.K., India and the U.S. rose by over 80 million dollars, and the petroleum balance of trade nearly doubled in two years' time to 550 million dollars. By 1980 Egypt hopes to have an oil surplus of 1,200 million dollars. While the basic provisions of the Open Door

Policy are most generous to foreign investors (among the lucrative incentives are a profit tax holiday of up to 15 years, free movement of capital and protection against non-commercial risks such as nationalization and confiscation), the Egyptian government has managed, at least on paper, to extract a few lasting benefits too. Foreign oil companies, for instance, undertake to spend specified amounts on exploration each year. At the same time, they agree to relinquish a proportion of their concession each year in return for a 20 to 40 percent of output to cover costs and 20 percent of remainder for profit. Thus exploration in the Delta and prospecting in the desert have committed Marathon, Continental and Shell to spend at least 26 million dollars annually over 10 years.

There are still, however, serious problems connected with the oil industry. In order to avoid making a large part of the Egyptian economy over-dependent on crude oil production, there must be sizable investment in refining capacity, gas-fired power plants and a petrochemical industry. So far only half of total crude production is processed through the five or six refineries in the country. It is planned to increase this capacity by 1982 to a level which will enable Egypt to export at least 30 million dollars worth of refined petroleum and petrochemical products.

Another vexing problem is that of oil transport and distribution, which has not been too successful so far. This seems to centre on the Suez-Mediterranean (SUMED) pipeline completed in 1977 and still running at a fourth of capacity when it needs to reach 50 percent of capacity in order to break even financially. Saudi Arabia's decision to build a pipeline to Yanbu on the Red Sea may relieve this difficulty with SUMED in the sense that Saudi crude could be shipped to SUMED's Red Sea terminal at Ein Sukhna and then piped to Europe. It is also clear that Egypt views—perhaps too optimistically—future prospects for its oil industry as good, and is keen to co-operate with other oil-exporting countries. Wisely through, she has joined OAEPC but not OPEC, a fact which affords her some flexibility in her oil policy. Quite phenomenal in the meantime has been the rise in gas production which from an output of 40,000 tons in 1975 from the Abu Madi field in the Delta, there has been a tenfold increase in production (400,000 tons) by the addition of two new fields, Abu Kir and Gharadeq.

Construction was, for a long time, dominated by the erection of private luxury dwellings. To this extent it was of minor economic importance to the country, if not actually detrimental because of the inflation in rents and related housing difficulties it engendered for the average Egyptian.

In the last three years, however, it has been channeled into the development of the tourist industry, with priority given to the erection of huge hotel and recreation complexes in Cairo, Alexandria, Luxor, Aswan, the Canal Zone and the exploitation of the Nile via floating houseboat hotels. This became necessary not only in view of the rising number of tourists (over one million in 1977), but also in order to relieve the accommodation problem for business and other visitors. Moreover, since 1973, the weight of the provenance of tourists has shifted to the Western countries, Europe and North America, and Japan. Among Arabs, the rich Saudis, but also the Sudanese and Jordanians, lead in the number of tourists

to Egypt. Sadat's visit to Jerusalem in November 1977, and his subsequent policy of seeking a permanent peace settlement with Israel, has caused a drop of over 25 percent in visitors from the Arab countries. The sharpest increase has been in tourists from America (42 percent).

Another major shift in economic policy under the Sadat regime appears to be a greater attention to agricultural development and land reclamation as a result of the recognition that massive industrialization cannot alone resolve Egypt's economic problems. If the monument to Nasser's rule is the Aswan Dam with its intended dual role in the industrialization of the country and the expansion of agricultural production, further hydro-electric schemes, if they ever materialize, may well become the monument to Sadat's regime. Sadat's nightmare remains that of feeding the 40 million Egyptians: the famous 200 million loaves of native bread he must provide every morning. Consequently, there has been a revival of the old Qattara Depression hydro-electric scheme. The idea is to fill up, via a channel, the huge Depression (the size of Cyprus) in the Western Desert with water from the Mediterranean. Apart from the fact that it would have a greater generating capacity than Aswan, without the latter's ecological hazards, it would also have certain additional and important benefits for Egyptian agriculture and industry. The intense rate of evaporation over very long periods of time (calculated in centuries) would eventually fill up the Depression with salt, providing a base for a vast chemical industry. At the same time, the evaporation would in a few years provide much needed rain. This project, however, is still in the feasibility study stage, and would require immense financial resources to execute.

One of the difficult areas in Egyptian economic development is that of arms supplies, since it is related both to the defense requirements of the country and its industrialization programmes. Although a small indigenous armaments industry producing light weapons and ammunition was begun under Nasser, Sadat's long-term objective seems to be one of establishing a far more ambitious indigenous arms industry. Apart from the technological benefit that will accrue to the country, it would have the added merit of rendering its defense, strategic and therefore political posture in the region less dependent on outside sources of military aid. The Arab Organization for Industrialization (AOI) set up in 1975, consists of Egypt, Saudi Arabia, Qatar and the United Arab Emirates. Since that time, it has formed joint ventures or companies with British and other European arms manufacturing organizations (e.g., UK Aerospace) for the purpose of establishing production lines in Egypt for anti-tank missile weapons, armour and other military hardware. Much of the financing for this comes, of course, from Egypt's Arab financial backers in AOI and to this extent future progress will depend on the vagaries and fortunes of the relations between Egypt and these countries. A real problem for Egypt, in this connection, is the relatively great size of its standing armed forces, between 450 and 500 thousand, imposing a disproportionate burden on its frail economy. The foregoing of war for Egypt is not, therefore, some whimsical or theatrical preference, but a necessity dictated by the cruel facts of economic reality.

It appears then that the most basic choices in political economy the Sadat regime has made are: (a) A shift to a free market economy in the hope of attracting foreign capital investment; (b) a greater determination to strike a more reasonable and credible balance between industrial and agricultural development; (c) a decision to revitalize the existing public sector by promoting keener competition from an enlarged private sector; and (d) a conscious effort to provide for a manageable handling of the social and economic problems looming on the horizon between now and the year 2000. This, it is hoped, will be greatly facilitated by the more rapid transfer of technology to Egypt which will accelerate Egypt's economic and social development. If this is a reasonable depiction of the most recent trends, it is important to survey some of the difficulties and obstacles these plans face and which may undermine or hinder their further development, let alone the attainment of their objectives.

It is staggering to think that Egypt's estimated population in the year 2000 will be 60 million or over, or an increase in 20 years by 50 percent. Although the country's total area covers 1,002,000 square kilometres, only one-fourth of this area, 38,700 square kilometres, is cultivated and inhabited along the banks of the Nile and the Delta. This is only slightly larger than Belgium. Whereas along the river banks average population density is bearable at 39 per square kilometre, in the Delta it reaches suffocating proportions of 1,000 per square kilometre, one of the highest in the world. Lately much of this population has been moving to the cities, especially Cairo, at an alarming rate. Thus Cairo today creaks—has virtually collapsed—under the weight of nearly 10 million inhabitants. One could argue that with a large population Egypt disposes of a relatively large skilled and unskilled workforce and the region's biggest potential market. Outweighing this is the problem of employing this huge workforce, or exporting some of it. As for its market value, it should be borne in mind that the rate of savings in Egypt has been one of the lowest anywhere,<sup>12</sup> and that a high rate of inflation, made worse by the flow of capital for construction projects and the accelerated import of consumer goods, erodes the average population's purchasing power.

Although Egypt disposes of abundant and cheap labour, most of it is ill-fed, uneducated or poorly educated and trained. The question of manpower, therefore, that is available for economic development is not straightforward. The migration propensities of the Egyptian workforce which could slightly alleviate the problem and also provide remittances back home are mainly confined to white collar skills, and the professionally trained: teachers, doctors, lawyers, engineers, scientists. Ever since the mid-sixties scores of thousands of these have migrated to the rich oil-producing Arab countries, Canada and Australia. But this is the wrong kind of exported workforce, since it is exactly the kind of people Egypt needs to man its development programmes.

It would not be self-serving to suggest that the collapse of municipal and other services, so crucial to the success of an Open Door Policy, has been due in part to Nasser's fatal mistake of allowing the large community of Italian and Greek craftsmen, artisans and

<sup>12</sup> See Galal A. Amin, *The Modernization of Poverty*, The Hague, 1974.

small-scale business managers to leave the country. The Egyptians themselves ruefully concede this now. One is not referring to the big landowners and entrepreneurs among the resident foreign communities of pre-1952 Egypt. Rather one is referring to the highly-skilled, wage-earning members of these communities who performed daily tasks in the maintenance of public utilities, buildings and services at a cost far below that being charged by imported experts today. It can be said in mitigation that when the services of a city like Cairo were first planned and developed between the 1870's and 1930's, they were never intended to serve 9 to 10 million souls.

What is a more serious problem, because upon its resolution will depend to a great extent the success or failure of the Open Door Policy—leaving aside for the moment the political accidents and imponderables of the future—is the deplorable condition of the state administration, with its overmanned and wasteful bureaucracy. It is not only a matter of non-existent telephones, virtually absent telecommunications, inadequate water and power services which hinder the development of a free market economy or economic development in whatever area from agriculture to industry. It is rather the quality of the human factor in the equation which has deteriorated in the last twenty-five years under the weight of a prolonged period of autocratic government with all its attendant ills.

Ever since Nasser, the state, for political reasons, opened up higher education to all and embarked upon an ambitious educational programme for which the country disposed neither the financial nor human resources. Consequently, any regime in Egypt now faces a terrible dilemma. Each year it must find jobs for thousands of university graduates, and these normally expect to be absorbed into the state bureaucracy or state-owned enterprises. Security of tenure, once in post, whatever their performance, is not the best incentive to productive work. This state of affairs moreover is not, as many believe or assume, the result of any particular emphasis in higher education. While there has been a perceptible—even marked—increase in science graduates over the last fifteen years, the quality and standards in the humanities to which the majority of students flock have been declining steadily since the end of the Second World War.<sup>13</sup>

It is this obstructionist monster of the state machine with its red-tape, lethargy and choking legalism which has impeded a faster rate of foreign capital flow into the country. Nor should one minimize, in this connection, the deterrent of political uncertainty which tends to discourage investment. At the same time, it is literally a tremendous chore to exist in, say, Cairo on a daily basis. No individual or corporate investor, who expects some return on his investment will put up with the haphazard and frustrating conditions. The Egyptian Government reports that the General Authority for Investment of Free Zones has approved, as of January 1978, 744 projects, representing a total of LE3,000 million, mainly in the already developed textile industry, chemicals, poultry and housing. Oil, gas and new banking facilities have been

<sup>13</sup> See Louis Awad, *Al-jami'a wa'l-mujtama'al-jadid* (The University and the New Society), Cairo 1964?

equally successful areas of development. There are as yet, however, no big productive industrial projects, mainly because these require a sound up-to-date infrastructure—road and rail transport, ports and telecommunications—including an efficient, less venal administration.

The regime apparently hope that the Open Door Policy will alleviate the employment problem by absorbing the masses of Egyptian unemployed and under-employed secondary school and university graduates into an expanding private sector of the economy. With the greater attention to be paid to agriculture and food production, it also hopes to retard—if not stem—the movement of population from the countryside to the city. Generally, the theory behind the exercise is to raise production by multiplying productive economic pursuits, and so lower inflation and increase the rate of savings. Together with the special partnership forged with Saudi Arabia since 1973–74, the government hopes that the next 20 years will not be as unbearable or disastrous as they could otherwise be. As I intimated earlier, however, there are political and social hazards for Egypt lurking in this partnership. Equally, there are hazards in the Open Door Policy itself, if only because it brings to mind (without referring to Egypt's current indebtedness) the Khedive Ismail episode last century. Historical parallels and analogies may be dangerous, but they remain instructive. Egypt, on the other hand, may well be trying to emulate the Brazilian experience, but there are grave dangers in all such emulations too.

This kind of political economy for the time being could conceivably push Egypt back to an old national interest, namely, its link with the Sudan. Apart from the traditional, historical interest of Egypt in its southern neighbour, the Sudan could become an important source of additional food for the Egyptian masses. Nasser, towards the end of his days, tried unsuccessfully to render the Sudan a recipient of Egyptian excess labour. This the Sudanese firmly resisted. What the recent choices of the regime have clearly led to is a more immediate interest in the Red Sea for both economic and political reasons.

The obvious decision to disengage from the more traditional Arab arena and to settle the conflict with Israel, suggests that Egypt's rulers now perceive their national interest for the next few years at least as lying in these new orientations. Egyptians in general, not only Sadat, have rejected the old Nasserite active involvement in Arab affairs, exactly because they perceive that it brought them to the brink of ruin; that it had very little in it for them. Now, they believe, they require urgently a period of retrenchment at home, and even of "splendid isolation". It is to this end they have been willing to reach a settlement with Israel in the teeth of fierce Arab opposition, to ally themselves with the traditionally most remote kind of Arab societies—those in the Peninsula and the Gulf—and to risk a new client relationship with the United States.

Perhaps the greatest danger of all these new orientations and plans reflected in the Open Door Policy comes from domestic factors. Educated Egyptians are aware of the fact that Egypt has been, since 1953, one of the largest recipients of foreign aid. They are equally aware of the maldistribution, not to say inequitable

distribution, of available resources, and the glaring disparity between enormous wealth among the new privileged groups which arose in the country since 1952 and the economically deprived masses of the population. Even if these Egyptians number no more than two to three million of the population, they are none the less the educated, mainly salaried civilians and soldiers of the country who are most affected by the vagaries of the economy, especially its near 40 percent galloping inflation. It is from them the greatest potential threat to the Sadat "vision" may come, not from the masses of poor peasants and the heaps of idle and distraught city folk. It is their expectations that have been aroused by the prospect of peace, and they in turn have communicated it to the masses.

Nor should the dangers of a psychologically rooted national disaffection of the less well-off masses be minimized. In a fragile economy with hardly an economic framework that is workable, the poor economic conditions of the last thirty years were justified—perhaps argued away—by the requirements of a wartime economy, i.e., the conflict with Israel. Last year's budget for example, showed a deficit of LE1,300 million, inflation was about 40 percent and rising, and the growing chasm between rich and poor of a magnitude never seen before. After a peace settlement with Israel, no Egyptian regime can have an excuse for not attending to the country's urgent domestic problems.

The immediate need will be for austerity measures, which of course may prove highly unpopular, especially if they eliminate state subsidies for essential food commodities. Austerity measures (including more demanding taxation practices), however, without an accompanying extensive programme of economic reform will be meaningless and futile. Oil revenues and an anticipated rise in revenue from Suez Canal dues, once its current development programme has been completed, will help in an area that is not of immediate or felt benefit to the masses, namely, that of critically needed foreign exchange. The government could, of course, point to the prospect of developing Sinai with its as yet unexplored riches in minerals. Even assuming such development is pursued in earnest, it can have only a long-term impact on the country's economy, say, in 20 to 30 years' time.

The short-term prospect, even with peace, is therefore grim. A heavy national defence burden on the budget will persist for some years, rising from the current LE2,500 million to possibly LE34,000 million in the next 5 years. A constraint on any quick or hasty reduction in defence expenditure will remain the problem of relations with neighbouring Libya and developments in the Horn of Africa affecting the Red Sea area. Moreover, the question of demobilizing part of a huge standing army will be a very costly affair. First, it will require the expensive increase in pay and incentives for attracting men to a regular peacetime force. Second, the re-employment of 100,000 to 200,000 demobilized men may create havoc in a labour market already saturated with vast numbers of unemployed. Finally, there will be the problem of restructuring and controlling the eternal bureaucracy.

If the political economy of the country after the conclusion of a peace treaty with Israel founders upon the rocks of a stubbornly authoritarian state system, Egyptians may well resort to different

patterns, and the Open Door Policy will have only been an episode and an interlude—an experiment that failed and backfired. Egypt is still a “hydraulic society” which requires a master, a *rayyes*. Until the nineteenth century plagues, famines and other natural scourges kept its population either below the optimum number or in balance. These are unlikely to occur now, and if and when they might occur they would be quickly controlled and eradicated. What the Egyptians need now in order to face their staggering economic problems, is a political order that can accommodate the kind of economic policy which will enable 40 million today and 60 to 70 million people in the year 2000 to live above the subsistence level.

The combination of normal relations with Israel and the economic implications these may have for Egypt and a client-patron relation with the United States may, of course, provide the basis for a more hopeful economic policy in the next decade. But the United States ought to be fully aware of the magnitude of its commitment—if such commitment indeed exists—to Egypt in the face of that country’s staggering economic, social and political problems.

#### CONCLUSION

There are dangers lurking in the Sadat regime policy of the last 5 years which can affect both the domestic situation and the external relations of the country. Egypt’s major problem for the foreseeable future will be that of feeding its still rising population. In this respect it will continue to depend on outside assistance. Related to it is the phenomenal exodus of its skilled and trained human resources to neighbouring rich Arab countries and, since 1965–66, elsewhere overseas. A redefinition and reformulation of its political priorities both at home and abroad will depend on a resolution of some of its most pressing economic problems. In this respect, Egypt differs perhaps fundamentally from other Arab countries. Moreover, it is also more directly affected by developments in Africa. It is, one might say, within this overall problematic and complex context that the current political turmoil is taking place.

In the meantime, the liberalization policy of the regime has opened a political Pandora’s Box from which the first creature to emerge—albeit only for a few months—has been the new Wafd. What other new political constellations, some dangerous, others helpful to the regime will arise in the future constitutes a new kind of uncertainty in Egypt. Sadat has, over the last eight years, allowed the discrediting of this predecessor’s regime. It is in that atmosphere that old and new forces have moved and surfaced. What may have been originally a mechanical, pro forma liberalization policy for propaganda purposes now threatens to turn into a serious one by better organized public demand, and by the prospects—slim as they may seem to some—of peace with Israel.

An immediate danger, for example, lurked in the early euphoria exhibited by Egyptians over Sadat’s peace initiative. It was as if they were anxious, if not indeed desperate, for an escape from the labyrinth of the Middle East conflict. The denouement that had set in, just before Camp David, in the face of no tangible progress towards a settlement threatened to undermine their faith—not to speak of their determination—in the regime’s new policies. In

other words, just as they had readily embraced Sadat's peace initiative at the outset, they could well have, had the Israelis remained wholly intransigent, turned equally hostile. As for whatever the outcome of implementing the treaty with Israel will be, Egyptians will, as is always the case with them, take their cue from Sadat or whoever is in power. In moments of crisis the Egyptians have always tended to rally round the state and identify with the regime in power.

The likelihood of the treaty going awry has not been overlooked by President Sadat. Allusions before September 1978 to the circumstances in which Egypt would restore her relations with certain Arab states or improve the same with the Soviet Union are fairly indicative. Intimations that if pressed Egypt may well seek the likeliest sources of support that will enable her to fight again have also been made. It is more likely, though, that she will seek to strike a balance between a settlement which Israel and a role in the Arab world. One dare say that Sadat at least believes that whatever the obstacles and difficulties, the very momentum and dynamism of a gradual implementation of the peace settlement will have a tremendous impact on the whole Middle Eastern region. Longheld Arab positions will, in the face of this impact, become untenable. In short, the region will have to adapt to the new situation. This however, is only the vision. The reality may turn out to be quite different to the peril and detriment of all concerned.

For the moment, the vast majority of Egyptians have reacted against the direction and experiments of the last 20 years, and are willing to consider a less exciting, more home-oriented policy of retrenchment. They affect a disillusionment with Nasser, the Russians and other Arabs, especially the Palestinians. They equally affect a willingness to consider a rapprochement with the West led by the United States. They often muse over their peculiar tradition of a complex Mediterranean-Pharaonic-Muslim-Arab culture and civilization in an effort to underline and emphasize their different perceptions and attitudes from those of the other Arabs.

Simultaneously, they point to the fact that culturally and politically they are and will remain the centre of the Arab world. If the writings and other utterings of their leaders and men of letters are anything to go by, Egyptians today seem to have rediscovered an old conception and perception of politics and the tasks of the state. They seem to believe strongly that politics is about what power—in their case very centralized state power—does to people's lives now, daily, not about the promise of a paradise in the distant, hazy future.

# ISRAEL

By Bernard Reich\*

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## INTRODUCTION

The October War of 1973 interrupted a period of euphoria and prosperity which had increasingly characterized Israeli society in the years after the 1967 June War. In the months immediately preceding the October War Israel's political stability and sense of security was enhanced by an economic prosperity which had not been achieved prior to 1967. The conviction, often voiced by then Minister of Defense Moshe Dayan and other knowledgeable officials, that war was improbable and that the existing situation could be maintained over an extended period, contributed to the state of euphoria that was shattered by the October War and its aftermath.

In Israel "mechdal" (literally, omission or oversight) became the term which symbolized the lapses and failures associated with the post-1973 period much as "Watergate" connoted the last years of the Nixon tenure. The 1973 war was not simply a major military encounter, it was a significant turning point marking the onset of a series of trends and processes which have affected, in varying ways, all aspects of Israeli life and outlook.

## CHANGE IN THE POLICY ENVIRONMENT

The substantial direct impact of the October War on Israel was enhanced by the contrast with conditions prevailing in the immediate pre-war period. Israel's dramatic victory in the June War and

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the subsequent relative military quiet<sup>1</sup> and economic boom contributed to a nationwide euphoria that permeated thinking on many of the central political and security-foreign policy issues. The result was a state of mind which contributed to the failures of October 1973. That state of mind was reflected in Israel's political military "conception" which was identified by the blue-ribbon Agranat Commission<sup>2</sup> as a factor in the mistakes surrounding the onset of the October War. The conception included the view that time was on Israel's side and that the Arabs could not launch a military attack. It was believed that the Arabs would ultimately have to negotiate and that outside forces would not interfere to alter the Middle East situation.

Israel was confident and sanguine about the situation and the future. The economic boom permitted many Israelis to acquire luxury items such as expensive homes, costly cars, and European vacations. There was strong political and diplomatic support from the United States and much of the international community. The military balance was in Israel's favor and it was assumed that Israel's military prowess would deter an Arab attack and that the general stability of the region was assured for the next decade. While some disagreed, it was also believed that any Arab attack would be suicidal and would result in an Israeli victory of greater proportions than that of the June War of 1967. This general perception appeared to be echoed in the United States and other Western states.

The October War stunned Israel. The failure of Israeli military intelligence (primarily in assessing available information), initial battlefield reverses, and the "wars of the generals" (public debates between general officers concerning the conduct of the war) raised questions about Israel's military capability. Israel's confident optimism was eroded and the subsequent reevaluation fostered a feeling of uncertainty. There was a mixture of anger and frustration engendered by political and military factors associated with the conduct of the war. Despite significant military accomplishments, Israel was unable to achieve fully its desired military objectives due, in part, to great power and international pressures. The relatively high level of war casualties added to the sense of concern.<sup>3</sup>

Contributing to the unsettling circumstances were deteriorating economic conditions. The pre-war economic boom was replaced by increasingly stringent conditions. Taxes were increased and other war related levies were introduced, subsidies on some basic food-stuffs were lowered, and the inflation rate reached 40 percent.

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<sup>1</sup> The cease-fire lines established after the 1967 war provided Israel with a respite from daily threats to its civilian population and reduced the danger of large-scale conflict. Even the 1969-70 War of Attrition along the Suez Canal did not have the same impact on civilian life as previous conflicts.

<sup>2</sup> Partly to quiet domestic political complaints the Israeli Cabinet decided, on November 18, 1973, to establish a commission of inquiry to investigate the events leading up to the war (including information concerning the enemy's moves and intentions), the assessments and decisions of military and civilian bodies in regard to this information, the Israeli Defense Forces deployment and preparedness for battle, and its actions in the first phase of the fighting. The commission of inquiry consisted of the President of the Supreme Court, Justice Shimon Agranat (after whom the Commission was named); the State Comptroller, Yitzhak Nebenzahl; Supreme Court Justice Moshe Landau; and two former chiefs of staff, Yigael Yadin and Haim Laskov. All were widely respected public personalities who enjoyed public confidence.

<sup>3</sup> Eventually it was announced that more than 2,500 had been killed and more than double that number had been wounded. The number of casualties was substantially greater than in the 1967 war and the grief was further magnified by the small size and close-knit nature of Israeli society.

Agricultural and industrial production were initially dislocated by the war mobilization and by the continuation of an increased level of mobilization until after the Israel-Syria disengagement of May 1974. Arab laborers from the West Bank and Gaza Strip who had regularly crossed into Israel to provide the economy with substantial and relatively cheap labor ceased to work causing further economic dislocations. Tourism and other sources of foreign exchange fell during the war and the port of Eilat was cut-off by the Egyptian-imposed blockade at the Bab el-Mandeb, restricting trade with East Africa and Asia and the oil flow from the Persian Gulf. The replacement of military equipment lost in battle (especially expensive weapons systems of the air force and armored corps), the servicing of the pre-war debt, and the acquisition of new materiel to meet current and future defense needs added to the burden.

During the period following the October War defense expenditure reached the all-time high level of about 40 percent of GNP. The cost of the war was variously estimated, but most analysts suggested the total expenditure reached about \$10 billion—approximately equal to the annual GNP. But Israeli policy-makers could not readily reduce non-defense expenditures because of the requirements of immigrant absorption, continued development programs, and the effort to reduce existing social and economic gaps. In a partial effort to improve the situation (and especially to curb inflation and strikes for wage increases) a broad-scale austerity program was instituted and the Israeli pound was devalued by 43 percent (from IL 4.2=\$1 to IL 6.0=\$1) in November 1974. These actions were accompanied by public opposition and a wave of demonstrations.

The war accelerated the momentum for political change and facilitated the replacement of personalities and the modification of policies. In a society where political participation has always been widespread and where views are intense and diverse, the war heightened the political interest and participation of the younger, better-educated and native-born generation. In the postwar period there was greater realism, more caution, more questioning of attitudes and policy, and more criticism of both the system and the people who run it—a direct result of the crisis of confidence created by the “errors” associated with the conflict.

The elections for the Eighth Knesset (parliament) and local authorities held at the end of December 1973 only partly reflected the changes that had occurred.

There had been some expectation that the Likud (a bloc of right-wing opposition parties) would rival the Ma'arach (Labor Alignment) and that both the Citizen's Rights and Moked parties would demonstrate newly-developed strengths but this was not evident in the final tabulations. The elections could not reflect the full extent of popular disaffection and disillusionment in part because Israel's proportional representation system does not allow voters to differentiate between those they wish to castigate and those they wish to endorse if they belong to the same party. The presence of Menahem Begin at the head of the Likud election list probably prevented a greater shift of electoral strength from the Ma'arach to the Likud. Still there were some changes—the Labor Alignment lost 6 of its 57 seats while the Likud increased its strength by 8 seats to

39. The religious parties lost 2 of their 17 positions. There were also shifts within the parties—younger elements began to assert themselves.

After initial difficulties, Prime Minister Golda Meir was able to form a coalition cabinet essentially the same as that which had governed prior to the elections (and had served as caretaker since then) and this government was confirmed by the Knesset on March 10, 1974. But on April 10 Mrs. Meir resigned, mostly because of the dissension within the Labor Party over the political responsibility for lapses at the outset of the War. This set the stage for the selection of a new Prime Minister and the formation of a new coalition. After considerable maneuvering within the Labor Party, Yitzhak Rabin was chosen over Shimon Peres as the political heir of Golda Meir. The choice of Rabin was important in that he was relatively young (in his fifties) and of a new generation—not of the group of pioneers who had come to Israel at the beginning of the 20th century and had controlled the political scene since.

Rabin's government ushered in a new era as leadership began to be transferred from the immigrant-founder generation to the native-born. All major posts in the cabinet were allocated to new ministers. The policy process itself was also altered. The powerful "kitchen cabinet" of the Meir era (which was the major policy-making unit, working in limited and closed sessions) disappeared and the homogeneous viewpoint of that group and the strength of Meir's leadership gave way to the representation of diverse views in Israel's three-man shuttle diplomacy negotiating team (Prime Minister Rabin, Foreign Minister Allon and Defense Minister Peres) and in their coterie of advisors. The cabinet's involvement in basic policy determinations was increased.

The October War also spawned protest movements and, eventually, new political parties which had varying degrees of success in establishing themselves. They developed initially in response to perceived mismanagement during the war and focused on the need for political reform. Among these parties was the Democratic Movement for Change (DMC), which secured sizeable representation in the Knesset in the 1977 elections and joined the Likud-led coalition in the fall of that year. Its leader, Yigael Yadin, became Deputy Prime Minister.

The October War created a new environment for the formulation and execution of Israeli foreign policy. Israel's position in the international community deteriorated with the outbreak of hostilities. Although it had been declining prior to the war, in large measure because of the continued occupation of the territories captured during the 1967 war and because of its responses to Arab terrorism, the actual ruptures in relations were relatively few (for example, Uganda in 1972 and Cuba in 1973) and could be accounted for in terms of special factors (such as Idi Amin's personality and Cuba's ties to the Soviet bloc). However, during the war and immediately afterward Israel was widely condemned and most of its remaining diplomatic links with the states of Black Africa were severed.<sup>4</sup> Except for South Africa, no major African state publicly

<sup>4</sup> Only five African states retained formal diplomatic relations with Israel: South Africa and four small black states—Malawi, Lesotho, Botswana, and Swaziland. In November 1973, the Organization of African Unity Ministerial Council noted the "expansionist designs of belligerent Israel" and denounced her. At the same time contacts were maintained through less public and formal channels with a number of these states.

backed Israel or offered assistance. To many Israelis this not only symbolized the injustice of the international community but also the success of Arab oil blackmail and the failure of Israel's program of international cooperation. Israel had provided many of these African states with technical assistance which the Africans had lauded publicly for promoting African development.

The ruptures with Africa were disappointing but a shift in the attitudes and policies of the European states (especially those of the European Community) was more significant since they had provided strong moral and diplomatic support. Israel's growing international isolation was compounded by the unwillingness of American allies in Europe to allow the use of their facilities and/or airspace for the shipment and transfer of supplies to Israel during the October War forcing the United States to establish special systems for the airlift to resupply Israel.<sup>5</sup> The Europeans were reluctant to be associated with the United States effort and were concerned about the reduction of Arab oil shipments. On November 6, 1973 the nine members of the European Economic Community adopted a joint communique on the Middle East calling on Israel to withdraw from occupied Arab territories and to recognize the rights of the Palestinians. Individual European states announced modifications in policy away from positions which had been more favorable to Israel. Japan also began to alter her policy, to a more pronounced pro-Arab position, and called for implementation of United Nations Security Council Resolution 242 as interpreted by the Arabs.

Perhaps the most significant of the war-associated changes in foreign relations was Israel's increased dependence on the United States. No other country could or was prepared to provide the vast quantities of modern and sophisticated arms required for war or the political and moral support necessary to negotiate peace. The United States resupplied Israel with a substantial amount of military equipment, including conventional munitions of many types, air-to-air and air-to-ground missiles, artillery, crew-served and individual weapons, and a standard range of fighter aircraft ordnance, tanks, aircraft, radios, and other military equipment lost in action. This effort was complemented by Congressional support for the resupply effort and of Israel's position, and by a Presidential request for \$2.2 billion in emergency security assistance for Israel. Despite these reassuring signs, there was concern in Israel that the United States might shift its support and that it might use its increased leverage to achieve changes in Israel's position. Israeli concern began to develop during the war with the American pressures on Israel to accept the initial cease-fire and to permit a relief convoy to resupply the Egyptian Third Army. Afterward, there was some anxiety about Kissinger's "courting of the Arabs."

The increased isolation in the international community and dependence on the United States rankled in a nation which had prided itself on the righteousness of its position and on its concept

<sup>5</sup> See United States General Accounting Office, "Airlift Operations of the Military Airlift Command during the 1973 Middle East War—Report to the Congress by the Comptroller General of the United States, 16 April 1975" Washington, D.C.: U.S.G.A.O., 1975.

of self-reliance. In the wake of the war Israel redoubled its efforts to reaffirm and reestablish the ties which had been disrupted during the war and after, in particular, its traditionally close relations with the states of Europe.

At the core of Israel's foreign policy remained the relationship with the United States. After the October War, the relationship with the United States became more central to Israel's security, to the search for peace in the Arab-Israeli zone of the Middle East, and to the continued prosperity of the Jewish state. But there was an ambivalence in Israel's postwar policy which sought both to solidify the support of the United States and to reduce Israeli dependence on that state.<sup>6</sup>

Prior to the 1973 conflict Israel considered the United States a dependable ally. It was felt that agreement between the two states existed not only on broad policy objectives but also on many of the specifics. Both states held similar perceptions of the Arab-Israeli conflict, of Israel's needs and of the United States role. There were no major issues of strain in the period immediately preceding the October War and Israel believed it was receiving all the economic and military assistance and moral and political support that could be expected. In the post-war period, although the two states remained in general agreement on broad policy goals (e.g. the need for peace, the prevention of war, arms balancing, etc.) there was no longer the same extent of coincidence of position on the procedures to be utilized in achieving these objectives. While the United States remained Israel's most significant and important ally (whose aid is indispensable), the former exclusivity of relations was eroded as the United States attempted to reestablish its relations with Arab states and stressed the existence of other interests in the region beyond the integrity and security of Israel.

The important role assumed by the United States in the effort to achieve a settlement, the growing American energy crisis and the increased dependence of Israel on the United States indicated the importance of the American relationship with Israel and suggested that this would be the major focus of Israeli foreign policy during the postwar period.<sup>7</sup>

### THE CENTRALITY OF SECURITY

In the post-October War period, as before, Israel's overriding concern has been with national survival and security—imperatives deriving from the conflict with her Arab neighbors. All aspects of life in Israel, directly or indirectly relate to this central concern and are dominated by it. This has prevailed since Israel's establishment, when her declaration of independence was greeted by an invasion of Arab armies dedicated to her destruction.

<sup>6</sup> Its ties with the United States were put on a more tangible and formalized basis with the agreements of September 1975 which provided, *inter alia*, for United States military and economic assistance for Israel, consultation on political questions, assistance in assuring a supply of oil, and various other forms of support. This demonstrated Israel's dependence as well as the central role the United States must play in the future policy calculations of Israel.

<sup>7</sup> For further elaboration of Israel's postwar position see Bernard Reich, Testimony, May 23, 1974: "The Middle East, 1974: The Political Mood in Israel," to House of Representatives, Committee on Foreign Affairs, Subcommittee on the Near East and South Asia. Published in: U.S., House of Representatives, Committee on Foreign Affairs, Subcommittee on the Near East and South Asia, *Hearings, The Middle East, 1974: New Hopes New Challenges* (Washington: U.S. Government Printing Office, 1974), pages 103-130.

Israel's approach to security has focused on the Israel Defense Forces (IDF). Israel has lionized her military. In the popular view, the capability of the IDF for combat had reached near legendary levels and its intelligence services were regarded as among the finest in the world. At the same time, Arab military capabilities were downgraded.

The October War changed this attitude. There was a failure of military intelligence, and there were questions regarding military preparedness, strategy and tactics.

This was followed by the resignation of the Chief of Staff, and the replacement of the head of military intelligence and his deputy, as well as other senior officers in both intelligence and command positions, and major modifications in the organization of the IDF to reflect the new situation. New and sophisticated equipment acquired from the United States was a significant factor in the improvement of Israel's military posture but changes in military intelligence and shifts in military doctrine and strategy were also employed.

After Palestinian terrorists hijacked a plane to Uganda in late June 1976, IDF troops raided the airport at Entebbe and freed the hostages with little loss of life. The Entebbe raid served an important morale-building purpose for Israel and tended to redress the Israel-Arab psychological balance upset by the October War. Some suggested "the Yom Kippur War ended in Entebbe". It provided a political boost to Prime Minister Rabin at home and helped to replace his reputation as a weak and indecisive leader with a new image as a more forceful decision-maker willing to take risks and make hard decisions, at least in the foreign-defense policy arena if not in dealing with domestic problems. Popularity and public confidence at home seemed to be paralleled by international admiration and the recouping of some support.

In summary, the October War of 1973 created a new environment for the formulation and execution of Israeli policy. The political earthquake, as some have called it, reaffirmed some Israeli perceptions and led to substantial questioning of others. The war itself was perceived as a military victory which could have been greater had the cease-fire not intervened and as a vindication of Israel's strategic concepts. The view of the need for secure and defensible borders, and an assured supply of modern and sophisticated equipment was reinforced. The war provided a corrective to prewar attitudes (particularly of over confidence). Questioning of policy and more criticism of the system and its decisionmakers resulted.

But, the need to develop long-range positions responsive to the new situation created by the war was deflected by the more immediate need to respond directly to conditions in the region, particularly those related to the complex location of forces in the battle zones and the problems of maintaining the cease-fire. The first requirement was to work out approaches to the problem of the cease-fire and the disengagement of forces. The shuttle diplomacy of Henry Kissinger and the achievement of the Israel-Egypt and Israel-Syria disengagement agreements, and the Sinai II accords of 1975 postponed the formulation of a long-term policy.

### THE IMPACT OF SINAI II (1975): RELATIVE TRANQUILITY

The Sinai II agreements of September 1975 between Israel and Egypt marked the beginning of a period of relative tranquility for Israel, providing a respite from the pressures placed on it by the October War and its aftermath.

Sinai II assured Israel of relative quiet on its southern frontier because it effectively neutralized Egypt in the military conflict. The perception that Arab military prospects vis-à-vis Israel were significantly reduced without Egyptian participation gained credence when, in February 1976, President Sadat suggested there were limits to Egyptian participation in military conflicts with Israel. Egypt's reconstruction in the Suez Canal zone and return of civilian population to that area was a positive sign. The early-warning system in Sinai, manned by United States technicians, had worked successfully and there was a general relaxation of tension in that sector.

The improved situation between Israel and Egypt had something of a counterpart in the north. Despite Israel's concern with the civil war in Lebanon, and growing Syrian involvement in it, terrorist actions declined and there was general calm along the frontier. Later there developed tacit links between Israel and Lebanese Christians. Israel provided medical care, purchased Lebanese commodities (e.g. tobacco), gave permission for some Lebanese to work in Israel and permitted some family reunions across the frontier. The hope was that this "good fence" policy would have a positive influence on developments. Israel also provided military equipment and military support to Christian forces, especially in southern Lebanon, and increased its patrols in southern Lebanon, primarily in the sector known as Fatahland. Meanwhile, the quiet along the Israel-Jordan border was maintained and civilian crossings of the Jordan River (as part of Israel's "open bridges" policy) continued. Military clashes, except for isolated incidents, were replaced by limited peaceful encounters along Israel's borders with the neighboring Arab states.

The relatively promising regional and international environment was not paralleled at home. Despite some respite from the intense anti-government protests on the Arab-Israeli situation which had become a hallmark of the period of negotiations leading to Sinai II, tranquility did not prevail in the political, economic and social sectors. Israel continued to face severe economic pressures. The October War had been costly and post-war defense expenditures continued at a high level. Austerity budgets were adopted in the civilian sector.

A program of continuous small devaluations of the Israeli pound was established to make imports more expensive as part of an effort to reduce foreign currency drains and deficits in the balance of payments. Taxes were raised and the government reduced subsidies on basic commodities such as bread, milk, eggs and similar items, which, together with the high rate of inflation, further increased the cost of living. There was an economic slowdown with stagnation or minimal growth in GNP accompanied by a rise in unemployment. The foreign debt (of about \$8 billion in 1976) and substantial interest payments on it contributed to the difficulties.

The efforts to increase exports on a scale that would assist Israel's payments deficit were stalemated by the worldwide economic situation. Austerity was intensified, social services, health and education were cut, and this reduced the standard of living.

Israel also faced a major problem in the form of diminished immigration and a reduction in the population growth rate. In 1975 emigration had nearly matched immigration as government figures indicated 18,500 Israelis had emigrated while only 20,000 newcomers had arrived, of which 8,500 were from the Soviet Union (compared to 31,970 immigrants in 1974 and 58,886 in 1973).

A more significant concern revolved around the country's increasingly politicized Arab minority. Israel's Arab population of some 450,000 (the Arabs who did not flee during the 1948-1949 Arab-Israeli war and their families) had long been granted legal equality, had participated in parliamentary elections and local governments, and had their own state-supported educational and religious institutions. But below the surface there was discontent, a perceived second class status resulting from various forms of subtle discrimination.

In the spring of 1976 Israel's Arabs participated in their first general protest and some of the most violent demonstrations in the state's history. The riots grew out of a general strike, centered in Nazareth, which was called to protest land expropriations in the country's northern section. The government's adoption of a five year plan intended to increase the number of Jewish settlers had served as the catalyst, but the initial demonstrations escalated and became more general in their focus, incorporating complaints about Arab second-class status in the Israeli system. In the ensuing violent clashes with Israeli security forces some demonstrators were killed. The leaking of a confidential and unofficial report by Interior Ministry official Koenig in the fall of 1976, suggesting ways of curbing the growing number and influence of Israeli Arabs in the Galilee region raised additional Arab anxieties and touched off further demonstrations and controversies.

These and other domestic issues were faced by a narrow coalition government under Prime Minister Yitzhak Rabin. Rabin's weakness tended to spur the continuation of rivalries and bickering on a host of matters with Defense Minister Shimon Peres and Foreign Minister Yigal Allon, although the three constituted the government's negotiating team in the dealings with Kissinger on a settlement and cooperated on other similar matters.

#### NEW DECISIONS—THE 1977 EARTHQUAKE

The time of tranquility which followed Sinai II (September 1975) came to an end in 1977. The resignation of the Rabin Government (in December 1976), the inauguration of the Carter Administration (in January 1977), the elections of May 1977, and the attempts to achieve an Arab-Israeli settlement, ushered in a period of substantial turmoil and crucial decision for the Jewish State.

The scheduled Fall, 1977 elections were upset by a major political crisis set off by the delivery to Israel of three F-15 jet fighter aircraft, purchased from the United States, in December 1976. Although a parliamentary no-confidence motion, based on the

charge that a government-organized welcoming ceremony violated the Sabbath, was defeated, Prime Minister Rabin informed the National Religious Party (NRP) members of the Cabinet that he regarded their abstention in the Knesset vote as a vote of no-confidence in the government and, with Cabinet approval, he removed the three NRP ministers from the government and thereby gave up his Knesset majority. The following day Rabin resigned after calling for the dissolution of parliament and new elections. Rabin was appointed head of a caretaker government which would serve until the elections.

In preparation for the elections, Israel's dominant Labor Party met in convention in February 1977. Despite a strong challenge from Defense Minister Shimon Peres and after substantial debate and maneuvering, the convention selected Rabin as the party's leader. But Rabin's renomination came at a time of substantial national unrest and a faltering economy characterized by a high inflation rate, a heavy and increasing tax burden, and a wave of labor strikes. Scandals and corruption further tarnished Labor's image.

In partial response to the clamor for change Professor (and former General) Yigael Yadin launched a new political party—the Democratic Movement for Change (DMC)—whose focus was on the reform of the electoral process. Yadin, a political outsider and an amateur, was a relatively “clean” figure untainted by general perceptions of political corruption. The party soon became a refuge for Israelis disillusioned with old-style politics and seeking reform, yet relatively mainstream in their foreign and domestic policy views. The party began to erode the traditional bases of Labor support. Yadin seemed to gain support because of his honesty, idealism and commitment to change.

Labor's problems were compounded in late March when it was revealed that Rabin had maintained bank accounts in Washington in violation of Israeli currency regulations and in early April he withdrew as the Labor Party's candidate for Prime Minister. Shimon Peres was chosen by the Labor Party Central Committee to replace Rabin as the leading candidate on the election list (and thus its designee as Prime Minister) following a round of intense intra-party political maneuvering.

The 1977 campaign was longer than usual and concerned mostly domestic matters (economic problems, political scandals, and the need for change and reform) rather than foreign policy and security. No central, overriding issue emerged. Much of the voters' attention seemed to be drawn to the jockeying for position within the parties (the Rabin-Peres efforts to control the Labor Alignment, for example) and to the emergence of new political forces (such as Yigael Yadin's DMC). Each party tried to portray itself as the one to reinvigorate the system and meet potential challenges at home and abroad. The diverse and relatively minor foreign policy issues raised were discussed in general terms.<sup>8</sup> The polls and pundits indicated that Labor would reemerge as the leading party, albeit

<sup>8</sup> For a more detailed discussion of foreign policy and security issues in the 1977 campaign see Bernard Reich, “Israel's Foreign Policy and the 1977 Parliamentary Elections,” in Howard R. Penniman, Editor, *Israel at the Polls: The Knesset Elections of 1977* (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1979), pages 255-282.

with reduced electoral and parliamentary strength, and that Likud would remain at previous levels.

On May 17, 1977 Israel chose a new regime with the Likud bloc and Menahem Begin emerging as the leading political force (see table 1). But it was more of a Labor loss than a Likud victory. Voters were concerned with a lack of leadership and the weakness of the government in dealing with a wide variety of issues ranging from Labor unrest to social problems. The vacillation of the Labor government in dealing with the Gush Emunim<sup>9</sup> settlers in the West Bank, especially at Kaddum, seemed to confirm general impressions of government weakness and several major scandals contributed to this negative image. Domestic problems for which Labor was deemed responsible, directly or indirectly, combined with the emergence of a new and respected alternative in the form of the DMC seemed to provide a basis for voting shifts.

TABLE 1.—Final Official Election Results, 1977

|                                    |           |
|------------------------------------|-----------|
| Number of eligible voters .....    | 2,236,293 |
| Number of votes cast .....         | 1,771,726 |
| Voter participation (percent)..... | 79.2      |
| Invalid votes (1.3 percent).....   | 23,906    |
| Number of valid votes .....        | 1,747,820 |

| Party   | Votes     | Percent | Knesset seats |
|---|-----------|---------|---------------|
| Likud .....                                   | 583,075   | 33.4    | 43            |
| Labor Alignment .....                         | 430,023   | 24.6    | 32            |
| Democratic Movement for Change .....          | 202,265   | 11.6    | 15            |
| National Religious Party .....                | 160,787   | 9.2     | 12            |
| Agudat Yisrael .....                          | 58,652    | 3.4     | 4             |
| Poalei Agudat Yisrael.....                    | 23,956    | 1.4     | 1             |
| Democratic Front for Peace and Equality ..... | 79,733    | 4.6     | 5             |
| Shelli .....                                  | 27,281    | 1.6     | 2             |
| Shlomzion .....                               | 33,947    | 1.9     | 2             |
| Flatto-Sharon .....                           | 35,049    | 2.0     | 1             |
| Independent Liberals .....                    | 21,277    | 1.2     | 1             |
| Citizens Rights.....                          | 20,621    | 1.2     | 1             |
| United Arab List .....                        | 24,185    | 1.4     | 1             |
| Others (9 Lists) .....                        | 46,969    | 2.5     | —             |
| Total .....                                   | 1,747,820 | 100     | 120           |

Source: Embassy of Israel, Washington, D.C.

Israel's 1977 elections were something of a political earthquake. The parties comprising the Likud bloc served during Israel's period of independence as an opposition group, only joining the government at the time of the 1967 war for a three year period to form the "wall-to-wall" government of national unity which excluded only the communist parties. It withdrew from that coalition in a dispute over Israel's acceptance of United States Secretary of State William Rogers' June 1970 cease-fire initiative. During the remainder of the three decades since independence these parties were vocal opponents of the government, criticizing its programs, policies, and leadership.

<sup>9</sup> Gush Emunim—Bloc of the Faithful. An interest group, primarily of Orthodox Jews, who believe that settlements should be established throughout Judea and Samaria (the West Bank) and that the area should be retained by Israel.

Likud was not prepared for the task of forming a new government and there is evidence it did not expect to incur the obligation. Clearly its personnel, with relatively few exceptions, lacked the experience of high-level government service which would have prepared them for the effective operation of a governmental bureaucracy or for service in cabinet posts. This partly accounts for the initial practice of retaining Labor party people in various government positions.

Begin's immediate challenge was to establish a functioning administration and refashion it to the ideals and personalities of Likud rather than Labor. The major domestic issues included the problems of inflation, strikes and job actions and the desire for more control over the labor sector by the government. Crucial change seemed to be certain in foreign policy as Begin had earned the reputation of a hard-liner; his pre-independence leadership of the Irgun generated an image as a "terrorist." But Begin was also seen as honest, decisive, and an articulate advocate of his strongly-held views.

At first Begin suggested the creation of a government of national unity but Labor rejected this approach and, after initial discussions, the DMC also decided not to join the government coalition. Eventually Begin formed a coalition, consisting primarily of Likud, the National Religious Party and Agudat Yisrael, which was approved by the Knesset by a vote of 63 to 53 on June 21, 1977. In October 1977 DMC joined the government coalition after Yadin argued that "grave political issues" at home and abroad required this decision. This substantially strengthened the coalition's majority in the Knesset.

#### CONTINUING ECONOMIC BURDENS

The overriding domestic issue facing the Begin government was the economy. Israel's policy of unrestricted immigration, the scarcity of natural resources, and the security requirements imposed by the Arab-Israeli conflict negatively affect Israel's economic situation.

Israel is a small country (about 8000 square miles in its pre-1967 war frontiers) and poor in natural resources. It has substantial deposits of potash in the Dead Sea and some phosphates and copper but no major amounts of other mineral resources. Domestic sources of energy are minimal. Agricultural land is a prime asset and although there is some fertile soil, much of it requires irrigation. The scarcity of water is a major obstacle to increased agricultural production. The Jordan River, which plays an important role in Israel's National Water Plan, is utilized to improve agricultural production for both the increasing population and for export. Israel is well-located for land and sea trade with neighboring states but the continuing Arab-Israeli conflict and the Arab boycott forces Israel to trade at greater distances, to its disadvantage.

Israel seeks to produce goods and generate sufficient revenues to balance its budget and achieve a stable balance of payments. In Israel's earlier years this was achieved through income from several outside sources. This included substantial amounts of foreign capital, of which a large portion came from private sources in the

United States through the efforts of the United Jewish Appeal, Hadassah, and other agencies and organizations. German reparations and restitution payments to individuals were an important source in the late fifties and early sixties. United States economic aid to Israel including grant aid, loans, Public Law 480 Food for Peace programs, and Export-Import Bank loans has been especially beneficial (see table 2).

Israel's overall economic position has improved over the years. It has met the problems of material shortages and much of the task of settling a million immigrants (see table 3) while substantially increasing its per capita gross national product.<sup>10</sup> Having achieved relative self-sufficiency in agriculture, Israel aims at expanding the industrial sector, particularly those industries with export potential that can be developed to offset the country's large imbalance of commodity trade. Israel seeks the participation of foreign financial activity to supplement its own investments. To this end it has offered tax benefits, guarantees of convertability, and repatriation of profits and capital. At the same time, Israel's long-term objectives include a reduction in its reliance on foreign financial assistance. The recession which had characterized Israel's economy before the 1967 war became an economic boom, with full employment, shortly thereafter.

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<sup>10</sup> GNP per capita at market prices for 1976 was estimated at \$2,810 for Israel or at about 25th out of about 125 countries with populations of one million or more. A level more comparable to that of much of Western Europe than of third world states. *1978 World Bank Atlas* (Washington: World Bank, n.d.), page 6.

TABLE 2.—ISRAEL—U.S. OVERSEAS LOANS AND GRANTS—OBLIGATIONS AND LOAN AUTHORIZATIONS

[U.S. fiscal years—millions of dollars]

| Program  | Post-war relief period 1946-48 | Marshall plan period 1949-52 | Mutual Security act period 1953-61 | Foreign Assistance Act period |       |                  |                         | Total FAA period 1962-77 | Total loans and grants 1946-77 <sup>1</sup> | Repayments and interest 1946-77 | Total less repayments and interest 1946-77 <sup>1</sup> |         |
|--|--------------------------------|------------------------------|------------------------------------|-------------------------------|-------|------------------|-------------------------|--------------------------|---|---------------------------------|---|---------|
|  |                                |                              |                                    | 1962-74                       | 1975  | 1976             | Transition quarter 1977 |                          |   |                                 |   |         |
| I. Economic assistance total.....                  |                                | 86.5                         | 507.1                              | 713.7                         | 353.1 | 714.4            | 78.6                    | 742.0                    | 2,601.8                                     | 3,217.6                         | 552.9   | 2,664.7 |
| Loans.....   |                                |                              | 248.3                              | 535.2                         | 8.6   | 239.4            | 28.6                    | 252.0                    | 1,063.8                                     | 1,286.2                         | 552.9   | 733.3   |
| Grants.....  |                                | 86.5                         | 258.8                              | 178.5                         | 344.5 | 475.0            | 50.0                    | 490.0                    | 1,538.0                                     | 1,931.4                         |   | 1,931.4 |
| A. Aid and predeces.....                           |                                | 63.7                         | 311.5                              | 295.5                         | 344.5 | 700.0            | 75.0                    | 735.0                    | 2,150.4                                     | 2,566.8                         | 209.2   | 2,357.6 |
| Loans.....   |                                |                              | 96.0                               | 145.5                         |       | 225.0            | 25.0                    | 245.0                    | 640.5                                       | 729.8                           | 209.2   | 520.1   |
| Grants.....  |                                | 63.7                         | 215.5                              | 150.4                         | 344.5 | 475.0            | 50.0                    | 490.0                    | 1,509.9                                     | 1,637.5                         |   | 1,837.5 |
| (secondary supplemental assistance).....           |                                |                              |                                    | 150.0                         | 324.5 | 700.0            | 75.0                    | 735.0                    | 1,984.5                                     | 1,964.5                         |   |         |
| B. Food for peace.....                             |                                | 22.7                         | 195.6                              | 417.8                         | 8.6   | 14.4             | 3.6                     | 7.0                      | 451.4                                       | 650.7                           | 343.7   | 307.0   |
| Loans.....   |                                |                              | 152.3                              | 389.7                         | 8.6   | 14.4             | 3.6                     | 7.0                      | 423.5                                       | 556.9                           | 343.7   | 213.2   |
| Grants.....  |                                | 22.7                         | 43.3                               | 28.1                          |       |                  |                         |                          | 28.1  | 90.4                            |   | 93.8    |
| Title I—Total.....                                 |                                |                              | 165.1                              | 408.2                         | 8.6   | 14.4             | 3.6                     | 7.0                      | 441.8                                       | 588.3                           | 343.7   | 244.6   |
| Repayment in money loans.....                      |                                |                              |                                    | 294.7                         | 8.6   | 14.4             | 3.6                     | 7.0                      | 328.3                                       | 309.7                           | 103.4   | 206.3   |
| Payment in foreign currency.....                   |                                |                              | 165.1                              | 113.5                         |       |                  |                         |                          | 113.5                                       | 278.6                           | 240.3   | 38.3    |
| Title II—Total.....                                |                                | 22.7                         | 30.5                               | 9.6                           |       | ( <sup>2</sup> ) |                         |                          | 9.6   | 62.4                            |   | 62.4    |
| Economic relief, economic development and WFP..... |                                |                              |                                    | 2.2                           |       | ( <sup>2</sup> ) |                         |                          | 2.2   | 2.2                             |   | 2.2     |
| Voluntary relief agency.....                       |                                | 22.7                         | 30.5                               | 7.4                           |       |                  |                         |                          | 7.4   | 60.2                            |   | 60.2    |

|  |       |         |         |         |         |         |         |         |          |         |         |
|--|-------|---------|---------|---------|---------|---------|---------|---------|----------|---------|---------|
| C. Other economic assistance .....     | 0.1   |         |         |         |         |         |         | 0.1     |          | 0.1     |         |
| Loans .....                            |       |         |         |         |         |         |         |         |          |         |         |
| Grants .....                           | 0.1   |         |         |         |         |         |         | 0.1     |          | 0.1     |         |
| Peace Corps .....                      |       |         |         |         |         |         |         |         |          |         |         |
| Other .....                            | 0.1   |         |         |         |         |         |         | 0.1     |          | 0.1     |         |
| II. Military assistance total .....    | 0.9   | 3,911.6 | 300.0   | 1,500.0 | 200.0   | 1,000.0 | 6,911.6 | 6,904.2 | 802.2    | 6,102.0 |         |
| Loans .....                            | 0.9   | 2,411.6 | 200.0   | 750.0   | 100.0   | 500.0   | 3,961.6 | 3,954.2 | 802.2    | 3,152.0 |         |
| Grants .....                           |       | 1,500.0 | 100.0   | 750.0   | 100.0   | 500.0   | 2,950.0 | 2,950.0 |          | 2,950.0 |         |
| A. Map grants .....                    |       |         |         |         |         |         |         |         |          |         |         |
| B. Credit sales—FMS .....              | 0.9   | 2,411.6 | 200.0   | 750.0   | 100.0   | 500.0   | 3,961.6 | 3,954.2 | 802.2    | 3,152.0 |         |
| C. MASF grants .....                   |       |         |         |         |         |         |         |         |          |         |         |
| D. Tran-excess stock .....             |       |         |         |         |         |         |         |         |          |         |         |
| E. Other grants .....                  |       | 1,500.0 | 100.0   | 750.0   | 100.0   | 500.0   | 2,950.0 | 2,950.0 |          | 2,950.0 |         |
| III. Total economic and military ..... | 86.5  | 508.0   | 4,625.3 | 653.1   | 2,214.4 | 278.6   | 1,742.0 | 9,513.4 | 10,121.8 | 1,355.1 | 8,766.7 |
| Loans .....                            |       | 249.2   | 2,946.8 | 208.6   | 989.4   | 128.6   | 752.0   | 5,025.4 | 5,240.4  | 1,355.1 | 3,885.3 |
| Grants .....                           | 86.5  | 258.8   | 1,678.5 | 444.5   | 1,225.0 | 150.0   | 990.0   | 4,488.0 | 4,881.4  |         | 4,881.4 |
| Other U.S. loans .....                 | 135.0 | 57.5    | 226.5   | 62.4    | 104.7   | 12.6    | 0.9     | 407.1   | 522.9    | 460.9   | 62.0    |
| Ex-Im Bank loans .....                 | 135.0 | 57.5    | 226.5   | 62.4    | 104.7   | 12.6    | 0.9     | 407.1   | 522.9    | 460.9   | 62.0    |
| All other .....                        |       |         |         |         |         |         |         |         |          |         |         |

<sup>1</sup> Values in these columns are net OH Deobligations.

<sup>2</sup> Less than 150,000.

Source: Agency for International Development, U.S. Oversea Loans and Grants and Assistance from International Organizations, Obligations and Loan Authorizations, July 1, 1945–Sept. 30, 1977, page 19.

TABLE 3.—JEWISH IMMIGRATION TO ISRAEL, IMMIGRATION 1919–77 ACCORDING TO PERIOD OF IMMIGRATION AND COUNTRY OF ORIGIN

| Period                          | Total     | Yearly average | Asia and Africa |         | Europe and America |         | Not known |
|---------------------------------|-----------|----------------|-----------------|---------|--------------------|---------|-----------|
|                                 |           |                | Number          | Percent | Number             | Percent |           |
| 1919 to 1948 <sup>1</sup> ..... | 452,158   | 15,396         | 44,809          | 10.4    | 385,066            | 89.6    | 22,283    |
| 1948 to 1951 .....              | 686,739   | 189,028        | 330,086         | 41.6    | 336,623            | 50.4    | 19,130    |
| 1952 to 1954 .....              | 54,065    | 18,022         | 41,051          | 76.0    | 12,982             | 24.0    | 31        |
| 1955 to 1957 .....              | 164,936   | 54,975         | 112,185         | 68.3    | 52,138             | 31.7    | 613       |
| 1958 to 1960 .....              | 75,487    | 25,162         | 27,369          | 36.3    | 48,106             | 63.7    | 12        |
| 1961 to 1964 .....              | 228,046   | 57,012         | 136,570         | 69.9    | 91,462             | 40.1    | 14        |
| 1965 to 1968 .....              | 81,337    | 20,334         | 43,805          | 53.9    | 37,526             | 46.1    | 6         |
| 1969 to 1974 .....              | 259,219   | 43,028         | 56,722          | 22.0    | 201,446            | 78.0    | 1,081     |
| 1975 to 1977 .....              | 61,238    | 20,513         | 6,019           | 9.8     | 55,348             | 90.2    | 51        |
| Total .....                     | 2,063,255 | 34,970         | 799,337         | 39.6    | 1,220,697          | 60.4    | 43,221    |

<sup>1</sup> Up to May 1948.

Source: Israel Information Center, Jerusalem, 1978.

Building construction developed rapidly and exports grew. Immigration increased. There was a tourist influx and increased contributions from world Jewry, but defense expenditures also increased, amounting after the October War to about one-third of the annual state budget (see table 4). The economic situation deteriorated after the October War: the pre-war economic boom was replaced by increasingly stringent conditions and austerity budgets were adopted as described above. The period since 1973 has been one of near stagnation in part because of the costs of the 1973 war, the need to service a large foreign debt and the large balance of payments deficit (see table 5).

From independence until 1977 the Israeli Government played a decisive role in the economy, aided by semi-governmental institutions such as the Jewish Agency, the United Israel Appeal, the Jewish National Fund and the Histadrut. By October 1977 the Begin government was ready to inaugurate a new economic policy that sought to end the socialist structure created under successive Labor governments and to replace it with a free enterprise system. Finance Minister Simcha Ehrlich declared that the program would check inflation, cut the foreign trade deficit, raise the growth rate and promote foreign investment. The new economic policy would also remove some of the vast bureaucratic holds on the economy by eliminating most government-imposed economic controls.

TABLE 4.—ISRAEL—DEFENSE EXPENDITURE

|                                      | 1972 | 1973  | 1974  | 1975  | 1976  | 1977  | 1978  |
|--------------------------------------|------|-------|-------|-------|-------|-------|-------|
| Million dollars .....                |      | 3,644 | 3,869 | 3,552 | 4,214 | 4,259 | 3,310 |
| Dollars per head .....               |      | 1,146 | 1,173 | 1,045 | 1,201 | 1,176 | 887   |
| Percent of Government spending ..... |      | 60.4  | 51.0  | 50.1  | 56.7  | 32.4  | 30.4  |
| Percent of GNP .....                 | 20.3 | 40.8  | 31.8  | 35.9  | 36.3  | 29.9  | ..... |

Source: The International Institute for Strategic Studies (London); "The Military Balance 1976–1977", page 79 and "The Military Balance 1978–1979", page 89.

TABLE 5.—ISRAEL'S FOREIGN DEBT AND DEBT-SERVICE PAYMENTS, CALENDAR YEARS 1971-77

[In millions of dollars]

| Calendar year | Foreign<br>debt at<br>end of year | Debt service payments |                  |                  |
|---------------|-----------------------------------|-----------------------|------------------|------------------|
|               |                                   | Principal             | Interest         | Total            |
| 1971.....     | 3,430                             | 330                   | 175              | 505              |
| 1972.....     | 4,081                             | 432                   | 219              | 651              |
| 1973.....     | 5,093                             | 420                   | 327              | 747              |
| 1974.....     | 6,250                             | 469                   | 517              | 986              |
| 1975.....     | 7,617                             | 528                   | 646              | 1,174            |
| 1976.....     | 9,231                             | 630                   | 645              | 1,275            |
| 1977.....     | <sup>1</sup> 10,425               | ( <sup>2</sup> )      | ( <sup>2</sup> ) | ( <sup>2</sup> ) |

<sup>1</sup> This represents a per capita debt of \$2,900 in 1977, up from \$1,100 in 1972 and \$515 in 1967.<sup>2</sup> Not available.

Although the absolute level of debt is high, the burden of debt is not as large as it might appear because of the long-term structure and "soft" nature of much of the debt. More than 80 percent of the total debt is long-term, about 23 percent of it owed to Israel bond holders and 32 percent to the U.S. Government.

It should also be noted that some of the Israel bond borrowing is not a foreign exchange liability because some bonds are redeemed in Israel pounds or in new issues of bonds. Moreover, much of the debt to the United States represents borrowing on concessional terms. Israel's official debt to the United States at June 30, 1977, as compiled by the Treasury Department, is shown below.

*Principal outstanding on utilized credit*

Loan source:

|   |                            |
|---|----------------------------|
| Foreign Assistance Act and related acts ..... | <sup>1</sup> \$349,141,233 |
| Public Law 480 agricultural sales.....        | 281,239,818                |
| Foreign military sales .....                  | 2,394,257,210              |
| Export-Import Bank loans.....                 | 146,031,452                |
| <b>Total.....</b>                             | <b>3,170,669,713</b>       |

<sup>1</sup> Security Supporting Assistance accounts for \$245 million of this amount.

Israel's annual repayments to the U.S. Government will amount to about \$375 million in 1977 and \$394 million in 1978, according to the Treasury Department.

Source: U.S. General Accounting Office "U.S. Economic Assistance For Israel" Report to the Congress by the Comptroller General of the United States, August 18, 1978. Washington, D.C.: U.S.G.A.O., 1978, pages 25-26.

A system of floating exchange rates was adopted and virtually all foreign currency regulations were eliminated. The devaluation of the pound by some 43 percent was expected to promote a flow of dollars and other foreign currency into the country. A new value-added tax of twelve percent was imposed. It was hoped that this new policy would increase exports by making Israeli products less expensive and would reduce imports (and consumption generally) by leaving less money in the hands of the Israeli consumer and by encouraging greater productivity. Whether the economic reforms will succeed is still uncertain.

## THE ARAB-ISRAEL CONFLICT AND UNITED STATES-ISRAEL RELATIONS

The dominant issues facing Israel continue to be in the foreign and security policy arena, especially the Arab-Israel conflict and

the relationship with the United States as the central power in the peace efforts and as Israel's major ally.

The Carter Administration began its Arab-Israeli initiative in January 1977 and it was well underway by the time of the Israeli elections. But the Carter conception of a settlement conflicted with the perceptions and policies of the government.<sup>11</sup>

Both Carter and Begin sought to play down the areas of disagreement and to maintain a cordial and positive relationship. In mid-July 1977 Begin visited Washington to discuss the elements of a settlement. Although no substantive policy changes resulted, a foundation was laid for personal rapport and confidence between the two leaders. However, United States and Israeli positions soon came into public conflict. After Begin's return to Israel the government recognized three previously-illegal Israeli settlements on the West Bank (Kadum, Ofra and Maale Adumim) as permanent, legal entities. Secretary of State Vance noted that the settlements were illegal and obstacles to peace. Begin rejected Vance's criticism and defended the decision.

United States-Israeli differences reached a crucial point in the early fall of 1977. The United States concentrated its efforts in September and October on finding a mechanism to deal with the question of Palestinian representation at Geneva. The United States pressed its view that Palestinians must be involved in the peacemaking process. By the end of September Israel agreed to a United States proposal that Palestinian representatives constitute part of a unified Arab delegation at the opening session of a reconvened Geneva conference. Then, on October 1, 1977, the United States and the Soviet Union issued a Joint Statement on the Middle East which brought the Soviets back into the forefront of the peace process, to the dismay of Israel (and Egypt). The Israeli reaction was mitigated, in part, by meetings between Israeli Foreign Minister Dayan and United States Secretary of State Cyrus Vance and President Carter resulting in a working paper outlining positions and principles agreed to by the United States and Israel. But the two governments remained in disagreement on the precise role of the Palestinians (especially the PLO) in the peace process, the concept of a Palestinian homeland, the extent of Israeli withdrawal from the occupied territories and the subsequent shape of Israel's final borders.

President Sadat's visit to Israel in November 1977 modified the Israeli view of the conflict and of Arab hostility. Israel's positions had not been tested previously in direct, public and official negotiations with the Arab states. Despite Sadat's visit, his speech to the Knesset and subsequent statements, and the direct discussions between Israel and Egypt in Jerusalem, Cairo and Ismailia (and later at Camp David and in Washington), Israelis continued to hold a deep mistrust of Arab intentions. No other Arab leader joined Sadat in Jerusalem, no other Arab state participated in the subsequent Cairo conference, and no major Arab state provided substan-

<sup>11</sup> For further elaboration of Carter's concept of a settlement see Bernard Reich, "The Continued Quest for Peace: The United States and the Middle East," in Colin Legum and Haim Shaked, Editors, *Middle East Contemporary Survey*, Volume One, 1976-77 (New York and London, Holmes and Meier, 1978), pages 21-31. For a discussion of Israel's views see Bernard Reich, "Israel's Policy and the Search for Peace in the Middle East," *Towson State Journal of International Affairs* 13:1-15 (Fall 1978).

tial support for that position and the subsequent Camp David process. While Sadat charted a new course for Egypt he did not alter the basic Arab position. Indeed, he argued that Israel should conform to the Arab conception of peace.

The Begin government—like the Rabin government, and indeed all Israeli governments before it—defined peace as the end of war, full reconciliation and normalization, and the establishment of open borders across which people and goods could move without hindrance.

The question of borders was more complex. In Israel's view, Jerusalem was not occupied territory and should stay the undivided capital city of Israel. On the question of occupied territories and withdrawals, the consensus opposed a return to the armistice lines of 1949 (which had existed until June 4, 1967, the outbreak of the Six Day War). Total withdrawal from the occupied territories was thus ruled out although there was flexibility concerning the final lines to be established and the extent of compromise on territorial retention. The focus of territorial disagreement was the West Bank (referred to by Israel as Judea and Samaria). The Begin-Likud view opposed relinquishing territory, while Labor and the DMC suggested some changes. In the Begin view Judea and Samaria are an integral part of *Eretz Israel* and thus should remain in Israeli hands.

A closely related question concerns the establishment of Israeli settlements in the occupied territories and their future status. In general, the Labor governments between 1967 and 1977 tried to limit settlements to those that could serve a security function and sought to avoid conflict between the settlements and the local Arab populations (settlements were generally established in areas with relatively small Arab populations). The Begin government deviated from this policy in that settlements in Judea and Samaria have not been restricted to those that are primarily security oriented. As in Likud doctrine Judea and Samaria are integral parts of *Eretz Israel*, settlement therein is a natural and inalienable Jewish right irrespective of the security argument. Elsewhere (for example in the Sinai and the Golan Heights—areas not historically part of *Eretz Israel*) settlements were established primarily for defense and security reasons.

The Palestinian question also generated a long-standing consensus. Palestinian terrorism was viewed as a threat to be dealt with by Israel's security and defense forces. There was also general and continuing agreement that the refugee issue was a humanitarian problem that must be resolved. The broadest consensus in Israel revolves around the question of a Palestinian state and the PLO: Israel will not participate in discussions with the PLO and will not agree to the establishment of an independent Palestinian state on the West Bank and in the Gaza Strip. The refusal to deal with the PLO is based on its perception of the nature and purpose of that organization, which it sees as committed to the destruction of Israel. It views the establishment of a PLO-dominated state on the West Bank as a prelude to an eventual effort to destroy Israel. Israel would agree to the participation of Palestinian Arabs who were not members of the PLO within the Jordanian delegation at a reconvened Geneva Peace Conference. In sum, the Begin govern-

ment, the overwhelming majority of the Knesset and of popular opinion agreed to the following position: no return to the lines of June 4, 1967, no negotiations with the PLO, and no independent Palestinian state on the West Bank and in the Gaza Strip.

In response to the Sadat initiative, Israel proposed plans for the Sinai Peninsula, the West Bank and Gaza Strip that reflected this position. Israel considered the plans as departures from its previous posture, positive responses to the Sadat initiative, and bases for further negotiations. But Sadat took a different view. He withdrew his representatives from the political discussions in Jerusalem and the military talks ceased. The process seemed to come to a halt in the spring of 1978. However, discussions were resumed under United States auspices in England in July and in September 1978 a summit meeting of President Carter, President Sadat and Prime Minister Begin was convened at Camp David in Maryland.

The accords achieved at Camp David and the subsequent talks underlined the United States role in the Middle East and in the Israeli policy process.<sup>12</sup> The enduring United States-Israel relationship has traditionally been characterized by a general consensus on the principles of both the relationship and the elements of the Arab-Israeli conflict. The achievement of an Arab-Israeli peace settlement and United States support for Israel's survival, security and well-being remain basic elements of United States policy.

The two countries have long had a special relationship, which antedated Israel's independence, and which has been characterized by United States support for the security and well-being of Israel. The special relationship has grown closer over the years and reached significant new levels of political, economic and military cooperation and harmony of policy in the period between the June War of 1967 and the October War of 1973, despite occasional lapses and periods of coolness. It has been based on a series of factors including a general fund of goodwill, ideological and religious values, and strategic calculations. These elements have helped to generate support which has been manifested in a number of forms. Moral and diplomatic-political backing have been complemented by economic and military assistance. This assistance has been substantial but its form and content have varied. In the final analysis, it has been this support and assistance which have ensured the continued survival and economic well-being of Israel. This friendship and support has been restated on numerous occasions by President Carter and other members of his administration, although there is disagreement on many of the specific policies essential to achieve the broader objectives. This is not unexpected since over the years there has been a series of problems and controversies on specific aspects of the relationship within the broader parameters established by the United States-Israel consensus.

<sup>12</sup> For a detailed examination of the effort to resolve the Arab-Israeli conflict and of the United States-Israel relationship see Bernard Reich, *Quest for Peace: United States-Israel Relations and the Arab-Israeli Conflict* (New Brunswick, N.J.: Transaction Books, 1977). See also Bernard Reich, "The Continued Quest for Peace" and Bernard Reich, "United States Middle East Policy," *Current History* 76:6-8, 41-42 (January 1979).

## THE ECONOMICS OF PEACE

Israel's economy is highly dependent upon factors outside its direct control such as political-military developments in the region and beyond. Its arms industry, an important and growing foreign exchange earner, is restricted not only by political considerations such as the political coloration of potential purchasers and Israel's willingness to sell to them, but also by limitations placed on sales by the United States when weapons systems contain American components. Tourism fluctuates with regional stability and the presence, absence or the probability of war. Other variables, such as the general international economic situation and the policies of more significant economic powers, affect foreign trade the receipt of foreign capital, and voluntary donations and contributions.

The overwhelming preoccupation of the government of Israel, the Knesset and the public is with matters of security and foreign policy. All other issues, no matter how significant, pale by comparison, and the decisions and actions of the government in the foreign and security policy sphere will often provide the parameters of economic policy and determine its content. With regard to government expenditures the issues of war and peace are predominant. Under the Begin government domestic economic issues have been dealt with by a New Economic Policy designed to lessen the role of the state in economic activity. But, this has not been the primary interest of the Prime Minister; rather it has been left to the Finance Minister, Simcha Ehrlich, the leader of the Liberal party faction of the Likud bloc. Begin's attention has been focused elsewhere—the Sadat initiative, the Camp David Summit, the Iranian Revolution, and the Treaty of Peace between Israel and Egypt.

The Camp David Summit marked an important milestone in Israel's history for it resulted in a commitment by at least one Arab state to work for the establishment of peace with Israel. But, the problem of converting the Camp David accords to a formal peace treaty was complicated by the revolution in Iran.

For Israel, the revolution meant oil from Iran would not be available in the foreseeable future. Israel was not entirely unprepared for this disruption. Although about half of its current consumption needs were met by shipments from Iran, it had substantial stores of oil estimated to exceed a year's supply and additional supplies have been obtained from other sources including Mexico. In addition, a portion of its needs have been met from offshore fields it discovered, developed and exploited in the Gulf of Suez off Sinai. But the increased dependence on the Sinai-Suez fields made this an important issue in the Israel-Egypt peace negotiation. Israel has also increased its attention to alternative sources of energy, especially coal which can be obtained from South Africa. It can make up some of the initial supply shortfall by purchases on the spot market and it has assurances of assistance in the form of United States pledges to assure Israel's oil supply as outlined in the United States-Israel memoranda of agreement accompanying Sinai II (1975) and the Egypt-Israel Treaty (1979).

The March 1979 Egypt-Israel peace treaty inaugurates a new era for the Middle East and particularly for Israel and presents it with a series of political and economic challenges. The Egypt-Israel

peace treaty will change but not necessarily reduce in any substantial way Israel's defense burden and the budgetary requirements for its military forces. Israel remains in a state of war with the remainder of the Arab world and faces potential threats on its northern and eastern frontiers. The loss of Sinai and the need for alternative defense positions and strategies will require substantial outlays of money. Israelis are likely to remain among the most highly taxed individuals in the world; Israel is likely to be cut off from many of its natural markets in the Middle East. Despite these factors Israelis are likely to remain prosperous and the standard of living is likely to remain high. The main characteristics of the Israeli system which have produced this situation are likely to continue. The rapid modernization of the country and the establishment of relatively efficient, Western-style industries and financial institutions are an important factor in the economic picture. Its agriculture is sophisticated and modern, its manufacturing is diverse. United States economic and military assistance continue to be an important asset.

With the movement away from war to a more stable situation there is hope in Israel that there will be economic benefits. These would include eventual, though not immediate, reductions in defense expenditure especially for new and sophisticated and expensive equipment and reductions in reserve military service and its concomitant disruption of economic life. There is some expectation that open borders might facilitate tourism and increase revenues earned. There is some hope that with the improved climate new investors might be attracted to provide funds essential for economic development.

The prospects of peace between Israel and Egypt are welcomed although it is recognized that the process of implementing the treaty and of moving toward a comprehensive settlement will pose substantial problems. The peace agreement itself will place an additional burden on the Israeli economy because of the costs of withdrawing from the Sinai. The costs of relocating the military bases from the Sinai to the Negev have been estimated at from \$3 billion to \$5 billion. These costs do not include the value of the military installations, civilian settlements, oil wells and military and civilian infrastructure which will be left behind.

Of course, there are significant economic advantages to be gained from the treaty. Peace is less expensive than war and the costs of giving up the Sinai should be measured against the potential costs of a new conflict. In addition, the opening of the borders with Egypt can facilitate greater trade, tourism and joint economic projects. But the immediate outlays required to implement the treaty could strain the economy beyond its capacity. The United States is seen as essential to help meet the burdens imposed on the Israeli system, especially its economy, by the Egypt-Israel treaty. There is the need for United States assistance in providing funds, expertise and equipment essential for the transfer process. The United States is looked to for the loans and grants which will make possible the substantial expenditure required to implement the Egypt-Israel treaty.

Israel's political-economic situation has evolved over the years to the point where the major external element in its calculations is

the United States and its policies. In all of its endeavors Israel is ultimately reliant on the good-will and political and economic support of the United States. In the period following the signing of the Egypt-Israel treaty of March 1979 this factor will become increasingly significant as Israel seeks to confront the political and economic challenges posed by the movement toward a settlement of the Arab-Israeli conflict.

# IRAN

By Leonard Binder\*

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### 1. ECONOMIC PROSPECTS IN 1973 AND IRAN'S INTERNATIONAL POSITION

At the end of 1973 it appeared as though Iran was headed for the most glorious decade in its multi-millennial history. With the 70 percent increase in oil prices in 1973, on top of more moderate increases going back to 1969, it appeared as if prices would easily reach and surpass 400 percent of the comfortably high 1972 level. Iranian reserves were, at the end of 1973, double what they were the year before. The fifth five year plan, barely underway, was amended to provide for nearly twice the investment originally planned. Economic growth which had been targeted at 12 percent per annum was now predicted to jump 40 percent in a single year before the October War. Per capita national income which had stood at just over \$400 in 1972, and which had been optimistically predicted to rise to \$1,000 by 1978, was now nonchalantly stated to be likely to rise to \$4,000 by the same date. Economically speaking, at any rate, there were absolutely no limitations. Staid, conservative observers, analysts, bankers and brokers, all suppressed their inclinations to hedge and were embarrassed by their vocabulary of understatement: Iran would clearly be able to invest at an unprecedented rate without cutting imports for its middle classes, without limiting subsidies for its lowest classes, without diminishing its military build up, and without compromising in its foreign policy.

It was not merely the price of oil which brought these good tidings. The rise in oil prices was accelerated by the Arab embargo. Iran did not join in the embargo, but neither did it exploit the embargo for super profits. It could not exploit the embargo very much because it could not raise production in the short run. In any case Iran was already bent on raising production and increasing its

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NOTE.—The economic information on which some of the following is based was drawn primarily from *The Quarterly Economic Review: Iran*, published by *The Economist*. The quotations in the text are from Paul Vielle, *La Féodalité et l'Etat en Iran*, Editions Anthropos, Paris, 1975.

share of the world market. Iran took some satisfaction in defying the embargo (while siding politically with the Arabs in their conflict with Israel) remembering that the Arab states had quickly filled the gap when Iranian oil stopped flowing during the Musaddiq period. The embargo did strengthen Iran, however, in that it appeared as though the Arab states, still embroiled with Israel, might at any time resort to a similar use of the "oil weapon". Iran, therefore, appeared to be a more assured and stable source of supply. The embargo further revealed the low probability of American-European-Japanese solidarity in the face of a new crisis. The consuming and distributing countries were unlikely to have much control over prices in the future unless they could come up with alternative sources of substitutable energy at comparable costs. Hence, as the most reliable supplier, Iran was likely to have more leverage than other OPEC states, perhaps more influence than any other country in the world over the price of oil.

Iranian influence over the policies of western nations was likely to be enhanced further by its strategic position, and even by its vulnerability. Europe was interested in stable supply, in an orderly market with long term pricing arrangements, in slowing down currency exchange fluctuations and in the prudent investment or recycling of oil revenues. The obvious point was made that OPEC needed flourishing European economies as much as they needed OPEC's oil at prices they could afford. Iran disagreed with the industrialised nations about how much they could afford to pay for oil, but the Shah also held out the prospect of some side benefits of a strategic nature. Iran alone could not supply all of the needs of the industrialized world, nor could it prevent an embargo. But Iran could diminish the likelihood of an embargo, it could limit the impact of an embargo, it could maintain political order in the Gulf and help prevent internal upheavals, and perhaps even punish local aggressors.

It is doubtful that the western nations have ever seriously believed that Israel alone could play a significant military role in the Gulf—as opposed to limiting threats from Egypt or Syria. After the October War it was clear that Israel was not likely to play a major role in the Gulf. The Jordanian role, though important is also limited and of even less potential in a real crisis than the Israeli. Iran was clearly an ideal candidate for policeman of the Gulf and maybe even as a trip wire, time gainer, or deterrent against external aggression. To do the job, however, Iran insisted that it required an exceedingly well armed fighting force. Although there was some misgiving, mostly based upon assessments of the domestic character of the regime and doubts about some of the Shah's irredentist ambitions, European states and the United States scrambled to supply the requested weapons. However, it was and remains highly questionable whether Iran can thus reduce its vulnerability to the Soviet Union. The Shah probably believed that this vulnerability could only be reduced if Iran obtains a nuclear deterrent. Some western observers are, of course, afraid that the cure could be worse than the disease.

Iran, therefore, emerged early in 1974 as a new power to be reckoned with. Perhaps not yet a power of world rank as the Shah asserted—whatever that may be—but a regional power with consid-

erable potential for good or evil. For the most part, the Arab states of the Gulf were apprehensive of Iranian intentions, and despite a reasonably "good press" in the west, the Shah began to get the reputation of being price-mad, arms-mad, expansionist, power-hungry, and over-weening. It was argued that the Shah's ambition knew no bounds and that his view of Iran's power was unrealistic. He might exclude all great power influence from the Gulf; he would extend Iran's influence to the Indian Ocean; he would buy up the most important European enterprises, he would invade his neighbours' territories; gain control of all the oil of the Gulf; and, of course, raise prices to new astronomical heights, breaking down the European economies and destroying western civilization. The Tucker article, the Erdman book, the Simon quotation, the Walters interview, and more, had their effect. World opinion had come to believe that the Iranian potential for international evil was much greater than for good.

The western reaction to Iranian self-assertion was but one among many factors that contributed to the radical changes in the structure and philosophy of the Iranian governmental process. I think it reasonable to argue that Iran's foreign policy had been based on the following assumptions, expectations, and goals:

*a.* Western influence in the third world and especially in the Middle East is likely to be attenuated as a consequence of the new petroleum politics.

*b.* Soviet pressure on the Gulf is likely to increase directly or indirectly.

*c.* There is increased likelihood of peace between Israel and its Arab neighbours.

*d.* Saudi Arabia and Kuwait are more likely to cooperate to prevent political radicalization in the Gulf than to "Arabise" the Gulf.

*e.* No economically viable alternative to petroleum will be produced in the near future.

*f.* OPEC can be influenced to raise prices to stay ahead of world wide inflation.

*g.* Domestic order and tranquility are both the end and means of government policy.

*h.* Economic development is to be sought not only for short run political reasons but to sustain an assertive foreign policy and a non-petroleum economy in the long run (modernization is also a major legitimating symbol).

*i.* A strong, loyal, well trained army is a major support of foreign policy (as well as of domestic order).

*j.* Provision must be made for a nuclear option, as a deterrent and possibly also as a threat.

*k.* Iran should continue to improve relations with the Soviet Union.

*l.* Iran should expand its political and diplomatic options and alliances:

*i.* In the third world: India, Pakistan, China.

*ii.* In the industrial world: Germany, Japan, U.K., France.

*m.* Areas of tension should be reduced (Afghanistan, Iraq, the United Arab Emirates).

*n.* Maintain maximum pressure on OPEC prices.

- o. Expand Iran's share of oil shipped.
- p. Keep the West and Israel supplied with petroleum.
- q. Continue the pressure to modernize domestically as quickly as possible.
- r. Maintain military superiority and a mobile operational capability within the Gulf in cooperation with other conservative states.

If this list of goals is more or less correct, it will be seen that Iranian policy had been considerably less aggressive and irresponsible than many expected and that whatever the makeup of the future government, many of these same goals will, per-force, be assimilated into the foreign policy of Iran. Apart from his arms program and his pricing preferences, the Shah's foreign policy had been restrained, modest, and prudent.

## 2. DISAPPOINTED EXPECTATIONS IN THE ECONOMY, IN POLITICS AND IN FOREIGN AFFAIRS

It might well have been expected that the new post-1973 situation would greatly strengthen the Shah. The combination of surplus assets to be distributed and of the psychological rewards of a more assertive and successful foreign policy foretold a new popularity and even a political triumph for the Shah. Not only could the Shah coopt new segments of the intelligentsia, and improve the condition of the lower income segments of the population, but the new prosperity seemed to allow the possibility of opening the system a little. There was so much for everyone that it would now be possible to expand political participation somewhat without concern for the expected demands of the newly admitted for immediate redistribution of wealth. It was to be expected that foreign criticism might be diminished and the number of those who were loyal supporters of the regime might be increased.

Manifestly, things have not turned out as expected in Iran. Most of the academic and journalistic analysts were wrong and the simple theoretical assumptions upon which they based their predictions have been proved inadequate to the case. The most important surprise was the intensification of domestic opposition, its emergence into the streets, the more active political role of the traditional and religious forces, and the spread of protest to secondary urban centers. About equally important was the disappointment of economic expectations. OPEC prices have not been allowed to rise. Iran's leverage proved unable to counter Saudi Arabia's overproduction; world demand for petroleum failed to increase at the rate predicted. The decline of the value of the dollar reduced revenues in real terms; domestic inflation, maladministration and supply bottlenecks soaked up much of the investment in essential development projects. Despite the exercise of considerable diplomatic prudence, danger spots emerged in Afghanistan and in Baluchistan.

When we turn to explanations of what went wrong, we are faced with a rich variety of answers. There are so many plausible answers that it is difficult to draw conclusions that will serve policy makers, let alone academic theorists who would distil some sort of theory out of this case study. The profusion of negative factors allows observers of diverse persuasions to use the Iranian "case" to bolster their own ideological arguments just as it allows predesti-

narian historians to argue that the case is, in fact, overdetermined, and nothing could have diverted Iran from its path of economic chaos, political disorder, and violent repression.

### 3. THE IDEOLOGICAL BASIS OF EXPLANATION OF IRAN'S REVERSES

Historians and area specialists are likely to emphasize the checked history of "church"-state relations in Iran, and especially the continuous hostility between the former dynasty and important segments of the ulama. The father of the Shah treated the ulama of Qum and Mashhad with disdain and violence. It is well known that the Shah has been bent on reducing the influence, the prestige, and perquisites of the Shi'ite clergy. Some Iranologists are inclined to emphasize the particularly political element in Shi'ite Islam, and thus to make a unique case out of Iran. We will return to these important questions which bear on the astonishing phenomenon of the vigorous overt participation of the ulama in the overthrow of the Shah. At this point, it is sufficient to note that some explanations of events in Iran emphasize uniquely Iranian cultural and historical elements rather than any sort of developmental theory. Lurking behind this cultural-historical view is, of course, the idea that ideologies tend to be unique in structure and in motivational consequences.

Somewhat in contrast to emphasis on culture and history, is the explanation from a sort of idealistic view of democracy. Liberal democracy is viewed by many not only as a viable alternative to various forms of despotism and regimentation but as an aspiration which is at least potentially operative for any individual under any social and economical conditions. Such a view cites the constitutional movement, supported especially by the clergy and the bazaar merchants in the first decade of this century. This early, and presumably, genuine democratic movement has been continuously frustrated in Iran, but it has gained wider support over the years. If the liberal democratic aspirations are as substantial as some say, then it is clear that the enormity of political repression in Iran, the ubiquity of the secret police, and the extremity of the concentration of authority had a profoundly alienating affect.

Prior to his flight from the country the Shah had several explanations of his political difficulties but one of the most important, simplest to understand, and acceptable, at least in part, is that his political opposition was supported by his foreign enemies. The Soviet Union supported the leftists; Iraq supported Ayatullah Khomeini, and the Baluchis; Afghanistan supported the Baluchis too; Saudi Arabia was probably giving some funds to religious groups, and so on. Some foreign observers remain convinced that the urban guerilla activities were essentially Iraqi generated, with more than a little PLO support. It is somewhat more difficult to draw the conclusion that such forms of violent opposition would not exist but for foreign support.

Development theorists have their own explanations, ranging from those which take politics to be the dependent variable while development administration is thought to be the independent variable, to those who virtually equate politics and political psychology, to those who emphasize the primacy of political institutions and

organization. Those who are most concerned with development administration have long pointed to Iran as a case where traditional cultural orientations have so penetrated the administration that sound analysis requires a two level explanation of how it is supposed to work and how it really does work. The strongest accusations are, first, that the administrators themselves were corrupt, inefficient, disinterested, poorly trained, and under heavy incentives to skim as much as they could while they could. The second is that Iranian administrators are simply inadequately skilled, they have made grave mistakes, that they are under great pressure to produce results, and that as a result of all this, the system had become hopelessly overloaded and was close to breaking down.

The psychological theorists point to the culture shock of the traditionalists as they are pushed out of the rural areas and drawn to the cities where religion, modesty, and kinship count for so much less. But the so-called moderns, already resident in cities and educated in the western manner, are also frustrated in the elusiveness of their rising aspirations. All urban segments are treated to a daily display of conspicuous consumption, and a sense of relative deprivation is obviously present. Alienation is further enhanced by the experience of personal greed, overweening pride, and uninhibited authoritarianism. These psychological explanations may be further linked to interpretations of the traditional culture which emphasize prestige over practical affairs, status over achievement.

The third sort of development theory explains the emergence of an unmanageable and violent political opposition of diffuse and even contradictory goals as the consequence of the lack of the creation of organisational instruments for containing, controlling, and channelling popular political participation. The deplorable state of party politics in Iran is the major piece of evidence from which lessons are drawn. We shall return to this matter, also.

The Marxists have their explanations as well—equally plausible—although some of these explanations contradict others. Dependency theorists will argue that Iran has been caught in the web of international capitalism and imperialism. The Shah tried to defy the United States and the EEC countries, but he was unable to raise the price of petroleum nor to control production, nor to prevent the decline of the dollar from frustrating his development program. Thus Iran fell even more deeply into the clutches of the banks, the multi-nationals, and the arms merchants.

More orthodox theorists of class struggle argue that the key element is the great disparity in incomes between the lowest and the highest groups. Ruthless capitalist exploitation was aided by the government and was connived at even by the Shah's family. From this point of view, it is the extreme poverty and economic hardships suffered by the masses which brought mass political opposition and convince even the conservative clergy that they must support the people in this matter.

Some Marxist theorists believe that standard explanations in terms of class exploitation have to be modified in regard to third world countries. There are phases or stages at which national capital plays a more progressive role. After all, the proletarianization of the Iranian masses may be proceeding apace, but this process is still not advanced enough to allow for a real political

challenge. Is it then possible that the mass demonstrations "really" represented, however obscurely, the struggle of the state apparatus, an administrative bourgeoisie, for control over a powerful combination of the industrial bourgeoisie and the new agro-industrial elite? Or does the involvement of the clergy indicate that this political crisis was "really" a struggle of the traditional mercantile bourgeoisie to remain in the picture? Is this the last grasp of the traditional bourgeoisie? But where shall we place the students in this process of transformative class struggles? Do they represent a class, and if so, are they aspiring members of the emergent bureaucratic bourgeoisie?

These various explanations and possibilities are not merely an array of available alternative interpretations which can be reduced to ideological polemics. I can well imagine the not-so-doctrinaire among us saying, "why not all of the above?" The problem with such an answer is that it is, in effect, substituting description for explanation. The point is that once things go wrong it can surely be expected that there will be cultural, psychological, political, social, economic, and administrative effects. Of course, the longer run historical and cultural context must be taken into account, but the same context prevails in good and bad times. This was supposed to be one of the good times for Iran. I am inclined to believe that there are three very important elements that are more relevant than other factors in explaining the unexpected explosion of the recent political crisis in Iran. These three elements are the social structural consequences of the intensified development program, the inability to create a mass political organization, and the role of the ulama in the political mobilization of the urban masses.

#### 4. THE POLITICAL IMPACT OF THE REVISED DEVELOPMENT PROGRAM

It is clear that economic policies can have significant political consequences, but when we are concerned with massive economic change of the kind that has been occurring in Iran over the last ten and more years, it is difficult to tie particular political events to specific economic events. Moreover, non-Marxist theorists are inclined to believe that economic growth, and especially rapid economic growth, should produce political stability and strength. Marxists are more likely to discern contradictions and to predict dire consequences at any time. The Iranian economy had grown marvelously during the seventies, but there have been some important dislocations and some policies which have impacted severely on particular groups. In this particular case I believe it is possible to isolate some of the specific economic events which have had serious political consequences.

The Iranian economy was already off and running before the boom of 1974-75. The oil price barrier had been broken by 1969 and Iran was foremost among those OPEC members pressing for higher prices, higher production and more downstream participation. In 1963 the Shah had announced the White Revolution, thus turning Iran resolutely toward a rational enlightenment model of modernity and away from liberal parliamentarism and the religious tradition. It was only during the fourth five year plan, ending in 1972

that the oil income began to catch up to investment needs. The over all rate of growth was 11.2 percent for those five years. Oil production was at more than 5 million barrels a day, but the Shah wished to push it to more than 8 million. Per capita income was at \$429. in March 1972, but the fifth plan projected that it would reach \$1000 by 1978. A nagging inflation which was admitted to be close to 8 percent, but which may have been double that figure, clouded the economic picture somewhat; but all in all, the Iranian economy was doing spectacularly well in sustaining growth, some welfare, and a substantial armaments program.

The fifth plan was ambitious, but apparently better balanced than earlier programs. More emphasis was to be placed on education and welfare. A comprehensive agricultural program was to be heavily financed. Some effort was to be made at income redistribution. Infrastructure, industry, and mining, welfare, and agriculture were all to get roughly equal amounts. Plan implementation would be streamlined in that the Plan Organisation would no longer implement directly. Instead the ministries would carry out the plan, at perhaps some cost in coordination and in the close supervision of accounts.

The fifth plan was placed before the Majlis (parliament) on January 7, 1973, it was duly approved and got underway. At the end of 1973 the price of petroleum went through the roof and the Iranian economy began a wild roller coaster ride.

The fifth plan had prayerfully been based on the expectation of a 16-percent-per-annum rise in petroleum production. That was clearly not necessary, and it now appears to have been impossible. By early 1974 plan estimates were being rapidly revised upwards and a 20-percent growth in GNP was predicted for the first plan year. Oil income was up fourfold. Foreign exchange reserves soared. Iranian credit was good and foreign loans flowed in despite efforts to stem the tide. By December of 1974 it was predicted that the rate of growth of the economy was likely to be 30 percent rather than the 16 percent in the original plan. In fact, in the year to March 1974 GNP was up 34 percent; and in the following year to March 1975 GNP rose by 42 percent and per capita income stood at \$1,361. But for 1975-76 the growth rate fell to about 30 percent (at current prices) and was predicted to fall to 16 percent in 1976-77. Petroleum production was also down, and petroleum prices were even cut to meet the competition in a depressed market.

The terms "boom and bust" are hardly appropriate when a 16-percent annual GNP growth rate is referred to as a bust. There were and remain enormous difficulties in the Iranian economy. It is clear that things got out of hand and all the potential benefits of the "boom" were not realized, nor was its decline predicted. By the end of 1975 Iran found itself over-extended. It had a deficit of nearly \$4b; in its balance of payments; inflation was about double the admitted 14 percent to 16 percent; bottlenecks had developed in many areas, but particularly in the ports and in road transport. Iran would have to borrow to maintain the investment levels required by the most essential parts of the five year plan.

During 1977 the development situation in Iran went from bad to worse. The year began with a sharp drop in oil production and exports. Iranian production was affected by the world wide reces-

sion, by high petroleum taxes in consuming countries, by competition from other OPEC countries, by the marketing decisions of the petroleum multinationals, and by the relative "heaviness" of most of its crude. Although the magnitude of the production shortfall was only temporary, it threw the planning authorities and the administrative elite into a virtual panic. A major effort was mounted to sell Iranian crude by pressing the companies, by making direct sales to consuming country governments, by tying development contracts to long term petroleum deliveries, and by barter agreements. The net result of this unseemly scrambling was, of course, that Iran received lower real prices for its oil, committed itself for longer periods of time, and became more dependent upon international capital markets for investment funds.

During the spring and summer of 1977 the inadequacy and the consequent fragility of Iranian infrastructure was made apparent to the comfortable classes and the salaried bureaucrats of Tehran. This time it was not the roads and the ports but the power grid in a country of "surplus" energy. Tehran experienced electricity shortages lasting as long as five hours. These shortages were not due to technical errors but simply to inadequate supply. Electricity was rationed by rotating shut-offs to different parts of the city. Some increase in power supply was effected by increasing the hydro-electric output by means of releasing more water from dams than was required at the time for agriculture. The result was both a shortage of water in Tehran and later a shortage of irrigation water and a further decline in agricultural output.

The planning activities were now completely in disarray. Agricultural planning had to be reconsidered; projects had to be deferred for lack of funds; infrastructural bottlenecks and shortages had to be dealt with; and the sixth five year plan had to be drawn up in the face of considerable uncertainty regarding future levels of oil income. The plan was not readied in time.

By the end of 1977 even the Shah had come to the conclusion that the Hovaida government and the Madjidi Plan Organization had failed. The electricity shortages were a humiliating admission of technical, administrative and planning failures for a regime which demanded loyalty in return for developmental progress and prosperity. There was widespread expression of dissatisfaction, starting in the press in the usual style of elite political rivalries, but spreading throughout the salaried classes who added grievances regarding inflation and the shortage and high price of housing. The protest was allowed to grow to let off steam and to draw responsibility from the Shah who then proceeded to change his team. Hovaida resigned and was afterwards appointed minister of court to replace Asadullah Alam whose health was declining rapidly. Amuzegar was appointed as prime minister and soon thereafter given complete control of the Rastakhiz party. Hushang Ansari, Amuzegar's rival in the party and in the cabinet was appointed director of the NIOC and thus taken out of the way. Amuzegar was now called upon to perform two miracles: to get the development program on track once more, and to rally support for the government behind the political facade of the single party. In little more than half a year protest and disorder had become so intense, so widespread, and so comprehensive both ideologically and sociolog-

ically that the government's effort had become completely consumed with maintaining order—and Iran began to appear as the weakspot in the Gulf rather than its strong point. By the time the religious leadership had taken over at least temporary direction of popular opposition, and just before the declaration of a state of emergency and the appointment of Jaafar Sharif-Imami as prime minister, Tehran was rife with talk of the Shah having become depressed and disinterested, of the government being derelict, and the atmosphere approaching that of the eve of revolution.

The political consequences of this up and down movement were clearly more severe than the economic consequences. These political consequences were not merely due to the disappointment of expectations or the reaction to waste and fiscal profligacy. The most serious political consequences have been due to particular acts of development policy and development administration. In the most general sense, Iran's development policy was in the image of Saint-Simon and Pareto. Future shock was considered virtuous. The goal was rationalized modernization, to be pressed forward ruthlessly by means of science, technology, planning and despotic authority. No element of tradition, no personal desire, no aesthetic value, no religious qualm, no philosophic hesitancy was to stand in the way. I am inclined to believe that the extent of the opposition to the Shah was not primarily because of his repressive treatment of the opposition, but because of the outrageous simplemindedness of his modernization programs which in fact attacked the quiescent and made political activists of them. The Shah had gone out and created a mass opposition and therewith a responsive audience for the small groups of extremists on the right and the left who had taken up arms against the regime.

We turn now to some of the particulars of the economic events of these years to illustrate this argument. The gravest error of all was the abortive agricultural policy, begun during the fourth plan, but carried to an extreme—and to a dead end during the fifth plan. Land reform which virtually eliminated large estates and granted land to some 1,750,000 peasants was the pride of the White Revolution. The reform was to be followed up by the provision of marketing and technological services through coops. Under the new plan, however, it was decided that small scale farming was inefficient. Traditional small farms and land reform farms would now be brought into large farm corporations, run by the government, in which large central towns would concentrate services and administration for all the farming units. In some areas, some villages which were not productive enough, would be left out of the plan and no investment would be made in them. Hopefully these villages would collapse economically, the villagers would leave, and the village would disappear. The corporations would be more labor efficient than traditional farms so many more peasants would be directed to urban industrial employment. Small owners would be brought into these corporations as well as landless laborers. On virgin land, and especially on land made available below the new dams, private foreign and domestic investors would be encouraged to establish new agro-industrial complexes. Such encouragement took the form of exemption from income taxes, easier credit, grants covering up to 85 percent of irrigation system costs, 50 percent of

the cost of qanats, 20 to 60 percent of the cost of reclaiming land, and no limit to the size of units. Later fertilizer costs were subsidized and generous price supports and guaranteed government purchase of commodities were implemented.

Thus the government, in the words of *The Economist's Quarterly Economic Review*, "declared open season on the small farmer", subjecting the smallholding peasantry to bureaucratic control, driving large numbers of farm families off the land, emptying whole villages of their inhabitants, while encouraging foreign agricultural investment on the choice irrigated lands and (on a selective and political basis) even offering lavish inducements to some of those large owners who still remained to increase the capitalization of their farms.

The policy was disastrous both politically and economically. Agricultural production lagged and if the agro-industries did well on the irrigated land, the corporations did very poorly. At the end of the fifth plan Iranian agriculture was in a shambles, with many smallholding peasants now seriously deterred from improving their farms and many others, just as bewildered, crowding the streets of the Iranian cities. To make matters worse from the political point of view, the fifth plan was also the occasion to transfer religious *waqf* land to farmers and to issue bonds instead to the charitable beneficiaries of the religious endowments. A thousand villages were estimated to be under *waqf*. In another attack on the prerequisites of the ulama, it was planned to establish a new agro-industrial company based on the lands endowed to the Shrine of the Imam Reza at Mashhad. Some 48 percent of the capital would come from Shrine income. Agricultural income did not fall during the period, but given the massive investment, the incentives, the public relations and the human misery and dislocations, farm policy cannot be considered a minor disaster.

Other problems were somewhat less dramatic but equally politically significant. The plan administration struggled mightily with inflation, and failed. Much of the benefit of the rise in oil prices was lost through inflation which ran as high as 30 percent. The government constantly understated inflation. Inflation of such proportions over so many years is generally acknowledged to have a profoundly disturbing political effect on lower and middle income classes who may not otherwise be politically active.

To make matters worse, politically at any rate, inflation was declared, late in 1975, to be due to the profiteering of shop keepers and entrepreneurs. Eight thousand shop keepers were arrested, prices were forced down by decree, and violators of price control rules were threatened with trials before a military court. This display of royal authority had little effect on inflation, but it did dampen private investment and, presumably, it had some effect on the political attitudes of the merchant class.

The bureaucratic classes were also attacked in an anti-corruption campaign and in a decision to cut back on administration costs when it was discovered that Iran would become a net borrower in 1976.

It is generally acknowledged that income distribution in Iran was badly skewed and that, as might be expected, in the course of development, distribution had become more rather than less inega-

litarian. This problem was to be palliated in the fifth plan by: (a) dispersing ownership of corporations; (b) raising the minimum wage; (c) broadening welfare coverage; (d) stabilizing prices; and (e) encouraging provincial, i.e. decentralized development centres in Khuzistan and Baluchistan. As far as we know, no significant housing program was undertaken. Our sources hardly mention human resources, skilled labor requirements, unionization, or even the unemployment rate.

If little was done to alleviate the maldistribution of income, the rather quixotic policy of compelling larger joint stock corporations to offer on the open market from 25 to 49 percent of their shares had a negative impact on the investments of the multinationals and was quite unpleasant for the closely held, if as alleged, under-capitalized "family firms". Some funds were to be lent to workers to allow them to purchase shares, but Iran is a long way from proletarian capitalism.

The working class, or the potential working class, was also hurt by the policy which Hovaida, in mid-1972 declared would be maintained, of preferring "high" technology over middle-technology, even at the cost of unemployment. The consequences could be dealt with by higher welfare allocations. But were they? In fact, the burdens of rapid urbanization were left to impact where they might, while the bulk of the so-called welfare investment went into education. Even then, when the boom hit, most plan investment categories were doubled, but education and social welfare were virtually unchanged.

When the "bust" hit, and Iran found itself capital short, it attempted to exploit domestic sources of capital by encouraging investment and by tightening up on income taxes. Iranian entrepreneurs were, in fact, borrowing from abroad, but they did not wish to invest where and how the government wanted them to, and of course they do not like to pay taxes. The effort to draw on local capital may have caused some flight of capital.

Among other reasons, the sharp downturn in petroleum income from about \$22 billion in 1975 to about \$18 billion in 1976, focussed attention on the huge, relatively fixed expenditures on arms. The annual defence cost in Iran had been about 30 percent of the national budget. When combined with substantial imports of basic commodities to hold down prices for the masses and allowing luxury imports for the classes, Iran's balance of payments went badly out of line. Non-oil exports declined for many reasons but also because local costs went up. Oil exports went up greatly as a percentage of exports and Iran began importing almost everything. Despite the Shah's clearly expressed desire to become less dependent on oil, Iran, in fact, became more dependent on oil.

That greater dependence on oil, when combined with the declining rate of growth after 1975, and with the lurid tales of waste, corruption, bottlenecks, inadequate infrastructure, and shortlived attempts to control everything from inflation to private school admissions by royal decree and threat of military tribunals could only enhance the already widespread cynicism and alienation. It was not so much a question of whether you supported the regime or not, it was more a question of how you explained the process: corruption, incompetence, imperialism.

Iranian development policies, successes as well as the many failures, have had a profoundly disruptive affect on Iranian society—in part as intended. An unusual political aspect of more recent policies, is the fact that such a variety of social segments have been economically aggrieved. Nevertheless, it may be said that passive political support was widespread not only among the peasant masses (and maybe not at all among the relatively reticent peasant masses) but especially among the urban salaried classes during the years 1965-75. The burgeoning inflation, the housing shortage, the electricity and water shortages, the decline of the quality of life in Tehran due to proletarian crowding, pollution, and traffic jams, and continuing excessive display of wealth by the privileged and entrepreneurial few, turned the "salarariat" from passive support to vocal opposition, or, at least, protest. For tactical political reasons, tied to absolving the Shah of blame and avoiding American criticism, public protest was allowed to build, and the ideological opposition began to play on the Iranian political cultural theme that the Shah had lost interest in power and domination, that he was tired of the struggle.

It is against this background that we are to understand the dialectic of the regime's conflict with the urban guerrillas. The same attitude of authoritarian determination and administrative thoroughness was brought to the repression of these enemies of the regime. But in the process, all potential guerrillas, e.g. students, leftists, organized workers, that is, the more accessible and merely symbolic targets were given the same treatment.

##### 5. THE FAILURE IN ORGANIZING POLITICAL PARTICIPATION

Iran appears in many ways to conform to the stereotype of much of western liberal thinking on political development. With remarkable consistency, the Shah pursued a policy of modernization *à la outrance*. It was a breathless, urgent, ruthless plunge into a high capital-high technology economy, without illusions and without remorse. Whatever was traditional may have belonged in a museum but it was not allowed to retard development for a moment. The whole point was not merely to modernize, but do so at such a rapid pace that the social and political consequences never had a chance to catch up. Those who would have slowed down the process may believe that they were offering counsels of prudence, but they were, in fact, self-interested and primitive entrepreneurs, ambitious and fuzzy minded politicians, obscurantist and superstitious religionists, or frustrated and doctrinaire intellectuals. It was believed that to have given way to the reasoning of any of these groups would have derailed the development process and have subjected it to a diversionary attrition under the guise of mitigating its social impact or democratizing its decision processes. The whole point was to get there in a hurry with a minimum of political and social waste of the resources of development.

This headlong development policy may be explained as due to the Shah's fear of being overthrown or of having his powers limited if the promised land were not reached in time. I am inclined to believe that such an explanation is an exaggeration which would lack all plausibility were it not for the fact that the Shah inherited

a royal mission and a particular understanding of that mission. It is, however, true, that as things worked out, every time the process was adjusted to accommodate critics, domestic or foreign, the overt challenge to the Shah increased. It is also interesting to note how the Shah's views of the temporary contribution of petroleum to Iran's growth served to justify his policy of unseemly developmental haste.

According to the widely accepted liberal view, modernization at any pace weakens the bonds of tradition and causes alienation and consequent political difficulties of varying intensity throughout the stages of a period of transition. It may be assumed, and there is not a little evidence to support the assumption, that the pace of development in Iran, even if it has not produced universal affluence, has fairly torn at the sinews of institutions that may be called traditional. Even if we sidestep for the moment the vexed issue of what is modern and what is traditional, there is no doubt that the Shah's development program virtually completed the destruction of important sectors of rural and bazaar economies and forced large numbers of people out of ancestral homes and villages into the urban labor market and into new patterns of life. Moreover, much of the social and cultural impact of the Shah's program was erratic and inconsistent. Certainly, its impact on institutions, not excluding economic institutions, tended to be episodic and whimsical. Despite the organization of an elaborate technocracy to deal with the development process, the Shah was still given to the view that many problems are amenable to solution by means of royal command. At one point he even felt that land reform could be handled in that manner. At another point he thought that the economic irrationalities of familistic capitalism could be handled by command.

The classic "liberal" recommendation for dealing with the political consequences of the disruptive effects of development is simply to restrict political participation to those who are modernized, who are economically well off, who are willing to work through authorized political parties and who are willing to accept a definition of the political arena which does not impinge on the development strategy chosen or on what is sometimes called economic rationality. In its most benign democratic version, this strategy anticipates the gradual extension of opportunities for political participation to more and more people as the development program succeeds in increasing the number of educated, affluent, responsible, middle class, potential citizens. This view tends to see the role of the state in a more restricted fashion, as institutionalizing participation, administering mitigative social programs, and producing the infrastructure which will sustain capitalist developmental enterprise. This view does not start from the assumption that the "average" citizen-participant is actually an employee of the state itself. Nevertheless, the central point of the theory remains undisturbed by these critical comments. Participation is to be restricted. It has to be channelled into symbolically supportive organizations and limited in allocative relevance to those already admitted to participation or else it has to be repressed. Iran pursued both methods simultaneously and seriatim, but never seriously.

It is well to compare Iran to Egypt under Nasser. Egypt failed to revolutionize its economic circumstance although some improvement was realized by its lower income groups. On the other hand, throughout virtually all of the period from 1954 to 1968 the political lid was securely fastened even while the regime, with some plausibility, claimed to be supported by a popular, elaborately organized, mass movement. The Arab Socialist Union and its predecessor, the National Union are frequently referred to as failures, but from the point of view of controlling participation, mobilizing mass support, and drawing upon newer social segments for the fulfillment of routine political functions, the ASU was quite successful.

Putting aside for the moment the question of whether the Shah chose the correct development policy, the relevant hypothetical is what sort of political organization would have been most conducive to the success of a legitimate modernization program? American advice has usually preferred a competitive liberal parliamentary system in which development programs would necessarily be subordinated to winning support from those represented in parliament. The Shah, having suffered during the chaotic parliamentary orgy of the war years through 1953 when the C.I.A. overthrew Musaddiq, had been wary of complying with such advice. Only in 1957 did he announce the formation from above of a two party system. The "opposition" was formed around the late Asadullah Alam, while the government party was formed about a year later around the then prime minister, Dr. Manuchehr Eghbal. The opposition Mardum party had a prayer of organizing some of the moderate opposition, some labor dissidents, and some of the university students, but it was increasingly intimidated from taking its role too seriously. The value of a political safety valve and the cathartic of free speech has never been thoroughly assessed in Iran. The government party was even more derelict in its duties, failing to assemble even a mass following of the opportunistic. Party organization was effectively limited to already relatively influential members of establishment political cliques. Hence when the elections of 1960 and 1961 were held and a liberal political turn was momentarily accepted, matters got out of hand and the streets of Tehran once again became the major political arena.

After an interlude of political back-peddling, the Shah got on his own track again with the White Revolution in 1963, with a forceful authoritarian administration under Alam in 1964, with a far more subtle foreign policy in 1965, followed by an assertive military build up. The distinctive features of domestic politics during this period following the June 1963 suppression of the religious opposition were effective political repression and expansion of the role of the secret police. Political organization and participation dwindled to a small clique-like group of technocrats calling themselves Iran-i-Novin which formed inside the old Melliyun party and government. Under Hovaida this group, having grown and gained influence, was converted into a political party. It had no mass base and it eschewed attempts at popular organization.

In anticipation of the elections of 1975, and after the Shah had indicated that he would tolerate some opposition to the Iran-i-Novin party, a number of aspiring groups began to form among the Tehran elite and its intellectual and technocratic fringe. Old politi-

cal warhorses came out of their stables, and the usual number of political effetes attempting to anticipate the Shah's wishes appeared on the scene. The surprising response of the Shah, as he viewed this depressing scene, was to establish a one party system reminiscent of the Nasserist Socialist Union. He decided to call it the National Resurgence Party or the Hizb-i-Rastakhiz-i-Melli. Everyone joined and the parliamentary elections were held without great problem. Forty per cent of the electorate, it is said, elected a parliament which was overwhelmingly Rastakhiz. Some political infighting emerged regarding control of the party, but for the most part its mass mobilizing and political canalizing activity was done on paper only. No key local groups, no rural elites, no urban gang leaders, no bazaar influentials, and no religious figures were brought into effective party roles. The party headquarters simply enrolled members and set up branches after the Shah let it be known that party membership would be a test of loyalty.

The organization of the Rastakhiz Party might have been the occasion for mobilizing the bourgeoisie in support of the regime, or at least creating a mediating stratum. Instead it was viewed primarily as an instrument for winning the prime ministry. As a consequence, no prime minister could be at ease if he did not control this potentially crucial organization. Mr. Hovaida's troubles were compounded by Mr. Amuzegar's use of the Rastakhiz Party and the policy of political liberalization as a means of voicing criticism of his failures. When Mr. Amuzegar became prime minister, Dr. Muhammad Baheri became director of the Rastakhiz Party. It is not clear whether Baheri and Hovaida were allied, but the situation made Amuzegar so uneasy that he abrogated the rule which required the separation of party leadership and government leadership and took over the party himself. Under the circumstances, he had little incentive to build the party and he simply allowed it to languish.

As in the case of agricultural policy, the failure of the effort gradually became clear to all. A game of musical chairs followed in which no one wished to be the last one in charge. One party director quit after only a week in office. The single party experiment appears to have run its course during the current phase of Iranian politics.

## 6. THE POLITICAL CONSEQUENCES OF ELITE RIVALRIES

In point of fact the single party experiment was sacrificed to elite rivalry at the cabinet level. It was never really given a chance to work. Even if it had been more vigorously organized, there is some difference between organizing a party to monopolize a symbolic election, and organizing one to create a second stratum linking the elite and the mass. In any case, the paper structure that was created was good for neither purpose, and when some sort of organization was desperately needed to support the regime against the growing popular opposition, no one even thought seriously of using the Rastakhiz Party except as an agency issuing declarations. Thus when political infighting led to the removal of the repressive "lid," early in 1978, the Rastakhiz Party, already gutted by the

same sort of political infighting, offered no practical means of response.

Western observers have been somewhat confused by the explanations that various Iranian sources have given for the unexpected civil disorders of early 1978. It is true, and important to remember, that there had been protest demonstrations in Qum by religious students in the recent past. It is also true that during the period of the Kurdish resistance in Iraq, Iraqi authorities had encouraged Khomaini and his followers in their attacks on the Shah. It is also true that the Shah had begun to attack Khomaini, and with him religious obscurantism, in speeches and formal statements. Perhaps there was some feeling that domestic, radical, religious opposition might be weakened by association with a clearly traditional figure whose career had been rather more worldly in orientation than devotional. The catalyzing event, in the remarkably consensual view of nearly all observers, Iranian and western, right, left, and center, was the scurrilous article attacking Khomaini that was published on January 6, 1978 in *Ettela'at*. This article was a slanderous personal attack on Khomaini. Two or three days later there was a violent demonstration by the religious students at Qum. The demonstration got out of hand and the local police failed to cope with the situation. Demonstrations continued in Qum and were echoed by a very large and similarly uncontained demonstration by a large Friday congregation which some say marched out of the mosque after prayers in two organized columns with clear politically symbolic targets in mind. Further rioting in Qum culminated in the dispatch of paratroops to that city and the point-blank shooting of a citizen of Qum in the home of moderate Ayatullah Shariat-Madari.

Of course, these events were part of a larger chain, and they were imbedded in an ideological and cultural context of meanings. Nevertheless, they were not intrinsically anomalous. It is not easy to handle mass opposition in a largely religious and traditional center like Qum. There is, however, the erratic pattern of an ineffective use of security forces at first, followed by the virtual running amok of those forces as they take revenge rather than seek to establish order. The most important question, though, is how the article came to be published.

All sources agree that the article was, in some sense, the responsibility of the then minister of information—even Darioush Humayoun agrees. Most observers stop there and assume that the usual combination of desire to please the Shah and ambition drove Mr. Humayoun to take this action out of any context of developing affairs. To this singular piece of information is added the explanation for the failure of the security forces. Too little force was used because the Shah had embarked on a policy of political liberalization, even before Mr. Amuzegar was appointed as prime minister, as a result of President Carter's human rights campaign. In particular, the Savak was said to have been withdrawn from direct involvement in controlling domestic civil protest.

The implication of these two explanations is that Iranian ministers were encouraged to do irresponsible things by the Shah's absolutist system, and that the Shah was encouraged to do irresponsible things by the exigencies of the mass electoral processes of

American polyarchy. If only Iranian elite politics and American mass politics could have been kept out of things, all would have gone well in Iran and the absolutist lid would not have come off.

A persistent alternate interpretation attributes the origin of the article to the ministry of court and links its publication directly to the underuse of repressive force in Qum and Tabriz. Court minister and former prime minister Hovaida was personally accused of transmitting a presumably royal order that the article be published. In this version Humayoun is compelled to conform or, as he puts it himself, was unaware of the contents of the article since it was a routine matter for the court to plant stories in the press. Humayoun's version has the plausibility born of the fact that he was appointed by Amuzegar, but he may have sought to succeed Amuzegar eventually. In any case, the article is explained as a step in an effort by Hovaida to undermine Amuzegar by demonstrating the foolishness of a policy of liberalization, fiscal responsibility, and moderate redistribution. The erratic response of the security forces was not due to the restriction of the activities of Savak—because, at best, Savak's manipulation of the police was only covered up by a number of intervening liaison devices, one of which I am told was simply called the *komiteh* or coordinating committee. It is also argued by some non-radical members of the bar association, that most of the expanded civil rights guarantees were so beset by red tape provisions or by intimidative devices that most lawyers would not take the risk of defending the rights of citizens under those laws (e.g. the right to civil counsel before military tribunals). In other words, this explanation argues that what appeared to be a security lapse was, in fact, an attempt to discredit Amuzegar. Savak and the army were kept out in order to produce major security disruptions which could be blamed on Amuzegar. Hovaida incited the religious classes against the prime minister and conspired then with the now recently executed chief of the Savak (Nassiri) to keep the security forces from stopping the protest too quickly and too effectively.

Informed observers agree that Hovaida was not pleased to be forced to resign when he looked bad rather than when he first requested to resign, at the end of the first decade of the White Revolution. Hovaida continued to dog the efforts of Amuzegar until, typically, they both came down after the burning of the Rex Cinema in Abadan in August. It is not surprising that many Iranians believe that that unspeakable atrocity was a provocation because it is widely known that the government had used similar tactics previously. The question is rather who was trying to provoke whom into doing what. I am told that Mr. Sharif-Imami insisted that Mr. Hovaida step down as minister of court before he would take over the office of prime minister from Amuzegar.

I am, therefore, inclined to believe that the lid was less blown off than that it was taken off by the regime in the wrong way, at the wrong time, and for the wrong reasons. The exponents of law and constitution argue that the regime before its collapse offered what would certainly have been gladly welcomed in 1976. It did not prove enough, however, because hearts had hardened, and because, as a result of the January incidents of 1978, Khomainsi became a unifying symbol of the opposition. The potential of religion for

political action in Shi 'ite Iran has long been recognized, perhaps exaggerated by participants and observers alike. The centrality of religion is not a constant, however. Its centrality is rather the consequence of situational factors. January 1978 moved the masses, or the government encouraged the movement of the masses inspired by the simplest form of faith. All segments of the opposition seized on this breach in the wall of repression. The leftists as well as the Islamic socialists announced their support for Khomeini. The conservative clergy were compelled to go along as their constituency in the bazaar and among the masses responded to the revolutionary messages of Khomeini. Most remarkable of all, the educated classes, partly kidding themselves, partly out of guilt for their unbelief, and partly with unabashed opportunism, also declared themselves to be supporters of Khomeini. Khomeini became the most powerful opposition symbol in Iranian politics. He is a symbol that many would like to manipulate in their own way, but for the time being Khomeini has staunchly resisted such manipulation, and he has set his price for reconciliation very high, indeed.

This is not a pretty story, but if it has any plausibility, and I am inclined to think that it stands up, then these incidents cannot be used to sustain the argument that the Iranian opposition is so crazy that the only language they can understand is the machine gun's staccato. These incidents rather argue that liberalization was not seriously attempted, that the middle classes were not encouraged to participate politically, that free speech was not willingly expanded at any level, and that repressive intimidation was maintained over the bourgeoisie and intelligentsia while the "mob" was manipulated to terrorize the educated opposition.

Of course, the subordination of policy to personal vendetta, or to the satisfaction of *amour propre*, especially when it leads to such tragic loss of life, cannot be sufficiently condemned. One of the continuing consequences of this political style was the encouragement of the symbolic use of bloody incidents: cruel killings, mutilations, rapes, sexual excesses, torture, and ultimately the translation of the whole political situation into the culturally expressive categories of the bloody passion of Husain and the sorrowful agony of the whole Shi'a of 'Ali. Many young Iranians were ready to suffer and see their own flesh torn and their own blood flow, or at least, they were brought to such a pitch of feeling on occasion by the enthusiasm of their colleagues, by the danger of the moment, by the arrogant silence of absolutism, and by the psychic unity of national and personal identity crises.

The excitement, the desperation, the extremism, the solidarity, the mutual affection, the violent expressiveness, the vision of death and martyrdom which so characterized the youthful opponents of the past regime, quite apart from their apparent doctrinal absolutism, appear to me to be a complementary response to the challenge of the regime rather than an inexplicably non-Persian cultural aberration consequent upon foreign influence and the import of alien ideologies. The central issue in Iranian politics is still nationalism, and the central symbol is still the nature of Iranian authenticity. The universal shame of the intelligentsia, still deeply felt by the generation of those who are fifty years old, is no longer the dominating image. The Shah had at least succeeded in converting

Iran into a symbol of wealth, beauty, and desirability. The younger generation quite naturally see Iran as the abundant and fertile mother; the captive, wistful, dark beauty; the fortress of merited gratification.

#### 7. THE POLITICAL ROLE OF THE MUSLIM CLERGY

The neo-Marxist term "reproduction" of the structure of the relations of production, in addition to its reference to production and hence to its misleading suggestion of an integrated terminology and univocal conceptualization, is the equivalent of "stability" in liberal terminology, since it represents the ability of a system to reproduce the "conditions" of its continuity (historical conditions or relations of production over against the organization of production). It also suggests resistance to certain changes, i.e. reproductions of relations of production despite constant change (process, flux, etc.). Hence, the process perspective requires a suitable concept to express constancy in the midst of change.

Feudalism, according to P. Vielle (*La Féodalité et l'Etat en Iran*) requires the reproduction of the conditions of insecurity and weakness of the state. Similarly, we can say that in Egypt, the revolution of 1952 reproduced conditions which protected the interests of the *a'yan* and *'umad* through limited land reform and through the mass party, while preventing an alliance between the bourgeoisie and the peasantry—not against feudalism, but against the continued domination of rural power by notables and rich peasants.

This perspective is, of course, a third world perspective which plays down the role of the proletariat and plays up the role of the national bourgeoisie—the peasant role being little more than that of supporting the bourgeoisie vs. the feudal lords, the latifundists, or the aristocracy—the stage of proletariat revolution being a long way off. Against this, one may contrast the view of Barrington Moore which counterposes the bourgeois state and the authoritarian state as alternative development models, depending upon how the agrarian problem (i.e. traditional agrarian social structure) is solved (i.e. transformed, not reproduced).

If the Nasser regime was able to reproduce the conditions of *a'yan* dominance of closed rural communities, the White Revolution in Iran and subsequent agrarian policies have had exactly the opposite effect. We might, therefore, have looked for an alliance of the bourgeoisie and the peasants against the feudal lords and the aristocracy. Of course we find no such thing. Instead, we saw the Shah leading the state apparatus in an attack on feudal and aristocratic landownership only to turn around and create a new set of large landowners comprised of joint stock corporations, agro-industrial combines and state managed cooperative farming aggregates. The two distinctive characteristics of this restructuring of the agrarian scene in Iran were: (1) the linking of agricultural production to the world market, and (2) the virtual elimination of the middle and rich peasants, the *khord-i-malik*, and the dispossession and displacement of very large numbers of surplus peasants.

It is in this context that we inquire into the role of the Shi'ite ulama in Iran, about their relations to the bourgeoisie, and about their bold and consistent opposition to the former regime.

One still hears the confident assertion that Islam is a barrier to the spread of communism. This frequently repeated refrain has more than a single operational consequence, however. Usually, it is not meant to encourage complacency, but rather to urge support for Islamic institutions, for religious parties, or for outstanding spokesmen for the ulama. It may well be directed against secular modernization of the White Revolution variety as against acknowledged Marxists-atheists. It is against this background that the emergence of what has been called an Islamic-Marxist movement has brought some astonishment and disarray among the ranks of academic and journalistic observers of Middle Eastern politics.

This confusion affects liberal as well as Marxist observers. For the liberals, who reject the superstructure/substructure dualism, and who tend to be influenced by Kantian doubts about the reality of material (sub)structures, ideological explanations tend to be primary. Hence the joining of categories that are supposed to be logically mutually exclusive defies meaningful analysis. The starting point must be that Islamic-Marxists are making a mistake.

For most Marxists, analysis of ideology begins with identifying the class interests served by the particular segment of the intelligentsia in question. While the ulama have at times supported a variety of groups, it has generally been the case that the ulama have been divided into two segments, the smaller of which has supported the state and the aristocratic classes, and the larger of which has supported the traditional merchant and artisan classes and to a far smaller extent the interests of the middle and rich peasants. The rural clergy is, of course, as much a part of peasant society and of the organization of rural production as the peasant himself.

The ulama have not always supported the ruling class. Moreover, the Shi'ite ulama have frequently opposed the ruling class. Some controversy has arisen over this matter, and the issue in dispute has profound political implications. The central issue may be stated as whether the Shi'ite ulama, as a matter of doctrine, consider all government other than that of the hidden Imam to be illegitimate. Apparently some western scholars have overstated the doctrinal position of the ulama, but they have doubtlessly been influenced by the obvious and oft reiterated opposition of the great majority of the Shi'ite clergy to the present regime. The alternative view, pressed with polemical vigor to the satisfaction of the establishment, is that these attitudes are to be identified with pre-Safavid sufi excesses, while the orthodox Shi'ite ulama have developed a doctrine which recognizes the legitimacy of the rule of kings who are not also Imams.

Much turns in whether we accept Donaldson's view that the Shi'ite ulama are the general agency acting on behalf of the hidden Imam, or whether we relegate them more or less to the position of the Sunni ulama where their political function is, for the most part, exhausted in their role of "loosing and binding." In nineteenth-century Shi'ite doctrine, the relevant category is the act of *tafwidh*, which is the term for the delegation of the authority of the "proofs of Islam" or the ulama to a secular ruling authority. Some Sunni theorists argue that once the ruler receives recognition from the ulama, they cannot withdraw recognition arbitrarily.

The Shi'ite theory of the temporal and legal scope of *tafwidh* is, evidently, as yet unelaborated and undeveloped. Given the vicissitudes of Iranian political history during the Qajar and Pahlavi periods, it is surprising and perhaps significant that such an omission has occurred.

There may be some exaggeration in the statement that the ulama consider all government except that of the Imam illegitimate. They could agree that a just government, ruling in the interest of Muslims and in the spirit of Islam, ought to be obeyed, even though it is not the legitimate form of Shi'ite rule.

Khomaini has stated that he is disinterested in the matter of constitutionalism and especially in the present constitution of Iran. Khomaini, in fact, calls for an Islamic government based on justice and freedom for all. He has distinguished freedom from sinful license without detailed elaboration. He has rejected the objection that the left will take over in the confusion of transition, claiming that Iranian Shi'ism is too strong, that the left exists only because of the despotism of the Shah, and that his followers will be able to cope with the leftist threat which was exaggerated by exponents of the Shah for their own purposes.

There is no dearth of examples of ulama opposition to the state, just as there are many examples of ulama support of the state. These phenomena pose no problem for Marxist analysis. The problem arises when we find the ulama on the side of the revolutionaries and the peasants and workers. This problem has both a dialectical and a tactical solution. The dialectical solution argues that the ulama are the ideological representatives of the bourgeoisie, and insofar as the national bourgeoisie may play a temporarily progressive role in struggling against the despotic and/or imperialist controlled state, so should we expect that some segments of the ulama would. It should be further expected that this alliance of the bourgeoisie (including elements of the ulama) and the proletariat will be temporary. To the extent that such a revolutionary movement succeeds in overthrowing the "ancien régime" and in establishing a bourgeois state, its success may be attributed in part to "a moment of enthusiasm" in which the entire nation accepts the leadership of the bourgeois revolutionaries.

In some branches of contemporary Marxism, theory and practice are not merely unified or singular, they are conjoined in such a way that praxis corrects and completes theory rather than merely expressing it. As a consequence, the tactic of cooperating with and accommodating the ulama and Islam that has been implemented by the left in a number of countries cannot be considered as a merely tactical matter, wholly external to the process whereby socialism is to be established and, therefore, without consequence for the manner in which Marxist theory will be "objectified" in these countries. The praxis orientation, like some forms of idealist thought, treats historical processes, and the processes of consciousness in parallel form, or rather as aspects of a monistic reality in pragmatic flux. From this perspective, every experience is treated according to the law of the conservation of energy. No experience is ever lost. No experience is ever merely shunted aside. Every experience enters into the stream of consciousness which is historical praxis.

The countries where leftists have adopted tactics of cooperation or identification with the religionists or with Islam include Afghanistan, Iran, Egypt, and even Algeria. We may confidently expect this policy to spread in Indonesia, Pakistan, and the Sudan.

The concept praxis recognizes that a tactic of this sort will have a dynamic of its own, and it is standard to add the proviso that this dynamic will vary from country to country depending upon historical conditions and the organization of production. True enough. But the dynamic will also be influenced by the ulama themselves and the ideological interpretation which they are able to give to their own action. The Marxist view of the ulama as performing an ideological role which is functionally determined by the dialectically defined interests of the owners of the means of production must be contrasted with the ulama's self-image as the autonomous intellectual exponents of a transcendent ideal under a variety of historical conditions. The ulama are unlikely to be passive respondents to leftist manipulation. Those who use the word praxis should realize that the resultant is likely to be a synthesis of leftist goals and of ulama goals.

Insofar as the ulama understand themselves to be expounding eternal principles under conditions of historical change, for their part, they do not see themselves tied to any class. For them, class or power structure is logically independent of religious truth. Religious truth must find its expression within the context of any existing political arrangement. That is the meaning of the Shi'ite doctrine of the occultation of the Imam. The task of the ulama is one of constant struggle to maintain, to expand, and to intensify belief. So long as the existing political and economic order justifies itself with reference to Islam, and, more crudely, so long as the ulama retain control over the symbols of legitimacy and enjoy the perquisites which go with it, to that extent will the ulama accommodate any regime. Islam may not specify the form of the state, but it is not politically indifferent as some would argue.

The development of al-Azhar in Egypt during the Nasser period is the outstanding case. The ulama of Egypt have been willing to grant the state control over their own institution and over their economic circumstances. Although many ulama, and many Muslim fundamentalists, are dissatisfied with the present situation in Egypt, for the most part a mutually acceptable compromise has been made. The state has ceded on matters of doctrine and the ulama have ceded on matters of administration and policy making. Would the exponents of a leftist, materialist, ideology be willing to give up their doctrine and content themselves with "material power?" Some might argue, with a degree of consistency, that that is exactly what has happened as a consequence of successful leftist seizures of power.

The point is that in a purely secular sense the ulama act as an interest group defined by their ideological role and not by the interest of the classes they serve. Intellectuals are not merely segments of other classes. Their own interests are defined by specialized skills which may be useful in diverse contexts (institutional arrangements, organizations of production, structures of social forces), so that the ulama are always faced with meaningful tactical choices of their own. Caught as they are between the fiercely

secular and rational orientation of the regime and the leftist and revolutionary orientation of the most effective opposition, the ulama are bound to lose, and Islam with them, if they do nothing.

### 8. THE FUTURE

I do not believe that the ulama of Iran, as opposed to Khomeini himself, have made their choice. They would probably agree to sustain a religious bourgeoisie if a politically viable one existed, but such an alternative does not appear to be available. The action of the ulama may help to bring a religious, liberal, bourgeois formation into existence; or they may, with reservations, support a seemingly radical revolutionary movement. The possibilities are very broad indeed, ranging from an adaptation of traditional oppositional roles to the sort of doctrinal radicalization and philosophical revolution advocated by Shariati.

Shariati's program was much more revolutionary even if philosophically eclectic. He challenged the ulama to take over the ideological leadership of the movement for radical change in Iran. Infected by inconsistent and faddish trends in continental philosophy, his views are a mixture of idealism, phenomenology, and existentialism. In a manner of speaking, his views represent one consistent trend in Islamic modernism, that which urges that the general, underlying, values of Islam, rather than the specifics of particular verses and *hadith*, should be the basis of its modern adaptation. It should be the spirit rather than the letter of Islam which should guide modernization. That spirit is to be found by a hermeneutical analysis of Shi'ite Islam as an historical phenomenon whose content was radical revolution, egalitarianism, and social justice. Idealism enters in the argument that Muslims (not only the ulama) can be an act of will grasp and adapt this existentially authentic meaning of Shi'ite Islam, and bring into being an ideal society. This revolutionary Shi'ism has more to do with Marxist humanism or the Frankfurt School or the Heideggerian left than with the sociology of classic Marxism or the economism of the dependency theorists.

Shariati's appeal was greater among the middle class than among the ulama. His writing style, his references to contemporary philosophies, his preaching style, and the setting of his lectures in the Husainiyya Irsha Institute in Teheran all were aimed at the educated, the urban, the politically aware, and those seeking an Iranian definition of identity that might be compatible with modernity. While we may make light of Shariati's philosophical apparatus, he did succeed in separating Shi'ite Islam from its historical and social context and in adumbrating a religious doctrine in which the universals of justice, freedom, and equality were detached from the ritual of mourning and made available for expression as participation in bourgeois political processes. In the contemporary Iranian context this is more than adequately revolutionary. Moreover, Shariati has convinced a great many educated and middle class Iranians, and more younger students, that the essence of Islam is idealistic self sacrifice in the struggle for instituting divine justice on earth. It is no wonder that Shariati was muzzled, jailed, exiled; that the Husainiyya Institute was closed for a time,

that the ulama were incited against him, and that rumors were spread that he was receiving money from Saudi Arabia. Shariati has been to this generation of Iranians what Kasravi and his rationalist critique of traditional Shi'ism was to the last generation.

The ulama of Iran are not likely to give up their neo-Aristotelian thought nor their illuminationism for the western philosophies of consciousness, but it is in these philosophical cross-currents that one may find the key to the ideologically offensive unification of Islam and "Marxism." It is apparent that if an accommodation must be made because of the emergency of new social formations, there already exist potential ideological bridges to a new bourgeoisie which is nationalist, modernizing, individualistic, and which recognizes the immense potential of Islam and the ulama in the spheres of ideology and social control.

The sincerity of those who knowingly braved death in Jaleh Square cannot be doubted. Were they victims of manipulation? of misguided tradition? of inevitable frustration and impatience? of social circumstance? of a harsh transitional phase? Did they die in vain, or was that incident part of an inevitable process of improvement of the conditions of life in Iran?

From the point of view of Marxist theory, it is perhaps most apposite to ask what is likely to be the nature of the succeeding regime. It is unlikely that anything resembling the dictatorship of the proletariat will emerge. The succeeding regime is more likely to be defined by the tactical considerations of those who are thrust to power, probably from among the military. The Soviets would prefer a leadership modeled on Castro of Cuba, Neto of Angola, Mengistu of Ethiopia, or Taraki of Afghanistan. The Russians have learned a lot since they supported Nasser, Ben Bellah, Nkrumah, and Siad Barre. They have developed new ideas about the tactics of the transition to communism in the Third World. Manifestly, the process is easier if the Third World country and the Soviets share a border. But if a pro-Soviet military leader does not take over, nor a civilian whose influence over the military can be guaranteed by the Soviets, then what kind of regime might be foreseen by a Marxist theorist?

Despite the recrudescence of large landed wealth, it would appear that the power of the "feudal" owners and the tribes will be but peripheral in the future. The national bourgeoisie, the state apparatus (bureaucrats, technocrats, academics, and professionals), the lower middle class groups of teachers, skilled labor, artisans, and the lower ranking civil servants who have crowded into the cities, and, of course, the whole clerical establishment, in addition to the army, will remain politically involved and participant in a more or less disorganized manner. If Iran is not dominated by a form of military communism, it is likely to remain at the stage of early capitalism, dominated by the national bourgeoisie and the state apparatus. Even a Marxist who looks for opportunities for the political exploitation of this situation is likely to assess it as a stage of political liberalization, of the demand for participation, for more equitable distribution, and for more humanistic concern with the quality of life than with the technology, economic and scientific, of development and modernization.

I think it is a reasonable assumption that all the available players are already in the game; there are logical reasons to expect the formation of political alliances among broad segments of the politically participant population, but the logic of class interest does not necessarily determine the rules of this game. If no bargain is struck, then we may expect an ever more violent solution.

# SAUDI ARABIA\*

By David E. Long

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On 20 October 1973, Saudi Arabia burst into world consciousness as the leader of the Arab oil embargo. Aimed primarily at the United States (the Netherlands was also embargoed), it was levied by King Faysal in direct response to the \$2.2 billion U.S. military aid program to Israel announced the previous day.

The emergence of Saudi Arabia as a major regional power and indeed a major world oil power did not occur overnight. It is true that throughout most of the 1960's, the Saudis tended to avoid Arab political councils, dominated as they were by the Saudis' arch antagonist, Egyptian President Nasser. By the end of the decade, however, the course of Arab politics was changing. The June 1967 Arab-Israel war forced Nasser to withdraw his expeditionary force from the Yemen. This ultimately led the way to the resolution of the eight-year Yemeni civil war (1962-70) that had pitted the republicans backed by Egypt against the royalists backed by Saudi Arabia.

The 1967 defeat not only forced Nasser to abandon his campaign to spread Arab nationalist political ideology at the expense of conservatism represented by Saudi Arabia, but it also drew Arab radicals and conservatives closer together in their common desire to free the Arab territories occupied by Israel in the war. Saudi Arabia was and remains particularly opposed to Israel occupation of the Islamic holy places in what it considers Arab Jerusalem. Finally, the death of President Nasser in 1970 enabled Egypt and Saudi Arabia to establish a rapprochement which was to be a central feature of Arab politics during the 1970's.

Saudi Arabia's oil power was likewise not fully appreciated in the 1960's except for a handful of petroleum experts and political observers whose warnings of a possible energy crisis were usually met with the derisive retort that "the Arabs cannot eat their oil," and thus must sell it to the West basically on the West's terms. The cause of this apparent complacency was the buyers' market which lasted throughout the 1960's. By 1973, however, it had shifted to a sellers' market. The oil companies lost the power to set prices to the Organization of Petroleum Exporting Countries (OPEC); and Saudi Arabia, as the leading producer in OPEC, played the key price-setting role within the organization. During

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the same period, moreover, the oil producing countries took control of the "up-stream" or oil-producing operations within their borders which were formerly owned outright by the oil companies through concession agreements. The primary route to acquiring equity in these operations was called "participation." It enabled the producing countries to buy out the up-stream equity of the companies over time. Participation was first articulated by Saudi Petroleum Minister Yamani as early as 1967. Thus in six short years (1967 to 1973) by virtue of its vast oil reserves, Saudi Arabia emerged as a major regional political power and a major international economic power as well. Throughout the 1970s, the new-found influence has come to be accepted as a fact of life.

#### SOCIAL, ECONOMIC, AND POLITICAL DEVELOPMENTS AND PROSPECTS

The year 1978 saw the disintegration of the monarchy in Iran. The rapid demise of the Shah's seemingly stable regime has raised the question whether a similar disintegration could occur to the monarchy in Saudi Arabia. In point of fact, there is little likelihood that it could. The differences between the political dynamics of Iran and Saudi Arabia are too pronounced for the fate of the Shah to befall a Saudi monarch:

Iran has over ten times the population of Saudi Arabia (over 40 million compared to about 4 million). Thus, Saudi Arabia's greater oil revenues are spread over far fewer people, vastly reducing the chances of the serious economic recession which helped to undermine the Shah's regime. Moreover, with a smaller population, Saudi Arabia depends to a greater degree on foreign laborers who can be sent home if economic activity declines.

Islam provides a major element of legitimacy for the Saudi monarchy whereas in Iran the regime attempted to exclude the Islamic leadership from the political process.

The pace of economic development has been more measured in Saudi Arabia, thus avoiding the extreme dislocations in its economy that Iran experienced such as massive inflation, the creation of an industrial labor force with high wages and low productivity, and mass migration to the cities. While these developments are occurring in Saudi Arabia, they are not doing so at nearly as rapid a pace as occurred in Iran.

Saudi Arabia, despite some regional differences, is a far more homogeneous society than multi-ethnic Iran.

While there is a low probability of the Saudi monarchy being faced with the same sort of situation that toppled the Shah, this is not to say that Saudi Arabia is experiencing no social change. All developing countries which are rapidly introducing modern technology and education to traditional and largely illiterate societies face the problems of change. In this process, expectations typically rise and frustrations increase in proportion to the degree that they are not met. The central question in analyzing the potential stability of any developing country, therefore, is to what degree its own social, political and economic institutions collectively can meet rising expectations.

In Saudi Arabia's case, these institutions have thus far provided a high degree of stability in a period of rapid change. It seems incredible that the late King Faysal, who until his death in 1975 was becoming a major figure in world economic matters, led troops mounted on camels to battle in his younger years. The transformation that took place in Saudi Arabia just in his life time spanned several centuries in the West. Yet in Saudi Arabia it took place generally without the social, political and economic upheavals which accompanied similar development in the West.

This is not to say that Saudi Arabia will always be free of such upheavals. The billions of oil dollars now being allotted to economic and social development are forcing social and economic change at an ever greater pace. The potential is therefore present in Saudi Arabia for social upheaval, followed perhaps by political upheaval as was the case in Iran. The form of such upheavals, however, would be very Saudi in nature and not greatly comparable to what happened in Iran.

### *Social Institutions*

With all the visible manifestations of change, it is sometimes difficult to calculate how deeply Saudi society has been affected. Old patterns are hard to break and more often simply assimilate modern practices into a more traditional mold. This is particularly true in Saudi Arabia where a heavily Islamic system of social values has been predominant for over 200 years. In the eighteenth century, a central Arabian revivalist, Muhammad Ibn Abd al-Wahhab, accepted the patronage of a secular leader, Muhammad Ibn Saud, founder of the present royal family. Abd al-Wahhab founded the Wahhabi revival which follows the ultra-conservative Hanbali school of Islamic law, still the basis of the Saudi legal system. His descendants, the Al al-Shaykh, are second in stature only to the ruling Al Saud and occupy the leading juridical-religious positions in the Kingdom.

Wahhabism has given the regime a sense of purpose and moral strength and created a sense of homogeneity among the Saudi people. One of the interesting aspects of the revival has been its ability to adapt to social change and still remain constant to its conservative principles. Considering the changes in society since militant, puritanical Wahhabi warriors were considered the scourge of Arabia, considerable progress has been made. As late as the 1940's, Westerners were required to wear Saudi garb when visiting Riyadh to see the King. Only a decade ago the number of Westerners in the capital numbered less than 250, over half of whom were assigned to the U.S. Military Training Mission.

A second traditional foundation of society is the extended family. Loyalty to one's family exceeds nearly all other loyalties, including region, state, profession, Arab nationalism, or whatnot. Even the most Westernized Saudi still yields to the responsibilities and duties of family membership. While she was alive, the mother of Crown Prince Fahd demanded and received daily visits from her seven sons if they were in Riyadh. Family ties are basic to the conduct of business and politics and form the basis for most social relationships. They also give one a strong sense of identity.

Superimposed on these traditional social attitudes are the modernizing influences of the West. These influences were first introduced in the 1930's with the coming of the oil industry. Over the years, the American-trained Saudi work force at the Arabian American Oil Company (Aramco) has become an exceptionally stable community in the Eastern Province, thoroughly bourgeois in outlook. The Saudi experience with Aramco and other U.S. firms has also given the Saudis a high regard for American technology and a preference, all other things being equal, for American products and services.

Rapid social development in Saudi Arabia did not really get under way until after World War II, when oil revenues began to accumulate in appreciable quantities. In 1964, King Faysal succeeded his brother, King Saud, and instituted a development philosophy which continues to the present day. Essentially, he attempted to provide for the material welfare of his people while maintaining a traditional Islamic society. Although the two goals are basically incompatible, Faysal was very adept at leading his conservative followers without getting too far ahead of them. For example, to overcome religious objections to the introduction of radio and television, he ordered extensive programming of religious instruction and Qu'ran readings during prime time hours.

Western trained Saudi technocrats did not really become significant as a class until the 1970's when the primary and secondary school systems were sufficiently developed to provide relatively large numbers of prospective college students. Since 1970, Saudi universities—Riyadh University, Abd al-Aziz University in Jiddah and King Faysal University and the Petroleum and Minerals University in Dhahran—have greatly expanded, as has the number of Saudis studying abroad.

The psychological conflicts and identity crises that often accompany the introduction of Western style education into a traditional society do not as yet appear to be as prevalent among Saudi students as among those from other developing countries. Even before the rapid expansion of economic opportunities in the post-energy crisis era, most Saudis returned home after receiving an education abroad. This can probably be attributed in large measure to the homogeneity of Islamic oriented traditional values and the strength of family ties. Thus, while the process of modernization will undoubtedly create increasing strains in Saudi society, Saudi social institutions should, on balance, continue to be a stabilizing force in the country.

### *Economic Institutions*

Saudi Arabia has one of the most laissez-faire economies in the world. The same Hanibali school of Islamic law which is so strict on social behavior is ironically the most liberal of all the schools on business and economic matters. Likewise, there are few political restrictions on commerce. Thus, while even telephone calls to communist countries are prohibited, goods from China and eastern Europe are plentiful in markets throughout the country.

For all the philosophy of free enterprise, the Saudi public sector totally dominates the economy by virtue of oil receipts. Not only

does the government initiate nearly all domestic development projects, but it is the fountainhead of nearly all funds entering the private sector as well. The conduit is the system of public tenders through which all services performed for the government by private contractors must be channeled. In order to obtain contracts, many bidders retain middle men to use their good offices with those who will pick the contractor. Although the system of agents has been officially curtailed by the Saudi government, it is still highly prevalent.

One of the reasons for Saudi sensitivity toward agents has been charges from abroad of graft and corruption. Such cases certainly do exist, but should first of all be judged by local, not Western, standards. According to the traditional Islamic ethic, stealing is reprehensible, but it is not necessarily reprehensible to charge for a service rendered even in cases which in the U.S. would appear to involve a conflict of interest. In this case the service might be to use personal contacts, or even to alter specifications in favor of a particular firm. On some occasions, payments have been asked for no service rendered. There is, however, no obligation to pay such a request and if a company does, it is considered to be its misfortune.

This ethic is roughly the same as found in the market place throughout the Middle East. The difference in Saudi Arabia is in the size of transactions, often in the hundreds of millions of dollars. The effect is not so much immoral (by their standards) as it is inefficient, for it requires too little accountability. In terms of stability, it has also contributed to a growing maldistribution of income in which a few people are getting very rich while a majority are not. Conspicuous consumption is growing more widespread and could cause the less fortunate to become increasingly disaffected no matter how improved their lot in absolute terms.

Heavy government spending has also brought rapid inflation. Since the private sector has always preferred investment in real estate to more productive ventures, the cost of housing in the major cities has soared, particularly among the middle class. If allowed to go unchecked, this could also be the source of extreme frustration, particularly among salaried employees who can no longer afford adequate housing. Because this class is educated and articulate, run-away inflation could become a highly destabilizing factor.

The Saudi government has been aware of this problem and has made strong efforts to curb inflation. Ironically, its efforts were somewhat aided by the cash flow problem that Saudi Arabia encountered in 1978 which caused further reductions in public spending. On balance, therefore, although inflation and a growing maldistribution of income as a result of heavy government expenditures are potentially very destabilizing, the opportunities for Saudi citizens to make money are so great that the post-energy crisis boom is probably still more stabilizing than otherwise.

### *Political Institutions*

There are three distinct though closely related areas of analysis of Saudi political institutions: royal family politics, national politics, and Saudi bureaucratic politics. In all three, two traditional

practices form the core of the decision-making process: consultation or *shura* and consensus or *ijma'*.

The royal family serves as the constituency of the Kingdom. The King, far from being an absolute monarch, must secure a consensus of support from the family. No one is quite sure how the family operates to create such a consensus or even how large it is, probably several thousand. Very secretive in its family dealings, the Al Saud tries always to maintain the image of unity and harmony.

The locus of power centers around the sons of the late King Abd al-Aziz ("Ibn Saud"). Kings Saud, Faysal and Khalid, and Crown Prince Fahd, are all sons of the old King. Since Abd al-Aziz had many wives, many of his sons have different mothers and full brothers tend to work together. The King and his older brother, Muhammad (passed over by the family to be king by virtue of his chronic ill health), form such a sibling group. As the senior living son and a full brother of the King, Muhammad is very influential in royal family affairs although he holds no government position. Prince Fahd and his six brothers (including Minister of Defense Sultan and Minister of Interior Nayif) are another powerful sibling group, sometimes called "the Sudayri Seven" from the maiden name of their mother. There are also some surviving brothers of King Abd al-Aziz (uncles of the King). Belonging to an older generation, they are quite powerful in royal family politics though not in national politics. There are also three collateral branches which have a voice in family affairs. Muhammad, the head of the Saud al-Kabir branch, actually ranks second to the King in royal family protocol because he descends from an elder brother of the grandfather of the present ruler.

The royal family has a long history of internecine quarrels which on more than one occasion has brought ruin to the family. After the death of King Faysal, there were apprehensions that the family might again engage in power struggles. Thus far this has not happened to any degree. Perhaps the family realizes that in cooperation lies its only hope for the survival of the regime.

The national political system in Saudi Arabia revolves around the King. In classical Islamic political theory, he is the "Imam" or leader of the faithful, the "ummah." Besides maintaining the support of the royal family, the only other constraint on the King is Islamic law. Theoretically, he can be sued in his own courts.

Islam has always provided the ideological base of the regime and hence a good measure of its legitimacy. Shari'a or Islamic law serves as the law of the land and the religious leadership under the aegis of the Al al-Shaykh family (descendants of Muhammed ibn Abd al-Wahhab) has always controlled the judicial system. The present Minister of Justice, which is the highest Islamic-judicial position in the country under the king, is Shaykh Ibrahim Al al-Shaykh. One of the constraints on establishing a Western type legislature is that Islamic law is holy and only God can legislate. Regulatory or administrative law outside the purview of Islamic law is presently promulgated in the form of royal decrees. There is talk, however, of creating a Consultative Assembly or "Majlis al-Shura."

The centrality of the King of the Saudi system has created a potential problem for the regime since the death of Faysal in 1975. Since the ruler serves as the final arbiter and creator of a national consensus, there is no place for a figurehead King. Hence, early predictions that Khalid, would reign while Crown Prince Fahd ruled proved wrong. At the same time, Khalid, who has long had poor health, is not a robust king, a fact that has definitely made it more difficult for the government to function with a high degree of effectiveness.

The Saudi government is dominated by the royal family, which holds all of the national security related positions. This does not mean, of course, that royal family politics are synonymous with governmental politics, for the royal princes may play different roles in both. For example, Prince Saud al-Faysal, the Foreign Minister, is a major government leader but, as a member of a younger generation (he is the son of the late King Faysal), he does not possess influence in the royal family commensurate with that of his uncles.

The other members of the royal family with senior government positions include Crown Prince and First Deputy Prime Minister Fahd, Defense Minister Sultan and Interior Minister Nayif, all full brothers; Second Deputy Prime Minister and Commander of the National Guard Abdallah; Minister of Municipal Affairs Majid; and Minister of Public Works and Housing Mit'ab. The latter two, though half brothers of the King, are not considered major political figures. In addition to Fahd, Sultan and Nayif, three of their other full brothers are in government: Salman is Amir of Riyadh, Turki is Deputy Defense Minister and Ahmad is Deputy Interior Minister. Mit'ab and Majid are thought to be close to Prince Abdallah.

Despite the high representation of members of the royal family in government, the Saudi leadership has resisted pressure from its royal family members who sought ministerial appointments for the prestige and financial rewards that accompanied them. Instead, technocrats have been placed in all key technocratic ministries. For example, in the fall 1975 cabinet reshuffle, Muhammad Aba al-Khayl, a technocrat, replaced Prince Musa'd, an uncle of the King, as Minister of Finance. Even the Al al-Shaykh who was appointed Minister of Agriculture had a PhD in agriculture from a U.S. university. Thus, membership within the Saudi leadership reflects a combination of royal family and technocratic concerns.

Equal in importance to the make-up of the government leadership in the decision-making process is the structure of the bureaucracy. Historically, the Saudi regime relied on personalities more than institutions, and the rulers drew from the advice of trusted advisers to create a consensus in policy-making. These advisers came from many walks of life, including a number of influential foreigners. When the Hijaz was conquered in 1926, King Abd al-Aziz inherited a cabinet government and consultative assembly which he maintained in Jidda, but in Riyadh he continued his personalized system of rule. Gradually, however, as the need was perceived, national ministries were created, the Hijazi ministries disappeared, and by the time of Abd al-Aziz's death in 1953, the first Saudi Council of Ministers had been formed. Since many of the ministries predate the cabinet, considerable power remains at

the ministerial level and prerogatives are guarded like feudal fiefdoms. Major decisions affecting the kingdom as a whole are taken at the cabinet level.

The creation of a government bureaucracy has not appreciably diminished the personalization of government decision-making, however. It has merely rechanneled the traditional personalized system through more modern bureaucratic institutions. Delegation of authority through a chain of command is still rare and many seemingly minor decisions must still be made at the ministerial level. Highest level decisions are made by only a handful of men. They include the King, Princes Fahd, Abdallah, Sultan, Nayif and Saud al-Faysal, the Petroleum Minister Ahmad Zaki Yamani, Planning Minister Hisham Nazir, Industry Minister Ghazi al-Qusaybi, Finance Minister Muhammad Aba al-Khayl, and Abdallah al-Qurayshi, Governor of the Saudi Arabian Monetary Agency (SAMA).

This personalized system of decision-making was adequate under the late King Faysal. Under King Khalid, however, it is in danger of breaking down. In part, the problem arises from the sheer magnitude of Saudi development plans. With the large number and scale of development projects, and such a small pool of men making the major decisions to implement them, the system has become severely overloaded. There has been criticism expressed in the cabinet that development plans have been too ambitious and that bottlenecks are increasing. Such criticism is in part a recognition that if the bottlenecks in government operations as well as in development persist, they could ultimately become a serious destabilizing factor. Yet, on balance and in combination with a strong society and ample funds for social welfare, the political process, if it continues to expand its public participation, stands a good chance of continuing to meet the growing expectations of the Saudi people.

#### SAUDI FOREIGN AND DOMESTIC POLICIES

Saudi policymaking can be better understood from the perspective of the Saudi view of the world. This view does not dictate policy but it does provide the boundaries within which policy decisions are made. It is basically an Islamic view which dates back to the Wahhabi revival over 200 years ago. Moreover, as keepers of the Islamic holy places, Mecca and Medina, the Saudis feel a special responsibility for the protection of the Muslim world and the preservation of the Islamic way of life.

In domestic policies, the Saudis' Islamic perspective has helped to create a development philosophy of introducing twentieth century technology and material benefits which oil revenues can buy while attempting to keep the traditional Islamic social order intact. This philosophy, developed by the late King Faysal and his father King Abd al-Aziz before him, is still followed by the present government. It was recently summed up by a young prince as "modernization without Westernization."

The problem for the government, described above under social institutions, is that Westernization, or secularization which most distinguishes Western from Islamic society, almost automatically accompanies modernization, thus creating an inherent incompati-

bility in Saudi social and economic development policies. As a result, and particularly in the wake of the collapse of the Iranian monarchy, the Saudis have begun to adopt a more deliberate and measured pace for their development. This trend was strengthened by the government's determination to reduce the rapid inflation which accompanied the projected \$149 billion second five-year plan (1975-79), and also by the cash flow problems which accompanied oil production cutbacks in 1978.

In foreign policy, the Saudis' Islamic perspective is manifested in its conviction that the greatest threat to the Muslim world is the spread of radical socialist and nationalist doctrines, the proponents of which aim at creating secular, atheistic societies.

The latter half of the 1970's saw a resurgence of radicalism in the area. In 1974, the Ethiopian monarchy was overthrown; and the new Marxist regime has turned increasingly to the Soviet Union for political and military support. In 1977-78, Soviet and Cuban troops were dispatched there to defeat a Somali military force which entered Ethiopia in support of an insurgency by Somali-speaking tribes in the Ogaden. The Soviets and Cubans then turned to help the Ethiopians put down the insurgency in Eritrea. Since both Somalis and large numbers of Eritreans are ethnically Muslims, the Saudis were particularly upset by this turn of events.

In June 1978, a South Yemeni coup left that country in the hands of pro-Soviet President Ismail who, three days earlier, had engineered the assassination of the North Yemeni President. Relations between the two Yemens have deteriorated since then, to the point of actual border hostilities in February and March 1979. The Saudis also fear that the new South Yemen President might decide to revive the Marxist-oriented Dhufar insurgency in neighboring Oman which was put down in 1976 with the help of Iranian troops.

Further east, radical gains have also worried the Saudis. In April 1978, Afghanistan was the scene of a radical Marxist coup; and throughout the year, turmoil increased in Iran, finally leading to the collapse of the Shah's regime in February 1979. Although events in Iran were not a direct result of radical or Soviet machinations, it was a shock to the Saudi leadership that a strong anti-communist leader could fall from power so rapidly.

A second major threat to the tranquility of the Arab and Islamic world from the Saudi point of view is that of Zionism. The Saudis distinguish between religious Judaism, whose followers are respected as "People of the Book," and Zionism which is seen as a political and often secularized ideology. Creation of Israel is seen as an injustice which was forced upon the majority of the native inhabitants of Palestine against their will; and so long as the injustice remains, it will continue to be the most radicalizing political force among the Arabs seeking to redress it. The Saudis are convinced that the spread of radical regimes in the Arab world is to a great degree attributable to the creation of Israel and support of it by Western powers.

Saudi interest in the Arab-Israeli problem was further heightened when the Israelis captured East Jerusalem in the 1967 war. That brought under Israeli occupation al-Aqsa, the third most holy site in orthodox Islam and only a few meters away from the West-

ern (Wailing) Wall, the holiest site in Judaism. To the Saudis, recovery of al-Aqsa is non-negotiable. Access to it by Muslims the world over must be a right equated to sovereignty and not just a privilege.

Because of the radicalizing effect of the Arab-Israeli conflict and concern for the recovery of the Muslim holy places of Jerusalem, the Saudis ardently desire a settlement of the Arab-Israeli problem. At a minimum, however, they can see no peace unless Israel is forced to withdraw under the terms of United Nations Resolution 242 (they see absolutely no chance of Israel voluntarily withdrawing), and there is a recognition of sovereign rights within the Israeli Occupied Arab Territories for the Palestinian diaspora.

In both of Saudi Arabia's two principal political foreign policy goals—containing communism/radicalism in the Muslim world, and obtaining a solution to the Arab-Israeli problem—the Saudis have looked primarily to the United States. The U.S., in their view, is the only country in the world which can contain Soviet-supported and -inspired radical expansionism and the only country which, due to its special relationship with Israel, can force Israel into the necessary concessions for a truly just peace settlement.

In pursuit of its goals, the Saudis have attempted to cement a special relationship with the U.S. on these and other mutual interests, notably oil and international monetary affairs. Saudi Arabia's willingness to produce oil beyond its own immediate revenue needs and to moderate oil prices in OPEC despite its conviction that current prices are too low to curb growing oil demand in the absence of an adequate energy program in the U.S., reflect the Saudis' desire to accommodate U.S. policy objectives in return for U.S. protection and initiatives on an Arab-Israeli settlement.

Perhaps the high point in the U.S.-Saudi special relationship was the U.S. agreement in the spring of 1978 to sell sophisticated F-15 aircraft to Saudi Arabia. Approval of the sale was seen in Riyadh not simply in strategic-military terms but as a symbol of the U.S. commitment to the special relationship. Nevertheless, throughout 1978, the Saudis began to be increasingly apprehensive about the will of the U.S. as either a protector of the Free World (including the Muslim world) or as a direct participant in the Arab-Israeli peace process. From 1977, when the U.S. made military aid to Somalia conditional on the Somalis' forsaking the use of military force in the Ogaden, to February 1979 when the Shah's regime collapsed without, from the Saudi viewpoint, meaningful U.S. efforts to save him (the Saudis did not blame his troubles on the U.S. but did expect it as a friend to offer him some kind of support), the U.S. appeared in Saudi eyes unwilling to assume what was thought to be the U.S.'s rightful responsibilities as the leading power in the Free World. As a result a number of Saudi leaders began to question whether the Saudi sacrifices on oil prices and production were entirely commensurate with the value of the special relationship.

The issue of the Arab-Israeli settlement process is more complicated. The Saudis firmly believe that no peace is possible without Arab solidarity led by the Arab moderates. They worked very hard to achieve a rapprochement between Egypt and Syria, which were at odds over the Sinai II agreement, and succeeded in doing so at the Riyadh summit in October 1976. The Saudi strategy was for

Arabs to enter negotiations united and thus from a position of strength.

The terms of reference changed entirely 13 months later when Egyptian President Sadat went to Israel in search of peace. The Saudis were skeptical but were willing to give the Sadat initiative a chance. They were convinced, however, that without U.S. pressure on Israel, there would be no Israeli concessions to match what Sadat had conceded by going to Israel in the first place. By the summer of 1978, the Saudis were beginning to feel justified in their skepticism. Then came the Camp David accords. From the Saudi perspective, the Camp David accords comprised a brilliant piece of U.S. diplomacy if they were the first step toward a peace, but a sellout of the Arab cause and withdrawal from the cause by Egypt if the accords constituted even a rough sketch of what a final settlement would look like. Again, they were willing to wait, but as time went on, they became more and more convinced that the second outcome was closer to what Israel had in mind.

At the same time, the Arab unity that Saudi Arabia had worked so hard to build was coming apart, with Egypt considered almost a pariah by many other Arab states for its role at Camp David. The Arab unity achieved by the Baghdad summit in the fall of 1978 demonstrated this fact and also demonstrated that the Saudis had, at least temporarily, lost the initiative to mold a moderate Arab unity predicated on Egyptian-Syrian cooperation. The Saudi frustration over the direction of Arab politics from the Sadat initiative to Camp David to the Baghdad summit has thus placed a strain on Saudi relations with both Egypt and the U.S. This is not to say that relations, particularly with the U.S., are all bad for there are far too many mutual interests for that to occur. The Saudis value highly their close and friendly relations. Within the context of close friendly relations, however, the years 1977 to 1979 witnessed the creation of strains which had not existed earlier.

The question of Saudi oil policy is also complicated. Basically the Saudis are caught in a dilemma. From the Saudi perspective, cutbacks on production to levels needed only to meet revenue needs could harm the Western economy, but setting price and production rates to meet Western desires would discourage conservation by the consumers, accrue unneeded revenues in declining foreign (principally U.S.) currencies, create domestic inflation, and possibly harm Saudi fields if they were over-produced. It is doubtful, therefore, that Saudi oil policy will approach either extreme. It will probably support gradual price rises while resisting the demands of the OPEC price hawks. At the same time, it is doubtful that the Saudis will moderate oil prices in the future to the same degree that they have in the past unless they can foresee positive political as well as economic benefits in doing so.

# SYRIA, LEBANON, AND JORDAN\*

By John F. Devlin.

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## INTRODUCTION

Syria, Lebanon, and Jordan owe their individual existence to the great power politics of World War I and the years immediately following it. These three states, and an area called Palestine (now Israel and the West Bank of the Jordan), occupy the area that comprised the Ottoman province of Syria; by the terms of the Sykes-Picot Agreement of 1916 between Britain and France, the former was to have the dominant position in Palestine and the region across the Jordan, the latter in the area to the north encompassing today's Syria and Lebanon. When the area, then a dependency of Egypt, had been absorbed into the Ottoman Empire in 1516, the fundamental fact of political life was that the state was Islamic. When it emerged out of the dismemberment of the Ottoman Empire, European-style nationalism had penetrated into Arabic political thought, and the nation-state had replaced Islam as the organizing principle of political life.

For many in the area under consideration, that nation-state should have encompassed all Arabs. Damascus was the center of what developed into a pan-Arab ideology. The European division of the Arab world into a number of states was seen as hostile to that ideology, which grew into a powerful force, reaching its zenith in the 1950's. Experience showed that unity was not without problems; over time the several states came to have lives of their own, and their people—ruling elements especially—came to accept the existing states as proper arenas of politics. Pan-Arabism has retained a certain appeal, but of an ideal rather than a practical nature.

Links arising from the shared past of the three states—and Palestine—continue to be strong. Among the ties are routes of commerce, family ties, and political involvements, ranging from party affiliation to political asylum in one state for those out of favor in a neighbor. The summer cool of the Lebanese mountains and the facilities of cosmopolitan Beirut for years attracted Syrian and Jordanian tourists. The three shared an interest—not necessarily from identical perspectives—in certain issues, notably the Arab-Israeli question, pan-Arabism, and great power activities and

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policies. At the beginning of the 1970's several events related to the Arab-Israeli issue strengthened the links among these states. King Husayn forced armed Palestinian guerrillas out of Jordan; the failure of Syria's efforts to help the guerrillas in this fight led to Hafiz al-Asad taking over as President of Syria; and the guerrillas greatly enlarged their presence and activity in Lebanon. When the dust settled from the strong showing of Arab forces in the October War of 1973, the contemporary stage of developments in these countries—the subject of this essay—began.

### SYRIA

This largest of the three states under consideration here has seen much change since gaining independence little more than 30 years ago. That Hafiz al-Asad is President of Syria is a measure of that change. When the last French troops left in April 1946, Asad and most of his close associates were students in recently-established secondary schools in provincial capitals. As provincials, as lower middle-class if not actually poor, and, for many, as members of the minority Alawi Muslim sect,<sup>1</sup> they could have no expectation of political supremacy. That status belonged to several score families of the Sunni Muslim majority, centered in the big cities of Damascus, Homs, Hama and Aleppo. The rulers of today's Syria joined in the 1940's and 1950's a new political movement, dedicated to independence, Arab unity and a mild form of socialism—the Arab Socialist Resurrection (Baath) Party. After years of political tumult, during which Syria earned the description of the coup-prone cockpit of intra-Arab politics, the Arab unity drive culminated in a three-year experiment in unity with Egypt (1958–61). Most Syrians came to view this United Arab Republic as subordination to Egypt, and the army led a successful secession. In 1963, the Baath took power and in 1966 the faction of it with which Asad was associated bested its competitors. Indisputably independent, its former ruling element dispossessed, Syria since then has been governed by people drawn from provincial and far from well-to-do backgrounds, with power ultimately resting on the support of the armed forces.

Such, in briefest terms, is the genesis of the regime that is in charge of Syria today. Asad himself emerged as head in 1970 after winning a contest with some of his associates—they differed over both policy and sharing of power—after the intervention in support of the fedayeen in Jordan in September 1970 failed. The 1973 October War did much to bolster Syrian self-confidence; the military successes of the first days and the overall performance of the Syrian forces was perceived by leaders and people as redressing the loss incurred in the 1967 debacle. Syria suffered losses in people, in weapons, in economic facilities, and even in land for a time. These were the price of political success. And as a direct consequence of the war, and thanks to Secretary Kissinger's shuttle diplomacy,

<sup>1</sup> The world's half billion Muslims accept Muhammad as the last Messenger sent to reveal God's word to mankind; Jewish prophets and Jesus Christ are earlier bearers of portions of the message. The vast majority of Muslims, known as Sunnis, are adherents of the orthodox mainstream of the Islamic way of life. A minority believe that leadership of the Muslims must be by blood descendants of Muhammad; other differences have developed over the centuries. This Shia minority has divided into several sub-sects of which the Alawis—almost all of whom live in Syria—are one, the Ismailis another, the Shia in southern Lebanon belong to a third.

Syria recovered a slice of the territory lost in 1967. In this fashion, 1973 and 1974 brought a success which greatly helped to legitimize Asad and his "corrective movement"—the regime's term for the ouster of his predecessors in 1970. The decade of the 1970s has brought Syria a measure of continuity, of institutionalization of ideas and processes that once were seen as radical.

An understanding of contemporary Syria and its relations with its neighbors requires a brief look at the composition of the population and at the social origins of those who staff the leading institutions. The following table shows the sectarian breakdown, in percent,<sup>2</sup> of a population that grew from 3 million in 1947 to 8 million in 1978:

*Population breakdown*

| Religion:      | Percent |
|----------------|---------|
| Sunni.....     | 70.5    |
| 'Alawi.....    | 12.0    |
| Isma'ili.....  | 1.5     |
| Druze.....     | 3.0     |
| Christian..... | 13.0    |

The Alawi and Isma'ili sects adhere to the minority Shi'a strain of Islam. The former live in the district around the port of Latakia. The Druze are an offshoot of Islam, found only in Syria, Lebanon and Palestine.

Still a predominantly agricultural country in terms of population distribution, Syria's rural to urban population ratio is shifting toward the cities, from 63 percent rural/37 percent urban in 1960 to 53/47 percent in 1976. The growth of cities is due largely to heavy internal migration; the urban population doubled from 1960 to 1976, reaching 3.6 million in the latter year.<sup>3</sup> Syria is not a country in which one very large city dominates the rest. Aleppo and Damascus have been major urban centers for centuries; three other cities contain more than 200,000 people. The men who dominated Syrian politics at independence represented great merchant-landowner families, centered in the two largest cities and a couple of smaller ones. Provincial capitals—Latakia, Tartus, Dayr al-Zur, Hassakah for example—are sharing in the general urban growth as improvements in transportation and education, implementation of development and industrialization schemes draw people away from the countryside.

Out of the turmoil of the 1950's and 1960's there has evolved the Syrian Arab Republic, a governmental system dominated by a strong presidency. Perhaps president would be more accurate, for the incumbent has made the office.<sup>4</sup> Hafiz al-Asad is, in addition to being president, commander-in-chief of the armed forces and secre-

<sup>2</sup> These percentages are generally accepted by observers of Syria. They are approximations, since recent census figures are not available. George Haddad, *Fifty Years of Modern Syria and Lebanon*. Beirut, Dar al-Hayat, 1950, p. 16, gives 1947 figures which allot a few percentage points less to the Sunnis and a few more to the Alawis and Isma'ilis combined.

<sup>3</sup> Office Arabe de Presse et Documentation, *Rapport 1976-1977 sur L'Economie Syrienne*, Damascus, no date, pp. B-141 and B-143.

<sup>4</sup> Most of the Arab successor states to the Ottoman Empire employ a system of government in which power is concentrated in a leader—who may be king, president, prime minister or head of a revolution council. Such concentration of power is expected by, and acceptable to, the bulk of the body politic. Attempts to install representative organs on the Western model have proved unsuccessful, primarily because the participating elements did not view the organs as arenas where interest groups could compete for power and influence. Rather, the dominant political elements worked to keep or gather power unto themselves.

tary general of the Baath Party. He thus heads two institutions which undergird the republic—the leading party and the military establishment. The two work in tandem; the armed forces have a monopoly of physical force; the party helps to legitimize the regime and provides a means of mobilizing political support. Founded in the early 1940's as a movement dedicated to independence, pan-Arabism and a moderate socialism, the Baath has been active in Arab politics for over three decades. It split in 1966 into two mutually antagonistic organizations, one centered in Syria, the other in Iraq, each claiming to be the sole legitimate descendant of the original, and each quite different from the Baath in its formative years.<sup>5</sup>

The party and the armed forces play complementary roles alongside the administrative bureaucracy in the governing of Syria. Cabinet members direct the work of 24 ministries, most of which are represented in the 13 provinces and, as appropriate, in sub-provincial districts. The provinces are governed by men who have available the advice of a locally elected council, but who are ultimately responsible to the ministry of interior. This bureaucracy is in charge of many facets of national life—industries, transportation, utilities, education and so on. The Baath Party has an organization for countrywide affairs—a Regional Command, so-called because in the Baath tradition the Arab world is a nation and each country a region of that nation—and subordinate organizations, called branches, in each province and in the city of Damascus, with lesser organizations in the districts. Members of, say, a province branch command may hold an executive position at the province level, but his is not necessarily the case. The party also sponsors and helps to direct, through bureaus attached to regional and branch commands, a panoply of people's organizations which function at country and provincial levels. A partial list would include organizations for youth, students, sports, labor, women, peasants, artisans and lawyers. All serve to convey the attitudes and programs of the country's leaders to a broad slice of the population and to mobilize the people in support of government programs or policies. For example in the weeks following Egyptian President Sadat's visit to Jerusalem in November 1977, the party and the people's organizations held, in cities and towns all over the country, meetings and rallies sharply critical of the visit and of Sadat.<sup>6</sup>

The Baath Party is the dominant partner in the National Progressive Front, an association of four left of center parties formed in 1971. (The conservative portion of the Syrian political spectrum ceased to exist in any organized way by 1963.) This organization gives a legal status to the Communist Party and to two small Socialist parties, but assures that they are outweighed in numbers and power by the Baath. Most importantly, the Baath Party is the only political element permitted to educate and spread its philosophy in the armed forces. The armed forces have a Baath party apparatus organized on the same lines as but separate from the civilian one; military and civilian Baathists mix at the regional command level, not below. There are about a dozen military party

<sup>5</sup> See John F. Devlin, *The Baath Party: a History From Its Origins to 1966*. Stanford, Hoover Institution Press, 1976, chapters 16 and 17 and an Epilogue treat the period of the 1960's.

<sup>6</sup> *Al-Baath* (Damascus), daily issues, late November 1977 through January 1978.

branches; <sup>7</sup> little is known about the inner workings of the military part of the Baath, but one can state that activity in the Party's military apparatus is a logical course for the officer with ambition.

The armed forces are more than the pillar of the nation's security. In Syria's modern history, they have been a principal ladder to political power. President Asad is the sole survivor (in the political arena) of a dozen Baathist officers who, disenchanted with the experience of unity in the United Arab Republic, clubbed together in 1959 with a view to freeing Syria from what they regarded as Egyptian rule. As it happened, other Syrian officers took care of that matter, and the group turned to Baathizing the armed forces, a process which led to the Baath taking power in Syria in 1963 and to the subsequent domination of the party in Syria by the military. It is no exaggeration to say that the Syrian officer corps has been the most important political force in Syria for years. The military does not administer the country, but a number of senior officers are key advisors to Asad; many of them come from the same Alawi sect that he does. And the support and loyalty of the officer corps is essential for him to function as president of Syria.

The emergence of Asad and his fellow Alawis at the top of Syria's power structure is both revolutionary and paradoxical. When Syria achieved independence its leaders continued the centuries-old custom by which one's religion dictated the state in life to which one might aspire. The principal posts in government went to Sunni Muslims—usually from wealthy merchant-landowner families—their sect being numerically preponderant and their families traditionally dominant. Members of minorities such as Alawis, Druze, and to some extent Greek Orthodox Christians took up the Baath Party's doctrine that religious affiliation has no place in modern Arab politics. The Syrian constitution of 1973 removed all religious qualifications for public office, save that the head of state must be a Muslim; and that was a later addition to placate Sunnis who were angry that the published draft constitution hadn't mentioned Islam. Members of the Syrian People's Assembly, a consultative body, are chosen on the basis of social class—at least half must be workers or peasants—whereas the former parliament had been chosen on the basis of religious sect.

These are revolutionary changes in Syrian society, but there is a paradox in that the Alawi minority is overrepresented in relation to its 12 percent share of the population. Thus 20 percent of Baath Party regional command members and 40 percent of the military members of that command are Alawis.<sup>8</sup> In addition, many senior officers are Alawis. This prominence of Alawis is not surprising. In the 1950s young men from rural areas saw a military career as promising, and they went to the military academy in some numbers.<sup>9</sup> And it is natural for a country's leader to look to those he knows best for support and assistance. But the prominence of Alawis is noticed and commented on by Syrians. Where a Sunni is in charge—the makeup of the cabinet is closer to the makeup of

<sup>7</sup> An article in *Jaysh al-Sha'b (The People's Army)*, July 4, 1978, translated in JPRS 71870, Sept. 14, 1978, pp. 61-64, lists some of these branches including the eleventh branch, which is headed by Asad's brother Rifaat.

<sup>8</sup> Nikolaos van Dam, "Sectarian and Regional Factionalism in the Syrian Political Elite," *Middle East Journal*, Vol. 32, No. 2, Spring 1978, pp. 208-09.

<sup>9</sup> Michael H. Van Dusen, *Intra- and Inter-Generational Conflict in the Syrian Army*. PhD Thesis, Johns Hopkins SAIS, 1971, pp. 391-413.

the population at large—one is urged to note that his deputy, say, is an Alawi and that he is the real decisionmaker. How much of this is serious anti-Alawi sentiment, how much is disagreement with a regime policy couched in the language of sectarian difference is impossible to quantify. An assessment may not be possible until the time comes for Asad to be replaced. The constitution calls for the Baath regional command to recommend a candidate for the presidency.<sup>10</sup> How things develop around the issue of succession will give some indication of the strength of sectarian attitudes among Syria's political elite. The military establishment will have a commanding position within that elite. In any event, without attempting to predict the course of events following Asad, one can say that it would be unlikely for one minority to provide a succession of residents of the presidential palace.

The longevity of Asad's rule (he has been in power eight years)—and of the Baath's predominance (nearly sixteen years)—are unique in the politics of independent Syria. This continuity has encouraged economic development and has permitted a growing cadre of technicians and administrators to become familiar with their jobs. The rural background of Asad and his military associates and of most of the party's civilian leadership has resulted in an emphasis on bettering the life of the peasant population. While the big cities are far from being neglected, development efforts have been extensively directed at the provinces in terms of such sectors as transportation, electrification, and water supplies. The regime is, of course, finding that, although much is getting done, making a commitment to rural betterment is easier than accomplishing the many tasks needed to fulfill it.

Agriculture has been the basis of Syria's economic life. It has been, and to a great extent still is, a chancy business because of an erratic rainfall pattern; the line between the desert and the sown fluctuates widely from year to year. Irrigation is a major answer. In the post-independence era, entrepreneurs put great effort into irrigation, largely through pumped water; by 1961 about 1.25 million acres had been irrigated. Through the use of small dams and associated works another quarter-million acres were added in the 1960's. The government recognized the value of bringing more land into irrigated cultivation and also recognized the difficulty and the expense, since the principle source of water was the Euphrates River, running southeast across Syria from the Turkish mountains to Iraq, and getting water from it required a major construction effort. Work on the Euphrates Dam was begun in 1966, aided by the USSR. The first stage was completed in 1974; the dam's turbines added nearly 50 percent to Syria's electricity output in the next two years and will about double the country's generating capacity. Work continues and the lake is filling up. In time the dam will permit irrigation of a million to a million and a half acres. The investment required for this largest of Syria's development projects amounts to \$1.5 billion in the 4th Five Year Plan (1976-80).<sup>11</sup> Other smaller irrigation works using lesser water sources will also help in reducing the country's agricultural

<sup>10</sup> It is recommended Asad for a second seven-year term in January 1978. (*Al-Baath*, Jan. 22, 1978), the People's Assembly accepted the recommendation and nominated him. He was elected without opposition on February 8.

<sup>11</sup> *An-Nahar Arab Report and Memo*, May 29, 1978, p. 13.

dependence on a rainfall pattern that has seen Syria produce 600,000 metric tons of grain one year (1973) and 1,600,000 the next.

Movement toward economic betterment is not easy for Syria. In addition to the normal problems—a low, but rising level of literacy, inadequate infrastructure, insufficient technically trained people—Syria suffered damage in the amount of \$1 billion from the 1973 war, in lost equipment and industrial plant. Aid from other Arab states enables Syria to make good the damage. Indeed aid from oil-producing states has flowed into Syria in large amounts in the past several years. Amounting to \$2.68 billion from 1974 through 1977, it has helped fuel serious inflation, estimated by some as reaching 30 percent in 1977.<sup>12</sup> This inflation and the distraction of high-level government attention due to Syria's involvement in Lebanon are impinging on Syria's development efforts.

The costs of maintaining a large military force add further substantial burdens to Syria's finances. An army of 200,000 men, with five divisions, nine separate brigades and other special purpose units makes up the bulk of it. The air force, with nearly 400 combat aircraft, and a small navy account for the rest. These forces are equipped almost entirely with Soviet weapons;<sup>13</sup> much of the bill for them has been paid by oil-rich states and is not mentioned in the budget. Even so, for 1977, a quarter of the combined development and ordinary budgets of \$4.25 billion were dedicated to national security.<sup>14</sup> Although the data are not yet available, comparable percentages may be expected for 1978. Finally, 30,000 Syrian troops are on active duty in Lebanon as the bulk of the Arab Deterrent forces there are a heavy drain on the country's resources.

Development goals, as formulated in the 4th Five Year Plan, are chiefly to increase growth in agriculture, industry and energy. In agriculture the aim is to create a balanced sector—grain, meat, vegetables, and so on—capable of meeting most of the country's food needs. In manufacturing, the goal is a diversity of manufactured products for domestic production and for export where possible. Syria intends that its production of energy should meet domestic requirements for the other economic sectors and that any excess (which would be expected to be in oil, of which Syria produced 200,000 barrels daily in 1977) be sold abroad to earn hard currency. It is not the purpose of this brief discussion to assess whether the specific goals set out in the plan will be reached. Suffice it to say that a country of eight million people, with enough arable land, with intelligently drawn plans for expending irrigation and developing light industry, with sufficient oil for its own needs, and with a growing pool of educated and technically trained people, has reasonable prospects. That would surely be the case if the future were entirely in Syrian hands, but some of the country's destiny is entwined with that of its two neighbors, discussed below.

<sup>12</sup> Ziad Shawky, "Asad's Regime Tightens its Grip," *The Middle East*, April 1978, p. 14.

<sup>13</sup> International Institute for Strategic Studies, *The Military Balance 1978-1979*, London, 1978, pp. 42-43.

<sup>14</sup> *Rapport 1976-1977 sur L'Economie Syrienne*, B-93 and B-94.

## JORDAN

This second of the successor states has had a very different history than its northern neighbor. In some respects it has experienced great continuity. King Husayn enjoys the distinction of having the longest tenure of an living head of state in the Arab world. Jordan's system of government with the monarch at the center, advised by those who through family, tribe or wealth are acknowledged to have a claim to be heard, has not been altered materially in decades. In other respects, however, change has been a way of life. The state doubled in population with the absorption of the West Bank after the 1949 armistice, but Jordan lost that territory to Israel in 1967 and has had an uneasy relation in subsequent years with the Palestinians and the political organizations that speak in their name. Jordan has since its establishment been dependent on external sources of money—British, US and now chiefly Arab—for direct budgetary support. Implications of this dependence have affected Jordanian actions and policies throughout its history and continue to do so.

Jordan's existence derives from a decision by Britain in 1922 to detach that part of the League of Nations mandate which lay east of the Jordan valley from Palestine and make it, as the Emirate of Transjordan, a suitable statelet for Abdallah, the second son of the Sharif of Mecca who had supported the British in fighting the Turks. By World War II, the area had a population of some 300,000. In the course of the first Arab-Israeli war, Jordanian and other Arab forces took control of the Judean hills and of the eastern portion of Jerusalem. Abdallah incorporated the area into his state, extended Jordanian citizenship to the inhabitants, and named the whole state the Hashimite Kingdom of Jordan. (Only two states—the UK and Pakistan—recognized this annexation formally.<sup>15</sup>) This West Bank area has been under Israeli control since June 1967; its 700,000 Arab inhabitants retain Jordanian citizenship. Some of its officials receive Jordanian salaries. Indeed, Jordan is the Arab inhabitants' "lifeline to the Arab world. In order to travel abroad they must carry Jordanian passports. Students wishing to study at Arab universities must pass the Jordanian matriculation exams."<sup>16</sup>

Combining of the two banks of the the Jordan into the Hashimite Kingdom created peculiar social and political issues. Palestinians—those who stayed in their homes on the West Bank plus refugees there and in East Jordan—outnumbered East Jordanians by about two to one. On the average the Palestinians were better educated, and more of them had experience in modern administration. But government has remained in the hands of east bankers. The King dominates the political process, supported by members of his family and of the east bank establishment drawn from families long associated with the royal house. Some of these are counsellors; others are administrators, who have regularly held the key posi-

<sup>15</sup> Anne Sinai and Allen Pollack, eds., *The Hashimite Kingdom of Jordan and The West Bank*, New York, American Academic Association for Peace in the Middle East, 1977, p. 12.

<sup>16</sup> Clinton Bailey, "Changing Attitudes Toward Jordan in the West Bank," *Middle East Journal*, Vol. 32, No. 2, Spring 1978, p. 156.

tions in government.<sup>17</sup> Palestinians have held the office of Prime Minister for a total of 57 days in 28 years. East Jordanians have almost always run the Ministries of Interior and Defense, and with few exceptions field grade and senior officers of the Jordanian army, which today numbers 68,000 men, are from the East Bank. Palestinians have been fairly well represented in overall cabinet positions; most cabinets have also included a Christian and a Circassian—the government in this practice following the centuries-old Ottoman custom referred to above.<sup>18</sup>

This domination by east bankers of the government of Jordan does not appear likely to change substantially in the foreseeable future. But the size of the Palestinian segment of the population and its importance in the economy is likely over time to give it a more prominent role in the country's affairs. Amman, with a population of 700,000 or so, has attracted people not only from the Trans-jordanian hinterland but also from the West Bank. Some, of course, came as refugees from the 1948-49 and 1967 wars, others to seek their fortune. Amman contains a very high percentage of that half of East Jordan's 2.2 million population which has its roots west of the Jordan River.

Palestinians are also at the center of what is a fundamental issue in the life of the Hashimite Kingdom, the relationship of the West Bank and of those citizens of Palestine who live there or in the east bank to the monarchy. This has long been a divisive matter and continues to be one that is far from settled. Many Palestinians, probably most of them, have not considered Husayn or his predecessors as "their" ruler. Such Palestinians were prominent activities in the 1950's, but in recent years seemed to be more inclined toward limiting the power of the monarchy and increasing their own than in eliminating it. At least, they never articulated a substitute system. In the 1970's, the Palestinian fedayeen worked to overthrow Husayn. With strong Syrian support, they established for themselves a freedom of action in Jordan which amounted to a "state within a state." That particular matter was solved by fighting in 1970 (from which the term Black September entered fedayeen parlance) and 1971 which resulted in armed fedayeen formations being expelled from Jordan—and also in the growth of their presence in Lebanon, which is taken up below.

The Arab Summit meeting of 1974 assigned responsibility for recovery of the West Bank to the PLO. The Steadfastness and Confrontation Front—a group composed of Syria, Libya, Algeria, South Yemen and the PLO—at its meeting in September 1978 reaffirmed the PLO as the sole legitimate representative of the Palestinian people. The stimulus of the Camp David peace plans drove Yasir Arafat of the PLO to hold an inconclusive meeting with King Husayn on Jordanian soil, the first time the two had met since 1970. How the people involved, West Bankers in the first instance, judge their interests will best be met is a major factor in any negotiations on the Palestinian issue that derive from the Camp David agreements. The Palestinians as a whole have learned to be skeptical, to keep their options open, to avoid committing

<sup>17</sup> Jordan formerly had a bi-cameral parliament, of which the lower house was elected. The lower house was dissolved in 1974 at the King's initiative and was replaced by an appointed, consultative assembly in April 1978.

<sup>18</sup> Clinton Bailey, "Cabinet Formation in Jordan," in Sinai and Pollack, *op. cit.*, pp. 102-113.

themselves irrevocably to any position or leader in the absence of iron clad guarantees that their own interests will be respected.

Jordan's economy is also heavily influenced by events and the policies of neighboring states. The 1967 war plus the fighting with the fedayeen in 1970-71 severely disrupted the country's economic life. Development planning virtually ceased from 1967 to 1973; Jordan's rulers were too busy coping with the immediate problems of the loss of the West Bank, of adapting to different systems of financial aid. Subsidies promised at the 1967 Khartoum Conference kept the country solvent; they more than replaced Western aid that ceased, although some contributors stopped payments after Jordan expelled the fedayeen. But the steady progress toward economic self-efficiency that had marked the 1960s ceased; Western aid had been declining year by year as Jordan's economic situation improved.

Nonetheless, the economy was recovering fairly well when events of 1973—the October war and the increase in oil prices—came along. The immediate consequence was a large increase in grant aid from Arab oil-producing states; this went from some \$65 million in 1972 to over \$300 million in 1975. During the same period remittances from Jordanian citizens working abroad rose to between \$150-200 million in 1975, and has continued to climb. In the period 1974-77, bilateral economic aid from Arab oil states was \$1,225 million and from Western states (primarily the U.S.), \$410 million. This \$1,635 million amounts to over \$185 per capita annually. In addition the Lebanese civil war drove people and businesses to Jordan, not in huge numbers, but enough to further stimulate an economy already becoming overheated.

The result was a boom. The economy grew at a brisk pace, a real GNP growth rate of 14 percent (1973-76). In the last two years the boom has begun to slow. Government policies, expressed in the 1976-80 Five Year Plan, aim at increasing economic growth sufficiently to reduce dependence on external aid and in time to eliminate such dependence.<sup>19</sup> This will be a difficult task for a small country with a limited agricultural base (Jordan suffers from the same erratic rainfall problem that Syria does; irrigable land is limited in amount, though more can be and is being done), with the services sector accounting for two-thirds of GNP, and with government spending amounting to over one-half GNP. Realistically, Jordan's Five Year Plan calls for reducing the country's dependence on external aid, in recognition that the conditions that permit one country to help another can change. And aid is not divorced from political considerations, a fact that Husayn will consider as he ponders how Jordan's interests can best fit into the framework for peace negotiated by Egypt and Israel at Camp David.

Jordan is as well connected in the Arab world as any of its neighbors. Tens of thousands of Jordanian citizens, mostly of Palestinian origin, work in the oil rich states of the Gulf.<sup>20</sup> The state is able to offer a degree of specialized assistance to less developed Arab states; Jordanian officers are aiding the armed forces of the

<sup>19</sup> El Kanovsky, *Economic Development of Jordan*, Tel Aviv, University Publishing Projects, 1976, pp. 127-29.

<sup>20</sup> *Trade and Industry Magazine* (Dubai, United Arab Emirates) July 1978, estimates that 250,000 Jordanians work outside the country, so many that a shortage of labor is developing in Jordan. Cited in *Joint Publications Research Service*, No. 72060, Oct. 17, 1978, p. 28.

United Arab Emirates and of Oman for example. The country is doing rather well economically and it has enjoyed considerable stability in domestic political life since the October War of 1973. It is, however, still confronted with two issues that have long affected its existence. It is dependent on outside largesse and hence potentially subject to outside pressure to adopt particular policies. And half of its population as the state now exists—living in two-thirds of the territory of the whole state—is potentially not devoted to the House of Hashim.

#### LEBANON

Of the three countries discussed in this essay, Lebanon is the most complex. A little history is essential in order to comprehend the recent events that have torn the country apart. After being awarded the League of Nations mandate for Syria and Lebanon, France divided the area in a manner to suit its special interests, as Britain had done in Palestine. One part of present day Lebanon, predominantly Christian and consisting of the central parts of Mount Lebanon and the adjacent coastal plain, but not the port cities of Tripoli, Beirut, Tyre, or Sidon, had enjoyed since the sectarian troubles of the 1860s an autonomous status within the Ottoman Empire, a status that had been required and that was watched over by the European powers. To this part France as mandatory power added, in 1922, the four port cities and the rural areas attached to them, plus the Bekaa Valley running North and South behind the coastal mountain range; the additions created a state in which the Christians had a slight majority. This enlarged state, "le Grand Liban," appealed to the Christians, especially Maronites, who by virtue of earlier access to education and French patronage stood to have a powerful position in it, but was disliked by most Muslims, Sunnis especially, who looked to Damascus as a logical political focus.<sup>21</sup>

For a society where primary identification was—and is—religion, sectarian affiliation necessarily became the basis on which Lebanese political life was organized. As independence approached during the second world war, Lebanon's Christian and Muslim leaders agreed on a formula for government. This provided that:

The President would be a Maronite, the Prime Minister a Sunni Muslim and the Speaker of Parliament a Shia Muslim.

Parliamentary seats would be distributed on a sectarian basis according to the census of 1932, six Christian to five Muslim. Druze were considered Muslim in this reckoning.

Lebanon would be truly independent; Christians would not look to the West for protection, nor Muslims work for union with any Arab state. Lebanon should be neutral among the Arab states.

Within each sect, leadership is exercised by a small number of notables, men who for the most part had succeeded their fathers in a position of prominence. Such were, to mention a few, the Sunnis Rashid Karami, Saib Salam, and Sami Sulh; the Maronites Camille Chamoun, Pierre Gemayel, and Pierre Edde; the Druzes Majid

<sup>21</sup> See Elie Kedourie, "Lebanon: The Perils of Independence," *The Washington Review of Strategic and International Studies*, Vol 1, No. 3, July 1973, pp. 84-89, for a discussion of the manner in which this came about.

Arslan and Kamal Jumblat; the Shia Ahmad al As'ad (no relation to Hafiz al-Asad of Syria; the Shias in Lebanon are distinct from the Alawi Shias). The men are *zucamā'*, (sing. *zacim*), the recognized leaders of a community, who speak and act for it and their interests in time of peace and who leads, or sends his son to lead, the community if fighting is to be done.<sup>22</sup> The recent fighting in Lebanon has been conducted on the Lebanese side by just such *zacim*-led forces.

This was the system under which Lebanon functioned for nearly thirty years. And the country prospered. Beirut became a center of banking, communication, and trade. It and the mountain resorts offered a variety of refreshment and relaxation to those working in drier, browner, and hotter parts of the area. But the system also was static and inflexible. Lebanon changed, its population grew, sons and daughters of illiterate peasants got education, people came to want things—e.g., secular politics, social mobility—that the system was not designed to provide. Yet the system stayed; indeed many of the very people who dominated politics in the 1940's are still prominent; Camille Chamoun, presidential hopeful in 1946, president in 1952-58, today head of the (Maronite) National Liberal Party, is the most conspicuous example. But others are numerous.

No census has been taken since 1932; the results of one would have compelled the leaders of the major communities to face the implications of a shift in the relative sizes of those communities. Some redistribution of political offices would have been required at the very least, and a fundamental alteration of the 1943 agreement could well have appeared logical. The census of 1932 gave a narrow edge to the Christians, 425,000 of all sects, to 405,000 Muslims (Sunni, Shia, and Druze).<sup>23</sup> Close observers of the Lebanese scene believe that Muslims have outnumbered Christians since the late 1950s at least, and that by 1970 or so, the Shia Muslims became the largest single sect.<sup>24</sup> Few at the top wanted to rock the boat. Christian leaders were, of course, content with their position, and the established Muslim leadership found the continued functioning of the system acceptable to their conservative outlook.<sup>25</sup>

All this is necessary background to the developments of the post-1973 period. Lebanon had succeeded in remaining aloof from the Arab-Israeli struggle for a long time. Until 1969, fedayeen activity in Lebanon was substantially restricted by the government authorities, although some actions against Israel took place. Some 200,000 Palestinian refugees had come to Lebanon after 1948, and their camps made likely centers for these fedayeen. The Israeli raid on Beirut airport in December 1969 began a process of change in that situation. There was public outcry, for the most part, by students

<sup>22</sup> See Arnold Hottinger, "Zu'amā' and the Lebanese Crisis of 1958," *Middle East Journal*, Vol. 15, No. 2, Spring 1961, pp. 127-140, esp. pp. 127-133.

<sup>23</sup> Memorandum by Emile Edde, President of Lebanon 1936-1941, presented to the Quai d'Orsay in 1932, quoted in Meir Zamir, "Emile Edde and the Integrity of Lebanon," *Middle Eastern Studies*, Vol. 14, No. 2, May 1978, pp. 232-233. Edde recognized the fragility of the Christian margin and asked the French government to detach Tripoli and South Lebanon from the Lebanese state to insure a lasting Christian majority.

<sup>24</sup> Kamal S. Salibi, *Crossroads to Civil War: Lebanon 1958-1976*, New York, Caravan Books, 1976, p. 37. The Maronite National Liberal Party distributed population figures in 1972 which gave the Shia Muslims a slight edge over the Sunnis; in this tabulation Maronites, not surprisingly, remained the largest group.

<sup>25</sup> Salibi, *op. cit.*, p. 35.

and left of center groups not committed to the system. Senior Muslim leaders associated themselves with calls for greater freedom of action for the fedayeen. The latter's activity increased and led to clashes with the army. In an effort to control the fedayeen activity and to prevent Israeli reprisals, the Lebanese government got Egyptian President Nasser's help in having the PLO sign the Cairo Agreement of November 1969. This specified where and how fedayeen might carry arms and designated the areas from which they might operate against Israel. Although Christian leaders were very skeptical, the accords worked fairly well when relatively small numbers of fedayeen were active in Lebanon. But the events of 1970-71 in Jordan made a critical change. Driven out of Jordan and rigorously controlled in Syria, the fedayeen turned to Lebanon—a state bordering on Israel and possessing a government of limited power.

The presence and activity of the fedayeen proved to be the catalyst that upset the political system in Lebanon. Amply supplied with weapons from various Arab states, fedayeen forces moved into a portion of the border area that came to be known popularly as "fatahland," whence they launched attacks against targets in Israel. The latter responded and, inevitably, Lebanese lives were lost, Lebanese property destroyed, and Lebanese livelihoods ruined. The Lebanese Army, primarily an internal security force, was no match for the Israelis and stayed out of the fighting for the most part. For this they were severely criticized by Muslim leaders, who took the line that the Maronite-dominated army would not fight to protect Lebanon's Muslims—most of the area bordering on Israel was Muslim in population. The occasions when the army did clash with the—mostly Muslim—fedayeen merely added fuel to the fire and helped create a commonality of interest between the Palestinians and large segments of the Muslim community. These segments included both conservative elements and an alliance of left wing parties and groups, the National Movement, headed by a traditional Druze leader, Kamal Jumblat, who headed a modern political organization, the People's Socialist Party, but whose power lay in the support his Druze peasantry gave to him as their *zaim*. It was a natural step for these leaders to judge that supporting the right of the Palestinians to operate against Israel from Lebanon was a tactic that could be used to reduce the political power of the Christians, especially of the Maronites. There were elements in the country that wanted political reform, e.g., some just to reflect changes in the population structure; others wanted to abolish the sectarian basis of politics and to change the voting system in such a way as to weaken and eventually destroy the power of the feudal bosses.<sup>26</sup> The traditional Maronite leadership saw these developments and aspirations as ominous; its private armies and militia trained for what might come. It blamed the Palestinian presence for all Lebanon's ills. Through the 1970's violence grew. The country was flooded with arms provided to different factions by a variety of states in the area. Except in such weapons categories as

<sup>26</sup> For a good, fairly brief, description and analysis of these developments see Abbas Kelidar and Michael Burrell, *Lebanon: The Collapse of a State*. London, Institute for Conflict Studies, No. 74, August 1976. Salibi, *op cit.*, also covers these developments. A monograph by Enver (M. Koury, *The Crisis in the Lebanese System: Confessionalism and Chaos*, Washington, American Enterprise Institute, 1976, treats the developments from a different analytical perspective.

armored vehicles and aircraft, there were far more weapons and far more firepower in private hands than in the possession of the army and security forces.

Real civil war broke out in mid-1975. The immediate cause was the killing of a popular member of Parliament during a demonstration protesting the Maronite charges of Palestinian responsibility for Lebanon's problems. Muslims demanded a change in government; Maronite militia ambushed and killed a large group of fedayeen. Counterattacks, murders, ambushes followed one another. At first confined to Beirut, the violence spread in succeeding months to most of the country. The army disintegrated; government writ no longer ran.

The system of government, based on careful balance among the sects, that had been devised under the mandate simply collapsed under the strain of events and forces that it was not designed to cope with. Fundamentally it was a system run by and for elites—notables, those of good family, the wealthy. The limitations on advancement imposed by one's sect—President for a Maronite, Prime Minister for a Sunni, Speaker for the Shia, Foreign Minister for a Greek Orthodox, Minister of Defense for a Druze—inevitably caused people to focus on their sect, rather than on Lebanon. There was no benefit to working with or for another except for the areas of cooperation required by the 1943 agreement, e.g., parliamentary politics and cabinet formation. The consequence was a narrowness of outlook among the traditional elite, a narrowness that precluded their seeing Lebanon's problems, particularly when such problems affected poorer parts of the country. The popularity that the Shia religious leader, Musa Sadr (who disappeared on a trip to Libya in August 1978), acquired among the southern Shia peasantry during the civil war lay in his challenge to the politico-economic supremacy of the As'ads, two of whom—father and son—provided the Shia speaker of Parliament required by the 1943 Pact. Even issues that affected the elite might be postponed if they might effect the standing of the elite.

The civil war and the events which have followed it are frequently portrayed by participants and observers alike in sectarian terms, Christian versus Muslim, sometimes with an added ideological flavor—Christian right versus Muslim left. Not all Maronites, much less all Christians are fighting; Chamoun's and Gemayel's followers are, Franjiyah's are not. Nor have other Lebanese Christians shared the Chamoun-Gemayel outlook.<sup>27</sup> On the Muslim side, the majority of the population, and certainly the leaders such as Karami, Salam and al-As'ad are of a conservative bent. And, as in most such wars, most people are "innocent bystanders caught in the crossfire of fighting factions."<sup>28</sup>

There is, moreover, a substantial socio-economic element in the conflict; the civil war pitted those who would change the Lebanese system—the National Movement—against those who adhere rigidly to their position of economic and social supremacy.<sup>29</sup> Two quotes

<sup>27</sup> J. Richard Butler, "Religions and Rivalries in Lebanon," *Christianity and Crisis*, April 21, 1978, p. 191.

<sup>28</sup> Don Schanche, *Washington Post*, Aug. 31, 1978.

<sup>29</sup> One observer puts it quite strongly, "The peculiarity of the Lebanese situation is that the conflict is in essence socio-economic and in form sectarian; form cannot be separated from essence or vice-versa." Tabitha Petran, letter to editor, *Middle East International*, September 1978, p. 34.

will illustrate this. Madis Gemayel, daughter of the Maronite leader, Pierre Gemayel, is reported to have said "that it was not simply survival or bread which the Maronites were fighting for, but the good things of life: music, food, theatre and fun."<sup>30</sup> And Walid Jumblat, son of the assassinated Kamal, said "We want to establish a new social and political system to avoid any outbreak in the future."<sup>31</sup> The leaders in Lebanon remain, despite all the turmoil, the same people, or their sons, heading the same feudal-type families and representing parts of their community as they have for years. Their followers have rallied primarily on the basis of appeal to a gut issue—sectarian affiliation—us against them; interwoven with sectarianism is the other strand—they want what we have or they refuse to share what we need.

The human and material damage done in Lebanon is incalculable. A conventional figure for the number killed in the fighting is upwards of 60,000. Tens of thousands have fled abroad; two hundred thousand or so people have moved to the mountains to avoid recent fighting in Beirut. A hundred thousand fled from the fighting in south Lebanon early in 1978. Thousands and tens of thousands have been driven by fedayeen action and Israeli reprisal from homes in villages and towns in the south; intra-Maronite fighting has forced adherents of Gemayel out of former President Franjyah's territory. And so on. Most of Beirut is a shambles, trade is disrupted, crops and orchards ruined.

#### SYRIAN INTERVENTION

By early 1976, Palestinian fedayeen forces, supported by Palestine Liberation Army units from Egypt and Iraq, controlled much of the territory of Lebanon. They were able to rely on the active support of some Lebanese, primarily those associated with Jumblat's National Movement, in much of the southern half of the country. The Maronite heartland that remained under the control of the various militia forces was essentially the pre-World War I Ottoman province. Syrian concerns at the disintegration of the Lebanese government and at the ascendance of one element in the country were strong. In addition to sending in PLA units under its own control, Damascus made a vigorous effort to effect a compromise between the Christian and Muslim leaders which would change the 1943 National Pact. As announced by Lebanese President Franjyah, in February, the compromise stipulated that parliamentary seats would be divided equally between Christians and Muslims; it put the President and Prime Minister on more of an equal plane and abolished apportionment of jobs on a sectarian basis in the civil service.

This new pact was accepted by traditional Muslim leaders and by some of the Christian ones, but it did not go far enough for others in the Lebanese political scene. Its terms endorsed the existing political system of rule through sects and by the traditional leaders within those sects. For this reason, the National Movement did not find the changes far-reaching enough; its goals of secularization and of an electoral system that would give reformers a chance to

<sup>30</sup> *The Middle East*, September 1978, p. 17.

<sup>31</sup> *Ibid.*, p. 30. Both these quotes are from a group of very well done articles and interviews, "In the name of the Fathers . . . the Sons . . . and the Holy State . . ."

reduce the power of the traditional elite were not included. Militarily stronger, the left and its Palestinian allies continued to fight and in so doing produced "a confrontation that would have been inconceivable a few weeks earlier; the Syrians were pitted against the Left and their Palestinian allies."<sup>32</sup>

The intransigence of the several parties presented Syria with an untidy and unpalatable set of choices. It had no preferred road to follow in regard to Lebanon, only a series of rocky and twisting ones. For Syria's national objectives with respect to Lebanon were the following:

1. To prevent there arising an opportunity for Israel to cause military problems for Damascus by advancing its security line north into Lebanon; uncontrolled Palestinian forces dominating southern Lebanon would be such an opportunity.

2. To prevent partition of Lebanon on sectarian grounds; such a development would strike at Syria's official ideology under which religious requirements for positions in government have been abolished. It would also face Syria with the problem of the disposition of the Muslim parts of Lebanon. An independent state would run counter to objective one, annexation would bring problems with Israel and with other Arab states which support elements in the Muslim area.<sup>33</sup>

3. To promote the existence of a functioning government that maintains views and policies favorable, or at least not harmful in major respects, to those of Syria.

These objectives do not presuppose the dominance of any particular force in Lebanese politics, although Syria has over the years favored the left wing of the political spectrum and has supported its Baath Party organization there. Indeed, as this account should by now have been made clear, Syria has at various times supported various political forces. And it is the pursuit of the objectives that has caused Syria to support one faction at one time and to withdraw that support at other times. While all are important, at certain times one has been seen in Damascus to be of overriding immediacy. Thus during the civil war in 1975, when forces in favor of separatism were gathering strength among the Maronites, Syria's leaders tilted in favor of the left and the Palestinians. By mid-1976 when the Syrian army moved into Lebanon in force, motive one was dominant. The Palestinians and leftists had been so successful and controlled so much Lebanese territory that, if and when the fedayeen turned their attention away from Lebanon's internecine quarrels and toward the south, the Israelis would have just that security rationale to move into Lebanon that Syria hoped to prevent. It was also important for Syria to ensure that whoever was elected president in 1976 to succeed Franjyah would be acceptable to it.

On March 14, 1978, when Israeli troops did invade southern Lebanon in strength, paradoxically it was objective one that governed Syria's response; Syria did not react militarily; it cooperated in the establishment of UNIFIL and in its swift deployment in the south, all with the aim of ending the Israeli incursion as quickly as

<sup>32</sup> Kelidar and Burrell, *op. cit.*, p. 16.

<sup>33</sup> See Sam Younger, "The Syrian Stake in Lebanon," *The World Today*, Vol. 32, No. 11, November 1976, p. 400.

possible. There is no congruence of interest between Syria and Israel in Lebanon. The latter wants protection from fedayeen attacks and to weaken Syria's ability to fight a war. From Israel's point, partition of the sort that some of Lebanon's Christian leaders want could be useful to the extent that it served these aims; support for the Christian militia in the strip immediately above the Israeli-Lebanese border falls in the same category.

It is the aforementioned fundamentals of Syrian policy that account for mid-1978 finding the Syrians and Chamoun's and Gemayel's militias locked in combat. When the Syrian army moved into Lebanon in 1976 and pressed the Palestinians and the left back, the Maronite leaders welcomed the relief from military pressure, but not all were overjoyed. Pierre Gemayel and his militia and, of course, then-President Franjijah's faction got along fairly well with the Syrians, but Camille Chamoun and his faction did not. Moreover, following Sadat's visit to Jerusalem the Syrians began to take a more balanced stance as between Chamoun and Gemayel. As time passed, Chamoun, Gemayel and their followers became disenchanted with the Syrian presence, because it was not contributing to restoring Maronite predominance. Gemayel's and Chamoun's militia particularly resented Syrian attempts to exert military control in areas they considered "theirs." Intra-Marionite feuding grew. The inevitable incidents took place, at a barracks in Beirut, in the Chekka area south of Tripoli, where fighting among Maronites grew fierce, and many other places. Then came the murder of Tony Franjijah and his family by Gemayel's forces, the misdirected Syrian reprisal in which a score of non-Maronite Christians were killed, and the escalation into the fierce fighting in Beirut itself in the summer and early fall of 1978.

Syrian-Jordanian relations have, since the two countries patched up their differences on the eve of the 1973 war, been marked by a growing measure of cooperation in economic matters, by frequent consultation between the two heads of state, and by cautious association in military and political affairs. The two set up a joint commission to coordinate military, economic, political and cultural policies in 1975; military units conducted, joint maneuvers in 1976, and continued a variety of small, joint activities in subsequent years. Syria's leader understands that Jordan needs a friend in Arab councils, but that Jordan, dependent on outside support, must move circumspectly in Arab and Arab-Israeli affairs. Damascus has, in good relations with Jordan, a measure of security for the left flank of its forces facing Israel; this is the more important while things are going so poorly in Lebanon.

The discussion in the preceding sections has demonstrated that the three states, although having separate identities and being capable of separate existence, are not free to go their separate ways, to follow policies that are heedless of the others' concerns. The connections are primarily bilateral, that is Syrian-Jordanian and Syrian-Lebanese, but they have a broader commonality in that part of Ottoman Syria which has not been addressed in this chapter, Israel and the West Bank. Jordan with half its people of Palestinian origin, Lebanon, headquarters of the PLO and with

perhaps three or four hundred thousand Palestinian residents,<sup>34</sup> and Syria with some of its territory under Israeli occupation must be concerned with what happens in the Israeli-Arab issue. No one of them can make a move without intimately affecting the other.

The Camp David accords, reached only a short while ago, are clearly a critical development in the whole Arab-Israeli issue, and they will affect these three countries. It is, however, too early to tell how matters will develop, how much or how little participation there will be, and so on. Jordan wants the West Bank returned to Arab rule and to have that area in some fashion institutionally linked with it. Syria wants to regain the Golan area. Both want an arrangement that permits Palestinians to have a role in governing themselves, at least such a role as would obviate the need for or the appeal of an organization such as the PLO, dedicated to recovering Palestinian soil, to remain in existence in the countries bordering on Israel. Lebanon, of course, is at this writing the principal locus of armed Palestinian forces and a major center of Palestinian political activity. But it is not possible to describe a Lebanese view of this issue. Different factions in that war-ravaged land espouse positions on the Palestinians ranging from full support for their right to attack Israeli targets from Lebanese soil to that of the Maronite hardliners that bringing the Palestinians to heel or expelling them is all that is needed for Lebanon to resume a normal political life.<sup>35</sup>

But, while the Palestinians—and especially the fedayeen—are a critical element in Lebanon's political scene, their removal (if that were possible) would not solve the crisis. The damage to the state and society is so extensive—tens of thousands dead, hundreds of thousands homeless, massive destruction of residential, business, and farm property—that the disappearance of one cause of that damage is not enough to effect a major improvement. Far beyond the material and human losses, the viability of Lebanon as a political entity has been called into question. The 1943 National Covenant which provided the basis for Lebanese political life, has been broken in two respects. First, the population has changed; leaders of all sects acknowledge that Christians are no longer a majority. More importantly, major factions in Lebanese politics have broken another part of the covenant; on the one hand Muslims have involved Lebanon in broader Arab world issues; on the other Christians have turned to the West for support and aid.<sup>36</sup>

Lebanon's future is subject to many and complex pressures and counter-pressures. It cannot be restored on the former basis; the minimum political will to make the system work has been destroyed by the events of the last several years. Nor will its neighbors allow the country to break up completely. Arab world opinion would not permit Syrian annexation of part of it and the establish-

<sup>34</sup> Population figures for Lebanon are, for reasons adumbrated above, at best approximations with a wide margin of error. In the case of the Palestinians there, an unknown number have managed to acquire Lebanese citizenship, and others have no doubt arrived and departed in the tumult of recent years with no record being made.

<sup>35</sup> *The Middle East*, September 1978, p. 27 interview with Dory Chamoun.

<sup>36</sup> Cries of genocide by Christians during the summer of 1978 received a ready response in Europe. See, for example, articles in *Le Monde*, July 12 and 13, August 8, 1978. More recently, France has officially criticized Camille Chamoun, *Christian Science Monitor*, October 18, 1978.

ment of an Israeli-supported Christian heartland state<sup>37</sup> would wreck broader settlement prospects.

In these circumstances, Lebanon's future domestic political arrangements almost certainly will fall into one of the following categories:

a. A form of sectarian balance continued, but based on new realities of the size of the several sects and perhaps on assurance of high office for members of each sect without necessarily reserving a specific office to one sect. For example, it could be stipulated that the presidency, Prime Ministership and Speaker's chair be rotated among the three largest sects or that at any time two of the three posts had to be held by members of two of the three largest sects. Other arrangements could be drawn up.

b. Secularization, with every political, civil service, and military position open to members of any sect. In practical terms, such a state of affairs is not acceptable to a majority of Lebanon's leaders now and might have to be reached in stages.

c. A federal system that would leave much of the country's administration in the hands of local authorities. The possible variations are many, but such a system would be based on sectarianism at most levels of government.

d. A federal system, based on sectarianism, with a nation federal government that was non-sectarian.<sup>38</sup>

No solution would be easy. In addition to the fundamental issue of the destruction of the 1943 basis of agreement for a Lebanese state, the existence of a score of private armies, the presence of enormous quantities of weapons, the personal blood feuds that have developed, and the destruction of the confidence that is needed for any state to function are mighty obstacles in the way of reconstituting a Lebanese state on any basis.

And then there are outside forces. In 1860, it took the pressure of powerful European states on the Ottoman Empire to force Istanbul to create a special province for Lebanon's Christians. Today Syria and Israel are supporting opposite forces in Lebanon. Should the two agree on their broader quarrel in, let us say, some new Camp David, Lebanon's combatants would be deprived of much support. (But not all, there are many other sources of the arms that flood the country.) Which is to say that a Syrian-Israeli settlement would almost certainly lead to improvement in Lebanon, but that improvement in Lebanon without improvement in the broader context is likely to prove impermanent. Syria's interest in a Lebanese settlement is strong; its forces are taking casualties; it is spending much money on the fighting; there may be domestic dissatisfaction at involvement in a costly war. There is a mandate that a governor must have to govern effectively, that is, the irreducible minimum of acceptance—voluntary or coerced—by the body politic; Lebanon's president doesn't have it; Jordan's King does; it would help Syria's President to retain his to get an accommodation in Lebanon.

<sup>37</sup> Israeli support for Maronite militias has been going on for several years. In the early part of this period it was conducted discreetly, but of late both Israelis and the militia have discussed the matter openly. See, for example, David Halevy, "Syrians Shun Lebanon Face Off," *Washington Star*, September 14, 1978.

<sup>38</sup> Michael C. Hudson, "The Lebanese Crisis: The Limits of Consociational Democracy," *Journal of Palestine Studies*, Vol. 5, No. 3 and 4, Spring/Summer 1976, p. 121, lists possible solutions similar to the first three. His fourth is partition; which he judges would probably lead to another Arab-Israeli war.

# THE GULF STATES AND IRAQ

By John Duke Anthony\*

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Public commentary in the past decade over expanding Great Power interest and involvement in the Persian Gulf has often laid greater emphasis on Iran's role in this region than on the other littoral states. However, one consequence of the October 1973 War was a fundamental shift in this focus away from Iran toward other actors in the region. In the aftermath of the Arab oil embargo, production cutbacks and the subsequent steep rise in petroleum prices, accompanied by the rapid accumulation of monetary wealth by several Arab states and the expansion of Western, especially American, Arabian Peninsula ties, greater attention began to be paid to the Arab states in the Gulf. The reasons are not surprising: 6 of the 7 littoral states are Arab (counting the 7 members of the United Arab Emirates as a single state) and throughout this period it has been these polities, not Iran, who have produced and exported most of the area's oil, have possessed the overwhelming majority of its petroleum reserves, have controlled the bulk of its impressive financial holdings, and have played the determinant role within the Organization of Petroleum Exporting Countries (OPEC) on matters pertaining to the price of oil.

A clear understanding of the regional dynamics among these countries is essential to any assessment not only of their future roles in Gulf and international politics and the contributions they might be expected to make towards the goal of regional security, but, also, of the context in which American and other foreign interests in the area must, of necessity, be pursued. This paper examines four questions bearing on the local and regional aims and interests of these governments and the way that these questions shape relations both amongst the Gulf states and between them and outside powers, including the United States. The first concerns the nature of political interaction among these states. The second focuses on the continuing contest between conservative and radical regimes in the area. The third examines the ongoing connection between these states and the Arab-Israeli conflict, and the fourth: the phenomenon of continuity and change in the relations between these states and Iran. This last question is of considerable impor-

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tance in light of the transformation in the regional balance of power set in motion by the Tehran government following the overthrow of the Shah in 1979.

### I. POLITICAL INTERACTION AMONG THE ARAB PERSIAN GULF STATES

In general, political interaction among these states has been and remains a complex mixture of historical, economic and political rivalries, undergirded by long-standing dynastic, national and territorial conflicts colored by distinct ethnic, religious and tribal sentiments. With the arrival of the British in the Gulf, these conflicts subsided but did not disappear. Both during and in the aftermath of the long period of British domination in the emirates, these conflicts continued to affect the political processes of the area.

The source of much of the conflict has been a quest for control of the region's limited economic resources. Prior to the discovery of petroleum, the tribes of the region struggled with one another incessantly over such issues as control of maritime and overland trade, offshore fishing and pearling rights, access to grazing lands for their flocks and control over strategic water holes. In conjunction with these disputes and continuing up to the present day, have been innumerable disputes within and among the ruling families of these states over questions of territory, commercial preeminence and dynastic leadership.

The discovery of oil and the subsequent realization that millions (and nowadays billions) of dollars are at stake, added a new and vastly different dimension to these cleavages. While not completely superseding the traditional forms of rivalry, the disputes have taken on increased significance in light of this development both inside the area itself and in the eyes of the outside world. This significance is likely to remain valid as long as the issues contested remain unsettled or unsatisfactorily ameliorated in the eyes of the parties concerned.

A major component of the regional dynamics of these states remains the interplay between their territorial rivalries and, excluding Iraq, their dynastic rivalries. The more important outstanding territorial disputes—most of which have involved outside powers in support of one or more of the parties to the conflict—remain those of:

Iraq and Kuwait over their common frontier and the question of control over Warbah and Bubiyan, two strategic islands lying in their offshore waters;

Bahrain and Qatar over the Hawar Islands group located in their offshore waters and over the village of Zabarah on the west coast of the Qatar Peninsula;

Sharjah, 'Ajman, Umm al-Qaywayn and Iran over offshore waters in which petroleum was discovered in 1972 near Abu Musa Island;

Sharjah and Fujayrah over their respective land boundaries, a dispute which re-erupted in June 1972 and resulted in the death of some two dozen Sharjan and Fujayran tribesmen and in the late 1970s, still necessitated the intermediating presence of a United Arab Emirates Defense Force battalion;

Dubai and Sharjah over territory being commercially developed on the border between them;

Ra's al-Khaimah and Sharjah over a valley area situated in disputed territory between them which is believed to contain potentially lucrative deposits of phosphate;

Oman and Saudi Arabia over Umm Zamul, a waterhole and surrounding territory in the undemarcated border area at the northernmost reaches of the Rub' al-Khali desert; and

Ra's al-Khaimah and Oman over their respective land and offshore boundaries on the Musandam Peninsula.

In addition, there are other territorial disputes that are less well known but, like those cited above, have the potential to re-erupt and alter the regional balance of power in the future.

Territorial disputes, formerly centered on issues of land usage in and between states with sizeable Bedouin populations, are nowadays more frequently centered on questions of sovereignty over strategic island and border areas. The pattern of petroleum discoveries has been the principal factor in this shift in focus. In the 1950's, Great Britain attempted to resolve the boundary disputes preventing the granting of oil concessions and drilling operations in the seven member states now comprising the United Arab Emirates (UAE). Final resolutions were proposed encompassing some two dozen of the nearly three dozen cases pressing at the time, most of which were accepted by the parties involved. However, to this day a dozen or more conflicting claims to land boundaries in the UAE, in addition to disputed claims to half a dozen offshore boundaries among these states plus Saudi Arabia, Kuwait, Bahrain and Qatar, and between some of them and Iran, remain outstanding.

On the other hand, it is important to note that substantial progress has been achieved in the past decade in close to a dozen offshore disputes, most of which were resolved in conformity with the principle of the median line. Some of the settled disputes, as for example in establishing the maritime boundaries and the sharing of offshore oil revenues between Bahrain and Saudi Arabia and between Abu Dhabi and Qatar, were resolved with a minimum of difficulty.

By contrast, the question of sovereignty over Abu Musa Island, which involved a number of similar legal issues, was not so easily managed. In the early 1980's that dispute, the handling of which contributed directly to the assassination of the Ruler of Sharjah in 1972, was no nearer to *de jure* resolution than in the late 1960s when Britain and other countries were engaged in a concentrated effort to effect its resolution. But in that case, unlike in most of the other disputes, there were the additionally complicating factors of rival ethnic groups, religious differences and competing nationalisms.

A second category of political interaction, both pre- and post-dating the events of 1973, concerns the conservative Arab Gulf states and centers on their dynastic rivalries. These occur both within and among the area's twelve ruling families. The most recent intradynastic challenge took place within the Al Qasimi ruling family of Sharjah. In February 1972 a former Ruler of that state, deposed in 1965, returned to Sharjah and, capitalizing on

public resentment of the Ruler's handling of the aforementioned Abu Musa Island affair with Iran, attempted to overthrow his successor. Although he and his followers failed to regain the rulership, they succeeded in murdering the incumbent before they were captured and arrested.

In another case, scarcely a month earlier than this event, the Ruler of Qatar, of the Al Thani dynasty, was overthrown. In that incident, Qatar's then deputy ruler and heir apparent ousted his cousin and seized the rulership for himself.

Other such events can be recounted: in July 1970 Sultan Qabus, thirteenth member of the Al Bu Sa'id dynasty to serve as Ruler of Oman, participated in a palace coup which forcibly replaced his father, Sultan Sa'id bin Taymur (r. 1932-70). And in Abu Dhabi in 1966, Shaykh Zayid bin Sultan, of the proud Al Nahyan family, overthrew his ruling brother, Shaykh Shakhbut (r. 1928-66).

In Saudi Arabia, the replacement of one ruler by another in March 1975, when King Faysal was assassinated, occurred differently. There, the assassin, although a member of the ruling household, is acknowledged by both the Saudis themselves and outside observers to have acted alone. Unlike the aforementioned situations which were characterized by bold attempts of coupmakers to seize power, the overriding goal in this instance was the assassin's intent to settle a personal grievance against the king. By all accounts, the succession to the rulership of the incumbent King Khalid (the late King's younger brother and since 1965 his Heir Apparent) took place without incident and in strict accordance with a procedure agreed to a decade earlier by the dynasty and its key allies within the Kingdom's elite structure.

Throughout much of the 1970's intra-dynastic rivalry among leading ruling family personalities figured prominently in the political dynamics of Saudi Arabia, Kuwait, Qatar, Oman and most of the seven UAE states. In the first three states, competition for the post of heir apparent was resolved in 1975, 1977, and 1978, respectively. In the late 1970's however, much less certainty existed over the fate of such matters in Oman and the UAE states, where several heirs apparent had yet to be named.

Dynastic rivalries between these states occur with similar frequency, often being irredentist or secessionist in nature or arising out of competition between particular rulers for prestige in the area. In some cases, both factors are and have been involved. For example, a quest for regional prestige, however muted and good natured it may appear on the surface, frequently occurs between Kuwait and Saudi Arabia, with Kuwait often pursuing a foreign policy quite different from Saudi Arabia's on such matters of regional importance as maintaining diplomatic relations with the Soviet Union, the pricing of OPEC oil, and lending various kinds of support to the government of the People's Democratic Republic of Yemen (PDRY).

Interdynastic competition also continues to assume the form of a contest for status among practically all the Rulers. For example, in Bahrain, Qatar, Abu Dhabi and Dubai, this form of rivalry was instrumental in the process of achieving their independence in 1971, and it still influences the extent to which these four states,

and most of the others as well, cooperate with one another in matters of mutual concern.

The rivalry between Abu Dhabi and Dubai, at war with one another as recently as 1948, is historically rooted in the fact that the ruling family of the latter seceded from Abu Dhabi in the early 19th century and settled in Dubai. The heads of these two states, Shaykh Zayid of Abu Dhabi and Shaykh Rashid of Dubai, compete with each other for influence in the UAE, in which they hold the posts of President and Vice-President/Prime Minister, respectively.

The rivalry between Qatar and Bahrain, which lies behind the fact that they have yet to demarcate their borders with one another, is founded in the outstanding claim of the ruling family of Bahrain to sovereignty over portions of Qatar, territory it once controlled, and, more recently, in their jockeying for influence and position in the Gulf as a whole. The heads of many of the lesser emirates have had and continue to have similar, though less dramatic, disputes and contests among themselves and with Iran and Oman.

Ancestral lineage is an additional aspect of the inter-dynastic rivalries among these states. The ruling families of Sharjah, Ra's al-Khaimah and Bahrain, for example, consider themselves of more noble pedigree than some of their neighbors. In the case of Bahrain, the aristocratic self-perception of its ruling family (the Al Khalifa) contributed to the island state's reluctance, and ultimately its refusal, to enter into an equal relationship with the neighboring dynasty (the Al Thani) of Qatar during the negotiations between 1968 and 1971 for a nine state federation in the Gulf. Continuing dynastic rivalries between Bahrain and Qatar do not augur well for the prospects of these two emirates combining to form a political union in the near future.

Similarly, Ra's al-Khaimah's Ruler, Shaykh Saqr of the proud Qasimi family, still bristles at having to occupy a subordinate position to the rulers of Abu Dhabi and Dubai in the UAE. When the UAE was established in 1971, these Rulers, the two most powerful in their capacity as UAE President and Vice President, respectively, allotted Ra's al-Khaimah only 6 seats in the federal assembly, while reserving eight seats each for their own emirates. They also limited veto powers to themselves, a source of ongoing resentment by the rulers of all the other five emirates and, especially, by Ra's al-Khaimah and Sharjah, both of which have discovered oil in recent years.

The foregoing examples of the manner in which these states relate to one another illuminate the uneasy equilibrium which persists between competing forces in the area. These forces, whether in the form of territorial disputes of inter- and intra-dynastic rivalries, testify to the uniqueness of the emirates and their neighbors in terms of international relations, and lie at the root of how these states relate to one another politically. At the same time, these forces exist not in isolation but, rather, alongside those associated with the ongoing contest between revolutionary and traditional forces in the region.

## II. THE RADICAL-CONSERVATIVE CONTEST

Perhaps the first dimension of the competition between radical and conservative forces in the area to be underscored is the asymmetry of the contest both before and since 1973. For example, throughout the entire period under examination, only one state, Iraq, can be classified as having been "radical" in terms of its political values and orientation *vis-à-vis* the rest. The other six countries have been and to this day remain "conservative" states, ruled by dynasts whose foreign policies and official attitudes have by and large been quite friendly not only to the United States and other Western countries, but, arguably of greater importance, to the "moderate" forces of political and socio-economic change operating in the Gulf, the Middle East and elsewhere. The internal systems of the Gulf's conservative Arab states leave little room to maneuver for the as yet small minority of the citizenry and non-national residents who harbor revolutionary sentiments. Moreover, there is every indication, especially in the wake of the events of 1978-79 in Iran, that these rulers are determined to anticipate and accommodate as many demands for change as possible as a measure to prevent radical groups from gaining a foothold in the area.

The striking numerical imbalance in the ratio of radical to conservative states is such a basic and obvious constant in the interplay of factors and forces in the area that it is often discounted by U.S. policy makers. Yet in practice its implications pose more formidable obstacles than any other hindrances to the area's actual and would-be dissidents. Iraq's geographic and ideological isolation are but two factors which limit its capacity to foment internal unrest among many of the Arab states in the Gulf. Another is the fact that of the small number of "overseas Iraqis", few if any among those living and working in the emirates are interested or willing to become involved in any effort to topple the area's traditional regimes.

Kuwait, Iran and Saudi Arabia, to be sure, all have lengthy borders with Iraq. Even so, this has not enhanced significantly Iraq's opportunities to foment internal dissidence in these states or even to contribute substantially to forces seeking to foster instability in those countries' border regions. On the contrary, throughout most of the 1970's Iraqi subversive activities were offset by Iran's capacity for creating a wide range of problems for the Baghdad regime inside Iraq. It was the superiority of Iranian military might, for example, that in 1969 permitted Tehran to abrogate unilaterally the 1937 treaty between Iraq and Iran regulating navigation rights in the Shatt al-'Arab, the river which separates their two countries. Similarly, it permitted Iranian naval forces to traverse those waters at will until a final boundary settlement between the two countries, following on the "Algiers Accord" of March 1975, was reached on June 13, 1975. And of no small concern to the Iraqi government following the overthrow of the Shah of Iran in 1979, the powerful attraction of the Iranian Shia leader, Ayattollah Rouhollah Khomeini, to the politically disgruntled Shia in Iraq demonstrated still another kind of "leverage" which Tehran might wish to employ against Baghdad in any future conflict between the two countries.

In the case of Kuwait, the situation is different. There the factors that determine Kuwait's capacity to deter Iraq remain not so much religious or military—it is doubtful whether Kuwait by itself could successfully resist an Iraqi invasion—as political and diplomatic. Not a single Arab dynasty would be expected to support any putative Iraqi attempt to violate Kuwaiti territory. In this regard, the record to date is clear: on previous occasions Iraq has stood completely alone in its attempts to occupy Kuwaiti border outposts and in its demands for control over the Kuwaiti islands of Warbah and Bubiyan, in exchange for recognition of Kuwait's sovereignty. Of related significance during the 1973-79 period was the fact that Kuwait has received both official and private assurances of support not only from nearby Arab states but also from monarchical Iran, the one country which had the means, the will and the tacit support of all the other states in the area to do whatever necessary to contain Iraqi expansionism. As a further deterrent, the mutual defence clause of the 1961 British-Kuwait Treaty, invoked when Iraq attempted to seize control of Kuwait in 1961, remains intact.

In the case of Saudi Arabia, although Iraq shares an extensive boundary with that country, territorial ambitions *vis-à-vis* the Kingdom have not played a major role in the Baghdad regime's calculations of how best to enhance the pursuit of Iraqi interests in the region. Furthermore, any possible Iraqi desires to subvert the Saudi regime would be constrained, at least in part, by the Ba'thist government's limited capacity to instigate or influence political, social or economic disequilibrium inside the Kingdom. To be sure, elements of domestic dissatisfaction in Saudi Arabia, as in neighboring traditional states, do exist. In terms of composition, they cut across the social and political spectrum and include portions of the newly educated, the military, the tribes, regional ("national") groups such as the Front for the Liberation of the Hijaz and various members of the ruling House of Sa'ud. Even so, the November 1979 seizure by rightist radicals of the Grand Mosque in Mecca notwithstanding, all of these groups are small in numbers, poorly organized, and heavily outweighed by forces in favor of perpetuating the existing political, social and economic structure. The extent of Iraq's ability to manipulate one or more of these groups, were it so inclined, is thus exceedingly difficult to ascertain. In any case, the success or failure of whatever efforts it might undertake in this area will ultimately rest not so much on the pervasiveness of Iraqi influence as on the Saudi dynasty's ability to accommodate or otherwise satisfactorily ameliorate the demands of its domestic constituency.

Iraq, in short, despite its role as the bastion of anti-monarchical sentiment and revolutionary socialism in the Gulf, is far more isolated, both militarily and politically, than many contemporary analysts and policymakers, especially Americans, have been prone to acknowledge. Compounding Iraq's isolation is the fact that from the beginning, the radical ideology espoused by the Ba'thist leadership in Baghdad has been rejected *in toto* by all the other Gulf states.

In addition to the external limitations, discussed above, there are also domestic constraints on the Baghdad regime which augur against the credibility of Iraqi expansionism in the area. To wit,

any Iraqi attempts to fashion a "Gulf policy" acceptable to the other Gulf states, based on *real politick* considerations of co-existence with the existing regimes, can be expected to encounter bitter opposition from ideologues within the Iraqi Ba'th Party. As an exacerbating factor during the 1973-79 period, any would-be activist role by the Baghdad regime was further inhibited by the distraction of Iraq's ongoing ideological cleavage with the Ba'thist Party in Syria. On more than one occasion various manifestations of this dispute were in effect, exported to the emirates, causing substantial embarrassment to Iraq. For example, in October 1977 UAE Minister of State for Foreign Affairs Sayf Ghubash—widely recognized as one of the brightest and most talented government officials in the area—was accidentally assassinated at Abu Dhabi International Airport. At the time of the incident, Ghobash was seeing off Syrian Foreign Minister 'Abd al-Halim Khaddam, the intended victim according to the gunman who, under interrogation, admitted to having acted upon orders from Baghdad.

Iraq's role, thus severely circumscribed owing to reasons of geography, politics, ideology, and demography, and in practice more cautious and conservative than many Americans and others are aware, is largely limited to its traditional position as a cultural pole for many Arab students in the area; as a religious attraction to the area's Shia Muslims; to its commercial ties, mainly with Kuwait and Bahrain; and to the training and other forms of support it had extended over the years to radical groups operating in the Gulf. Following the March 1975 agreement (the "Algiers Accord") between Iraq and Iran, the latter facet of Iraqi influence ceased to become operative. Thus, while opportunities for Iraq to encourage subversion in the area do exist, the country's revolutionary potential is nonetheless not a volatile issue with which either the rulers or the key administrative élites in Saudi Arabia, Oman and the nine emirates are preoccupied. On the contrary, most of these leaders are encouraged by the fact that Iraq, despite its past involvement in subversive activities in the area, has on balance had very little influence on political dynamics within the emirates in the post-1973 period. The decision makers in most of these states are further heartened by the close monitoring of former Iraqi-sponsored radicals by their armed forces, intelligence and internal security personnel and see little indication of a revolutionary challenge from Iraq increasing substantially.

It is appropriate to ask whether there are other radical states in the general area that have recently been, are presently, or might in the near future be seeking to undermine the existing political systems in the Gulf. If the focus is on individual countries other than post-Pahlavi Iran, the answer is that none come to light. Looking on the northern side beyond the mouth of the Gulf to Pakistan and India, neither state has at any point thus far had designs on the area that could be construed as destabilizing. On the contrary, Pakistan and India both have played an active, if indirect, role in supporting the regional political *status quo* through their citizens who serve in the armies, internal security forces, and bureaucracies of the conservative Arab regimes. In addition, both India and Pakistan have acquired major economic interests in these states in the form of worker remittances and external aid—

the combination of which constitutes their most important source of foreign currency—which their governments have gone out of their way to protect.

Among the Arab regimes, only if one travels a considerable distance southward, *i.e.* nearly a thousand miles to the southwestern tip of the Arabian Peninsula—to PDRY (variously known as Aden, or Southern Yemen)—will one find another state which, ideologically if in no other meaningful way, stands opposed to the conservative governments in the region. PDRY's radical socialist regime was bitterly opposed to the manner in which nine of the Gulf emirates achieved their independence in 1971, and not until the mid-1970's did it undertake to extend them diplomatic recognition. Since 1975 it has established formal relations with Bahrain, Qatar and the U.A.E. In May 1976 diplomatic ties were inaugurated between PDRY and Saudi Arabia. These ties were severed in 1978, however, in the aftermath of the violent death of PDRY President Salim Rubaya' Ali, who had acted as a moderating force in the country's foreign policies.

Although numerous American and other Western analysts have taken note of the fact that congresses of the ruling party in Aden, the United Political Organization (UPO), regularly used to issue declarations calling for the overthrow of the Gulf's conservative regimes, PDRY's practical support for revolutionary movements in the region during the 1970s was limited mainly to Oman and to a much smaller degree to Ethiopia, Northern Yemen, and the more radical among the various Palestinian guerrilla organizations.

In Oman the Aden regime provided considerable assistance to Marxist guerrillas who sought to overthrow the Sultan and institute a socialist government. Although this assistance was uninterrupted from 1968 to the mid-1970's, it is significant that, more than a decade later, the Omani guerrillas controlled even less territory than they did when the aid program began. Although undoubtedly one of the most protracted and fiercely fought of any Arabian insurgency in this century, the rebellion, in short, remained confined largely to Oman's southernmost province of Dhufar, 500 miles from the emirates, with the vast al-Rub' al-Khali Desert—which in this instance also served to buffer Saudi Arabia from the conflict—in between. The most telling limitation in PDRY's ability to aid the rebels, however, was that its assistance was never sufficient for the guerrillas to pose a credible prospect of fighting to a standstill, let alone defeating, the defence forces of the Sultan. In December 1975, the last of the rebel forces were officially reported to have been crushed and the Dhufari Revolution pronounced dead by the Omani Sultan Oabus. In the late 1970s, according to Omani sources, all but an estimated fifty hard core rebels, none of whom had engaged in fighting during the intervening period, had surrendered.

With the Dhufari guerrillas suppressed, the potential for insurgency to erupt elsewhere in Oman appeared remote up to the time of the revolutionary events of 1979 in Iran. The Sultan's position had been strengthened substantially by increased financial and military support from Great Britain, Iran, Saudi Arabia, Jordan, the UAE, Pakistan and India; by the ability of the government to integrate Dhufar more fully into the state, and by widespread

arrests in 1973 of a number of the insurgents' sympathizers and fellow members in the emirates, where the guerrillas had hoped to open a second front. The combination of these factors dealt an immense setback not only to dissidents in Dhufar but to elements in the emirates and elsewhere who had sought to undermine political stability and internal security in the areas beyond Oman. In the late 1970's, however, there was mounting anxiety within the Omani government about the prospects for a renewal of the insurgency in the Sultanate in light of the setback dealt the moderate forces in PDRY at the time of the death of President 'Ali and, subsequently, by the revolutionary events in Iran which resulted in the withdrawal of the Iranian peacekeeping force from Oman.

Oman's concerns were only slightly attenuated following the arrival, in mid-1979, of a military detachment from Egypt to perform, in essence, the same role as had previously been provided by Iran. The Egyptian troops helped to stabilize the situation in Dhufar militarily, but their very presence was and remains a subject of considerable controversy among the Sultanate's neighbors. Indeed, in the aftermath of the Camp David accords and the subsequent widespread rejection of Egyptian President Anwar Sadat by all the other Gulf states, Oman's stand on regional security issues practically assured that the Sultanate's foreign policies would continue to serve, in effect, as a lightning rod for radical elements active in both the immediate area and beyond.

The foregoing account of political interaction among the Arab states of the Gulf would suggest that there is more cleavage than cooperation among the states concerned. What needs to be added is an account of the interests these states have in common which, despite differences, tend to promote their collaboration. First, among the dynasties, there are at least four categories of shared concerns which transcend their aforementioned rivalries and competition for influence in the area. Briefly, these encompass their interests in: (1) The perpetuation of their respective conservative monarchical regimes; (2) the prevention of radical groups from gaining a foothold in the area; (3) the continuation of an uninterrupted flow of the Gulf's oil resources to markets outside the region; and (4) the gaining of the highest price possible—or, stated differently, of obtaining the maximum revenue—in exchange for their oil. Throughout the 1974-1979 period examined in this paper, each of the dozen Arab dynasties in the area shared these four interests not only amongst themselves but also with Iran. (The definition of the "highest price possible" for oil, however, may differ and often has differed among these states, as was made clear at the OPEC meeting in Doha in December 1976 when a two-tiered pricing system—something most American analysts and many others previously regarded as "unthinkable"—was declared.)

Moreover, despite the ideological polarization between the dozen Arab dynasties in the area on the one hand, and Iraq as the sole republic on the other, common interests exist even between these states. For example, doctrinal differences apart, the interests of conservative and radical forces tend to coalesce in the third and fourth categories, cited above, which relate to regional security questions bearing on maritime strategies and ways to increase their oil incomes, respectively.

Finally, two other interests—the preservation and enhancement of Arabism and orthodox Islam—have the potential to help the governments of Iraq and the emirates and their neighbors to surmount their ideological disputes. In this context, Iraq and the conservative Arab regimes have often stood in unison against Iran whenever they have perceived Iranian policies or practices as posing a threat to Arab interests. This kind of solidarity, notwithstanding the radical versus conservative contest between Iraq and the dynastic Arab states, occurred in reaction to Iran's claims to sovereignty over Bahrain prior to 1970; to events in 1971 when Tehran pressured the Ruler of Sharjah to sign an agreement permitting Iranian occupation of Abu Musa Island and then directed Iranian naval forces to seize the Greater and Lesser Tunbs Islands from Ra's al-Khaimah; in more generalized fashion, to the close relationship, much of it clandestine, which Iran maintained with Israel up to the time of the overthrow of the Shah in 1979; and in response to Iranian leader Ayatollah Rouhollah Khomeini's subsequent attempts to export revolution throughout the region.

Regarding the religious factor, theological considerations are once more serving as a unifying force both within and among these states. Even so, it is important to underscore the fact that differing versions of Islam are adhered to by the government of Iran and its counterparts among the Arab states of the Gulf, *i.e.* all of the latter are officially orthodox Sunni and thus at doctrinal odds with Iran, the citadel of heterodox (Shi'ah) Islam. Both factors, the national-ethnic as well as the religious, tend to forge even greater solidarity among the Arab states of the Gulf with respect to the Palestine problem.

### III. LINKAGE BETWEEN THE ARAB-ISRAELI CONFLICT AND THE PERSIAN GULF

The linkage between the Gulf states and those Fertile Crescent ("confrontation") and other states most directly involved in the Arab-Israeli dispute throughout the period under study has been occurring within several different contexts. One of these has been in the realm of specific events that have occasionally taken place in one of the areas—*e.g.* the sabotage inside Syria or Lebanon of an oil installation involved in the trans-shipment or refining of oil from the Gulf, or, more recently, the embargo by Iran of oil sales to Israel—that have impacted directly on developments in the other area.

A second context has been that of the inter-relationships between particular states with important interests in both areas. Examples are the relations between Egypt, Jordan, Syria and Lebanon, on the one hand, and Saudi Arabia, on the other, and, until 1979, between both Jordan and Iran, and Israel and Iran. A third context has been the extent to which the mineral and monetary might of the Arab oil producing states in the Gulf has been perceived, and in certain instances used, as a political and economic arm of the Arab-Israeli conflict.

The linkage between the confrontation states and the Gulf in the context of specific events pre-dates the 1973 war. The Arab states of the Gulf both prior and subsequent to that event have repeated-

ly exerted pressures aimed at regaining the Arab lands seized by Israel in the June 1967 war. They have supported UN resolutions 242 and 338, which call for Israeli withdrawal from territories occupied during the conflict (in exchange for recognition of Israel's right to exist), and, in addition, they have insisted on Israeli evacuation of the old quarter of Jerusalem. Without exception, all of them have also demanded recognition of the "legitimate rights"—among them the right to exercise the principle of self-determination—of the Palestinian people.

In pursuit of these goals, the emirates, following the lead of Saudi Arabia, have helped to finance Jordan's, Oman's and Northern Yemen's defense network and have funneled millions of dollars yearly to the Palestinian guerrillas. They also have contributed heavily to the funding and staffing of the 30,000-man Arab peace-keeping force in Lebanon.

Since the Khartoum conference of Arab heads of state in September 1967, called to assess the lessons learned from the June War, Saudi Arabia and Kuwait, in particular, have disbursed generous sums to the "frontline" (bordering on Israel) states of Egypt, Jordan, Syria, and, to a lesser extent, Lebanon. Their payments to the first three countries enabled them to pay for much of the damage inflicted by Israeli forces in the course of the war.

During the 1973 war, all of these states adopted their most militant position on the Arab-Israeli conflict to date when they decided to use their oil against countries supportive of Israel. They regarded American security assistance to Israel during the war as tantamount to direct U.S. intervention. From October 10 (four days after the hostilities began) until the final cease-fire on October 25, the U.S. Air Force made over 550 flights to Israel in the course of bringing arms and supplies. Especially provocative, in their view, was the White House request to Congress for \$2.2 billion in emergency aid to the Jewish state while the fighting was still going on. King Faisal, in particular, took this as a personal betrayal by President Nixon. His response: on October 18, Saudi Arabia joined Libya, Iraq, Kuwait, and other states in agreeing to curtail its oil production. Two days later it proclaimed, as several of its neighbors had already done, an immediate and total embargo of oil to the United States. This action deprived the United States of nearly 650,000 barrels per day of Saudi crude, the largest single component of America's Arab oil imports.

The Gulf states have been able to sway attitudes toward Israel—in the United Nations, in African and Asian capitals, and increasingly within the European Economic Community—not only through the threat of another embargo in the event of a resumption of hostilities between Israel and one or more of its neighbors but also through their pivotal position with respect to oil prices and production levels and through the generous use of their impressive financial resources. Following the example, first of Kuwait, then of Libya and Saudi Arabia, Iraq and such emirates as Abu Dhabi and Qatar have for several years been in the front ranks of those Arab oil producers who have used their wealth to

counter Israeli diplomatic influence in Africa.<sup>1</sup> They have invested heavily in economic ventures in African and Asian countries viewed not only as states with substantial numbers of kindred Muslims but, also, with governments that, in general, have been sympathetic to their position regarding Palestine.

Since the 1975 Sinai accords—and especially since the Camp David agreements—it became clear that most Arab countries had agreed to align with the Arab states of the Gulf. That is, they have been generally receptive to a negotiated settlement of the Arab-Israeli problem, within the limits of U.N. Resolutions 242 and 338. At the same time, they have opposed the conclusion of separate, bilateral treaties between Israel and the frontline Arab states—notably Egypt. However, certain Arab nations—Libya, Iraq, Syria, and South Yemen, along with the PLO—have rejected not only the Gulf dynasties' position, but Egypt's as well. They have remained pessimistic about negotiations and unabashedly hold to the option of resuming hostilities.

The inability of diplomacy during the 1973-79 period to deal effectively with the Palestinian problem—which senior Carter Administration officials have conceded lies at the heart of the Arab-Israeli conflict, has been and remains especially troublesome for all concerned. More than any other problem, this lies at the root of the ongoing uncertainty among the leaders of the Gulf states as to the ultimate interests and intentions of Israel and the U.S. on the one hand, and America's Arab allies, on the other. With regard to the latter, many frustrated Palestinians have long perceived the dynastic Gulf states' policies *vis à vis* the Arab-Israeli conflict as overly moderate. Among their more militant elements are those who have advocated sabotage of the Gulf states' oil facilities to demonstrate this disenchantment. Others have long argued in favor of undermining these regimes and their sources of wealth as a means of indirectly striking the Western—particularly the U.S.—and other powers supportive of Israel.

One of the most vexing sources of concern among these states has increasingly been Egypt. Especially worrisome, ever since Egyptian President Sadat's surprise visit to Jerusalem in November 1977, has been the changing nature and orientation of these states' ties to Egypt, on the one hand, and Egypt's relationship with Israel on the other. Cairo concluding a separate peace treaty with Israel—along lines far short of being comprehensive as far as the future of the Palestinians is concerned—contributed directly to the distance which all of these states, except Oman, placed between themselves and Egypt following the initial Camp David Accords of September 1978.

This distancing, in effect, drove a wedge between what had previously promised to become a growing nexus of ties between Egypt and the Gulf states at the strategic-military level. Egypt, for example, had been assured of Saudi financial assistance in its planned

<sup>1</sup> Black African recipients of Israeli aid have included Ethiopia, Nigeria, Kenya, Uganda, Chad, and the Ivory Coast. Most African states severed diplomatic relations with Israel in the aftermath of the October 1973 war. Since then, in international and regional organizations, they have consistently backed Arab-sponsored resolutions condemning Israel. These include the UN's 1973 "Zionism-is-a-form-of-racism" resolution and its recognition in 1974 of the PLO. In more recent years, Saudi Arabia and other Arab oil-producing states have underwritten the Arab Bank for Economic Development in Africa as a means of further consolidating their influence in the sub-Saharan region.

purchases of arms and was also involved in the Arab Military Industries Organization (AMIO) with Saudi Arabia, Qatar and the UAE. AMIO, established in 1975, with an investment of slightly over a billion dollars, was designed to examine and plan for the defense interests of the members. Although the security needs of the members states differed, were this organization to have proven successful, it would have increased even further the emerging commonality of interests between the Arab states in the Gulf and, at most, some of the Arab "confrontation states" on a wide range of issues pertaining to the Palestine problem. On economic and military planning grounds, alone, both Egypt and Jordan, therefore, continue to have important interests in the Gulf, even though the effective pursuit of Egypt's interests has been greatly limited since its signing of the Camp David Agreement with Israel.

In addition to their economic and defense concerns, Jordan and Egypt have related political interests in the area. Of the two, Jordan has been particularly active in contributing to the maintenance of the existing political order in the Gulf. Toward this end individual Jordanians are engaged in many of the emirates' military and internal security forces—the principal pillars of support for the dynastic regimes in the area. Throughout the post-1973 period, Jordanian army officers and police and intelligence personnel on secondment and private contract, for example, have held key positions in the defense and internal security forces of Bahrain, Qatar, the United Arab Emirates, and the Sultanate of Oman. These Jordanians have been generally acknowledged by the conservative Arab regimes as among the most respected and trusted of the various expatriate groups working in the area. In return for the Hashemite Kingdom's multi-faceted role in enhancing the security and development of the emirates, Jordan has received important political, diplomatic, and financial support from these states in inter-Arab councils.

Linking the Arab states of the Gulf to the confrontation states in the Arab-Israeli conflict even more directly during the 1973-79 period were Iranian-Israeli ties. These two countries had long enjoyed a close political relationship and had collaborated to a significant degree in military and economic matters as well. After the June 1967 War, for example, military equipment bearing Soviet markings found in the Kurdish areas of Iraq bordering Iran was discovered to have been provided the Kurds not by the USSR but by Iran via the Sinai Peninsula, where Israel had recovered considerable amounts of abandoned Soviet-made weaponry in June 1967.

Iraq, moreover, did not take lightly the fact that Iran, with Israeli support, openly sent arms and money to Iraq's Kurdish population as part of an ongoing program of subversion directed against the Baghdad regime. This point of friction remained a major irritant in Arab-Iranian relations until it was removed as a result of the "Algiers Accord" between Iran and Iraq in March 1975. (Although it served the common strategic and military interests of Iran and Israel in containing Iraq and the forces of Arab radicalism in general, the changed circumstances following the overthrow of the monarchy in Iran in 1979 made it unlikely that this source of regional discord would reappear in the foreseeable future in quite the same manner as before.

The relationship between Iran and Israel in petroleum was especially close throughout the period under survey and, for that reason, all the more heavy a blow to Israel when its supply was terminated in early 1979. Israel had continued to receive substantial quantities of oil from Iran both during and after the 1973 war, and the Iranian navy had provided protection for Israel-bound tankers going to and from Iran to purchase and deliver the oil. Following the Sinai II Agreement of September 1975, the importance of Iranian oil to Israel increased dramatically. Whereas previously, Israel had relied on Iran for nearly two-thirds of its energy requirements, after Israel's return of the Sinai oil fields to Egypt in that year, the degree of the Jewish state's reliance on Iranian oil grew steadily until, at one point, Iran accounted for nearly ninety percent of Tel Aviv's oil imports.

Lastly, it became increasingly clear throughout the period under study that the countries directly involved in the Arab-Israel conflict would continue to consider the oil of the Gulf states as an important political and economic arm of that dispute. This perception has persisted despite growing Arab financial and economic interests in the West which could be jeopardized if another oil embargo were imposed. The linkage between the Palestine problem and the Gulf states, moreover, has increased to the point where it nowadays extends beyond the Middle East to the basis and kinds of relations these states would like to have with the U.S., Europe and Japan, the most important customers for their oil. Indeed, these states have repeatedly indicated that their willingness to raise or, in some cases, even to maintain existing levels of their oil production to help the U.S. solve its energy problems might in the near future be made contingent upon the willingness of the U.S. to alter its Middle Eastern policy toward Israel and, in particular, toward the question of a just and lasting settlement of the problems of the Palestinian people.

#### IV. ARAB-IRANIAN RELATIONS

An equal if not greater factor than the Arab-Israeli dispute affecting prospects for regional security throughout the period under study has been Arab concern about ultimate Iranian intentions in the area. Prior to the overthrow of the Shah, the apprehension was rooted not so much in the ethnic, linguistic, sectarian and other cleavages of old as in the steady, and until 1979 the comparatively massive, buildup over the past decade of Iranian military might. In the face of this buildup and in the absence of an effective counterforce, Arab fears grew proportionately about the past and potential uses of such power, affecting directly their relations not only with Tehran but also, even if indirectly, with the principal supplier of the weaponry to Iran: the U.S.

Much of the nationalistic literature in Arabia that appeared during this period referred repeatedly to this escalation in highly lethal and sophisticated arms. Such a buildup was frequently linked to Arab concerns that Iran might wish to acquire additional Arab territory at some point, or to exercise, by force, if necessary, influence over matters in which Arab interests might be inimical to those of Iran. With varying degrees of accuracy, relevance and

plausibility, the focus was usually on one or more of the following phenomena:

(1) The highly emotional and frequently quite militant tone of Iran's long standing claim to Bahrain, relinquished only in 1970.

(2) The controversial takeover from Sharjah in 1971 of half of Abu Musa Island and of a corresponding portion of the revenues from nearby offshore oil fields that had been developed by a Sharjah concessionaire. (Although Iran had secured written authorization from the Ruler of Sharjah, the agreement was signed under circumstances equivalent to coercion and the Ruler was assassinated for this act sixty days later.)

(3) The violent seizure from Ra's al-Khaimah, also in 1971, of the Greater and Lesser Tunbs islands. (Particularly offensive in Arab eyes was the heavy-handed manner in which the operation was carried out: the warship dispatched to seize uninhabited Lesser Tunbs was longer than the island captured.)

(4) The ongoing—until late 1978—Iranian military presence in Oman's southern province of Dhufar, where Iranian forces played a major role in quelling a local rebellion. This presence continued despite the fact that the war had officially ended in 1975.

(5) The tacit agreement between the heads of state of Iran and Oman to patrol "jointly"—meaning, in practice, mainly by Iran—the Straits of Hormuz, a strategically important waterway that oil tankers continue to traverse enroute Japan, Europe and the U.S. at the rate of one every ten minutes. (The adjacent territorial sea of Arab Oman is, as a point of fact, used far more than that of Iran.)

(6) The fact of Iran's long standing and extensive intelligence network in the area, coupled with widespread Arab knowledge that much of the intelligence collected was shared with Israel.

To be sure, references in the Arab media and in other forms of public and private expression to these specific points often made little distinction between past and present. Nor was causality always considered. The problem of emotional and ethno-nationalist bias on the subject notwithstanding, the Arab states of the Gulf clearly had legitimate reasons to be apprehensive about Iranian interests in and policies toward the area. Their concern, however, was less with any perceived Iranian desire, actual or potential, to acquire additional Arab territory, than, in the context of day-to-day decisionmaking among Arab elites in the area, with the multifaceted character of Iranian involvement in their affairs.

In recent years the more controversial side of Iranian involvement in Arabia occurred in the following ways: through actual armed intervention; through the provision of financial and other kinds of aid to acquire influence; through encouragement of the positions of certain rulers *vis-à-vis* those of others in the seven state union known as the United Arab Emirates; and through support for the border claims of certain Arab heads of state against those of others in the Musandam Peninsula—from a military and economic point of view the most strategically important of any territory in the Gulf. Unfortunately for the goals of Iranian strategists and policymakers—not to mention for officials in the legislative and executive branches of the U.S. government who looked to Iran throughout this period as their principal surrogate in the area—the overall effect of these intrusions was a negative one.

More often than not it tended to decrease the prospects of cooperation between Iran and these states on regional security questions and on other issues of mutual concern, many of which coincided with American interests.

Iranian involvement in Arab affairs was usually undertaken in the name of enhancing security. Yet the efficacy of such an approach throughout the 1973-78 period, and indeed from the time of the 1968 "Nixon Doctrine" onwards, was clearly mixed. Arab willingness to accept a preeminent Iranian role in regional security matters was greatest in 1970 when Tehran relinquished its age old claim to sovereignty over Bahrain. The image then of an Iran capable of pursuing an implementing an area-wide policy on issues involving Arab pride that could be both realistic and practical, if not magnanimous, reached its zenith following the decision.

This positive perception by Gulf Arabs of Iranian intentions *vis-à-vis* their interests was to be short lived, however. Within a year it was vitiated substantially by Iran's actions in the aforementioned Abu Musa and Tunbs islands disputes. In the aftermath of those episodes, the previous atmosphere that had held out the promise for wide-ranging Iranian-Arab cooperation had vanished. The price, in terms of Iran's interests, as well as those of its allies, was a heavy one. Subsequently, Tehran proved unable to regain the standing it previously enjoyed in the eyes of those Arab leaders with whom its goal of establishing a relationship of confidence and trust would thereafter remain as elusive as it was earnestly sought.

The specifics of the negative impact of Iran on the trend towards greater cooperation and integration among the Gulf states became particularly evident in its relations with the Shaikhdom of Dubai and the Sultanate of Oman. The former, since 1971, has been a key member of the United Arab Emirates; the latter, comprising the second largest country in the Arabian Peninsula, has been the scene of the greatest challenge to regional security to date. Both states, though vastly different in size, military and international status (Dubai, as a member of the UAE, is not a fully sovereign state), had strategic, economic and other interests throughout the period under study that paralleled those of Iran.

In Western terms Iran's relationship with Dubai can be likened to Great Britain's with the State of New York, *i.e.* as a whole to a part. The ties between the two entities remain of considerable importance to both for several reasons, not the least of which is the fact that a substantial proportion of Dubai's population is of Iranian origin and that much of the emirate's highly lucrative entrepot trade has long been with Iran. Moreover, in the late 1970's Dubai was receiving oil revenues approximating \$1 billion annually from an offshore field which Iranian officials claimed privately extends into Iranian territory. The income has become vital to the prospects for success of Dubai's ambitious economic schemes. Indeed, anticipated future oil revenue from this and nearby fields comprises the emirate's most important means for repaying the numerous international loans undertaken to finance its costly development program.

In addition to these conditions, the longstanding and exceptionally close personal relationship between the Shah of Iran and UAE Vice-President Shaikh Rashid of Dubai frequently gave cause for

suspicion and distrust among other, more affluent and ambitious Rulers in the area. As a state known at the time to prefer autonomy in UAE affairs and long suspected of harboring secessionist notions, Dubai had frequently been a source of frustration in the eyes of those responsible for creating a viable Union out of the loosely organized confederation. In their view, Dubai's less than wholehearted support for the federalist idea was possible mainly because of its hold on the important UAE posts of Vice President, Prime Minister, Minister of Finance and Minister of Defense and, of even greater importance, because it possessed veto power denied all the other states except Abu Dhabi. The effect of implicit Iranian support for the emirate's independent courses of action during the reign of the Shah was not only to weaken the hands of the federalists. More specifically, it tended to encourage separatist tendencies in a federalist state constitutionally bound to unified action on most international matters, including those of great interest to the U.S. and other Western powers: namely, defense and security.

In the case of Oman, the situation was substantially different. The common interests supportive of the Sultanate's willingness to collaborate with the Shah were not so much commercial or economic as military and strategic. The most important dimension of Iranian-Omani ties to date was manifested by the intervention, noted earlier, of Iranian forces in the Dhufar insurrection. To be sure, numerous other states supported Sultan Quabus in his efforts to defeat the guerrillas. Nonetheless, it was undeniably the role of the Iranian expeditionary force that helped the most to bring the military phase of the conflict to an end in 1975.

In addition, a unique factor necessitating intimate Iranian-Omani collaboration on matters of a strategic and regional security nature has been and remains the overlapping of their respective territorial seas in the Straits of Hormuz. From Tehran's and Muscat's perspective, the ongoing presence of Iranian troops in the Sultanate after the fighting in Dhufar had ceased was linked as much to this mutual interest as to any other consideration. The administration of this special aspect of the relationship, however, on occasion contributed to a deterioration of Oman's relations with certain of its Arab neighbors: namely Southern Yemen and the UAE, not to mention states further afield such as Libya and Algeria. Here again, the effect, particularly during the three year period following the official end to the Dhufar war, was at times as much to undermine as to bolster the prospects for greater regional security.

The actual and potential weight of Iranian influence in the balance of intra-regional security affairs was further demonstrated in an east Arabian border dispute that received scant attention in the American or other Western media. This dispute erupted in late 1977—early 1978 and involved Oman in the Musandam Peninsula enclave that overlooks the strategic Hormuz Straits on one hand, and the neighboring UAE state of Ra's al-Khaimah, on the other. Oman advanced a claim to part of Ra's al-Khaimah soon after reports appeared announcing that Ra's al-Khaimah had discovered oil offshore. This territorial dispute between two resource-poor states might well have been resolved with dispatch and a measure of equity by the parties most directly concerned but for Iran's

private assertion of support for Oman. That Iran interfered in an essentially inter-Arab dispute in this manner only complicated and delayed the prospects for an early settlement. That it supported, although privately, a state's claim which, *ipso facto*, represented a clear challenge to the political and territorial *status quo* in the area—against the positions of both the State of Ra's al-Khaimah and the UAE government—was viewed with consternation not only by many in the UAE but by outside powers with a stake in the outcome.

During the 1973-79 period, Iranian interference on occasion was thus seen to have a deleterious and generally disquieting effect on intra-Gulf relations. Senior officials of the Omani, UAE and emirate governments repeatedly complained that whatever Tehran's ultimate intentions might have been, Iranian policy under the Shah in practice was vulnerable to the charge of pursuing a divide and rule approach in the course of supporting some states while opposing or being less supportive of others. Such a policy, these officials acknowledged, might have been valid were Oman, individual emirates or the UAE as a whole seriously posing a credible threat, either present or potential, to Iran. However, this was not the case, nor did such an eventuality seem possible in what was then the foreseeable future. These officials alleged, in short, that Iranian interference of the kinds discussed above served to hinder the forces of cooperation in the lower Gulf and eastern Arabia. At the same time, they served to alienate and antagonize a significant segment of the politically aware in the area as a whole. In emphasizing this point, these officials do not begrudge Iran's role in having helped to deter others from interfering in the area. On the contrary, in private if not always in public, most acknowledge with gratitude all that Iran was able to achieve in this regard. Rather, their concern was that insufficient emphasis was given the view that the results of Iranian hegemony in regional affairs was mixed. For in their eyes, Iran's role was as a negative and potentially disruptive force as much as it was a positive factor in the cause of promoting stability and security.

Local awareness of this dimension of intra-Gulf political dynamics throughout the 1973-78 period was always much more sophisticated and widespread than many outsiders at the time appeared to appreciate. Worse, as far as American interests were concerned, many among the elites of these states linked the policies of Western governments, and that of Washington's in particular, together with Iranian policy. Their reasoning, though simplistic, was nonetheless seductive. There was widespread perception at the local level, for example, that Iran, no less than Israel, could not have successfully engaged in the activities discussed above for as long as it did without the endorsement and support, active or passive, of the U.S. and other Western powers.

The post-1973 period then, as the foregoing account attests, has been one of much change in that area of the Middle East which extends from Iraq to the dynasties of eastern Arabia. Coups have occurred; revenues among the oil producing states of the area have quintupled; the transition from the strong, highly personalized rule of the late King Faisal to the diumverate of King Khalid and Prince Fahd in Saudi Arabia, and, conversely, from the weak,

almost totally nominal reign of the late Shaykh Sabah to the more dynamic rule of former Heir Apparent Shaykh Jabr in Kuwait, took place without mishap. Further, a decade-old insurgency in Oman was brought to an end as, likewise, was the Kurdish rebellion, a conflict of even longer duration, in Iraq. Most momentous of all, the dynasty in Iran, the one country in the area throughout this period with a military apparatus, population base and socio-economic infra-structure both larger and more developed than most of the other Gulf states combined, was toppled.

Even so, amidst these changes—in the case of Iran and oil, changes that were truly epochal and revolutionary in scope—there were important themes of continuity. Iraq continued to espouse its now well known brand of radical socialism but, of greater importance and for the reasons delineated earlier, it continued to have only limited impact on either the regional or domestic political dynamics of the area. In the dynastic states, although these were portrayed incessantly throughout the period by Western and especially American analysts as inherently unstable regimes, coups did not occur. (And of greater significance, none were attempted). Compared to the more advanced societies of the industrialized West, these polities evidenced less theft, divorce, rape and other crimes of violence to person or property; less unemployment; fewer political demonstrations, and fewer related societal problems as those manifested through apathy and alienation born—as in most of the rest of the world—in a milieu of limited educational, economic and social opportunities.

The institutions relating rulers to ruled throughout the region were challenged, to be sure, but for the most part fewer than expected were found to be seriously wanting. Western and other biases against the forms of rule in this area notwithstanding, a close look at the substance of political and socio-economic life within these states revealed most of them to be as resilient and responsive as most other developing countries, if not more so, to the strains and stresses of societies caught up in the throes of transition amidst tradition. The great majority, too, were found to be as accessible, accommodating, and accountable to the overall concerns, needs and interests of their citizenry as most other governments. This includes not only those of the much more austere and authoritarian “revolutionary free officers” or “Islamic republic” models, but also, for that matter, many of those more frequently associated with Western-style “democracies”.

## V. CONCLUSIONS

Political interrelationships between and among the various states along the Arab littoral of the Gulf on the one hand, and between these states, both individually and collectively, and Iraq on the other, have thus often been, as this survey has sought to demonstrate, exceptionally complicated. A comprehensive understanding of the impact of what has taken place in the region, as well as what has not occurred, continues to elude the grasp of most Americans. As valid as this statement has been and is for intra-Gulf relations, it is becoming increasingly applicable with respect to the changing relationships between these states (again both

singly and jointly), and the United States. Once more, the most portentous transformations have occurred in the post-1973 period. And perhaps nowhere in the Middle East has such a range of events affecting America's involvement and interests in the region as a whole occurred as in the area encompassed by the thirteen Arab states examined herein.

To be sure, the most radical change in America's relations with those states since the U.S. oil ventures of the 1930's—the oil embargo and subsequent price rises—followed the 1973 war. Negotiations in early 1974 to end the armed hostilities involved our diplomacy to the deepest extent since the Arab-Israeli conflict began and demonstrated a new willingness on our part to recognise the legitimacy of certain Arab demands. The embargo, in particular, sensitised us to our increasing dependence on Arab oil and the pivotal position of the oil producing countries of the Persian Gulf and elsewhere. Equally important was the fact that the rise in petroleum prices reversed the Arab-American balance of trade sharply in favor of the Arab Gulf states. This in turn, increased a U.S. need to expand the volume of its exports to the area, an interest further whetted by the growing markets in these rapidly developing states. Simultaneously, a new and major U.S. economic concern became the urgent need to recycle the surplus Arab oil revenues into the world economy.

As the scale of U.S. interests in the Gulf states and other areas of the Middle East has grown enormously over the past few years, so has the challenge of balancing and reconciling those interests with each other. The problem of trying to advance a settlement of the Arab-Israeli conflict dominates American diplomacy toward the area as a whole and that issue will continue to jeopardise U.S. economic relations with the Arab countries in the Gulf. In the Arab view, other problems have little chance of being resolved until the greater number of Palestinians can see some real answer to their quest for statehood. If meaningful progress toward a settlement is significantly delayed, the U.S. find it more and more difficult to stay in the running in this region with competitors who do not have the same diplomatic handicap.

Other serious conflicts have been engendered among American economic, diplomatic and strategic interests in the area. Mounting arms purchases throughout the Gulf have been a principal means of balancing the enormous outflow of U.S. funds. At the same time, very real concerns have been voiced in the U.S. over the danger of wholesale exports of armaments and complex weapons systems, which involve U.S. government, industry and personnel in massive military training programs. In response, both President Carter and a number of influential members of Congress have appeared increasingly in favor of some form of control and limitation over the flow of military hardware to the area.

Finally, the far-reaching issue of technology transfer from the U.S. to these states continues to pose yet unresolved (and little acknowledged) problems. Thus far, mainly goods and services have been transferred. It remains an open question whether the United States and other advanced industrial nations wish effectively to yield American predominance over the technological superiority which is the basis of much of American wealth and strength. It is

also still uncertain whether such a transfer can be accomplished and what economic, commercial and societal disruptions—at either end of the relationship—might be produced in the attempt. These doubts and fears suggest how complex and far-reaching American relations with the Arab states of the Gulf have become in the very recent past.

Looking to the future, numerous problems threaten the base of American economic dealings with these states. Congress has itself imposed serious restraints on this relationship through tax legislation which, in its complexity, has dissuaded many U.S. firms from pursuing economic opportunities. The anti-boycott legislation has also turned a number of Gulf governments and companies away from U.S. procurement. These states remain both resentful and frustrated at U.S. condemnation of their boycott as immoral and illegal. These feelings are intensified in view of the American government's record of having operated—and induced these states to join the United States in support of—trade boycotts against Cuba, the Soviet Union, the Eastern bloc, North Vietnam and China.

Other issues which cloud the future are American and other Western opposition to further increases in oil prices, despite a continual inflation in the price of these states' imports from the West, and hostility among many Americans to Arab investments here, despite massive American investment overseas, including the Arab world.

Discouraging as these portents may be, there have been signs throughout the period examined in this paper that Americans are gradually becoming more aware of the fundamentally different basis on which American political, economic and commercial transactions with the Arab states of the Gulf will have to proceed. This basis is one in which the previous supplier-client relationship is being replaced by a more genuine interdependence. The question remains, however, whether the United States can adapt sufficiently and in time to ensure at least a substantial share in the developing economies of the area. The rapidly increasing role of other industrialised countries in the development of these states suggests that, as in world trade generally since World War II, Americans will be hard-pressed to maintain their once predominant role.

# THE HORN OF AFRICA

By William H. Lewis\*

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The half decade from 1973 through 1978 has been a tumultuous period in the Horn of Africa. It has been punctuated by political upheaval and civil strife, a border war and great power confrontation. The period opened with the violent termination of more than fifty years of rule by Emperor Haile Selassie in 1973-74; in 1974-75 internal conflict spread throughout Ethiopia as the military regime that replaced the Emperor sought to suppress its political opposition, as well as secessionist forces; in mid-1977, the armed forces of Somalia invaded the Ogaden region of Ethiopia, an action that led to public opposition by Somalia's principal benefactor, the Soviet Union. In the kaleidoscopic months that followed, we witnessed the termination of Soviet-Somali military ties and, in rapid succession, the juxtaposition of Soviet and Cuban military aid to Ethiopia (with Cuban combat forces rushed to the Ogaden), the startup of a Soviet arms transfer program of \$1 billion to rescue the beleaguered Ethiopian government, and by early 1978 the withdrawal of regular Somali forces from Ethiopian territory.

These events, together with the interaction of local and external forces, have transformed the Horn into a volatile area, one of several so-called "cockpit regions" of the Third World. For American policymakers, it is a region that poses a series of issues and dilemmas which are at once challenging and unsettling. The Horn, beyond any peradventure of doubt, will remain a sensitive problem area for American foreign policy over at least the next half-decade.

## GEOSTRATEGIC FACTORS

Geographically, the Horn is a hinge between the Middle East and Africa. Through its reaches, marauding tribes and conquering armies have marched for centuries using the region as a way station to other areas. In and of itself, the Horn has little intrinsic strategic-military value in the modern age. But, when linked with the adjoining Red Sea-Persian Gulf and East African-Indian Ocean Zones, the combination of Ethiopia and Somalia assume heightened importance for U.S. interests. A congressional fact-finding mission in December 1977 underscored these factors in its report:

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What is happening in the Horn of Africa today is much more than a conflict between two African countries; it involves the potential use of coastal areas and ports for military operations in and around the Red Sea and the Indian Ocean, and the control of naval and international commercial through this vital area.

Soviet strategists have recognized the importance of the Horn of Africa and have shown their willingness to make substantial investments to secure Russia's interests, first in Somalia, and now Ethiopia. By undermining the fragile governments which exist in the Horn, Soviet influence could rapidly spread throughout the region and along the entire east coast of Africa.<sup>1</sup>

The Congressional mission also outlined the broader geostrategic importance of the region:

\* \* \* its strategic importance touches on the larger international system at many sensitive points. Geographic considerations make the northeast edge of the African Continent part of the geopolitics of the Middle East. The Horn also constitutes an important part of the northeast quadrant of the Indian Ocean, including the Persian Gulf. It is obvious that Israel's vital oil imports from Iran, plus other Suez-bound commerce from the Gulf, East Africa and Asia, must pass near the Somalia coast, and into the Red Sea parallel to Ethiopia's coast, and ultimately to the Strait of Tiran and the Gulf of Aqaba.<sup>2</sup>

In security terms, some observers perceive a growing linkage between the Horn region and such unstable areas as Iran, Afghanistan and South Yemen. From their perspective, recent events in this broader region have served to weaken the foundations of Western influence and, as a result, to tip the regional balance in favor of the Soviet Union.<sup>3</sup> A concatenation of revolutionary change in Iran and Afghanistan, together with insurgencies and instabilities in the Arabian Peninsula and northeast Africa, are the principal factors leading to the erosion of Western primacy. It is the view of these observers that Washington, in concert with interested Western European governments, has yet to fashion an effective counter-strategy.

Whether one agrees with these assessments or is disposed to adopt a more restrained view, it is clear that events in the Horn must be examined against the background of forces operating in adjacent regions. In particular, any well-grounded evaluation must take into full account the interplay of U.S. and Soviet strategies in the Middle East, Red Sea area over the past several decades. The views presented below are intended to encourage a reasoned dialogue on the subject and a balanced assessment of U.S. policy approaches to Horn issues.

### EVOLUTION OF SOVIET STRATEGY

Soviet policies and strategies in the Middle East and Northeast Africa have been predicated on their view that the region is an important strategic area. The principal goal has been to weaken U.S. ability to shape events and to control local forces; many in-

<sup>1</sup> "War in the Horn of Africa: A firsthand report on the challenges for United States Policy", Committee on International Relations, U.S. House of Representatives, Washington, D.C. February 3, 1978, p. 1.

<sup>2</sup> *Ibid.*, pp. 2-3.

<sup>3</sup> Rowland Evans and Robert Novak offered the following assessment on December 20, 1978 in *The Washington Post*: " \* \* \* What is most dangerous for the West is the impact on Saudi Arabia and the Persian Gulf's oil sheikhdoms of apparent U.S. helplessness to avert catastrophe in Iran or to stop the Soviet-Cuban offensive.

Frightened by deterioration of the Shah's legitimacy in Iran and by U.S. impotence, Saudi Royalists have weakened their private support of the made-in-Washington peace agreement between Israel and Egypt. The larger Middle East—stretching from Turkey through Iran, Afghanistan and Pakistan—is now moving out of the U.S. orbit; Arab states in the smaller Middle East—Israel and its Arab adversaries—are losing their capacity for independent action."

formed observers believe the primary emphasis has been to restrict American (and Western European) access to oil and to diminish our ability to deal effectively with Arab and African leadership groups—militant and moderate.

Soviet propaganda, economic aid, military assistance, and cultural relationships were employed vigorously and, on the whole, successfully in the 1950's and 1960's to establish a Soviet presence in the area. The basic tactic adopted by the Soviet Union was to support Arab nationalist causes. The U.S., by contrast, supported conservative regimes that were suspicious of nationalist causes and progressive ideology. The Soviet Union succeeded, ultimately, in establishing a "presence" in the most populous and "radical" states in the region; the U.S. found itself aligned with monarchical regimes (Iran, Jordan, Saudi Arabia, Ethiopia, etc.) for the most part. Our strongest asset vis a vis the Soviet Union, paradoxically, was Israel whose military prowess was such that Soviet arms aid to Syria, Iraq, Egypt and others was invalidated and discredited after the 1967 Arab-Israeli conflict. It may be argued that Israeli strength was an indirect blessing to conservative states. For example, Israel's stunning victory in 1967 compelled the Government of President Nasser to withdraw Egyptian forces lodged in Yemen—a serious threat to Saudi stability. Israeli strength in 1970 deterred Syrian intervention in support of Palestine Liberation forces besieging an embattled Jordanian monarchy. Israeli military strength had another highly valuable corollary for the U.S. in that it made direct intervention by American forces in the area unnecessary.

In October 1973, after the Yom Kippur War, the U.S. took the initiative once again through diplomatic channels in an effort to secure a negotiated settlement to the Arab-Israeli dispute. A continuation of a no-war/no-peace situation was no longer an acceptable (no risk) policy for Washington. With this initiative, the U.S. began to garner support in Arab nationalist circles. We also benefited in the post-1973 period from an extraordinary inter-Arab shift of power which brought formerly defensive and uncertain Saudi Arabia into a role of strong regional leadership.

Beginning in late 1973, a huge Soviet investment in aid and propaganda extending over a 20-year period was largely undermined. First in Egypt and subsequently in Sudan, the Soviet Union was compelled to withdraw its military missions. On the economic plane, the Soviets had little to offer such steadfast friends as Syria and Iraq—virtually no complementarity existed in the area of trade and clearly Moscow could offer no models for economic development. Moreover, Soviet efforts to provide educational or cultural "instruction" to Arab students were failing. Many Arabs seem to perceive Soviet culture as ossified, stuffy, formal and wholly irrelevant. Nor is Soviet society much admired—there is little tolerance of cultural diversity or religion, restricted opportunity for innovation, and little apparent susceptibility to change.

However, the southern reaches of the Middle East appeared malleable. A military coup in Ethiopia had toppled Emperor Haile Selassie, a lynchpin of stability in the region and one of three monarchical anchors (including Saudi Arabia and Iran) for the Red Sea—Persian Gulf region. The Dhofar rebellion was in progress in

a troubled Oman region, and the situation in South Yemen appeared to favor Russian interests. Finally, the regime of President Siad in Somalia was firmly aligned with the Soviet Union, the product of its dependence on Moscow for Russian arms and economic largesse. Yet, even in this region, Soviet interests were under attack by Saudi Arabia. In early 1977, the Saudis sought to detach South Yemen and Somalia from their Soviet ties; Moscow responded with an offer—brought to the area by Fidel Castro—of a regional alliance backed with promises of arms and substantial economic assistance.

Saudi Arabia countered the Soviet-Cuban initiative by strengthening its ties with several key countries in the region. Particularly worrisome to Moscow, the Saudis succeeded in securing the attendance of the South Yemenis and Somalis, together with North Yemen and Sudan, in a quadripartite conference in Taiz. The basic strategy of the government of Saudi Arabia was to fashion a Red Sea entente predicated on: (a) Saudi financial subventions; (b) indirect endorsement of Somali irredentist claims on neighboring Ethiopian territory (i.e., the Ogaden area) and, perhaps, Djibouti; and (c) assurances of support for Yemen's force modernization plans. The Soviet Union, confronted with a pincer movement that threatened to isolate it, embarked on a significant program of adjustment. Moscow cautioned Somalia that it could not support a blatant act of direct intervention by Somalia regular forces on the Ogaden; indeed, the Soviets made clear that all military supplies would cease should the Somalis invade Ethiopia.

Soviet reasoning as the crisis in the Horn region unfolded is not difficult to comprehend. The new military government that had replaced Emperor Haile Selassie had embarked on a socialist revolution in 1975-76 that was fratricidal and deeply unsettling to Selassie's erstwhile backer, the United States. The revolution had all the characteristics of effective Marxist inspiration, including bloody liquidation of the aristocracy and other supporters of the ruling oligarchy. While the course of the struggle in Ethiopia was disturbing to moderate Africa, a Somali invasion in violation of the Charter of the Organization of African Unity (OAU) would prove even more disturbing. The inviolability of borders remains one of the few principles that virtually all African statesmen could endorse. Hence, a Somali invasion would isolate Mogadiscio in African councils and, by extension, would condemn the Soviet Union to widening criticism.

Precisely at this critical juncture, the U.S. Government entered into the unfolding denouement. Having strained U.S. ties with Ethiopia's revolutionary regime by condemning it publicly for human rights violations and then terminating our grant military assistance program, the President produced a near rupture with Addis Ababa by promising to provide "defensive" weapons to Somalia if the Siad Government would terminate its military connection with the Soviet Union. The decision was taken in June 1977 and officially communicated to Mogadiscio. The Siad Government responded with warm enthusiasm, and, several weeks later, launched its ill-fated invasion of Ethiopia.

What the Carter Administration did, through an apparent misreading of the situation, was to send a signal to the Siad Govern-

ment that the U.S. would countenance the invasion. Indeed, if the Soviet Union would not continue to supply arms, the United States stood ready to serve as a viable substitute. While such might not have been the U.S. intention, the diplomatic signal was unambiguous to Mogadiscio who believed that President Carter was sufficiently aware of the "geo-strategic" realities of the Horn region to recognize that Somali irredentist ambitions were an imperative sanctioned by history and the slow, but steady crumbling of the Ethiopian Empire that was in progress as Somali troops crossed the Ethiopian border in mid-1977. The fact that Washington recoiled from its clearly assumed obligations—following the Somali break with Moscow in late 1977—led President Siad to conclude that President Carter had either misled him or that Washington was selling Somalia out in its moment of greatest danger.

The Soviet Union, by realigning itself with the Mengistu regime, severing its ties with Somalia and initiating a massive military assistance program (estimated at \$1 billion) reversed its fortunes with dramatic effect. Cuban forces were rushed in substantial numbers to the Ogaden and, with the planning and direction of several Soviet general officers, served as the cutting edge in administering a stunning defeat upon the Somalis. By March 1978, all regular Somali forces had retreated behind their borders. The U.S. throughout reacted with exhortations against foreign interventions in African problems and pronouncements about the need for peaceful solutions. The U.S. also made an international issue about the growing number of Cuban troops assigned to Ethiopia, accompanied with somber requests for their withdrawal. This latter policy posture proved counter-productive on several counts: (1) The U.S. Government did not officially denounce Somali incursions until several weeks after the invasion, a fact not readily overlooked by most members of the OAU; (b) The Cuban presence was welcomed by most African governments as tangible testimony by Fidel Castro evidencing his support for the territorial integrity of a beleaguered African state; (c) The U.S. Government could not insure the withdrawal of Cuban forces, and its daily "body count" merely suggested a diminished U.S. capacity. Failure to deal effectively with the Horn problem early in 1978 may help to explain the strong emotional reaction by the President and his immediate advisers to the Shaba invasion the following May and his controversial charges of Cuban connivance. Whatever the reasons, it was argued in some quarters that Washington had apparently misread and misunderstood the revolutionary forces that were operating in the Horn region. There are those who believe that the U.S. Government had not so much been outmaneuvered by the Soviet Union as it had outmaneuvered itself.

#### A TALE OF TWO REVOLUTIONS

Throughout the period of increasing turmoil and conflict in the Horn U.S. policy was predicated on the principle of negotiation. Not only was the long-standing Ethiopian-Somali dispute to be resolved through such peaceful processes, but, so were the Eritrean civil war, the Ethiopian-Sudanese boundary question, and U.S. differences with Addis Ababa on human rights questions. However,

“an adjustment of differences through negotiation” can occur only when parties to disagreements accept the existing rules of international society—particularly its guidelines for the maintenance of order—as legitimate. In reality, few of the parties to the burgeoning disputes accepted the existing order, and most were dedicated to its replacement through violent means.

The Horn region encompasses today two essentially revolutionary states. Both have unlimited objectives from a juridical, as well as a political, perspective. These objectives are not subject to external control or manipulation, and, as a result, there are few limits that can be placed on them short of defeat through force of arms. Even more significant, both revolutions are intended to insure that the traditional structure of power, hallmarked during the rule of Emperor Haile Selassie, will not be permitted to return.

The first revolutionary force to develop in the Horn was based on ethnicity. The Somali people, as John Drysdale so ably observed, see their urge for unification as a natural human drive, one that will not surrender to abstract principles of law or international convention.

As Somalis see it, their frontier dispute is not essentially about land. It is about people—nomadic people at that—for whom there is one frontier only; the furthest limits to their pastures. With the exception of some areas in Northern Kenya, which was occupied later, Somalis reached these limits by conquest two hundred years ago . . .<sup>4</sup>

The Somalis are as culturally homogeneous as the Ethiopians are diverse. Ethiopia came together in its present geographic confines only in the past century, and largely as a result of the military conquests of Emperor Menelik II and the political exertions of Haile Selassie. The ruling ethnic group of Ethiopia, the Amharas, are a numerical minority constituting less than 40 percent of the population. One outcome of these conquests, and the colonial partitions of the late 19th and early 20th centuries, was to divide the Somali communities. With independence in 1960, the Somali Government addressed itself to reunification and succeeded in securing British withdrawal in favor of Mogadiscio. This success led to heightened Somali enthusiasm and, with the emergence of a military junta in 1969, support for irredentism blossomed to even greater heights. On the other hand, the firm hand of Emperor Haile Selassie and the substantial size and modern equipment holdings of the Ethiopian military induced a certain caution on the Siad regime.

Nevertheless, the clash of principles was apparent to all. Under the banner of self-determination, Mogadiscio provided increasing support for the Western Somali Liberation Front operating in the Ogaden against static Ethiopian defenses. Somalia was a nation dedicated to the attainment of statehood for all Somali people. Ethiopia, by contrast, was a juridical entity, a state attempting to become a nation. The diametrically opposed principles of sovereignty vs. self-determination, territorial integrity vs. right of unification, liberation vs. intervention were at play in the Horn. One man's “freedom fighter” was another's “terrorist”.

This unstable equilibrium might have been perpetuated several years longer. But a singular event, the toppling of Haile Selassie

<sup>4</sup> John Drysdale, *The Somali Dispute*. New York: Praeger, 1964, p. 7.

from political power, unleashed fissiparous forces that, almost ineluctably, produced the Somali invasion and widening of conflict.

The Horn's second revolution was the product of widening crises within Ethiopia brought on by a devastating drought that was treated with apparent indifference by the Selassie regime. The drought led to the death of more than 300,000 Ethiopians. The unravelling of imperial power actually began several years earlier when the ramshackle administration proved incapable of dealing effectively with inflation, food shortages and civil conflict in Eritrea. The Eritrean conflict had been sparked by the transparent manipulation of an Eritrean legislature which voted in 1962 to terminate that area's special status as a separate entity for regular ranking as a province within the Empire. The vote had been accompanied by widespread irregularities and allegations of outright bribery. Whatever the devices used, the legislature struck down the United Nations resolution of 1951 which had made this former Italian colony a clearly identifiable unit in an Ethiopian Federation. Lost in the process were the special protections, rights and obligations that accorded Eritrea a unique status in Ethiopia—a status which Haile Selassie found to be unacceptable. The undermining of this arrangement provoked civil unrest and spreading guerrilla war in the territory.

In these circumstances, it was not surprising that the Ethiopian military should serve as the spearhead of official opposition. The Ethiopian Army and Air Force had served as loyal supporters in quashing a rebellion by mutinous Imperial Bodyguard forces in 1960. Subsequently, it fell to the Army to cope with guerilla warfare in Eritrea, the disruptive operations of the Western Somalia Liberation Forces in Ogaden, and dissident ethnic groups in South-western Ethiopia. Moreover, the Army was called upon to provide senior officers to serve as regional and provincial overlords in outlying areas. The resultant stresses in the military establishment produced growing disaffection in the middle reaches of the officers corps—many of whose members bridled under the inefficiency and corruption of the civilian leadership—as well as among battle-hardened non-commissioned officers. First signs of spreading alienation crystallized in early 1974 with strikes and demonstrations by the military for higher wages and other emoluments.

The basic reason for the collapse of the Endalkatchew government between February and July 1974 was to be found in its total inability to deal with the multiplying demands placed on it for economic reform, emergency food supplies to drought-starved regions, and increased support for restive military forces. The succeeding Aklilu government also collapsed as strikes erupted among students, teachers, urban transportation workers and the military. Finally, on September 12, 1974 the Ethiopian military assumed direct authority for the day-to-day operations of the government. More than 50 years of rule by Selassie was terminated and the *Ancien Regime* slowly crumbled into history.

The Ethiopian revolution had begun, but under circumstances that were confused and cloudy. The leadership of the revolution did not come forth whole; rather it unfolded through a series of disagreements and crises within the military itself. Initially, a 100-plus ruling council, the *Dergue* when it was established consisted of

widely diversified members (NCO's and commissioned officers) holding almost incompatible goals. There was little consensus on how to dispose of the royal family and the former ruling aristocracy; no common agreement existed on how to deal with the Eritrean insurgency; nor could the members agree on the form of government to be established. Late in 1974, Ethiopia had a provisional government with minimal popular support, lacking internal unity, fearful of resurgent feudal power and student/labor union agitation. It was a feeble government, and when General Aman Andom, Chairman of the *Dergue*, began to take unilateral initiatives, he was killed by other members of the Provisional Military Administrative Council (PMAC). Fearing that the execution of their Chairman might be read as a sign of internal dissension and weakness, and thus spark a counter-revolution, the *Dergue* also executed 60 members of the former government and leading aristocrats.

Because the *Dergue* did not initially have a coherent revolutionary philosophy, internal quarrels continued to erupt and additional executions within the PMAC occurred. In 1975-76, additional divisions between and among progressives and radicals virtually paralyzed the PMAC and led to ever-widening civil war. (Indeed, it was these divisions that led Somalia's President Siad to conclude in mid-1977 that Somali irredentist claims could be pressed militarily with little fear of an effective Ethiopian riposte.) In 1975, the *Dergue* moved to implement sweeping rural and urban land reforms and nationalized major sectors of the economy. Despite these moves, it did not appear to have a clear conception as to how to organize political life within the country. However, most progressive groups supported these measures and, in time, Ethiopia's feudo-capitalist structures were destroyed.

Two groups began to play a major role during this period—the radical Ethiopian Peoples Revolutionary Party (EPRP) and the All-Ethiopia Socialist Movement (Mei son). The EPRP drew its membership from student, teacher and labor groups. It had more grassroots support than either the *Dergue* or Mei'son. EPRP was suspicious of the former, contending that it represented a military dictatorship, one that had no intention to establish a mass base in the form of a worker's party to govern the country. The *Dergue* countered by forming an alliance of convenience with Mei'son, led by Haile Fida, to fuel the revolution. Mei'son, in due course, provided the Marxist intellectual foundations for the revolution, while the *Dergue* in turn came increasingly under the control of Colonel M. Mengistu.

In April 1976, three significant developments took place. The Provisional Office of Mass Organizational Affairs (POMOA) was formed; the Yekatit 1966 Political School began functioning, and the National Democratic Revolutionary Program was published and widely disseminated. The first two were of particular importance in laying an intellectual foundation for the revolution; Mei'son cadres dominated them, using the two new entities as a base from which to control "political education" and "the organization of the masses". Over the next two years, the revolution took shape in terms of ideology, organization and scope of support. At the same time, EPRP sought to counter the effort by launching a terror and assassination campaign, principally in Addis Ababa. At

Colonel Mengistu Haile Mariam's command, the *Dergue* and Meï'son retaliated in kind, and the capitol was turned into a bloody battleground during much of 1977-78. Even within the *Dergue* a major purge had to take place. For example, Teferi Bante sought to curtail Mengistu's growing power through a reorganization of the PMAC and a call for national reconciliation. On February 3, 1977, Colonel Mengistu, supported by Meï'son, retaliated and Teferi Bante and eight of his supporters within the *Dergue* were murdered at the Gibe Palace.

Mengistu subsequently assumed the Chairmanship of the *Dergue* and proceeded to outmaneuver Meï'son. He dispatched a number of Ethiopian military personnel to the Soviet Union for political indoctrination and, on their return, formed the Revolutionary Flame Party (Se'eded) which came under Mengistu's direct control. Flame officers were implanted in military units as political commissars, largely to bolster loyalty to Mengistu. As Meï'son entered the opposition, its leaders were either killed, hounded out of the country, or imprisoned. Haile Fida, for example, suffered the latter fate. The PMAC had instituted the "Red Terror" by late 1977, a campaign that exterminated most of the EPRP-Meï'son second echelon leadership. Finally, the Somali invasion tended to strengthen Mengistu's position; his call for national unity struck a responsive chord among several major ethnic communities and, in the emergency, the recruitment of several hundred thousand militiamen. The victory over the Somali invaders in March 1978 further strengthened Mengistu's position.

The Ethiopian "strongman" is today attempting to end the Eritrean question through draconian military measures. He recaptured virtually all major towns during a late 1978 offensive, but the insurgents remain entrenched in the countryside and enjoy the support of the bulk of the civilian population. In the meantime, Mengistu is under mounting pressure from the Soviet Union and Cuba to form a truly revolutionary party, one which would embrace all Marxist-Leninist groups.

#### THE SOVIET-CUBAN EQUATION

The correlation of military prowess to political influence is at the heart of Soviet foreign policy. In the instance of Ethiopia, a significant marriage of convenience seemed possible. However, the Soviet Union confronted serious risks—the Ethiopian military leadership was at odds at least during the early stages of the revolution; no popular political formation existed in Ethiopia; moreover, until 1977-78, the revolutionary *Dergue* could not agree on a unifying philosophy or ideology. Given these considerations, it is not unreasonable to examine in greater detail those factors that induced the Soviet Union to throw its support to the *Dergue*.

The background to the Kremlin's decision to move in heavily to support the Mengistu regime last winter remains obscure. There were, however, probably several attractions to such a course at that time:

The Soviets wished to put an end to U.S. dominance in Ethiopia, while simultaneously forestalling any move by Mengistu toward a closer relationship with China.

Regionally, Moscow also probably counted on an improved relationship with Ethiopia to offset setbacks in the Sudan and strengthen its hand in countering conservative Arab-backed moves to reduce Soviet influence in the Red Sea area.

The Soviets have long sought a major African foothold. Ethiopia, the oldest independent country of Africa and seat of the OAU, would fill the bill very well.

The Addis Ababa revolutionary regime's proclamation of a Marxist course, its increasingly radical revolutionary program, and its open courtship of the USSR, made it difficult for the Soviets to avoid a forthcoming approach to Addis Ababa's requests without tarnishing the USSR's image as the leader and patron of African national liberation.

Moscow evidently was initially convinced that it could ride both the Ethiopian and the Somali horses; it reckoned that Siad, with no assured patron other than Moscow would have little choice but to accept a Soviet buildup in Ethiopia and compromise his irredentist ambitions. Siad's expulsion of the Soviets in November 1977 was greeted by Moscow with public outrage, and the Soviets still evidently find Siad's behavior inexplicable. But the Somali action also removed the ambivalence in Moscow's earlier position; the USSR quickly embraced rectitude by backing the OAU principle of inviolability of borders and by voicing unambiguous support for the "victim of aggression."

Faced by a deteriorating military situation in Ethiopia, the Soviets: promised stepped-up military assistance (Mengistu had reportedly requested urgent aid during his late October 1977 visits to Cuba, the GDR, and Moscow); despatched a high-level military delegation to Ethiopia to coordinate the effort (General Petrov, who continues to head the Soviet military mission in Addis, arrived on November 17, 1977); and shortly thereafter; and mounted the buildup of Soviet and Cuban equipment and personnel (the Soviet airlift to Ethiopia began on November 28, 1977).

At this stage, there is little in the political/military equation in the Horn that is likely to alter Moscow's course. The Kremlin clearly believes that its client sooner or later will achieve military superiority in the region. Ethiopia's larger population, greater size, and relatively more abundant resources almost certainly have weighed heavily in Soviet calculations, despite the country's current disarray.

Equally important in Moscow's assessment has been its calculation that Somali capabilities will continue to be severely constrained by an inability to find reliable military patrons in the West and by the lukewarm backing that Siad has received so far even from his Arab friends. Moscow remains sensitive, however, to any suggestion of military support for the Somalis which could alter this equation. The propaganda attacks on alleged supplies of arms from Western, including U.S., sources, are probably intended in part to deter such action by generating African opposition to further big power involvement.

Somalia's challenge to OAU principles of territorial integrity and inviolability of borders has provided the Kremlin with a handy justification for its aid. The Somalis' action, together with the general lack of consensus in African councils, will blunt any Afri-

can move to censure or counter Soviet activities. The Kremlin remains concerned, however, that it could still find itself on the wrong side of an OAU majority, and it is apparently doing what it can diplomatically to counter any moves that might generate co-ordinated opposition to its present activities.

Furthermore, the Arab divisions sparked by Sadat's initiatives toward Israel are probably seen by Moscow as working to its advantage in the Horn. The preoccupation of Moscow's more important Arab partners (e.g., Syria and Iraq) makes it unlikely that they, even though they support the Somalis and the Eritreans, will allow disagreement over the Horn to damage relations with the USSR, whose support they want in the Arab-Israeli context. On the other hand, the Soviets probably calculate that nothing they do in the Horn can worsen their already poor relations with their most vociferous Mid-East critics (Egypt, Saudi Arabia, Sudan, and Iran).

The USSR evidently still doubts that Horn developments will significantly damage relations with the U.S. on matters of more importance (e.g., SALT), and it feels that the Soviet-U.S. relationships can survive the strains. The Kremlin does not seem to consider seriously the prospect that the U.S. will openly challenge it on the ground in the Horn. Equally, Moscow seeks its actions as holding little prospect for damaging seriously relations with interested European powers, particularly France, so long as the present fighting does not spill over into Djibouti.

The Kremlin is likely to continue to stress the limited nature of its commitment to Ethiopia in an effort to avoid alarming the outside world or stimulating more active support for Somalia. Thus Moscow's public hard-line defense of its buildup in Ethiopia has been accompanied by repeated authoritative assurances that: Ethiopia has no intention of invading Somalia; Soviet-Cuban support for the Addis regime runs only to the extent of preserving Ethiopia's territorial integrity; and Soviet personnel will not be employed in combat in Ethiopia.

Moscow has also played down any mention of its role in Eritrea and has specifically denied that Soviet forces have been involved in the fighting on that front.

At this juncture, the USSR sees considerable potential for gain from its involvement in Ethiopia, including important local opportunities in East Africa and the Arabian Peninsula, as well as a chance to advance the Soviet Union's status as a great power with an expanding presence on the world stage. To the extent that revolutionary forces in Afghanistan, Iran, South Yemen and Ethiopia create uncertainty among moderate Arab leaders and engender pressures for a U.S. role that Washington is unable to play, Soviet goals are at least partially met. The Soviet Union thus far has perceived few external deterrents to its course of action. Moscow apparently judges that the political risks of U.S. reaction are acceptable and the military risks are negligible.

#### U.S. POLICY CHOICES

The Soviet assessment of U.S. policy choices and likely reactions has proved fairly realistic. The U.S. posture on the Horn might

best be characterized as ambiguous. President Carter, in his State of the Union Address, in January 1978, observed:

Arms supplied by the Soviet Union now fuel both sides of a conflict in the Horn of Africa between Somalia and Ethiopia. There is a danger that the Soviet union and Cuba will commit their own soldiers in this conflict, transforming it from a local war to a confrontation with boarder strategic implications. We deplore that fact that disagreements in this region have grown—with the assistance of outside powers—into bloody conflict. We have made clear to both sides that we will supply no arms for aggressive purposes. We will not recognize forcible changes in boundaries. We want to see the fighting end and the parties move from the battlefield to the negotiating table.

To repeated requests from the Siad Government that the Administration honor its 1977 pledge to provide "defensive weapons", the U.S. has provided an essentially negative response. Assistant Secretary of State Richard Moose was dispatched to Mogadiscio in the spring of 1978 to secure assurances from President Siad that his government would not seek to redress boundary questions through force of arms. Siad balked, particularly when Moose attempted to have these assurances made public. Ultimately, Siad acquiesced<sup>5</sup> but, much to the chagrin of the State Department, his covenant did not extend to covert Somali Government support to the Western Somali Liberation Front, which has remained highly active and increasingly effective in the Ogaden area. Recent reports clearly indicate that Ethiopian and Cuban forces are off-balance as a result of guerrilla attacks, and that their casualties are mounting. Continued Ethiopian air attacks against Somali territory are tangible evidence of growing Ethiopian frustration and the need to retaliate. One of the imponderables in the current Ethiopian-Somali military equation revolves around the forbearance of the Ethiopians. Under severe provocation, the Ethiopian Government may feel constrained to launch a major ground attack against Northern Somalia—particularly the towns of Berbera or Hargeisa.

In these circumstances, the Organization of African Unity has lacked the influence to produce a peaceful settlement of the dispute. Despite repeated interventions by sundry OAU mediators and moderators all attempts at negotiation have aborted. It would appear that the drama will have to involve a second chapter, one in which President Siad provokes a major incursion into Somalia by Ethiopian and/or Cuban forces. Such a scenario would then compel Saudi Arabia, Egypt, and other Arab League defenders of Somalia to seek U.S. and Western support. Their case would be bolstered by recent events in the Northern Tier nations.

The current foreign policy options confronting the U.S. are far from promising. To immerse itself in the Horn Region, where revolutionary regimes are engaged in a zero-sum contest, would not prove rewarding. On the other hand, a number of border states—notably Saudi Arabia, Sudan, Kenya, Egypt, and the Emirates—are anxious to secure tangible evidence of U.S. support, U.S. policy-makers have shown some awareness of this anxiety in approving new arms sale to Sudan and Kenya and in proposing that a "Fifth Fleet" be deployed in the Indian Ocean. Given our stake in stability in the Persian Gulf, continued support of Arab and African governments that rely on the United States would appear to be necessary. However, full-scale commitment to the defense of Soma-

<sup>5</sup> U.S. Department message, July 28, 1978 (see excerpt below).

lia—which has few supporters in the OAU—would undermine U.S. prestige and influence in much of sub-Saharan Africa.

The Arab countries show a certain religious and ideological flexibility in their foreign policies. For example, despite Soviet support for the Mengistu regime, Libya, Iraq and Syria have not severed their ties with the Soviet Union. The lesson here is instructive. None of these three Arab regimes is prepared to sacrifice its interests vis a vis the Soviet Union on the alter of Horn politics. They will accommodate, if necessary, to Amhara depredations against Moslem liberation forces in Eritrea.

In the same way, moderate Arab regimes in the Middle East might accommodate to U.S. disinclination to provide “defensive” weapons to the Siad regime in the face of its continued assistance to the 15,000 members of the Western Somalia Liberation Front. President Siad offered the following assurance to the U.S. Government April 29, 1978. “. . . That Somalia will refrain from the use of force against any country; that arms and services given or sold to the Somali government will not be used against any other country. Furthermore, the Somalia Government will not permit such arms and articles to be used for any other purposes than the preservation of the internal security of the Somali Democratic Republic and the legitimate defense of the internationally recognized territory of the Somali Democratic Republic.” Surprisingly, despite mounting evidence of Mogadiscio’s support for the Liberation Front, Ambassador Loughran was instructed by Moose to respond to President Siad in the following terms:

My government believes that the discussions recently concluded between you and President Carter’s special emissary, Assistant Secretary Moose, have succeeded in laying the basis for a future of close cooperation between our two countries. I have been instructed to inform you that, on the basis of these discussions, my government is prepared to initiate the steps required under United States law for the furnishing of defense articles and services to the Somali government, including the seeking of the requisite authority of the Congress. . . .<sup>6</sup>

Several weeks later, however, President Siad reaffirmed Somalia’s irredentist goals in a speech before the Organization of African Unity on July 20, 1978:

It has always been a cardinal principle of Somalia’s policy to the liberation struggle of all colonial peoples for independence and self-determination. We have always lent our moral and material support to liberation movements in Africa, Palestine, Southeast Asia and elsewhere. We do not see the liberation struggle of Western Somalia, Abbo and Eritrea as an exception. We firmly believe that they deserve the support of all freedom loving peoples and the recognition of OAU. We are fully discharging our duties in this respect and will continue to do so. We do not accept for a moment the notion propagated by Ethiopia that Somalia’s support for the liberation struggle in Western Somalia is tantamount to a claim on our part to Ethiopian territory. We want to emphasize that we have no claim on the territory of any state, but we are committed to the principle of support of liberation struggle of peoples from colonial rule. It is necessary to emphasize here that the nature of the conflict in the Horn of Africa is a classical colonial case and not one of territorial integrity.”<sup>7</sup>

The Ethiopian response at the DAU Summit meeting was to characterize the Siad statement as tantamount to a declaration of war against Ethiopia. The U.S. response has been to suspend actions relating to Congressional approval for the sale of “defensive” weapons to Somalia. The provision of such arms would free up

<sup>6</sup> U.S. State Department message, July 28, 1978.

<sup>7</sup> Reported by Reuters, July 21, 1978.

Soviet-supplied material for the Western Somali Liberation Front. However, the U.S. Government has intensified ties with the assignment of a military attache, port visits by U.S. naval units, and plans to increase economic aid to Somalia. At the same time, we have made clear that we would interpose no objections of moderate Arab or Western nations wish to provide military material (which is not of U.S. origin) to the Siad regime.

Maintaining influence in the Horn region is an exercise in statecraft which is certain to challenge the ingenuity of the most experienced foreign affairs practitioner. A continued U.S. diplomatic tilt toward Mogadiscio, unsupported by arms aid, will not satisfy the Siad Government, but it will give rise to concern over U.S. intentions in a number of sub-Saharan capitals, including Nairobi, Dar-es-Salaam, and Lagos. In Addis Ababa, the revolution has yet to run its course and a U.S. effort to resurrect old ties would most assuredly abort in the period immediately ahead.

What is lacking at this juncture is a broad strategic systemic view of U.S. interests, purposes and goals in the regions immediately adjoining the Horn region. The latter area, is of little intrinsic importance in terms of vital U.S. interests. Anti-Soviet or Anti-Cuban themes fail to come to grips with the basic revolutionary forces at work in the Horn. These forces are essentially beyond the reach of U.S. control or U.S. influence. It is from the perspective of our goals and objectives in the Red Sea and Persian Gulf that the underpinnings of U.S. policy must be construed.

At present, there is confusion among leaders in this broader region as to American purposes. For many, the U.S. Government appears to make its policies in terms of individual geographic pieces rather than from the perspective of a broad, systemic strategy. Part of the problem arises from the fact that two State Department geographic bureaus have responsibility for the region, and three others must be consulted where Soviet, Cuban and Chinese activities are concerned. The White House has made no effort to strengthen regional planning and coordination, nor has it defined U.S. objectives with sufficient clarity to overcome competing views and voices from within the foreign affairs community. However, until the White House provides effective guidance in the form of a coherent regional strategy, U.S. responses to forces and events in the region are likely to continue to be ambiguous and primarily tactical.

### III. FOREIGN TRADE AND MONETARY ISSUES

#### MIDDLE EAST COUNTRIES: CHANGING PATTERNS OF TRADE

By Francine B. Livaditis\*

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#### INTRODUCTION

The emergence of the oil rich Persian Gulf countries has transformed the Middle East into one of the world's fastest growing import markets during the last six years. Altogether the 16 countries in the region purchased \$72 billion worth of goods in 1977, the latest year for which complete data exist; almost 75 percent of the purchases were made in the OECD countries. The top five Middle East import markets—Saudi Arabia, Iran, Israel, Libya, and Kuwait—accounted for nearly 65 percent of the region's total imports. Iran's importance of course has declined as a result of the political disruption of the past 18 months. The Middle East market bought 7 percent of total world exports in 1977 compared with roughly 3 percent in 1973.

Eleven of the sixteen countries in the area are oil exporters. Bahrain, Egypt, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Syria, and the United Arab Emirates (UAE) are net oil exporters; while Israel, Jordan, Lebanon, and the two Yemens are not. The 11 oil exporting countries produced 24.9 million barrels per day (b/d) of oil in 1977, roughly half of total Free World oil production. This was an increase of 1.5 million b/d since 1973. These countries also have 70 percent of Free World reserves. Saudi Arabia is the single largest Free World oil producer, supplying 9.2 million b/d of crude oil in 1977. At the other end of the spectrum,

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Bahrain is the smallest Middle East oil exporter with production of only 60 thousand b/d.

The Middle East OPEC oil exporters have used their oil wealth to fund development programs aimed at bringing their underdeveloped economies into the modern age. This required stepped up imports of machinery, construction and transport equipment, and entire industrial plants. As a result, import bills rose rapidly after 1973.

Even with the quintupling of import spending, the magnitude of oil revenues was so high that the trade surplus of Middle East OPEC countries remained large throughout the 1973-77 period. The surplus, which peaked at \$63 billion in 1974, has fallen since as development programs gained momentum.

The Middle East countries without significant oil resources—Israel, Jordan, Lebanon, and the two Yemens—continued to rely on agriculture and newly developed industries for their export earnings. Import spending in these countries, funded largely by foreign aid from various sources, grew rapidly despite slow export growth. As a result, trade deficits in these countries rose almost steadily during 1973-77. The exceptions are Israel, where stringent efforts to cut import spending have reduced the deficit since 1975, and South Yemen, where the trade balance swung from deficit to a surplus and back again.

#### *The Data Base*

Data availability is a major constraint in examining Middle East trade. Although many countries have recently become wealthy, all countries in the area, except Israel, are still underdeveloped, and sophisticated statistical techniques often do not exist. Some countries have never collected trade information, and others only publish their trade statistics after a lag of several years. The smallest countries—Bahrain, Oman, Qatar, and the two Yemens—publish little trade data and were therefore omitted from the discussion. Lebanon was also omitted because normal trade patterns have been disrupted for years by the continuing political turmoil. The remaining ten countries are discussed individually in order of the magnitude of their world trade in 1977: Saudi Arabia, Iran, Libya, the UAE, Iraq, Kuwait, Israel, Egypt, Syria, and Jordan.

Even for these ten countries, data scarcity required that a substitute be found for national statistics in order to examine the commodity and geographic composition of many individual countries' trade. While direction of trade information was generally available through 1977, information on commodity composition was so sketchy that trade data of Middle East countries' major trading partners had to be used. Thus, the composition of Syrian exports to the United States is collected from U.S. import data.

This compromise in examining Middle East countries' trade composition raised several problems. First, the detailed commodity composition data necessary were available only from 21 developed countries.<sup>1</sup> Fortunately, these 21 countries account for 60 to 85 percent of trade for those seven Middle East countries where trade statistics were unavailable. Therefore, major trends in commodity

<sup>1</sup> Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West Germany.

composition can still be identified. There is, however, some bias since the omitted trading partners are mostly non-oil LDCs, whose exports tend to be more heavily concentrated in primary products. For Israel and Jordan their own trade statistics were used; for Egypt a compilation of sources were used.

Second, developed country imports are reported including insurance and freight costs (c.i.f.). To turn these around and view them from the Middle East countries' side, these data were adjusted to exclude estimated insurance and freight, that is, converted to an f.o.b. basis. Since the insurance and freight component varies with each commodity and market, the simplistic assumption that 10 percent of c.i.f. value was due to insurance and freight was used in the data conversion.

When trying to get trade information for 1978, the data problems mushroomed. Direction of trade data are not available for any Middle East country. Commodity composition data are available for only a small sample of developed countries and often for only three quarters of 1978. Since details of 1978 trade are less certain, they were presented in a separate section for each country rather than combining them directly with the 1973-77 information.

When it comes to total trade and trade by geographic regions, there are several respectable sources that do not agree precisely. We primarily used IMF Direction of Trade data. Thus, Communist country numbers may differ from those used in the article on Soviet/East European relations with the Middle East.

## SAUDI ARABIA

### *Oil Dominates Exports*

The story of Saudi exports is the story of oil. Oil has consistently comprised 99 percent of total exports. As a result of OPEC's four-fold increase in the price of oil, the value of Saudi exports skyrocketed from \$8 billion in 1973 to \$31 billion in 1974. During the next three years the rise in exports was far slower—reaching \$39 billion in 1977.

Saudi Arabia generally has been a moderate on the issue of oil price hikes since 1974, seeking small oil price increases that would not put a severe burden on the developed economies. The Saudis have been very persuasive within OPEC because the large excess productive capacity that the country enjoyed until recently allowed them to easily shift the supply-demand balance. More recently, however, production constraints and conservation goals have reduced Riyadh's influence moderating OPEC price decisions.

While still of marginal importance, exports of manufactured goods—primarily fertilizer and handicrafts—have been rising rapidly. Some cement from Saudi plants has been sold below cost to Pakistan, but these sales were part of an aid package and are not expected to continue on a regular basis.

The only new export industries planned are oil related, primarily oil-refining and petrochemicals. The backbone of this industrial development is a gas gathering and distribution system being constructed by Aramco. The distribution network will supply gas to electric power stations, petrochemical complexes at Jubayl on the

east coast and Yanbu on the west, and gas liquids to processing facilities.

### *Big-Seven Countries as Major Consumers*

The Big-Seven countries<sup>2</sup> rely on Saudi Arabia to supply about 25 percent of their oil imports. Japan consumes more Saudi oil than any other country, taking 1.6 million b/d of crude oil worth \$8.5 billion in 1977. In 1976-77, one-third of Japan's domestic crude requirements have been supplied by Saudi Arabia.

During 1973-77, the United States, Canada, Japan, and France were the most rapidly growing importers of Saudi oil. In 1977 Saudi Arabia was the largest supplier of oil to the United States, providing 20 percent of oil imports; in Canada, it was the second largest supplier, providing 22 percent of imports; in Japan it was the largest supplier, providing 23 percent of imports; and in France it was the largest oil supplier, providing 36 percent of imports.

Saudi exports to the United Kingdom and West Germany declined between 1973 and 1977, while Italian imports remained relatively stable. In 1977, the Saudis supplied 20 percent of West Germany's total oil imports, down from a one-third share in 1973.

### *Imports Escalate as Development Progresses*

The Saudis' newfound affluence after the 1973-74 oil price hike caused imports to rise steadily and rapidly. The Saudis' first five-year development plan, begun in 1970 under King Faysal, was valued at only \$9-\$10 billion and was focused on development of ports, roads, and schools. Actual outlays were nearly double that amount. Few major industrial projects were begun until the 1975-80 plan was launched. This second plan, valued at \$142 billion, also called for the private sector to develop light industries, primarily for import substitution. Most private firms, however, are still engaged in the marketing of imported goods. By 1977, the Saudis imported \$16.8 billion in goods, nearly nine times the 1973 level. Saudi port facilities were swamped in 1975 and 1976, but by 1977 the offloading situation was clearing and goods flowed more smoothly into the country.

Saudi Arabia has become a major outlet for OECD countries' sales. By 1977, Saudi Arabia purchased 80 percent of its goods from the OECD countries, up from a 65-percent share in 1973. Saudi Arabia grew from the 43d largest consumer of OECD goods in 1973 to the 14th largest in 1977. The non-oil LDC's share of Saudi imports has been decreasing, slipping from a 28-percent share in 1973 to only 14 percent by 1977. The Communist countries' share of Saudi Arabian imports has dropped from 2 percent to 1 percent over the period.

Seventy percent of Saudi imports have historically been industrial products. The share of manufactures in OECD exports to Saudi Arabia had grown to 92 percent in 1977, up 7 percentage points from the 1973 level. The Saudi development program has enhanced the need for industrial and electrical machinery, motor vehicles, and metal manufactures. Saudi Arabia chose to import as many goods as possible in a semifinished state so that domestic light

<sup>2</sup> Canada, France, Italy, Japan, United Kingdom, United States, and West Germany.

industry could finish the processing. This keeps the price of the finished product low and increases the domestic value added.

Saudi Arabia must import roughly half of the food consumed by its people, and relies primarily on other non-oil LDCs to supply it. Of the small share of food imports supplied by OECD countries, the United States accounted for nearly 30 percent in 1977. One half of U.S. food exports to Saudi Arabia were cereals, including rice. West Germany also provides cereals. Other U.S. agricultural exports include tobacco and non-alcoholic beverages. Most meat and fish come from the Netherlands, France, and West Germany; Japan provides tea.

### *Major Suppliers of Manufactured Goods*

The United States, Japan, and West Germany were the largest suppliers of manufactures in 1977, providing 30 percent, 20 percent, and 13 percent of the Saudi market, respectively. Japan was the largest supplier of manufactured goods to Saudi Arabia in 1973, but since that time the Saudis have turned increasingly toward the United States and West Germany.

The United States, West Germany, Japan, and the United Kingdom provide most of Saudi Arabia's machinery imports. In transport equipment, the United States, Japan, and West Germany dominate Saudi imports. The United Kingdom has lost roughly half of its former market share of transport equipment, due largely to lower aircraft exports. Japan, the United States, and Italy have historically been the largest suppliers of semifinished goods such as metal manufactures, iron and steel, and textiles and fabrics. Saudi Arabia is also an important market for U.S., U.K., and West German wood manufactures.

Among the non-oil LDCs, South Korea is a rapidly growing supplier of manufactures to Saudi Arabia. The Saudi industrialization program encourages supplier diversification, and South Korea has offered quality manufactured goods at lower prices than traditional suppliers due partly to lower labor costs. South Korea's major Saudi market penetration has been in semifinished goods—mainly metal manufactures. In 1977 South Korea became Saudi Arabia's second largest supplier of semifinished goods.

### *Trade Surplus Declines*

Saudi Arabia's trade surplus has averaged \$25 billion annually since the great influx of oil-related export earnings during 1974-77. After a tremendous jump in 1974, the Saudi's trade surplus with the OECD countries has remained relatively stable. A sharp boost in Saudi imports was largely responsible for a slight decline in the surplus in 1977.

### *Trade Slows in 1978*

Saudi Arabia's exports dropped roughly 8 percent in 1978, largely because of the 900,000 b/d drop in oil sales associated with a small downturn in oil demand by the developed countries as a result of a stock drawdown. Even though import volume growth fell to 17 percent in 1978, accelerating import price inflation drove

import spending up about 40 percent. As a result, the Saudi trade surplus fell by about \$10 billion, to its lowest level since 1973.

TABLE 1.—SAUDI ARABIA: TRADE BY GEOGRAPHIC AREA

[In millions of U.S. dollars]

|   | 1973  | 1974   | 1975   | 1976   | 1977   |
|---|-------|--------|--------|--------|--------|
| Exports (free on board).....                | 7,696 | 30,992 | 27,737 | 36,126 | 39,144 |
| OECD.....                                   | 5,637 | 22,617 | 19,270 | 24,493 | 31,087 |
| OPEC.....                                   | 7     | 28     | 56     | 106    | 334    |
| LDC's.....                                  | 1,744 | 7,110  | 6,587  | 8,782  | 7,686  |
| Communist countries.....                    | 0     | 0      | 17     | 27     | 38     |
| Imports (cost, insurance, and freight)..... | 1,961 | 2,858  | 4,214  | 8,694  | 16,836 |
| OECD.....                                   | 1,277 | 1,694  | 2,705  | 5,724  | 13,512 |
| OPEC.....                                   | 82    | 158    | 246    | 898    | 818    |
| LDC's.....                                  | 557   | 956    | 1,128  | 1,794  | 2,298  |
| Communist countries.....                    | 45    | 48     | 44     | 125    | 206    |
| Trade balance.....                          | 5,735 | 28,134 | 23,523 | 27,432 | 22,308 |
| OECD.....                                   | 4,360 | 20,923 | 16,565 | 18,769 | 17,575 |
| OPEC.....                                   | 75    | -130   | -190   | -792   | -484   |
| LDC's.....                                  | 1,187 | 6,154  | 5,459  | 6,988  | 5,388  |
| Communist countries.....                    | -45   | -48    | -27    | -98    | -168   |

Source: Direction of Trade.

TABLE 2.—SAUDI ARABIA: COMMODITY TRADE WITH MAJOR OECD COUNTRIES <sup>1</sup>

[In millions of U.S. dollars]

|                    | 1973  | 1974   | 1975   | 1976   | 1977   |
|--------------------|-------|--------|--------|--------|--------|
| Exports.....       | 6,160 | 19,100 | 20,380 | 25,785 | 28,575 |
| Foodstuffs.....    | 0     | 0      | 0      | 0      | 0      |
| Raw materials..... | 5     | 5      | 0      | 5      | 5      |
| Fuels.....         | 6,135 | 19,060 | 20,335 | 25,705 | 28,420 |
| Manufacturers..... | 25    | 30     | 40     | 80     | 155    |
| Imports.....       | 1,415 | 2,685  | 4,925  | 8,785  | 11,850 |
| Foodstuffs.....    | 200   | 300    | 395    | 550    | 830    |
| Raw materials..... | 10    | 20     | 30     | 85     | 75     |
| Fuels.....         | 10    | 20     | 20     | 35     | 50     |
| Manufacturers..... | 1,195 | 2,350  | 4,475  | 9,115  | 10,895 |

<sup>1</sup>Based on data from Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West Germany.

TABLE 3.—SAUDI ARABIA: TRADE WITH SELECTED COUNTRIES <sup>1</sup>

[In millions of U.S. dollars]

|                          | 1973  | 1974  | 1975  | 1976  | 1977   |
|--------------------------|-------|-------|-------|-------|--------|
| Imports (free on board): |       |       |       |       |        |
| OECD.....                | 1,415 | 2,685 | 4,925 | 8,785 | 11,850 |
| Big-Seven.....           | 1,245 | 2,345 | 4,410 | 7,690 | 10,415 |
| United States.....       | 440   | 835   | 1,500 | 2,775 | 3,575  |
| United Kingdom.....      | 140   | 275   | 440   | 715   | 1,005  |
| Japan.....               | 390   | 680   | 1,350 | 1,890 | 2,340  |
| France.....              | 55    | 120   | 200   | 340   | 615    |
| West Germany.....        | 125   | 285   | 565   | 1,195 | 1,710  |

TABLE 3.—SAUDI ARABIA: TRADE WITH SELECTED COUNTRIES.<sup>1</sup>—Continued

|                          | [In millions of U.S. dollars] |        |        |        |        |
|--------------------------|-------------------------------|--------|--------|--------|--------|
|                          | 1973                          | 1974   | 1975   | 1976   | 1977   |
| Italy.....               | 80                            | 135    | 325    | 665    | 1,060  |
| Canada.....              | 15                            | 20     | 35     | 110    | 105    |
| Netherlands.....         | 60                            | 115    | 135    | 280    | 340    |
| South Korea.....         | 15                            | 25     | 90     | 235    | 670    |
| Exports (free on board): |                               |        |        |        |        |
| OECD.....                | 6,160                         | 19,100 | 20,380 | 25,785 | 28,575 |
| Big-Seven.....           | 4,570                         | 14,305 | 16,555 | 21,325 | 23,935 |
| United States.....       | 375                           | 1,505  | 2,365  | 4,695  | 5,720  |
| United Kingdom.....      | 710                           | 2,470  | 1,720  | 1,580  | 1,720  |
| Japan.....               | 1,250                         | 4,715  | 5,520  | 7,045  | 7,655  |
| France.....              | 725                           | 2,735  | 2,740  | 3,680  | 3,880  |
| West Germany.....        | 660                           | 1,840  | 1,435  | 1,620  | 1,735  |
| Italy.....               | 800                           | 2,740  | 2,115  | 2,265  | 2,620  |
| Canada.....              | 55                            | 295    | 660    | 440    | 605    |
| Netherlands.....         | 780                           | 360    | 50     | 1,425  | 1,645  |
| South Korea.....         | 140                           | 605    | 545    | 645    | 1,015  |
| Trade balance:           |                               |        |        |        |        |
| OECD.....                | 4,745                         | 16,415 | 15,455 | 17,000 | 16,725 |
| Big-Seven.....           | 3,325                         | 13,950 | 12,145 | 13,635 | 13,525 |
| United States.....       | -65                           | 670    | 865    | 1,920  | 2,145  |
| United Kingdom.....      | 570                           | 2,195  | 1,280  | 865    | 715    |
| Japan.....               | 860                           | 4,035  | 4,170  | 5,155  | 5,315  |
| France.....              | 670                           | 2,615  | 2,540  | 3,340  | 3,265  |
| West Germany.....        | 535                           | 1,555  | 870    | 425    | 25     |
| Italy.....               | 720                           | 2,605  | 1,790  | 1,600  | 1,560  |
| Canada.....              | 40                            | 275    | 625    | 330    | 500    |
| Netherlands.....         | 720                           | 245    | -85    | 1,145  | 1,305  |
| South Korea.....         | 125                           | 580    | 455    | 410    | 345    |

<sup>1</sup> Based on data from Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West Germany.

## IRAN

### *Export Earnings Heavily Dependent on Oil Sales*

Although Iran has historically been an important supplier of oil, it took the fourfold oil price increase in 1973-74 to establish Iran as an international financial power. Total exports nearly tripled in 1974, to \$18.9 billion, and oil's share of Iranian exports rose to 96 percent, where it remained until the recent crisis. In 1975, an 11-percent fall in the volume of oil exports reduced export earnings by only 3 percent due to price adjustments. By 1977 a rebound in oil sales had boosted total exports to \$22 billion. Only a brief attempt will be made to assess the present trade situation in Iran. Other papers in this series will discuss the potential for future economic recovery which will depend in large part upon the degree of internal political stability.

Along with oil, Iran exports dried dates and figs, pistachio nuts, cotton, ores and metals, and such manufactured goods as Oriental rugs. Historically, cotton has been Iran's second largest export. Crop uncertainties, however, have caused wide fluctuations in Iranian cotton exports from year to year. As oil exports accelerated, the

annual shifts in non-oil exports became less important. Iran has not actively developed non-petroleum related export industries; most of the industrialization projects initiated by the private sector were for import substitution.

Among oil-related industries, Iran is already developing its natural gas and petrochemical industries. Gas shipments are flowing through the IGAT pipeline to the U.S.S.R. to offset Soviet shipments to West Germany, France, Austria, and Czechoslovakia. A second gas pipeline was started before the recent change in government. If economic growth continues at the historical rate, new petrochemical output will be consumed domestically, serving only to replace imports. Slower growth following the revolution may free some petrochemical production for the export market.

### *Major Export Markets*

Japan was the largest importer of Iranian oil, taking 17 percent of Iranian oil exports in 1977. Iran supplied one-sixth of Japanese oil imports, second only to Saudi Arabia. Japan also took 70 percent of Iran's ores and metals exports to the OECD in 1977, up from a 45-percent share in 1973.

From 1973 to 1977, the United States increased the volume of crude oil and refined product imports from Iran by 87 percent, to become Iran's second largest export market. Increased U.S. reliance on Iran was due to the dependability of Iranian oil supplies. Close political ties between the United States and the Shah even kept oil flowing during the 1973-1974 Arab oil embargo. Despite increasing purchases of oil, the United States maintained a favorable trade balance with Iran reflecting the vast quantities of U.S. military goods bought. The United States also took about 40 percent of Iranian nuts and dried fruits exports in 1977, but the value—\$50 million—was small. The United States also imports some carpets and raw materials from Iran.

Iran sells oil and some manufactured goods to West Germany. Iran was the third most important supplier of oil to West Germany in 1977, after Saudi Arabia and Libya. Manufactured goods accounted for only 12 percent of West German purchases from Iran in 1977, down from 30 percent in 1973. The West Germans traditionally have purchased half of Iran's Oriental carpet exports to the OECD and more than one-third of its cotton shipments. During 1974-1976, the value of Iranian cotton sales to West Germany averaged \$25 million; however, by 1977, cotton imports were down to the 1973 level of \$10 million.

### *Imports Escalated as Development Plans Were Implemented*

During 1973-1977 Iranian imports almost quintupled, reaching \$16 billion as the Shah pushed Iran into the 20th century. The fifth Five Year Plan (1973-1978) called for extensive industrial, power, and transport projects. Capital goods imports grew rapidly to support the new modernization drive. Import substitution industries, especially for light industrial goods and construction materials, flourished. Iran bought many imports in a semifinished state to promote industry and employment. The flow of imports was hampered by port congestion in 1975 and 1976, but by 1977 facilities

had been expanded. Inadequate transportation networks still impede internal distribution.

Iran has been importing 25-30 percent of its food supply. Food imports have been growing rapidly because the newfound oil wealth increased demand for food faster than domestic supplies grew. In 1974 alone, Iran imports of food tripled.

About 75 percent of Iranian imports came from the major OECD countries, and most of these were manufactured goods. Non-oil LDC's supplied an average of 10 percent and the Communist countries 4 percent of Iranian imports. Iran's most important purchases were: semifinished goods—primarily iron and steel—industrial and electrical machinery, motor vehicles and aircraft, and food.

### *Important Import Suppliers*

The United States, historically, Iran's largest supplier, accounted for 26 percent of OECD sales to Iran from 1973 to 1976. In 1977, West Germany and the United States both supplied 23 percent of Iranian imports from OECD countries. Japan, the third most important supplier, had a 16-percent share of the market in 1977.

The United States has been Iran's largest supplier of food and military armaments. Iran preferred U.S. agricultural goods and bought 85 percent of its cereal supplies from the United States. The United States was the only developed country supplier of wheat and rice. From the U.S. standpoint, however, Iran has been more important as a consumer of manufactured goods. Roughly 80 percent of U.S. exports to Iran were manufactured good, primarily industrial and electrical machinery, aircraft, and military goods. Industrial machinery and civilian aircraft purchases each represented 20 percent of Iranian imports from the United States. U.S. "Special category" sales, which consist of military deliveries to Iran, accounted for roughly one-fifth of U.S. exports to Iran.

West Germany also supplied large quantities of manufactured goods to Iran. Half of West German sales to Iran in 1977 were machinery for nuclear power plants. West Germany also accounted for one-sixth of all OECD sales of semifinished goods to Iran—primarily metal manufactures and iron and steel. Half of OECD sales of motor vehicle parts to Iran were supplied by West Germany to support Iran's auto assembly plants.

Japan's exports to Iran—mostly manufactured goods—have risen at extremely rapid rates. Japan is the largest OECD supplier of semifinished goods, selling mainly iron and steel. Exports of transport equipment tripled during 1974-77, cutting into the U.S. and U.K. shares of the Iranian market.

Iran has been a primary market for selected industries in other major developed countries. For example, six percent of U.K. auto exports have gone to Iran. Since 1975, Iran has purchased roughly one-third of U.K. arms sales—\$100 million in weaponry annually. Over 20 percent of total Italian aircraft exports have been destined for Iran. In 1977, Australia supplied 47 percent of OECD meat exports to Iran; the Netherlands and Denmark also sold substantial quantities.

*Trade Balance Continues in the Black*

The Iranian trade surplus dropped steadily after hitting a high of \$13 billion in 1974. By 1977, the trade surplus was only 43 percent of the 1974 level. Export earnings, which increased at a 4 percent annual rate during 1975-77, were swamped by import expenditures, which jumped an average of 43 percent a year.

The United States and West Germany are the two major developed countries with which Iran had a trade deficit during 1973-77. Over the period, these two countries supplied nearly 42 percent of total Iranian imports but only bought 25 percent of Iranian exports.

*Political Turmoil Causes Downturn in Trade in 1978*

The Iranian trade surplus was halved in 1978 because of decreased oil earnings in the latter half of the year. Strikes by oilfield workers in Iran reduced 1978 export earnings by roughly 10 percent. Although import volume remained stable in 1978, increased import price inflation boosted import expenditures. The estimate for imports may be overstated because goods that were shipped to Iran in the last quarter of the year may not have actually cleared customs offices due to frequent closures.

The trends in Iranian foreign trade during 1973-78 provide no guide for the future. The departure of the Shah and the formation of a new Islamic government in early 1979 have left the economy in disarray. The new government apparently wants to reduce Iran's heavy reliance on Western commercial and military goods and it has sharply cut oil production. The status of many large development projects and the extent of foreign participation in them remain uncertain. The economic and foreign policies of the new government are likely to be months in the making.

TABLE 4.—IRAN: TRADE BY GEOGRAPHIC AREA

[In millions of U.S. dollars]

|   | 1973  | 1974   | 1975   | 1976   | 1977   |
|---|-------|--------|--------|--------|--------|
| Exports (free on board).....                | 6,330 | 18,890 | 18,265 | 20,560 | 21,555 |
| OECD.....                                   | 5,420 | 15,800 | 15,305 | 16,710 | 17,355 |
| LDC's.....                                  | 790   | 2,830  | 2,635  | 3,425  | 3,675  |
| Communist countries.....                    | 60    | 135    | 180    | 305    | 425    |
| Imports (cost, insurance, and freight)..... | 3,380 | 5,425  | 10,345 | 12,885 | 15,740 |
| OECD.....                                   | 2,805 | 4,530  | 8,760  | 11,115 | 13,535 |
| LDC's.....                                  | 225   | 395    | 880    | 1,055  | 1,505  |
| Communist countries.....                    | 310   | 455    | 585    | 585    | 590    |
| Trade balance.....                          | 2,950 | 13,465 | 7,920  | 7,675  | 5,815  |
| OECD.....                                   | 2,615 | 11,270 | 6,545  | 5,595  | 3,820  |
| LDC's.....                                  | 565   | 2,435  | 1,755  | 2,370  | 2,170  |
| Communist countries.....                    | -250  | -420   | -405   | -280   | -165   |

Source: Direction of trade.

TABLE 5.—IRAN: COMMODITY TRADE WITH MAJOR OECD COUNTRIES<sup>1</sup>

[In millions of U.S. dollars]

|                     | 1973  | 1974   | 1975   | 1976   | 1977   |
|---------------------|-------|--------|--------|--------|--------|
| Exports .....       | 5,085 | 14,725 | 14,710 | 16,110 | 16,625 |
| Foodstuffs .....    | 90    | 95     | 70     | 70     | 110    |
| Raw materials ..... | 120   | 165    | 150    | 190    | 155    |
| Fuel .....          | 4,570 | 14,170 | 14,185 | 15,510 | 15,975 |
| Manufacturers ..... | 310   | 300    | 310    | 345    | 390    |
| Imports .....       | 3,230 | 5,750  | 11,174 | 10,810 | 11,997 |
| Foodstuffs .....    | 190   | 680    | 7,975  | 556    | 940    |
| Raw materials ..... | 80    | 165    | 230    | 155    | 175    |
| Fuel .....          | 10    | 15     | 25     | 30     | 35     |
| Manufacturers ..... | 2,950 | 4,895  | 10,125 | 10,070 | 10,845 |

<sup>1</sup> Based on data from Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West Germany.

TABLE 6.—IRAN: TRADE WITH SELECTED COUNTRIES<sup>1</sup>

[In millions of U.S. dollars]

|                          | 1973  | 1974   | 1975   | 1976   | 1977   |
|--------------------------|-------|--------|--------|--------|--------|
| Imports:                 |       |        |        |        |        |
| OECD .....               | 3,230 | 5,750  | 11,175 | 10,820 | 12,020 |
| Big-Seven .....          | 2,735 | 4,995  | 9,630  | 9,270  | 10,245 |
| United States .....      | 770   | 1,745  | 3,240  | 2,775  | 2,730  |
| United Kingdom .....     | 325   | 500    | 1,090  | 915    | 1,145  |
| Japan .....              | 485   | 1,015  | 1,850  | 1,705  | 1,925  |
| France .....             | 205   | 255    | 630    | 655    | 680    |
| West Germany .....       | 720   | 1,140  | 2,105  | 2,295  | 2,740  |
| Italy .....              | 175   | 280    | 565    | 770    | 885    |
| Canada .....             | 55    | 65     | 145    | 155    | 140    |
| Belgium/Luxembourg ..... | 90    | 110    | 270    | 205    | 240    |
| Netherlands .....        | 85    | 140    | 275    | 305    | 320    |
| Switzerland .....        | 100   | 155    | 245    | 305    | 365    |
| Australia .....          | 45    | 65     | 190    | 120    | 190    |
| Exports:                 |       |        |        |        |        |
| OECD .....               | 5,085 | 14,725 | 14,710 | 16,110 | 16,625 |
| Big-Seven .....          | 3,870 | 10,630 | 11,320 | 11,885 | 12,035 |
| United States .....      | 230   | 1,920  | 1,260  | 1,330  | 2,510  |
| United Kingdom .....     | 520   | 1,080  | 1,405  | 1,695  | 1,240  |
| Japan .....              | 1,735 | 4,300  | 4,475  | 4,005  | 3,820  |
| France .....             | 280   | 640    | 1,165  | 1,295  | 990    |
| West Germany .....       | 575   | 1,115  | 1,320  | 1,790  | 1,680  |
| Italy .....              | 410   | 1,010  | 1,020  | 1,140  | 1,345  |
| Canada .....             | 120   | 570    | 670    | 635    | 455    |
| Belgium/Luxembourg ..... | 165   | 300    | 430    | 425    | 670    |
| Netherlands .....        | 490   | 2,690  | 1,440  | 1,550  | 1,440  |
| Switzerland .....        | 30    | 30     | 35     | 70     | 90     |
| Australia .....          | 30    | 65     | 105    | 105    | 95     |
| Balance:                 |       |        |        |        |        |
| OECD .....               | 1,855 | 8,975  | 3,535  | 5,290  | 4,605  |
| Big-Seven .....          | 1,135 | 5,635  | 1,690  | 2,615  | 1,790  |
| United States .....      | -540  | 175    | -1,980 | -1,445 | -220   |
| United Kingdom .....     | 195   | 580    | 315    | 780    | 95     |
| Japan .....              | 1,250 | 3,285  | 2,625  | 2,300  | 1,895  |
| France .....             | 75    | 385    | 535    | 640    | 310    |
| West Germany .....       | -145  | -25    | -785   | -505   | -1,060 |

TABLE 6.—IRAN: TRADE WITH SELECTED COUNTRIES <sup>1</sup>—Continued

[In millions of U.S. dollars]

|                         | 1973 | 1974  | 1975  | 1976  | 1977  |
|-------------------------|------|-------|-------|-------|-------|
| Italy.....              | 235  | 730   | 455   | 370   | 460   |
| Canada.....             | 65   | 505   | 525   | 480   | 315   |
| Belgium/Luxembourg..... | 75   | 190   | 160   | 220   | 430   |
| Netherlands.....        | 405  | 2,550 | 1,165 | 1,245 | 1,120 |
| Switzerland.....        | -70  | -125  | -210  | -235  | -275  |
| Australia.....          | -15  | 0     | -85   | -15   | -95   |

<sup>1</sup> Based on data from Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West Germany.

## LIBYA

### *Oil Provides Exports Stimulus*

Libyan exports are almost exclusively oil, which is sold mainly to Europe and the United States. Exports doubled in 1974 from the 1973 level. In 1975, however, exports dropped 26 percent because Libya cut its crude oil prices in the face of slack Free World demand for oil. Rapid growth began again in 1976. Italy and West Germany were traditionally Libya's major markets, but beginning in 1975, U.S. purchases of Libyan crude oil accelerated. By 1976 the United States was Libya's largest export market. The non-oil LDCs have consistently taken about 10 percent of Libyan oil, while the Communist countries' small share has dropped.

### *Libya Buys Mainly From the West*

As with most other Middle East countries, Libya imports largely manufactures from the developed countries. Imports have risen even faster than exports—30 percent a year during 1974-77—but from a much smaller base. Imports were stimulated by implementation of the 1976-80 development plan, which calls for the expansion of import substitution industries producing cement, textiles, furniture, foods, and other consumer goods. Italy and West Germany have maintained their position as Libya's primary suppliers of manufactures. Although food imports are only 10 percent of imports from OECD countries, they are essential for Libya, whose domestic agriculture cannot support its small population.

### *Trade Surplus Remains Healthy*

Libya maintained a large trade surplus throughout 1973-77, allowing Colonel Quadafi to finance his foreign ventures. After peaking in 1974, the trade surplus fell by half in 1975 when exports dropped. The surplus rose in both 1976 and 1977 due largely to a growing surplus with the United States. Continuous surpluses with Italy and West Germany were also important contributors to Libya's financial well-being.

## Trade Slips in 1978

Libya's trade surplus declined in 1978, reversing its upward trend since 1975. Export earnings slipped in 1978 due to the worldwide decline in the demand for OPEC crude oil. Libya's oil exports dropped to 2 million b/d in 1978, down 4 percent from the 1977 level. Import spending continued rising at the recent pace of 12 percent a year despite a decline in import volume. A large part of the increase in import expenditures was attributable to import price inflation fueled by the depreciation of the U.S. dollar.

TABLE 7.—LIBYA: TRADE BY GEOGRAPHIC AREA

[In millions of dollars]

|   | 1973  | 1974  | 1975  | 1976  | 1977   |
|---|-------|-------|-------|-------|--------|
| Exports (free on board).....                | 3,995 | 8,260 | 6,100 | 8,640 | 10,020 |
| OECD.....                                   | 3,570 | 7,355 | 5,270 | 7,720 | 8,695  |
| LDC's.....                                  | 285   | 845   | 695   | 795   | 1,195  |
| Communist countries.....                    | 130   | 50    | 90    | 80    | 70     |
| Imports (cost, insurance, and freight)..... | 1,725 | 2,765 | 3,545 | 4,215 | 4,960  |
| OECD.....                                   | 1,330 | 2,150 | 2,810 | 3,735 | 4,440  |
| LDC's.....                                  | 185   | 295   | 534   | 260   | 290    |
| Communist countries.....                    | 150   | 240   | 220   | 120   | 70     |
| Trade balance.....                          | 2,320 | 5,500 | 2,590 | 4,475 | 5,160  |
| OECD.....                                   | 2,250 | 5,205 | 2,460 | 3,985 | 4,255  |
| LDC's.....                                  | 95    | 550   | 260   | 530   | 905    |
| Communist countries.....                    | -20   | -375  | -130  | -40   | 0      |

Source: Direction of Trade.

TABLE 8.—LIBYA: COMMODITY TRADE WITH MAJOR OECD COUNTRIES<sup>1</sup>

[In million of U.S. dollars]

|                           | 1973  | 1974  | 1975  | 1976  | 1977  |
|---------------------------|-------|-------|-------|-------|-------|
| Exports.....              | 2,660 | 5,795 | 4,570 | 7,070 | 8,155 |
| Food.....                 | 0     | 0     | 0     | 0     | 0     |
| Raw materials.....        | 5     | 0     | 0     | 0     | 0     |
| Fuel.....                 | 2,645 | 5,785 | 4,565 | 7,065 | 8,140 |
| Crude petroleum.....      | 2,555 | 5,665 | 4,330 | 6,775 | 7,740 |
| Manufacturers.....        | 5     | 5     | 10    | 10    | 10    |
| Imports.....              | 1,455 | 2,620 | 3,350 | 3,500 | 3,975 |
| Food.....                 | 175   | 260   | 285   | 305   | 445   |
| Raw materials.....        | 30    | 45    | 45    | 40    | 40    |
| Fuel.....                 | 35    | 140   | 135   | 145   | 125   |
| Manufacturers.....        | 1,215 | 2,175 | 2,885 | 3,010 | 3,365 |
| Semifinished goods.....   | 325   | 645   | 885   | 735   | 685   |
| Textiles and fabrics..... | 45    | 85    | 115   | 130   | 95    |
| Iron and steel.....       | 140   | 245   | 300   | 185   | 155   |
| Metal manufacturers.....  | 70    | 145   | 255   | 220   | 240   |
| Machinery.....            | 430   | 650   | 875   | 870   | 940   |
| Industrial.....           | 250   | 340   | 485   | 470   | 470   |
| Electrical.....           | 155   | 255   | 305   | 325   | 410   |
| Transportation.....       | 250   | 455   | 605   | 755   | 855   |
| Automobiles.....          | 150   | 275   | 340   | 330   | 440   |
| Parts.....                | 50    | 70    | 95    | 135   | 125   |
| Aircraft.....             | 30    | 25    | 90    | 125   | 110   |

<sup>1</sup> Based on data from Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West Germany.

TABLE 9.—LIBYA: TRADE WITH SELECTED COUNTRIES<sup>1</sup>

[In millions of U.S. dollars]

|                         | 1973  | 1974  | 1975  | 1976  | 1977  |
|-------------------------|-------|-------|-------|-------|-------|
| <b>Imports:</b>         |       |       |       |       |       |
| OECD.....               | 1,455 | 2,620 | 3,350 | 3,500 | 3,975 |
| Big-Seven.....          | 1,220 | 2,140 | 2,705 | 2,725 | 3,135 |
| United States.....      | 105   | 140   | 230   | 275   | 315   |
| United Kingdom.....     | 130   | 145   | 235   | 240   | 305   |
| Japan.....              | 110   | 235   | 240   | 325   | 275   |
| France.....             | 200   | 360   | 405   | 350   | 400   |
| West Germany.....       | 210   | 400   | 535   | 525   | 650   |
| Italy.....              | 455   | 855   | 1,030 | 1,000 | 1,175 |
| Canada.....             | 15    | 5     | 25    | 10    | 20    |
| Belgium/Luxembourg..... | 40    | 90    | 105   | 140   | 230   |
| <b>Exports:</b>         |       |       |       |       |       |
| OECD.....               | 2,660 | 5,795 | 4,570 | 7,070 | 8,155 |
| Big-Seven.....          | 2,240 | 5,125 | 4,035 | 6,230 | 7,315 |
| United States.....      | 170   | 0     | 940   | 2,015 | 3,415 |
| United Kingdom.....     | 365   | 825   | 255   | 270   | 220   |
| Japan.....              | 30    | 325   | 250   | 185   | 100   |
| France.....             | 165   | 350   | 180   | 290   | 280   |
| West Germany.....       | 750   | 1,470 | 1,250 | 1,890 | 1,945 |
| Italy.....              | 720   | 2,130 | 1,125 | 1,480 | 1,355 |
| Canada.....             | 35    | 25    | 30    | 100   | 0     |
| Belgium/Luxembourg..... | 125   | 160   | 60    | 25    | 20    |
| <b>Balance:</b>         |       |       |       |       |       |
| OECD.....               | 1,205 | 3,175 | 1,220 | 3,570 | 4,180 |
| Big-Seven.....          | 1,020 | 2,985 | 1,330 | 3,505 | 4,180 |
| United States.....      | 65    | -140  | 710   | 1,740 | 3,100 |
| United Kingdom.....     | 235   | 680   | 20    | 30    | -85   |
| Japan.....              | -80   | 90    | 10    | -140  | -175  |
| France.....             | -35   | -10   | -225  | -60   | -120  |
| West Germany.....       | 540   | 1,070 | 715   | 1,365 | 1,295 |
| Italy.....              | 265   | 1,275 | 95    | 480   | 180   |
| Canada.....             | 20    | 20    | 5     | 90    | -20   |
| Belgium/Luxembourg..... | 85    | 70    | -45   | -115  | -210  |

<sup>1</sup> Based on data from Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West Germany.

## UNITED ARAB EMIRATES\*

### *Revenues Depend on Oil*

The United Arab Emirates (UAE)—which includes Abu Dhabi, Dubai, Sharjah, Ras al-Khaimah, and several smaller emirates—relies heavily on Abu Dhabi oil for export revenues. Since the emirates conduct trade under the umbrella of the UAE, data are unavailable for individual members. As with other oil exporters, UAE exports jumped dramatically in 1974. Since then, they have continued rising at a rapid rate. Japan, France, and West Germany have consistently been major purchasers of UAE oil. As with Libya, the United States has increased its share steadily, becoming

\*See "Middle East Economic Digest Special Report," December 1978, Meed House, 21 John Street, London, England.

the UAE's second largest consumer in 1977 behind Japan. Non-oil LDC purchasers tripled their share of UAE oil sales, reaching 15 percent in 1977. The principal non-oil LDC buyers were India and Senegal for domestic consumption and the Netherlands Antilles, the Bahamas, and the Virgin Islands for refining and resale.

### *Imports Keep Pace With Exports*

UAE imports have averaged roughly 40 percent of export earnings. Imports grew more than 50 percent annually throughout the 1974-77 period to support ambitious new modernization programs. Dubai led the way with a dry dock, an aluminium smelter, an international trade and exhibition center, the Middle East's largest port at Jebel Ali, and a harbor at Mina Rashid. Only the last has been completed. Abu Dhabi has been concentrating on hydrocarbon-related industries; its major project is a \$1.5 billion gas project that will collect gas from the onshore oilfields of Bab, Asab, Bu Hasa, and Sahil. The gas will be processed to yield natural gas liquids and exported from facilities at Rawais.

The other emirates have also stepped up imports to support industrialization efforts. Sharjah has built a cement factory and an oxygen company, primarily for import substitution. Ras al-Khaimah built an industrial complex at Khor Khwair, which is just beginning to produce construction materials. Ras al-Khaimah supplies limestone aggregate to Saudi Arabia and Kuwait.

Manufactured goods have consistently been 90 percent or more of UAE imports, largely because of the emirates' extensive development projects. Machinery and other metal manufactures have been the fastest growing imports. While most of the UAE's imports were bought from the developed countries, the non-oil LDCs have maintained a constant 15-percent share. Still, the largest suppliers have remained Japan, the United Kingdom, and the United States.

### *Trade Surplus on the Rise*

The UAE's trade surplus jumped almost fourfold in 1974 when OPEC raised oil prices. Since then, the rise has slowed as development programs brought rapid increases in imports. Despite its massive overall trade surplus, the UAE ran a small trade deficit with the Communist countries, and only reached a surplus with the non-oil LDCs in 1976. Some of its trade surplus was offset by the large outlays necessary for the technical services to support the development projects. Many of the emirates have even borrowed to help defray these service costs.

### *Trade Slows in 1978*

The UAE's exports dropped about 4 percent in 1978 largely because Abu Dhabi imposed an oil production ceiling. There was little change in the structure of the UAE's export markets. Import spending rose by 25 percent due to import price inflation; import volume growth declined sharply in 1978. As with the other OPEC countries, the UAE was hit hard by purchasing power losses in 1978 due to the pricing of oil in U.S. dollars. The trade surplus declined by \$1.5 billion, the first decrease in three years.

TABLE 10.—UAE: TRADE BY GEOGRAPHIC AREA

[In millions of U.S. dollars]

|   | 1973  | 1974  | 1975  | 1976  | 1977  |
|---|-------|-------|-------|-------|-------|
| Exports (free on board).....                | 1,575 | 5,275 | 5,960 | 8,505 | 9,985 |
| OECD.....                                   | 1,510 | 5,145 | 5,490 | 7,315 | 8,105 |
| LDC.....                                    | 50    | 95    | 305   | 825   | 1,500 |
| Communist countries.....                    | 0     | 0     | 0     | 100   | 0     |
| Imports (cost, insurance, and freight)..... | 840   | 1,780 | 2,755 | 3,420 | 4,380 |
| OECD.....                                   | 590   | 1,160 | 1,915 | 2,550 | 3,345 |
| LDC.....                                    | 120   | 275   | 390   | 500   | 650   |
| Communist countries.....                    | 30    | 85    | 90    | 125   | 90    |
| Trade balance.....                          | 735   | 3,490 | 3,205 | 5,085 | 5,605 |
| OECD.....                                   | 920   | 3,990 | 3,580 | 4,765 | 4,760 |
| LDC.....                                    | -70   | -175  | -85   | 325   | 850   |
| Communist countries.....                    | -30   | -85   | -90   | -20   | -90   |

Source: Direction of trade.

TABLE 11.—UAE: COMMODITY TRADE WITH MAJOR OECD COUNTRIES<sup>1</sup>

[In millions of U.S. dollars]

|                          | 1973  | 1974  | 1975  | 1976  | 1977  |
|--------------------------|-------|-------|-------|-------|-------|
| Exports.....             | 1,550 | 5,225 | 5,645 | 7,080 | 7,845 |
| Raw materials.....       | 25    | 0     | 0     | 0     | 0     |
| Fuel.....                | 1,485 | 5,160 | 5,580 | 7,050 | 7,810 |
| Crude petroleum.....     | 1,480 | 5,020 | 5,505 | 7,050 | 7,755 |
| Manufacturers.....       | 40    | 60    | 65    | 30    | 35    |
| Imports.....             | 570   | 1,115 | 1,880 | 2,590 | 3,425 |
| Food.....                | 50    | 80    | 110   | 190   | 225   |
| Raw materials.....       | 5     | 5     | 10    | 15    | 15    |
| Fuel.....                | 5     | 10    | 25    | 15    | 30    |
| Manufacturers.....       | 510   | 1,020 | 1,735 | 2,365 | 3,155 |
| Semifinished goods.....  | 175   | 330   | 485   | 585   | 770   |
| Textiles.....            | 75    | 95    | 95    | 115   | 125   |
| Iron and steel.....      | 60    | 125   | 215   | 185   | 210   |
| Metal manufacturers..... | 25    | 65    | 95    | 135   | 230   |
| Machinery.....           | 140   | 305   | 550   | 785   | 1,130 |
| Industrial.....          | 100   | 210   | 365   | 495   | 695   |
| Electrical.....          | 40    | 85    | 165   | 270   | 405   |
| Transportation.....      | 90    | 190   | 400   | 530   | 610   |
| Automobiles.....         | 40    | 110   | 195   | 280   | 295   |

<sup>1</sup> Based on data from Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West Germany.

TABLE 12.—UAE: TRADE WITH SELECTED COUNTRIES<sup>1</sup>

[In millions of U.S. dollars]

|                     | 1973 | 1974  | 1975  | 1976  | 1977  |
|---------------------|------|-------|-------|-------|-------|
| Imports:            |      |       |       |       |       |
| OECD.....           | 570  | 1,115 | 1,890 | 2,590 | 3,425 |
| Big-Seven.....      | 475  | 960   | 1,600 | 2,170 | 2,900 |
| United States.....  | 120  | 230   | 370   | 425   | 515   |
| United Kingdom..... | 115  | 220   | 435   | 555   | 775   |
| Japan.....          | 160  | 310   | 420   | 635   | 845   |
| France.....         | 35   | 65    | 135   | 170   | 185   |

TABLE 12.—UAE: TRADE WITH SELECTED COUNTRIES <sup>1</sup>—Continued

[In millions of U.S. dollars]

|                     | 1973  | 1974  | 1975  | 1976  | 1977  |
|---------------------|-------|-------|-------|-------|-------|
| West Germany.....   | 30    | 90    | 145   | 235   | 365   |
| Italy.....          | 15    | 35    | 90    | 140   | 195   |
| Canada.....         | 0     | 5     | 5     | 10    | 20    |
| Exports:            |       |       |       |       |       |
| OECD.....           | 1,550 | 5,225 | 5,645 | 7,090 | 7,845 |
| Big-Seven.....      | 1,325 | 4,575 | 4,530 | 5,770 | 6,480 |
| United States.....  | 55    | 330   | 610   | 1,220 | 1,470 |
| United Kingdom..... | 155   | 410   | 320   | 325   | 405   |
| Japan.....          | 495   | 1,905 | 1,600 | 2,225 | 2,475 |
| France.....         | 305   | 1,080 | 1,025 | 1,105 | 1,070 |
| West Germany.....   | 220   | 675   | 665   | 620   | 825   |
| Italy.....          | 50    | 100   | 180   | 220   | 225   |
| Canada.....         | 45    | 75    | 125   | 60    | 15    |
| Trade balance:      |       |       |       |       |       |
| OECD.....           | 980   | 4,110 | 3,755 | 4,500 | 4,420 |
| Big-Seven.....      | 850   | 3,615 | 2,930 | 3,545 | 3,580 |
| United States.....  | -65   | 100   | 240   | 795   | 955   |
| United Kingdom..... | 40    | 190   | -115  | -230  | -370  |
| Japan.....          | 335   | 1,595 | 1,180 | 1,590 | 1,630 |
| France.....         | 270   | 1,015 | 890   | 935   | 885   |
| West Germany.....   | 190   | 585   | 520   | 385   | 460   |
| Italy.....          | 35    | 65    | 90    | 80    | 30    |
| Canada.....         | 45    | 70    | 120   | 50    | -5    |

<sup>1</sup> Based on data from Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West Germany.

## IRAQ

### *Oil Exports Predominate*

Iraqi exports increased rapidly during 1973-77, rising from a low of \$1.8 billion in 1973 to a high of \$10.3 billion by 1977. Crude oil is the only important export commodity; non-oil products account for only 1 percent of total exports. More than two-thirds of Iraqi exports go to the OECD countries. France and Italy were the largest OECD purchasers of Iraqi oil. Japan has been the fastest growing export market, however. Japanese imports of Iraqi oil began in significant quantities in 1974 and tripled from 1974 to 1977. The non-oil LDCs account for most of that not taken by the developed countries; the Communist countries increased their market share from 1 percent in 1973 to nearly 4 percent in 1977.

### *Import Spending High*

As a centrally planned economy, the government initiates an estimated 90 percent of import trade and regulates the remaining 10 percent handled by the private sector through licensing and exchange controls. Thus, as oil wealth flowed into the country after 1973-74, the government increased imports rapidly to meet growing internal demand. Import expenditures peaked at \$4.2 billion in 1975, slowed in 1976 as increased stocks were worked off, and then increased again in 1977. The OECD countries' share of Iraqi im-

ports rose from nearly 55 percent in 1973 to 80 percent in 1977. In 1974, manufactured imports—90 percent of which came from OECD countries—quadrupled as Iraq started to use its increased oil earnings to develop and modernize its economy. Machinery imports accounted for almost half of manufactured goods imported in 1977, up from only a quarter in 1974. The value of non-oil LDC and Communist sales to Iraq have increased slowly, and their share of imports has fallen precipitously. The non-oil LDCs and Communist countries supplied one-fifth and one-quarter of Iraqi imports in 1973, but less than 10 percent each in 1977. The Communist countries, particularly the U.S.S.R., also export a considerable amount of unrecorded military goods to Iraq.

Japan, West Germany, and France were Iraq's largest suppliers during 1973-77 and the principal sources of manufactured goods. Iraqi imports from West Germany have been declining since 1975 as Baghdad has sought to minimize its trade deficits with individual developed countries. If a country cut back on its purchases of Iraqi oil, then Iraq would cut back on the goods it imported from that country. The U.S.S.R. was the primary Communist supplier of Iraqi imports over the period, selling an average of \$90 million annually.

#### *Trade Continues in Surplus*

Iraq recorded annual trade surpluses during 1973-77 with export earnings averaging at least twice import expenditures. The trade surplus stood at a comfortable \$6.5 billion in 1977. Iraq has usually run a trade deficit with the Communist countries, but in 1977 it had a surplus. Chronic trade deficits persisted with West Germany, Japan, and the U.S.S.R., but trade with the United States was slightly in surplus in 1977. Iraq has consistently posted large trade surpluses with France and Italy.

#### *Trade Surplus Falls Slightly in 1978*

Iraqi export earnings were down roughly 3 percent in 1978 as oil exports fell slightly. Imports rose 12 percent because import price inflation wiped out the 3-percent decline in import volume. The trade surplus declined by \$800 million, the first decrease in three years.

TABLE 13.—IRAQ: TRADE BY GEOGRAPHIC AREA

[In millions of U.S. dollars]

|   | 1973  | 1974  | 1975  | 1976  | 1977   |
|---|-------|-------|-------|-------|--------|
| Exports (free on board).....                | 1,840 | 5,910 | 7,415 | 8,480 | 10,255 |
| OECD.....                                   | 1,365 | 4,240 | 5,195 | 5,765 | 7,080  |
| Big-Seven.....                              | 1,085 | 2,915 | 3,325 | 4,040 | 4,730  |
| OPEC.....                                   | 20    | 15    | 10    | 20    | 35     |
| LDC's.....                                  | 410   | 1,420 | 1,830 | 2,090 | 2,345  |
| Communist countries.....                    | 20    | 50    | 30    | 200   | 365    |
| U.S.S.R.....                                | 0     | 0     | 0     | 0     | 0      |
| Romania.....                                | 10    | 35    | 5     | 170   | 335    |
| Imports (cost, insurance, and freight)..... | 905   | 2,365 | 4,205 | 3,460 | 3,780  |
| OECD.....                                   | 485   | 1,445 | 3,185 | 2,730 | 3,035  |
| Big-Seven.....                              | 330   | 1,050 | 2,635 | 2,155 | 2,340  |
| OPEC.....                                   | 10    | 10    | 30    | 25    | 25     |

TABLE 13.—IRAQ: TRADE BY GEOGRAPHIC AREA—Continued

(In millions of U.S. dollars)

|                          | 1973 | 1974  | 1975  | 1976  | 1977  |
|--------------------------|------|-------|-------|-------|-------|
| LDC's.....               | 175  | 515   | 570   | 310   | 310   |
| Communist countries..... | 230  | 380   | 410   | 360   | 310   |
| U.S.S.R.....             | 80   | 110   | 100   | 75    | 70    |
| Romania.....             | 5    | 25    | 35    | 20    | 10    |
| Trade balance.....       | 935  | 3,545 | 3,210 | 5,020 | 6,475 |
| OECD.....                | 880  | 2,795 | 2,010 | 3,035 | 4,045 |
| Big-Seven.....           | 755  | 1,865 | 690   | 1,885 | 2,390 |
| OPEC.....                | 10   | 5     | -20   | -5    | 10    |
| LDC's.....               | 235  | 905   | 1,260 | 1,780 | 2,035 |
| Communist countries..... | -210 | -330  | -380  | -160  | 55    |
| U.S.S.R.....             | -80  | -110  | -100  | -75   | -70   |
| Romania.....             | 5    | 10    | -30   | 150   | 325   |

Source: Direction of Trade.

TABLE 14.—IRAQ: COMMODITY TRADE WITH MAJOR OECD COUNTRIES<sup>1</sup>

(In millions of U.S. dollars)

|                          | 1973  | 1974  | 1975  | 1976  | 1977  |
|--------------------------|-------|-------|-------|-------|-------|
| Exports.....             | 1,315 | 3,905 | 4,715 | 5,115 | 6,345 |
| Food.....                | 15    | 10    | 10    | 10    | 15    |
| Raw materials.....       | 5     | 5     | 5     | 10    | 10    |
| Fuel.....                | 1,285 | 3,885 | 4,690 | 5,090 | 6,300 |
| Crude petroleum.....     | 1,285 | 3,875 | 4,655 | 5,065 | 6,280 |
| Manufacturers.....       | 5     | 10    | 10    | 10    | 25    |
| Imports.....             | 500   | 1,930 | 3,920 | 3,725 | 3,665 |
| Food.....                | 55    | 180   | 260   | 225   | 275   |
| Cereal.....              | 35    | 145   | 195   | 115   | 175   |
| Raw materials.....       | 15    | 50    | 50    | 30    | 40    |
| Fuel.....                | 5     | 10    | 10    | 10    | 10    |
| Manufacturers.....       | 425   | 1,685 | 3,600 | 3,460 | 3,340 |
| Semifinished goods.....  | 140   | 695   | 1,025 | 765   | 830   |
| Metal manufacturers..... | 20    | 75    | 210   | 235   | 320   |
| Machinery.....           | 115   | 390   | 1,180 | 1,230 | 1,555 |
| Industrial.....          | 80    | 255   | 825   | 850   | 1,095 |
| Transportation.....      | 95    | 395   | 1,060 | 1,055 | 525   |
| Automobile.....          | 20    | 215   | 695   | 310   | 150   |

<sup>1</sup> Based on data from Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France; Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West Germany.TABLE 15.—IRAQ: TRADE WITH SELECTED COUNTRIES<sup>1</sup>

(In millions of U.S. dollars)

|                    | 1973 | 1974  | 1975  | 1976  | 1977  |
|--------------------|------|-------|-------|-------|-------|
| Imports:           |      |       |       |       |       |
| OECD.....          | 500  | 1,930 | 3,920 | 3,725 | 3,665 |
| France.....        | 85   | 215   | 410   | 475   | 445   |
| West Germany.....  | 45   | 375   | 1,050 | 900   | 780   |
| Italy.....         | 30   | 95    | 260   | 245   | 230   |
| Japan.....         | 50   | 475   | 815   | 625   | 870   |
| United States..... | 55   | 285   | 310   | 380   | 210   |

TABLE 15.—IRAQ: TRADE WITH SELECTED COUNTRIES<sup>1</sup>—Continued

(In millions of U.S. dollars)

|                    | 1973  | 1974  | 1975  | 1976  | 1977  |
|--------------------|-------|-------|-------|-------|-------|
| Exports:           |       |       |       |       |       |
| OECD.....          | 1,315 | 3,905 | 5,705 | 5,115 | 6,345 |
| France.....        | 440   | 1,135 | 1,015 | 1,445 | 1,645 |
| West Germany.....  | 50    | 275   | 110   | 140   | 115   |
| Italy.....         | 465   | 1,050 | 1,505 | 1,220 | 1,250 |
| Japan.....         | 5     | 180   | 355   | 520   | 660   |
| United States..... | 15    | 0     | 20    | 100   | 340   |
| Trade balance:     |       |       |       |       |       |
| OECD.....          | 815   | 1,975 | 1,785 | 1,390 | 2,680 |
| France.....        | 355   | 920   | 605   | 970   | 1,200 |
| West Germany.....  | 5     | -100  | -940  | -760  | -665  |
| Italy.....         | 435   | 955   | 1,245 | 975   | 1,020 |
| Japan.....         | -45   | -295  | -460  | -105  | -210  |
| United States..... | -40   | -285  | -290  | -280  | 130   |

<sup>1</sup> Based on data from Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West Germany.

## KUWAIT

### *Export Markets Become More Diversified*

The 128-percent rise in Kuwaiti exports—almost exclusively oil—from 1973 to 1977 was actually the slowest export growth among Middle East OPEC countries. After almost tripling in 1974, exports fell in two of the next three years because of a slack market demand for OPEC crude oil and the imposition of a domestic oil production ceiling. Sales of refined petroleum products have become increasingly important, rising from only 7 percent of exports in 1973 to nearly 16 percent by 1977. Kuwait also exported fertilizer to China, India, Indonesia, and the Sudan. Care must be exercised in assessing Kuwaiti trade statistics because they include goods that were imported into Kuwait because of port congestion elsewhere in the Persian Gulf and then were reexported.

The OECD countries have historically been the major market for Kuwaiti oil exports; during 1973-77, they purchased 65 percent of Kuwaiti sales. Japan, the United Kingdom, and France have been the largest consumers of Kuwaiti oil. France, however, cut its consumption of Kuwaiti crude by 36 percent in 1976 and an additional 16 percent in 1977 because of increased reliance on other Middle East OPEC and European suppliers. In 1977, Italian purchases of oil from Kuwait picked up from 1975 and 1976 lows. The non-oil LDCs' share of Kuwaiti exports has been growing. Non-oil LDC consumers, primarily Taiwan and South Korea, have seen their share fluctuate from a low of 22 percent in 1973 to a high of 32 percent in 1976.

### *Import Spending Up*

Import spending grew at a 44-percent annual rate during 1974-77. Kuwait relied primarily on imports to satisfy domestic demand for consumer, intermediate, and capital goods. Kuwait decided not to industrialize on as large a scale as many of its neighbors, but to

rely on oil and the return on foreign investments as sources of future revenue.

OECD countries supplied about 76 percent of Kuwaiti imports from 1973 to 1977, the primary sources being Japan, the United States, and the United Kingdom. Another 16 percent came from the non-oil LDCs, and 6 percent from the Communist countries. About 90 percent of Kuwait's imports from the OECD countries were manufactures, mostly to support residential, school, and hospital construction. Kuwaiti purchases from all suppliers rose steadily over the period.

### *Trade Surplus Continues*

Kuwaiti trade was in surplus throughout the 1973-77 period. The surplus jumped to \$9.4 billion in 1974 as oil revenues skyrocketed. Since 1974, the trade surplus has decreased, but it was still a comfortable \$4 billion in 1977. Kuwait has had a trade deficit with the United States during the entire 1973-77 period. In some years, Kuwait also ran trade deficits with the Communist countries.

### *Trade Surplus Expands in 1978*

Kuwaiti export earnings rose an estimated 8 percent in 1978 due exclusively to increased oil output. A 4-percent decrease in the volume of goods purchased was more than offset by import price inflation of 16 percent. Kuwait's trade surplus rose to almost \$4.2 billion in 1978.

TABLE 16.—KUWAIT: TRADE BY GEOGRAPHIC AREA

(In millions of U.S. dollars)

|   | 1973  | 1974   | 1975  | 1976  | 1977  |
|---|-------|--------|-------|-------|-------|
| Exports (free on board).....                | 3,790 | 10,965 | 9,185 | 9,835 | 8,625 |
| OECD.....                                   | 2,690 | 7,885  | 5,725 | 5,755 | 5,475 |
| LDC's.....                                  | 815   | 2,670  | 2,610 | 3,190 | 2,315 |
| Communist countries.....                    | 25    | 20     | 135   | 140   | 25    |
| Imports (costs insurance, and freight)..... | 1,065 | 1,555  | 2,390 | 3,325 | 4,630 |
| OECD.....                                   | 730   | 1,130  | 1,865 | 2,525 | 3,525 |
| LDC's.....                                  | 210   | 270    | 345   | 545   | 780   |
| Communist countries.....                    | 80    | 110    | 130   | 180   | 250   |
| Trade balance.....                          | 2,725 | 9,405  | 6,800 | 6,510 | 3,995 |
| OECD.....                                   | 1,955 | 6,755  | 3,860 | 3,235 | 1,950 |
| LDC's.....                                  | 605   | 2,400  | 2,265 | 2,645 | 1,535 |
| Communist countries.....                    | -60   | -85    | 5     | -40   | -225  |

Source: Direction of Trade.

TABLE 17.—KUWAIT: COMMODITY TRADE WITH MAJOR OECD COUNTRIES<sup>1</sup>

(In millions of U.S. dollars)

|                      | 1973  | 1974  | 1975  | 1976  | 1977  |
|----------------------|-------|-------|-------|-------|-------|
| Exports.....         | 2,575 | 5,720 | 5,065 | 4,770 | 5,545 |
| Food.....            | 10    | 10    | 10    | 10    | 10    |
| Raw materials.....   | 0     | 0     | 0     | 0     | 0     |
| Fuel.....            | 2,545 | 5,680 | 5,020 | 4,735 | 5,505 |
| Crude petroleum..... | 2,380 | 5,155 | 4,515 | 3,915 | 4,595 |

TABLE 17.—KUWAIT: COMMODITY TRADE WITH MAJOR OECD COUNTRIES <sup>1</sup>—Continued

(In millions of U.S. dollars)

|                         | 1973 | 1974  | 1975  | 1976  | 1977  |
|-------------------------|------|-------|-------|-------|-------|
| Manufacturers .....     | 15   | 30    | 35    | 25    | 35    |
| Imports.....            | 625  | 1,135 | 1,690 | 2,525 | 3,195 |
| Food.....               | 100  | 150   | 145   | 205   | 225   |
| Meat and fish .....     | 30   | 40    | 50    | 75    | 85    |
| Raw materials.....      | 0    | 5     | 5     | 10    | 15    |
| Fuel.....               | 5    | 10    | 5     | 10    | 15    |
| Manufacturers.....      | 520  | 970   | 1,535 | 2,295 | 2,940 |
| Semifinished goods..... | 130  | 275   | 320   | 565   | 640   |
| Textile.....            | 55   | 70    | 110   | 150   | 180   |
| Iron and steel.....     | 25   | 100   | 80    | 170   | 145   |
| Metal manufacture ..    | 20   | 30    | 45    | 90    | 130   |
| Machinery.....          | 130  | 195   | 320   | 615   | 855   |
| Industrial.....         | 70   | 115   | 175   | 335   | 510   |
| Electrical.....         | 55   | 70    | 130   | 265   | 315   |
| Transportation.....     | 115  | 250   | 555   | 580   | 790   |
| Automobile.....         | 85   | 160   | 335   | 350   | 465   |

<sup>1</sup> Based on data from Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West German.

TABLE 18.—KUWAIT: TRADE WITH SELECTED COUNTRIES <sup>1</sup>

(In millions of U.S. dollars)

|                          | 1973  | 1974  | 1975  | 1976  | 1977  |
|--------------------------|-------|-------|-------|-------|-------|
| Imports (free on board): |       |       |       |       |       |
| OECD.....                | 625   | 1,135 | 1,690 | 2,530 | 3,195 |
| Big-Seven.....           | 515   | 920   | 1,385 | 2,190 | 2,735 |
| United States.....       | 120   | 210   | 365   | 470   | 550   |
| United Kingdom.....      | 75    | 135   | 215   | 260   | 425   |
| Japan.....               | 165   | 280   | 365   | 720   | 935   |
| France.....              | 40    | 65    | 100   | 230   | 160   |
| West Germany.....        | 70    | 160   | 205   | 305   | 370   |
| Italy.....               | 40    | 65    | 115   | 180   | 260   |
| Canada.....              | 0     | 5     | 15    | 25    | 35    |
| Exports (free on board): |       |       |       |       |       |
| OECD.....                | 2,575 | 5,720 | 5,065 | 4,770 | 5,545 |
| Big-Seven.....           | 1,825 | 4,745 | 3,965 | 3,545 | 4,400 |
| United States.....       | 50    | 15    | 100   | 35    | 195   |
| United Kingdom.....      | 520   | 1,200 | 840   | 950   | 850   |
| Japan.....               | 530   | 1,915 | 1,810 | 1,815 | 2,240 |
| France.....              | 355   | 805   | 585   | 370   | 320   |
| West Germany.....        | 110   | 320   | 205   | 160   | 145   |
| Italy.....               | 265   | 430   | 325   | 190   | 630   |
| Canada.....              | 5     | 60    | 100   | 25    | 20    |
| Trade balance:           |       |       |       |       |       |
| OECD.....                | 1,950 | 4,585 | 3,375 | 2,240 | 2,350 |
| Big-Seven.....           | 1,320 | 3,825 | 2,585 | 1,355 | 1,635 |
| United States.....       | -70   | -195  | -265  | -435  | -355  |
| United Kingdom.....      | 445   | 1,065 | 625   | 690   | 425   |
| Japan.....               | 365   | 1,635 | 1,445 | 1,095 | 1,305 |
| France.....              | 315   | 740   | 485   | 140   | 160   |
| West Germany.....        | 40    | 160   | 0     | -145  | -255  |
| Italy.....               | 225   | 365   | 210   | 10    | 370   |
| Canada.....              | 0     | 55    | 85    | 0     | -15   |

<sup>1</sup> Based on data from Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West Germany.

## ISRAEL

A problem occurs in using Israeli trade data. The information on trade by commodity is incomplete; that is, the sum of trade in all commodities is far short of total trade. Most of the discrepancy can be explained by differences in reporting (c.i.f. or f.o.b.) and by exclusion of occupied territories and military goods in commodity breakdowns.

*A Diversified Mix of Exports*

Israeli exports grew at a 20-percent annual rate from 1973 to 1977. The Labor Government, which was in office until the spring of 1977, sought to encourage exports by providing large subsidies to the export sector. The Begin Government drastically reduced these subsidies in late 1977 while allowing the Israeli pound to sharply depreciate in order to keep exports competitive.

Israel produces a wide range of commodities that require a high portion of skilled labor input. These exports include polished diamonds, chemicals, electronics and communications equipment, high-fashion clothing, and aircraft. Roughly one-third of Israeli exports were cut and polished diamonds. In 1977, finished diamonds worth over \$1 billion were sold mainly to the United States, Hong Kong, Japan, and Belgium. Citrus fruits, potash extracted from the Dead Sea, and phosphates were also important foreign exchange earners. Additional exports included dies and drill bits and executive jet aircraft.

Israeli export markets are fairly well diversified. The United States, the largest single purchaser of Israeli goods, took only 16 percent of exports during 1973-77. The Occupied Territories—the West Bank, the Gaza Strip, and North Sinai—provided another large market, taking 14 percent of Israeli exports during the period. Events in Iran have denied access by Israel to what was previously its only regional trading partner. Exports to Iran exceeded \$100 million in 1977.

*Imports Reflect Industrial Production*

Israeli civilian import expenditures rose strongly in 1974 and 1975, and declined in 1976 as import controls instituted in 1974 began to take hold. The general austerity program of 1974 resulted in slow growth rates in national output of less than 2 percent in both 1976 and 1977, which helped to restrain imports. Although many import restrictions were lifted in late 1977, the sharp depreciation of the Israeli pound raised the cost of imports.

Military imports have averaged \$1.4 billion annually. Most of the military imports were purchased under the United States Foreign Military Sales program and the remainder came from Europe.

More than 90 percent of Israeli imports during 1973-77 were either raw materials or capital goods. Imports of capital goods were used to enlarge the export-oriented chemical industry and to expand the oil refinery and cement plants. Usually over 30 percent of imports were diamonds, iron and steel, raw materials, and chemicals that were processed for export. Crude oil imports, valued

at over \$600 million a year since 1975, were refined domestically to meet Israeli demand.

Israel purchased over three-fifths of its imports from OECD countries during 1973-77. The U.S. share of Israeli imports almost doubled during this period to 27 percent. Israel's second and third largest suppliers, the United Kingdom and West Germany, saw their shares decline—by almost half in the case of West Germany. The Occupied Territories have sold goods worth over \$100 million yearly since 1974.

### *Financing of the Trade Deficit*

Covering the trade deficit has not been a problem. Tel Aviv has been receiving about \$2 billion yearly in grants and loans from the United States. Israel also takes in over \$1 billion a year in unilateral transfers from world Jewry, private remittances, and West German restitution payments. In addition, Israeli bond sales abroad have brought in over \$350 annually during 1973-77.

### *Large 1978 Trade Deficit Offset by Services*

In 1978, Israel's trade deficit widened once again. While exports grew 25 percent, imports rose even more in absolute terms. The civilian goods and service deficit declined, however, due to a substantial increase in service receipts. Military imports increased sharply, but were covered by U.S. military assistance. Due to large capital and transfer inflows, Israel ended the year with the largest balance-of-payments surplus in its history; foreign exchange reserves grew by over \$1 billion to \$2.7 billion.

TABLE 19.—ISRAEL: TRADE WITH SELECTED COUNTRIES

(In million of U.S. dollars)

|                              | 1973  | 1974  | 1975  | 1976  | 1977  |
|------------------------------|-------|-------|-------|-------|-------|
| Exports (free on board)..... | 1,562 | 2,005 | 2,180 | 2,670 | 3,391 |
| OECD.....                    | 1,119 | 1,343 | 1,420 | 1,731 | 2,133 |
| Big-Seven.....               | 755   | 844   | 947   | 1,158 | 1,458 |
| United States.....           | 267   | 301   | 309   | 440   | 577   |
| Canada.....                  | 21    | 28    | 30    | 39    | 41    |
| Japan.....                   | 87    | 69    | 107   | 79    | 93    |
| United Kingdom.....          | 141   | 158   | 172   | 186   | 230   |
| West Germany.....            | 138   | 136   | 160   | 202   | 276   |
| France.....                  | 65    | 83    | 112   | 137   | 161   |
| Italy.....                   | 36    | 69    | 57    | 75    | 80    |
| Netherlands.....             | 98    | 138   | 129   | 164   | 181   |
| Belgium/Luxembourg.....      | 76    | 106   | 81    | 103   | 159   |
| Switzerland.....             | 89    | 105   | 81    | 97    | 116   |
| Communist.....               | 19    | 35    | 30    | 29    | 29    |
| OPEC.....                    | 45    | 77    | 150   | 188   | 126   |
| LDCs.....                    | 208   | 257   | 235   | 294   | 351   |
| Territories.....             | 194   | 299   | 370   | 392   | 452   |
| Imports (free on board)..... | 4,000 | 5,100 | 5,700 | 5,300 | 5,400 |
| OECD.....                    | 2,491 | 3,232 | 3,209 | 3,144 | 3,832 |
| Big-Seven.....               | 1,971 | 2,528 | 2,510 | 2,410 | 2,822 |
| United States.....           | 549   | 754   | 1,002 | 888   | 1,447 |
| Canada.....                  | 32    | 33    | 40    | 43    | 49    |
| Japan.....                   | 59    | 130   | 89    | 107   | 89    |

TABLE 19.—ISRAEL: TRADE WITH SELECTED COUNTRIES—Continued

(In million of U.S. dollars)

|                         | 1973   | 1974   | 1975   | 1976   | 1977   |
|-------------------------|--------|--------|--------|--------|--------|
| United Kingdom.....     | 483    | 543    | 561    | 634    | 478    |
| West Germany.....       | 512    | 687    | 458    | 416    | 383    |
| France.....             | 130    | 154    | 155    | 151    | 195    |
| Italy.....              | 152    | 226    | 206    | 171    | 181    |
| Netherlands.....        | 166    | 223    | 182    | 242    | 157    |
| Belgium/Luxembourg..... | 140    | 142    | 149    | 127    | 254    |
| Switzerland.....        | 86     | 126    | 127    | 159    | 377    |
| Communist.....          | 50     | 56     | 44     | 47     | 45     |
| OPEC.....               | 7      | 8      | 10     | 8      | 6      |
| LDC's.....              | 113    | 120    | 162    | 127    | 193    |
| Territories.....        | 67     | 102    | 123    | 143    | 154    |
| Balance:                |        |        |        |        |        |
| World.....              | -2,438 | -3,095 | -3,520 | -2,630 | -2,036 |
| OECD.....               | -1,372 | -1,889 | -1,789 | -1,413 | -1,699 |
| Big-Seven.....          | -1,162 | -1,684 | -1,563 | -1,252 | -1,364 |
| United States.....      | -282   | -453   | -693   | -448   | -878   |
| United Kingdom.....     | -342   | -385   | -389   | -448   | -248   |
| West Germany.....       | -374   | -551   | -298   | -214   | -107   |
| Communist.....          | -31    | -21    | -14    | -18    | -16    |
| OPEC.....               | 38     | 69     | 140    | 180    | 120    |
| LDC's.....              | 95     | 137    | 73     | 167    | 158    |
| Territories.....        | 127    | 197    | 247    | 249    | 298    |

Source: Israeli Trade Statistics.

TABLE 20.—ISRAEL: EXPORTS AND IMPORTS (F.O.B.)

(In million of U.S. dollars)

|                           | 1973  | 1974  | 1975  | 1976  | 1977  |
|---------------------------|-------|-------|-------|-------|-------|
| Exports (free on board):  |       |       |       |       |       |
| Total of commodities..... | 1,479 | 1,825 | 1,941 | 2,416 | 3,083 |
| Food.....                 | 225   | 284   | 352   | 401   | 371   |
| Fruit and vegetable.....  | 217   | 232   | 288   | 318   | 276   |
| Raw materials.....        | 41    | 79    | 86    | 117   | 154   |
| Energy.....               | 0     | 0     | 0     | 0     | 0     |
| Manufacturers.....        | 1,213 | 1,462 | 1,503 | 1,897 | 2,558 |
| Chemicals.....            | 110   | 264   | 242   | 261   | 242   |
| Semifinished.....         | 782   | 848   | 875   | 1,124 | 1,242 |
| Metal manufacturers.....  | 39    | 55    | 93    | 178   | 36    |
| Diamonds.....             | 622   | 646   | 646   | 807   | 1,099 |
| Clothing.....             | 86    | 96    | 101   | 121   | 141   |
| Imports (free on board):  |       |       |       |       |       |
| Total of commodities..... | 2,988 | 4,237 | 4,173 | 4,132 | 4,845 |
| Food.....                 | 399   | 572   | 648   | 585   | 630   |
| Cereals.....              | 244   | 331   | 390   | 360   | 405   |
| Raw materials.....        | 138   | 169   | 159   | 182   | 208   |
| Energy.....               | 209   | 630   | 639   | 682   | 739   |
| Crude Petro.....          | 195   | 616   | 628   | 676   | 733   |
| Manufacturers.....        | 2,242 | 2,867 | 2,726 | 2,684 | 3,268 |
| Chemicals.....            | 181   | 294   | 277   | 287   | 372   |
| Semifinished.....         | 1,003 | 1,367 | 1,299 | 1,324 | 1,640 |
| Iron and steel.....       | 196   | 379   | 263   | 190   | 246   |
| Diamonds.....             | 494   | 465   | 491   | 703   | 1,057 |
| Machinery.....            | 445   | 564   | 719   | 623   | 506   |

TABLE 20.—ISRAEL: EXPORTS AND IMPORTS (F.O.B.)—Continued

(In million of U.S. dollars)

|                  | 1973 | 1974 | 1975 | 1976 | 1977 |
|------------------|------|------|------|------|------|
| Industrial ..... | 227  | 266  | 375  | 322  | 275  |
| Electrical.....  | 171  | 225  | 257  | 202  | 189  |

Source: Israeli Trade Statistics.

## EGYPT\*

*Export Diversification Bolsters Sales*

Egyptian exports almost doubled between 1973 and 1977, and the developed West replaced Communist countries as the largest export market for Egyptian goods. The Communist countries' share dropped from 54 percent in 1973 to 34 percent in 1977. During this time President Sadat was trying to maximize hard currency earnings, shift economic ties from the East to the West, and reduce state trading. Since 1975, Egypt has abolished 21 bilateral trade agreements, leaving only active agreements with the Soviet Union, East Germany, China, North Korea, Mongolia, Sudan, Jordan, and Mali. In 1977 Egypt suspended cotton shipments to the Soviet Union and Czechoslovakia.

Oil became Egypt's most important export commodity in 1976 and will become even more important in the 1980s. The public sector Egyptian General Petroleum Corporation has long maintained good relations with foreign oil companies even during the 1960s when foreign private participation in the Egyptian economy was strictly limited. New areas were opened up to foreign firms under production sharing agreements in early 1973 as Egypt initiated a drive to reverse the then declining trend in oil production. As a result of new discoveries and the return of the oil fields captured by the Israelis in 1975, crude production rose from 150,000 b/d in 1974 to 415,000 b/d in 1977. After allowing for domestic consumption and foreign company shares of production, net Egyptian oil export revenues were \$550 million in 1977.

Cotton, the largest Egyptian export until 1976, has been dwindling in importance due to a rapid rise in petroleum exports and an official policy to stabilize cotton-growing acreage. In 1974 cotton exports peaked at \$690 million with 43 percent of exports, but by 1977 they had dropped to \$440 million and a 21-percent share. A soft world market for cotton in 1975 started the decline, and the downward trend did not bottom out until the following year.

Egypt's textile industry earns about \$200 million in foreign revenues yearly. The textile plant at Mahalla al-Kobra is one of the world's largest and is equipped with state-of-the-art equipment. In 1977 Egypt began importing short-staple cotton for use in the mills to leave the more desirable long-staple cotton for export. Most of the imported cotton comes from the United States.

Egypt has also lost several export opportunities. Egypt could have exported sugar if it had concentrated on traditional skills and industries. With abundant limestone supplies, Egypt could be the

\*See "Middle East Economic Digest Special Report," May 1978, Meed House, 21 John Street, London, England.

major cement producer in the Arab world; even now Egyptian cement is probably the least expensive in the world. Now, however additional supplies have to be imported, and some Persian Gulf states have started their own cement industries.

Italy, the United States, and the United Kingdom were the largest developed country importers of Egyptian goods in 1977. All three imported substantial quantities of Egyptian oil—crude petroleum—went to Italy and the United States and refined products to the United Kingdom. The Netherlands also imports many petroleum products from Egypt. Japan was the largest importer of Egyptian cotton, and the United Kingdom the largest importer of Egyptian food.

### *Imports Stress Manufactured Goods*

Manufactured goods dominate Egyptian imports. Imports of capital and intermediate goods rose steadily as a share of total imports during the 1973-77 period. Capital goods alone accounted for 38 percent of imports in 1977. Foodstuffs fell from 28 percent of total imports in 1973 to 20 percent in 1977, due partly to lower wheat prices. Major food imports include wheat, other cereals, meat, and beverages—mostly tea. Egypt imported roughly 65 percent of its wheat supply. The United States—aided by Public Law 480 shipments—was the largest wheat and flour supplier, followed by Australia. Meat came from Argentina, Uruguay, and the United States, and frozen fish came from the Soviet Union. Egypt is the fifth largest tea importer in the world.

The developed countries' share of the Egyptian import market grew rapidly during the mid-1970's, from 55 percent in 1973 to 74 percent in 1977. This trend has paralleled the increased availability of hard currency, in large part due to aid inflows. Since 1976 West Germany has been Egypt's second largest supplier after the United States and it is the primary supplier of manufactured goods. Egypt purchased industrial equipment primarily from West Germany, the United States, Italy, and the United Kingdom, cars and car parts from West Germany, and iron and steel from Japan. In contrast, the Communist countries' share of Egyptian imports fell precipitously, from 36 percent in 1973 to 14 percent in 1977. The Communist countries were still important suppliers of newsprint and coke.

Egypt has taken major steps to relax import and foreign exchange controls in recent years. Simultaneously, a substantial depreciation of the Egyptian pound has been brought about by progressively shifting foreign exchange transactions from the overvalued official exchange rates to the depreciated "parallel" rates of exchange. In addition, a free foreign exchange market has developed with the government's blessing. This market offers an important inducement to Egyptians working abroad to send money home. Foreign currency in the free market can be used to import a wide range of goods without licenses or controls.

### *Trade Deficit Widens*

The Egyptian trade deficit grew rapidly in 1974-75 due to a steep rise in imports following the 1973 war with Israel. Increasing net

service sector earnings have been important in holding down the size of the current account deficit. The Egyptians have also looked to foreign aid as a means of funding their massive trade and current account deficits. Since 1976, however, remittances from workers abroad have substantially reduced the aid requirements.

Between 1973 and 1977 the oil rich, conservative Persian Gulf nations—especially Saudi Arabia and Kuwait—were the principal donors of aid. The Arab donors provided close to \$6 billion in economic aid flows during the period with the peak coming in 1975. This compares to about \$1.5 billion in aid flows from the OECD countries and \$500 million from the Communist nations during the 1973-77 period.

The U.S. Agency for International Development (AID) and the World Bank have recently become major sources of economic aid to Egypt. The U.S. AID program, initiated in 1975, is currently \$1 billion a year, much of which has yet to be disbursed. Aid to Egypt is the Agency's largest single program and equals more than the combined U.S. AID assistance to the rest of Africa and Latin America combined. U.S. assistance is diverse including Public Law 480 wheat deliveries, commodity import programs, and capital aid programs. The World Bank's lending to Egypt is also its largest anywhere. Egypt has received over \$850 million in loan commitments from the World Bank, only 30 percent of which have been drawn.

### *Recent Developments*

Petroleum again dominated the export picture in 1978, netting \$700 million in foreign earnings. Further increases in petroleum sector earnings are expected in the coming years as new fields come on stream, a process that will be aided by the Israeli pullback from the Gulf of Suez and the Sinai under the new peace treaty. Recent oil price hikes will also add to earnings. Cotton fared unexpectedly well in 1978 as higher world prices coincided with the largest Egyptian crop in a decade. Balanced against these trends, exports of truckcrops and finished manufactured items declined from the previous year. Imports in 1978 did not expand as rapidly as had been expected. Capital goods in particular fell short of projections due, in part, to construction industry bottlenecks that hampered investment projects.

TABLE 21.—EGYPT: TRADE WITH SELECTED COUNTRIES

(In millions of U.S. dollars)

|   | 1973  | 1974   | 1975   | 1976   | 1977   |
|---|-------|--------|--------|--------|--------|
| Exports (free on board).....                              | 1,066 | 1,616  | 1,587  | 1,938  | 2,091  |
| OECD.....   | 317   | 559    | 430    | 871    | 1,022  |
| Communist countries.....                                  | 574   | 853    | 992    | 769    | 714    |
| LDC.....  | 175   | 204    | 165    | 298    | 355    |
| Imports (cost, insurance, and freight) <sup>1</sup> ..... | 1,697 | 3,120  | 4,869  | 4,902  | 5,695  |
| OECD.....   | 929   | 2,015  | 3,342  | 3,609  | 4,218  |
| Communist countries <sup>2</sup> .....                    | 618   | 800    | 922    | 666    | 811    |
| LDCs <sup>3</sup> .....                                   | 150   | 305    | 596    | 627    | 666    |
| Trade balance.....  | -631  | -1,504 | -3,273 | -2,964 | -3,604 |
| OECD.....   | -612  | -1,456 | -2,912 | -2,738 | -3,196 |

TABLE 21.—EGYPT: TRADE WITH SELECTED COUNTRIES—Continued

(In millions of U.S. dollars)

|                          | 1973 | 1974 | 1975 | 1976 | 1977 |
|--------------------------|------|------|------|------|------|
| Communist countries..... | -44  | 53   | 70   | 103  | -97  |
| LDCs.....                | 25   | -101 | -431 | -329 | -311 |

<sup>1</sup> Partner country reports to the United Nations.<sup>2</sup> U.S.S.R.: "Handbook of Foreign Trade." Egyptian trade data, customs basis, as reported by Egypt to the United Nations.<sup>3</sup> Egyptian trade data, customs basis, as reported by Egypt to the United Nations.

TABLE 22.—EGYPT: COMMODITY TRADE

(In millions of U.S. dollars)

|   | 1973 | 1974  | 1975  | 1976  | 1977  |
|---|------|-------|-------|-------|-------|
| Exports (free on board):                                      |      |       |       |       |       |
| Forest, fishing, and agricultural products <sup>1</sup> ..... | 694  | 1,025 | 875   | 845   | 872   |
| Other raw materials.....                                      | 15   | 14    | 20    | 11    | 7     |
| Fuels, oil, and lubricants.....                               | 116  | 215   | 330   | 717   | 827   |
| Manufacturers.....  | 225  | 335   | 336   | 331   | 365   |
| Other.....  | 15   | 25    | 25    | 33    | 20    |
| Imports (cost, insurance, and freight):                       |      |       |       |       |       |
| Foodstuffs.....   | 480  | 1,062 | 1,265 | 1,112 | 1,136 |
| Other consumer goods.....                                     | 121  | 160   | 259   | 450   | 488   |
| Fuels, oil, and lubricants.....                               | 56   | 102   | 330   | 204   | 151   |
| Capital goods <sup>2</sup> .....                              | 474  | 624   | 1,213 | 1,654 | 2,146 |
| Raw materials and intermediate goods....                      | 436  | 1,024 | 1,625 | 1,339 | 1,561 |
| Other.....  | 132  | 149   | 168   | 142   | 213   |

<sup>1</sup> Including processed food.<sup>2</sup> Including office equipment and supplies.

## SYRIA

### *Export Earnings Up*

Between 1973 and 1977, Syrian exports tripled, reaching \$1.1 billion. Increases in crude petroleum exports were primarily responsible for the rapid rise. Revenues from petroleum sales to the OECD countries went up an average of 50 percent a year during the five year period. Oil provided 31 percent of Syrian export earnings in 1973, almost 69 percent in the peak year of 1975, and just over 52 percent in 1977. Cotton exports, Syria's second largest foreign exchange earner, grew slowly over the period, and cotton's share of total exports fell to two-thirds of its 1973 level.

Syrian exports went to a broad range of markets. Sales to the OECD countries increased rapidly, while sales to the Communist countries grew more slowly. The OECD countries' share of Syrian exports jumped from 39 percent in 1973 to 60 percent in 1977; the Communist countries' share slipped from 31 percent to 22 percent. France, West Germany, and Italy are the largest consumers of Syrian oil. Italy also purchased half of Syrian cotton to the OECD countries during 1973-77.

### Import Spending Quadruples

Syrian import expenditures increased over fourfold during 1973-77, an average annual growth rate of 45 percent. The most rapidly growing import item was manufactured goods; from the OECD countries alone imports of manufactures grew from \$280 million to \$1.3 billion. Imports of chemicals, iron and steel, metal manufactures, and machinery were used to build public sector projects. Food and livestock imports also increased.

Syria's import patterns reflect its political ties. Syria purchased an increasing share of its manufactured goods from France, a country that has supported U.N. resolutions calling for Israeli withdrawal from all occupied territories. The United Kingdom, on the other hand, has sold little to Syria, possibly because of the lack of British initiative on the Middle East question. Syria has been careful not to sacrifice its good relations with the Communist countries as its Western ties became stronger; Communist countries supplied an average 18 percent of Syrian imports during 1973-77. Romanian exports to Syria skyrocketed to account for over 45 percent of Communist exports to Syria in 1977, up from only 11 percent in 1973.

### Trade Deficit Soars

Syria ran a deficit with every trading group during 1973-77, and the combined trade deficit rose steadily. Since 1975, imports have been more than double exports. Most of the funds necessary to finance the trade deficit came from Saudi Arabia and Kuwait. Worker remittances were another source of revenues.

### Trade Deficit Reduced in First Half 1978

In first half 1978, Syrian exports declined as a result of decreased sales of crude oil to European markets and a move to preserve oil reserves. Imports dropped even more, largely as a result of a government decision in 1977 to cut back spending. The cutback was prompted by soaring inflation, port congestion, and a decline in Arab aid.

TABLE 23.—SYRIA: TRADE BY GEOGRAPHIC AREA

(In millions of U.S. dollars)

|   | 1973 | 1974  | 1975  | 1976  | 1977  |
|---|------|-------|-------|-------|-------|
| Exports (free on board).....                | 350  | 785   | 930   | 1,065 | 1,065 |
| OECD.....                                   | 135  | 395   | 510   | 640   | 640   |
| OPEC.....                                   | 25   | 35    | 55    | 65    | 80    |
| Saudi Arabia.....                           | 10   | 15    | 25    | 50    | 60    |
| LDC's.....                                  | 50   | 75    | 35    | 50    | 60    |
| Lebanon.....                                | 30   | 50    | 10    | 5     | 20    |
| Communist countries.....                    | 110  | 220   | 155   | 185   | 235   |
| U.S.S.R.....                                | 55   | 110   | 55    | 90    | 105   |
| China.....                                  | 30   | 40    | 20    | 35    | 55    |
| Romania.....                                | 5    | 15    | 20    | 10    | 15    |
| Imports (cost, insurance, and freight)..... | 615  | 1,230 | 1,685 | 2,365 | 2,685 |
| OECD.....                                   | 335  | 705   | 1,040 | 1,650 | 1,600 |
| OPEC.....                                   | 30   | 60    | 60    | 215   | 300   |

TABLE 23.—SYRIA: TRADE BY GEOGRAPHIC AREA—Continued

(In millions of U.S. dollars)

|                          | 1973 | 1974 | 1975 | 1976   | 1977   |
|--------------------------|------|------|------|--------|--------|
| Saudi Arabia.....        | 0    | 0    | 0    | 150    | 275    |
| LDC's.....               | 85   | 170  | 225  | 130    | 150    |
| Lebanon.....             | 35   | 95   | 65   | 45     | 60     |
| Communist countries..... | 135  | 245  | 280  | 280    | 515    |
| U.S.S.R.....             | 45   | 45   | 50   | 45     | 90     |
| China.....               | 25   | 50   | 45   | 35     | 50     |
| Romania.....             | 15   | 30   | 75   | 40     | 235    |
| Trade balance.....       | -260 | -445 | -755 | -1,300 | -1,620 |
| OECD.....                | -200 | -310 | -525 | -1,010 | -960   |
| OPEC.....                | -5   | -25  | -10  | -150   | -220   |
| Saudi Arabia.....        | -10  | 15   | 25   | -100   | -215   |
| LDC's.....               | -35  | -95  | -195 | -75    | -90    |
| Lebanon.....             | -5   | -45  | -55  | -40    | -40    |
| Communist countries..... | -25  | -30  | -125 | -95    | -280   |
| U.S.S.R.....             | 10   | 65   | 5    | 45     | 15     |
| China.....               | 5    | -10  | -25  | 0      | 5      |
| Romania.....             | -10  | -15  | -55  | -30    | -220   |

Source: Direction of Trade.

TABLE 24.—SYRIA: COMMODITY TRADE WITH MAJOR OECD COUNTRIES<sup>1</sup>

(In millions of U.S. dollars)

|                           | 1973 | 1974 | 1975 | 1976  | 1977  |
|---------------------------|------|------|------|-------|-------|
| <b>Exports:</b>           |      |      |      |       |       |
| Food.....                 | 20   | 5    | 10   | 15    | 15    |
| Raw materials.....        | 45   | 35   | 30   | 80    | 105   |
| Cotton.....               | 40   | 35   | 20   | 60    | 80    |
| Fuel.....                 | 110  | 435  | 650  | 640   | 585   |
| Crude petroleum.....      | 110  | 430  | 645  | 630   | 555   |
| Manufacturers.....        | 5    | 5    | 5    | 10    | 15    |
| <b>Imports:</b>           |      |      |      |       |       |
| Food.....                 | 55   | 115  | 115  | 165   | 175   |
| Cereal.....               | 15   | 50   | 65   | 55    | 90    |
| Meat and fish.....        | 20   | 30   | 20   | 45    | 50    |
| Raw materials.....        | 15   | 20   | 20   | 25    | 40    |
| Fuel.....                 | 40   | 70   | 40   | 15    | 20    |
| Manufacturers.....        | 280  | 630  | 955  | 1,620 | 1,280 |
| Chemicals.....            | 45   | 70   | 115  | 120   | 135   |
| Semifinished.....         | 85   | 245  | 255  | 410   | 355   |
| Textiles and fabrics..... | 35   | 55   | 55   | 80    | 85    |
| Iron and steel.....       | 20   | 105  | 85   | 135   | 95    |
| Metal manufactures.....   | 10   | 30   | 50   | 95    | 90    |
| Machinery.....            | 95   | 155  | 310  | 575   | 475   |
| Industrial.....           | 55   | 95   | 180  | 375   | 315   |
| Electrical.....           | 30   | 45   | 95   | 160   | 130   |

<sup>1</sup> Based on data from Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West Germany.

TABLE 25.—SYRIA: TRADE WITH SELECTED COUNTRIES <sup>1</sup>

(In millions of U.S. dollars)

|                          | 1973 | 1974 | 1975  | 1976   | 1977  |
|--------------------------|------|------|-------|--------|-------|
| Imports (free on board): |      |      |       |        |       |
| OECD.....                | 390  | 840  | 1,130 | 1,825  | 1,510 |
| France.....              | 60   | 135  | 160   | 290    | 265   |
| West Germany.....        | 75   | 175  | 245   | 365    | 275   |
| Italy.....               | 55   | 130  | 160   | 225    | 215   |
| Japan.....               | 25   | 70   | 110   | 155    | 155   |
| United States.....       | 20   | 40   | 130   | 270    | 135   |
| Greece.....              | 30   | 15   | 35    | 35     | 25    |
| Brazil.....              | 15   | 40   | 70    | 35     | 10    |
| Exports (free on board): |      |      |       |        |       |
| OECD.....                | 175  | 480  | 690   | 740    | 715   |
| France.....              | 20   | 35   | 130   | 185    | 170   |
| West Germany.....        | 25   | 80   | 60    | 90     | 115   |
| Italy.....               | 65   | 135  | 290   | 275    | 275   |
| Japan.....               | 5    | 0    | 5     | 5      | 5     |
| United States.....       | 5    | 0    | 5     | 10     | 15    |
| Greece.....              | 45   | 170  | 155   | 45     | 50    |
| Brazil.....              | 0    | 0    | 0     | 0      | 0     |
| Trade Balance:           |      |      |       |        |       |
| OECD.....                | 215  | -360 | -440  | -1,085 | -795  |
| France.....              | -40  | -100 | -30   | -105   | -95   |
| West Germany.....        | -55  | -95  | -185  | -275   | -160  |
| Italy.....               | 10   | 5    | 130   | 50     | 60    |
| Japan.....               | -20  | -70  | -180  | -150   | -145  |
| United States.....       | -15  | -35  | -120  | -260   | -115  |
| Greece.....              | 15   | 155  | 120   | 10     | 25    |
| Brazil.....              | -15  | -40  | -70   | -35    | -10   |

<sup>1</sup> Based on data from Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States, and West Germany.

## JORDAN

### *Exports Continue Upward Trend*

Jordanian exports tripled in 1974, stagnated in 1975, and took off again in 1976. The 1974 jump was due largely to the quadrupling of the world price of phosphate rock; Jordanian exports of phosphate rock went from \$12 million in 1973 to \$61 million in 1974. With the subsequent decline in the world price, phosphate rock exports fell 15 percent by 1977. Since 1975 cement exports, which once represented as much as 10 percent of total exports, have ceased completely. The main areas of expansion have been manufactured consumer goods such as textiles, which have risen at an average annual rate of 60 percent, and foods, largely fruits and vegetables, which grew 40 percent annually.

Export growth would have been higher especially for food, if the government had not discouraged exports to hold down domestic prices. Agricultural and certain manufactured exports have been forbidden at times when domestic shortages have appeared.

Except for phosphates, Jordan's export market has centered around its Arab neighbors. Largely because of increased oil revenues, Jordan's oil producing neighbors became their most impor-

tant customers in 1975 and took more than half of total exports in 1977. Saudi Arabia has become Jordan's largest single customer and in 1977 took 30 percent of total exports. Jordanian exports outside the region are mainly phosphates to Eastern Europe, Japan, and India. Unlike the larger Middle East countries, Jordan has not exported a large share of its products to the OECD countries. During 1973-77, the OECD countries' share of Jordanian exports fluctuated between 13 and 22 percent.

### *Imports Skyrocket*

Jordanian imports shot up rapidly during 1973-77—from \$328 million in 1973 to nearly \$1.4 billion in 1977—reflecting the country's intensive development effort. Capital goods, the fastest growing and largest component of imports, rose more than 800 percent in the period and in 1977 represented 40 percent of total imports. More than half of Jordan's food was imported, but food accounted for a shrinking share of the import bill—18 percent in 1977 compared with 31 percent in 1973. Cereals continued to be the major food import, followed closely by meat, fruit, and vegetables. Semi-finished goods—primarily textiles, iron and steel, and metal manufactures—provided a relatively constant 20 percent of imports throughout the period. Oil comprised about 10 percent of imports.

The United States, West Germany, Saudi Arabia, the United Kingdom, and Japan are Jordan's major suppliers. Over three-fifths of Jordanian imports were purchased from the OECD countries. The non-oil LDCs have experienced a decline in their share of the market from 25 percent in 1973 to 15 percent in 1977. Saudi Arabia has been the only supplier of crude oil and provides only 10 percent of Jordan's imports.

### *Trade Deficit Soars*

Jordan consistently runs large trade deficits with imports running five to six times greater than exports. Despite the deficits, the country imposes few import controls and actually encourages imports to hold down inflation. While imposing high tariffs on luxury consumer goods for domestic revenue purposes, it has kept them low on food, fuel, and capital goods. Jordan has not had a current account deficit in the last five years as earnings from services, worker remittances, and foreign aid have easily covered the trade deficits.

### *Little Change in 1978*

In 1978 Jordan's trade deficit remained close to the 1977 level. Imports in the first nine months were down slightly, primarily because Jordan did not import big ticket items such as Boeing 747s, which it purchased in 1977. Exports rose only marginally as the government restricted foreign sales of agricultural products and construction materials in an effort to reduce domestic prices.

TABLE 26.—JORDAN: EFFORTS AND IMPORTS, F.O.B., AND TRADE BALANCE

[In millions of U.S. dollars]

|                                 | 1973 | 1974 | 1975 | 1976  | 1977   |
|---------------------------------|------|------|------|-------|--------|
| <b>Exports (free on board):</b> |      |      |      |       |        |
| World.....                      | 57   | 155  | 153  | 209   | 249    |
| OECD.....                       | 11   | 21   | 34   | 35    | 32     |
| United States.....              | 1    | 1    | 9    | 4     | 5      |
| West Germany.....               | 0    | 0    | 1    | 3     | 3      |
| OPEC.....                       | 19   | 46   | 54   | 92    | 131    |
| Saudi Arabia.....               | 8    | 20   | 21   | 44    | 74     |
| LDC's.....                      | 26   | 80   | 45   | 60    | 73     |
| Syria.....                      | 11   | 12   | 15   | 25    | 27     |
| Communist countries.....        | 1    | 4    | 19   | 22    | 12     |
| <b>Imports (free on board):</b> |      |      |      |       |        |
| World.....                      | 328  | 487  | 731  | 1,022 | 1,381  |
| OECD.....                       | 159  | 252  | 439  | 625   | 876    |
| United States.....              | 34   | 55   | 76   | 93    | 205    |
| West Germany.....               | 26   | 45   | 78   | 156   | 193    |
| OPEC.....                       | 16   | 24   | 86   | 122   | 145    |
| Saudi Arabia.....               | 11   | 12   | 72   | 106   | 119    |
| LDC's.....                      | 81   | 110  | 116  | 177   | 204    |
| Syria.....                      | 24   | 20   | 21   | 25    | 36     |
| Communist countries.....        | 23   | 46   | 59   | 71    | 123    |
| <b>Trade balance:</b>           |      |      |      |       |        |
| World.....                      | -271 | -332 | -578 | -813  | -1,132 |
| OECD.....                       | -146 | -231 | -405 | -509  | -844   |
| United States.....              | -33  | -54  | -67  | -89   | -179   |
| West Germany.....               | -26  | -45  | -77  | -153  | -190   |
| OPEC.....                       | 3    | 22   | -32  | -30   | -14    |
| Saudi Arabia.....               | -3   | 8    | -51  | -62   | -45    |
| LDC's.....                      | -55  | -30  | -71  | -117  | -131   |
| Syria.....                      | -13  | -8   | -6   | 0     | -9     |
| Communist countries.....        | -22  | -42  | -40  | -49   | -111   |

Source: Jordanian Trade Statistics.

TABLE 27.—JORDAN: MAJOR IMPORT COMMODITIES

[In millions of U.S. dollars]

|                                | 1973 | 1974 | 1975 | 1976  | 1977  |
|--------------------------------|------|------|------|-------|-------|
| <b>Export (free on board):</b> |      |      |      |       |       |
| Total.....                     | 57   | 155  | 153  | 209   | 249   |
| Food.....                      | 18   | 37   | 40   | 72    | 87    |
| Fruits and vegetables.....     | 13   | 29   | 31   | 47    | 54    |
| Raw materials.....             | 14   | 63   | 63   | 62    | 59    |
| Phosphate Rock.....            | 12   | 61   | 61   | 58    | 52    |
| Fuel.....                      | 1    | 0    | 1    | 3     | 1     |
| Manufacturers.....             | 25   | 55   | 49   | 73    | 103   |
| Semifinished.....              | 9    | 22   | 16   | 18    | 37    |
| Wood and cork.....             | 0    | 0    | 0    | 1     | 10    |
| Metal manufactures.....        | 0    | 1    | 2    | 4     | 9     |
| Transportation.....            | 9    | 5    | 17   | 25    | 21    |
| Aircraft.....                  | 8    | 3    | 13   | 15    | 13    |
| <b>Import (free on board):</b> |      |      |      |       |       |
| Total.....                     | 328  | 487  | 731  | 1,022 | 1,381 |
| Food.....                      | 103  | 142  | 164  | 264   | 252   |
| Cereals.....                   | 37   | 48   | 41   | 86    | 96    |

TABLE 27.—JORDAN: MAJOR IMPORT COMMODITIES—Continued

(In millions of U.S. dollars)

|                         | 1973 | 1974 | 1975 | 1976 | 1977 |
|-------------------------|------|------|------|------|------|
| Meat.....               | 25   | 30   | 35   | 38   | 50   |
| Fruit.....              | 20   | 27   | 30   | 48   | 48   |
| Raw Materials.....      | 8    | 11   | 17   | 27   | 31   |
| Fuel.....               | 13   | 16   | 78   | 112  | 131  |
| Crude petroleum.....    | 10   | 11   | 71   | 103  | 112  |
| Manufacturers.....      | 204  | 317  | 473  | 619  | 967  |
| Semifinished.....       | 70   | 105  | 141  | 198  | 311  |
| Textiles.....           | 23   | 28   | 38   | 42   | 53   |
| Iron and steel.....     | 17   | 32   | 36   | 60   | 78   |
| Metal manufactures..... | 10   | 11   | 27   | 34   | 71   |
| Machinery.....          | 28   | 47   | 106  | 154  | 195  |
| Industrial.....         | 13   | 25   | 59   | 99   | 106  |
| Electrical.....         | 12   | 19   | 41   | 49   | 80   |
| Transportation.....     | 22   | 59   | 120  | 142  | 274  |
| Automobiles.....        | 10   | 16   | 47   | 96   | 97   |
| Aircraft.....           | 7    | 34   | 48   | 26   | 136  |

Source: Jordanian Trade Statistics.

# SOVIET-EAST EUROPEAN ECONOMIC RELATIONS WITH THE MIDDLE EAST\*

By Orah Cooper\*\*

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Communist economic relations with Middle East nations have expanded during the past five years despite humiliating setbacks to the Soviets in Egypt, strains in the Soviet-Syrian relationship, and strong competition from the West for larger shares of Middle Eastern markets. Moscow has intensified and broadened its economic activities in the region, even though its share of Middle Eastern aid and trade has slipped since 1974. To protect its political-economic interests, the U.S.S.R. is cultivating a wider range of markets for Soviet goods and in some cases is establishing new sources of raw materials for its industries. These efforts have pushed non-military trade with the Middle East to more than \$3.2 billion in 1977<sup>1</sup> (up from \$2.1 billion in 1973), and massive arms sales added another \$2.5 billion.

\*Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania are designated as East European nations.

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<sup>1</sup>All values are expressed in current dollars, converted from other national currencies at the average exchange rate for the year cited.

NOTE.—The cutoff date for research on this paper was Dec. 31, 1978.

## FOUNDATIONS OF THE RELATIONSHIP

The Communist-Middle East aid offensive of the mid-1950s, Moscow's first important challenge to Western interests in the Third World, gave impetus to anti-colonialist movements throughout the developing world. As a primary target of Soviet penetration, the area received almost half of all Communist economic aid to the Third World in 1955-73 and accounted for about two-thirds of Communist non-military LDC trade. Focusing their aid on the confrontation states—Egypt, Iraq, and Syria—the Soviets gained a foothold in the Middle East and a share of influence in regional political affairs. In this period the Communists committed \$10 billion of military aid and \$6.5 billion of economic aid (table 1). Egypt garnered a third of the Communist economic aid to the Middle East, and 45 percent of the military. Most of the remainder went to Iran, Iraq, Syria, and Algeria.

A \$250 million military package for Egypt in 1955 set off a chain of events leading to Soviet construction of the Aswan Dam, Egypt's nationalization of the Suez Canal, and a nearly seven billion dollar Communist-Egyptian economic/military connection. The spill-over of Soviet influence into other radical Arab states—especially Iraq and Syria—intensified Middle East tensions.

Except in Iran, Moscow's economic relationship with its large Middle East clients developed as a follow-on to the military supply relationship. The Communists viewed economic aid as a conduit for materials, personnel, and ideas, with the ultimate objective of developing socialist institutions in the client countries. At the same time, the trade links which grew out of the aid programs created new markets for Communist goods and guaranteed long term access to raw materials, often as aid repayments. Despite Tehran's serious reservations about a Soviet presence, economic aid paved the way for \$575 million of Soviet sales to Iran's ground forces (before 1974) and, later, for large commercial contracts.

Soviet aid provided Moscow's major Middle East clients with large and prestigious projects, rooted in the public sector. These included steel mills, aluminum plants, machine tool plants, and multipurpose dams for major power systems and irrigation. Aid helped establish national petroleum industries in Syria and Iraq, and a natural gas industry in Iran.

Spurred by the aid initiatives, Soviet-LDC trade expanded sharply. By 1973 Soviet-Egyptian trade was almost quadruple the 1960 level, Iraq's was 18 times higher, and Syria's eight times. Trade of other Communist countries with the Middle East also soared, and the number of CEMA country technicians rose. In 1973 about 11,800 were in the Middle East acting as: (a) Advisors and training officers; (b) geological and industrial surveyors; and (c) plant designers (table 2). By year-end 1973 more than 15,000 Middle Eastern personnel had gone to the USSR and East European countries for technical training and just under 18,000 had gone for academic studies (table 3).

Trade with the Middle East, originally intended to reduce Western influence and enhance Moscow's political image, quickly became economically important to the Communist countries. By 1973 these countries absorbed about 13 percent of total Soviet

exports of machinery and equipment and supplied the largest part of Communist's energy and cotton imports.

### THE CHANGING PICTURE, 1974-78

Changes in world economic conditions and in Moscow's political relations in the Middle East have reduced the Soviet share of the area's foreign trade and aid receipts. The increased earnings of the oil states and their large contributions to oil-poor Arab countries have given Middle East countries a far wider range of supplier choices than before and enabled many of them to shed their earlier dependence on Communist countries.

Pledges of OPEC official development assistance to the poorer states totaling over \$15.5 billion in 1974-77, were more than a third higher than the entire amount of European Communist aid extended Middle Eastern countries in a 23-year period. In contrast with Communist tied aid—the OPEC aid, largely in cash, gave recipients flexibility in its use and made it possible for Communist countries to profit from these large receipts. This was especially apparent in large Middle East arms purchases, which reached almost \$12 billion in 1974-78. These sales gave the European Communist countries hard currency earnings that have averaged about \$1.5 billion a year. While the Soviets lost a \$4 billion arms client in Egypt, sales to Libya, Iraq, and Syria rose to unprecedented heights after 1973, more than compensating for the loss of Egypt as an arms market.

Only in the case of Egypt, owing to the reversal of Moscow's political fortunes there, was there an absolute decline in the economic relationship. Compared with the 45 percent Communist share of Egypt's market in 1973, European Communist trade with Egypt failed to keep pace with Egypt's trade with the rest of the world. This resulted in a reduction of 23 percentage points in the Communist 1977 share.

Despite aggressive sales campaigns, neither the USSR nor Eastern Europe was able to maintain its previous share of the growing Middle Eastern market. Compared with a 13 percent share of the Middle Eastern market (with major trading partners) in 1973, the European Communist share had fallen to less than 8 percent by 1977. The most pronounced reduction after Egypt, was the Communist share of Iraqi trade, which fell from about 22 percent to 11 percent in 1977. Despite the sharp rise in the value of this trade, it failed to keep up with the more than five-fold increase in this trade with the non-Communist world.

#### SOVIET AND EAST EUROPEAN SHARES OF TRADE WITH MAJOR MIDDLE EAST TRADING PARTNERS

[In percent]

|              | 1973 | 1974 | 1975 | 1976 | 1977 |
|--------------|------|------|------|------|------|
| Algeria..... | 7    | 6    | 6    | 5    | 4    |
| Iraq.....    | 22   | 12   | 13   | 14   | 11   |
| Libya.....   | 4    | 4    | 5    | 5    | 4    |
| Syria.....   | 28   | 21   | 19   | 21   | 20   |
| Iran.....    | 7    | 5    | 5    | 5    | 5    |

SOVIET AND EAST EUROPEAN SHARES OF TRADE WITH MAJOR MIDDLE EAST TRADING PARTNERS—  
Continued  
[In percent]

|              | 1973 | 1974 | 1975 | 1976 | 1977 |
|--------------|------|------|------|------|------|
| Egypt.....   | 45   | 43   | 40   | 24   | 22   |
| Morocco..... | 8    | 10   | 10   | 9    | 8    |

By year-end 1978 Moscow and Czechoslovakia had lost their major source of raw cotton; Moscow had to move its repair center of the Mediterranean fleet from a Soviet-built shipyard in Egypt to Tunisia; and it found itself sharing the exploitation of oil in Iraq and Syria with other developers.

Oil in particular was affected by the more independent stance of the Middle East nations. Immediately after the oil price increases of 1974, Soviet and East European purchases dropped off—the U.S.S.R. because of the general reduction in West European (Moscow's market for oil) oil consumption and Eastern Europe because of disagreement over contract prices and hard currency problems. By 1977-78 tonnages had moved up again to roughly 1972 levels (1973 purchases by the U.S.S.R. were high for a single year).

The Russians, however, have continued to pursue a sales campaign to capture more of the Middle East market (much of which has not yet shown up in the data). The Middle East received:

About 45 percent of Moscow's \$7.2 billion average annual trade with the Third World in 1974-77 even though trade with Egypt—its largest Middle East trading partner in 1973—stagnated and then dropped off in 1976-77.

Total Communist economic aid of \$4.8 billion (\$3.6 billion from the U.S.S.R. and \$1.2 billion from Eastern Europe) which surpassed all previous four year periods to any Third World region (mostly because of the record Soviet commitment to Morocco).

30 percent of Eastern Europe's new aid pledges, and almost two-thirds of its total deliveries to LDCs.

A five-fold increase in Communist technicians from 1973-78, mostly because of the record presence in Libya (22,200) in 1978, compared with 2,500 in 1973.

The new sales initiatives are paving the way for: (a) Moscow's first military order (for missiles) from Kuwait; (b) Libyan consideration (for the first time) of its bids on large commercial contracts; (c) Iraqi contracts, reaching into the billions for power development; and (d) expansion of commercial ties with Iran on a broad new front before the revolution. Moscow also pulled a major coup with a \$2 billion 30-year agreement in 1978 for the exploitation of phosphates in Morocco—a first for the Soviets in this Western oriented country.

#### *How Middle Eastern Countries Fared*

Economic relations of individuals states with CEMA countries, have run the gamut of "no change" (as for Saudi Arabia, Israel, and most Persian Gulf states) to a vast "expansion" in the relationship (as for Morocco). Iran's relations with Communist countries following the revolution are not yet clear. For most others, the

relationship continued to demonstrate the growth effects of two decades of interchange and shifting economic fortunes.

In the country reviews which follow, the history and present status of the Soviet-East European economic role in the Middle East is explored. The reviews are confined to twelve countries where the relationship has an historical basis or where recent developments portend an expansion. They are grouped according to their present importance in the Communist economic relationship: (1) The Radical Arab States; (2) Iran; (3) Egypt; and (4) others, including certain Red Sea, Persian Gulf, and Maghreb states.

### *The Radical Arab States*

#### ALGERIA

Despite large amounts of Western relief aid, especially from the United States, the East European-Soviet contribution to post-independence Algeria was important. Communist Europe committed \$770 million of economic aid to Algeria in the 10 years immediately after independence in 1962. These countries provided assistance not available from other sources to public sector industry and helped fill critical gaps in professional and administrative skills created by the French departure.

Moscow's hand was most visible during the unsuccessful 1970-73 plan period when Algeria followed the classical Soviet model of a centrally directed program of investment in heavy industry. Algeria's present plan—oriented toward development of the hydrocarbon sector and light industry—depends more on purchases of turn-key plants from major Western firms under commercial agreements. While some medium term credits are available for equipment purchases, little Western aid is forthcoming except for French technical assistance and the recycling of earlier aid funds that was repayable in local currency.

Before 1974 Communist aid provided Algeria with the largest steel mill in Africa—Algeria's most prestigious industrial undertaking. The Communists also provided assistance for (a) extensive mineral and metal prospecting; (b) refining of metals; and (c) agricultural and light industrial development. Despite slow progress on major projects, about a third of the Communist commitment had been met by the end on 1973.

#### *Closer economic ties, a political spinoff*

Since 1973, Soviet-Algerian relations have been strengthened by Moscow's support for Algeria's position on Western Sahara and by Algeria's logistical support for Soviet-Cuban operations in Africa. Anxious to sustain relations with this long-time client, closer military ties and large new arms agreements in 1975 were followed by Moscow's largest single economic aid agreement with Algeria. The almost \$300 million 1976 agreement for an alumina plant was aimed at revitalizing Soviet-Algerian economic relations. The capacity of the 140,000 ton plant eventually will be doubled and Moscow will expand capacity at the Soviet-aided steel mill from the present 1.4 million tons to 4 million tons. The Soviets also offered aid for: (a) a heavy machinery and electrical complex, (b) a dam

and irrigation works, (c) a steel mill in western Algeria to process iron ore from Gara Djibilet, and (d) oil refineries.

Eastern Europe's aid response to Algeria followed close on the U.S.S.R.'s although most of the earlier programs languished because of Algeria's unskilled labor force and primitive industrial base. Only in the past few years have deliveries of East European aid gained momentum and work on major projects begun to take shape. Most important among these are an East German-Czech pump plant and East German iron and steel foundries designed to complement the Soviet industrial effort.

Poland will be making important contributions to Algeria's new development plan (1979-83) with a 500,000 ton cement plant and sulfuric acid unit at Annaba for which Warsaw has won contracts. Poland also will participate, through a Polish-Algerian consortium, in Algeria's 100,000 house building program by assigning about 100 Polish architects and engineers to work with the consortium and supplying construction materials and equipment.

While Algeria's trade with Communist countries has expanded dramatically in the past several years, its growth has been outpaced by the expansion of Algerian trade with the West. Both Soviet and East European trade with Algeria rose about 60 percent in 1976 compared with 1973, while Algeria's trade with France, for example, almost doubled.

Communist technicians have made an important contribution toward filling Algeria's needs for administrative and professional personnel. A contingent of about 11,400 Soviets and East Europeans was present in Algeria in 1978, staffing schools and hospitals and providing technical assistance for aid projects.

#### IRAQ

Despite its reduced need for arms and development support from Communist countries and Baghdad's 1974 decision to diversify its market relationships, Iraq still buys most of its arms from the USSR and continues to expand economic ties with European Communist nations. Although Baghdad has placed almost \$3 billion of arms orders with non-CEMA suppliers since 1973 and Moscow fell from top rank to ninth place as a trading partner in 1977, the Soviets will play a more active role in Iraq's \$49 billion current five-year development program (1976-80) than in any previous plan. Russian profits from massive sales of arms and from sales of machinery and equipment are now at record highs.

Recurring political strains notwithstanding, new commercial deals with CEMA countries in 1974-77 amounted to at least \$3 billion. Further large accords signed in 1978 reflect again their mutual interest in a common stand against the Camp David Agreement.

#### *The Soviet-East European contribution*

Moscow—with the help of Hungary, Romania, and Czechoslovakia—made its mark in Iraq in the late 1960s by helping to establish and support a national petroleum industry. Until then, the Soviet-Iraqi relationship had been confined largely to military assistance with only small deliveries of Soviet economic aid under

1959 credits. After the nationalization of the oil industry in the 1960's, Moscow filled the gap left by the withdrawal of Western technicians. It also guaranteed an outlet for Iraqi oil while Baghdad's traditional markets in the West were in disarray. With Soviet oil development credits of \$175 million and \$75 million of East European aid, Iraq was able to explore and exploit highly productive areas of North Rumaylah, the Nahr Umar and Luhais fields in southern Iraq, to build new pipelines, and to add 100,000 b/d to refinery capacity. Communist developed facilities now account for: 30 percent of Iraq's crude output; nearly half its refinery capacity; and all of Iraq's pipelines for refined products.

Another \$275 million of Soviet aid provided dam and power projects which eventually will triple Iraq's installed electric capacity and irrigate nearly 5 million hectares of land. The Soviet aided Nasiriya power plant, which will become operational in 1979, will be the largest thermal plant in the Middle East when it reaches capacity operation.

In addition to their support to Iraq's national oil industry, East Europeans extended \$325 million of credits (in 1959-72) for light industrial and food processing plants and transportation facilities.

### *Shifting focus of the relationship after 1973*

Iraqi-Soviet relations had blossomed in 1972, with the signing of a Friendship Treaty, and were strengthened two years later with the admission of Iraq to observer status in CEMA. Political relations have faltered periodically, however, because of differences over a Middle East settlement, Baghdad's treatment of Communists, and Iraqi-Syrian relations. Meanwhile, the economic connection became less important to Baghdad as Iraq's fortunes soared and Iraq itself became an important aid donor. Since 1973 Baghdad has extended more than a billion dollars of economic assistance to other states, roughly equal to the entire 20-year European Communist commitment to Iraq.

Nonetheless, Iraq has continued to rely on foreign technology to implement its own national development program.

About 6,500 Soviet and East European technicians were assisting Iraqi development in 1978. While \$8 billion of annual oil revenues allow Baghdad wider choices in exploiting foreign expertise, and though the Communists cannot compete in many areas, the Iraqis continue to rely on CEMA countries for certain kinds of development work—especially for power and water resource development. The Communists eagerly pursue the relationship for geopolitical reasons, and for oil and hard currency earnings. Almost all of Iraq's oil shipments to the USSR, either as barter or repayment for past debts, are resold for hard currency.

The recent shift from aid to more commercial deals reflects Iraq's greater independence and Moscow's eagerness to exploit this lucrative market. In 1976 alone Iraq let at least a billion dollars worth of contracts to the U.S.S.R. for building irrigation and power plants. In the following year the Soviets completed negotiations to: (a) Build one of the world's largest dams at Mosul for irrigation of 1.6 million hectares of land and provision of 500 MW of power, and (b) construct the 240 MW Darbendikhan powerplant. Medium term credits may accompany these contracts.

In 1978 Moscow was preparing bids for a new 600 MW hydro complex, a power transmission project, and another large thermal plant. The Russians agreed to build two cement plants, each with a million ton annual capacity, and contracted to build vocational centers for training 24,000 students for Iraqi chemicals, petrochemicals, mechanical, and mineral industries. The Hungarians also agreed to cooperate with Baghdad in producing electrical equipment in addition to the electric light bulb factory they had already built.

The new contracts promise further expansion of Communist-Iraqi trade, which by 1977 was almost double the 1973 level, despite the Communists' smaller share of Iraqi trade (about 11.5 percent compared with 22 percent in 1973). Machinery and equipment imports from the Soviet Union bulked even heavier in 1977 than before, while oil (120,000 b/d in 1977) was virtually Iraq's only export.

#### *Economic aid still viable*

Deliveries under old accounts of Soviet-East European aid (\$70 million a year in the past five years) outran deliveries for any previous five-year period. In 1977, oil production was begun at Nahr Umar while Soviet technicians completed third-stage development of North Rumaylah and the 375-mile Baghdad-Basra petroleum pipeline. The Russians also initiated work on: (a) The \$700 million Haditha Dam and an associated 500 MW power plant, (b) a canal linking the Tigris River to the Tharthar storage lake for diverting waters to the Euphrates River during periods of restricted flow, (c) reclamation of 40,000 hectares of land connected with the Tharthar irrigation and flood control project, and (d) the Kirkuk irrigation canal.

East European countries continued their programs:

*Czechoslovakia* undertook work at the Basra oil refinery to double existing capacity by 1980, to 3.5 million tons annually.

*Romania* prepared to start construction of a petroleum production well under a \$35 million oil field development credit.

*Bulgaria's* Joint Commission with Iraq recommended further collaboration in agriculture and food processing, oil processing, oil prospecting, and water and land development.

#### LIBYA

The Libyan-Soviet relationship had hinged almost entirely on Moscow's multi-billion arms sales to Libya, for which the Russians are receiving as much as half a billion dollars a year in hard currency or oil. The East Europeans, long a major source of technical assistance for Libyan development, are now benefitting from commercial contracts as well.

#### *New commercial ventures with the U.S.S.R.*

The Russians have begun to overlook political differences in order to profit from Libya's large oil wealth.

In 1976, the U.S.S.R. in its first important economic accord with Libya, agreed to build: a nuclear research center and labs; a unified power grid; a 600 KM gas pipeline from Brega to Misuratah

for a 5 million metric ton steel and iron complex; desalinization plants; and a 400 MW nuclear power plant, still under discussion.

Work already has begun on the reactor for the atomic research center and contracts have been let for the gas pipeline. The agreement will involve contracts of well over a billion dollars, giving Moscow a larger share of Tripoli's \$8.5 billion annual oil revenues and boosting Soviet-Libyan trade from the present miniscule levels. The U.S.S.R. also will formulate a 25-year natural gas development plan for Libya and install powerlines from Tripoli to outlying agricultural areas.

#### *Traditional ties with Eastern Europe expand*

East European technical assistance to Libya, now a 20-year relationship, has led to strong commercial bonds between Libya and a number of East European countries. Most importantly, Libya has become a major source of non-Soviet crude oil for them. East European technicians are supplying services to virtually every sector of the Libyan economy. Their number had risen to 22,200 in 1978, from 2,500 in 1973, and their governments received upwards of \$300 million of hard currency for these services in 1978.

*Bulgarians* helped support agricultural development and worked on irrigation, transportation, and industrial projects.

*Polish* technicians built roads and constructed bridges; worked on urban and agricultural development and port modernization, and conducted geological surveys.

*Romanians* contributed especially to public housing, and agricultural development.

New agreements reached during and after President Qadhafi's June 1978 trip to Eastern Europe will expand further the East European technical presence in Libya and increase the volume of Libya's trade with those countries. Under a recent agreement, Poland will expand technical services and supply equipment for the design, planning, and execution of municipal projects as well as for water resource and farming community development. Under a new seven-year agreement, Bulgaria will double its technical contingent in Libya. Hungary and Romania, under the auspices of recently formed joint economic commissions for planning and development, will: (a) Study the feasibility of three new major rail lines; (b) assist in oil exploration; and (c) work with Libya in constructing refineries, petrochemical, and fertilizer plants. Bulgaria will equip six Libyan hospitals under an \$80 million contract.

Trade had already begun to show the effect of Libya's expanding commercial relations with Eastern Europe by 1976 (the last year for which data are available). In that year trade jumped 15 times over 1970 and almost four times over 1973 levels. Libyan imports—pushed especially by large new contracts for building materials—rose most sharply, reaching well over \$400 million. A drop in oil shipments—traditionally Libya's largest barter item with Eastern Europe—depressed export growth in 1973-74 following the oil price rise. The resumption of some oil shipments in the next years, however, led to a near tripling of exports, which reached \$160 million in 1976.

## SOUTH YEMEN

Despite massive aid offers, Saudi Arabia has not been successful in weaning South Yemen from Soviet influence. In fact, the decade-long Communist relationship has grown closer since the Marxists came to power in South Yemen. The nearly \$500 million of OPEC aid was cut off after the June 1978 coup by radical Marxists, before which South Yemen had already refused Arab assistance for modernizing its military establishment.

The Communist-South Yemen relationship, for ten years has provided Moscow with a stable source of petroleum products (from the Aden refinery) for its Red Sea and Indian Ocean fleets, in return for Soviet supplies of crude oil, some of which are of Egyptian origin.

Since 1974, the U.S.S.R. has tripled its economic aid commitment (to more than \$200 million) and the East European countries increased theirs to \$65 million. Drawings on Communist economic aid have been slow, never having gone beyond \$35 million a year. Even so these entailed a sharp expansion in Soviet exports to South Yemen, which since it was not accompanied by a rise in imports, involved a growing trade deficit, which could amount to more than \$40 million in 1977. Meanwhile, Moscow has moved ahead with transportation and fisheries projects, improvements at Aden airport, agricultural development programs, and oil exploration. East Germany—the most active of the East European aid suppliers—has built several light industrial plants and provided commodity assistance. New aid for Aden's second five-year plan (1977-81) will be long in coming (true of much project aid to LDCs) and the small amounts of oil, food, and other commodity aid promised by the Kremlin in September 1978 will hardly help Aden over its current economic crunch. Likewise, an East German agreement in 1978 to finance South Yemeni imports for Aden's current plan will provide only minimal relief.

## SYRIA

European Communist relations with Syria, promoted initially in the mid-1950's with small amounts of military assistance, were strengthened in 1957 by large Communist purchases of Syrian cotton, a \$100 million economic development credit, and agreement to provide Damascus with Soviet crude oil. But it was not until a decade later that Moscow made an important impact on their relations. Its agreement to build the Euphrates Dam, the second largest Soviet-build dam in the Middle East, and the resupply of military equipment after the 1967 war opened a new chapter in the relationship. The late 1966 credit for the Dam was followed by a burst of Communist economic activity. New credits from Eastern Europe and the U.S.S.R. raised their commitment to about \$1.7 billion (\$900 million from Eastern Europe and \$770 million from the USSR); disbursements tripled in a four year period (1968-71); and trade moved sharply upward. While Syria's heavy dependence on Moscow for military support underpinned the relationship, it was perpetuated by Soviet economic assistance and the trade ties it created. Even in 1974-77, when OPEC governments made \$670

million available annually for balance of payments financing, Damascus welcomed Communist aid and almost 5,000 technicians.

*Communist aid continuing contribution to Syrian development*

Communist aid was never intended to solve Syria's balance of payments problem, but rather to reinforce Syria's public sector development and contribute to agricultural and industrial projects. With the Euphrates Dam as its show piece, Moscow contributed a number of projects that cover irrigation and reclamation, power, oil exploration and exploitation, and transportation. Eastern Europe added refineries for oil, sugar, and superphosphates, a steel rolling mill, and a variety of light industrial plants.

The half billion dollar Euphrates Dam was completed in March 1978 with some \$185 million of Soviet credits. According to the Syrians, its 800 MW power station, which now produces 95 percent of Syria's power, quadrupled the country's electricity capacity. Eventually the Dam should make 700,000 hectares of land suitable for cultivation from associated irrigation and reclamation projects, but progress has been slowed because of the increase in gypsum content and salinity of the soil, as well as seepage in irrigating at high levels.

Soviet survey teams already are working on another smaller dam at Al-Khabir and a 14,000 hectare irrigation project at Meskene. Ancillary to the Euphrates Dam, the Soviets also have built experimental farms, research stations, a new city at Tabqa, and 15 villages to house 40,000 agricultural workers. Power lines are being strung from the Dam all over Syria, and a recent Syrian order for 50 East German transformer stations will help the distribution of power. Soviet-built training facilities already have graduated 12,000 technicians for Syria's power industry. In 1978 Soviet and Syrian railroad construction teams also completed a 100-kilometer section of the Damascus-Homs railroad.

The U.S.S.R. and Eastern Europe also helped Syria to develop a national oil industry. Despite continuing bureaucratic problems plaguing this and other public projects, Syria became a net exporter of oil, from which it earned \$500 million in 1977. The Russians take about 10,000 b/d (5 percent of Syrian crude output) and continue to provide technical assistance for expanding production. Soviet prospecting under Moscow's comprehensive 1976-80 oil development plans for Syria will raise Syrian output by ten percent.

Romania's large commitments for an oil refinery at Banias and the 450,000 ton superphosphate complex at Homs pushed the East European aid commitment above those of the U.S.S.R. and made Syria the largest LDC recipient of East European aid, after Egypt. Syria and Romania also agreed to further cooperation in oil extraction and processing, mining, and agriculture in 1978. In addition to the \$275 million allocated for the oil refinery and superphosphate plants, East Europeans provided a like amount of aid in 1974-77 for such projects as land reclamation, power and rural electrification, light industrial plants, canals, and water distillation plants. East European built cement plants at Damascus, Homs, and Aleppo will double Syria's cement output.

A refinery at Homs, built with \$40 million of Czech credits, is being expanded. Its output plus the 120,000 b/d expected from the

Romanian built facility at Banias (which began trial operations in 1978) will satisfy Syria's needs for petroleum products and leave a surplus for export.

*Commercial relations also are expanding*

Trade between Syria and Eastern Europe quadrupled between 1973 and 1976 and doubled again in 1977. Syrian imports, propelled by accelerated aid deliveries to the Banias refinery, accounted for most of the rise, and led to a widening of the trade deficit, a traditional feature of their relationship. The growth in Soviet-Syrian trade lagged the East European, although it maintained a better balance.

*Iran*

Communist-Iranian economic ties expanded after 1973 despite Tehran's increased wealth and new purchase options. The need for stability on the long Soviet-Iranian border and the mutual benefits from economic cooperation overcame political differences and nurtured the relationship even when Iran no longer needed external financial assistance. Before the disturbances in 1978 Soviet and East European aid and trade with Iran were expanding rapidly. It is too soon to assess the impact of the Iranian revolution on the country's relations with Communist countries.

*Aid: Continuing contribution to Iranian development*

Soviet aid to Iran was conceived in 1963 as a joint undertaking for water resources development of the boundary river, Aras. Their common border also was behind the 1966 Soviet agreement to pipe natural gas from Iran's southwestern oil fields to Astara at the Soviet frontier. The 10 billion cubic meters of Iranian gas which have flowed annually to the U.S.S.R. converted a former waste product into \$200 million of annual earnings for Iran—more than enough to service Tehran's debt to the Soviets for economic and military aid.

In addition to creating the first external market for Iran's natural gas and supplementing its power and irrigation facilities, Soviet assistance before 1974 developed an industrial base which: (a) Produced 90 percent of Iran's coal, iron ore, and cast iron; (b) accounted for 70 percent of Iran's steel making capacity; and (c) gave Iran its first major machine tool plant. Moscow also had provided aid for port and transport links with Iran, built grain storage facilities and power plants and contributed to the development of Iranian fisheries.

The largest Soviet project, a steel mill at Isfahan, is Moscow's most prestigious venture in Iran—also Iran's first steel mill. Under an expansion program, the original 600,000 ton capacity had nearly tripled by 1978, and plans called for a further expansion to 8-10 million tons. The Soviets also had agreed to develop additional coal and iron ore needed to support the expanded facility.

Soviet aid commitments to Iran, which had surpassed a billion dollars before the revolution, also fostered more than a billion dollars of Iranian orders for Soviet ground forces equipment and created new commercial links that sent trade climbing nearly to the billion dollar mark. Extensions of economic aid from Eastern

Europe (largely a light industrial development program) ran to \$685 million by year-end 1978 (with Czechoslovakia and Romania the leading donors) while their trade in 1976 (the last year for which data are available) reached nearly a billion dollars.

In addition to expanding the steel mill in the past five years, Moscow has:

Begun a second border dam on the Aras River to add 120,000 acres of irrigated land on each side of the river and 100 MW of electricity to each county's generating capacity;

Begun the installation of 2,000 MW of thermal power capacity at Ahwaz and Isfahan (the latter in cooperation with Hungary and Poland);

Proceeded with the expansion of machine tool capacity at Arak, from 30,000 to 50,000 tons annually; and

Commissioned several prefab housing plants.

In 1974-77 Soviet aid deliveries ran at about \$75 million a year, Eastern Europe's at about half that amount. They dropped sharply in 1978, even though the program was not seriously disrupted by the riots, until the last months of the year when deliveries began to pile up at the border and work on most projects ground to a halt. Gas deliveries through the pipeline had been intermittently interrupted and finally stopped toward year-end. In 1978 some 5,100 Soviet and East European technical personnel were in Iran, helping to implement economic programs. By then more than 5,000 Iranians has gone to the U.S.S.R. and Eastern Europe for technical training in addition to the large number trained on the job.

A new and unique feature of the Communist-Iranian relationship was reverse capital flow that began in 1975 as an outgrowth of Iran's new wealth. In 1975, for example, Iran offered to finance a Soviet paper plant in return for the plant's output and to give cash loans to several East European countries for expansion of food output to be exported to Iran. A hundred million dollars of Bulgaria's annual agricultural output was scheduled for export to Iran over the next five years to repay loans extended in 1975. Discussions also continued into 1978 on a \$350 million Bulgarian dairy farm to be built with partial Iranian funding whose produce would be sold on Iranian markets.

#### *Recent East European aid*

After 1973 East European countries added \$145 million to their \$540 million aid commitment. Along with the new aid, a number of East European countries signed joint ownership agreements for light industrial plants, petrochemical plants, and dairy and meat processing plants in Iran.

Bulgarian, Hungarian, and Polish accords, signed in 1974-77, increased aid allocations especially to Iranian agriculture, irrigation, and food processing; others concentrated on railroad equipment:

*Bulgaria*, for a 100,000 ton cold storage facility;

*Hungary*, for continued assistance to state farms, two slaughterhouses, and a meat plant;

*Poland*, for additional sugar mills and other food-processing plants, powerplants, chemical and mining facilities and an aircraft assembly plant;

*East Germany*, a \$95 million accord, for a cold storage plant, railway equipment with maintenance shops, and heavy industrial machinery; and

*Romania*, for railway cars to be financed under 1977 credits.

Bucharest also agreed to increase the capacity of a jointly owned soda ash plant and to proceed with new joint ventures in petrochemicals and cement. Bucharest had been involved in port construction at Bandar Shahpur. Its \$1.5 billion contract to construct a railroad from Bandar Abbas to Kerman was being held by the Iranian government for implementation in the 1980s.

### *Expanding commercial ties*

Soviet-Iranian economic cooperation in industry and agriculture also expanded rapidly. After 1973 and before the recent disturbances in Iran, a new phase in the relationship was initiated. The Shah's 1974 trip to Moscow set the stage for an Iranian-Soviet Joint Commission agreement in 1975. The U.S.S.R. and Iran agreed in principle to launch a new \$3 billion development effort on both sides of the border. These projects were to be financed by (a) commercial deals, (b) traditional Soviet credits to Iran and (c) Iranian credits to the U.S.S.R. for projects in the Soviet Union. It also was to include possible cooperative ventures in third countries. Moscow already had agreed to proceed with projects under the new agreement, valued at more than a billion dollars at the time of the recent riots. These were to include: (a) expansion of the Isfahan steel mill, (b) plans for two cement plants, (c) a petrochemical plant, (d) a half billion dollar aluminum plant, (e) synthetic fiber plants, and (f) rail links with the U.S.S.R. Other contracts in the planning stage before the riots would add another billion dollars for Soviet development of Iranian highways, rail facilities, and ports. Moscow also was scheduled to participate in heavy industrial plants at Esfarayan in northeastern Iran and iron and steel and heavy machinery plants in Kerman.

Iran also reached agreement with East European countries for cooperation in: (a) engineering work on the Saveh Dam, (b) construction of power plants and food processing facilities, (c) expansion of a chemical plant at Shiraz, and (d) studies for petrochemical and other plants. Meanwhile, Iran had considered purchases of tractors and power lines from Romania as part of a plan to expand their trade from \$600 million in 1977 to \$1 billion in 1980.

Important new accords for international sales of natural gas also were reached in the mid 1970s. Under a 20-year trilateral accord for gas sales to Western Europe through the U.S.S.R., beginning in 1981, Moscow would pick up 17 billion cubic meters of Iranian gas annually at its border through a 1500 KM pipeline built in part by the Soviets. The U.S.S.R., in turn, was to deliver 11 billion cubic meters of its own gas to Austria, France, and Germany, and retain 2.4 billion cubic meters as a transit fee. Another 3.6 billion cubic meters of Iranian gas also was to transit the U.S.S.R. for Czechoslovakia each year.

Trade with Communist countries, originally a spin-off of economic aid, had become less dependent on the aid relationship although repayments of Soviet economic and military aid (largely in natural gas) have accounted for more than half of Iran's exports to the

U.S.S.R. in recent years. In 1977, however, only 15 percent of Iran's imports from the Soviet Union were on aid account. Annual trade agreements with most European Communist partners called for increased trade in 1978—the one with the Soviet Union for a tripling of trade, to \$3 billion.

Pushed by higher prices, Soviet-Iranian trade soared to \$965 million in 1977, with Soviet exports (largely machinery and equipment) doubling 1976 levels. Soviet imports from Iran also rose sharply, largely because of higher natural gas prices. Iran, for the first time, offered oil as repayment for some Soviet imports because its natural gas sales could not finance the projected multibillion dollar Soviet projects.

The overwhelming importance of oil in Iranian trade and Communist countries' small share of oil exports have kept Iran's trade with Communist countries at less than 5 percent of its total trade. Nonetheless, heavy machinery from the U.S.S.R. (two-thirds of Iran's imports from the Soviet Union) have helped to tool Iran's industrial plant, while food has heavily weighted Iran's imports from Eastern Europe. East European countries, which have been purchasing more than a third of Iran's non-oil and gas exports, remained an important Iranian market.

### *Egypt "the Renegade"*

Egypt's economic relationship with the U.S.S.R. and Eastern Europe, which had suffered from Egypt's expulsion of Soviet military technicians in 1972, deteriorated sharply after an impasse in Cairo's debt negotiations with the Soviets and Egypt's 1977 embargo of cotton exports to the U.S.S.R. and Czechoslovakia. Egypt was able to take an independent position because of the large amounts of assistance which OPEC nations had made available.

In 1967, for the first time in a decade, Egypt had received large amounts of economic assistance from non-Communist sources. In that year, a consortium of Arab states began to cover Egypt's foreign exchange losses from the Suez Canal with annual cash payments of about \$160 million—two-thirds again as large as Egypt's annual economic aid receipts from the U.S.S.R. and Eastern Europe in the 1967-73 period.

It was not until 1974, however, that Cairo could dare to shed its heavy dependence on the Communists for military and economic assistance. Since then, Egypt has received roughly \$10 billion of non-Communist aid in addition to: (a) Workers remittances, which continue to move sharply higher, (b) a resurgence of tourism, and (c) the restoration of fees from the reopened Suez Canal. The massive new financial resources in 1974-78 soared well above the entire 20-year Communist economic and military aid commitment to Egypt; the new funding (largely in cash) also gave Egypt more flexibility in economic planning. About two-thirds of post-1973 assistance has come from OPEC (especially from Saudi Arabia and Kuwait) with \$1.75 million channeled through the Gulf Organization for Development of Egypt (GODE) and a like amount in Rabat subsidies.

*20 years of Communist aid*

By year-end 1973, the Soviets had delivered \$850 million of development assistance to Egypt, and the East Europeans \$320 million. Together the Communists had equipped the Egyptian military with more than \$3.5 billion of hardware (\$4 billion including the 1974 resupply) and had supported Egypt's defense effort with 25,000 Soviet military personnel. The Communist aid legacy was a \$4 billion debt, vast stores of military equipment, and a Soviet backed economic development program in mid-stream. For the Soviets, the crumbling of the relationship was a major foreign policy set back.

Soviet economic assistance for Egypt was a major support for Cairo's development effort; it helped to create and perpetuate public sector enterprise, which even now accounts for about 85 percent of Egyptian industry. Soviet aid gave Egypt the Aswan High Dam, which the West had refused to build, and which accounts for about half of Egypt's installed power capacity. Including the far smaller Low Dam, the Aswan power plant covered almost 70 percent of Egypt's total power requirements in 1977. Communist aid also enabled Cairo to:

Electrify 2,000 villages;

Expand its food growing area to help feed a rapidly growing population;

Quadruple steel capacity at the Helwan mill, Egypt's only steel making facility;

Build Egypt's only aluminum plant, now being expanded with Soviet aid to a 166,000 ton capacity;

Construct oil refineries, now producing 5 million tons a year and satisfying half of Egypt's domestic needs; and

Create a host of new industries (particularly chemical, engineering, and pharmaceuticals) as well as a large number of light industrial plants.

Unresolved serious ecological problems notwithstanding the Aswan High Dam has allowed Egypt some control over its most vital resource—water. Although spare parts shortages and repair problems, irrigation needs, and protection for the riverbanks overrule full use of Aswan's installed power capacity, the High Dam has been supplying some 1,500 MW of power in summer and 500 MW in winter. Soviet assistance to Egyptian economic development was not without problems for Egypt. The concentration of heavy industry in the public sector and related administrative problems have often proven a burden as well as a blessing to the economy.

*After 1973: A new Soviet-Egyptian relationship*

Sadat's expulsion of Soviet military technicians in 1972, Egypt's unilateral abrogation of the Friendship Treaty in 1976, and Cairo's cotton embargo in 1977 were severe blows to a once-flourishing political-economic relationship. Neither Cairo's continuing provocation nor its new-found independence, however, have precipitated a complete break in the Soviet-Egyptian economic relationship. Over the longer run, Communist aid (especially from the U.S.S.R.) may wither and Communist participation in Egypt's trade will decline even further. But some of the economic ties have become self-perpetuating. Soviet-Egyptian delegations still are exchanged, com-

mercial and aid contracts are renewed and new ones drawn, and trade continues despite the absence of a formal protocol. Notwithstanding Sadat's announced plan in 1977 to expel all Soviet economic personnel at year-end 1978, about 750 Soviets still work in Egypt, (compared with 1,200 in 1972) and Moscow continues to implement aid projects under \$300 million worth of credits still outstanding from pre-1973 Soviet commitments.

No new Russian credits have been extended for Egyptian development since March 1971. Activity under outstanding credits, however, allowed: (a) Work to near completion on the fourth blast furnace at the Helwan steel complex, bringing capacity at the mill closer to the 1.6 million tons a year scheduled for the second stage; (b) a 60,000 ton expansion of the Nag Hammadi aluminum plant, now in full swing; and (c) continued deliveries for Soviet-aided rural electrification, the Suez and Aswan powerplants, cement and pharmaceuticals plants, and other smaller projects. A few Soviet technicians still are prospecting for petroleum in the Western Desert. In spring 1978 an Egyptian delegation to Moscow concluded a contract for expanding a refractories plant at Helwan, even though a U.S. consulting firm has been running the steel mill. The 1978 trip followed one the year before when Moscow agreed to continue coke supplies to Helwan at 600,000 tons a year, an arrangement that was maintained throughout 1978.

Despite the continuing ties overall Soviet-Egyptian economic relations continue to deteriorate. Moscow has refused (with few exceptions) to sell military spares to Egypt or to allow East European sales. The debt issue is equally sensitive. Cairo had made payments on debt by increasing a surplus in its trade account with the U.S.S.R. for a number of years. Rescheduling talks, spanning some four years, finally were suspended in 1977 following Moscow's refusal to grant a 10-year moratorium on military aid repayments. President Sadat showed his pique with a unilateral 10-year moratorium and an 85 percent arbitrary reduction in annual payments on Soviet economic aid. Earlier, he had imposed an embargo on cotton sales to the U.S.S.R. (and Czechoslovakia) and in December 1977 Sadat closed all European Communist cultural centers.

Even though the embargo came late in the crop year, the loss of the cotton trade (which accounted for more than 25 percent of Egypt's \$440 million of exports to the U.S.S.R. in 1976) precipitated a slide in Egyptian-Soviet trade to a five-year low in 1977—a third below the billion dollar level agreed to in the annual protocol. In the first nine months of 1978, trade dropped another \$140 million, about equally divided between exports and imports. Egypt thus lost its substantial trade surplus with the Soviets which had enabled it to service its debts. Moscow's share of Egypt's total exports fell to a third, from the 50 percent it had claimed in every year from 1970 to 1975. Egypt's imports from the U.S.S.R. fell from around one quarter of Egypt's total imports to little more than 10 percent.

#### *Eastern Europe fares better*

Except for Czechoslovakia, which has been identified with the Soviet arms embargo, and Bulgaria, with whom Egypt severed relations at year-end 1978, Egypt has maintained smoother economic relations with East European countries than with the

U.S.S.R. Eastern Europe not only was willing to implement on-going aid projects, but also added \$120 million of new credits to the \$770 million extended before 1974. The new agreements are intended for electrification projects, diesel equipment and other machinery. East European countries also agreed to go ahead with agricultural development, a cement plant, prefab housing factories, and chemical plants.

Romania had taken up a heavy share of the electrification responsibility, which Moscow might normally have shouldered. A recent aid allocation provided for (a) lighting 200 Egyptian villages, (b) agricultural and irrigation work, and (c) power grid repairs. In 1978 Romania also completed a thermal power plant at Hamrawein for a Romanian built phosphate complex. Bucharest's agreement to establish a joint Romanian-Egyptian bank in Egypt, with a 49 percent Romanian interest, was Cairo's first venture into a joint ownership arrangement with Eastern Europe.

Prague's relations with Egypt were strained by Cairo's threat to postpone unilaterally the payment of \$150 million of commercial debt to Czechoslovakia and Egypt's refusal to sell it cotton on any terms. The 1978 trade protocol, however, allowed a \$20 million Egyptian surplus for debt settlements. Other East European countries continued to sign new annual trade protocols providing for increased trade, largely in cheap consumer goods and agricultural products, which Cairo sells them for machinery and equipment. Trade with East Germany, however, is known to have fallen 10 percent in 1978.

#### *Other Middle East Countries*

##### JORDAN

Jordan—among the largest recipients of OPEC aid—accepted Communist economic assistance for the first time in 1976. The \$25 million commitment from the U.S.S.R. for oil exploration, rural electrification, and technical schools was overshadowed by \$325 million of official capital flowing annually from OPEC countries and a hundred million dollars from the West. Nonetheless, the Soviet-Jordanian accord opened a new chapter in Jordan's relations with Communist countries. Until then, Romania had been Amman's only Communist contractor, having engaged in a joint venture for oil exploration. Bucharest had also built a refinery for which it took payment in phosphates. Subsequently Romania had agreed to expand the refinery operations (to 60,000 b/d, enough to satisfy Jordan's domestic requirements) and to build a pipeline. Following the Soviet initiative Amman signed economic and technical cooperation accords and long-term trade agreements with five East European countries.

##### KUWAIT

Until recently, Communist trade with Kuwait has been small although the Russians have tried unsuccessfully to negotiate various cooperation schemes, such as: (a) Kuwaiti financing for projects in the U.S.S.R. and joint projects in third countries, (b) placement of Kuwaiti deposits in Soviet banks, and (c) a jointly owned Soviet-Kuwaiti bank. In a major breakthrough, however, Kuwait negotiated a \$50 million missile purchase from the U.S.S.R. in

1977. The deal also marked Moscow's first penetration of the military market in the conservative Persian Gulf states. It was followed by a contract award to Moscow for building a merchant ship and providing technical training for Kuwait's merchant and fishing fleets. In 1978, a Soviet-Kuwaiti air agreement established regular Aeroflot flights to Kuwait.

East European countries also have tried to cultivate this lucrative market:

*Poland* has landed several small contracts for Polish medical teams to serve in Kuwaiti hospitals and made arrangements to treat some Kuwaiti patients in Polish hospitals.

*Hungary* sold Kuwait transformers and buses and agreed to establish a vehicle assembly plant in Kuwait. Budapest has been negotiating a trade agreement to barter oil for industrial products.

Kuwait's International Investment Company has arranged and managed Arab syndicated loans for several East European countries, most recently for *East Germany*.

Negotiations limped to the end of a third year on Kuwait's largest pending Communist deal—a \$1 billion petrochemical complex to be built in Romania, with 49 percent Kuwaiti financing and a guarantee of 160,000 b/d of Kuwaiti crude.

#### MOROCCO

Soviet-Moroccan relations moved into a new phase in 1978 with a 30-year, \$2 billion accord for Russian development of the Meskala phosphate deposits in southern Morocco. The agreement, billed by Morocco's King Hassan as the "contract of the century" is Moscow's largest commitment to a single project in the Third World and marks the first Soviet agreement to import phosphates. A \$20 million allocation already has put in train feasibility and engineering studies for the multifaceted project, which will include ancillary facilities such as a railroad, a road network, port and storage accommodations, as well as open pit mining operations.

Most of the 10 million ton annual output from Meskala will be exported to the U.S.S.R. to repay the \$2 billion loan, and the surplus will be bartered for Soviet goods. The deal is expected to propel Soviet-Moroccan trade to the \$10 billion mark by the year 2000, giving Morocco first place among the U.S.S.R.'s African trading partners. The present nearly balanced Soviet-Moroccan trade is supported largely by an annual citrus-for-oil barter agreement, which had made the U.S.S.R. one of Rabat's principal sources of oil. Since 1973, trade has stabilized at twice the \$75 million recorded in that year. Eastern Europe's trade with Morocco went up much faster, but it began to run huge deficits after 1973 because of increased East European purchases of phosphates. In 1977 the Soviet-East European share of Rabat's trade was slightly below 7 percent of Morocco's imports and more than 11.5 percent of its exports.

Rabat's reservations about a close relationship with Communist countries clearly has not applied to commercial relations. Even before Meskala comes on stream, Soviet-Moroccan trade will edge forward again as shipments of phosphate rock from other Moroc-

can mines begin. In 1978 Rabat also agreed to a joint ownership arrangement with the U.S.S.R. for developing Moroccan fisheries. The Soviets will train Moroccan personnel, provide local processing facilities and equipment, and will share in the catch.

At year-end 1978, about half of Moscow's \$100 million economic aid commitment remained to be drawn—for cold storage facilities, gas exploration, irrigation, and fisheries aid. By that time, the U.S.S.R. had provided some \$45 million of aid for power development accounting for about 20 percent of Morocco's total installed capacity.

East European countries have been slower to implement their \$55 million of credits extended to Rabat in the 1960's for power and water resource development, light industrial plants, petroleum and mineral surveys, and copper development and processing. Credits totalling almost \$85 million from Romania, Czechoslovakia, and Poland for machinery and equipment were added in 1978. Commercial relations—especially with Poland, one of Morocco's principal phosphate markets—and East European construction and professional services to the Moroccan economy made the largest gains. In 1977 the number of East European personnel in Morocco was five times higher than in 1973. The number rose again in 1978 with Romanian and Bulgarians taking the lead—the Romanians especially active in copper mining and construction of a port at Nador.

#### NORTH YEMEN

Communist aid and trade with North Yemen were never large enough to make an important contribution to North Yemen's economic development. This was true even though the \$115 million Communist commitment was virtually Sana's only official source of external development financing (outside of China's \$80 million) until 1974. Soviet aid to North Yemen was confined to agricultural development, fisheries aid, transport development, and the building of a cement plant. The small amount of trade was largely aid related and always in deficit.

In a dramatic shift of fortunes after 1973, Communist economic aid was dwarfed by a billion and a half dollar OPEC commitment, leaving the Communist relationship hanging on military supplies and advisory services. Even though new strains had developed between Moscow and Sana and North Yemen could depend on an annual \$400-\$500 million cash inflow and \$150-\$200 million of development loan commitments from non-Communist sources, Sana accepted a \$40 million Soviet credit in 1978 to double capacity at the Soviet-built cement plant at Bajil.

North Yemen at year-end 1978 still (a) ran a deficit in its trade with the U.S.S.R., (b) was drawing several million dollars a year on its Soviet aid account, and (c) had retained the services of well over 100 non-military technicians from the U.S.S.R. and an equal number from East European countries who worked on aid projects and in North Yemeni hospitals.

#### TUNISIA

Communist economic relations with Tunisia have been limited to small amounts of trade and aid for light industry and water re-

source development. Communist trade has claimed less than 5 percent of Tunisia's total trade in recent years even though the Communists have made numerous overtures to expand their markets and establish new economic ties with Tunisia. In 1977, they had their first important success when Tunisia succumbed to an attractive Soviet offer for use of the Menzel Bourguiba shipyard for maintenance and overhaul services of the U.S.S.R.'s Mediterranean fleet. The services help compensate for Moscow's loss of facilities at Alexandria, and help to bring Tunisia's dockyard closer to capacity operations. Nonetheless, Tunisia continued to run a substantial trade deficit with Communist countries in 1977. Small increases in trade consisted largely of Tunisian imports of mechanical and scientific equipment, rolling stock, and vehicles.

Tunisia essentially a Western oriented country which receives most of its aid from non-Communist sources, accepted \$55 million of Soviet credits in 1976, its first in a decade. These more than doubled Moscow's earlier commitment. East European countries also tried to expand their economic relations with Tunisia:

*Bulgaria* offered credits (not yet accepted) for mineral exploitation and aid to agriculture, and signed a five-year trade agreement to increase Bulgaria's trade with Tunisia from \$20 million in 1979 to \$100 million in 1983.

*Hungary* and *Czechoslovakia* extended \$135 million worth of credits in 1976-77 for machinery and equipment, rolling stock, and buses.

*East Germany* extended new aid in 1978 for rail development, Tunisia will increase phosphate exports to pay for the equipment.

*Hungary* won a contract to supply diesel engines for Tunisia railroads.

#### APPENDIX. NOTE ON SOURCES

Data on foreign aid contained in this paper are drawn from numerous official and non-official public documents. A primary source of information on Communist aid to the Middle East is the annual series on Communist aid published by the office of Economic Research of the U.S. Central Intelligence Agency. Data on assistance from non-Communist donors are from the annual series on development cooperation issued by the organization of Economic Cooperation and Development. Trade statistics are from the foreign trade handbooks published annually by the U.S.S.R. and Eastern Europe.

TABLE 1.—SOVIET-EAST EUROPEAN ECONOMIC AID COMMITMENTS TO THE MIDDLE EAST <sup>1</sup>

[In millions of U.S. dollars]

|                      | U.S.S.R. |                      |                      | Eastern Europe |                      |                      | Total   |                      |                      |
|----------------------|----------|----------------------|----------------------|----------------|----------------------|----------------------|---------|----------------------|----------------------|
|                      | 1955-73  | 1974-78 <sup>2</sup> | 1955-78 <sup>2</sup> | 1955-73        | 1974-78 <sup>2</sup> | 1955-78 <sup>2</sup> | 1955-73 | 1974-78 <sup>2</sup> | 1955-78 <sup>2</sup> |
| Total .....          | 3,805    | 3,560                | 7,365                | 2,740          | 1,240                | 3,980                | 6,545   | 4,800                | 11,345               |
| Radical Arab States: |          |                      |                      |                |                      |                      |         |                      |                      |
| Algeria .....        | 425      | 290                  | 715                  | 340            | 185                  | 525                  | 765     | 475                  | 1,240                |
| Iraq .....           | 555      | 150                  | 705                  | 445            | 50                   | 495                  | 1,000   | 200                  | 1,200                |
| South Yemen .....    | 55       | 150                  | 205                  | 50             | 14                   | 65                   | 105     | 165                  | 270                  |
| Syria .....          | 320      | 450                  | 770                  | 450            | 455                  | 905                  | 770     | 905                  | 1,675                |
| Egypt .....          | 1,440    |                      | 1,440                | 770            | 120                  | 890                  | 2,210   | 120                  | 2,330                |
| Iran .....           | 790      | 375                  | 1,165                | 540            | 145                  | 685                  | 1,330   | 520                  | 1,850                |
| Others:              |          |                      |                      |                |                      |                      |         |                      |                      |
| Jordan .....         |          | 25                   | 25                   |                | NA                   | NA                   |         | 25                   | 25                   |
| Morocco .....        | 100      | 2,000                | 2,100                | 55             | 115                  | 170                  | 155     | 2,115                | 2,270                |
| North Yemen .....    | 100      | 45                   | 145                  | 15             |                      | 15                   | 115     | 45                   | 160                  |
| Tunisia .....        | 20       | 75                   | 95                   | 75             | 155                  | 230                  | 95      | 230                  | 325                  |

<sup>1</sup> Excluding Yugoslavia.<sup>2</sup> Data for 1978 are preliminary.TABLE 2.—SOVIET AND EAST EUROPEAN ECONOMIC TECHNICIANS IN THE MIDDLE EAST <sup>1</sup>[Number of people <sup>2</sup>]

|                      | 1973  | 1974  | 1975  | 1976   | 1977   | 1978 <sup>3</sup> |
|----------------------|-------|-------|-------|--------|--------|-------------------|
| Radical Arab States: |       |       |       |        |        |                   |
| Algeria .....        | 2,400 | 4,500 | 5,600 | 6,625  | 6,200  | 11,400            |
| Iraq .....           | 1,000 | 975   | 2,575 | 4,900  | 6,000  | 6,450             |
| Libya .....          | 2,500 | 3,800 | 5,000 | 10,000 | 15,000 | 22,200            |
| South Yemen .....    | 300   | 250   | 320   | 400    | 950    | 1,075             |
| Syria .....          | 1,700 | 2,000 | 1,800 | 1,600  | 4,900  | 5,925             |
| Iran .....           | 1,100 | 1,225 | 3,510 | 3,500  | 4,250  | 5,100             |
| Egypt .....          | 1,700 | 2,100 | 2,500 | 1,700  | 1,200  | 1,000             |
| Others:              |       |       |       |        |        |                   |
| Jordan .....         |       | 5     | 70    | 75     | 75     | 100               |
| Morocco .....        | 500   | 485   | 1,200 | 1,425  | 1,650  | 1,800             |
| North Yemen .....    | 200   | 150   | 200   | 200    | 150    | 150               |
| Tunisia .....        | 400   | 425   | 415   | 400    | 650    | 700               |

<sup>1</sup> Excluding Yugoslavia.<sup>2</sup> Minimum estimates of the number present for a period of 1 month or more. Numbers are rounded to the nearest 5.<sup>3</sup> Preliminary.TABLE 3.—MIDDLE EAST PERSONNEL DEPARTING FOR TRAINING IN THE U.S.S.R. AND EAST EUROPEAN COUNTRIES <sup>1</sup>[Number of persons <sup>2</sup>]

|                      | Technical |         | Academic |         |
|----------------------|-----------|---------|----------|---------|
|                      | 1956-73   | 1974-77 | 1956-73  | 1974-77 |
| Radical Arab States: |           |         |          |         |
| Algeria .....        | 1,600     | 2,350   | 2,930    | 1,375   |
| Iraq .....           | 1,600     | 1,275   | 4,130    | 470     |
| South Yemen .....    | 600       | NA      | 940      | 430     |
| Syria .....          | 1,250     | 1,350   | 3,235    | 6,910   |

Footnotes at end of table.

TABLE 3.—MIDDLE EAST PERSONNEL DEPARTING FOR TRAINING IN THE U.S.S.R. AND EAST EUROPEAN COUNTRIES <sup>1</sup>—Continued[Number of persons <sup>2</sup>]

|                  | Technical |         | Academic |         |
|------------------|-----------|---------|----------|---------|
|                  | 1956-73   | 1974-77 | 1956-73  | 1974-77 |
| Iran .....       | 2,150     | 2,900   | 120      | 205     |
| Egypt .....      | 7,200     | 1,875   | 2,535    | 640     |
| Others:          |           |         |          |         |
| Jordan .....     | .....     | .....   | 845      | 2,410   |
| Morocco .....    | 150       | 125     | 615      | 410     |
| North Yemen..... | 250       | 400     | 1,720    | 480     |
| Tunisia .....    | 300       | 35      | 600      | 285     |

<sup>1</sup> Excluding Yugoslavia.<sup>2</sup> Rounded to nearest 5.

TABLE 4.—SOVIET-EAST EUROPEAN TRADE WITH SELECTED MIDDLE EASTERN COUNTRIES

[In millions of U.S. dollars <sup>a</sup>]

|                         | 1970     |                  |                  |                  | 1973     |        |                  |                  | 1974     |                  |                  |                  | 1975     |                  |                  |                  | 1976     |                  |                  |                  | 1977 U.S.S.R. |        |  |
|-------------------------|----------|------------------|------------------|------------------|----------|--------|------------------|------------------|----------|------------------|------------------|------------------|----------|------------------|------------------|------------------|----------|------------------|------------------|------------------|---------------|--------|--|
|                         | U.S.S.R. |                  | Eastern Europe   |                  | U.S.S.R. |        | Eastern Europe   |                  | U.S.S.R. |                  | Eastern Europe   |                  | U.S.S.R. |                  | Eastern Europe   |                  | U.S.S.R. |                  | Eastern Europe   |                  | Export        | Import |  |
|                         | Export   | Import           | Export           | Import           | Export   | Import | Export           | Import           | Export   | Import           | Export           | Import           | Export   | Import           | Export           | Import           | Export   | Import           | Export           | Import           | Export        | Import |  |
| Total .....             | 815      | 490              | 485              | 310              | 1,035    | 1,030  | 865              | 765              | 1,385    | 1,440            | 1,410            | 1,310            | 1,530    | 1,745            | 1,935            | 1,495            | 1,520    | 1,530            | 2,185            | 1,700            | 1,720         | 1,505  |  |
| 1. Radical Arab States: |          |                  |                  |                  |          |        |                  |                  |          |                  |                  |                  |          |                  |                  |                  |          |                  |                  |                  |               |        |  |
| Algeria .....           | 70       | 60               | 25               | 20               | 90       | 70     | 90               | 60               | 145      | 80               | 150              | 150              | 155      | 185              | 110              | 140              | 175      | 80               | 160              | 75               | 170           | 55     |  |
| Iraq .....              | 65       | 5                | 60               | 5                | 190      | 260    | 145              | 70               | 240      | 360              | 250              | 125              | 380      | 450              | 400              | 345              | 455      | 495              | 355              | 470              | 380           | 440    |  |
| Libya .....             | 15       |                  | 40               |                  | 20       | 40     | 100              | 60               | 40       |                  | 260              | 60               | 5        | 10               | 395              | 80               | 15       | 5                | 420              | 170              | 10            | 5      |  |
| South Yemen .....       | 5        |                  | ( <sup>3</sup> ) | ( <sup>3</sup> ) | 15       |        | ( <sup>3</sup> ) | ( <sup>3</sup> ) | 20       |                  | ( <sup>3</sup> ) | ( <sup>3</sup> ) | 20       |                  | ( <sup>3</sup> ) | 30               |          | ( <sup>3</sup> ) | ( <sup>3</sup> ) | ( <sup>3</sup> ) | 45            | 5      |  |
| Syria .....             | 45       | 20               | 60               | 25               | 100      | 65     | 85               | 30               | 95       | 135              | 135              | 65               | 140      | 95               | 185              | 70               | 185      | 130              | 360              | 80               | 140           | 145    |  |
| 2. Iran .....           | 190      | 70               | 75               | 60               | 185      | 194    | 110              | 230              | 350      | 305              | 165              | 295              | 390      | 315              | 380              | 260              | 290      | 300              | 470              | 480              | 580           | 385    |  |
| 3. Egypt .....          | 365      | 310              | 195              | 150              | 375      | 355    | 265              | 215              | 400      | 505              | 345              | 300              | 360      | 620              | 320              | 370              | 265      | 440              | 285              | 270              | 280           | 395    |  |
| 4. Other:               |          |                  |                  |                  |          |        |                  |                  |          |                  |                  |                  |          |                  |                  |                  |          |                  |                  |                  |               |        |  |
| Jordan .....            | 10       |                  | ( <sup>3</sup> ) | 10               | 5        |        | 15               | ( <sup>3</sup> ) | 5        |                  | 25               | ( <sup>3</sup> ) |          |                  | 40               | 5                | 5        |                  | 50               | 5                |               |        |  |
| Morocco .....           | 35       | 20               | 20               | 30               | 40       | 35     | 40               | 45               | 70       | 45               | 55               | 195              | 65       | 60               | 80               | 190              | 75       | 70               | 60               | 125              | 75            | 70     |  |
| North Yemen .....       | 10       | ( <sup>3</sup> ) | ( <sup>3</sup> ) | ( <sup>3</sup> ) | 5        | 5      | ( <sup>3</sup> ) | ( <sup>3</sup> ) | 10       | ( <sup>3</sup> ) | ( <sup>3</sup> ) | ( <sup>3</sup> ) | 10       | ( <sup>3</sup> ) | ( <sup>3</sup> ) | ( <sup>3</sup> ) | 10       | ( <sup>3</sup> ) | ( <sup>3</sup> ) | ( <sup>3</sup> ) | 30            |        |  |
| Tunisia .....           | 5        | 5                | 10               | 10               | 10       | 10     | 15               | 55               | 10       | 10               | 25               | 120              | 5        | 10               | 25               | 35               | 15       | 10               | 25               | 25               | 10            | 5      |  |

<sup>1</sup> Excludes Yugoslavia.<sup>2</sup> Converted from national currencies at annual average exchange rates.<sup>3</sup> Negligible.

Source: Trade data are from Communist country official trade yearbooks which are more comprehensive than those provided in other sources and therefore may show large differences. All data are f.o.b. and exclude grants and most military shipments.

# PETRODOLLARS AND THE INTERNATIONAL PAYMENTS SYSTEM

By David Curry\*

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This short paper discusses the financial impact of the fourfold increase of oil prices in late 1973-January 1974. These price increases represented a large and sudden shift in the international terms of trade in favor of a handful of oil exporting countries which were not in a position to spend immediately all of their export receipts on imports of goods and services. More broadly, they set in motion profound changes in the world economic and financial system. Adjustment to the shock of significantly higher petroleum prices is, in fact, still incomplete.

### I. SHIFT IN CURRENT ACCOUNT PATTERNS

The vulnerability of the oil consuming countries to the unilateral petroleum price increases imposed by members of the Organization of Petroleum Exporting Countries (OPEC) in 1973-74 varied sharply. Some countries, like the United States, had indigenous energy resources which filled at least part of their domestic needs. Others, like Japan, had to rely on imports of energy for almost all of their consumption. Nonetheless, the oil importing nations, individually and as a group, faced the prospect of changes in their international payments position on a scale without historical precedent in a peacetime environment.

Partially as a result of the oil price increases and resulting policies adopted by governments of oil importing nations the struc-

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ture of world payments balances on current account shifted markedly, particularly between 1973 and 1974. Only four OECD nations—Belgium/Luxembourg, Germany, the Netherlands and Switzerland—experienced surpluses on current account (totaling about \$9.9 billion of which \$9.7 billion accrued to Germany) in 1974, as opposed to twelve nations in surplus (a collective total of about \$8.2 billion) on current account in 1973. As a group, OECD countries moved from approximate balance on current account in 1973 (\$3 billion surplus) to an aggregate deficit of \$33 billion in 1974.

Between the early and middle years of the seventies, the shift in the payments positions of various country groups also was quite dramatic. In the period 1971-73, the average levels of surpluses and deficits was relatively small as shown in Table 1. After the oil price increases, international payments disequilibrium, as reflected by current account balances, was quite pronounced.

OPEC countries as a bloc—after years of approximate balance with other countries—accrued surpluses averaging nearly \$50 billion a year over the period 1974-76. OECD countries moved from a surplus position on current account averaging in the neighborhood of \$6 billion a year from 1971-73 to a deficit position averaging around \$22 billion during the period 1974-76.

TABLE 1.—WORLD PAYMENTS PATTERNS, BALANCE ON GOODS, SERVICES, AND PRIVATE AND GOVERNMENTAL TRANSFERS

(In billions of dollars)

|                             | Average 1971-73 | Average 1974-76 |
|-----------------------------|-----------------|-----------------|
| OPEC.....                   | +1.4            | +47.0           |
| OECD.....                   | +5.6            | -22.0           |
| LDC.....                    | -4.1            | -23.0           |
| Other <sup>1</sup> .....    | -2.7            | -12.3           |
| Residual <sup>2</sup> ..... | -0.2            | +10.3           |

<sup>1</sup> Israel, South Africa, and non-market economies of Eastern Europe, the USSR, and the People's Republic of China.

<sup>2</sup> Over the past several years the "residual" item has grown significantly. Recorded exports exceed imports by a sizable sum for any calendar year due to goods in transit and inflation. The OECD staff has estimated that \$12-14 billion is involved in these factors. These factors would by themselves make the residual negative rather than positive. Both the IMF and OECD attribute the positive residual to asymmetries in the reporting of service transactions; that is an over-reporting of service imports, or under-reporting of service exports.

Source: National Advisory Council on International Monetary and Financial Policies, Special Report to the President and to the Congress on U.S. Participation in the Supplementary Financing Facility of the International Monetary Fund.

The average deficit on current account incurred by non-OPEC developing countries increased more than five-fold, jumping from about \$4 billion over 1971-73 to \$23 billion per year over 1974-76. Other countries, primarily non-market economies, experienced an increase in current account deficits from about \$3 billion a year in 1971-73 to a more than \$12 billion average in 1974-76. Changes in the current account position of countries within each of these groups were uneven. The bulk of the increase in the OPEC surplus accrued to the Middle East producers, while the changes in the deficits were most pronounced, for example, in the U.K., France, Italy and Brazil.

## II. FINANCING THE DEFICITS

In the aggregate, it was anticipated that oil deficits—per se—would be financed by the OPEC countries since the value of deliv-

eries of OPEC petroleum to oil importing countries in excess of OPEC imports from these countries would, of necessity, take the form of oil importing country liabilities to OPEC members. However, OPEC capital flows to other areas were distributed in a markedly different fashion from the distribution of current account deficits that arose in the wake of the oil price increases and resulting policies adopted by governments of oil importing nations (Table 2).

TABLE 2.—DISTRIBUTION OF NET PAYMENTS DEFICITS, BY AREA, ON GOODS, SERVICES, AND PRIVATE AND GOVERNMENTAL TRANSFERS—DISPOSITION OF OPEC SURPLUSES

[In percent]

|            | 1974-76 | 1974-76 |
|------------|---------|---------|
| OECD.....  | 38      | 75      |
| LDC.....   | 40      | 15      |
| Other..... | 22      | 10      |

The bulk of the funds accruing to OPEC countries were placed in a handful of major industrial nations and in the Euro-banking market. This disparity gave rise to a dramatic increase in the intermediation of capital on a global basis with banks and other private market participants providing 75 percent of the financing of current account deficits over the 1974-76 period (Table 3).

TABLE 3.—ESTIMATED SOURCES OF FUNDS FOR COUNTRIES IN CURRENT ACCOUNT DEFICIT—1974-76

[In billions of dollars]

|                                  | Estimates | Percent |
|----------------------------------|-----------|---------|
| International Monetary Fund..... | \$15      | 7       |
| Other official sources.....      | 40        | 18      |
| Private sources.....             | 170       | 75      |
| Banks.....                       | (106)     | (47)    |
| Other.....                       | (64)      | (28)    |
| Total.....                       | 225       | 100     |

Private financial institutions were in a position to expand the level of their international activity. Many institutions were competing eagerly for new customers as they sought to establish themselves in new activities and new geographic areas, and endeavored to broaden their scope of operations to spread risks and diversify portfolios at a time when domestic loan demand had slackened relative to immediately preceding years. Also, many large banks served as residual repositories of surplus OPEC funds due, in part, to a general lack in OPEC countries of personnel with financial expertise to effectively and fully utilize the very large amount of funds accruing to these nations.

More than half of the estimated \$105 billion of OPEC surpluses flowing to industrial countries was placed with banks (see Table 4). However, while OPEC deposits of funds directly with financial institutions may indicate the extent of direct exposure of these institutions to OPEC nations, the financial intermediation of OPEC surpluses accomplished by these institutions in fact exceeded OPEC deposits. In a broad sense, where oil importing nations (on current

account) accrued surpluses or incurred deficits smaller than their net imports from OPEC and received OPEC investments in bank and nonbank instruments in excess of their current account deficits with OPEC members, the money and capital markets—including banks—in the capital importing countries clearly intermediated part of the excess OPEC investments.

TABLE 4.—ESTIMATED DISPOSITION OF OPEC INVESTABLE SURPLUS

(In billions of dollars)

|  | Revised |       |        |        | First half<br>1978 |
|--|---------|-------|--------|--------|--------------------|
|  | 1974    | 1975  | 1976   | 1977   |                    |
| United States.....   | 12.50   | 9.50  | 12     | 9.25   | .....              |
| of which   |         |       |        |        |                    |
| Treasury securities:   |         |       |        |        |                    |
| Bills.....   | 5.3     | 0.4   | (-1.0) | (-0.9) | (-0.8)             |
| Bonds and notes.....   | 0.2     | 2.0   | 4.2    | 4.3    | - .8               |
| Other marketable U.S. bonds.....   | .9      | 1.6   | 1.2    | 1.7    | .6                 |
| U.S. stocks.....   | .4      | 1.6   | 1.8    | 1.4    | .6                 |
| Commerical bank liabilities.....   | 4.1     | .6    | 1.6    | .4     | - .1               |
| Subtotal (banking and portfolio<br>placements).....  | 10.8    | 6.3   | 7.8    | 6.9    | - .5               |
| Other (including direct investment,<br>prepayments on U.S. exports, debt<br>amortization, etc.)..... | 1.7     | 3.2   | 4.2    | 2.3    | (- .5)             |
| Euro-banking market.....   | 22.50   | 8     | 11     | 12     | 1.25               |
| United Kingdom.....  | 7.50    | .25   | - 1    | .75    | - .25              |
| Other developed countries.....   | 6       | 7.75  | 8      | 8      | 2.50               |
| Less developed countries <sup>1</sup> .....  | 6       | 7.25  | 7.50   | 8.50   | 2.25               |
| Non-market countries.....  | .50     | 2     | 1.25   | 1.50   | .25                |
| International financial institutions (including<br>IMF oil facility).....                            | 3.75    | 4.25  | 1.75   | .50    | .....              |
| Total allocated.....   | 58.75   | 39    | 40.50  | 40.50  | 6                  |
| Estimated current account surplus.....   | 70.50   | 34.25 | 40     | 34     | 4.75               |
| Adjustment for lag in receipt of oil revenues...   | - 11.25 | + 1   | - 4.50 | + 3    | 3.50               |
| Estimated gross borrowings.....  | .50     | 4     | 8      | 12     | 2.75               |
| Cash surplus plus borrowings.....  | 59.75   | 39.25 | 43.50  | 49     | 11                 |
| Discrepancy in estimates.....  | 1       | .25   | 3      | 8.50   | 5                  |

<sup>1</sup> Includes grants.

The bulk of all OPEC financing of the worldwide oil payments deficits has been supplied by the Mideast OPEC members as a group (Table 5). In 1974, non-Mideast OPEC countries accrued current surpluses of about \$14 billion, or 20 percent of the total, but since then virtually all of the surpluses have accrued to the Mideast oil exporting countries.

TABLE 5.—OPEC PAYMENTS BALANCES ON GOODS, SERVICES, AND PRIVATE TRANSFERS

[In billions of dollars]

|   | 1974 | 1975 | 1976 | 1977 | Estimate<br>1978 |
|---|------|------|------|------|------------------|
| Total OPEC surplus.....   | 70.6 | 34.3 | 40.0 | 34.0 | 13.4             |
| Members outside Mideast.....                                    | 14.4 | -0.9 | 0.7  | -1.4 | -9.6             |
| Surpluses of Mideast OPEC members.....                          | 56.2 | 35.2 | 39.3 | 35.4 | 23.0             |
| Official Development Assistance.....                            | 3.0  | 5.0  | 4.5  | 3.6  | .....            |
| Financing at market terms.....                                  | 53.2 | 30.2 | 34.8 | 31.8 | .....            |
| of which to   |      |      |      |      |                  |
| Official International financial institutions                   | 3.4  | 3.6  | 1.6  | 5    | .....            |
| United States.....  | 7.1  | 10.6 | 12.6 | 9.6  | .....            |
| Bank and money market balances<br>and portfolio securities..... | 5.5  | 7.6  | 8.9  | 7.2  | .....            |
| Other placements in the U.S. <sup>1</sup> .....                 | 1.6  | 3.0  | 3.7  | 2.4  | .....            |
| Non-oil developing countries.....                               | 3.0  | 2.2  | 3.0  | 4.9  | .....            |
| Other Areas.....  | 39.7 | 13.8 | 17.6 | 16.8 | .....            |
| Bank deposits.....  | 22.0 | 9.0  | 8.7  | 8.0  | .....            |

<sup>1</sup> Largely prepayments on U.S. exports and amortization of outstanding loans.

Source: Treasury Staff Estimates.

### III. INVESTMENT PATTERN OF MIDEAST OIL EXPORTING COUNTRIES

Due in part to the historical role of the U.S. dollar as the preeminent international medium of exchange and store of value, the bulk of Mideast OPEC member investment has been in dollar-denominated instruments. The proportion of their external assets denominated in U.S. dollars is estimated to have fluctuated between 75 percent and 80 percent since 1974.

Based on U.S. statistics on international capital movements (the only publicly available and systematically collected statistics distinguishing between short- and long-term assets held by Mideast oil producers) the oil exporting countries in the Mideast have progressively increased the proportion of their investments placed in long-term assets.

TABLE 6.—MIDEAST OIL EXPORTING COUNTRY PLACEMENTS IN BANK AND MONEY MARKET BALANCES AND PORTFOLIO SECURITIES HOLDINGS IN THE UNITED STATES<sup>1</sup>

[Dollars in billions]

|                        | Commercial<br>bank<br>liabilities | Treasury<br>securities | Other<br>portfolio<br>securities | Total | Of which<br>short-term |
|------------------------|-----------------------------------|------------------------|----------------------------------|-------|------------------------|
| 1974.....              | \$1.9                             | \$2.3                  | \$1.2                            | \$5.5 | \$4.0                  |
| 1975.....              | 1.1                               | 3.3                    | 3.2                              | 7.6   | 1.8                    |
| 1976.....              | 1.8                               | 4.1                    | 3.0                              | 8.9   | 1.6                    |
| 1977.....              | 0.4                               | 3.7                    | 3.1                              | 7.2   | -0.4                   |
| 1978 (first half)..... | -0.5                              | -1.4                   | 1.2                              | -0.7  | NA                     |
|                        | [Percent of total]                |                        |                                  |       |                        |
| 1974.....              | 35                                | 42                     | 22                               | 100   | 73                     |
| 1975.....              | 14                                | 43                     | 42                               | 100   | 24                     |

See footnote at end of table.

TABLE 6.—MIDEAST OIL EXPORTING COUNTRY PLACEMENTS IN BANK AND MONEY MARKET BALANCES AND PORTFOLIO SECURITIES HOLDINGS IN THE UNITED STATES <sup>1</sup>—Continued

(Dollars in billions)

|            | Commercial<br>bank<br>liabilities | Treasury<br>securities | Other<br>portfolio<br>securities | Total | Of which<br>short-term |
|------------|-----------------------------------|------------------------|----------------------------------|-------|------------------------|
|            | [Percent of total]                |                        |                                  |       |                        |
| 1976 ..... | 20                                | 46                     | 34                               | 100   | 18                     |
| 1977 ..... | 6                                 | 51                     | 43                               | 100   | -6                     |

<sup>1</sup> Totals may not add due to rounding.

NA Not available.

Source: Treasury Bulletin.

With the initial, sudden surge of oil revenues accruing to these countries, 73 percent of their financial investments in the U.S. were placed in short-term assets (Table 6). Thereafter, the proportion of short-term assets acquired at the margin dropped precipitously to 24 percent in 1975 as their combined surplus declined from about \$56 billion in 1974 to an estimated \$35 billion due to extraordinary growth in their imports and recession in the rest of the world which dampened global demand for oil.

By 1977, the Mideast oil exporting countries were, on net, converting their short-term assets in the U.S. into long-term instruments. This lengthening of the maturity structure is consistent with development of more sophisticated investment planning and better definition of the domestic economic objectives of these countries which permits them to better appraise the amount of funds needed for economic development expenditures in the near-term and thus the amount of funds available for longer-term investments yielding higher returns. The development of greater expertise in the management of large sums of capital by the Mideast oil exporting countries is reflected in U.S. statistics which show (to some extent) that these countries have increasingly assumed the burden of assessing relative risks.

The data also suggest that the movement by the Mideast oil exporting countries toward long-term U.S. assets was accompanied by a decline in the proportion of their surplus funds invested in bank deposits and an increase in the proportion of funds placed in other money and capital market instruments. Allowing for seasonally large receipts of oil revenues in the colder months of each year and for cyclical fluctuations in the demand for oil, the data show that the mix of Mideast oil exporting country investments in bank deposits, money market instruments and portfolio securities began shifting toward private sector instruments as early as 1976. By the Spring of 1977, the news media were reporting increased flows of Mideast funds directly to U.S. corporations through their private placements of notes with Mideast investors (most notably with the Saudi Arabian Monetary Authority).

#### IV. PRESENT AND PROSPECTIVE PATTERNS

By the first half of 1978, the downward trend in Mideast oil exporting country current account surpluses began to be reflected

in the investment statistics. As the ability of most of the Mideast oil exporting countries to absorb imports increases and the oil importing nations continue to effect adjustment of their economies to higher energy prices, the strains on the international financial system arising from large international payments imbalances will probably diminish further and some of the Mideast OPEC members will begin (or continue) to draw upon their accumulated external assets to cover current expenditures. An outgrowth of continuing reductions of Mideast OPEC member current account surpluses, together with more direct management of their external assets, is likely to be a continuing decline in the relative (if not absolute) size of Mideast oil exporting country investments in the traditional instruments they have used since the oil price shocks of 1973-74.

# ISSUES IN THE TRANSFER OF TECHNOLOGY TO THE MIDDLE EAST

By R. D. McLaurin\*

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## TECHNOLOGY AND THE TRANSFER OF TECHNOLOGY

Technology is widely and increasingly viewed as the vehicle for socio-economic development. Although there are a variety of definitions for the process of "technology," we lean toward that concept in the economics literature that views technology as the under-

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standing that allows productivity—i.e., know-how.<sup>1</sup> Technology, then, is the application science.

Relatively few definitions of international technology transfer have been advanced, but descriptions of the process are many and varied—and frequently conflicting. In this paper, we view technology transfer of this type as the communication to nationals of one country by another country's nationals or institutions, or by transnational or multinational institutions, of understanding that permits enhanced productivity.<sup>2</sup>

Over the years since World War II four different policy contexts have constituted frameworks for the perception and analysis of technology transfer. These four are (1) military, (2) developmental/diplomatic, (3) multinational enterprise, and (4) domestic economic. Although the first three<sup>3</sup> were more or less sequential in policy attention, all four are employed today. When each perspective was dominant, the level of conflict between policy options was minimized. The present policy choices are much more conflicting, however, suggesting continued issue salience for the next several years.

The military view pays primary attention to maintaining and enhancing the U.S. lead-time in strategic technologies and in other technologies with military application.<sup>4</sup> The focus is on control of technology transfer.<sup>5</sup> By developmental/diplomatic we mean the conceptualization of technology transfer as development assistance for foreign policy ends. The focus is on national influence. The third context arose as a result of the sudden awareness in the early 1970s of the importance and power of multinational enterprises. In this context, the focus has been on corporate profitability and influence. The present period is characterized by a variety of perspectives on technology transfer. All of the previous periods' values have returned to be joined by growing concern about the effects on the state of the American economy of, and the effects of the state of the American economy on, the transfer of U.S. technology. We argue that there is no central focus, because the issues raised by the transfer of technology cut across the political, economic, social, and military domains in several ways. Some of the tension between competing values is reflected in the policy issues section below.

<sup>1</sup> Hall and Johnson correctly distinguish between science and technology: "Technology is knowledge or information that permits some task to be accomplished, some service rendered, or some product produced . . . [S]cience . . . organizes and explains data and observations by means of theoretical relationships. Technology translates [these] scientific relationships into 'practical' use." G. R. Hall and R. E. Johnson, "Transfers of United States Aerospace Technology to Japan," *The Technology Factor in International Trade*, edited by Raymond Vernon (New York: National Bureau of Economic Research, 1970), p. 306. Technology is also seen, generally in a noneconomic framework, as product. Although semantically acceptable, this usage is fundamentally different in concept from, and falls outside the parameters of, the present paper.

<sup>2</sup> We have hereby placed technology transfer in a communication context. Using the well-known Lasswell paradigm (H. D. Lasswell, "The Structure and Function of Communication in Society," *The Communication of Ideas*, edited by L. Bryson (New York: Harper & Row, 1948), p. 37) one can study *who* (donor) transfers *what* (type of technology) to *whom* (recipient) through which *channel* (mechanism or channel) and with what *effect*?

<sup>3</sup> The first three periods are suggested and described by Henry R. Nau, *Technology Transfer and U.S. Foreign Policy* (New York: Praeger, 1976).

<sup>4</sup> Cf. U.S. Department of Defense, *An Analysis of Export Control*, *passim*; Robert E. Klitgaard, *National Security and Export Controls* (Santa Monica: Rand Corporation, 1974).

<sup>5</sup> Shorthand in the military community for technology transfer is T<sup>2</sup>.

## CHANNELS OF TECHNOLOGY TRANSFER

*Introduction*

The transmission of technology to individuals and groups in foreign countries can take place through a diversity of vehicles. Yet, given our view of technology as the understanding that allows productivity, some of these conduits of know-how are more effective than others, and the effectiveness of each varies across the field or industry in which the technology occurs. These channels of transfer vary from the exchange of commercial literature to joint ventures and the establishment of turnkey factories, i.e., from the very passive (which are by themselves not very effective in transferring the technology) to the very active<sup>6</sup> (or potentially effective).

*Mechanisms*

Advanced *training* (or education) in technology is the essence of technology transfer. Training may take place in-country and on-the-job, or in facilities designed for or dedicated to the provision of such training. It may take place in the United States. Similarly, formal or informal technical exchange that leads to continuing contact is a common, useful, and highly effective means of conveying technical understanding. Such training may take place in a variety of contexts:

Government-to-government programs in the host country or in the providing country.

Government-to-private industry programs in either country.

Government-sponsored industry-to-industry programs.

Government-sponsored industry-to-government programs.

Wholly private programs.

The training may take the forms of education, technical assistance, consulting, or some other type of training. There is a growing role for management services and consulting in the Middle East, and turnkey plus projects, involving factories *plus* follow-on consultation and training, are major transfer foci.

*Technical exchanges*—whether programmatic or otherwise—are often to short-term to transfer significant technology (unless the exchanges are specifically designed for that purpose, in which case we prefer to think of them as education or training activities). Yet, the continuing interaction that frequently results from these exchanges conduces to the sharing of technology insights and may often result in a longer-term two-way transfer of technology. In the Middle East, for example, U.S. and Israeli technical visits—from lectures and lecture tours to participation in professional meetings, to formal exchange programs—are both broad and extremely numerous. The professional contact that flows from these exchanges has clearly resulted in important technological progress and transfer. Technical exchange in the form of cooperative research and development is a particularly effective mechanism for the transfer

<sup>6</sup> The Bucy Report (U.S. Department of Defense, Office of the Director of Defense Research and Engineering, *An Analysis of Export Control of U.S. Technology: A DOD Perspective* [Washington, D.C., 1976], p. 4) notes that "'active' relationships involve frequent and specific communications between donor and receiver . . . Typically this is an iterative process: the receiver requests specific information, applies it, develops new findings, and then requests further information."

of technology. The Israeli-United States Binational Industrial Research and Development Foundation, for example, is a very potent vehicle for two-way technology transfer, although the initial signs are that it is resulting in a largely one-way flow of technology to Israel.

Among the most active and effective technology transfer mechanisms is the joint venture, a mutual undertaking by two or more distinct public or private entities. Large-scale joint ventures have not been common until relatively recently in the Middle East, largely because of the absence of an adequate skilled manpower base. Regulations (and other informal restrictions) promulgated by a number of Middle East countries requiring near-majority or majority participation in many activities have led to a rapid proliferation of joint venture arrangements. (See "foreign affiliation" below.) When participation by host country nationals is active and extends beyond financial support, joint ventures may result in substantial transfers of technology.

Similar in some respects to joint ventures, foreign affiliation involves an overseas extension of ownership either through subsidiaries (or other affiliates) in other countries or through outright merger with a foreign firm or institution. Since international transactions in these circumstances are intra-firm transactions, many of the commercial or proprietary resistances to the international transfer of technology are minimized. Foreign affiliation has proliferated quickly in the Middle East as a result of the ownership requirements adopted by several Arab governments.

Another active channel is the establishment or use of turnkey operations. Although the turnkey factory has become a controversial issue in U.S.-Soviet exchange, this mechanism has attracted less interest and debate in agreements between public or private groups in the developed world and those in the developing countries. However, as we have indicated above, the turnkey factory, followed by a management services/training arrangement, can be a potent force for development. Without a substantial training effort turnkey arrangements will not work in most developing countries, again because of the inadequate trained manpower base.

It should be noted that license arrangements have not been included among the most effective channels of technology transfer.<sup>7</sup> By themselves licensing agreements do not generally transfer technology. Indeed, they constitute an acknowledgement that the licensee already possesses the technology. Alternatively, they may be permissive. In neither case is technology transferred. However, some licensing arrangements do call for substantial training. When this occurs, it is the training, not the license, that is the channel; the license is simply an institutional framework. At the less active level, some licenses provide the context for an exchange of data and know-how which, though less active and effective than the ongoing interaction of a training program, can result in the transfer of technology.

Engineering documents and technical data constitute another transfer mechanism of varying effectiveness across different techni-

<sup>7</sup> The Bucy Report placed licenses at the "highly effective" level under certain conditions. We suggest, as the paragraph states, that the effectiveness of these mechanisms flows from the ancillary training/education that may be provided. (cf. *Ibid.*, p. 6.)

cal fields. In some areas—for example, the semiconductor field—this channel is a rather effective transfer mechanism; in others, such as agriculture, it is far less effective.

Capital and processing equipment are by themselves only a moderately effective means of acquiring technology, but their power can be substantially increased if know-how is transferred through training or other processes along with the equipment. In different fields, intermediate products represent an analogous position.

Relatively less effective mechanisms for the transfer of most advanced technology include commercial visits, international conferences and trade exhibits, professional and commercial literature, final products (without maintenance, operations, engineering, or other technical data), and undocumented proposals.

### *Channels and the Nature of the Technology*

As we have indicated, the nature of the technology is a key factor in the differential effectiveness of the various transfer mechanisms. It is widely believed that mechanism effectiveness may also be dependent on the type of firm involved. Unfortunately, there is little empirical research available to validate these beliefs.<sup>8</sup> However, most experts believe the most active mechanisms tend to generate the greatest transfer of technology.<sup>9</sup>

Intuitively, one would expect active transfer mechanisms to be more effective. Since technology is know-how, it is a function of human understanding. The focus of active mechanisms, implicitly or explicitly, is people. Although joint ventures are an institutional arrangement, for example, their technological dynamism flows from the human interaction they facilitate. Turnkey plants and licenses without either the technology base (in which cases technology is not being transferred) or effective training or technical assistance are not particularly effective transfer mechanisms. Thus, the focus of the transfer process—pure know-how (through people), experience information, systems information, product information and general information, in descending order—is an important determinant of transfer effectiveness and scope.<sup>10</sup>

Let us emphasize, then, the importance of people in the transfer of technology across national boundaries, for we are frequently apt to forget (and the literature often ignores the fact) that technology is transferred within our own society and at least theoretically to others “most readily through the mobility of people. This process occurs not only through hiring practices deliberately designed to acquire advance technological information, but through the routine day-to-day mobility of the work force within and between companies, industries and nations.”<sup>11</sup> At a time when the influx of

<sup>8</sup> See R. Stobaugh, “A Summary and Assessment of Research Findings on U.S. International Transactions Involving Technology Transfers,” *The Effects of International Technology Transfers on U.S. Economy*, edited by the National Science Foundation (Washington, D.C.: U.S. Government Printing Office, 1974).

<sup>9</sup> In this regard, see the Bucy Report comments, pp. 6-8.

<sup>10</sup> Henry R. Nau, “Technology Transfer, U.S. Foreign Policy, and the International System” paper presented at the annual meeting of the American Political Science Association, San Francisco, September 1975; Hall and Johnson, “Transfers.”

<sup>11</sup> Bruno O. Weinschel, Statement on behalf of the Task Force on U.S. Innovation in Electrotechnology of the U.S. Activities Board, Institute of Electrical and Electronics Engineers, Inc., to the Senate Subcommittees on Science, Technology and Space and International Finance Concerning U.S. High Technology—Impacts on U.S. Policy Affecting World Markets, May 16, 1978, p. 16.

skilled and semi-skilled foreign nationals to the Persian Gulf countries is substantial, it ill behooves us to overlook this very direct conduit of technology. The number of American nationals likely to be in the Persian Gulf countries alone in 1980 exceeds 100,000 by one conservative estimate. While it is true that a large number of these U.S. citizens are expected to be unemployed dependents, many will be in positions specifically established to transfer technology to host country nationals, and a surprisingly impressive number will be U.S. citizen dependents of non-U.S. citizens.<sup>12</sup>

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<sup>12</sup>These figures derive from Robert M. Brodkey and James Horgen, *Americans in the Gulf: Estimates and Projections of the Influx of U.S. Nationals into the Persian Gulf, 1975-1980* (Washington, D.C.: American Institutes for Research, 1975). Although the figures used in the private sector part of the study are largely statistical extrapolations (public sector data were collected through survey and interview techniques), they have held up reasonably well in the aggregate for the first three years since the projections were made. Others, including Secretary of Defense Schlesinger—have used larger figures. (Schlesinger estimated 150,000 during the same time period.) Estimates for the Persian Gulf as a whole are as follows:

**PRESENCE AND PROJECTED INFLUX OF U.S. NATIONALS EMPLOYED  
IN PERSIAN GULF, 1967-1980, BY SECTOR AND CATEGORY\***

| Country/Sector       |         | 1975  |       |        | 1976†  |              |               | 1977†  |              |               | 1980†  |              |               |
|----------------------|---------|-------|-------|--------|--------|--------------|---------------|--------|--------------|---------------|--------|--------------|---------------|
|                      |         | I     | II    | Total  | I      | II           | Total         | I      | II           | Total         | I      | II           | Total         |
| Iran                 | Gov't   | 1,360 | 180   | 1,540  | 1,710  | 340          | 2,050         | 1,710  | 390          | 2,090         | 1,710  | 390          | 2,090         |
|                      | Private | 3,200 | 2,240 | 5,440  | 5,580  | 2,100-3,080  | 7,680-8,670   | 8,170  | 2,200-3,860  | 10,360-12,030 | 11,520 | 2,500-4,180  | 14,010-15,700 |
|                      | TOTAL   | 4,560 | 2,430 | 6,980  | 7,290  | 2,440-3,420  | 9,720-10,710  | 9,870  | 2,580-4,250  | 12,460-14,120 | 13,220 | 2,890-4,560  | 18,100-17,790 |
| Iraq                 | Gov't   | -     | -     | -      | -      | 10           | 10            | 10     | 30           | 40            | 10     | 40           | 50            |
|                      | Private | -     | 190   | 190    | -      | 190-320      | 190-320       | -      | 190-430      | 190-430       | -      | 190-1,170    | 190-1,170     |
|                      | TOTAL   | -     | 190   | 190    | -      | 200-330      | 200-330       | 10     | 210-460      | 220-470       | 10     | 220-1,200    | 230-1,210     |
| Kuwait               | Gov't   | 10    | 40    | 50     | 40     | 40           | 80            | 80     | 80           | 150           | 190    | 90           | 280           |
|                      | Private | 40    | 570   | 610    | 50     | 510-720      | 560-770       | 90     | 560-870      | 650-960       | 90     | 640-1,310    | 730-1,400     |
|                      | TOTAL   | 50    | 610   | 660    | 90     | 550-760      | 640-850       | 180    | 620-930      | 800-1,110     | 280    | 730-1,400    | 1,010-1,680   |
| Saudi Arabia         | Gov't   | 370   | 200   | 570    | 670    | 340          | 1,010         | 850    | 400          | 1,250         | 1,130  | 450          | 1,580         |
|                      | Private | 1,420 | 3,040 | 4,460  | 1,730  | 2,910-4,250  | 4,650-5,990   | 2,050  | 3,040-5,970  | 5,090-8,020   | 3,000  | 3,400-7,930  | 6,400-10,930  |
|                      | TOTAL   | 1,790 | 3,240 | 5,030  | 2,400  | 3,260-4,600  | 5,660-7,000   | 2,900  | 3,440-6,370  | 6,340-9,270   | 4,130  | 3,850-8,390  | 7,990-12,520  |
| Bahrain              | Gov't   | 500   | 20    | 520    | 550    | 30           | 570           | 550    | 30           | 580           | 570    | 30           | 590           |
|                      | Private | -     | 490   | 490    | -      | 500-570      | 530-570       | -      | 540-650      | 540-650       | -      | 680-900      | 680-900       |
|                      | TOTAL   | 500   | 510   | 1,010  | 550    | 530-590      | 1,070-1,140   | 550    | 580-690      | 1,130-1,240   | 570    | 710-930      | 1,280-1,490   |
| Qatar                | Gov't   | -     | 10    | 10     | -      | 10           | 10            | -      | 10           | 10            | -      | 10           | 10            |
|                      | Private | -     | 20    | 20     | -      | 30-60        | 30-60         | -      | 30-70        | 30-70         | -      | 40-100       | 40-100        |
|                      | TOTAL   | -     | 30    | 30     | -      | 40-60        | 40-60         | -      | 50-80        | 50-80         | -      | 50-110       | 50-110        |
| United Arab Emirates | Gov't   | -     | 20    | 20     | 10     | 20           | 30            | 10     | 20           | 30            | 10     | 20           | 30            |
|                      | Private | -     | 850   | 850    | -      | 860-1,040    | 860-1,040     | -      | 960-1,230    | 960-1,230     | -      | 1,240-1,820  | 1,240-1,800   |
|                      | TOTAL   | -     | 870   | 870    | 10     | 880-1,060    | 890-1,070     | 10     | 980-1,250    | 990-1,260     | 10     | 1,260-1,820  | 1,270-1,830   |
| Oman                 | Gov't   | -     | 20    | 20     | 20     | 20           | 30            | 20     | 20           | 40            | 20     | 20           | 40            |
|                      | Private | -     | 100   | 100    | -      | 100-150      | 100-150       | -      | 110-180      | 110-180       | -      | 140-280      | 140-280       |
|                      | TOTAL   | -     | 120   | 120    | 20     | 110-170      | 130-180       | 20     | 130-200      | 140-220       | 20     | 160-300      | 180-320       |
| Totals               | Gov't   | 2,240 | 490   | 2,730  | 2,990  | 810          | 3,800         | 3,240  | 960          | 4,200         | 3,640  | 1,030        | 4,670         |
|                      | Private | 4,660 | 7,510 | 12,160 | 7,370  | 7,190-10,180 | 14,560-17,540 | 10,310 | 7,820-13,260 | 17,920-23,560 | 14,610 | 8,830-17,670 | 23,440-32,270 |
|                      | TOTAL   | 6,900 | 7,990 | 14,890 | 10,360 | 8,000-10,990 | 18,360-21,250 | 13,540 | 8,580-14,220 | 22,120-27,760 | 18,240 | 9,860-18,700 | 28,100-36,940 |

I = DOD and DOD-Related

II = Non-DOD and Non-DOD Related

\*Columns and lines may not total exactly due to rounding.

† Estimated

The movement to Middle East nations, especially to the oil-producing countries of the Persian Gulf, of technically skilled manpower could have far-reaching development effects if the human bearers of this skills base were integrated into the societies to which they have moved. In fact, however, most view their stay as temporary and limit (and are limited in) their interactions to those of similar backgrounds and cultures. They are not resources or skills transferred, but, rather, parts of the larger expatriate community involved in the transfer process.

To the extent that technology is transferred by people (not by the transfer of people), the success of the process is intimately related to effective intercultural communication and education and to the appropriateness of the technology. Unfortunately, most students of intercultural communication have failed to translate their findings comprehensibly to others studying technology transfer. The former are aware of the relevance of their field to the transfer of technology, but are figuratively, talking to themselves. Students of technology transfer—generally, economists, business and management analysts, and to some extent military analysts—do not, for the most part attend to the developments in intercultural communication or education fields.

The question of "appropriate technology" is controversial: What advocates view as reasonable and logical opponents call "paternalistic." Should technology that is appropriate to a recipient in its current social and economic situation be the focal point of transfer action? Or should technology be used to fundamentally alter some or many of the fundamental human social and economic resources? Indeed, can one tightly control or channel change into sectors in such a way that social forces are left basically unaltered but the quality of life across the society is enhanced? These are all important and controversial questions, and no verdict has yet been rendered. We do know, however, that care taken in planning to ensure that recipient skills are optimally utilized is important in the course and success of technology transfer.<sup>13</sup>

## POLICY ISSUES

### *Background*

In this section we discuss specific policy issues related to the question of technology transfer. For convenience, we have divided these issues into three general categories—economic, political, and military. The discussion is not intended to be a comprehensive inventory of points or issues, and the omission of social issues is not meant to suggest that policy questions in this domain are unimportant.<sup>14</sup>

Although the present paper addresses technology transfer to the Middle East, particularly, the issues raised by and surrounding the communication of know-how to foreign areas tend to apply to all supplier-recipient groups. That the relative weight of the differ-

<sup>13</sup> See, e.g., James E. Clayson, "Local Innovation: A Neglected Source of Economic Self-Sufficiency," *Impact of Science on Society*, XXXVIII, no. 4 (1978), pp. 349-358.

<sup>14</sup> E.g., the question of "appropriate technology" originally grew as a result of social as well as economic values. But social issues regarding technology transfer run generally parallel to social questions related to development.

ent specific issues varies across dyads and groupings is clear: technology transfer issues connected with states possessing substantial financial power may vary from the issues between the United States and fourth world countries. Yet, even here, the difference is more one of intensity than one of direction.

### *Economic Issues*

#### EFFECTIVENESS OF DEVELOPMENT AID

"We in the Arab world all know that our oil will not last forever \* \* \*. We must obtain other resources, and one way is to industrialize. That is why the transfer of technology is so important to us."<sup>15</sup> These are the recent words of a leading Arab businessman and are typical of the views widespread in the Middle East. After well over 20 years of international economic assistance the gap between the developed and developing countries has widened. No longer do the recipients want only short-term aid; they seek a shift in their own capabilities.

There are many ways of visualizing the Middle East economy. Too frequently, observers feel they must apply the same criteria to totally different conditions in order to understand the dynamics of various situations. Regional economic realities may best be understood by applying two types of criteria. The first divides the countries of the Middle East dichotomously on the basis of oil production. While oil-producing states are best understood on the basis of their human resource (and resulting demand) constraints, non-oil-producers are more appropriately grouped in terms of the level of development of economic infrastructure. We do not, of course, intend by this typology to compare; rather, the purpose is to group economies with similar constraints or conditions.

#### *Oil producing*

| <i>Populous</i> <sup>1</sup> | <i>Underpopulated</i> <sup>1</sup> |
|------------------------------|------------------------------------|
| Algeria                      | Kuwait                             |
| Bahrain                      | Libya                              |
| Iran                         | Oman                               |
| Iraq                         | Qatar                              |
|                              | Saudi Arabia                       |
|                              | U.A.E.                             |

<sup>1</sup> As noted below, population refers to both absolute population and population density. For the reader's convenience, population data are as follows:

#### *Non-oilproducing—infrastructure*

| <i>Sound</i> | <i>Some</i> | <i>Little</i> |
|--------------|-------------|---------------|
| Israel       | Egypt       | P.D.R.Y.      |
|              | Jordan      | Y.A.R.        |
|              | Lebanon     |               |
|              | Morocco     |               |
|              | Syria       |               |
|              | Tunisia     |               |

<sup>15</sup> Sheikh Abdul Aziz al Sager, President, Kuwaiti Chamber of Commerce, as quoted in Hobart Rowen, "Share Technology with Arab World, American Multinationals are Warned," *Washington Post*, Apr. 19, 1978, p. B7.

*Population/population density of Middle East oil producers*[Millions/persons per Km<sup>2</sup>]*Populous*

Algeria (17.6/7.2)  
 Bahrain (0.3/476.5)  
 Iran (35.3/21.4)  
 Iraq (12.5/28.0)

*Underpopulated*

Kuwait (1.2/75.0)  
 Libya (2.8/1.6)  
 Oman (0.6/2.6)  
 Qatar (0.2/15.6)  
 Saudi Arabia (7.9/3.4)  
 United Arab Emirates (0.7/7.9)

Data source: U.S. Central Intelligence Agency, *National Basic Intelligence Factbook* (Washington, D.C., July 1978).

It should be noted that not all "oil-producing" states are major producers: Bahrain now produces only 56,000 barrels per day, Oman 340,000 barrels per day, and Qatar 435,000 barrels per day. Similarly, several "non-oil-producing" countries do, in fact, produce oil: Israel (in occupied territory), Egypt, Morocco, Syria, and Tunisia. In fact, Syria produces more than Bahrain. The criterion for placement in each category is the relative contribution of petroleum to the national economy. Similarly, it is apparent that "populous" Bahrain is less populous than any of the "underpopulated" oil producers except Qatar, while "under populated" Kuwait has a denser population than 75 percent of the "populous" countries listed. The criterion here is the balance between crude population and population density. That is, Bahrain's population is not large, but given the size of the country, it is more than adequate to serve as a manpower base. Kuwait—admittedly a borderline case—is rather densely populated by Middle East standards, but in fact has a very small population, the Kuwaiti component of which is barely adequate, if at all, to propel development.

The division seen above is important, because it gives a good idea of the comparative ability to purchase quantities of technology and some idea of the ability to absorb it. If the principal focus were absorptive capacity, the figure would look very different. Israel is by far the country with the most highly developed manpower base, but Israel has a capital shortage. Moreover, the size of the Israeli economy and its regional isolation has constrained Israeli development, although it is in many respects a developed country.

A number of countries in the region have experienced rapid and sizable increases in the education base over the last decade through a combination of expansion of domestic educational facilities and aggressive participation in international exchange. Iran was perhaps the most clear-cut example until the revolution. While there is no precise way to establish the total number of Iranians pursuing educations in the United States today, one expert has estimated that they may have approached 60,000, constituting by far the largest single group of foreign nationals in American schools.<sup>16 17</sup> Moreover, a large number of Iran's nationals were enrolled in the academic institutions of other industrialized countries as well, including both Western and socialist countries.

The transfer of technology to Middle Eastern countries is a development issue insofar as its adequacy is concerned. How much

<sup>16 17</sup> Interview with Marshall Berg, Chief, Near East Division, Bureau of Educational and Cultural Affairs, U.S. Department of State, March 14, 1978. It is believed that there are three times as many students from Iran in the United States as there are students from any other country. (These figures represent all levels of education.)

and what kind of development assistance the United States and other developed countries should provide to the developing nations of the Middle East has been and continues to be a policy problem. To what extent should the United States encourage private investment—some of which may be in the form of plants and other technology—in these areas? There are a variety of incentives and other indirect mechanisms this country can use to encourage the export of technology potentially useful to developing countries.<sup>18</sup> Most raise policy issues of some magnitude involving competing objectives and priorities.

On the one hand, the United States is a member of the community of nations. Many feel that the United States has an obligation to commit some level of its economic wealth to aid the poor countries of the world. Various targets have been set—e.g., one percent of the GNP—but the concept of commitment or earmarking as a symbol of the United States' willingness to meet its putative responsibilities to the community of nations is the essential point.

On the other hand, many Americans, whatever their views about moral responsibility to the world's poor, believe that American foreign assistance has been ill-administered and is not, therefore, the most appropriate or efficient way to meet this responsibility. Moreover, it is individual firms that pay the price of policy changes within the foreign countries. Another problem, particularly relevant to technology transfer, is the lack of centralized regional planning. Many Americans aware and supportive of and involved in the development problem are distressed to see competitive technologies and systems being established throughout the Middle East when the potential for a great deal of complementarity exists. The appearance is that of Beggar-my-neighbor development.

On the whole, American foreign assistance since 1973 has moved in the direction of upgrading technical expertise and transferring "appropriate" technology and away from large-scale capital and commodity transfers. However, foreign aid is far less significant than are commercial technology transactions in the Middle East today.

#### TECHNOLOGY AND INVESTMENT

One of the problems encountered in U.S. relations with the oil-producing Middle East states is the objective of the latter to productively invest their capital assets in the United States. In the minds of many Arab and Iranian planners, investment and technology transfer could go hand-in-hand. Alternatively, a more centralized approach would facilitate planned investment in return for transfers of specific technologies.

The problems that have arisen in connection with these approaches are several. First, disclosures of Arab and Iranian investment in U.S. industry have appeared to arouse substantial concern and opposition on the part of other investors, citizens groups, and in particular Jewish groups,<sup>19</sup> largely as a function of the Arab-

<sup>18</sup> See, generally, the papers presented in U.S. Congress, Senate, 95th Congress, Second Session, *Export Policy*, Hearings before the Subcommittee on International Finance of the Committee on Banking, Housing, and Urban Affairs jointly with the Subcommittee on Science, Technology, and Space of the Committee on Commerce, Science, and Transportation, Parts 1-7, February 6, March 9, 20, 21, and 30, April 5, 7, and 13, and May 16, 1978.

<sup>19</sup> This has been true not only with respect to direct Arab (and Iranian) investment, but applies as well to grants, endowments, and the like.

Israeli conflict. Second, the nature of the American economy (and society) is such that the government is not in a position to arrange a *quid pro quo* as easily as the French or Germany or Japanese government might. In this respect, the common foreign preference to go through the U.S. government, though understandable, results in substantial delay and inefficiency at times. Another consideration is the real difference of view among those who favor a "special relationship" between the United States and certain Middle Eastern countries, on the one hand, and those, on the other hand, who do not believe "special relationships" are appropriate. Although there is some reason to believe that the price of oil is not dissimilar from what it would be under normal market conditions,<sup>20</sup> references to OPEC (and its Arab and Persian members especially) as an economic "adversary" of the United States are common.<sup>21</sup>

#### TECHNOLOGY TRANSFER EFFECTS ON THE U.S. ECONOMY

By far the most important and contentious economic issue regarding the transfer to foreign countries of technology is the question of the effects of such transfers on the economy of the supplier. This issue has been raised from a variety of viewpoints and in many forms in the last five years. Is the supplier's (e.g., the United States') economy benefited or hurt by transactions of this nature? What is the net effect on employment, production, and trade?

There are no definitive data to determine the net effect of technology transfer to Middle East—or other foreign—countries. Instead, there are data to support contradictory arguments. Let us consider some of the arguments against and for the transfer of advanced technology.

Since the purpose of acquiring the technology is usually to cut dependence upon imports and then, in many cases, to build exports, importation of advanced technology may reasonably be expected to increase foreign competition and reduce U.S. export sales in some cases. The most clear-cut Middle East example to date is that of Israeli military industries. Several of these industries have been constructed on the basis of below-cost importation of advance technology from the United States. Technology has been imported through foreign affiliation<sup>22</sup> and notably through "forgiven" military assistance.<sup>23</sup> This on-the-cheap importation of highly advance U.S. technology has enabled Israel to compete with the United States as an arms exporter. Israeli foreign arms sales now amount to between \$500 million and \$1 billion,<sup>24</sup> and it is reasonable to assume (since the United States is the largest arms exporter in the world) that many of these sales might otherwise be made by U.S. firms.

<sup>20</sup> See Robert S. Pindyck, "Gains to Producers from the Cartelization of Exhaustible Resources," *Review of Economics and Statistics*, May 1968, and "OPEC's Threat to the West," *Foreign Policy*, no. 30 (Spring 1978), pp. 39-41.

<sup>21</sup> Nau, "Technology Transfer," *passim*.

<sup>22</sup> Many of the major military industries, such as AEL Israel, Elbit Computers, Koor Industries, Motorola Israel, and Tadiran Israel Electronics, are affiliates of U.S. firms.

<sup>23</sup> Since 1973, half of U.S. military credit sales to Israel has been on a 50 percent-"forgiven" basis, meaning the "forgiven" amount of credit assistance need not be repaid.

<sup>24</sup> Graham Hovey, "U.S. Officials Expressing Concern About Israeli Arms Exports," *The New York Times*, January 15, 1977, p. 1; Dial Torgerson, "Israel Selling Millions in Arms to South Africa," *Los Angeles Times*, February 6, 1977, Part I, p. 10.

An example of corporate-directed technology transfer leading toward export competition is the major agreement between General Telephone and Electronics (GTE) and the Algerian state enterprise SONELEC. This accord is expected to pave the way toward Algeria's development of an internationally competitive telecommunications industry to compete in the European market. Similarly, the Fluor program to develop petrochemical industries in Iran may end in the creation of substantial competition with U.S. petrochemical firms.

To the extent, then, that the technology transferred effectively undermines the long-term competitive position of U.S. industries, trade, production, and therefore employment may be adversely affected. (There would always be a short-term gain as a result of the transfer agreement itself.) More fundamentally, the cutting edge of American productivity and comparative advantage is technological supremacy. It is argued that the effective transmission of this advantage to others cannot but serve the country ill in its balance of trade and payments, and ultimately in political and military affairs. Loss of the science and technology lead we have enjoyed, most agree, would be serious.

It should be noted that many of the experts and groups most concerned with the issue of technology transfer, and particularly with its trade and employment effects on the American economy, have voiced concern with some general trends related to but analytically discrete from the alleged problems raised by the transfer of technology. The most common expressions of alarm concern the decrease in American research and development (R. & D.) as a percentage of GNP<sup>25</sup> and in the number of R. & D. personnel,<sup>26</sup> the shift from basic to applied research,<sup>27</sup> and the loss of American market shares in high-technology products.<sup>28</sup> Baranson has also decried trends such as the movement to easier profit centers, movement offshore with locked-in technology, and the discontinuation of product lines.<sup>29</sup> Another new trend with major implications is the transfer of the best available technology to foreign affiliates.<sup>30</sup> In general, products and technologies far less mature in the product cycle<sup>31</sup>—i.e., technologies and products closer to the “advanced” stage—are being transferred than we have seen heretofore.<sup>32</sup>

Argument in support of technology transfer are not lacking, however. First, it has been pointed out that the United States could never have reasonably expected to retain its technology ranking. As other countries developed infrastructure and skilled labor, as the management and labor forces became more sophisticated, their

<sup>25</sup> Because we have no adequate measures for “technology,” R. & D. is frequently used as a surrogate. R. & D. has shown itself to be statistically associated with technology in several contexts and is logically related to it. See Gary Hufbauer, “U.S. Technology and U.S. Trade Performance,” U.S. Congress, *Export Policy*, Part 7, May 16, 1978, pp. 8-9. Similarly, Hufbauer has noted a movement toward overseas R. & D. investment by U.S. multinationals.

<sup>26</sup> Jack Baranson, testimony, *ibid.*, p. 28.

<sup>27</sup> Comment by Senator Adlai E. Stevenson, *ibid.*, pp. 22-23.

<sup>28</sup> Weinschel, statement, pp. 22-32; Lowell W. Steele, statement, *ibid.*, pp. 112-114.

<sup>29</sup> Jack O. Baranson, testimony, *ibid.*, pp. 28-29.

<sup>30</sup> Hufbauer, “U.S. Technology,” p. 18.

<sup>31</sup> See Raymond Vernon, “International Investment and International Trade in the Product Cycle,” *Quarterly Journal of Economics*, LXXX (May 1966), pp. 190-207; and L. T. Wells, ed., *The Product Life Cycle and International Trade* (Boston: Harvard University Press, 1972).

<sup>32</sup> Cf. Jack Baranson, “Technology Transfer: Effects on U.S. Competitiveness and Employment,” paper prepared for the Department of Labor for Conference on the Impact of International Trade and Investment on Employment, December 2-3, 1976, p. 4.

role was bound to increase. The United States once produced commercial technology faster than all its trading partners combined. That this is no longer the case is hardly surprising.<sup>33</sup> Technological dissemination cannot be stopped; it can only be slowed.<sup>34</sup> In respect of R. & D. moreover, it is suggested that foreign technology sales provide capital to facilitate such sales. To the criticism that too many firms are shifting R. & D. to their overseas affiliates at least one expert asks the rhetorical question whether and to what extent the R. & D. investment would be undertaken at all if such shifts were not effected.<sup>35</sup>

Beyond the issue of R. & D., proponents of technology transfer are quick to point out that the choice of whether or not to sell technology abroad is often misconstrued: the decision to deny a sale does not preclude the transfer of the technology in question except between the firm involved and the recipient. Most technologies are available from more than one source. The *availability* of foreign markets for technology may increase potential profitability sufficiently at the margin to justify the development of the technology.<sup>36</sup> Similarly, lower costs in foreign plants may increase firm competitiveness.<sup>37</sup> Finally, technology transfer is a two-way street, and though the United States certainly exports more advanced technology than it imports, some benefits accrue from importation of advanced technology.

Arguments regarding the costs and benefits of the transfer of technology to the Middle East and elsewhere cannot be conclusive at this time, because we have not developed—nor is there any indication that there is soon to be developed—any reasonable measure of technology transfer.<sup>38</sup> If we think back to our definition of the subject, it is not difficult to understand this lacuna, for measurement of communication effectiveness is in its infancy.<sup>39</sup>

### *Political Issues*

Political issues are more specific to the Middle East as a technology recipient than economic issues. Political issues in the present context refer to issues of administrative control and political principle.

#### ADMINISTRATIVE CONTROL

The effects of technology transfer on the U.S. economy are directed to suggest the imposition of new restrictions or the relaxation of existing export controls. Those who decry the transfer of

<sup>33</sup> Steele, statement, p. 122.

<sup>34</sup> Forecasting International, Ltd., *How Technology Affects the Competitive Position of the U.S. in the World Aviation Market* (Arlington, Virginia, 1972).

<sup>35</sup> Edwin Mansfield, A. Romeo, and S. Wagner, "Foreign Trade and U.S. Research and Development," *Review of Economics and Statistics*, forthcoming.

<sup>36</sup> U.S. International Trade Commission, U.S. Department of Commerce, U.S. Department of Labor, *Technology Transfer: A Review of the Economic Issues* (Washington, D.C., June 1978), p. 22.

<sup>37</sup> Weinschel, statement, p. 185. Weinschel also points out the importance of local sales advantages.

<sup>38</sup> National Science Foundation, *The Effects of International Technology Transfers on U.S. Economy* (Washington, D.C., 1974), *passim*. See also Harry G. Johnson, "Technological Change and Comparative Advantage: An Advanced Country's Viewpoint," *Journal of World Trade Law*, IX, no. 1 (January-February 1975), pp. 1-14.

<sup>39</sup> See the excellent article by L. John Martin on persuasive communications effects measurement in R. D. McLaurin, et al., eds., *The Art and Science of Psychological Operations* (2 vols., Washington, D.C.: U.S. Government Printing Office, 1976), pp. 1011-1020.

advanced technology as a grave net loss to the United States tend to recommend either new controls or a restructuring of government incentives to protect against what is seen as the peril—loss of American technological supremacy. Proponents of change and control note that “the role played by the governments of the foreign purchasers of U.S. technology has greatly expanded, thereby lending increased bargaining leverage to the purchasing enterprise in negotiations with American corporations.”<sup>40</sup> Opponents of administrative controls have already made their point by indicating the benefits the United States derives from such transfers, the peripheral nature of the losses, or the speciousness of the logic by which their opponents calculate harm. They add a major point: “The administrative aspects of a technology licensing system are truly mind-boggling. A Technology Review Board would be a boon to Washington attorneys and bureaucrats, but very costly to firms with technology to sell.”<sup>41</sup>

Additional export controls may well spur retaliation. They will not be effective in stopping the transfer of technology, as European and Japanese firms are anxious to sell to the Middle East. We have seen that proprietary technology protection has become an ineffective barrier to the transfer of technology. Cynics would aver that the government is a likely candidate to step in—and to fail—where business has been unable to tread.

Baranson and others suggest that the developing trends in international technology transfer have important—and at least short-term adverse—implications for the United States. They argue that these new trends may well provide an accurate portrait of the future world economy, an economy in which the United States will encounter “intensified \* \* \* problems \* \* \* adjusting to \* \* \* shifts in comparative advantage.”<sup>42</sup> Perhaps new and different export controls are required; perhaps other adaptive mechanisms are more appropriate. In any case, the United States faces serious adjustment problems in dealing with an international economy in which leading edge technologies are readily transmitted between firms and nations.

#### POLITICAL PRINCIPLE

The Middle East economy has not until recently played a highly visible role in international politics. Shifts in ownership and control of the petroleum industry gathered momentum by the late 1960s, and the embargo and subsequent price increase of 1973-74 placed the OPEC countries, particularly those of the Middle East, near the center of international economic, financial, and political attention.

Throughout the years from Israel's inception to the present, the Arab countries of the region have employed a boycott against both Israel and Israeli goods, as well as a secondary boycott against

<sup>40</sup>Jack Baranson, “Technology Transfer,” pp. 45-6. He gives some examples of types of increased government role: tariff and non-tariff barriers; the government's acting as the purchaser through state trading companies; R. & D. subsidies; contract subsidies; and dissemination of commercial intelligence. *Ibid.*

<sup>41</sup>These comments were made by Deputy Assistant Secretary of the Treasury Gary Hufbauer before a Congressional hearing, May 16, 1978.

<sup>42</sup>“Technology Transfer,” p. 50.

firms doing business with Israel.<sup>43</sup> That the boycott has enjoyed only mixed results has not affected the controversy surrounding it, a controversy that has increased parallel to the growth of U.S. trade with Arab countries. Consequently, issues related to the boycott have surfaced frequently in the executive and legislative branches of the federal government over the last five years.

Few question the right of any state to employ a boycott or other means of economic pressure to achieve political ends, particularly when a state of war exists as it does in the Middle East. The Arab states, Israel, and the United States have all used and encouraged boycotts or boycott-like behavior. At the same time, there is a question whether, as a matter of policy and principle, the federal government should take some action to ensure that the United States, its nationals, and American firms are neither discriminated against, as a result of the secondary boycott, nor parties to this boycott directed by one group of states friends with this country against another country with which the United States has close and cooperative relations.

The issue of government intervention has tended to focus on competing political principles. Some feel the United States should take action against the secondary boycott for the reasons stated above. Others believe that boycotts, which are far from rare, are matters between the two parties directly involved and that the secondary boycott is a loss for the Arab world as much as or more than for American commerce. Decisions on market penetration not infrequently exclude activities in other markets. A separate argument suggests that maintaining cordial U.S. relations with Arab oil producers is important to American interests, and executive and legislative action must carefully balance competing values. It may be said that the result to date has been substantial vacillation between action and inaction.

A separate policy issue is whether and to what extent technology (including management services) should be used as a lever to induce OPEC (and, especially, OAPEC) countries to maintain or reduce petroleum prices. The problems are similar to those discussed under economic issues: it is unclear how such an approach would function bureaucratically, or legally, and its effectiveness is open to serious doubt in a world in which the United States no longer maintains its previous technology dominance. Arab states (and Iran) suggest, and many Americans agree, that our need for Arab (and Iran's) oil exceeds their need for uniquely American technology, at least for the present. Although many regional decision makers prefer to deal with the United States, it is *preference*, not choice that is limited to this country.

### *Military Issues*

Substantial attention has been directed to the problem of the transfer of technologies with military application, and very little of

<sup>43</sup> See the letter from Robert J. McCloskey, Assistant Secretary of State for Congressional Relations, to Thomas E. Morgan, Chairman, International Relations Committee, U.S. House of Representatives, June 21, 1976, enclosure, "Actions by American and Other Foreign Firms which are said to Subject them to Blacklisting Under the Arab Boycott of Israel," in U.S. Congress, House, Committee on International Relations, 94th Congr., 2d sess., *Extension of the Export Administration Act of 1969*, Hearings, Part I, pp. 30-31. The blacklist is not published in any systematic manner, but an example of it may be found, *ibid.*, I, p. 78f.

this literature uses a market economics framework of analysis. Most of the concern has focussed on technology transfer to the socialist countries, and particularly to the Soviet Union.<sup>44</sup> Of the several questions raised by military technology transfer, three will be explored here: compromise of U.S. technology leadtimes in weapons systems, resource allocation, and impact on the local military balances.

#### U.S. NATIONAL SECURITY AND THE TRANSFER OF MILITARY TECHNOLOGY

Because of concern about the implications of the transfer of advanced military technology and other sophisticated technologies with real or potential military application, the executive branch, in two different administrations, undertook some major explorations of the impact of such transfers between 1975 and 1978. The conclusions reached by most of these studies did not differ in substance from the findings noted by economists concerned with commercial technology—patterns of military technology transfer have altered such that larger quantities of more advanced technologies are being transmitted to recipients than ever before. However, recommendations for control are more common in the military field, despite the considerable implementation problems analogous to those in the commercial arena.

The principal concern of most analysts is that strategic technology leadtimes will be lost in the transfer of advanced materiel and systems. It is widely recognized that deterrents to end-use conversion (i.e., the threat of sanctions for converting high-technology items from civilian to military use) and restrictions against transfer to third countries are largely ineffective. It is widely accepted that both Israel and the Arab countries have violated third-country transfer agreements, and Israel's technical expertise has enabled that country to skirt and to flout end-use conversion prohibitions on numerous occasions. Proliferation of these technologies enhances the likelihood they will find their way into the hands of American adversaries.

Until 1973, military hardware and technologies transferred to the Middle East were not very advanced for the most part. Tu-22's were reported in Iraq as early as April of that year, and Iran had already begun to seek and acquire relatively advanced fighter-bombers (F-4's) and, to a lesser extent, ground and naval systems. In addition, Israel's armor and air systems included up-gunned tanks and F-4's, respectively. In spite of these cases, however, the military technology level was relatively low, and the quantity of

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<sup>44</sup> See, for example, Richard G. Head, "Technology and the Military Balance," *Foreign Affairs*, LVI, no. 3 (April 1978), pp. 544-563; Herman Kahn and William Schneider, Jr., *National Security Policy Issues in U.S.-Soviet Technology Transfer* (Croton-on-Hudson: Hudson Institute, Inc., 1974); Robert E. Klitgaard, *National Security and Export Controls; U.S. Congress, House, Committee on International Relations, Science, Technology and Diplomacy in the Age of Interdependence* (prepared by the Congressional Research Service, 1976); U.S. Congress, House, Committee on Science and Astronautics, 93d Congr., 1st and 2d sess., *The Technology Balance: U.S.-U.S.S.R. Advanced Technology Transfer*, Hearings, 1973; U.S. Congress, Joint Economic Committee, *Soviet Economy in a New Perspective*, (Washington, D.C., 1973); U.S. Congress, Permanent Subcommittee on Investigations, 93d Cong., 2d sess. and 95th Cong., 1st sess., *Transfer of Technology to the Soviet Union and Eastern Europe*, Parts I and II, 1974 and 1977; and U.S. Department of Defense, *An Analysis of Export Controls*.

leading edge military technology transferred apart from finished products (e.g., F-4's) minimal.

Since 1973, the Arab states and, especially, Iran and Israel have received much more state-of-the-art systems. Yet, the locus of this transfer activity has changed from the "Arab East" to the Persian Gulf.<sup>45</sup> Iran's current and planned inventory shows an impressive array of current generation systems. Similarly, Saudi Arabia began in the mid-1970's to move toward the acquisition of very advanced equipment and in 1978 the U.S. approved the sale of modified F-15s to that country. Finally, Israel, with assistance largely from the United States, upgraded its military technology base to the point where it is among the most advanced in the world.<sup>46</sup>

The fear has been articulated in several quarters that the volume of advanced Western technology in the Middle East invites Soviet acquisition and the resulting compromise of the tactical or strategic leadtimes in these technologies. By its nature, this concern has focussed on Iran and Israel, since the magnitude of American state-of-the-art technology sent to these two countries exceeds such transfers in any other region.

A second widespread concern is addressed to resource allocation. Should the United States allow itself to participate in the diversion on a massive scale of financial resources from economic and social development to armaments? The civilian-military technology ratio in Israel has had an imbalance in favor of the military sector as a result of the large-scale infusion of the modern technologies and systems across the complex military supply field,<sup>47</sup> but the imbalance in Iran may be even greater over time.

Resource diversion *per se* is seen as less problematical in Saudi Arabia, where the magnitude of capital and population size mean that Saudi Arabia is limited more by absorptive capacity than financial shortfalls. Indeed, Saudi Arabia and several other Arab countries have substantially freed development resources in Egypt, Jordan, and Syria by subsidizing both economic and military development.<sup>48</sup>

#### LOCAL MILITARY BALANCES <sup>49</sup>

It should be apparent that although the "Middle East military balance" is discussed, there are in fact several such balances: the north-west Africa, Arab-Israeli, and Persian Gulf balances are the most clear-cut (and cross-cutting) sub-regional military balances. Research <sup>50</sup> has shown that even within a conflict arena as salient as the Arab-Israeli problem, Arab arms procurement has been

<sup>45</sup> We are not suggesting that large quantities of arms are unknown to the Levantine Arab states or Egypt. On the contrary, arms transfer to those areas have been very significant. But the bulk of these shipments has not been in current generation or state-of-the-art systems. With certain notable exceptions, the military materiel delivered to Egypt, Iraq, Syria, and certainly to Jordan and Lebanon, has been at least one generation behind systems going to Iran and Israel.

<sup>46</sup> See below.

<sup>47</sup> Samuel N. Bar-Zakay, "Technology Transfer from the Defense to the Civilian Sector in Israel—Methodology and Findings," *Technological Forecasting and Social Change*, X (1977), pp. 143-158. Cf. Peter Lock and Herbert Wulf, "Consequences of the Transfer of Military-Oriented Technology on the Development Process," *Bulletin of Peace Proposals*, VIII, no. 2 (1977), pp. 127-136.

<sup>48</sup> R. D. McLaurin and James Price, "OPEC Current Account Surpluses and Assistance to the Arab Front-line States," forthcoming article.

<sup>49</sup> See the chapter by Geoffrey Kemp elsewhere in this volume.

<sup>50</sup> Lewis W. Snider, *Arabesque: Untangling the Patterns of Supply of Conventional Arms to Israel and the Arab States and the Implications for United States Policy on Supply of "Lethal" Weapons to Egypt* (Denver: University of Denver Monograph Series, 1977), *passim*.

associated less with Israeli acquisitions than with those of Arab rivals.<sup>51</sup> The most advanced military technology is not a factor in the western Maghreb (Morocco-Algeria-Tunisia), nor in the Gulf balance, where Iran is by far the most powerful country. We shall therefore confine our remarks here to the Arab-Israeli sector.

In the October (1973) war, Egypt and Syria proved—perhaps most importantly to themselves—their armed forces were capable of conducting reasonably effectively defense in fixed positions against a modern, mobile, and clearly superior military force. Both Arab countries demonstrated as well continued inability to conduct sustained offensive operations. Arab-Israeli forces were widely perceived as more nearly balanced in 1973 than at any time since the creation of Israel.<sup>52</sup>

Since 1973, the military balance has shifted once again to clear-cut Israeli predominance. This shift is due in large measure to the infusion of highly advanced systems and technologies that have placed Israel in the forefront of military research and development. We leave to others the discussion of force modernization and other changes initiated by both sides. Today, the technology balance has placed Israel in a favored position in terms of data exchange, research and development interaction, systems testing and modernization, and procurement timing with the United States.<sup>53</sup>

A new and interesting development, related to but separate from the force balance, is the build-up of domestic arms industries in the Arab states and Israel. The Israeli arms industry, as mentioned before, is already an exporter of between \$500 million and \$1 billion and is growing rapidly. Israeli military technology has made this industry innovative and competitive, particularly in small arms, electronics, and some types of aircraft. For example, in addition to the Kfir, a well-known and highly-respected Israeli fighter-bomber, Israel Aircraft Industries has sold the Arava, a short-take-off-and-landing military cargo plane, the Westwind (a helicopter), and the Gabriel ship-to-ship missile.<sup>54</sup> Tadiran is now marketing remotely piloted vehicles (RPVs) and a radar analysis system. Throughout the field of avionics and defense electronics Israel's military industries are developing competitive and technologically advanced equipment.<sup>55</sup> Indeed, the unique factor of Israel's military

<sup>51</sup> See also Jeffrey T. Richelson, Abraham R. Wagner, and Lewis W. Snider, *Arms Transfer Control Criteria: Quantitative Measures and Analytical Approach* (Marina del Rey, Calif.: Analytical Assessments Corporation; Alexandria, Virginia: Abbott Associates, 1978).

<sup>52</sup> We shall not describe the conflict in this paper, for that task has been carried out by many authors elsewhere and is beyond the scope of this paper.

<sup>53</sup> See Anthony H. Cordesman, "The Arab-Israeli Balance: How Much Is Too Much?" *Armed Forces Journal International*, October 1977, pp. 32-39; Steven J. Rosen, "The Proliferation of New Land-Based Technologies: Implications for Local Military Balances," *Arms Proliferation in the Indian and Pacific Ocean Area*, edited by Robert O'Neill (Canberra: Australian National University Press, 1977) and "What the Next Arab-Israeli War Might Look Like," *International Security*, II, no. 4 (Spring 1978), pp. 149-174; Steven J. Rosen and Martin Indyk, "The Temptation to Pre-empt in a Fifth Arab-Israeli War," *Orbis*, XX, no. 2 (Summer 1976), pp. 265-285; W. Seth Carus, "The Military Balance of Power in the Middle East," *Current History*, LXXIV, no. 433 (January 1978), pp. 29ff. See also "Special Report: The Middle East," *Electronic Warfare/Defense Electronics*, January 1978, pp. 29ff.

<sup>54</sup> "Israel's Growing Aircraft Industry," *Air Force*, August 1978.

<sup>55</sup> Banning Garrett, "Israel, Arabs Build Arms Industries," *International Bulletin*, no. 3 (July 3, 1978), p. 25; "Israeli Electronics: Hawk Link and Laser Guidance," *Electronic Warfare/Defense Electronics*, January 1978, pp. 93-95; Philip J. Klass, "Special Series: Israeli Avionics," *Aviation Week and Space Technology*, April 10 (pp. 32-37), April 17 (pp. 38-50), April 24 (pp. 99-106), and May 1, 1978 (pp. 55-61).

production is its range from small arms, like the Uzi and Gallil guns, to armor and sophisticated aircraft.<sup>56</sup>

Perhaps the most important transfer of military technology in the Middle East concerned nuclear weapons. Reportedly, Franco-Israeli cooperation in nuclear development resulted in an Israeli nuclear weapons capability by the 1960's, and a U.S. Central Intelligence Agency (CIA) report in 1974 concluded, as previous studies by the CIA had, that Israel is a nuclear weapons state. It has also been alleged that weapons-grade uranium procured clandestinely by Israel, perhaps supplemented by Israeli domestic production, had resulted in a significant though limited nuclear weapons capability.<sup>57</sup>

The Arab arms industry is much more primitive. The Arab Military Industries Organization (AMIO), established in 1975, is endeavoring to import technology on a gradualist basis. No longer do the Arabs envisage overnight transformation into military-industrial superpowers. Instead, the concept is one of slow, steady growth in technological sophistication based upon the purchase of foreign technology. AMIO is using co-production as the primary vehicle of its bootstraps effort, and is scheduled to be producing Jeeps, the Swingfire anti-tank missile, Lynx helicopters, possibly the Alpha jet trainer, and several French radar and missile systems, as well as the armored cars and ordnance currently in production.<sup>58</sup> Just as the backbone of the Israeli military industrial effort was imported technology, the AMIO plans to profit from the transfer of military technology.

#### DIMENSIONS AND DIRECTIONS OF TECHNOLOGY TRANSFER TO THE MIDDLE EAST

As we have indicated previously, the dynamism of Middle East technology transfer derives largely from the capital flowing into the region as a result of petroleum commerce. The leadership of most of the oil-producing countries sees the current availability of capital as a temporary boon, and not just because fossil fuels are depletable resources. Leaders recognize that the price of energy is providing an incentive to shift from oil to other energy sources. Consequently, the thrust of development programs among oil producers is to construct a viable income and industrial platform for the period beyond the present.

The Arab countries that do not produce oil in substantial quantities are also endeavoring to profit from the new-found regional wealth. They have benefitted in several ways, discussed elsewhere in this volume. Apart from serving as entrepôts, they have in several cases been subsidized by Kuwait, Saudi Arabia, and the

<sup>56</sup> Gregory Copley, Michael Moodie, and David Harvey, "Third World Arms Production: An End to Embargoes?" *Defense and Foreign Affairs Digest*, August 1978, p. 13.

<sup>57</sup> U.S. Central Intelligence Agency Memorandum, "Prospects for Nuclear Proliferation, DCI N10 1945/74, Sept. 4, 1974. This Special National Intelligence Estimate was publicly released, with deletions on Jan. 19, 1978. See also John J. Fialka, "CIA Told LBJ of Israeli Atom Bomb in 1968," *Washington Star*, Mar. 1, 1978, pp. A1, A5. The best analysis of the subject, published before disclosures in the mid-1970s, remains Fuad Jabber, *Israel and Nuclear Weapons* (London: Chatto and Windus, 1971). On the issue of the transfer of nuclear technology, see U.S. Congress, Committee on Foreign Affairs, *U.S. Foreign Policy in the Export of Nuclear Technology to the Middle East*, hearings, 1974.

<sup>58</sup> Garrett, "Israel, Arabs," p. 25; Robert R. Ropelewski, "Arabs Seek Arms Sufficiency," *Aviation Week and Space Technology*, May 15, 1978, pp. 14-16; Thomas W. Lippman, "Arab Weapons Consortium Believed Nearing Production," *Washington Post*, Sept. 9, 1978, p. A-11.

U.A.E. (actually, Abu Dhabi). The least developed non-oil-producing states, the two Yemens, benefit from their location which induces several countries within and outside the region to "court" them.

Israel has the benefit neither of oil production and sale nor of subsidy by oil exporters. Yet, Israel's technology base is already sufficiently advanced to constitute a strong foundation for further development. Israel has a diversified, if small, economy and Israeli R&D facilities promise continued technological expansion based, first, on an aggressive technology acquisition program to attract and use foreign ideas and developments, and second, on a solid R&D program in specified sectors (especially, defense).

Outside Israel, there is little concentrated R. & D. effort, and there exist very few research centers in anything but name. The only regional countries in which the manpower and experience bases are adequate are Egypt and Iran. Both have invested heavily in education and the upgrading of training facilities, but Iran has made far greater strides. Notwithstanding adequate population size and the extended exposure to advanced technology each has had, skilled manpower is still far too thinly spread, especially in Egypt, to be able to optimally exploit the potential benefits technology unlocks.

In this section we shall present a brief overview of regional technology transfer trends, paying particular attention to sources and nature of the transfers. We introduce the section with a brief description of each country's economy and trade and technology interests.<sup>59</sup> Following this introduction, we shall describe in tabular format the bilateral transfer relationship (i.e., volume), trends in this relationship, and the technology relationship (i.e., content).

### Algeria

Algeria's development has moved forward strongly in spite of the major impediments of a population spread over so much territory and divided by ethnic and political division as well as by mountains and desert. The focus of Algeria's technology acquisition for most of the period was infrastructural and industrial projects, particularly those related to the exploitation of Algerian oil and natural gas. Algeria has been diversified in technology acquisition, looking to no single source. The U.S.S.R. (particularly for the Annaba steel complex and the M'sila aluminum plant) and East European countries have provided technology assistance at a rate unusually high for them, but most technology has been western in origin.

<sup>59</sup> Sources: *Christian Science Monitor* (Boston, daily), *Los Angeles Times* (Los Angeles, daily), *The New York Times* (New York, daily), *The Washington Post* (Washington, D.C., daily), *Wall Street Journal* (New York, daily), all 1970-78; *Israel Economist*, XXIX-XXXVII (1970-78); *Middle East Economic Digest*, XIV (1970-XXII (1978)); *Middle East Economic Survey*, XIII-XXI (1969-79 and 1977-78); *The Middle East and North Africa: A Survey and Reference Book*, 17th (1970-71)—24th (1977-78) editions; Israel, Central Bureau of Statistics, *Statistical Abstract of Israel* (Jerusalem 1976); U.S. Central Intelligence Agency, *Communist Aid to Less Developed Countries of the Free World* (annual) 1975-77; U.S. Central Intelligence Agency, *National Basic Intelligence Factbook*; U.S. Congress, Congressional Research Service, *Technology Transfer to the Middle East O.P.E.C. Nations and Egypt 1970-75*, (Washington, D.C., 1976); U.S. Department of State, *Communist States and Developing Countries: Aid and Trade in [year]* (annual), 1970-74 (superseded by U.S. Central Intelligence Agency, *Communist Aid to Less Developed Countries*). We are also indebted for assistance and data to Ellen Murphy, Hebraic Section, African and Middle Eastern Division, Office of the Assistant Librarian for Research Services, U.S. Library of Congress; James M. Price, Abbott Associates, Inc.; and Abraham R. Wagner, president, Analytical Assessments Corporation.

*Bahrain*

Bahrain has attempted—with some success—to promote itself as a Persian Gulf entrepot, replacing Lebanon as a banking center. Thus, actual industrial expansion on the small island is limited, and technology transfer has been limited to a few medium-sized activities—for example, an aluminum smelter, power station, and desalination plant.

*Egypt*

Although not a major oil producer, Egypt is a primary recipient of technology as a function of the size of its economy and its central role in the Arab world. Technology transfer to Egypt has been oriented principally to the industrial sector. Prior to 1973, and especially before 1972, the Soviet Union and other socialist countries in Europe were major technology suppliers. After the expulsion of Russian military personnel in July 1972, and more noticeably after the October War, the Soviet and East European role declined quickly, a trend that has continued into 1978. In addition to industries indicated in Figure 3 below, it should be mentioned that virtually all of the AMIO production is centered and scheduled to be centered in Egypt.

*Iran*

Apart from Israel, Iran had the best technology base in the Middle East prior to the revolution. In addition, educational development and technology transfer through educational exchange have been actively pursued by the Iranian government. Iran had been actively involved in securing advanced technology since the late 1960's, directed primarily toward development of an industrial base in petrochemicals, weapons, and communications, as well as in power (including nuclear power), construction, and engineering and research. Several of these industries were being developed for export, and might have competed with U.S. industry. Sources of these technologies have been diverse, but the principal supplier is the United States.

Trade with the Soviet Union had increased sizably, and Iran was extending credits to Eastern European countries (including the U.S.S.R.) for a variety of projects, to be repaid by project output. Technology transfer with the Soviet Union had been substantial (though not by comparison with Western transfer), including a \$3 billion industrial cooperation plan and the construction by the Soviets of heavy machinery and foundry forge complexes, and expansion of the Isfahan steel mill. Oomania and Iran had undertaken petrochemical and cement joint ventures. Because of the size of its extant technology base and population, Iran had been more active than most Middle East countries across the broad range of transfer channels or mechanisms. Joint ventures, e.g., included a major project undertaken with the Fluor Corporation to develop a major petrochemical industry. Whether these trends will continue remains to be seen.

*Iraq*

The limited population base of Iraq has impeded the country's overall development. An agricultural nation, Iraq has not pursued the large-scale industrialization that many developing countries believe in, although a clear-cut trend toward industrial technology has been evident since 1973. For the most part, however the technology Iraq has acquired has been infrastructural (communications and irrigation) and military. The United States has been increasing its level of technology communication with Iraq, but is still a relatively modest supplier by contrast with most European countries and, especially, the Soviet Union. (However, although Soviet and East European transfer activity is increasing, it is declining relative to western activity.)

*Israel*

Israel's strong technology position has already been discussed. Principal technology partners at this time continues to be the United States and the United Kingdom, while transfer activity with other suppliers is either negligible or on the wave. It should be noted that Israel is now a technology exporter, as well as importer, and a variety of clients around the world therefore interact with Israel as a supplier of technology. Areas of interest in transfer activity have been the defense industry and design and manufacturing technologies across a variety of products.

*Jordan*

Although the Hashemite Kingdom of Jordan has not discovered or been able to exploit large deposits of oil, the country has nevertheless experienced something of an economic boom over the last few years due largely to the boom in the Persian Gulf (where significant numbers of Jordanians are working) and to the increasing interest in Jordan as a communications and management center with the continued problems in Beirut. During this economic upturn, Jordan has remained firmly oriented toward the acquisition of Western technology, principally from the United Kingdom and the United States. A new but already powerful supplier is Japan, and Germany's role is increasing, as well.

Traditional foci of Jordanian technology acquisition have been infrastructural rather than export or other commercial fields. Mineral and resource exploitation technologies, and communications, have received a high priority. Currently, Jordan is very interested in upgrading its domestic medical capabilities.

*Kuwait*

Kuwait was an early beneficiary of the large petroleum reserves in the Persian Gulf. With a small indigenous population, relatively centralized, and limited territory, Kuwait's oil wealth seemed out of all proportion to its size even in the 1950's and 1960's. Great shortages of skilled Kuwaiti manpower in a boom economy have meant the influx of large numbers of Iranians, Indians, Pakistanis,

and Palestinians, with concomitant problems in Kuwaiti-foreign resident relations.

Technology exchange has centered in commercial relations with the U.K., Japan, the United States, and Germany. French and East European transfers, however, are increasing over the past levels (relatively insignificant). Having experienced an adequate supply of capital for some years—unlike the other Gulf sheikhdoms—Kuwait has continued its infrastructural development rather than relying on technology transfer to establish new commercial enterprises.

### *Lebanon*

Although not blessed with oil wealth, Lebanon, until the civil war, was by far the most Westernized country in the Middle East, except (in some respects) Israel. Traditionally, Lebanon has served as the banking and communications center for the Middle East; its people are relatively well educated and highly mobile.

Despite the comparative sophistication of the Lebanese people by Middle Eastern standards, Lebanon has lacked the capital to import, or face the transfer of, advanced technology. Most of the industrial goods and technology brought into the country has been infrastructural in nature, and has come from France, the United Kingdom, and the United States. However, since the outbreak of a tragic civil war in Lebanon in the spring of 1975, there has been no significant technology transfer.

### *Libya*

The Libyan economy has undergone a rapid and large-scale transformation since the discovery of oil was made and production begun. In the last few years, especially since the petroleum price increase, technology has been imported at an accelerating rate and in a much more diversified pattern. Libya's problem is to establish an industrial base that is non-intensive, because Libya is very underpopulated. Thus, apart from the many infrastructural projects, recent transfers include chemical and pharmaceutical plants.

Principal Libyan technology suppliers are the former European trustee, the United Kingdom; the former colonial suzerain, Italy; West Germany; and Eastern Europe. All these sources, and France, the Soviet Union, and the United States, are experiencing growth in their technology exchange with Libya.

### *Morocco and Tunisia*

These two countries of the Maghreb are addressed together because their economic production and development are similar. Both countries have imported to and exported from essentially the same principal trading partners similar products for some years. A major difference in the last few years has been the increase in Tunisian oil production (representing a quarter of exports in 1977) just as that of Morocco declined to virtually nil. Both Morocco and Tunisia have been closer to typical developing countries than many other Middle East states—they have shortages of capital, of skilled manpower, and fear no immediate threats to their political indepen-

dence. Each country has imported technology primarily designed to improve the infrastructure for general development purposes.

Although the principal trading partners of both Morocco and Tunisia have been France, Germany, and Italy, among them only France has been a major source of advanced technology. (The United States, however, has been a major supplier of technology to Morocco.)

#### *Oman, Qatar, U.A.E.*

In Oman, Qatar, and the United Arab Emirates, oil production is relatively new; in each, it is the dominant change factor in the economy (and society). While the relative importance of oil varies among the three economies, it dwarfs all other products in the international commerce of each of the three.

Oman, Qatar, and the U.A.E. have all gone through extended periods of British "protected" nominal independence. This history is reflected by the continued dominance of the United Kingdom as the principal trading partner of each of the three states. In view of the recent nature of independence and the economic boom brought on by oil production, all three countries are still concentrating on the construction of an adequate infrastructure for development. The small populations of Qatar and the U.A.E. have meant the influx of workers from other Middle East countries, from South Asia, and beyond, these workers representing well over half the labor force. Thus, there is a real problem, pending the creation and output of adequate educational facilities, in the absence of any significant labor force, with even modest skills levels, to which technology may be transferred.

#### *Saudi Arabia*

The most important Middle East oil producer, Saudi Arabia has enjoyed a vast new capital inflow over the last few years. Given its small population, low state of development, and strong views about the social costs of modernization, Saudi Arabia's capital has been financially invested rather than developmentally until the present. as the absorptive capacity of the country grows, as the skilled manpower base grows, greater efforts at technology acquisition and enhancement are being undertaken.

To date, Saudi Arabia's major technology partner has been the United States, but technology transfer to the kingdom from virtually all major Western countries and from Japan is increasing markedly. Although much of this transfer activity is still oriented toward infrastructure improvement, increasing amounts are being spent on the creation of industrial and export bases for the future, such as in petrochemicals, where a joint venture with the Fluor Corporation (similar to the Iran-Fluor arrangement) is viewed as an important step toward broadening the economy.

#### *Syria*

After years of stagnation under Baath socialist interventions into what had been a relatively dynamic market structure, the Syrian economy had begun to move forward rapidly once again under the Assad government's liberalizing influence by 1973-74. However, the

Syrian military role in Lebanon has diverted a significant funding level away from development, and by 1977 economic growth slowed again. Without the massive oil reserves of the Gulf countries, Syria lacks the capital (as well as the skilled manpower) to import advanced technology on a large scale.

Most technology imports have been infrastructural, and the sources have been France, Eastern Europe, and the Soviet Union. The trend shows continued concentration of technology acquisition from these sources.

#### *Dimension Tabular Summary*<sup>60</sup>

Figure 1, Comparative Technology Transfer Volume, gives some idea of the relative importance to each recipient of different supplies. Note that the table is recipient-based. That is, "low," "medium," and "high" must be interpreted according to the recipient's technology market. Second, the period of time covered is 1970 to the present, since advanced technology began moving to the region at that time. (See Figure 2 for later trends.) Finally, it is important to recognize that because the size of many commercial transactions is unknown, and, more significantly, because we have as yet no adequate measure for the amount of technology transferred, the volume assessments shown in Figure 1 represent our estimates, based on a large-scale review of transfer transactions from 1970 to 1978, of quantity, magnitude, and centrality of these transactions to the recipient country.

Figure 2, Technology Transfer Trends, represents the pattern of change (or stability) in bilateral transfer interactions. All of the conditions noted with reference to the preceding figure apply to Figure 2 as well. Although the figure was based again on the 1970-78 period as a whole, emphasis was placed upon the period from 1973 to 1978, and particular attention was focussed on the post-1975 period where data permitted.

Figures 3a-3d provide an overview of the nature of technology transfer interactions between Middle East recipients and primary technology exporters. We have included both Eastern Europe and mainland China on Figures 1-3 not because China or the individual socialist countries of Europe are major exporters, but, rather, because the nature of their technology exchange with the Middle East is different from that of other countries and because political implications of the trade are more interesting than those attaching to technology exports of many other countries such as Belgium, the Netherlands, Spain, Sweden, and Switzerland.

<sup>60</sup> Figures 1-3 are based upon data collected from the sources identified in note 59. These figures were constructed by James M. Price of Abbott Associates, Inc. The format is based upon U.S. Library of Congress, Congressional Research Service, *Technology Transfer*, Tables 1-6. However, we bear full responsibility for the content of Figures 1-3 which diverges from *Technology Transfer* in method, scope, and substance.

|            | <u>Aig.</u> | <u>Bahr.</u> | <u>Iran</u> | <u>Iraq</u> | <u>Kuw.</u> | <u>Libya</u> | <u>Oman</u> | <u>Qatar</u> | <u>S.A.</u> | <u>UAE</u> | <u>Israel</u> | <u>Egypt</u> | <u>Jord.</u> | <u>Leb.</u> | <u>Moroc.</u> | <u>Syr.</u> | <u>Tun.</u> | <u>PDRY</u> | <u>YAR</u> |
|------------|-------------|--------------|-------------|-------------|-------------|--------------|-------------|--------------|-------------|------------|---------------|--------------|--------------|-------------|---------------|-------------|-------------|-------------|------------|
| U.S.       | H           | L            | H           | L           | M           | L            | --          | L            | H           | L          | H             | H            | H            | H           | H             | --          | L           | L           | M          |
| U.K.       | M           | H            | M           | M           | H           | H            | H           | H            | M           | H          | M             | M            | H            | H           | M             | --          | L           | L           | H          |
| FRANCE     | M           | M            | M           | M           | L           | M            | L           | L            | M           | M          | L             | H            | L            | H           | H             | M           | H           | L           | M          |
| W. GERMANY | M           | L            | M           | M           | M           | H            | L           | L            | M           | --         | L             | M            | M            | --          | L             | L           | M           | L           | M          |
| ITALY      | L           | L            | M           | M           | --          | H            | L           | L            | L           | --         | L             | L            | --           | L           | M             | L           | --          | L           | --         |
| JAPAN      | L           | L            | M           | M           | H           | L            | L           | L            | L           | L          | L             | L            | H            | --          | L             | L           | --          | L           | L          |
| U.S.S.R.   | L           | --           | M           | H           | L           | L            | --          | --           | --          | --         | --            | M            | L            | L           | M             | H           | --          | H           | H          |
| E. EUROPE  | L           | --           | L           | M           | L           | H            | --          | --           | --          | L          | L             | M            | L            | L           | M             | H           | H           | H           | L          |
| P.R.C.     | --          | --           | --          | --          | --          | --           | --          | --           | --          | --         | --            | L            | --           | --          | --            | M           | --          | H           | L          |

H = High      M = Medium      L = Low      -- = None

FIGURE 1.—Comparative Technology Transfer Volume

|            | Alg. | Bahr. | Iran | Iraq | Kuw. | Libya | Oman | Qatar | S.A. | UAE | Israel | Egypt | Jord. | Leb. | Moroc. | Syr. | Tun. | PDRY | YAR |
|------------|------|-------|------|------|------|-------|------|-------|------|-----|--------|-------|-------|------|--------|------|------|------|-----|
| U.S.       | ↑    | --    | ↑    | ↑    | ↑    | ↑     | (-)  | ↑     | ↑    | (-) | ↑      | ↑     | ↑     | ↓    | ↑      | --   | --   | (-)  | ↑   |
| U.K.       | ↓    | ↑     | ↑    | ↑    | ↑    | ↑     | ↑    | ↑     | ↑    | ↑   | --     | ↑     | ↑     | ↓    | --     | (-)  | --   | (-)  | ↑   |
| FRANCE     | ↑    | --    | ↑    | ↑    | ↑    | --    | (-)  | ↑     | ↑    | ↑   | ↓      | ↑     | (-)   | ↓    | ↑      | ↑    | ↑    | (-)  | ↑   |
| W. GERMANY | ↑    | ↑     | ↑    | ↑    | --   | ↑     | --   | ↑     | ↑    | (-) | ↓      | ↑     | ↑     | ↓    | --     | --   | ↑    | (-)  | ↑   |
| ITALY      | ↑    | --    | ↑    | ↑    | (-)  | ↑     | (-)  | ↑     | ↑    | (-) | (-)    | ↑     | (-)   | ↓    | ↑      | --   | (-)  | (-)  | (-) |
| JAPAN      | ↑    | ↑     | ↑    | ↑    | ↑    | --    | (-)  | ↑     | ↑    | ↑   | (-)    | ↑     | ↑     | (-)  | --     | --   | (-)  | ↑    | (-) |
| U.S.S.R.   | ↑    | (-)   | ↑    | ↑    | --   | ↑     | (-)  | (-)   | (-)  | (-) | ↓      | ↓     | (-)   | ↓    | --     | ↑    | (-)  | ↑    | ↓   |
| E. EUROPE  | ↓    | (-)   | --   | ↓    | ↑    | ↑     | (-)  | (-)   | (-)  | (-) | (-)    | ↓     | (-)   | ↓    | --     | ↑    | ↑    | ↑    | (-) |
| P.R.C.     | ↓    | (-)   | (-)  | (-)  | (-)  | (-)   | (-)  | (-)   | (-)  | (-) | (-)    | ↓     | (-)   | (-)  | (-)    | ↑    | (-)  | ↑    | ↓   |

↑ = increasing      ↓ = decreasing      -- = no change      (-) = insufficient data

FIGURE 2.—Technology Transfer Trends

OIL PRODUCING POPULOUS STATES

|            | <u>ALGERIA</u>   | <u>BAHRAIN</u>   | <u>IRAN</u>   | <u>IRAQ</u>   |
|------------|--|--|---|---|
| U.S.       | telecomm. station, transmitter equipment, computer technology, a/c hydrocarbon plant, earth satellite stations | dry ice plant  | arms, communications port development, oil refineries, nuclear reactors                         | medical center construction, oil terminal, gas-oil separation stations, water drilling pumps                            |
| U.K.       | metal work machinery, computer technology, LNG facilities, bridges   | aluminum smelter desalination plant, airport expansion | arms communications power-plants  | communications, piling plant, water treatment plant, transportation, animal feed plant                                  |
| FRANCE     | shoe factory, telecommunication system, pulp and paper mill  |  | power plants, transportation nuclear plants, communications, steel plants, petrochemical plants | steel works, iron plant, aluminum smelter, water supply network, auto assembly plant, atomic power plant, arms          |
| W. GERMANY | communications, dynamite factory, motorcycle plant, cement plant, dry battery plant, diesel engine plant       | power station  | nuclear plants, cement plants, port expansion, power stations                                   | textile plant   |
| ITALY      | tire plant, yarn plant, power plant  |  | power plants, steel plant, port complex   | tire plant, communications, irrigation, oil refinery  |
| JAPAN      | gas plant, petro-chemical complex, communications  |  | petro-chemical plant, oil refinery, machinery, auto assembly plant                              | chemical fertilizer plant, communications, bridge construction, generating stations, power stations                     |
| U.S.S.R.   | lead and zinc plant, dam construction, steel mill, arms, aluminum plant  |  | flour, cotton and steel mills, foundry, large machinery complex, dam construction               | machinery, irrigation, communications, oil related technology, power technology, dam construction, arms, transportation |
| E. EUROPE  | machinery, communications, irrigation, land reclamation, dam construction                                      |  | brickworks, cement plant, hydrochemical plants, cotton plant, agriculture, irrigation           | a bus-body plant, brickworks, lime processing plant, cement factory, oil-related technology, transportation             |
| P.R.C.     |  |  |   |   |

FIGURE 3a.—Technologies Transferred to the Middle East by Supplier, 1970-78

OIL PRODUCING UNDERPOPULATED STATES

|            | <u>KUWAIT</u>   | <u>LIBYA</u>  | <u>OMAN</u>  | <u>QATAR</u>  | <u>S. ARABIA</u>  | <u>U.A.E.</u>   |
|------------|---|---|--|---|---|---|
| U.S.       | LNG plant, transport-<br>ation, city plan-<br>ning, water dist.,<br>arms, commun. | methanol processing<br>facility, transport-<br>ation, power techn.,<br>desalination plants                                |  | steel plant, gas<br>station, arms   | desalin. plants,<br>arms, trans. comm.,<br>computers, sewage<br>treatment plant,<br>oil ref., lub oil | arms  |
| U.K.       | building design sys.,<br>diesel generators,<br>city planning, arms                | petrochem. complex,<br>med. eqpt, commun.,<br>port expan., chem.<br>plant, ethylene plant,<br>electrical instruments      | arms, transp. naval<br>base, techn assist.-<br>airport oper.,<br>harbor constr,<br>commun., power tech | hospital, arms,<br>desalin, fertilizer,<br>commun, cement,<br>natural gas, oil<br>ref, electr, eqpt | transp, arms, power<br>techn, electr power<br>sys, commun., irrig.<br>techn, port expan.              | power techn, commun., eqpt,<br>desalin., harbors, oil ref.,<br>tranap, sulphur pelletizing,<br>port constr., hotel constr.,<br>sewerage |
| FRANCE     | sport center, arms  | arms, techn trng in<br>oil-related areas,<br>power technology,<br>communications  | oil exploration  | petrochem complex,<br>arms  | water network, comm.,<br>arms, cement ftry,<br>nuclear reactors,<br>housing, dam constr.              | arms, oil facil., power techn.,<br>petrochem., cement, gas liquif.<br>& bottling plant, irrig. techn.                                   |
| W. GERMANY | electricity power<br>technology, commun.  | commun, power techn,<br>amonia plant, dam<br>const. cement plants,<br>iron & steel compl,<br>blanket fact., desalin.      | road constr, port<br>expan., port cons.  | gas turbines  | pumping stn, sewage<br>proj, desalin, cereal<br>mills, veh. assembly,<br>city plan., power<br>techn.  |   |
| ITALY      |   | pharmaceut. plant,<br>flour mill, oil refin.<br>lube oil plant, arms,<br>power techn, desalin.<br>brick fact, veh. assem. |  | desalin. plant,<br>power technology   | desalin. plant, dam<br>constr., commun.,  |   |
| JAPAN      | naval base, desal-<br>ination, housing,<br>power station                          | power technology  | oil exploration  | transmission stn,<br>land reclamation,<br>gas station,  | petrochemical compl,<br>commun., city plan.   | oil export terminal, oil<br>tankers, commun., LNG plant   |
| U.S.S.R.   | arms  | arms, desalin. plant,<br>nuclear reactor, iron<br>& steel complex,<br>techn. training                                     |  |   |   |   |
| E. EUROPE  | office construction,<br>machinery   | hospital eqpt, airport<br>exp., comm. oil storage<br>facil. power tech, hous.<br>proj, tech advice-oil                    |  |   |   | irrigation techn.   |
| P.R.C.     |   |   |  |   |   |   |

FIGURE 3b.—Technologies Transferred to the Middle East by Supplier, 1970-78

|            | Non-Oil Producing: Developed Infrastructure<br><u>Israel</u>  | Non-Oil Producing: No Infrastructure<br><u>P.D.R.Y.</u>   | <u>Y.A.R.</u>   |
|------------|---|---|---|
| U.S.       | Design & manufacturing technology, product design technology, aircraft manufacture technology, arms | earth moving equipment  | communications, arms, city planning, port planning, helium filled balloons  |
| U.K.       | Design & manufacturing technology, product design technology  | mineral exploration   | communications, road constr., airport expansion, agricultural assist., port constr., power technology   |
| FRANCE     | Metal alloy fabrication, design & manufacturing technology  | ambulances  | communications, general technological assistance  |
| W. GERMANY | Arms design & manufacture technology  | road construction   | airport designing, electricity, road constr., airport expansion   |
| ITALY      |   | oil exploration   |   |
| JAPAN      |   | floating dock, navigation training  | drinking water scheme   |
| U.S.S.R.   |   | Fishing industry training, canning & refrigeration factory, land reclamation, dam constr., irrig. tech., commun., medical eqpt, oil tech. | port expansion, school & hospital constr., land reclamation, medical trng & supplies, cement plant, water resources, univ., constr., silo constr., mills, dam constr. |
| E. EUROPE  | Repair techniques & spare parts for Soviet equipment  | Education, health, agricultural machinery, flour mill, factory constr., land reclamation, road construction                               | communication   |
| P.R.C.     |   | road building, textile fact., dry dock, agricultural assist., medical supplies, bridge constr., well digging                              | hospital construction, agricultural development   |

FIGURE 3c.—Technologies Transferred to the Middle East by Supplier, 1970-78

NON-OIL PRODUCING: MODERATE INFRASTRUCTURE

|            | <u>EGYPT</u>  | <u>JORDAN</u>   | <u>LEBANON</u>  | <u>MOROCCO</u>  | <u>SYRIA</u>  | <u>TUNISIA</u>   |
|------------|---|---|---|---|---|--|
| U.S.       | Transp., electr. eqpt power tech, alumina sheet plant, cement, oil explor, Suez C. expan., eng. plant,          | Commun, irrig. tech, arms, transp, oil explor., medical techn.                                  | transportation, arms  | oil explor, commun, agric. trng, dam constr., transp., arms                               |   | transp, water complex, arms  |
| U.K.       | Insect control eqpt, pharmaceut. eqpt, computers, commun., arms.  | commun, mining eqpt techn trg ctr, med. eqpt, transp, power tech, water consult, port expansion | news print & liquid ink manuf. plant  | mining eqpt, oil prospecting  |   | commun., transp.   |
| FRANCE     | off-shore oil install. sulphuric acid plant, computers, transp, power tech, nuclear pwr plant, trucks, commun., | road construction   | commun., radar, arms  | commun, oil refinery, arms, dairy constr., dev of phosphate ind.                          | commun, tractor assembly plant, machinery, hotel constr.                                  | power tech, commun, meteor. eqpt, acid plants, arms, gas pipelines, agric. dev., autos |
| W. GERMANY | sulph. acid facil., power tech, tourist proj, oil explor, transp.   | oil explor, transp, hospital constr., ceramics plant  |   | agric. aid, sulphur plant   | agricl assist., boilers   | Industr. eqpt, commun., power tech, dam constr., irrig. tech.                          |
| ITALY      | commun., sea platform & pipeline  |   | techn assistance for artificial lakes, agric. disease preven. & roadway constr. | oil refin. expans., expan. of water supply & sewage sys. of major cities, oil prospect.   | steam plant   |  |
| JAPAN      | oil explor, motorcycle plant, car factory, Suez C. expan, transp.   | commun, univ. constr, dam & irrig. project  |   | railway engines   | power technology  |  |
| U.S.S.R.   | arms, ships, steel complex, dam constr., electricity, transp, alum. plant, textiles, cement, iron, nuclear r.   | machinery   | arms  | hydroelec eqpt, power & refrig eqpt, agric machinery, hydraulic turbines                  | oil tech, commun., power tech, dam constr., arms, fertilizer plants, sulphur extract. pl. |  |
| E. EUROPE  | petrochem complex, polyethylene plant, drinking water stn, brick & glass, machin.                               | dam construction  | cement plant  | indust. aid, household appliance fact., mining eqpt, pharmac. prod., medical trng, copper | transp, commun., steel, cement, bridge constr, phosphate indust.                          | phosphate mining dev., mach., dam constr., hydroelectric eqpt.                         |
| P.R.C.     | Brick factories   |   |   |   | cotton yarn factory, vehicle maint ctr, yarn spinning mill                                |  |

FIGURE 3d.—Technologies Transferred to the Middle East by Supplier, 1970-78

## IV. FOREIGN RELATIONS

### THE SOVIET UNION AND THE MIDDLE EAST

By John C. Campbell\*

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#### I. INTRODUCTION

The role of the U.S.S.R. in the Middle East is the result of a three-factor equation: (1) Soviet aims and decisions; (2) the policies of rival powers (notably the United States and China) and; (3) political, economic and social forces present in the Middle East itself. Each factor is necessarily affected by the other two. For a long period prior to World War II the political forces within the local region played a relatively minor part, as outside powers contended with each other for advantage. Since the rise of nationalism and the anti-colonial revolution, however, the states of the Middle East have had much more to say about their own destiny even though not able to match the outside powers in military strength.

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Not only did they gain the attributes of sovereignty and a real ability to make their own decisions, they could also profit from the inability of the two superpowers of the postwar era, the Soviet Union and the United States, to put their vast military power to political use, and from the rivalry which made possible playing them against each other and getting military and economic aid from one or both.

The events of 1973, with their revelation of the economic and financial power residing in the possession of vast oil reserves, gave some Middle East states wealth and bargaining power in world affairs undreamed of in earlier years. We have seen the effects of that revolution most starkly in the changed context of relations between the industrial countries of the West and the Middle East members of OPEC. We have paid less attention to the effects on the position of the U.S.S.R. in the Middle East and on the conditions of Soviet-American competition in that area. This paper will examine these latter aspects, looking at Soviet aims and policies and at those of Middle East states toward the Soviet Union, rather than at the other two sides of the triangle, U.S.-Soviet relations and U.S.-Middle East relations, although they will necessarily come into the picture because our ultimate concern is the interests and foreign policy of the United States.

At the present time, early in 1979, changes in a number of Middle East countries appear to have shaken the American position and offered extraordinary opportunities to the U.S.S.R. to capitalize on local developments. It is enough to mention the following events that took place in 1978: a coup in Afghanistan which replaced a neutralist government with one led by a former leader of the Communist Party, who has aligned his country with the U.S.S.R. and signed a long-term security treaty which appears to confirm Soviet dominance; a series of struggles in the Peoples' Democratic Republic of Yemen (P.D.R.Y.) which ended in the victory of the extreme Marxist and pro-Soviet faction led by Fatah Ismail; a consolidation of the Soviet position in the Horn of Africa through the victories of Ethiopia's Mengistu regime, with Soviet arms and advice and Cuban troops, over Somali irredentists and Eritrean rebels; finally, the disintegration of the Shah's regime in Iran, bound to produce a successor regime less friendly to the United States. It cannot be proven—and is not at all likely—that these events were the results of a Soviet master plan, but there is no doubt that the momentum of events has been running against the United States and that those local states such as Saudi Arabia which had placed their reliance on America for the maintenance of security are worried about the future.

Legislative and executive officials necessarily have their eyes trained on the problems of the day and must make decisions under the impact of current developments. It is useful to see these developments also in the perspective of longer-term trends, and that takes us back at least to 1973 and the new patterns of international relations set at that time. But the crisis of 1973 did not change everything. There are significant continuing factors, both on the Soviet side and on the Middle East side, factors which were already there before 1973 and will continue into the future.

## II. CONTINUING FACTORS

### A. *The Soviet View of the Middle East*

We may conveniently describe Soviet attitudes, over the entire history of the Soviet regime, under four general headings: ideology, political-military strategy, economic interest, and regionalism.

#### 1. IDEOLOGY

Soviet policies toward any region of the world inevitably have an ideological content, a grounding in Marxist-Leninist theory. Theory does not determine policy, but it is not irrelevant because it colors the thinking of Soviet leaders and provides the currency in which they speak on foreign policy to the outside world, to their own people, and (to some extent) among themselves.

Theory has varied with world conditions and with the capacity of the Soviet state to adapt it to practice. For Lenin in the early years after 1917, the colonial peoples in the Middle East and elsewhere were potential partners in making the world revolution. Later they were useful allies, even when led by bourgeois nationalists, in the continuing struggle against the capitalist West. For Khrushchev, they formed with the Communist world a vast "zone of peace" opposed to the forces of imperialist aggression. He tried to mobilize them, but with indifferent success. The Brezhnev regime, while turning toward detente with the West, has not ceased to take advantage of revolutionary situations in the Third World. Whatever the rationale, movements of "national liberation" directed against the Western powers and pro-Western regimes are candidates for Soviet support. Leaders of nationalist movements and of newly liberated countries, by the same token, are expected to regard the U.S.S.R. as their patron and ally.

What Soviet policy has actually achieved has been a series of working relationships with various Middle East regimes where it served the interests of both parties. These relationships have been formed, and sometimes dissolved, for reasons having nothing to do with ideology. Nevertheless, the Soviets tend to see the evolution of the Third World in terms of a continuing progress from feudalism and capitalism to socialism and of a shift in the "correlation of forces" in the world (to which the growing strength of the U.S.S.R. also contributes) in favor of socialism. Thus, they applauded the adoption of socialist institutions in one form or another in countries of interest to them—Nasser's "Arab socialism" in Egypt, for example, or the ideology of the Ba'th in Syria and in Iraq—as steps in the right direction, even though those countries were still far from having "scientific" socialism on the Soviet model. They have played on the theme of socialist solidarity with avowedly Marxist regimes such as that of the P.D.R.Y. or of Ethiopia under Colonel Mengistu, and they have deplored backsliding from socialist principles in Egypt, where they see Sadat's retreat from socialism in domestic policy as linked to his rapprochement with the West.

Soviet ambivalence is frequently evident in connection with the role of local Communist parties. They may be incited to revolution, advised to cooperate with nationalist parties or regimes, or even abandoned, depending on what serves higher Soviet interests. They

can serve as means of pressure or of penetration, as instruments of desired change in their respective countries, or as agents to organize and in time to dominate "progressive" coalitions. The Communist parties are the vanguard of socialism, as the Soviets see it, and should be maintained as assets for the future, although it may be useful to soft-pedal or restrain their activities in line with the practical demands of the present.

The acid test in Moscow's eyes tends to be whether a country's foreign policy is in line with that of the U.S.S.R. That is more important than how faithful that country's leaders are to the thought of Marx and Lenin. Theory is made to serve foreign policy rather than the other way round, but also, like a set of religious beliefs, it imparts a dynamic to Soviet policy that is not to be underestimated. It gives a sense of confidence that affairs will turn out right in the end for the Soviet Union and for the cause of socialism, although the opposite may appear to be the case in the short run. It makes for patience and persistence, two qualities not always present in American policy. There is one element of Communist ideology that offers potentially serious problems for the Soviet Union in the Middle East, both with its domestic populations and with its objectives abroad—atheism. Though the Russians in their relations with Moslem countries and peoples have played down this part of their ideology, many Moslem leaders—especially those committed to Islamic fundamentalism—continue on that count to be chary toward the Russians.

## 2. POLITICAL AND MILITARY STRATEGY

Soviet policy in the Middle East cannot be analyzed apart from the global political-military strategy of the Soviet Union as a great power. What that strategy is and how the Middle East fits into it, is a subject on which outside observers differ. At one end of the spectrum of interpretation is the view that the U.S.S.R. is an imperialist and expansionist power; that it is committed to the victory of communism in the world; that it will seek to extend dominant influence to the Middle East as part of a plan to alter the world balance to its own advantage, expanding also into other areas and, in time, imposing its will on Western Europe and the United States. Under this interpretation the Soviets would not take foolish risks of war, but would use growing military advantage, strategic and conventional, to generate political pressures on those in the Middle East or the West who might resist. At the other end of the spectrum is the view that the Soviet Union is seeking a situation of relative stabilization and balance in the Middle East that would protect Soviet security and other interests and prevent domination by any rival power.

Both strategies, and those which fall in between, dictate active involvement in the Middle East. Either one can mean a forward policy intended to reduce American influence and to advance and strengthen that of the U.S.S.R. Both involve military planning that can be regarded as offensive or defensive, programs of military and economic aid, and political support for favored regimes and parties. Both are also subject to constraints represented by local or exter-

nal forces of resistance or by other competing aims of foreign or domestic policy held in the U.S.S.R. itself.

The geographic location of the Middle East gives it a particular place in Soviet strategy which cannot be ignored. As many an official statement has said, it is on the southern frontiers of the Soviet Union and can harbor dangers to Soviet security. It is also a gateway to the Mediterranean and the Indian Ocean. Essential to the exercise of naval power in those areas is the assurance that key points such as the Turkish Straits, the Aegean Sea, and the Suez Canal will not be closed to Soviet ships. There is no doubt that the Soviets have felt threatened by U.S. and NATO bases in Turkey, Greece and elsewhere in the region; that they are desirous of neutralizing the striking power of the U.S. Sixth Fleet and of American submarine-launched missiles, and that they have built up their own naval squadron in the Mediterranean and sought naval and air facilities in the Middle East in order to counter U.S. power and positions there. Again, whether the Soviets in pursuing these aims are trying to acquire a dominant position in the region or merely to balance U.S. power, the policies adopted can contribute to the attainment of either goal.

In the past the Soviets have needed for the success of their strategy the cooperation or tolerance of a number of Middle East states. Even their new naval power, free to operate on the high seas, could not be fully effective without access to local waters and ports and support from nearby land-based air power. They had some success in gaining facilities in Egypt, Syria, Iraq, Libya, Somalia, the P.D.R.Y., and Ethiopia, but a base gained is not always a base kept, as experience showed them in Egypt and in Somalia, and even countries like Iraq and Libya, which had put an end to Western bases on their soil, could not easily bring themselves to grant similar privileges to the Soviet Union.

### 3. ECONOMIC INTEREST

Soviet economic interests in the Middle East are less important than the strategic ones, but not negligible. One need is the freedom to use lines of commercial communication to and through the area, as befits a world power active in trade, shipping, fishing, and oceanic exploration. The water routes from European Russia to the Soviet Far East, moreover, are seen as lines of internal shipment within the Soviet economy, supplementing the land and air routes across Soviet territory. A second factor is trade and aid. Trade satisfies some Soviet import requirements, but more important are the credits and capital projects which help to tie the economies of Middle East states to that of the U.S.S.R. and create political bonds as well as offering opportunities for penetration and pressure.

Another economic factor, hitherto less important than might be expected, is energy. Up to now the Soviet Union has had no pressing need for Middle East oil and gas. It has found it convenient to import both, mainly to supply certain areas of the U.S.S.R. and to ease the strain on exports of Soviet oil and gas to Eastern and Western Europe. To some Middle East countries the Soviets have provided advice and help in developing their oil resources and taken payment in oil deliveries, deals intended to strengthen politi-

cal as well as economic ties. For example, the Soviet Union had a major role in the oil industry of Iraq, made arrangements with Egypt, Libya, Algeria, and even a significant gas deal with Iran.

The controversies these countries had with the big Western oil companies surrounding nationalization and prices helped ease the way to establishing new ties with the U.S.S.R. Yet there were definite limits to how far such arrangements would develop because the U.S.S.R. could not absorb the large quantities of oil these countries wished to sell and could not pay in the hard currency they wanted. That situation may not obtain indefinitely if future production of energy within the U.S.S.R. itself should prove insufficient to meet domestic demand. That might create a new and powerful economic impetus for a Soviet policy aimed at assuring access to Middle East oil.

Aside from these positive Soviet interests in expanding economic relations with the Middle East, there has been a negative interest in disrupting, or having the power to disrupt, relations between that region and the West. But here there are serious limitations on what can be done. In past years it was largely a mission of propaganda; to put across the idea that such relations were imperialist, neocolonialist, or in any case exploitative. The Soviet press kept up a steady drumfire of criticism of the "Western oil monopolies" and their reaping of enormous profits at the expense of the Middle East peoples whose oil they took. But propaganda has not changed basic economic interests. Despite offering aid projects of high visibility symbolizing popular desires for rapid progress, and being always ready to move in with trade deals when a country's relations with the West had gone sour, the Soviets found it difficult to compete with the West on the economic plane or to break the natural patterns of trade. It is not easy to exercise the power to disrupt in the absence of the power to provide alternatives; or, of the power to control, and that would have required coercion.

#### 4. REGIONALISM

In determining its attitudes toward the Middle East, the U.S.S.R. cannot avoid the question of regional concepts and organizations. Those organizations which associated Middle East states with the west (NATO, CENTO, etc.) are seen as aggressive imperialist instruments and are denounced as inimical both to Soviet and to Middle East interests. When it comes to organizations of local states from which the Western powers are excluded, the Soviet reaction has not been so clear or so automatic. Toward the Arab League, which includes all the Arab states, pro-Western and pro-Soviet alike, the Soviets have had a hard time defining their attitude. It is good tactics to make noises in favor of Arab nationalism and unity and to avoid criticism of the League, but it has proved impossible to use it for Soviet purposes. And although the League is generally ineffective and nothing for Moscow to worry about, as a locally based grouping grounded in nationalism it is inherently anti-Soviet as well as anti-Western.

On a more limited basis the Soviets have searched for themes and issues through which they could bring groups of Middle East states into close working relations with the U.S.S.R. The issue of

Israel, of course, is the most obvious case. Soviet policy has encouraged Arab states engaged in the struggle against Israel to coordinate their political and military strategy with each other and with the U.S.S.R. as their partner and their supplier of arms and advice. Similarly, at times in the past, the Soviets have attempted to rally the more radical Arab states round the flag of a "progressive" front against the "reactionary" forces in the region and against the West.

The great difficulty with these tactics, from the standpoint of Moscow, lies in the unstable and volatile nature of relations among the local states themselves. Arab alignments have shifted back and forth from broad Pan-Arab solidarity to narrower groupings stressing ideological drives and differences, as countries have changed leaders or as leaders have changed their minds, generally without regard to Soviet interests or advice. The question of Israel has divided the Arabs as well as uniting them, and the "progressive" states could not be relied on by Moscow either to stick together or to stick to the Soviet connection. Arab solidarity, even of regimes quite prepared to use Soviet help against Israel, the West, or their conservative neighbors, had its strongest appeal in the idea of the Arab world's great future independent of the will or influence of any outside power. For the U.S.S.R. it was safer and more advantageous to deal with Middle East States individually, tying each one as closely as possible to Soviet interests and policies.

The Soviets do appear to have, however, a general blueprint applicable in the long run to the countries of the Middle East as to others in Asia and Africa. It lies in the idea of "collective security" which Moscow has peddled in Asia since 1969 without much positive response. It was to be a system linking all states, including the Soviet Union as an Asian state, through a network of treaties of friendship and security. The treaties actually concluded with Egypt (1971), India (1971), and Iraq (1972), and Somalia (1974) set the pattern, in which each would look to the U.S.S.R. as partner, protector and arms supplier, and indeed as the preeminent power and arbiter in the entire region. But the treaty system, which was no system but a series of bilateral treaties, gained but few adherents. Angola, Mozambique, Ethiopia and the P.D.R.Y., and later Afghanistan and Vietnam, came in, but Egypt and Somalia fell away. Thus, there have been individual successes, but the effort for "collective security" has been a failure.

Perhaps the range of Soviet policies can be put quite simply without losing accuracy: where local states are members of Western alliances or otherwise aligned with the West, try to push them to the path of nonalignment; where they are nonaligned, try to draw them into collaboration and alignment with the U.S.S.R. and with other local states so collaborating and so aligned; utilize regional organizations or alliances for tactical purposes as may be feasible, but in the long run put no reliance on a regional organization in which the Soviet Union itself does not participate as a leader.

#### *B. Middle Eastern Views of the U.S.S.R.*

It is impossible to generalize on this subject without making many specific exceptions, for the great diversity of the Middle East

itself inevitably generates a diversity of views about the Soviet Union and its policies. It is often necessary to distinguish between the views of governments and of peoples, of different nations and of different groups within the same nation. Above all, it is necessary to understand the local issues through which people in the Middle East see and judge the Soviet Union.

#### 1. THE NORTHERN TIER

Geography and historical experience have great influence. In the nations of the "northern tier" of Middle East states (i.e., Turkey and Iran) attitudes are affected by the fact of common borders with Russia, by the experience of wars and invasions and of living in the shadow of overweening (since the Soviets acquired nuclear weapons, overwhelming) military power. Such facts condemn these nations to live in insecurity, and therefore on the level both of governmental policy and of popular opinion, they have been preoccupied with the question how to maintain their independence against the Russians. They have had to decide, if they were not to submit, whether the better choice of means is a policy of alliance with the West or a policy of neutrality. The former carries the risk of being more provocative to the Russians and depends for its success on the will and capability of the chosen ally to maintain the commitment to deter and to defend. The latter involves a gamble that nonalignment will mean less tension, a more normal relationship with a Russia that will feel less inclination to be threatening, and a continuing ability to survive in a situation of balance between the great powers that neither will wish to disrupt by attacking or trying to dominate a neutral buffer state.

Both Turkey and Iran, at times in their history, have sought security in neutrality and a policy of balancing off Russia and rival powers. In the years immediately following World War II, however, in which both were threatened with domination by the Soviet Union, those two countries chose a policy of alignment with the United States and the West. Turkey did so more decisively and formally by joining NATO (1952) and the Baghdad Pact (1955), concluding a bilateral security agreement with the United States (1959), and making extensive arrangements for the existence of U.S. and NATO bases and other facilities on Turkish territory. Iran joined the Baghdad Pact (which later became CENTO) and signed a bilateral agreement with the United States similar to Turkey's. It did not permit the establishment of American strategic bases on its territory, but did tolerate stations for the gathering of intelligence on Soviet weapons programs.

Concerned though they were to keep American support for their security against the Soviet threat, both Turkey and Iran, nevertheless, began in the 1960's to improve their relations with Moscow through bilateral diplomacy and expansion of economic relations. The main purpose was to use an additional means of reducing the danger and pressure from the north. Iran made a point of stating that it would not permit American strategic bases on its territory. In the case of Turkey, the new policy was also a consequence of displeasure over the way in which the United States had handled the Greek-Turkish dispute on Cyprus and other matters of vital

interest to the Turks. Both Turkey and Iran sought a greater independence in foreign policy than they had had in the situation of close association with a global cold-war strategy largely determined by the United States, and that independence included more normal relations with the U.S.S.R. In other words, they saw no reason why they could not practice détente with Russia when America and Western Europe were doing so. It gave them more freedom to pursue their interests in their own region—Turkey in relations with Greece and Cyprus, Iran in the affairs of the Gulf.

Two points deserve emphasis. The first is that the traditional fear and distrust of Russia remained strong in both countries. No political groups or currents of public opinion forced the governments to draw closer to Moscow, although it was true that popular dissatisfaction with the United States contributed to the desire for independence of policy. The Soviets were not able to build or maintain any significant pro-Soviet party or constituency in either country.

Turkey, under the government of Bulent Ecevit, has redefined its place in NATO to take greater account of Turkish regional interests. Ecevit visited Moscow in 1978 to sign a joint statement that pledges peaceful policies. These may be signs of a drift toward nonalignment. But it would probably take some bitter disillusionment with the West, or some major shift in the global or regional balance, for Turkey to take that step.

Iran, under the rule of the Shah, followed the same policy of greater independence within the framework of the Western security system, but without repudiating that system. As he developed for Iran the role of leading regional power in the Gulf and beyond, he focussed his massive defense effort less directly and less exclusively on the threat from the north and pushed the idea of a regional security system free of the military presence of the two superpowers. The tone of the pronouncements was one of independence and nonalignment, although the Shah had some difficulty convincing his domestic critics and the Russians since he was at the same time forging a close military relationship with the United States by buying huge quantities of American arms and other equipment, which in turn required large official and private American missions for training and advice.

## 2. THE SOUTHERN TIER

In the Arab countries, in contrast to the northern tier, governments and peoples have tended to feel less threatened by the Soviet Union, and therefore, to be less hostile and suspicious. That statement needs qualification in specific instances such as Saudi Arabia, but is generally true. Governments and political movements have defined their attitudes and policies toward the U.S.S.R. from the standpoint of their own local and regional interests and of what the Soviets could or would do to help them pursue those interests. It so happened that there were many ready-made issues—the anti-colonial struggle against the Western powers, the conflict with Israel, and the conflicts among the Arab states themselves—on which Arabs sought Soviet support, and therefore, opened the doors to Soviet influence. From the time of Nasser's first arms deal in

1955, various Arab governments have been willing to engage in extensive relationships with the U.S.S.R. including arms deliveries, trade and aid, political and diplomatic cooperation, and Soviet use of Arab military bases and other facilities.

It should be sufficient here to describe the pattern of the Soviet-Arab relationships without going into detail on specific cases. Egypt in the period of Abdel Nasser turned to the Soviet Union for help in building up the country, but especially for waging the struggles in which it was engaged against the British, against Israel, against rival Arab states such as Saudi Arabia, and against the United States. Syria, also from the mid-1950's, had similar reasons for turning to Moscow, as did Iraq after the revolution of 1958 which overthrew the pro-Western regime of Nuri Said. Soviet influence in those countries grew very substantially because the U.S.S.R. was the sole or main source of arms and of economic aid, and they accepted a Soviet military presence in the form of military missions, use of naval and air facilities, and in the case of Egypt in 1970-72, units of Soviet combat forces.

Egypt, Syria and Iraq formed the core of the Soviet position in the Middle East in the 1960's, and others were similarly receptive to a Soviet connection: Algeria, Sudan, Yemen, Aden (after it got its independence from the British and became the P.D.R.Y.), and Libya (after the overthrow of the monarchy in 1969). The bandwagon appeared to be rolling, for there was no doubt that Soviet declarations of support for movements of national liberation, of solidarity with newly liberated states in the struggle against colonialism and neo-colonialism, struck a responsive chord among Arab nationalists. Nevertheless, no Arab state or nationalist movement was prepared to accept Soviet ideology, to give political power to local Communist parties, or to subordinate its sovereignty to Soviet decisions. The pro-Soviet Communist parties were generally small and weak. In cases where they showed strength, as in Iraq, or became involved in an attempted coup, as in Sudan, nationalist governments would cut them down to size by persecution.

The most spectacular case of the rejection of Soviet influence and the assertion of national will against the U.S.S.R. was Sadat's expulsion of the Soviet military "advisers" (some 20,000 men) from Egypt in 1972, an event which was followed by a deterioration of Soviet-Egyptian relations, halted only temporarily by Soviet support of Egypt in the October War and leading in time to Egypt's denunciation of the bilateral security treaty. A comparable deterioration took place between Sudan and the Soviet Union. On the other hand, Libya has simultaneously expanded its collaboration with Moscow, receiving large shipments of arms beyond its own capacity to use, a reflection of the hostility and tension in Libya's relations with Egypt and Sudan.

In the conservative Arab states of the Gulf region it has been much more difficult for the Soviets to expand their influence for a number of reasons. These states (Saudi Arabia, Kuwait, the United Arab Emirates, Oman) are governed by traditional systems under ruling houses ideologically opposed to communism. Their rulers have shown no sign of willingness to seek Soviet support for their own local or regional aims. They are oil-producing states with no need of Soviet economic aid. The most important of them, Saudi

Arabia, is rigid in its aversion to communism and to the U.S.S.R., and since it has considerable influence over the smaller neighbor states, they would not lightly embark on a policy that opened the doors to Soviet influence. Kuwait is the only one of the four that maintains diplomatic relations with Moscow.

The Arabian peninsula's vulnerable point, as the Saudis see it, has been the P.D.R.Y., and the possibility that its Marxist regime, heavily supported by the Soviet Union, could extend its power to the Yemen Arab Republic or, in the other direction, into Oman's Dhofar province through support of revolutionaries there.

At the other end of the spectrum is the Palestine Liberation Organization (PLO), which is accepted by the Soviet government, as it is by the Arab states and indeed by the United Nations, as the body entitled to speak for the Arab Palestinians. The Kremlin has made itself the patron of the PLO by giving it public recognition and providing it (generally through indirect channels) with arms. It neither controls the PLO (and can be embarrassed by certain PLO activities) nor does it support the PLO position that Israel must disappear from the map. The fact of Soviet support, however, makes the Palestine problem more difficult for others, including the United States and Israel, to handle. It intensifies the Israeli conviction that a Palestinian state on the West Bank would be closely tied to the Soviet Union and would be a mortal threat to Israel.

Israel itself remains distrustful of the Soviet Union and hostile to its influence in the Middle East. In the early years of its independence Israel favored a policy of nonalignment between the big powers, but after Moscow in the mid-1950's took up the Arab cause as a means of extending its own power and influence in the Arab world at the expense of the West, Israel felt compelled to regard the U.S.S.R. as its enemy and turned toward alignment with the West (first France and then the United States). Its relations with the U.S.S.R. were further damaged by Soviet policy on emigration of Jews and by the Soviet decision in 1967 to break diplomatic relations, a decision to which Moscow still holds, even though it thereby forgoes a chance to add flexibility to its diplomacy. The Soviet Union recognizes Israel's existence as a state and says it should be guaranteed as part of a comprehensive Arab-Israeli settlement, but Israel remains unconvinced that Moscow bears it any good will at all and fears any advance of Soviet influence in the Middle East.

### 3. CONCLUSIONS

To sum up the continuing factors on the side of Middle Eastern attitudes and policies, the Soviet Union despite past successes has no natural constituency in the region. Its brand of socialism has no appeal. Its well-advertised support of "movements of national liberation" no longer rallies peoples to its banner, now that independence has been attained almost everywhere except by unfortunate minority peoples such as the Kurds whom the Soviets cannot support without alienating the ruling majorities. In the Arab world the experience of the past quarter century has dispelled many illusions about the Soviet Union. It is obviously not just a disinter-

ested friend and ally ready to help a deserving Arab cause for its own sake.

With all the caveats, however, we should not ignore enduring factors in the Middle East which ensure the continuance of the presence and the influence of the Soviet Union. It is certain that local rivalries and conflicts will go on—within existing states, between them, and in their relations with outside powers. It is inevitable that governments and political movements will find it in their interest to look to the Soviet Union to gain their ends or to confound their opponents. Such connections are likely to be temporary. One of the lessons learned from the past, especially by those states which had the longest and closest relationships with the Soviet Union (or the United States), is that the interests of a local state and of a superpower may converge from time to time but do not coincide.

We can draw certain conclusions about Middle Eastern attitudes toward the Soviet Union on the basis of the record of the postwar period. The first is that the circumstances and interests of Arab states and governments are so varied that any uniform attitude is out of the question. For some regimes (say those of Egypt or Sudan in the past or of Afghanistan or the P.D.R.Y. at the present time), the Soviet Union may be a natural ally, partly for ideological reasons but more because Soviet protection and support may be a requirement for survival against opponents at home or next door; but those relationships are only as strong and as lasting as the ability of the local regimes to hold power. There have been and will be Middle East governments which for national and regional reasons of their own decide on alignment or close cooperation with the U.S.S.R. as a convenient temporary partner, using the connection but keeping the freedom to terminate it. Some states, like Syria and Iraq today, may continue a relationship with the Soviet Union as a supplier of arms and an economic partner, but balancing it with economic and other ties with Western and nonaligned states. Finally, states such as Saudi Arabia may remain so opposed to the Soviet Union and fearful of communism that they will make no concession even toward normal diplomatic relations with Moscow.

These differing situations seem to assure that the Soviets will find opportunities to extend their influence and to play a part in the politics of the Middle East. But the governments and peoples of the region, in dealing with the U.S.S.R., are less and less likely to do so under any illusions about Soviet motives and policy. Even among those states which fall into the category of ideologically affiliated semi-satellite regimes, there is increasing recognition of the Soviet Union as an imperialist power which, whatever its slogans of liberation and anti-imperialism, is itself a danger to national independence. If they need outside confirmation, they can listen to what the Chinese are saying.

### III. THE U.S.S.R. AND THE EVENTS OF 1973-74

#### *A. Results of the October War*

The year 1973 was one of multiple crisis, in the Arab-Israel area and in the Persian Gulf, transforming the relations of the local

states among themselves and with outside powers. The shock to the West was unexpected, serious, and in some respects lasting. The new round of war between the Arabs and Israel opened up a gap between the United States and its allies in Europe that raised questions and tempers on both sides, as the United States came strongly to the support of Israel (and expected at least an absence of obstruction on the part of the Europeans), while the European governments, fearful for their oil supply, sought ways to appease the Arabs. The latter widened the gap by differentiating in their oil supply policy between the European states (except Holland), to which supplies were reduced, and the United States, to which they were placed under total embargo. Then the action of OPEC in quadrupling the price of crude oil struck both Europe and America, and Japan as well, in the solar plexus of their economy. Soviet theorists might be pardoned if they saw these growing troubles as the beginnings of the final stage of capitalist crisis.

If the Soviet leaders expected to reap a harvest of gains in the Middle East, however, they were very much mistaken. They were foiled, first, by the course of the Arab-Israel war which the Arab armies, despite initial successes due to surprise and despite massive aid from Russia, proved incapable of winning and in time came to the point where they had to be rescued by outside intervention. Since the Soviet Union could not itself intervene without risking American counteraction and a major confrontation, it had to act jointly with the United States. Secondly, they lost out because only the United States could take advantage of the postwar situation to bring about agreements between Israel and its Arab neighbors that confirmed the ceasefire, set new armistice lines and security arrangements, and pointed the way to further negotiation for a real peace.

The Soviet Union was formally in the picture as a co-sponsor of resolutions in the U.N. Security Council and as co-chairman of the Geneva conference for a peace settlement, but actually it was outside looking in. The only way the Arab states could get Israel to agree to anything, especially as they were not willing to talk to Israel directly, was through the United States. Secretary Kissinger played upon this situation with brilliant and deft diplomacy. The two agreements that Israel made with Egypt (in 1974 and 1975) and the agreement it made with Syria (in 1974) were possible because the United States was able to talk with and to influence both sides. The Soviet Union could not influence Israel, not being willing even to restore diplomatic relations, and had lost standing with the Arabs because it could not help them, either in war or in peace, to regain their lost territories. It could still provide arms, and did so in Syria's case, but the increasingly anti-Soviet moves by President Sadat of Egypt, culminating in his denunciation of the Soviet-Egyptian security treaty in 1976, brought an end to the already dwindling deliveries of Soviet arms to that country.

The virtual exclusion of the Soviets from the peacemaking process left them with narrowed choices. They could, and did, challenge America's leading role and work to undermine it. They continue to call for the convening of the Geneva conference, where they could have an equal role and perhaps find the way back to the position of chief patron and defender of the Arab cause, isolating the United

States on the side of the Israel. They moved closer to those Arab states which were rejecting the whole idea of negotiating with Israel, such Iraq and Libya, and stepped up shipments of arms to them. They gave more support, political and material, to the PLO. These were essentially, however, moves around the periphery of the core area made up of Israel and the frontline Arab states on its borders. They could hardly change things fundamentally unless American policies should run into serious trouble or failure. But that was not a bad gamble; it just required patience.

### *B. The New Oil Equation*

In the Gulf region, as in the Eastern Mediterranean, a crisis for the West resulted in a new loss for the Soviet Union. The October war, though not the cause, provided the setting for the rise in oil prices decreed by OPEC, a development which was to prove far more lasting and damaging than Arab use of the "oil weapon" to punish the West for its support of Israel. Kissinger got the oil embargo lifted by the spring of 1974, but the West's vulnerability to the price rise was so glaring as to pose the question whether the advanced industrial nations did not have feet of clay. They had placed themselves in a position where they could not live without imported oil, and whether they got it or not and what price they paid was in the hands of weak Third World countries which happened to have the oil and had learned how to act together. The tactic might work with other key materials as well. But it was enough, as a demonstration of the West's weakness, that it worked with their prime source of energy.

The Kremlin looked on these developments with satisfaction. It had long encouraged the oil-producing states of the Middle East to assert their sovereign rights by controlling the activities of the Western oil companies and nationalizing their assets. That was all part of the struggle against imperialism. In some cases, notably that of Iraq, the worsening of relations between the national government and the Western oil companies opened the door for comprehensive barter agreements with the Soviet Union and for the entry of Soviet advisers and oil experts onto the local scene.

This process had already begun before 1973. Ironically, the crisis of that year, instead of giving it an extra push, revealed its limitations. The Soviets reaped some immediate economic benefits. Their own oil could now be sold in the West at the new OPEC prices, bringing more hard currency into Soviet coffers; meanwhile the Middle East oil the Soviets were importing continued to come at the lower prices set by earlier long-term contracts. The Soviet Union could not, however, find an expanded role for itself in the Middle East economy. Quite the contrary! The oil-producing countries were selling to their natural markets in the West and Japan and piling up hard currencies which they chose to spend or invest in those same countries, not in the U.S.S.R. or Eastern Europe. Soviet capital goods and technology did not have sufficient attraction.

The crisis produced a tacit understanding between the countries of the West and those of OPEC that the economic future of each depended on the other. They began to weave, by governmental

agreements and even more by the multiplication of private commercial and financial ties, a network of relations resting on the solid base of a trade of oil for the means of development.

For the Middle East countries the Soviet Union was irrelevant to their promising new situation. They did not need Soviet help or encouragement to assert themselves against the West. They had done so on their own power, oil power. The prospect was that for the next ten years or so the consuming countries would have no substitute for Middle East oil, and thus would have very limited bargaining power with the producing countries. The only real restraint on the latter's price-setting might be concern about crippling the Western economy and its ability to keep importing and paying.

A shift in economic power had taken place, no doubt about that, in favor of the oil-producing countries and to the disadvantage of the West. Yet the latter had the opportunity to balance its oil purchases by expanding exports and providing a home for petrodollar investments. The Soviet Union, which also felt the impact of the Middle East's new oil power, had no such opportunities to enlarge its economic role. Western oil vulnerability might seem in Soviet eyes to be another nail in the West's coffin, additional proof that the "correlation of forces" in the world was shifting from capitalism to socialism. The Soviets might try to exploit that shift by putting greater military and political pressure on Western Europe or on the United States. But they did not find themselves any stronger in the Middle East and the Gulf.

#### IV. CHANGING SECURITY PATTERNS

##### *A. The Two-Pillar System in the Gulf*

It so happened that the wealthy oil states of the Gulf, with the exception of Iraq, were governed by conservative regimes concerned about the threat of communism and radicalism. The possibility of a direct attack by the Soviet Union seemed remote, but they feared the intrusion of the Soviet Union into the area through its support of radical regimes and movements. The rebellion which was kept going for a decade in the Dhofar province of Oman, thanks to support from the Marxist regime of the P.D.R.Y. backed up in turn by Soviet advisers and weapons, seemed just such a threat, so much so that Iran and a number of Arab states provided the Sultan of Oman with troops and other help to put it down.

These conservative regimes, which ruled in Iran, in Saudi Arabia, in Kuwait, in the United Arab Emirates and in Oman, did not always see eye to eye on matters of security and were not entirely trustful of each other. Iran, the largest in population and in military forces, was pushing for a leading role under the guidance of its ambitious ruler, the Shah, but the Arab states proved reluctant to join a formal regional security organization which Iran might dominate. They were more comfortable with the idea of an informal balance in which Iran and Saudi Arabia together would share the main responsibility for maintaining security. That balance would provide a security umbrella for the smaller Gulf states lying between them. Saudi Arabia could not match Iran in military forces, but it had other assets such as money and inter-Arab ties

that enabled it to make its influence felt throughout the Arabian Peninsula and beyond.

This "two-pillar" security system had had the benevolent support of the United States since Britain's departure from the Gulf in 1971, but the American relation to it remained ambiguous. Although both Iran and Saudi Arabia continued to rely on their ultimate American guarantee, they were not keen on formal participation in an alliance system with a Western label which they thought not in conformity with their new sense of self-reliant independence. Thus, Iran virtually ignored its CENTO ties, and Saudi Arabia stressed its Arab rather than its Western connections. From Iran and other Gulf states one heard more and more the theme of regional independence, of an area free of the presence of the armed forces and bases of the superpowers. American arms might be flooding into the region, but their purpose would be to strengthen regional independence and to obviate the need for any outside military presence.

It goes without saying that there was no place in this system for the Soviet Union. The Soviets had, however, two footholds in the region as a result of successful past policies. One was in Iraq, the other in the P.D.R.Y. The latter had more than nuisance value. It could be used to revive the Dhofar rebellion if Moscow and Aden were so minded. It could serve as a threat to Saudi-influenced Yemen and to Saudi Arabia itself. It could serve as a living example of a Marxist, pro-Soviet Arab state. And, it also proved useful to the Soviets as a stopping and staging place for the heavy Soviet supply operations on behalf of Soviet clients in the Horn of Africa. With the Soviet success in the Horn, moreover, the foothold on the Arabian peninsula took on added importance in what might be a broad Soviet strategy for Africa and the Middle East.

Saudi Arabia has been concerned enough about the danger inherent in a radical, pro-Soviet state on its border to try to normalize relations, offer financial aid, and exert a moderating influence on Aden, but with no great success. Internal struggles developed within the P.D.R.Y. leadership in 1978, raising the possibility of a change in policies, but the extreme left group won out. What the Soviet part in this affair may have been we do not know, but the result left the Soviets well satisfied.

Iraq, of course, is of much greater importance, strategically and politically. It is a Gulf state, with ports on the Gulf (though not very good ones), an oil state with large reserves, and an Arab state which historically has aspired to prominence and leadership in the Arab world. Well before the crisis of 1973 the Soviets had ensconced themselves in Iraq. Although the course was never easy, as Iraq's changes of regime, persecution of local Communists, and continuing fight with the Kurds of northern Iraq created endless problems, the Kremlin showed patience and consistency in holding its position as Iraq's protector and provider of arms and other support. The relationship was capped by the security treaty signed in 1972.

The big question, after 1973, was whether Iraq would be in fact a Soviet satellite state or full-scale ally on the Gulf, undermining and imperiling the efforts of the other Gulf states to safeguard their own security and build a regional system. It seemed a real

possibility, as Soviet arms continued to pour it, Soviet military missions were enlarged, and Soviet naval vessels were allowed to use the port of Um Qasr, which Soviet engineers were expanding into a real base. Iraq was at odds with Iran on a number of frontier questions, and the two were engaged in a limited, unofficial war in Kurdistan. Iraq also maintained its territorial claims against Kuwait and kept Saudi Arabia and the smaller states in a state of fear over its potential support of radical revolutions in the Gulf.

The worst-case contingencies, however, did not develop. The picture of Iraq as a Soviet satellite or instrument of Soviet policy was overdrawn. It had never been a true picture despite the privileged position Moscow had obviously gained. The years of controversy and crisis with the West had taught Iraq the weight of its own bargaining power. It was not the Soviet connection that had brought new power to Baghdad, but the ability to dispose of its own oil, and, after the OPEC price action of 1973 to open up new horizons by selling it to the West.

Iraq's isolation in the Arab world and in the Gulf—its government being at odds with almost all others, conservative or radical—had contributed to cementing the Soviet connection. The Ba'hist regime in Baghdad, whether for reasons of ideology or secular rivalry, seemed to have a genius for antagonizing all its neighbors, although relations with Turkey remained tolerably good. But Iraq did not have either the appeal or the power to make gains at the expense of others, and the Soviet Union was not inclined to join the Iraqis in risky adventures either in the Arab-Israel area or in the Gulf. The Iraqi government, accordingly, began to rethink its foreign policy and to seek greater flexibility and independence. It was a reappraisal of relations with Russia similar to that undertaken by Iran with respect to the United States, and behind it lay the same self-confidence stemming from new economic power.

In proceeding with plans for economic development the Iraqi regime began to turn to Western and Japanese firms rather than to the Soviet Union, to carry out major projects requiring advanced technology and management skills. At the regional level Iraq began to mend its relations with others. The key was the reconciliation with Iran in 1975, a comprehensive settlement covering border problems and the Kurdish rebellion, which Iraq was crushing with a massive military effort and which the Shah decided to abandon for the sake of better relations with Baghdad.

Different observers have put differing interpretations on the meaning of this agreement for the Soviet position in the Gulf. Moscow was probably relieved to have the Kurdish question at least temporarily settled and to see the Iraq-Iran feud removed as an obstacle to maintaining good relations with both. Yet the evidence does not show that the Soviets either helped to bring about the agreement or profited from it. Its major result was to give Iraq the opportunity to play a new role on its own in the Gulf, to talk with Iran and Saudi Arabi about common problems of security, and to be less dependent on the U.S.S.R. No break, comparable to that between Moscow and Cairo, has taken place. Iraq needs Soviet arms and profits from its economic links with the communist countries. If it is willing to allow limited Soviet use of Iraqi military

facilities, it stops short of permitting Soviet bases. The Soviets control neither the military establishment nor the political decisions of the Iraqi government.

### *B. The Arab-Israel Zone*

The recent rapprochement between Iraq and Syria reflects the same trend. It represents a realignment by which Iraq, in the Arab-Israel zone as in the Gulf, seeks to take itself out of isolation into a more active and influential role in regional politics. As an Arab front has drawn together in opposition to Egypt's negotiations with Israel, Iraq has moved from a position of total rejection, in isolation, to one which though not substantially different is moderate enough to make possible common positions with other Arab states, including not only Syria but even Jordan and Saudi Arabia. Mending fences with Syria has not been easy, given their bitter rivalry on ideological and other grounds, but it is proceeding apace, and they are even talking of federation.

From the standpoint of the interests of the Soviet Union, as in the Gulf, different interpretations are possible. Both Syria and Iraq have been closely associated with Moscow in arms supply, economic relations, and general political strategy. It has often been difficult for the Soviets to pick their way through the issues on which their two friends were at odds. It may be, now that they are coming together, that it will be easier for the Soviets to work with both and to turn that cooperation in directions favorable to Soviet interests. On the other hand, if the Syrian-Iraqi collaboration or union proves durable, there is reason to believe that they will have more bargaining power with Moscow and will not see their joint and several interests as being the same as those of the Soviet Union, and certainly not to be subordinated to them.

In the Arab-Israel zone, of course, there has been no real security for the past thirty years except that provided between rounds of war by the local balance of power or by the restraint exercised by outside powers on the local antagonists. Since the October war the situation has been somewhat less dangerous than before because of the undertaking of real peace negotiations, the American involvement with both sides, and Egypt's break with Russia; most of all, with Israel heavily armed and Egypt virtually neutralized, the local balance of power makes it unlikely that Israel's enemies on her eastern front will risk war. Nevertheless, if the parties do not move toward peace they will eventually move toward war. The one sure prediction will be greater insecurity for all.

Over the long run the Soviet Union will have a role to play in the Arab-Israel question, as it has in the past, either in helping to bring about and make effective a settlement or to exploit the absence of one. The turn which the question has taken since Sadat's initiative of November 1977, bringing diverse Arab states into opposition to the procedures and agreements represented by Camp David, may well open up new opportunities for Soviet political and diplomatic gains. It would not be surprising. Since 1973 the U.S.S.R. has been effectively shut out of the peacemaking process by American diplomatic initiatives and success and by the fact that the frontline Arab states saw no chance to get back their territory

except through American influence on Israel, this despite the U.S.S.R.'s formal position as co-chairman of the Geneva conference and despite American lip service to the proposition that the cooperation of the two superpowers is necessary if there is to be a durable peace in the Middle East. So long as U.S. diplomacy is successful and Arab-Israeli negotiations show progress, the Soviets may well remain shut out of the process and of the area. But if the effort falters and Arab states look for alternatives or turn to resentful anti-Americanism and radicalism, the Soviet Union will have its chance to come back.

It is a real question whether "coming back" will merely mean a repetition of the pattern of the years from 1955 to 1973, when the Soviets poured arms into Arab states, but could not or would not help them to defeat Israel with resulting frustration both for them and for their Arab clients. But even if no new round of war takes place, the Soviet Union may profit from a long period of no war—no peace in which the United States loses ground and the other superpower inevitably becomes an attraction.

### *C. Iran*

Developments in Iran should provide a test of some of the possibilities for Soviet activity and gains. The decline and fall of the Shah's regime had internal causes. His domestic enemies, religious and secular, slowly gathered strength against him, and when it finally became apparent that his last resort, recourse to the army, could not restore order, the monarchy was doomed. The United States was the Shah's friend and ally, but could not do anything effective to save his throne. The Soviet Union also enjoyed good relations with his government and, so far as we know, did not have the aim of overthrowing him. As the revolution developed, however, the outcome was more clearly seen in the Kremlin than in Washington. The outlawed Tudeh (Communist) party, although small, seems to have taken part, as did various other leftist groups among the students and the oil workers. But the appeal of the revolutionary leadership of Ayatollah Khomeini and his allies, and the drive of their mass following were, first of all, Islamic and fundamentalist, and secondarily anti-foreign, anti-corruption, and anti-dictatorship.

Because of the long years of American support for the Shah and the pervasive American presence in the country, the revolution was bound to take an anti-American turn. America was associated in the popular mind not with Iran's development and progress, but with the Shah's methods of dealing with his own people as he developed the country in his own way. Wherever one puts the blame, the results are plain enough. The Islamic republic that emerges will be hostile to many aspects of Western presence and influence, on religious and cultural as well as political grounds, and will drastically cut down the weapons programs, the grandiose development schemes, the imperial foreign policy—all the policies which the Shah saw as attributes of greatness, and in which America was his backer and partner. America, consequently, will have to pay a price for the wrecking of those dreams; yet it is not at all sure that any of it will be paid to Moscow.

## V. PROSPECTS: SOVIET AND MIDDLE EASTERN CHOICES

Developments of the past year in the Middle East have raised new questions about the future of that region and the place of the Soviet Union in that future. These developments which include the left-wing coup in Afghanistan, the military victories of the Soviet-backed Ethiopian regime in the Horn of Africa, the consolidation of the power of the pro-Soviet leadership in the P.D.R.Y., the disintegration and fall of the monarchy in Iran, and the splits in the Arab world resulting from Egypt's effort to make peace with Israel lead to the conclusion that the new "oil power" won by Middle East nations in the crisis of 1973-74 has not brought them stability, security, or insulation from the competition and the pressures of the great powers.

The economic power in the hands of Middle East members of OPEC remains, and it is real. It confers on the governments of those countries and extraordinary bargaining position with the industrial West. Yet neither the flow of oil dollars nor the transformation of societies by economic development bought with those dollars has lifted the region out of its traditional problems and conflicts. The apparent stabilization of the Gulf region based on Iran and Saudi Arabia was deceptive. The new possibilities for an Arab-Israel settlement given concrete form in the Camp David accords and in the Israeli-Egyptian treaty, left untouched other aspects of the conflict and accentuated the disunity and turmoil in the Arab world. The revolution in Iran provided glaring proof of the fragility of the political order; its repercussions went far beyond Iran's borders and provided a frightening example to other states. The impact of these events on the entire American position in the Middle East has been profound. It could be, but need not be, calamitous.

### *A. Interpretations of Soviet Policy*

The interaction of Soviet policy with these developments is not easy to define, either in describing what has happened or in predicting what is to come. The questions are obvious. To what degree did the Soviet Union initiate these events? Do they represent a series of connected moves in a broad Soviet strategy for the region? Are the gains already made reversible by local forces or by American counteraction? Are they creating a momentum which will generate further Soviet gains and a climate of accommodation and appeasement in the region? How will Soviet policy in the Middle East be affected by Soviet concern with American reactions and with the global Soviet-American relationship?

Many observers in the United States are already answering these questions, often from the standpoint of their general views on the Soviet Union and Soviet-American relations rather than from that of Middle East specifics. Because the evidence does not lead to unchallengeable conclusions, however, the theories ranged as far and wide as the ideological convictions and wishful thoughts of the theorists. It may be that the Soviets are carrying out a grand strategy to dominate and communize the Middle East, control its oil, and thus, shift the global balance decisively against the West. It may be that as heirs to the Tsars, they are pursuing the natural expansion of Russian power over the Eurasian land mass and

toward the oceans. It may be that they are merely practicing opportunism in the game of superpower competition, moving where they can to reduce American influence and enhance their own. It may be, as they say when they talk to us, that they are primarily interested in safeguarding the security and other national interests of the U.S.S.R., in participating in Middle East affairs on a basis of equality with the United States, and in reducing the dangers of nuclear war. These theories are not all mutually exclusive, although one would think so judging from the intensity with which they are propounded. Actually, while it is important to know what we can about Soviet motives and plans, it is not necessary to reach conclusions about ultimate aims in order to give some tentative answers to the questions asked above and to estimate what Soviet policy is now or may be in the next few years.

To what degree did the Soviet Union initiate the events that have changed the political map of the Middle East during the past year? It is not useful to waste time on a precise definition of the verb "initiate." We do not know whether Soviet agents had a part in planning the coup in Afghanistan or in the series of assassinations and political twists and turns that marked the course of the P.D.R.Y. and its relations with Yemen in 1978. We can be fairly sure that the Soviets had no hand in the coming to power of Colonel Khaddafi in Libya or of Colonel Mengistu in Ethiopia. What we do know is that at one point or another the course of events in a Middle East country will produce a leader or a movement prepared to look for support to the Soviet Union, and that a working relationship develops either before or after such leader or movement attains governmental power. How and when the arrangements for collaboration are made will vary from one case to another. What the terms may be (e.g., how much direction comes from Moscow) will vary with the aims and the bargaining power of the two parties and with the current international situation. In the beginning, when each has high expectations of what can be gained from the other, the collaboration may be closer than it is later. In the sense that the Soviet Union is in the picture at an early stage of the fortunes of the local leader or group, it may properly be called an initiator of the resultant political change. This was surely true of some of the recent shifts in the Middle East (let us say Afghanistan) and not of others (let us say Iran).

Do the changes of the past year or two represent a series of connected moves in a broad Soviet strategy for the Middle East? Here again the answer has to be a qualified and mixed one. The Kremlin cannot orchestrate the order and the outcome of events in a series of places as diverse as Ethiopia, Yemen, Libya, Lebanon, Syria and Iran. The governmental and factional leaders in those countries who are their partners are driven by their own imperatives, which may conflict with Soviet aims and Soviet advice. The more the Kremlin might try to coordinate the policies of its clients and partners in a grand strategy, the more strain it would place on the ties with all of them. If Soviet gains in Afghanistan, the Yemens, the Horn and elsewhere represent and encirclement of the bastions of American influence in the core countries of the Middle East—Iran, Saudi Arabia, Egypt—it was Soviet good fortune rather than the unfolding of a strategy meticulously planned

and deliberately executed, although the results were none the less dangerous to American interests. Neither was the turnover in Iran part of a Soviet plan; it is not at all sure that it represents a Soviet gain although it is clearly, at least in the short term, an American loss. Soviet gains elsewhere may affect how developments in Iran turn out, and the Soviets may be able to exploit them in ways not apparent now.

Are the gains already made reversible? The record of other Soviet "gains" in the Third World over the past two decades suggests that they are. It is enough to mention Ghana, Indonesia, Guinea, Egypt, Sudan, Somalia. When a Soviet ally or client has a change of regime, or finds its interests no longer served by the Soviet tie, it can break away. The ties are those of opportunism in every case, although ideology may reinforce them. Libya, for example, moved toward the Soviet camp in order to get arms and backing for the adventures Khaddafi staked out for himself in the Arab world and in Africa. Ethiopia needed Soviet help to cope with Somali attacks and with the Eritrean rebels. Both Libya and Ethiopia could turn away from Moscow as conditions change. Iraq has been known as a Soviet client for many years, but as we have seen it has developed relations with others which serve as alternatives and balancing factors. The same is true of Syria, and it is also true of the PLO.

The question of reversibility is harder to answer in the case of two states that seem close to satellite status. The P.D.R.Y. has been tied to the Soviet Union for its entire life as a state. Its economy is weak. Its government feels under siege by domestic and foreign enemies and has to have an outside protector. Soviet, East German, and Cuban advisers and military personnel appear to be in key positions, and the country is used as a military base and communications link for Soviet moves in the Middle East and Africa. All this could change if the regime could be "bought out" or overthrown, but the obstacles seem formidable. Neither Saudi Arabia, with offers of financial aid, nor the regime's domestic enemies, with attempts at revolution, have succeeded.

In Afghanistan also the Soviets have the benefit of a leftist regime, which was headed by a former Communist party leader, Noor Mohammed Taraki, and guided by many Soviet advisers. Afghanistan has a long history and tradition as a neutral buffer state balancing between Russia and the West. That tradition is not likely to disappear, perhaps not from the thoughts of the present leaders themselves; and currently active resistance forces oppose the regime's subservience to the Russians as well as its domestic policies. Afghanistan, however, is adjacent to the U.S.S.R., and therefore, might be regarded by Moscow as falling within the terms of the "Brezhnev doctrine" in case there were a need to protect "socialism" by the dispatch of Soviet armed forces.

American policy can have a bearing on whether a Middle East country moves into the Soviet camp and whether it can get out again. That is not primarily a question of making decisions for military intervention, but it does involve military capabilities and deterrence of Soviet military action. Above all, the United States and the West must be present as a factor in the calculations of local governments and leaders. It is a matter of providing alterna-

tives, mainly in the realm of political and economic relations, that respond to their needs and aspirations.

Finally, how will Soviet policy be affected by Soviet concern with American reactions and with the global Soviet-American relationship? For the entire period of the 1970's, and even before, the leadership of the Soviet Union has had the dilemma of pursuing simultaneously détente with the United States and "support of national liberation movements" (i.e., expansion of Soviet power) in the Third World. Détente comprehends SALT, a modus vivendi in Europe, more normal bilateral relations, and a general willingness to reduce tensions, but it does not comprehend agreement on how to handle conflicting interests in the Middle East and elsewhere in the Third World. The October war of 1973, therefore, with its character of a proxy war between the two superpowers and its moment of high crisis at the end when nuclear war seemed possible, served as a revelation both of the limits of détente and of its continuing dangers. It meant that both powers wanted to avoid the risk of nuclear war, but that up to that point of risk the field was open to all forms of competition.

The success of American diplomacy in the Middle East in the following years—taking the lead in Arab-Israel negotiations and building American influence in the Arab world—took place largely at Soviet expense. The virtual exclusion of the Soviet Union from the settlement process, the ending of the Arab oil embargo, the deterioration of Soviet relations with Egypt, the independent stance of Syria, and the influx of Western business to Egypt and the Gulf region all had the effect of depriving the Soviets of positions they had taken twenty years or so to gain. This was surely a source of great annoyance to them and a reason why they decided on bolder policies in Africa. The success of those policies, in the former Portuguese colonies and in the Horn, in turn must have emboldened them to seek ways of recouping their losses in the Middle East. The methods are not the same. Cuban forces have not been used in military operations in the Middle East. But Soviet diplomacy, propaganda and arms deliveries are again in evidence as most of the Arab states rally their forces to oppose Sadat and the Israeli-Egyptian treaty.

With their opportunities, however, the Soviet leaders still have a dilemma. They have a stake in the forces of disruption in the Middle East, since conflict breeds revolution, radicalism, and perhaps more pro-Soviet regimes and new bases for Soviet military power. The temptation to encourage and profit from disorder is real, and in a situation like that of Iran it can hardly be resisted. On the other hand, the gains are neither certain nor without cost. Disorder and revolution may give power to reactionaries, to Islamic fanatics, or to pro-Chinese groups. Disorder may, especially if Moscow is fanning the flames, provoke American military action, with consequent risk to Soviet security. The Soviets, even as they talk of how vital the Middle East is to them, know that because of its oil it is vital also to the West.

Aside from the risks of conflict with America, the Soviet leaders have also to weigh the possible benefits of a certain minimum level of tolerance and cooperation. In the Middle East the Soviet Union may benefit from stable relations which mean relative security on

its southern borders and allow commercial and other exchanges to flourish. It may benefit from an agreed code of conduct whereby both the United States and the U.S.S.R. work to keep the level of local conflict below the danger line. Beyond the Middle East the Soviet interest in cooperation has a solid basis in the needs of the Soviet economy, which have been a major reason in Soviet eyes for the policy of *détente*.

The Soviet leaders have told us again and again that they cannot be bribed with trade and technology; that no "linkage" of these matters with events in the Third World will induce them to change their principles and their policies. We can take them at their word. Denial of export licenses will not compel them to act the way we should like them to act in Africa and the Middle East. Yet in a broader sense there is no way to partition Soviet-American relations into separate compartments. The Soviets have committed themselves, through the highest party decisions over a decade, to economic goals dependent on increasing participation in the world economy, on imports of Western technology, and on large-scale cooperation with Western and Japanese forms for the development of Soviet natural resources. In their handling of economic issues related to the Third World, even as they have kept up the old refrain about the common struggle against imperialism and the common stake in a new socialist international economic order, they have made practical adjustments to the realities of a world economy in which their interests are linked to the West and to how the West works out its economic relations with the Third World.

Similarly, it is important to the Soviet Union to maintain the process of negotiations between the superpowers on arms limitation and other matters. These things are important to the United States as well. There is no overloaded bargaining position on one side or the other. The point is that the totality of the relationship enmeshes both powers, and each one has to consider the effect on that total relationship of action that may be taken, for example, in the Middle East. The Soviets have to balance their stake in successful adventures there against the larger stake. That does not mean they will not choose adventure, only that there is a dilemma and that the choice will not be without cost.

### *B. Middle East Factors*

To think of the Middle East as a field of play in the contest of the superpowers is quite justified, indeed necessary, but not if it is seen only as strategic geography. As we have noted, the politics of the region set the terms of the contest. What success the Soviet Union (or the United States) has there depends largely on whether conditions are favorable. Unless the Soviets choose to resort to naked force to impose their will on a country—which would raise real questions about the long-term cost of maintaining control over a hostile population, aside from the adverse international reaction and the risk of major war—they have to be able to adjust to trends within the region. They may influence those trends, but they can hardly determine and control them. It is, therefore, important to know what kinds of developments are in train now or likely in the future and what opportunities they may offer to the Soviet Union.

It may be useful to list a few types of situations, with illustrative references:

**1. CONTINUING CONFLICTS IN WHICH RIVAL PARTIES LOOK FOR SUPPORT FROM OUTSIDE THE REGION**

Such a conflict is the one between the Arab states and Israel. As long as it continues without settlement, or as long as the United States cannot win over most of the Arab states to the process of negotiation with Israel, some will inevitably turn to the other superpower either to find a different approach to peace or to prepare for war. This road is now open unless the present U.S. supported negotiations can be broadened beyond Israel and Egypt. There are and will be other conflicts in the region, mainly in the shifting relationships among the Arabs, but also involving Iran or Turkey or Israel, in which the Soviet Union becomes the natural source of support of any party whose opponent is getting help from the United States.

**2. NATIONALIST MOVEMENTS SEEKING INTERNATIONAL RECOGNITION AND INDEPENDENCE ON A NATIONAL TERRITORY**

This description fits the PLO. Its enemy is Israel. It has the nominal backing of the Arab states but distrusts them. It cannot get recognition from the United States as long as it does not accept the existence of Israel. Its natural supporter is, therefore, the Soviet Union which provides arms and political approval. As long as the aims of Palestinian nationalism are frustrated, the PLO will flourish, and as long as the PLO is frustrated, it will stick to the Soviet connection. Anywhere there is a dissatisfied nationalist movement—it could be in Iranian Azerbaijan, in Kurdistan, in Dhofar, in Yemen, in Hijaz, in Djibouti or elsewhere—the Soviets are in a position to try to extend their influence by exploiting it, or by asking a price for not exploiting it.

**3. REVOLUTIONARY SITUATIONS WITHIN INDIVIDUAL COUNTRIES**

No Middle East state except Israel has a solid democratic system of government. Succession from one regime to another is commonly by violent means, either by coup d'état or by a revolutionary mass movement. On occasions a coup or a revolution has Communist leadership, and in that case the Soviet Union may have been supporting the new leadership even before it won power. In other cases Communists may join other revolutionary forces or rally to a new regime after it takes over, gaining a share of power. Whatever the role of local Communist parties, and it is often minor, the Soviet Union may profit from revolutionary situations in which radical forces undermine and overthrow governments closely associated with the West, for it becomes the natural ally of a new anti-Western regime. It happened that way in Iraq, in Sudan, in Libya and elsewhere. Recent revolutionary events in Iran suggest that several of these elements may be present there. The lingering demise of the Shah's rule gave the Soviets time to plan for the succeeding period and to make contact, if they could, with forces of the opposition. The Communist party appears to have come out of

obscurity to play some part in the revolution alongside the more powerful Islamic movement and may operate as a legal political party under the new regime. The Soviets will surely attempt to capitalize on a situation which has shaken America's position and prestige and put some cards in their hands.

#### 4. INTERNATIONALIZATION OF MIDDLE EAST PROBLEMS

The Middle East has not been and cannot be isolated from the rest of the world, if only because of the threat its problems hold for world peace. Many of them have been partially internationalized in the sense that not only interested outside powers but the organized international community have taken a hand in dealing with them. The organs of the United Nations have debated endlessly about the Middle East, passed resolutions, sent missions and commissions, and helped to keep the peace in trouble spots. Parties to conflicts have called in outside powers for war or for peace or have made appeals to the United Nations to preserve their security or other interests. The Soviet Union is one of the two superpowers, a neighbor of the Middle East, and a permanent member of the U.N. Security Council. It has to be taken into account in any efforts to prevent war in the region or to negotiate peace settlements and make them stick. It may be kept out of some situations and some negotiations at some times, but its influence cannot be extruded or excluded from the Middle East.

#### VI. GENERAL CONCLUSIONS

The future is unknown to us and nothing is certain in the Middle East, not even disaster. Nevertheless, we can and should take stock of certain elements likely to be at work in the future as in the past. On the Soviet side, the continuing factors described in the first part of this paper will remain. The Soviet Union will make its weight felt in the Middle East; in one way or another it will be present. If the guideline is opportunism, the opportunities provided by the types of situations described above will be there.

Soviet policies, as we have noted, contain two main strands: that of the expansion of power with one eye on the global balance and the other on the prospect of more immediate gains on the ground, and that of the assertion of the right, as a world power with interests in the area equal to or greater than those of the United States, to a proper share in the international management and control of the problems that are of world concern. The first type of policy can be pursued cautiously and the second aggressively, with the result that they may seem to merge, but they are in fact distinct approaches, to be kept in mind as we observe Soviet conduct. The question of the balance and the interaction between these two approaches will depend on forces within the Soviet society and political system, on conditions in the Middle East, and on the wider world environment. That combination of unknowns should defy the efforts of anyone, in Washington or in Moscow, to plot a consistent course of Soviet strategy for the Middle East.

On the Middle Eastern side, variety and contradictions make it just as difficult to make predictions, but here too there are two main trends: one is the desire of all nations for independence from

alien rule (and that applies to domination by local neighbors as well as by outside powers); the other is the persistence of tensions and conflicts that make continued instability, and international involvement in one form or another, inevitable. Unfortunately, the end of colonialism and the assertion of independence do not guarantee harmony among nations. If there is to be dependable security in the Middle East, it can only be in the context of a regional and a world order not yet in sight.

We are not dealing here with prescriptions for American policy. Yet we should not overlook the fact that the policies and actions of the West, and particularly of the United States, have much to do with what policies and decisions the Soviet Union and the governments and peoples of the Middle East make in relation to each other. American policy in relation to the U.S.S.R., whether global in purport or specific to the Middle East, may be effective in deterring the Soviets from military adventures, from unilateral interventions, or from "moving in" on one country or another; or in strengthening the reasons for greater Soviet cooperation toward regional security and stability. Military denial or deterrence is not incompatible with political understandings, parallel diplomatic action, or mutually beneficial economic arrangements. It may be worth the effort, for example, to push the accepted concept of *détente* to include some agreed rules of competition and cooperation in the Middle East. It may also be worth the effort for the West and the Soviet Union to discuss an international approach to the world energy problem, rather than drift into a situation where they may be fighting each other for Middle East oil that has become vital to both.

Similarly, American policy in relation to the Middle East may be a critical factor in the ability of those peoples to cope with the problems of living next door to the Soviet Union. That has long been the rationale of American policy, but the difficult questions of approach and of method remain. We learned, or should have learned, from the experience of the 1950's the hazards of trying to put together a group of not very compatible Middle East states in formal alliance with the West. We should have learned also that large programs of military aid to friendly governments may not contribute either to their domestic tranquillity or to regional security.

To return to the subject of Middle Eastern attitudes toward the Soviet Union, it is a mixed picture now. The impression of Soviet gains and American retreat, justified or not, is strong in Saudi Arabia, Egypt, Israel and elsewhere. Assurances to them, additional arms shipments, and a strengthening of the American military position in the Mediterranean-Indian Ocean area may be indicated to restore confidence, keep governments friendly to the United States, help the process of Israeli-Egyptian negotiation, and carry a message for the Russians. But a concentration on military measures, arms deliveries, and alignments that intensify conflicts within the region may not be in conformity with the longer-term trends and policies of the nations of the Middle East.

Even for those who look to American for understanding and support, the emphasis is on independence. And in the longer term—without overlooking the more immediate realities of expo-

sure to danger and the need for an anchor—independence means the absence of exclusive ties to either superpower. The appeal of nonalignment is likely to grow. Iran is choosing it now. Jordan, Egypt and others may follow in time; so may Iraq and Syria, for the idea draws from both camps. How the United States copes with this trend may be crucial in determining what the Middle East nations can do for their own security, which choices are open and which are closed to the Soviet Union, and whether there will be a solid foundation for America's own vital interests in the region.

# THE UNITED STATES AND THE MIDDLE EAST

By Bernard Reich\*

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The signing in Washington in March 1979 of an Egypt-Israel peace treaty negotiated under the auspices of the United States and dependent for its implementation largely on an American role and largesse marked the high point, to date, of United States involvement in the Arab-Israeli conflict in the post World War II period. It clearly reflected a trend begun at the time of the October War (1973), an event since viewed as a major watershed in the Middle East and in United States relations with the area.

Although the United States had been involved officially in the region since World War II it was the October War which marked the point at which the United States became the predominant, if not sole, major power in the region with regard to the Arab-Israeli problem and the general prospects for peace. It clearly gained new influence with the Arab states of the Middle East while retaining close ties with Israel (its special relationships). This combination made the United States a unique power in Middle Eastern events during the subsequent period and marked a departure from the previous situation.

## THE BACKGROUND OF U.S. POLICY

American interests in the Middle East were slow to develop and to be supported by policy and commitment. Although specialized interests and activities may be traced to the first decades after the founding of the Republic, until after World War II United States interests remained primarily private and circumscribed in scope and limited to portions of the region rather than to its entirety.

During the nineteenth century American activities were those of individuals or groups and did not concern the United States as a government. American political and strategic interests were not identified and the United States virtually abstained from official political involvement or policy in the area. Primary attention fo-

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cused on religious, educational, cultural and humanitarian pursuits. Commercial interests of a significant nature emerged only with the discovery of substantial oil fields in the region.

Although the government did not develop an oil interest, the United States began to become involved, through American companies, in the oil industry in the 1920's and 1930's. In the period between the World Wars the United States promoted the application of the "open door" principle to American commercial interests and sought American participation in commercial activity in the Middle East without disadvantage. Oil was the most important commercial sector.

More central to future United States policy was its stand on the establishment of a Jewish state in Palestine. President Wilson endorsed the British-issued Balfour Declaration (1917), as did the Congress, individual Senators and Congressmen, and numerous state governments and legislatures. But no official action of significance was taken by the government.

World War II converted and enhanced the American interest. Oil became a military/political concern and other factors made the strategic value of the area more obvious. Soviet and Soviet-sponsored activity in the northern tier of the Middle East immediately after World War II contributed to United States concern and led to the formulation of policies designed to contain the Soviet threat.

Despite this, an approach to the developing Palestine problem was not immediately devised. U.S. policy took on added dimensions over time.

The United States advocated immigration of displaced European Jewry to Palestine, supported partition and the creation of a Jewish state, and recognized the new state of Israel on independence in May 1948.

Israel's declaration of independence was accompanied by the first of the Arab-Israeli wars, during which the United States adopted a position of neutrality and of support for United Nations actions. It was hoped that the war and resultant armistice agreements could soon be replaced by a permanent peace which would permit all the states of the region to initiate programs for economic and social development. This did not materialize. The conflict has remained at the focus of United States policy, increasingly occupying its attention, concern, diplomacy, and resources. Underlying the importance of the conflict has been the recognition of its potential for superpower confrontation and the view that its peaceful resolution is the best means for the assurance of other American interests in the region and elsewhere.

United States policy sought to reduce the scope and level of regional violence by the embargo of arms shipments to the area in 1947 and by the support of United Nations armistice efforts. The Truman administration also provided economic assistance to Israel and some of the Arab states. Thus, within a few years after World War II the main lines of United States policy and official involvement had been established: the defense of the Middle East against the Soviet Union, the termination of the Arab-Israeli conflict, and the stability of the region complemented previously devised policies in support of United States interests which included the open-door policy for American firms involved in oil and other commercial

opportunities and the continued educational, cultural, and philanthropic activity of missionaries and other Americans. United States activities have been guided by these broad concerns although the specific elements have varied in intensity and importance over time, as has the nature and extent of the United States role to resolve the conflict.

United States official efforts to reach an accommodation have taken several forms and involved a variety of programs. It has sought regional stability through such instruments as the proposed Allied Middle East Command. Assurances to Israel and the Arab states have also been offered in Presidential statements that supported the political independence and territorial integrity of the states of the region. There were efforts to limit the arms race through programs of arms control which, at various time, included (with England and France) the Tripartite Declaration regarding Security in the Middle East of May 1950, and a later (now bypassed) self-imposed limitation made with the intention not to become a principal supplier of military equipment to the Middle East. Programs to foster economic and social development have involved technical and economic assistance to the states of the region.

Efforts to improve the Arab-Israeli situation often took the form of specific functional approaches dealing with only a portion of the overall problem including such noteworthy efforts as Eric Johnston's plan for sharing the waters of the Jordan River among Israel and her neighbors (1953-55) and Joseph Johnson's activities relating to the refugee problem (1961-63).

These particular efforts and others like the broader approaches articulated by Secretary of State John Foster Dulles in 1955, had little real impact. By the mid-1960's the United States, and most other interested powers, had largely withdrawn from the effort to achieve peace and seemed to settle for regional security and stability and the promotion of economic and social change.

The lower priority given to peace as an attainable objective of United States policy in the early 1960's was altered by the June War (1967). The conflict and the magnitude of change occasioned by it in the region and beyond seemed to suggest that new efforts to achieve a settlement might bear fruit. The effects of the war were of such great magnitude that they presaged conditions vastly different from those preceding the conflict and had a far-reaching impact on the region as well as on the policies and relationships of the regional states with each other and with extra-regional powers.

The United States approach to the Arab-Israeli conflict changed as it believed that the prospects for its resolution were enhanced. Various factors combined to lead to an increasingly positive and active American role. Between the June and October Wars, under both the Johnson and Nixon administrations, the United States sought an effective and durable Arab-Israeli settlement arrived at by the parties within an appropriate environment created, in part, by the United States.

The new process had its beginning in President Lyndon Johnson's enunciated "five principles of peace" of June 1967 (the right to national life, justice for the refugees, innocent maritime passage, limits on the wasteful and destructive arms race, and respect for

political independence and territorial integrity) which sought to establish the elements essential to the termination of the dispute and the attainment of a settlement. These principles, and United Nations Security Council Resolution 242 of November 22, 1967, which incorporated many of them, became the bases of United States and, subsequently, of other international efforts to achieve a settlement.

The June War was also an important turning point in United States arms supply policy. Despite initial post-World War II United States efforts to control the arms race in the region it soon found itself competing with the Soviet Union in the provision of arms. The United States sought to ensure a "military balance" and provided Israel with the equipment essential to balance Soviet arms supplies to the Arab states, especially Egypt and Syria. The provision of F-4 Phantom Jets to Israel under a 1968 agreement was an important milestone in the United States role as an arms supplier. This sale established the United States role as a principal supplier of non-defensive, modern, sophisticated military equipment.

The June War also marked a turning point in United States relations with the states of the region as it became more identified with Israel. This identification was fostered by Soviet pursuit of a policy of polarization, the rupture of diplomatic relations between the United States and some of the Arab states, and the parallelism of Israeli and American views on the central issues of the situation. The consensus included the necessity of peace, the security of Israel, and the prevention of war, although there was divergence concerning techniques and discord on specific issues.

There were several efforts to achieve a settlement between the June and October Wars. The Johnson principles, United Nations Resolution 242, the Jarring Mission, the Nixon "new initiatives," the two-power and four-power talks, the Rogers Plans (and interim settlement and proximity talks proposals), the mediation activities of the Organization of African Unity and of the Romanian President, and other efforts were unsuccessful in achieving peace and, ultimately, even in preventing war.

#### THE OCTOBER WAR AND STEP-BY-STEP DIPLOMACY

The October War was a major watershed in United States policy and led to an alteration in its approach to, and its role in, the Middle East. The conflict itself, the potential for U.S.S.R.-U.S. confrontation, the employment of the Arab oil weapon, and the four-fold increase in oil prices contributed to a reassessment of United States interests and policies. The United States emerged as the central extraregional power in the search for an Arab-Israeli peace settlement, coinciding with a changing regional and international environment and the strategic/economic role that oil would thereafter play.

The war that erupted on October 6, 1973, caught the United States by surprise. Once the war began, the United States launched a multifaceted effort to limit the extent of regional conflict, to avoid confrontation with the Soviet Union, and to halt the fighting in such a way that the post-war environment would be more conducive to a settlement than that which preceded it.

The United States inaugurated a massive airlift of military supplies to Israel during the war to redress the imbalance brought about by an ongoing shipment of Soviet military equipment to Syria and Egypt and by heavy Israeli combat losses. After some two weeks of hostilities a cease-fire/negotiations formula was developed (by Soviet Party Secretary Leonid Brezhnev and Secretary of State Henry Kissinger during the latter's visit to Moscow) and was later adopted by the United Nations Security Council as Resolution 338. After the breakdown of the initial cease-fire and its subsequent restoration, and after a worldwide precautionary alert of United States troops on October 25 (partly in response to a reported alert of Soviet airborne troops), post-October War United States diplomacy emerged. Kissinger foreshadowed his future efforts in a statement on October 25, 1973:

The United States is prepared to make a major effort to help speed a political solution which is just to all sides. The United States recognizes that the conditions that produced the war on October 6 cannot be permitted to continue \* \* \*

This signaled the intensification of American efforts to achieve an accommodation. Over the next two years, United States involvement in the Middle East increased, and the region assumed a high priority status in Nixon Administration foreign policy.

Kissinger based his postwar efforts on the fact that only the United States could talk to both sides in the conflict, on the fact that there had been "no victory" or a "double victory," and on the "interim settlement" concept. Neither Israel nor the Arabs could claim a decisive military victory although each side subsequently claimed it had "won the war."

After the Security Council mandated cease-fire became effective on October 24, 1973, Kissinger concentrated on pragmatic first steps on the road to peace—the stabilization of the cease-fire and the disengagement of hostile forces. Initially, he focused on Egypt because of her important position in the Arab world and because of the unstable postwar military situation resulting from the unusual post-hostilities troop deployments along the Suez Canal.

It was also believed that some form of accommodation might be developed more easily with Egyptian President Anwar Sadat than with the more mercurial and unpredictable Syrian President Hafez Assad. Israeli and Egyptian officers met at Kilometer 101 on the Cairo-Suez road on October 28, 1973, and agreed to permit relief for the encircled Egyptian Third Army. Subsequently, and with Kissinger's aid, Egypt and Israel concluded a six-point agreement to implement resolution 338 and to stabilize the cease-fire, which was signed on November 11, 1973. Most of the provisions were subsequently implemented, but the question of disengagement and the separation of forces continued.

A Geneva Conference to discuss the Arab-Israeli conflict was convened on December 21, 1973, under United States and Soviet co-chairmanship and was followed by negotiations on disengagement that continued into January 1974, with little success. Kissinger inaugurated an Egypt-Israel shuttle that culminated in an agreement, announced on January 17, 1974, providing for the disengagement and the separation of military forces. Additional assurances

<sup>1</sup> Department of State Press Release No. 390, October 25, 1973, page 11.

and understandings made to and by Kissinger remained secret. The disengagement agreement prepared the way for a similar arrangement between Israel and Syria. The Syria-Israel disengagement of May 1974 further enhanced the United States position in the region and the prestige of Kissinger and, by extension, Nixon. The agreement produced a euphoric public mood; the United States clearly regarded Kissinger's efforts as central to the settlement process. The parties seemed to concur in this view.

The agreement between Israel and Syria marked the end of the first phase of United States postwar diplomacy and indicated some of the changing parameters of this policy. To cap this first phase, reinforce its accomplishments, and reap the public relations benefits to be derived therefrom, Richard Nixon visited Egypt, Saudi Arabia, Syria, Israel and Jordan in June. In a series of communiqués, agreements and statements, the United States clarified its continuing commitment to peace in the region and closer cooperation with the Arab states. Diplomatic relations were restored with Syria; pledges of improved cooperation and the establishment of Joint Commissions between the United States and Egypt, Jordan and Saudi Arabia suggested that practical elements would support the statement of principle. At the same time the United States sought to reassure Israel.

The disengagement agreements reduced the threat of war in part by restructuring the complex pattern of troop deployments and providing for United Nations Emergency Force (UNEF) and United Nations Disengagement Observer Force (UNDOF) buffer units between the respective parties; it also provided the basis for further efforts. But these were limited agreements dealing with pressing military problems and did not involve political concerns central to the positions of the parties.

The second stage proved more difficult. United States efforts to develop second-phase agreements began in the summer of 1974 with consultations in Washington, but these discussions, overshadowed by the Nixon-Brezhnev summit meeting, the Cyprus crisis and Nixon's resignation, did not point clearly in the direction of an agreement. Kissinger visited the region in October; but his efforts were soon clouded by developments at the Arab summit meeting in Rabat, and later at the United Nations. He returned to the Middle East in November to reassess his step-by-step diplomacy in light of the Rabat decision to recognize the Palestine Liberation Organization (PLO) as the sole legitimate representative of the Palestine people. Kissinger's visit averted the collapse of his effort to achieve step-by-step agreements, but the regional and extra-regional events relating to the Rabat (Palestine) summit had complicated the situation. Nonetheless, the Egyptian-Israeli focus for discussions was reaffirmed, and further diplomatic probing focused on the next step in that sector.

Kissinger visited the Middle East again in early February 1975 on "an exploratory trip" to determine the possibilities for an agreement; he was apparently sufficiently buoyed by his discussions to return in March. Kissinger subsequently made a number of trips between Egypt and Israel, with brief stops elsewhere. Egypt sought extensive Israeli territorial withdrawals while Israel sought substantial Egyptian political concessions. Although there were areas

of agreement, the differences proved irreconcilable. The failure of the Kissinger shuttle ended a euphoric post-October War period in which two important, but primarily technical (and critically apolitical) agreements had been reached.

The diplomatic failure led to a brief flirtation with the concept of utilizing the Geneva Conference to work for an overall settlement, but this was soon discarded in favor of a renewed effort to achieve another interim Egyptian-Israeli agreement as a next step. Within a short time each of the central actors (the United States, Israel and Egypt) appeared ready to revive the Kissinger effort and to revert to a step-by-step approach. The United States viewed the March failure as only a setback and regarded the step-by-step process as suspended rather than terminated. President Ford ordered a "reassessment" of United States policy to determine appropriate "next steps" in light of the disarray of the international environment, including the Communist victory in Cambodia and Vietnam. The reassessment also served to pressure Israel to move closer to Egypt, thus allowing a United States effort to bridge the gap. This objective was officially denied, but indirect and private comments by senior United States officials blamed Israel for not being sufficiently accommodating. United States diplomatic "signals" to Israel, including arms supply slowdowns and diplomatic coolness, reinforced this view. Following a cooling-off period, the United States reinstated the step-by-step process and engaged in a "reversed shuttle," in which the parties sent their views, and sometimes their representatives, to Kissinger in Washington for consultations.

The process of achieving an agreement took a substantial step forward with the June 1975 meetings of Ford with Sadat in Europe and, later, with Israeli Prime Minister Rabin in Washington. Another Kissinger shuttle followed in August and, finally, a complex of agreements was initialed on September 1, in Jerusalem and Alexandria and was signed in Geneva on September 4, 1975.

The Sinai II agreements of September 1975 provided for Israeli withdrawal from territory in Sinai (including the passes and oilfields) in exchange for Egyptian political concessions and pledges of United States support. Israel and Egypt agreed to observe the ceasefire on land, sea, and in the air, and to refrain from the threat or use of force or military blockade; they established a new buffer zone and agreed to extend the mandate of the United Nations Emergency Force (UNEF) annually. They also agreed to continue negotiations for a final peace agreement and Egypt promised that nonmilitary cargoes for or from Israel would be permitted to use the Suez Canal. An annex spelled out some details for the implementation of the agreement. There was also an American proposal providing for an early warning system in which up to 200 American volunteer civilians would participate and would report to both Israel and Egypt.

In addition to the formal agreement released by the United States Department of State, other agreements were subsequently made public by the United States Senate Committee on Foreign

Relations.<sup>2</sup> These incorporated United States assurances to Israel and to Egypt on various matters, including military and economic assistance, coordination between the United States and Israel on the reconvening of the Geneva Peace Conference, United States assurances of oil for Israel,<sup>3</sup> and a United States pledge not to deal with the PLO so long as it did not recognize Israel's right to exist and accept United Nations Resolutions 242 and 338.<sup>4</sup>

Sinai II was an American accomplishment. It enhanced the prestige of Ford and Kissinger and demonstrated tenacity and negotiating skill. It resulted from the extensive and intensive American involvement—the shuttles, the proposals, the pledges and the commitments—for which the parties were not prepared to allow any other power or instrumentality to serve as substitute. Although substantial and complex issues remained, for the first time Israel and Egypt went beyond the previous cease-fire or armistice agreements—military in nature and content—and reached accord on matters with political and psychological overtones which moved them in the direction of an overall settlement. The direct, formal, and essentially irreversible United States involvement, foreshadowed by its policies in the post-June and post-October war periods, marked the inauguration of a new phase of policy in the Arab-Israeli zone.

The 1975 agreements did not achieve an Arab-Israeli peace; instead they established a period of relative tranquility and stability from which new efforts toward peace could be initiated. In this quest for peace in the Middle East, the United States remained the central and indispensable power. As the major diplomatic actor in the search for peace, as Israel's primary military and economic provisioner, and as an emerging provider of assistance to Egypt (in addition to Jordan and Saudi Arabia), the United States remained

<sup>2</sup> For the full texts see U.S. Senate, Committee on Foreign Relations. *Hearings on Memoranda of Agreements Between the Governments of Israel and the United States, October 6 and 7, 1975* (Washington, 1975), pages 249–253.

<sup>3</sup> The text provided: "Israel will make its own independent arrangements for oil supply to meet its requirements through normal procedures. In the event Israel is unable to secure its needs in this way, the United States Government, upon notification of this fact by the Government of Israel, will act as follows for five years, at the end of which period either side can terminate this arrangement on one-year's notice. (a) If the oil Israel needs to meet all its normal requirements for domestic consumption is unavailable for purchase in circumstances where no quantitative restrictions exist on the ability of the United States to procure oil to meet its normal requirements, the United States Government will promptly make oil available for purchase by Israel to meet all of the aforementioned normal requirements of Israel. If Israel is unable to secure the necessary means to transport such oil to Israel, the United States Government will make every effort to help Israel secure the necessary means of transport. (b) If the oil Israel needs to meet all of its normal requirements for domestic consumption is unavailable for purchase in circumstances where quantitative restrictions through embargo or otherwise also prevent the United States from procuring oil to meet its normal requirements, the United States Government will promptly make oil available for purchase by Israel in accordance with the International Energy Agency conservation and allocation formula as applied by the United States Government, in order to meet Israel's essential requirements. If Israel is unable to secure the necessary means to transport such oil to Israel, the United States Government will make every effort to help Israel secure the necessary means of transport. Israel and United States experts will meet annually or more frequently at the request of either party, to review Israel's continuing oil requirement."—*Ibid.*, pages 249–250.

<sup>4</sup> The text provided: "The United States will continue to adhere to its present policy with respect to the Palestine Liberation Organization, whereby it will not recognize or negotiate with the Palestine Liberation Organization so long as the Palestine Liberation Organization does not recognize Israel's right to exist and does not accept Security Council Resolutions 242 and 338. The United States Government will consult fully and seek to concert its position and strategy at the Geneva Peace Conference on the issue with the Government of Israel. Similarly, the United States will consult fully and seek to concert its position and strategy with Israel with regard to the participation of any other additional states. It is understood that the participation at a subsequent phase of the Conference of any possible additional state, group or organization will require the agreement of all the initial participants."—*Ibid.*, page 252.

the focal point of regional attention. There seemed to be recognition, shared by all major actors, that without the United States there could be no significant movement toward a settlement.

Despite the significance of Sinai II and the enhanced position and prestige of the United States, the agreements were not soon followed by any further movement of note. This was due, in part, to the disarray within the Arab world (symbolized most notably by the civil war in Lebanon), the forthcoming parliamentary elections in Israel, and the quadrennial United States Presidential elections. A new initiative would have to await the results of the latter and the organization of the new administration.

#### CARTER ADMINISTRATION

The Carter administration, as those which preceded it, adopted as its primary objective in the Middle East the termination of the Arab-Israeli conflict.

The Administration's analysis of its policy and role in the Middle East, of the process of negotiation, and of the substance of an Arab-Israeli settlement evolved pragmatically in statements and "signals" in the course of the first nine months of 1977. Underlying Carter's approach to peace was the view that the time had never been more propitious to work for a settlement (because of Israel's confident military strength, the moderation of Arab leaders, the receding civil war in Lebanon, and the willingness of all parties to participate in a new round of Geneva talks), and that to lose this opportunity could be disastrous for the region and for the international political and economic order. A just and lasting settlement—a genuine peace—was seen as essential for a peaceful world and for the United States. Vice President Walter Mondale noted that "conflict there carries the threat of a global confrontation and runs the risk of nuclear war."<sup>5</sup> It could also have profound economic consequences. The United States has a major stake in establishing a lasting peace, which would not only prevent the possible dangerous consequences of war, but would also help to maintain American influence vis-à-vis the Soviet Union in the area. Short of war, the conflict tends to encourage instability and radicalization in the region.

American interests and the need for peace provide a substantial rationale for United States involvement. But the United States role has also been assumed because of its special relationship with Israel and its rapidly developing links with the Arab states. As Mondale said: "It is precisely because of our close ties with both Israel and her Arab neighbors that we are uniquely placed to promote the search for peace, to work for an improved understanding of each side's legitimate concerns, and to help them work out what we hope will be a basis for negotiation leading to a final peace in the Middle East."<sup>6</sup>

The Administration believed that a new approach was called for although the goals remained constant. At its base was United Nations Security Council Resolution 242 but this was not deemed sufficient and it was decided to work with the parties to develop an

<sup>5</sup> Speech by Vice President Mondale, San Francisco, June 17, 1977.

<sup>6</sup> *Ibid.*

overall framework for an enduring peace. This approach was to replace Kissinger's step-by-step process of limited accords utilized in the Nixon and Ford Administrations.

From the outset there was a realization that a Middle East settlement would come only at the end of a long and complicated negotiating process, with the first critical steps to be taken in 1977. Reconvening the Geneva conference, which had first met in December 1973, seems an appropriate mechanism and this became the primary objective. The United States sought to bring about negotiations between the parties and to establish a set of principles (rather than details) that might serve as a basis for a settlement. Carter described this role as a catalyst to bring about successful negotiations between the parties. Direct negotiations were obviously necessary, for as Mondale noted: "We cannot conceive of genuine peace existing between countries who will not talk to one another. If they are preparing for peace, the first proof is a willingness to negotiate their differences."<sup>7</sup>

Soon after his inauguration President Carter began to evolve a "plan" which provided for approaches to the three central elements of the problem as identified by the United States: the definition and assurance permanent peace, territory and borders, and the Palestinian issue.<sup>8</sup> Carter defined peace as "a termination of belligerence toward Israel by her neighbors, a recognition of Israel's right to exist, the right to exist in peace, the opening up of borders with free trade, tourist travel, cultural exchange between Israel and her neighbors \* \* \*."<sup>9</sup>

The second central element was that of territory and borders. The crucial problem was to provide borders that are secure and acceptable to all the parties and would be permanent and recognized. Precise lines were not identified, but the principles involved were clear. There would be substantial Israeli withdrawals from the occupied territories and minor adjustments in the pre-1967 lines. The final lines would have to be negotiated and agreed between Israel and the Arabs.

The Palestinian element emerged as the most controversial. Under Carter, the political facets (rather than the refugee-humanitarian or the terrorist components) became dominant. His earliest views were that the legitimate interests of the Palestinian people had to be incorporated in a settlement (this was later changed to the legitimate rights of the Palestinian people). Carter believed that there should be a Palestinian homeland or entity, whose political status would have to be negotiated. The United States preference was that such an entity be linked with Jordan. To achieve a settlement Carter believed the Palestinians had to have a stake in peace and would have to be involved in the negotiating process. They would have to be represented at Geneva.<sup>10</sup>

A logical consequence of the Carter perspective was that the United States could not seek to impose a settlement, a position

<sup>7</sup> *Ibid.*

<sup>8</sup> For further elaboration of the elements in the Carter framework for a Middle East settlement see Bernard Reich, "The Continued Quest for Peace: The United States and the Middle East," in Colin Legum and Haim Shaked, Editors, *Middle East Contemporary Survey*, Volume One, 1976-77 (New York and London: Holmes and Meier, 1978), pages 21-31, especially pages 22-25.

<sup>9</sup> Carter press conference, March 9, 1977.

<sup>10</sup> See, for example, the Department of State statement of September 12, 1977.

reiterated many times. However, it viewed the problem as both sufficiently important and intractable for Washington to be more than just the agent bringing the parties together. As a result, American views and suggestions became part of the process whose purpose was described as one designed to stimulate fresh thoughts.

Although the Administration insisted that it had no intention of imposing a settlement, it began to formulate its attitudes on key issues and to suggest that their adoption would facilitate the process, and to think in terms of "persuasion" as a policy tool. In an interview in May 1977 Carter foreshadowed future activity when he noted: "I would not hesitate if I saw clearly a fair and equitable solution to use the full strength of our own country and its persuasive powers to bring those nations to agreement. I recognize, though, that we cannot impose our will on others, and unless the countries involved agree, there is no way for us to make progress."<sup>11</sup>

In support of its views the administration began to take action soon after its inauguration. In mid-February 1977, Secretary of State Cyrus Vance travelled to six Middle Eastern countries (Israel, Egypt, Lebanon, Jordan, Syria and Saudi Arabia) to lay the groundwork for a new attempt at a settlement and the White House emphasized the importance of making progress toward peace in the Middle East. At the conclusion of his tour, Vance noted that Arabs and Israelis remained deeply divided on how to reach a settlement, and that he did not want to underestimate the complexity and difficulty of the situation. As part of the process of establishing a wider area of understanding, a second round of exploratory conversations between Carter and Middle East leaders (including Rabin, Sadat, Hussein, Assad, Fahd, and Begin) began in March, was slowed by the Israeli elections in May, but continued until the middle of July.

American diplomacy moved to a new level in August 1977 when the Secretary of State set off on a second Middle East trip (on which he visited Egypt, Lebanon, Syria, Jordan, Saudi Arabia and Israel) to try to narrow the differences between the parties and move closer to the necessary framework for convening a Geneva conference. While the parties remained far apart, they agreed that their foreign ministers would meet with Carter and Vance in September at the time of the United Nations General Assembly and the United States agreed to continue its efforts to bring about fruitful negotiations.

Although it did not meet with the PLO directly, the United States tried through third parties to get it to declare its support for United Nations Resolutions 242 and 338 and to recognize Israel's right to exist. But these efforts yielded no results. This effort was in conformity with the Sinai II pledge to Israel by the United States. United States consultations in September focused on the issue of Palestinian representation as a major obstacle to a Geneva meeting. In a shift of position, Israel's Cabinet formally agreed on September 25 to a United States formula that Palestinian repre-

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<sup>11</sup> *Department of State Bulletin*, May 30, 1977, page 547.

sentatives constitute part of a unified Arab delegation at the opening session of a reconvened Geneva conference.<sup>12</sup>

At this stage the administration found it useful to reinvolve the Soviet Union (as co-chairman of the Geneva conference) in the process. Beginning with the post-October War Kissinger shuttles, the Soviet Union, except for its brief appearance as co-chairman of the December 1973 Geneva Conference, had been systematically excluded from actual participation in the effort to achieve an Arab-Israeli settlement. Although it was occasionally given the semblance of a role by Kissinger during his meetings with Soviet Foreign Minister Gromyko its status could best be described as informed but not involved.

After some negotiation, a joint United States-Soviet statement was issued on October 1, 1977 which caused a considerable furor among supporters of Israel (and Egypt) and anti-Soviet elements in the United States, although the Administration claimed a number of substantial concessions from the Soviet Union, because it brought the Soviet Union back to the forefront of the peace process. Particular importance was attached to Moscow's endorsement of "normal peace relations" which a White House spokesman interpreted as including open borders and full trade and diplomatic ties between Israel and the Arab states. Although the statement stopped short of calling for formal peace treaties (which had been urged by the United States and Israel), Washington's view was that the reference to "legal and contractual formalization" of any Geneva agreement would amount to the same thing.

In the statement the United States spoke for the first time of the need to satisfy the "legitimate rights of the Palestinian people." No mention was made of Resolutions 242 and 338 because of the Soviet Union's refusal to refer to them in the joint statement; but Washington explained that the two resolutions still remained the cornerstone of the American approach to a settlement. Both Israel and Egypt were dismayed. Israel and its supporters focused their concern on three factors: the increased involvement of the Soviet Union in the process of securing a settlement; the reference to "the legitimate rights of the Palestinian people"; and the absence of any reference to Resolutions 242 and 338.

The Carter Administration found it necessary to defend itself against criticism that it was moving towards accepting the idea of a separate Palestine state; that it seemed to be leaning toward an imposed solution; and that it was encouraging the impression that it might recognize the PLO—positions all opposed by Israel.

Carter had clearly not anticipated the extent and strength of the adverse reactions, and quickly set about rectifying the situation through a multifaceted approach which centered on the decision to abandon the communique and restore the previous Soviet status of non-involvement. Meetings were arranged with Israeli and other critics, and public statements were issued to help reassure Israel that the administration's basic position remained unchanged. In a

<sup>12</sup> In explaining Israel's view Foreign Minister Moshe Dayan noted that Palestinians could participate in the unified Arab mission provided they were part of the Jordanian delegation and not known members of the PLO. No negotiations would take place with this unified Arab delegation. After the opening ceremonial session, the Arab grouping would split up into units representing the various Arab states (Egypt, Syria, Jordan, and possibly Lebanon) for negotiations. There would also be no change in Resolution 242.

speech to the United Nations General Assembly on October 4, Carter reiterated the need for a "true peace" based on United Nations Resolutions 242 and 338. He affirmed that Israel must have "borders that are recognized and secure" and that "the commitment of the U.S. to Israel's security is unquestionable." He also made clear that: "We do not intend to impose from the outside a settlement on the nations of the Middle East." While seeking to reassure Israel, Carter at the same time insisted that "for the Arabs, the legitimate rights of the Palestinians must be recognized."

Although substantive issues remained, the immediate crisis in United States-Israel relations was defused at a series of meetings between Carter, Vance, and Dayan, which produced a working paper that sought to clear the procedural obstacles on the path to Geneva. The Israeli Cabinet unanimously approved the working paper and the remaining task was to secure the support of the Arab states.

The issuance of the United States-Soviet Union joint communique, the devising of the United States-Israel working paper, and the strong negative Arab (and especially Egyptian) reaction to these developments provided the context for Egyptian President Sadat's announcement that he was prepared to "go to the Israeli Parliament itself" to discuss that possibilities of Geneva. Israel responded with an invitation extended through the American Ambassador and the historic visit was arranged.

To a significant degree the Sadat decision to go to Jerusalem was a reaction to the direction and content of United States policy. Since the October War Sadat had relied upon the United States to help achieve what had not been accomplished by war. The failure of the war option and of Soviet support to secure the withdrawal of Israel from occupied Arab territory (and other goals) led to the conclusion that reliance on the United States would be more beneficial. But the decision to bring the Soviet Union back into the forefront of the process, the continued focus on Geneva (with a Soviet co-chairman role), and the October United States-Israel working paper surely must have raised serious questions concerning the Sadat approach of reliance on the United States. By opting for the Jerusalem visit, Sadat was able to put the process back on the track toward achieving the withdrawal of Israeli forces from occupied Arab territory and the rights of the Palestinians.

The Sadat initiative took United States policy makers by surprise and it took some time for the United States to evaluate the situation and to determine an appropriate response. There was concern about the impact of this initiative on the prospects for a comprehensive settlement (seen as the primary goal) and about the backlash against Sadat in the Arab world. The United States had no real choice but to support the Sadat initiative despite its concerns, especially those relating to the value of a bilateral versus a multilateral agreement.

The Sadat visit set in motion a new process and was followed by additional direct discussions between Israel and Egypt at the Cairo Conference and the Ismailia Summit of December 1977. But, the failure of the Summit to produce a statement of principles thrust the United States once again into the role of ensuring the continu-

ation of the process. Over the ensuing months the United States remained the focal point of activity because both parties perceived its position to be central. Both Egypt and Israel sought to enlist United States efforts to ensure the continuation of the negotiations process and to achieve American support for their respective positions. Not only did they court the American president and his executive branch subordinates but also American public opinion and the Congress.

In the Spring of 1978 the Carter administration announced its intention to sell military aircraft to Egypt and to Saudi Arabia as well as to Israel. The "package deal" was the subject of substantial debate in the Congress and beyond and aroused a good deal of emotion and controversy. Ultimately the administration's intention became the policy of the United States as the Congress was unable to approve resolutions to prevent the sales. But during the debate they took on a significance far beyond the financial or military value of the aircraft themselves as a symbol of United States support for the moderate Arab states (particularly for Sadat's initiative) and for closer relations with Saudi Arabia which was seen as an important factor in the Sadat initiative, in the maintenance of the price and flow of oil, and in terms of vast petrodollar reserves. The sales were viewed as a sign of Carter's evenhandedness. At the same time that moderate Arab leaders were receiving United States support, the Administration sought to reassure Israel that this decision would not adversely affect its security.

By the summer of 1978 it was possible for the United States to get the process moving once again. There was a meeting with the two parties in England, in July, and in August Vance visited the region and extended invitations to Begin and Sadat to meet with Carter in September in the United States. Both accepted.

Carter's decision to convene the summit at Camp David marked the onset of direct and substantial Presidential involvement in the Arab-Israeli peace process. It was a gamble which he justified by the significance of the problem. Carter feared the failure of the Sadat initiative and a resultant danger of war which might escalate to levels which would dangerously affect all powers. The decision put the United States, and especially the President, at the center of the process and it set a precedent for later involvement and action, which was further utilized in March 1979 when Carter visited Egypt and Israel to achieve agreement on the terms of the treaty following the failure of previous negotiations at various lower levels.

The summit sessions were held with tight secrecy and little precise information was available to those outside the summit compound concerning activities and accomplishments. Many observers who had been skeptical prior to the convening of the meetings saw the secrecy and the length of the meetings as indicators of a lack of agreement among the participants. As the meetings approached the final closing date it seemed that there had been little or no real progress. Then, on the final day, there was a dramatic change. The three principals appeared in a joint public session at the White House on September 17 to announce the conclusion of two agreements and to sign them amidst much positive sentiment and statements.

The three principals signed two documents—"A Framework for Peace in the Middle East Agreed at Camp David" and a "Framework for the Conclusion of a Peace Treaty Between Egypt and Israel." Taken together they provided the basis for continued negotiations leading to agreements between Israel and its neighbors. They were clearly the result of a substantial and sustained United States effort, and particularly the direct and personal involvement of the President. They created the frameworks essential for the continued process of peace in the region.

The Camp David Summit shifted the focal point of the Middle Eastern peace efforts from the Sadat initiative of November 1977 to the Carter initiative of 1978. Carter's success in mediating at Camp David, in achieving the two accords (and a series of letters which clarified the participant's positions) and in setting the stage for further negotiations, were signal achievements for the President and turned him into the central figure in a way reminiscent of the early Kissinger shuttle efforts. The effort helped to alter relations between Israel and Egypt (and ultimately between Israel and the Arab states.) It also further expanded the United States commitment in the region. There was an implicit (and in some areas explicit) commitment to assist the process and to provide some of the financial and technical assistance essential to a final accord. The role played by the United States at Camp David enhanced its status because Sadat (if not other Arabs) perceived this involvement as reflecting an increasing middle position for the United States between that of Israel and the Arabs.

In the immediate aftermath of Camp David the United States attempted to secure support for the agreements and for Sadat's position in the Arab world. The critical states were Jordan and Saudi Arabia and it was to them (and others) that Vance travelled after the accords were signed, but he was unable to secure their support for the Camp David framework.

To a substantial degree the Camp David summit and the Blair House-Madison Hotel talks which followed not only marked an important new phase in the effort to achieve a settlement and in the United States role in so doing, but also signalled a change in the direction and the content of a settlement. Under Henry Kissinger the United States effort was essentially a step-by-step process which was halted, in part, by the problems associated with the war in Lebanon. The Carter administration began with a comprehensive approach and focused on Geneva as a mechanism. The failure of that effort and the problematic United States-Soviet joint communique of October 1, 1977, led to the Sadat initiative which raised doubts about Geneva, the comprehensive effort, and the United States role. Sadat, among other things, sought to exclude the Soviet Union and, in so doing made Geneva and a comprehensive approach more difficult. The Carter administration then shifted to a less comprehensive approach—in effect support of the Sadat initiative and of direct Egypt-Israel discussions which could lead to a separate Egypt-Israel agreement—although it saw this as a first effort which might facilitate an eventual overall and comprehensive settlement.

The emergence of the United States as the central and indispensable power in the effort to achieve an Arab-Israeli settlement and

as the primary power in the foreign relations of both Israel and Egypt was a major result of the October War. It was reconfirmed and enhanced by the Camp David and Blair House efforts and by Carter's visit to the region in March 1979. A formal peace treaty between Egypt and Israel was signed later that month.

### MAIN DIMENSIONS OF U.S. MIDDLE EAST POLICY

The preceding survey of the evolution of the United States Middle East policy provides the basis for a more detailed discussion of the main elements of that policy as it has developed since the October War.

Since the 1973 conflict the United States has become the most significant of the external powers active in the region and, in some respects, the only power with any substantial ability to influence the course of events. In addition it has clearly become the most important power for both Israel and Egypt and is not rivalled in its relationship with these states by any other. Sadat (and other Arab leaders) clearly sees the United States as the only power with the ability to influence (or force) Israel to disgorge the territory occupied in the 1967 war and to make other concessions sought by the Arab states. He also expects American technical and economic assistance and investment to help to provide for the economic and social progress of Egypt over the next decade and beyond.

There is also an Egyptian view of the United States as a provider of military equipment. Although for some aspects of his ambitious plans Sadat sees a role for other powers (Europe for technical aid and the Gulf states for financial aid), he appears to believe that the United States is indispensable for the process to succeed.

For Israel the United States is not only central in the quest for peace but also for political, economic, moral and military support. Also, since 1973 the problems of the region, particularly the dangers of the Arab-Israeli conflict, the increased importance of the region's oil, and the increased wealth of the regional states, have assumed significant dimensions in United States policy to the point where a substantial portion of United States effort and prestige, at the highest levels, has been devoted to the region.

#### *The Soviet Role*

Since the early post-World War II days the United States has been concerned about the Soviet role in the Middle East. United States policy has sought to prevent Soviet domination and avoid confrontation or conflict. At different times each objective has taken precedence although they are clearly interrelated. The avoidance of conflict has been the more significant factor and it was in this connection that the United States-Soviet hotline was first activated during the June War. In the spring and summer of 1970 when the Soviet involvement in Egypt led to direct clashes between Soviet and Israeli pilots, Henry Kissinger commented that the Soviets had to be expelled from Egypt. The United States cease-fire initiative of June 1970 resulted in part from this concern. In October 1973 Soviet actions helped precipitate a world-wide alert of United States forces.

However, the United States has recognized that it is impossible to "expel" the Soviet Union from the region. In the Kissinger shuttle efforts the United States sought to prevent the U.S.S.R. from upsetting the process while giving Moscow a semblance of participation as a face-saving device. In the aftermath of Sinai II the official United States position noted the need to involve the Soviet Union in future efforts to achieve a settlement, although the full extent of that participation was not articulated.

The exclusion of the Soviet Union from an active role was a hallmark of the period from January 1974 to January 1977. Kissinger pursued something of a dual-level approach to the Soviet role. Privately he often expressed his opposition to a Soviet role and thought of Soviet expulsion from the region. In public he was more judicious. He sought to allow for some appearance of consultation with Soviet Foreign Minister Gromyko, noted that an overall settlement would require Soviet participation, and sought to reassure the Soviet Union on a future role.

The Carter administration's position concerning a Soviet role was less certain. During the initial months of the administration Carter followed an approach in which the Soviet Union continued to be absent from the process although the operational goal of United States policy was to reconvene the 1973 Geneva Conference at which the Soviet Union would serve as co-chairman.

Then in the late summer of 1977 efforts to involve the Soviet Union began anew and bore fruit in the October 1, 1977, communique which brought the Soviet Union to the forefront of the process. However, the reaction to that communique, and particularly the Sadat decision to go to Jerusalem and all that followed, set in motion a process which again precluded a Soviet role.

Despite United States verbal assurances about the need to return to Geneva and the goal of a comprehensive settlement (which would require some Soviet role), the process effectively excluded Soviet participation. In the Camp David documents an effort again was made to reassure the Soviet Union but over the succeeding months its role was limited and there seemed little likelihood of substantial involvement. It played no role in achieving the Egypt-Israel Peace Treaty of March 1979.

Throughout much of the process following Camp David the Soviet Union tried to undermine the effort, through championing the radical Arab position, including that of the PLO, and to prevent the consummation of the Egypt-Israel peace treaty. Soviet antipathy to President Sadat was an obvious element in its position.

### *The United States-Israel Special Relationship*

The special relationship between the United States and Israel has grown closer over the years since the independence of Israel and reached significant new levels of political, economic, and military cooperation in the period between the June and October Wars, despite occasional lapses and periods of coolness. At the heart of this special relationship is the United States support for the existence and security of Israel which appears beyond debate (although there is some controversy over the extent of United States support and the exclusivity of the relationship).

The American interest in and commitment to the survival and security of Israel and termination of the Arab-Israeli conflict is deeply rooted in history and has been reaffirmed by every United States administration since that of President Truman. A multitude of factors underlie this interest although the "ideological" factor appears to be salient. Israel is seen as a democratic and progressive state, Western in nature and a perpetuator of the Judeo-Christian heritage. There is a similarity of national experience as well as a religious factor (some perceive Israel as fulfilling biblical prophecy). The overriding factor is the combination of these and other elements in what can be termed the "like-image" nature of Israel. There is an interest in maintaining a like-image, democratic and progressive state—a reliable ally which acts as a bulwark against Soviet penetration and domination and Arab radical expansion in the Middle East. A strong pro-Israel constituency in the United States also mobilizes much support for this perspective.

The relationship between the two states has been important since the independence of Israel but has been more crucial since the 1967 and especially 1973 wars. Israel has sought and still seeks United States efforts to deter direct Soviet military involvement in the Middle East, to prevent imposition of an anti-Israeli settlement of the Arab-Israeli dispute, to ensure the military balance by making available essential military equipment, to provide economic aid, and to provide general moral, political and diplomatic support.

Influencing Israel's judgment on the importance of the United States has been its regional isolation—the fact that it is surrounded on all land frontiers by hostile states—which has been compounded by the "neutrality" and increasing hostility of large segments of the international community and its major institutions (such as the United Nations). Israel's dependence on the United States results partially from the fact that after the October War the United States became Israel's principal (and virtually sole) supplier of sophisticated military equipment and the source of substantial economic assistance.

The increase in Israel's dependence on the United States and the potential divergence on specifics of the Arab-Israeli conflict raises the question of United States pressure on Israel to effect changes in its position. In the past the United States has employed various forms of pressure—including the withholding of economic aid in the mid-1950's, military aid decision and delivery slowdowns since 1967, joining in the United Nations censures, moral suasion, private and open presidential letters and related devices.

Undergirding the relationship is a general agreement on broad policy goals. There is a policy consensus and a commonality of interest which focuses on the need to prevent war and to maintain Israel's existence and security. Despite this it should not be assumed that all in the relationship is positive nor that there is perfect policy congruence on all issues at all times. Israel has not enjoyed the unequivocal, unconditional, or unquestioning support of the United States. Noncongruence of policy and divergence of position has derived from a difference of perspective and overall policy environment.

After the June War there was a divergence on technique as well as discord on specific issues such as the appropriate form of re-

sponse to Arab terrorism, the value of great power efforts in the resolution of the conflict, required military supplies, and other questions. There were also clashes concerning the status of Jerusalem and the question of the occupied territories and Israeli settlements there.

In the wake of the October War the pattern was intensified. While the general elements of friendship and consensus on the major issues continued, disturbances and tensions in the United States-Israel relationship developed with regard to the details of a settlement. These areas of discord or dissonance have been apparent during the Carter administration and particularly since the May 1977 Israeli election which brought Prime Minister Menahem Begin to power.

Following the Begin election the several elements involved in the United States-Israel relationship became more vivid. The United States continued to believe strongly in the "security, strength, and well-being" of Israel as a significant feature of American policy. There was also a shared commitment to the goal of a solution to the Arab-Israeli conflict and the establishment of peace and normalization between Israel and its Arab neighbors. But, in the process the various elements of the terms of peace became the central issues of discussion and tension between the United States and Israel.

This was exacerbated in the view of the Carter administration by the election which brought Begin, with his perceived hard-line views, to power and which suggested the likelihood of clashes with the United States on such questions as settlements in the occupied territories, the status of Jerusalem, the extent of withdrawal from occupied territory, the role of the Palestinians and the PLO in the peace process and in a settlement, and similar, related matters. While some of these points would have been the subject of controversy with any Israeli government, the Begin government was viewed as a particularly troublesome element in the process. Over the months following Begin's accession to the Prime Ministership and in the context of the Sadat and Camp David initiatives when the details and specifics of a settlement became the major elements of discussion the tensions and clashes became more apparent and raised, in the minds of some, questions concerning the future of the relationship. But, in the final analysis the discord over specifics did not alter the overall nature of the links—the special relationship remained at the core of the United States policy.

### *Oil and United States-Arab Relations*

The centrality of the United States Middle East role and the special relationship with Israel were complemented in the post-October War period by a new multifaceted interdependence between the United States and some of the key Arab states. In addition to the traditional centrality of the Arab-Israeli conflict in the United States-Arab relationship, a new economic dimension—revolving around oil—emerged.

Oil is the major natural resource of the Middle East and a strategic interest of the United States. The area has more than half of the world's proven oil reserves and there is a potential for

further discoveries. During and immediately following World War II, Middle East oil was seen as strategically and politically important to the United States and this was one of the arguments advanced for determining policies involving the Palestine problem and Israel. This view receded into the background and much of the subsequent discussion revolved around the commercial interest in oil although it was recognized that the oil had a far greater value for United States allies in Western Europe and Japan.

There was thus, in the period prior to the 1973 war, an indirect United States political/strategic interest in Middle East oil resources although it was not significant for the United States itself, which imported virtually no oil from the region. By 1973, this began to change. There was an increased importance for United States allies but there was also a direct United States political/strategic interest as United States dependence on Middle East oil for its own use grew.

By 1973 the oil factor had begun to loom increasingly large and the October War provided the impetus that linked United States efforts on the Arab-Israeli problem with United States concerns regarding the availability and price of Persian Gulf/Arabian Peninsula oil for the United States and its allies.

An important element of the 1973 war and of the post-war environment was the employment of the Arab "oil weapon" which had a significant impact on Arab political fortunes and was substantially more successful than the comparable effort of 1967. The weapon itself was essentially an Arab plan to reduce production levels and to maintain supplies to friendly countries at previous levels. The reduction of oil production would continue until Israel withdrew from all occupied territories and the rights of the Palestinians were restored. The result would be that "non-friendly" states would suffer progressive losses of oil supplies.

The ostensible purpose was to force a change in United States policy. The United States (and Holland) were subjected to an embargo on oil shipments by most OAPEC states. The use of the oil weapon was accompanied by a substantial increase in the price of oil which further aggravated the situation.

After the 1973 war, oil became a significant component of United States political and strategic interests and calculations of policy. The oil of the Middle East and especially of the Arab world took on a new importance. It continued to have its traditional significance but this was now added to by increased United States needs. United States imports from the Middle East as a percentage of total imports grew from a relatively low level in 1973 to about half of United States oil imports and about one-quarter of United States consumption in 1978 and 1979.

The four-fold increase in the price of oil which accompanied the employment of the Arab oil weapon in 1973 generated a substantial flow of hard currency to the Persian Gulf/Arabian Peninsula region and a vast accumulation of petrodollars by the major oil producing states, which could be used for economic, social and political purposes at home and abroad on a scale previously impossible. The oil producing states became capital surplus nations capable of making substantial overseas investment, undertaking foreign assistance efforts, and becoming markets of an enormous scope for

commercial and military sales. The accumulation of wealth generated an American interest in ensuring the judicious use of these funds in programs for development and investment. The improper use of these substantial sums could adversely affect the United States dollar and the economic and political stability of several United States allies, especially in Europe. These funds also provided the base for trade relationships in that markets were available for United States goods and services and trade with the region became a larger element of the United States relationship. The availability of surplus oil revenues also created rising expectations concerning the prospects for modernization and development and this provided for an American role as the source of technology and other factors essential for modernization.

Additionally, after 1973 the major Arab oil-producing states became more important in the process of achieving an Arab-Israeli settlement. They played a role in the financial support of the main confrontation states and they were consulted regularly (especially Saudi Arabia) by the United States. This provided the linkage between the Arab-Israeli and Persian Gulf/Arabian sectors of the Middle East.

Changing perceptions have also played a role in the United States-Arab relationship. The Arabs have long viewed the United States as the external power whose participation in a solution to the Arab-Israeli conflict is essential because of its ability to "influence" Israel's policies. They have tended to ascribe to the United States influence vis-à-vis Israel probably far beyond that which it actually possesses.

After the October War, Israel was seen as politically, economically, and militarily weaker than before the conflict and, thus, more dependent on the United States. There is a tendency for the Arabs to recall the historical case of Israeli withdrawal from Sinai in 1957 at United States insistence and to note Israel's far greater dependence on the United States today. There is also the view that Arab ability to influence United States policy has increased due to its vast oil reserves, substantial production and high surpluses of petro-dollars. The utility and efficacy of oil as a political instrument was further realized by its employment during and immediately after the 1973 war.

The Arab governments were pleased with the limits placed by the United States on Israel at the time of the October War (i.e. the cease-fire, the resupply of the Third Army) and later by other signs of change in United States policy (such as the restoration of relations with Egypt and Syria, the conclusion of the disengagement accords, Nixon's visit to the region and various arrangements for closer economic and technical cooperation).

Prior to the October War (and particularly since the 1967 war) it was relatively commonplace to describe the Arab view of the United States in terms of "the friend of my enemy (i.e., Israel) is my enemy." Arab hostility to the United States was based primarily on the view that it was totally committed to the Israeli position. It was argued that the natural Arab warmth and friendship, as well as admiration, for America and Americans was diminished by United States support for Israel and by indifference to Arab problems and ignorance of Arab aspirations. Historical American asso-

ciation with philanthropy, education, support of self-determination and opposition to colonialism were overshadowed by American relationships with the "imperialist and aggressive" Israeli state. This generalized view<sup>13</sup> was further elaborated in the period after the June War by the Arab conviction that the United States had failed to persuade or force Israeli withdrawal from the occupied territories. The policy of the United States notwithstanding, the Arabs believed the United States was totally committed to the Israeli position. The Soviet Union's policy was to reinforce the Arab perception of the United States-Israel relationship and support Arab demands.

Following the October War a new Arab perception developed and with it came new expectations. The Arabs appeared to anticipate economic and technical ties and an improvement in the day-to-day relationship. United States-Israel ties were a stumbling block on the road to improvements in United States-Arab ties but realistic Arab leaders recognized that the United States will continue to support Israel. The goal must therefore be to limit the extent of United States support for Israel and thus achieve a resolution of the Arab-Israeli conflict on terms more acceptable to their viewpoint.

The linking of the Arab oil embargo of 1973-74 to changes in United States policy typifies this approach. When the embargo was lifted in the spring of 1974 it was done so on the grounds that the United States had adopted a more evenhanded position as evidenced by the Egyptian disengagement agreement of January 1974 and by the impending negotiations with Syria.

In the immediate aftermath of the October War the Arab perception of the greater vulnerability of Israel, the greater strength of the Arab world, and the susceptibility of the United States to pressures combined to bring the Persian Gulf-Arabian Peninsula sector to the forefront in the attention of United States policy-makers.<sup>14</sup>

Relations with Saudi Arabia attracted much of the attention and the changed and vastly increased Saudi role was indicative of this new factor. Although United States-Saudi Arabian relations had been friendly prior to the conflict, the post-October War period signalled a new importance in the relationship. Saudi Arabia's position as the premier oil producer and holder of the largest proven reserves made it indispensable to the Arab-imposed embargo on oil shipments to the United States and other friends of Israel and to the broader questions of oil supply and price. Its leadership role in the Arab world and its petrodollar wealth made its position critical. Thus, for example, if Saudi Arabia had opposed Sadat's policy of working with the United States, the process might well have been abandoned.

The United States has had a relationship with Saudi Arabia dating back to the 1930's when American companies began a long and fruitful involvement in the oil industry of the peninsula. The

<sup>13</sup> This is a generalized picture. It suffers from the fact that it co-opts all Arabs into a single grouping despite vast differences among them. The Arab world was and is divided into several groupings each of which sees different issues in different ways. Despite this the overall perspective was one of doubt concerning American policy and effort in the region.

<sup>14</sup> See, for example, the argument put forward in Department of State, *Current Policy: Persian Gulf-Arabian Peninsula* No. 2, June 1975.

relationship grew over the ensuing decades as the mutuality of the ties seemed to benefit both partners. The United States (in part through American private concerns) helped to develop the immense oil wealth of the country and to turn its proceeds into the funds necessary to promote a program of development and industrialization.

The United States has also been an important element in ensuring the security of Saudi Arabia through the use of political and military power. The Saudi oil has been of increasing importance to the United States as has been the wealth earned from this oil.

The relationship was considered a positive one from which each benefitted. But the 1973 war changed its nature. Saudi Arabia under King Faisal participated in the Arab resort to the oil weapon in 1973 (indeed its employment would have been virtually impossible without his cooperation) in an effort to produce a shift in United States policy concerning the Arab-Israeli conflict. This role followed a series of warnings to the United States (begun in the spring of 1973) which basically attempted to force a more "even-handed" approach for American policy by suggesting that a failure of the United States to correct its policy would make it difficult for the Saudis to produce oil at levels required by the United States.

Saudi Arabia has also achieved increased regional and international importance because of its major role in OAPEC and OPEC, whose capacity to set oil prices affect the economic and political stability of numerous states. The Saudis also held substantial investment portfolios which were sought after by the developed states of western Europe and the United States.

The change in relations with Saudi Arabia also reflect a broader United States policy. The Carter administration, somewhat paralleling the views of the Nixon and Ford administrations, believes that it must work with and support the moderate forces in the Arab world (such as Egypt and Saudi Arabia) to achieve a stable and peaceful Middle East. In this approach new emphases were developed. Prior to 1973 the key to the process was Jordan and the somewhat peripheral states of Morocco and Tunisia. Saudi Arabia was friendly but not regarded as a central state and relations with Egypt were cool (and severed after 1967). Since 1973 Egypt's significance has increased but Saudi Arabia's has bypassed that of the other Arab states.

#### *The Palestinian Factor*

Prior to the October War United States policy with respect to the Palestinians focused primarily on the humanitarian problem of the Palestinian refugees and on the question of Palestinian terrorism. The five principles of peace enunciated by President Johnson in June 1967 and United Nations Resolution 242 focused on "justice for the refugees" and gave no attention to a broader Palestinian political question. The Palestinian element which did elicit a specific response was that of terrorism. Of course, the United States called such acts and aircraft hijacking "illegal" and joined in their condemnation.

After the 1967 conflict there emerged a reinvigorated and different Palestine Liberation Organization (PLO), increasingly independent of the Arab states. This process continued after the Octo-

ber War and, at the Rabat Arab Summit (1974), the Arab states designated the PLO as the sole legitimate representative of the Palestinian people.

Despite this trend, the early post-war agreements were devoid of a Palestinian component. The Sinai I and II and Israel-Syria disengagement agreements dealt primarily with territorial issues, were state-oriented and avoided the Palestinian question. But the United States was clearly sympathetic to the plight of the refugees, it continued to oppose terrorism, and seemed to take the interests of the Palestinians into account. In the Sinai II arrangements there was also a memorandum of agreement in which Secretary of State Kissinger pledged that the United States will not recognize or negotiate with the PLO so long as the PLO "does not recognize Israel's right to exist and does not accept Security Council Resolutions 242 and 338."

But the Sinai II agreement was soon followed by the so-called Saunders Document of November 1975 suggesting that the Palestinian problem is at the heart of the Arab-Israel dispute.

Under the Carter administration the Palestinian factor (and a potential role for the PLO) assumed greater importance in the conflict resolution efforts. The terrorism issue began to recede into the background while the refugee dimension was broadened and a political element became more central. Carter's view was that the Palestinian component had to be part of a solution and that Palestinians must participate in the search for such a solution. The legitimate interests of the Palestinian people became an early slogan as did the concept of a homeland for the Palestinians.

That the Palestinians must be involved in the peacemaking-negotiating process was elaborated to mean that they had to be represented at the reconvened Geneva conference. This raised the question of their spokesman since the PLO had been designated by the Rabat summit as the sole legitimate representative.

Undergirding the initial Carter approach was the pledge of Sinai II and thus overtures to the PLO were made which sought their disavowal of their earlier effort to destroy Israel, their acceptance of United Nations Resolutions 242 and 338, and their recognition of Israel's right to exist.

Despite the overtures and the positive intentions of the administration, the PLO did not move in the direction of the suggestions made by Carter. Eventually, by the fall of 1977, the United States and Israel agreed to Palestinian participation in a unified Arab delegation at Geneva and the administration adopted the public stance that the PLO could not participate in the negotiating process under the terms of the Sinai II pledge to Israel. This removed the situation from the multilateral venue of Geneva and placed it in the bilateral arena where a PLO or Palestinian role was unnecessary. The Egypt-Israel Peace Treaty of March 1979 subsumed the issue in the autonomy talks framework constructed by the parties.

### *U.S. Centrality*

The post-October War United States role in the Middle East has developed new dimensions that coincided with important regional and international changes. The United States emerged as the cen-

tral extra-regional power increasingly concerned with the political and economic elements at work in the region.

The ultimate goal of American policy is to resolve the Arab-Israeli conflict for it continues to endanger other American interests. The United States also seeks to reduce the danger of confrontation with the Soviet Union and to prevent Soviet dominance in the region. There is also a concern with the continued flow of oil and there is a response to the increased economic/financial importance of the region. The United States continues to seek access to the improved markets of the region and wishes to ensure the judicious use of petrodollars both in investment in the United States and in Arab-European relations.

The increased centrality of the Middle East in United States thinking has led, in the aftermath of the October War, to a multifaceted and multidimensional United States relationship with the Middle East which has replaced the polarized exclusivity which characterized the United States-Israel relationship in the period between the June and October Wars. The Egypt-Israel Peace Treaty clearly illustrates that United States position.

#### THE EGYPT-ISRAEL TREATY, THE REVOLUTION IN IRAN, AND THE FUTURE OF U.S. POLICY

The Summit meeting at Camp David generated a framework for an Egypt-Israel treaty as a first step toward a comprehensive peace in the Middle East. The effort to convert the summit framework into a peace treaty over the months which followed was overshadowed by the revolution in Iran and its impact throughout the region, demonstrating the link between the Arab-Israeli problem and other American interests in the region.

Some states were concerned that the Islamic revolution spawned in Iran might infect their peoples while other regimes were more concerned by the resultant general instability, by the possible spread of the concept of revolution, and by the reduced role that Iran would play in the general stability and security of the Persian Gulf. This latter concern focused not only on the security of the Gulf per se but more significantly on the security of oil supply and the possibility that its flow might be interdicted.

For the United States the developments in the Gulf and in Iran had a number of elements which affected its interests. The United States was concerned about the level of oil production and the safety of supply, but, it was also concerned that the engendered fears might lead regional states to react in unanticipated ways to the general posture and policies of the United States.

The two issues came together with the Baghdad Arab Summit meeting of November 1978. It was at Baghdad that the Saudi Arabian government displayed some of the nervousness developed in the wake of developments in Iran. In an effort to improve its position in the Arab world Saudi Arabia joined with some of the more radical Arab states in supporting resolutions designed to convince Sadat not to proceed with the Camp David formula and continue the peace process.

Saudi Arabia and Jordan, which joined with it in supporting the resolutions at Baghdad, were important elements in the Camp

David formula developed by the United States. The Camp David approach assumed that Saudi Arabia and Jordan would eventually participate in the process and that, in the interim, they would not hinder Sadat's ability to move forward. These assumptions, questionable at the time, were further undermined by the Baghdad Summit.

The revolution in Iran affected not only Saudi Arabia and Jordan but also the parties more directly involved—i.e., Egypt and Israel. Both Israel and Egypt saw the revolution in Iran as having lessons for them and it generated additional caution in their bilateral negotiations. Egypt saw itself as increasingly isolated within the Arab world and forced to justify its Camp David position as one which, ultimately, would be to the advantage of all the Arab states and the Palestinians.

The insistence on clearer linkage between the two documents agreed to at Camp David and a more careful wording and interpretation of them and the Israel-Egypt draft treaty of November 1978 were obvious results of the Baghdad Summit and the Iranian Revolution.

In the United States-Israel relationship a number of factors soon became salient. The reduction in Iranian oil production and the decision of the new regime not to supply oil to Israel raised questions since Israel depended on Iran for between 40 and 60 percent of its oil supply. This situation seemed to activate the pledges of Sinai II in which the United States undertook to assure Israel's supply of oil and clearly increased the dependence of Israel on the United States and thus the areas of potential pressure open to the United States in its dealings with Israel.

The credibility of United States decision-making and intelligence capability became a factor. United States intelligence was less than precise with regard to the situation in Iran and the probable course of events and, despite perceived United States commitments to the Shah and the government in Iran and close links with it, the United States took few and generally weak actions in response to the crisis which eventually resulted in the ouster of the Shah. This raised questions about United States reliability and dependability and concerns about United States judgments, proposals and guarantees. Although these were not pervasive in the Israeli system, they were a further impediment on the path toward implementation of the Camp David accords and the draft Israel-Egypt treaty of November.

Eventually, in the spring of 1979, a visit to the Middle East by Carter achieved Israeli and Egyptian agreement to a peace treaty calling for the end of war and the normalization of relations between these two states as a first step toward an ultimate comprehensive settlement in the Middle East.

Despite this substantial achievement a number of major issues remained. These included the implementation of the treaty, the question of United States financial contributions to the parties to facilitate movement toward a settlement, and the transition to the effort to achieve a comprehensive settlement. The United States was linked to this agreement as it was to the earlier Sinai II accord of 1975—but this time it was more substantial. It demonstrated the

extent of American involvement not only in its achievement but, more crucially, as the essential element in its implementation.

The United States committed itself to the provision of substantial amounts of economic and military assistance to both Israel and Egypt. The exact amount and type of this aid was to be subsequently determined but the broad concepts were clear. The United States would seek to provide economic assistance to insure economic and social progress in Egypt and for continued well-being in Israel. It would help to replace the bases and military positions Israel would relinquish in Sinai with new facilities in the Negev and it would provide military equipment to Israel and to Egypt as a means of reassuring both concerning their security.

The costs of these efforts were substantial but regarded by the administration as the preferred course and less costly than the alternatives which were seen as stagnation in the peace process and a drift to conflict with its attendant horrors and possible escalation to superpower confrontation with all that that implied.

These perspectives of the conflict and its dangers were amplified by Carter from the outset of his administration. He saw continuation of the conflict as disastrous for the region as well as the international political and economic order. Even a war in which the United States did not participate could be costly to the United States as was the 1973 conflict. Also, continuation of the conflict without actual hostilities contributes to instability and radicalization of the region which is inimical to United States political and economic interests.

In the final analysis, the major question is which of two main alternative future paths will be followed. One suggests that as the Israel-Egypt treaty is implemented the benefits of the arrangement and the psychological changes which might generate political change will become more apparent thereby facilitating other accords. A second suggests that the first treaty prevents further movement toward a settlement since it is seen as a separate agreement unacceptable to the remainder of the Arab world and, in the worst case projections of this approach, is likely to precipitate further conflict.

The United States is prepared to accept the role of assuring continued progress. In addition to participating in the process, the United States will continue reassuring both Israel and Egypt that they have taken the appropriate step. The United States will also play a role in attempting to gain more general support for the treaty, if not endorsement, and to reduce the opposition of the other Arab states.

Thus, in the wake of the Egypt-Israel peace treaty the United States will continue to pursue the broad lines of policy toward the Middle East it has followed since World War Two: seeking to achieve peace and assure other American interests.

# WEST EUROPEAN FOREIGN POLICIES TOWARD THE MIDDLE EAST: RESPONSES TO THE OIL CRISIS

By Werner J. Feld\*

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It should not be surprising that the 1973 Yom Kippur war, the ensuing selective oil embargo by the Middle East oil producing countries, and the quadrupling of the crude oil prices had a considerable impact on the concerns of foreign policy makers in Western Europe. Foreign policies had to be adapted to new economic and political circumstances and appropriate strategies had to be devised to safeguard national and regional interests of the West European countries. In this paper I will describe and analyze the responses of policy makers in these countries and the European Communities to the changed and still evolving international situation in the Middle East. Second, I will seek to evaluate the effectiveness of the policies formulated and of their implementation to meet the various objectives pursued. Finally, I will touch on the effects these policies had or may have in the future on transatlantic relations.

### THREE KINDS OF WEST EUROPEAN FOREIGN POLICIES

If we speak in this paper of "West European" foreign policies, three kinds of legal and political sources for these policies are conceivable. First, there are the individual foreign policies formulated by the national governments in Western Europe in pursuit of their particular interests. Second, the member states of the European Communities (EC) have instituted since 1970 a foreign policy coordinating mechanism outside the provisions of the EC Treaties which has produced significant results in the form of common policy approaches to selected issues such as the Conference of

\*University of New Orleans.

Security and Cooperation in Europe (CSCE). In some cases other West European countries outside the EC have joined the common EC stand. Finally, the EC Treaty system itself provides legal bases for common policies. The European Economic Community (EEC) Treaty stipulates the formulation of common commercial policies toward third countries and offers to the nine member governments the unusual foreign policy instrument of "association" which has been successfully employed on many occasions, but particularly to affiliate most African Third World countries to the EC.<sup>1</sup>

The last kind of external policies is formulated and often implemented by a growing number of civil servants of the EEC. They are assigned mostly to Directorate-General (DG) I of the EC Commission. However, these "Eurocrats" cannot act with full autonomy. The member governments keep close tabs on European Community activities in external affairs through: (a) directives by the EC Council of Ministers, representing mainly national interests; (b) liaison committees<sup>2</sup> composed of national officials; and (c) the Committee of Permanent Representatives (CPR or Coreper). This unit, which is headed by the ambassadors of the member states accredited to the EC, prepares the Council of Ministers sessions and has become very influential in all EC decision-making processes.<sup>3</sup>

In the foreign policy coordinating mechanism of the EC member governments the Community officials of DG I play only a very limited role. Coordination is carried out through periodic meetings of the foreign ministers of the Nine. The spade work for these meetings is handled by the political directors of the foreign ministers of the member states who, with their staffs, constitute the Political Committee. This body convenes at least four times a year, but in recent years has met much more often.

The major task of the periodic sessions of foreign ministers is the consideration of important foreign policy questions. The member governments can suggest for consideration any issue that may pertain not only to general foreign policy problems but also to such matters as monetary affairs, energy, and security. Whenever the work of the foreign ministers or of the Political Committee impinges on the competence and activities of the European Community, the Commission is requested to submit its own position on the matter under consideration and is invited to send a representative. It is interesting to note that during the discussion in the Political Committee regarding the preparatory conference on European Security and Cooperation (Helsinki), it was felt that this subject was likely to deal with problems affecting the activities and competences of the European Community in the international trade field. Therefore, a Community representative was invited and Franco Malfatti, then President of the Commission, participated in some of the sessions.

The foreign policy coordination activities of the Political Committee are supplemented by periodic sessions of staff members in the embassies of the Nine, located in different capitals of the world. Such meetings had already taken place prior to the creation of this

<sup>1</sup> See Werner J. Feld, *The European Community and the World* (Port Washington, New York: Alfred Publishers, 1976), pp. 103-160.

<sup>2</sup> For example, the "Committee 113", named after article 113 of the EEC Treaty which authorizes its establishment.

<sup>3</sup> For details see Feld, *op. cit.*, pp. 19-42.

Committee when Community Affairs affecting third countries needed to be discussed and coordinated, but their scope has now been expanded.<sup>4</sup>

Since the EC countries contain the bulk of the West European population, our major concern will be with the EC's external policies proper and those foreign policies evolved under the coordination mechanism described above. However, significant foreign policy actions of individual countries will also be included in the appraisal. But before we can begin the examination and analysis of the pertinent policies, a brief survey of the present and future energy resources for Western Europe is necessary.

#### THE OIL CRISIS AND ALTERNATE SOURCES OF ENERGY

It is not necessary to belabor the consequences of the increase of the crude oil prices in the world market on the balance-of-payments of consumer countries, inflation, and on international trade. Suffice it to say that balance-of-payments deficits have not been as severe as predicted in 1974. Some countries such as Italy suffered much more than others, for example West Germany, which managed to accumulate and maintain continuous surpluses. Clearly, direct and portfolio investments by Arab oil producers in North America and Western Europe as well as large-scale purchases of manufactured goods (civilian and military) by these countries account for the differences and have blunted the dismal forecasts.<sup>5</sup>

Despite the North Sea petroleum resources which are gradually coming "on stream," Western Europe must seek to lower its dependence on oil and assure maximum security of supplies of this commodity and other imported sources for energy production. Assuming an economic growth in GNP rate of 4.5 percent per year, the Commission estimated in 1974 the needs for primary energy of the EC countries by 1985 as shown in Table 1.

<sup>4</sup> Cf. Ralf Dahrendorf, *Possibilities and Limits of a European Communities Foreign Policy*, *The World Today* (April 1971), p. 161. The commercial councillor of the embassy of the member state that holds the presidency of the Council of Ministers of the Community at a particular time prepares a report on these meetings. These reports are addressed to the president of the Council and are also distributed to the Permanent Representatives in Brussels and a number of national governmental agencies. If no objections are raised by a member government within eight days, a copy of this report is furnished to the Commission. When Community affairs are discussed in the embassy meetings, officials of the EC Information Service participate if the Service has an office in a particular capital such as Washington or Geneva. In such cases the Community officials make a direct report to the president of the Commission. Policy coordination meetings have also been held in the United Nations to assure the maximum cohesion in voting and policy positions of the member states. The influence of the Commission staff in these meetings may well have been increased when the EC was granted official observer status by the U.N. (Cf. *Agency Europe Bulletin*, September 18, 1975. The foreign minister of the member country holding the chairmanship of the EC Council of Ministers now often makes statements on behalf of the Community. An interesting study made by Leon Hurwitz regarding voting cohesion by the member states in 518 roll call votes in the General Assembly from 1948 to 1973 shows variations in cohesion levels are wide: The Netherlands and Luxembourg have the highest level (92 in a 0-100 scale), France and Italy the lowest level (72 in the same scale), the original EEC members have a cohesion level of 84, and the three new EC members about 80. (See Leon Hurwitz, "The EEC in the United Nations: The Voting Behavior of Eight Countries, 1948-1973," prepared for delivery at the 1974 Annual Meeting of the American Political Science Association, Chicago, Illinois, August 29-September 2. Copyright, 1974, The American Political Science Association).

<sup>5</sup> See for example, Werner Ungerer, "Consequences of the Oil Crisis," *Aussenpolitik* (Vol. 25, 2/74), pp. 213-226.

TABLE 1.—TOTAL PRIMARY ENERGY NEEDS IN 1985,<sup>1</sup> COMMUNITY

|                                     | 1973 estimates |         | 1985 initial forecasts <sup>2</sup> |         | 1985 objectives |         |
|-------------------------------------|----------------|---------|-------------------------------------|---------|-----------------|---------|
|                                     | Million TOE    | Percent | Million TOE                         | Percent | Million TOE     | Percent |
| Solid fuels.....                    | 227            | 22.6    | 175                                 | 10      | 250             | 16      |
| Oil.....                            | 617            | 61.4    | 1,160                               | 64      | 655             | 41      |
| Natural gas.....                    | 117            | 11.6    | 265                                 | 15      | 375             | 24      |
| Hydroelectric power and others..... | 30             | 3.0     | 40                                  | 2       | 35              | 2       |
| Nuclear energy.....                 | 14             | 1.4     | 160                                 | 9       | 260             | 17      |
| Total.....                          | 1,005          | 100.0   | 1,800                               | 100     | 1,575           | 100     |

<sup>1</sup> Internal consumption + exports + bunkers.

<sup>2</sup> Source, "Prospects of demand for primary energy in the Community (1975-1980-1985)" Bull. EC 10-1972, part 2, point 118, and was completed by January 1973 for the new Member States.

Source: "Bulletin of the European Communities" (Supplement 4/74) p. 12.

In Table 1 the column titled "Initial Forecasts" indicates the needs if the EC countries could rely on needed resources on a "business as usual" basis. However, in a realistic evaluation of the changed conditions resulting from oil crisis, the "1985 objectives" column reflects a 10 percent reduction of consumption from the "Initial Forecasts" level and a substantial increase of energy consumption flowing from nuclear facilities. If these goals were to be attained, dependence on foreign petroleum resources would have to be reduced by about 25 percent in 1985 and internal production increased substantially. Moreover, the production of natural gas within the Community would have to be expanded materially, the production of coal in the Community maintained, and nuclear energy generating plants increased to the extent that 50 percent of the electricity needs would be met from nuclear sources.<sup>6</sup> This would cut dependence on imported energy from an estimated 64 percent projected for 1985 without the above special measures to an optimum of 40 percent (see Table 2).

TABLE 2.—ENERGY DEPENDENCE, 1985 <sup>1</sup>

[In percent]

|   | Initial forecast | 1985 objectives <sup>2</sup> |                       |
|---|------------------|------------------------------|-----------------------|
|   |                  | 50 percent dependence        | 40 percent dependence |
| Solid fuels.....                        | 10               | 17                           | 17                    |
| Oil.....                                | 64               | 49                           | 41                    |
| Natural gas.....                        | 15               | 18                           | 23                    |
| Hydroelectric and geothermal power..... | 2                | 3                            | 3                     |
| Nuclear energy.....                     | 9                | 13                           | 16                    |
| Total requirements.....                 | 100              | 100                          | 100                   |

<sup>1</sup> Internal consumption + exports + bunkers.

<sup>2</sup> Figures rounded off.

Source: Adapted from "Bulletin of the European Communities," No. 12 (1974), p. 15.

<sup>6</sup> *Bulletin of the European Communities* (Supplement 4/74), p. 13. This document provides full details about the energy calculations and rational use of energy.

The Commission's forecasts and plans were approved by the Council of Ministers in December 1974, but implementing measures have been lagging and no common energy policy has been evolved. Moreover, some of the projections themselves were sharply modified by reality. The greatest disappointment was the slow expansion of nuclear facilities for electricity generation, owing to vociferous resistance by environmentalists and to the high cost of construction. As a consequence, the Commission reported in 1977 that if nuclear capacity were limited to the 95 gigawatts already operating, under construction, or firmly planned, the energy gap could be closed only by increasing imports of oil to the level of approximately \$60 billion at current prices, a doubtful assumption for the next eight years.<sup>7</sup> In the meantime, natural gas imports from non-EC countries have increased considerably over the objectives set by the Community, and the prices of oil and gas have risen since 1974. Internal coal production has been and may continue to be lower than expected, mainly because of increased costs.<sup>8</sup> As a consequence, despite a reduction of energy consumption of 2.5 percent in 1976, the Commission is fearful that in 1985 the energy import dependence would still be 55 percent instead of the hoped-for 42 percent,<sup>9</sup> clearly a dangerous situation. Of course, oil imports into individual countries will vary considerably, with the United Kingdom being self-sufficient and Norway likely to be a net exporter, while Spain, Italy, and France will continue to need large quantities of petroleum products.

In its program for 1978 the Commission advocated stepped-up energy conservation measures, increasing the use of coal for fueling power stations, increasing imports of natural gas, and improving the Community's relations with the energy-producing countries. In view of the Community's energy vulnerability, the EC Council of Ministers adopted a number of the Commission's energy saving recommendations in 1977.<sup>10</sup> However, proposals made by the Commission for financial aid to encourage the use of coal in electricity-generating plants have not been approved so far by the Council, partly because Germany, the United Kingdom, and France fear that this might benefit more the imports of coal into the Community from third countries than it would help the employment picture in the EC countries.<sup>11a</sup> Even after the Iranian revolution when the Commission pushed again for approval of a truly common Community energy policy by this Council, the outlook for its realization remains dim.<sup>11b</sup> In times of severe crisis, it seems, the EC member governments want to remain the captains of their ships of state and will accede to only a modicum of coordination of their national policies. To support these policies, the member governments have made persistent efforts to improve their relations with oil and natural gas producing countries, a task begun in 1973 and continued to this day as we will see in the following pages.

<sup>7</sup> *Bulletin of the European Communities* (No. 2, 1977), p. 50.

<sup>8</sup> See *Bulletin of the European Communities* (No. 9, 1976), p. 42, EC Commission, *Tenth General Report* (1976) pp. 219-222, and *Agence Europe Bulletin*, August 4, 1977.

<sup>9</sup> *Bulletin of the European Communities* (No. 2, 1977), p. 50.

<sup>10</sup> For details see EC Commission, *11th General Report* (1977), p. 191.

<sup>11a</sup> *Ibid.*, pp. 193-194.

<sup>11b</sup> *Agence Europe*, March 1, 1979.

## EVOLUTION OF ENERGY-RELATED EXTERNAL POLICIES BY THE EC COUNTRIES

In April 1973 the Commission forwarded to the Council a memorandum in which a number of precise guidelines and actions were proposed for future relations with energy exporting and importing countries. In addition, suggestions were made for the organization of the Community oil market and for policies in the atomic energy, coal, and natural gas sectors, as well as for environmental protection. With rumblings of forthcoming oil shortages as reserves were being depleted, the council requested the Commission on May 22, 1973, to prepare concrete and comprehensive policy proposals by the end of that year.<sup>12</sup> With respect to nuclear fuels the Council set up a Standing Committee on Uranium Enrichment (COPENUR), which was charged with ensuring the sufficiency of the Community's uranium supply, most of which had been coming from the United States.<sup>13</sup>

In the aftermath of the Israeli-Arab conflict, the use of the oil weapon by the Arab petroleum producing countries, whereby oil production was progressively reduced and embargoes imposed on selected consuming nations considered "too friendly" toward Israel, brought EC plans for comprehensive energy into disarray. Where solidarity among EC member states could have been the order of the day in the fall of 1973, each member government sought to safeguard its own interests first. The Netherlands' defiant sympathy with the cause of the Jewish state made it a victim of a complete Arab embargo on oil shipments. Yet its Community partners, who did not display Holland's outspokenness to the Arabs, refused to help. This prompted the Dutch to exert pressure on their neighbors (Germany, France, and Belgium) to obtain either Community political support against the Arabs and engage in some oil-sharing arrangement or else face the cut-off of Dutch supplies of North Sea natural gas.<sup>14</sup> But little immediate support was received as higher gasoline prices, gasless Sundays, and other emergency measures induced individual EC member countries, including the Dutch, to seek special favors and special oil deals from the Arabs, with France in the forefront of such endeavors.

The ultimate complaisance toward the Arab leaders came during the Copenhagen summit meeting of heads and chiefs of government of the EC countries in December 1973. This meeting was called to give new impetus to the European union, make progress in the movement toward economic and political union, and work toward a common voice of Europe in world affairs. Despite a charitable face-saving communique at the end of the meeting, things did not quite work out this way. On the eve of the opening of the conference the foreign affairs ministers of six Arab oil producing countries arrived at the Danish capital and their unexpected arrivals replaced Community business as the center of interest of the conference. An editorial in *Agence Europe Bulletin* of December 15, 1973, asked the question:

<sup>12</sup> *Seventh General Report* (1973), p. 327.

<sup>13</sup> *Ibid.*, p. 328.

<sup>14</sup> See *Time*, December 3, 1973, p. 53.

Is it a European Summit in which the Arab powers are allowed to participate, or a case of an Arab Summit being held in parallel? We may ask from where this initiative came, which has clearly caused some surprise. In Algiers it had been decided to address a "message" to the European Summit, but it was not known that the "bearers" of this message would be either so numerous or so high-ranking.

The many words written into the Copenhagen communique on energy policy were in opposition to the actions taken by the heads and chiefs of government of the EC member states. The Nine allowed themselves to be divided and ruled by the oil producing countries, which categorized the Europeans into friendly and not-so-friendly countries. Two of them, France and Britain, bid favors of the Arabs. The most badly affected member of the Community, the Netherlands, was forgotten even though the Dutch had been one of the most vociferous champions of British entry into the EC for years. Solidarity in the Community was exposed as a rather weak need.<sup>15</sup>

Despite the debacle of the Copenhagen conference, the Commission pushed on in seeking a common approach to the problems of energy rather than passively tolerate the development of deals between the member states and the Arab oil-producing countries. The United States was also in favor of a common approach, and wanted it to include Canada, Japan, and Norway. After various delays, usually a result of French objections, the U.S. Government succeeded in convening the 13-nation Washington Energy Conference in February 1974. The purpose was to work out a common program for easing the energy crisis. In the end it was agreed to set up a coordinating group, which was to decide how to organize in a most efficient manner the program of coordination. In particular, the Energy Coordinating Group (ECG) was given the following tasks:

- (1) The conservation of energy and restraint of demand;
- (2) Setting up a system of allocating oil supplies in times of emergency and severe shortages;
- (3) The acceleration of development of additional energy sources so as to diversify energy supplies; and
- (4) The acceleration of energy research and development programs through international cooperative efforts.<sup>16</sup>

France declined participation in this coordinating group, and perhaps because of the French resistance to identify itself with the general aims of the Conference, no agreement was reached on a proposed "code of conduct" to regulate the efforts that several governments were making to work out special deals with Mideastern oil producers. France, for example, was negotiating pacts with Saudi Arabia, Kuwait, and Libya that would guarantee for itself millions of barrels of oil in return for stepped-up deliveries of French weapons and technology to the producers. These efforts, which were ultimately to achieve results, set an example that other participants of the Washington Conference were to follow.

Despite U.S. opposition to bilateral agreements with Arab oil producing countries negotiated by France, Great Britain, Germany, and Japan (because such agreements appeared to signal defection from existing alliance systems), the American government itself concluded a series of bilateral accords on trade, investment, and

<sup>15</sup> Cf. *Die Zeit*, January 11, 1974.

<sup>16</sup> *Bulletin of the European Communities* (No. 2, 1974), p. 21.

technology with Arab states.<sup>17</sup> The first of the American agreements was signed with Saudi Arabia. U.S. justification for this and other bilateral accords was their link to a Middle East settlement with an eventual moderation of oil prices.<sup>18</sup>

French suspicions that the Washington Conference had been called to reassert U.S. leadership over disintegrating alliance affairs and to create some new interlocking machinery to tie European energy plans and activities to American resources were not entirely unfounded. Not only were American science and technology used as an inducement to solve energy problems per se, they were also to be means to achieve diplomatic purposes. Commercial gains from the supply of American-built nuclear generating equipment and enriched uranium may also have been motivating factors. To reinforce the proposed technological ties in the energy field, then President Richard Nixon reminded European statesmen during a White House dinner held on the occasion of the Washington Conference that they could not be independent of the United States in economic and political affairs and at the same time expect to rely on American support in security areas. Nixon declared that "Security and economic considerations are inevitably linked, and energy cannot be separated from either."<sup>19</sup> As Henry Nau points out, the energy crisis was to supply practical proof to Europeans that they could not do without U.S. leadership in alliance affairs and that such leadership could not be accepted exclusively in security areas.<sup>20</sup>

Following the Washington Conference, the Committee of Permanent Representatives and experts from the Council of Ministers examined the possibility of implementing the common energy proposals made earlier by the Commission. They hoped that France could be induced to join the other member states in the deliberations of the ECG, also known as the Group of Twelve<sup>21</sup> so that progress toward all objectives could be made.

Concurrently with the development of the Community energy objectives, the Group of Twelve had been formulating and activating the so-called International Energy Program (IEP), essentially a resource-sharing scheme, in the event of future oil supply crises. The principal trigger for international action and the sharing of oil supplies is to be the decline of oil deliveries below 90 percent of normal supplies.<sup>22</sup> In addition to oil sharing, the Twelve obligated themselves to continuing energy-saving measures and to cooperation in the field research and development of new energy sources.<sup>23</sup> During the development of IEP, the Group of Twelve was trans-

<sup>17</sup> For a summary review of these agreements, see Treasury Secretary William Simon's testimony before the Subcommittee on Multinational Corporations, Committee on Foreign Relations, U.S. Senate, August 12, 1974.

<sup>18</sup> Cf. Henry R. Nau, "Diplomatic Uses of Technology in U.S. Energy Policy," paper presented at the Convention of the International Studies Association/South, Lexington, Kentucky, October 22-25, 1974; also his *National Politics and International Technology: Nuclear Reactor Development in Western Europe* (Baltimore: Johns Hopkins University Press, 1974).

<sup>19</sup> *Department of State Bulletin*, March 4, 1974, pp. 230-234.

<sup>20</sup> Cf. Nau, "Diplomatic Uses of Technology in U.S. Energy Policy."

<sup>21</sup> Eight EC members plus the U.S., Canada, Norway, and Japan.

<sup>22</sup> *Agence Europe Bulletin*, July 29-30, 1974.

<sup>23</sup> *Ibid.*, July 11, 1974.

formed into the International Energy Agency (IEA), which now operates under the auspices of the OECD.<sup>24</sup>

Although the French government was again urged strongly to join the IEA, it declined official participation. Paris wanted to avoid the impression that the oil consuming countries were forming a cartel, but perhaps more important, it wished to keep its freedom for dealing with the oil producers.<sup>25</sup> Norway, a full member of the Group of Twelve, had a change of heart, and only became an "associate" of the IEA. Other members of the IEA besides the eight EC countries and the U.S. at present are Austria, Canada, Greece, Japan, New Zealand, Spain, Sweden, Switzerland, and Turkey. The IEA remains the principal vehicle both for energy cooperation among industrialized countries and for the coordination of national programs for energy conservation, development, and reduced dependence. Specific IEA tasks are wide-ranging and include the organization of international cooperation in the field of enriched uranium production; the elaboration of economic and monetary coordination measures to be implemented when needed to cope with the multiple effects of price rises, discussed earlier; and relations with the non-energy producing developing countries hard hit by the oil price increases.<sup>26</sup> Although the EC Commission holds observer status rather than full membership in the IEA, it has worked hard to evolve common positions for the eight EC countries that are full IEA members and then bring these positions in line with the French stand. Although there is now general agreement in the Council of Ministers that everything has to be done to forge common attitudes, it is not only France that expresses divergent attitudes from time to time. Britain is careful to guard its own interests associated with the increasing flow of its North Sea oil and, as occasion demands, the other EC states act on their own when their national interests might differ from the "common voice."

In order to find a solution for the problems facing the petroleum consumers and producers, a preparatory meeting for an international energy conference was convened in Washington in April 1975. The participants for the consumers were the EC, the United States, and Japan. The producers were represented by Algeria (as leader) and by Iran, Venezuela, and Saudi Arabia. Since the Third World would be affected by any conference of this type, India, Brazil, and Zaire were asked to attend. The IEA, OPEC, and the U.N. were represented by observers.

The formulation of an agenda for the preparatory meeting proved to be troublesome. The United States wanted the conference to be limited to petroleum issues (prices, harmonization between supply and demand, petrodollars), whereas the developing countries wanted to extend it to other raw materials and to the relations between the industrialized and developing countries in general. Of the EC member states, Great Britain and the Netherlands did not object to a fairly extensive agenda, but France, leaning

<sup>24</sup> *Ibid.* The first head of IEA was a high ranking Belgian foreign service official, Vicomte Etienne Davignon. Its present head since February 1977 is Mr. Rohwedder, German Undersecretary of State for Economic Affairs. The Assistant Directors are one Canadian, one Dane, an Austrian and a Japanese.

<sup>25</sup> See Carl A. Ehrhardt, "Europe and Energy Policy at Top Level," *Aussenpolitik* (Vol. 26, No. 1, 1975), pp. 3-18, on p. 6.

<sup>26</sup> Agence Europe Bulletin, July 11, 1974.

toward the U.S. position, favored separate conferences for each product or group of products.<sup>27</sup>

Fruitless disputes on the title, scope, and procedures of the planned conference marked the preparatory meeting from the beginning. The demands of the oil producing and other developing countries for a broadened agenda could not be overcome by any of the compromises offered by the consumer states, and the emerging deadlock killed the meeting.<sup>28</sup>

Despite this failure to initiate a useful dialog between the oil consumer and producer countries, an IEA ministerial meeting at the end of May 1975 suggested new initiatives for the resumption of the preparatory meeting. Secretary of State Kissinger proposed that for such a new meeting a number of committees be established to explore the problems related to raw materials other than petroleum, but substantive negotiations would have to be conducted in other fora.

Following the IEA meeting an exploratory "Euro-Arab" dialog was initiated in Cairo in June 1975 to discuss ways of more fruitful cooperation between the Community and its member states on the one hand, and Arab countries in the Middle East and North Africa on the other. Conceivably, these could include the issue of oil deliveries in return for technological and economic assistance. No concrete results emerged from this meeting because the Arabs insisted on a general political contest and the Europeans were interested in a few specific projects.<sup>29</sup> Nevertheless, the dialog was resumed later and can be seen as part of a broader offense on the part of the EC to cement its relations with the oil-producing countries of the Middle East. We shall return to this subject later.

Deliberation within a broader forum than the Euro-Arab Dialog commenced in December 1975 when a Ministerial Conference on International Economic Cooperation (CIEC) was convened in Paris upon the invitation of France. Delegates from twenty-seven countries participated, of which nineteen were Third World countries.<sup>30</sup> Canada and Venezuela furnished the co-chairmen for the conference. Following a Saudi-French suggestion, four commissions were set up on the following topics: energy, raw materials, development problems, and financial affairs. Each of these commissions has 15 members—10 from the developing and 5 from the industrialized countries.

During 1976 eight meetings of these four commissions were held, but progress in reaching agreements was very slow and often impossible. The European Community, either on its own or jointly with other industrialized countries, submitted position papers to the four commissions on nearly all topics. Despite the opposing positions of the industrialized and developing countries, there was hope that before the end of 1976 a meeting on ministerial level could wind up the negotiations in the North-South dialog successfully. However, the positions having not moved much closer togeth-

<sup>27</sup> *Ibid.*, April 5, 1975.

<sup>28</sup> For an analysis of the reasons for failure see the editorial in *ibid.*, April 17, 1975. See also April 10, 1975, for the Community's compromise proposal.

<sup>29</sup> *Ibid.*, May 28, 29, 1975.

<sup>30</sup> The following countries participated. Developed Countries: United States, Canada, Japan, Australia, Spain, Sweden, Switzerland, and the EC representing all its member states; Developing Countries: Venezuela, Algeria, Saudi Arabia, India, Brazil, Iran, Zaire, Cameroon, Egypt, Nigeria, Zambia, Argentina, Jamaica, Mexico, Peru, Indonesia, Iraq, Pakistan, and Yugoslavia.

er, it was decided to postpone such a meeting to 1977. This meeting was finally held in Paris from May 30 to June 2 and will be analyzed in the next section.

## OIL-RELATED POLICY INITIATIVES: AN ANALYSIS

### *The North-South Dialog*

As we have seen, the North-South Dialog was viewed by the industrialized countries as a means to increase supply security of crude oil and later was expanded to other raw materials and development problems on the insistence of the Third World. Nevertheless, for Western Europe, crude oil remained the primary rationale for these very difficult negotiations, although the supply of other essential raw materials was also a salient motivation for participation in the CIEC. We must note, however, that for most Third World representatives the significant aspects of the Dialog were quite different. They were mainly interested in the stabilization or the indexing of raw material prices, general development problems, and such financial support as debt moratoriums or perhaps debt cancellations. Many of these issues had already a powerful forum for discussion in UNCTAD. Indeed, some of the same issues debated and bargained out at the UNCTAD IV Conference in Nairobi in April and May 1977 were also topics at the CIEC meeting in Paris a month later.

The long-standing pre-occupation of the EC countries with the oil crisis and with coordinated action to find solutions became a matter of record in the communiqués issued after the meetings of the EC Heads of Government and the President of the Commission held in Paris in December 1974 and again in Dublin in March 1975.<sup>31</sup> The preparatory work for the Dialog was carried out under the authority of the EC Council of Ministers by a high-level ad hoc committee, composed of representatives of the member states and the Commission. In the CIEC itself, the Community was a full-fledged participant and was represented by a single delegation, the President of the Council of Ministers, Dr. David Owens of Great Britain, and of the Commission, Roy Jenkins, acting as spokesmen for the Community. The Commission member in charge of EC relations with developing countries, Claude Cheysson, also played a prominent part. In the work of the four CIEC Commissions, the Community spokesmen were assisted by delegations comprising representatives of the member states.<sup>32</sup>

The strategies to be pursued for the CIEC were worked up in the Commission and Council in April and early May 1977. In keeping with their chief concern for oil supply security and control over run-away prices, the main priority was the establishment of a permanent organization in which oil and gas exporting and importing countries would meet and consult on supplies and prices. This body should also deal with energy investments. In order to obtain agreement on this goal by the nineteen developing countries, three spectacular proposals were made:<sup>33</sup>

<sup>31</sup> See *Bulletin of the European Communities* (5/1977), pp. 9-10.

<sup>32</sup> *Ibid.*, p. 11 and references cited there.

<sup>33</sup> *Agence Europe Bulletin*, April 22 and May 3/4, 1977.

1. *Special emergency action* in favor of the world's poorest countries, perhaps to solicit their support for the EC main energy objectives. This action was to provide \$1 billion for those countries which some of the EC member states (Germany and the Netherlands) thought to be too low. These funds would be in addition to existing programs and could be channelled through the IDA (International Development Association).

2. Discussion of establishing a "common fund" for raw materials as part of an integrated program for price stabilization and perhaps indexing. Since some of the EC countries had been hesitant about this fund, the EC agreement to discuss this matter was seen as an important concession to the Third World participants.

3. Expansion of the Stabex system developed for the EC affiliates under the Lomé Convention to all Third World countries. This is a more limited system of commodity price stabilization than the "common fund" concept inasmuch as it does not cover all commodities, makes only relatively small amounts of money available but as an innovation provides outright grants for price stabilization purposes to the poorest Lomé affiliates.<sup>34</sup>

The results of the spring 1977 CIEC meeting in Paris which had to be extended by two days in order to come up with some minor agreements, certainly did not fulfill the hopes of the EC and its member' states, despite encouraging statements by the Community heads to conceal their obvious disappointment. Nor did the results satisfy the Third World representatives or the oil producers for that matter. EC's key goal—institutionalization of the oil dialog and of the energy dialog in general—was not attained at the Paris meeting. For the Third World representatives the problem of technology transfers appeared to be most important, and insofar as oil prices were concerned, OPEC's autonomy was not to be touched.

Regarding the other EC strategies some initial consensus was reached. The conferees expressed satisfaction about the emergency aid offered by the EC and other developed countries to the very poor countries, leaving details about donor coordination to be worked out later. The establishment of a common fund for an integrated commodity program was agreed upon and an increase of public aid to the target of 0.7 percent of GNP was accepted as a goal toward which all industrialized countries should work. No conclusion was reached on the debt issue.<sup>35</sup> Further negotiations on all these problems were to be undertaken in U.N. fora in New York and Geneva.

There can be little question that the strategies of the EC and the other industrialized countries were unsuccessful. A diplomat who attended the whole negotiations, characterized the results as follows:

The industrialized countries had embarked on negotiations in which they saw a "plat de resistance" which was of the greatest interest to them, i.e. energy, and a series of "side dishes", more or less important, which interested the other party. The result was that the "plat de resistance" remained on the table, and the interlocutors obtained the side-plates. One must draw the conclusion that it was a bad deal.<sup>36</sup>

Perhaps it is an exaggeration to label the whole project a "bad deal." The industrialized oil consuming countries' hope of obtaining a measure of control over oil prices in exchange for the trade-off benefits they were offering was unrealistic. It was a mistaken

<sup>34</sup> For a concise description of Stabex see Carol Cosgrove-Twitchett, "From Association to Partnership" in Kenneth J. Twitchett, ed., *Europe and the World* (New York: St. Martin's Press, 1976), pp. 121-150, on p. 140-142.

<sup>35</sup> For details including the text of statements made by Roy Jenkins and Claude Cheysson, see *Bulletin of the European Communities* (No. 5, 1977, pp. 11-17).

<sup>36</sup> As quoted in *Agence Europe Bulletin*, June 6/7, 1977.

calculation because the main priorities of the Third World representatives were in quite different areas, and they seemed to be convinced that they could obtain satisfaction for their interests and demands in due time through the U.N. fora without making concessions. The Third World countries, however, may have underestimated the permanence of the oil crisis and its impact on the industrialized countries which may make generosity more onerous; for in the view of the latter, the increases in the price of oil and gas have already led and continue to lead to a redistribution of global wealth and are a major cause of the sluggish world economy.

It was evident in the negotiations that the solidarity of the developing countries was very high despite differences in particular interests. Clearly, they did not want to give up the "oil weapon," regardless of the adverse implications for their economic development that are likely to flow from even higher oil prices. Some of these implications may be greater reliance by the industrialized world on substitutes for raw materials traditionally imported from developing countries in order to save foreign currency. Man-made fibers instead of rubber or cotton products are an example. Indeed, the representatives of the Third World asked the industrialized countries to impose limits on the production of substitutes, at the same time demanding the transfer of technologies that would enable them to manufacture oil-base synthetic products.

The diversity of interests, motivations, and political orientations has made the future of the North-South Dialog very complex and uncertain. For the Third World, CIEC constituted progress over the UNCTAD conference in Nairobi in terms of greater recognition of its needs, especially with respect to the common-fund demand. Although up to this writing no comprehensive agreement has been reached on this issue, and the outlook on a general solution for the Third World's debt problems is bleak, an accord between the Community and IDA was signed on the "special emergency action" proposal made in CIEC in May 1978. It provides for a multilateral contribution of \$385 million to the lowest income and least advanced developing countries.<sup>36a</sup> However, the major aims of the EC countries regarding greater security in the supply of energy remain elusive, although a new body in the energy sector, within the U.N. framework, continues to be a salient goal. Meanwhile, for future negotiations within U.N. fora the "single-voice" approach evident during the CIEC meeting at Paris may well be a precondition for EC success. Basically, the coordinating procedures employed in Paris are being used in New York and Geneva and the substantive positions adopted in common by the EC countries in April and May 1977 continue to be the lines of departure for the negotiations with the Third World.<sup>36b</sup>

On an informal level, former German Chancellor Willy Brandt set up an independent committee in the fall of 1977 to revitalize and support the forward movement of the North-South Dialog. Composed of 17 well-known personalities representing developed

<sup>36a</sup> *Agence Europe Bulletin*, May 2/3, 1978. Other Western industrialized countries are implementing the CIEC proposal by the cancellation or reduction of debts to the poorest countries (Canada, Switzerland, and Sweden), while the U.S. and Japan distribute aid in bilateral form.

<sup>36b</sup> See *Agence Europe Bulletin*, September 15, 1975. See also Hans-Joachim Burchard, "The North-South Dialogue And What Then?" *Aussenpolitik* (Vol. 28, Nov. 4, 1977), pp. 403-415.

and developing countries, the "Brandt Committee" held several meetings, but its influence appears to have been very minor.<sup>37</sup>

### *The Euro-Arab Dialog*

As the phrase indicates, the Euro-Arab Dialog is geographically more limited than the North-South Dialog; for the EC countries, however, it serves the same basic purpose—the creation of relationships and mechanisms to enhance the security of crude oil and natural-gas supplies.

From the EC perspective the procedural aspects of the Euro-Arab Dialog are interesting inasmuch as it is conducted as an operation combining the EC external relations system and the intergovernmental foreign-policy coordinating system of the member states. The European delegation is led by the government chairing the Political Committee meetings and by the Commission.<sup>38</sup> The members of the Arab League are the Dialog partners. Their delegation is led by the country holding the rotating presidency of the League.

The areas of cooperation with which the Dialog deals include industrialization, basic infrastructure, agriculture and rural development, financial cooperation, trade, science, technology, culture, labor, and social questions. Several working groups study these areas of cooperation, identify worthwhile projects, and make proposals for action to a General Committee.

The main organ for the Euro-Arab Dialog is the General Committee. In 1977 two meetings of this Committee took place, one in Tunis and the second in Brussels. Although the latter meeting took place in a politically relaxed atmosphere,<sup>39</sup> the concrete results of these two meetings have been meager. Nine proposals were approved: three agricultural projects including the development of the Juba Valley in Somalia and meat production in the Sudan; five projects relating to infrastructures including the construction of a regional port in Syria; and a symposium on the relations between the Arab and European civilizations.<sup>40</sup> However, financing of these projects has been delayed although the principle of allocating the cost of these projects to the Arabs and the Community on an approximately ratio of 5 to 1 seems to be generally accepted.<sup>41</sup>

One of the problems plaguing the Euro-Arab Dialog is the location of the future meetings of the General Committee. As a result of President Sadat's peace initiative toward Israel, Cairo is no longer acceptable to the more radical Arab states as a meeting place for the General Meetings or the working groups. This meant that the meeting of the General Committee scheduled for April 1978 had to be postponed and may be held in Damascus.<sup>42</sup>

But there are other problems between the Dialogue partners as well. The crucial problems of oil price and guaranties over supply are excluded from the dialog;<sup>43</sup> it is hard to see how other major economic questions can be tackled realistically if these central

<sup>37</sup> *Agence Europe Bulletin*, December 12, 13, 1977 and August 31, 1978.

<sup>38</sup> *Ninth General Report* (1975), pp. 260-261.

<sup>39</sup> *Eleventh General Report*, p. 253.

<sup>40</sup> *Agence Europe Bulletin*, November 2/3, 1977, January 30/31, 1978, April 13, 1978 provide details.

<sup>41</sup> *Agence Europe Bulletin*, May 8/9, 1978 and July 12, 1978.

<sup>42</sup> *Agence Europe Bulletin* April 20, 1978.

<sup>43</sup> *Agence Europe Bulletin* May 31, 1978.

issues are avoided. Yet, on the other hand, the Arab countries seek support to develop their own refineries and petrochemical industries in order to expand earnings from their oil resources. They also want to establish steel mills and fertilizer plants. However, the West Europeans find it difficult to encourage such ventures in view of already existing excess capacities. Finally, the Arab League countries would like to conclude a comprehensive preferential trade agreement with the EEC and at the same time have "economic assistance" to Israel suspended, including the tariff preferences extended to that country. However, this has been consistently rejected by the EC institutions.<sup>44</sup>

In spite of these economic problems, the Euro-Arab Dialogue has not been without benefits for the EC countries. The framework of contacts and interpersonal relations that has been built up within the context of the Dialogue has considerable political value in itself, including on occasion support of West European foreign policy goals. In this connection it is important to point out that of total EC world trade the share of the Arab countries is very substantial and amounts to 13.5 percent of EC exports and 20 percent of its imports. But even more impressive is the share of global Arab trade which the EC enjoys: 40 percent of Arab exports go to the EC and imports from the EC amount to 43 percent. The comparative figures for the U.S. on the four types of trade flows are 12, 16, 9, and 13 percent respectively.<sup>45</sup> This intensive trade relationship may also offer special advantages and concessions for the EC countries that might be denied other Western industrialized states. Thus the dialogue may provide the EC countries with a modicum of leverage against the U.S.

From the political point of view it is noteworthy that during the meeting of the General Committee, held in Tunis in February 1977, the European side felt constrained to reiterate the concerns of the Nine over the continued Israeli occupation of Arab Territories since 1967, and to restate that a solution of the Middle East conflict will be possible only "if the legitimate rights of the Palestinian people to give effective expression to its national identity is translated into fact."<sup>46</sup> The Nine also opposed any moves by Israel to alter unilaterally the status of Jerusalem. According to the final communique, the Arab side expressed its appreciation for this attitude. This position of the Nine was expressed again, and perhaps more forcefully, to a much wider public during the meeting of the "European Council" (heads of government of the Nine) in London at the end of June 1977. A Declaration on the Middle East issued at that time reemphasized the need for Israel to end the territorial occupation maintained since 1967 and requested that Israel must be ready to recognize the legitimate rights of the Palestinian people and their need for a "homeland."<sup>47a</sup> Although, not surprisingly, this Declaration aroused a very negative reaction in Israel and a vigorous diplomatic protest, it simply confirms and continues a policy line by the Nine member states individually as well as by the EC as a whole which became more visible at the Copenhagen Summit in December 1973. The strong official sympathies for Israel

<sup>44</sup> *Agence Europe Bulletin*, October 27, and November 7/8, 1977.

<sup>45</sup> *Agence Europe, Selected Statistics*, June 13, 1977.

<sup>46</sup> *Bulletin of the European Communities (2/1977)*, p. 65.

<sup>47a</sup> *Agence Europe Bulletin*, July 1, 1977.

held by most governments of the EC countries had shifted over the years and were essentially abandoned as a result of the oil debacle and the very powerful pressures by the Arab oil producers. National interests and perhaps even survival were the apparent motivating forces for this change in policy by the Nine. Yet most analysts believe that the damage done to the economies of Western Europe by the sharp rise of crude oil prices has not been repaired by the policy shift, many view the continued substantial unemployment and high inflation rates in most West European countries as evidence that the shift has not helped. Most likely, though, things could have been worse and from this point of view the Euro-Arab Dialog may be seen as a useful damage control mechanism. Indeed, President Giscard d'Estaing suggested during a news conference in February 1979 that the Dialogue be expanded by convening a European-African-Arab League conference, to strengthen the unity between Europe, Africa, and the Arab countries.<sup>47b</sup>

### *EC Commercial Relations in the Middle East*

Despite the support given by the governments of the Nine and the EC to the positions of the Arab countries in the Middle East, there has been no clear effort by the Community to take an even-handed approach in commercial relations with all Middle East countries bordering the Mediterranean.

For many years the Community has pursued a systematic Mediterranean policy under which preferential agreements have been concluded with all countries except Libya rimming this rediscovered *mare nostrum*. The rationale has been the existence of historical relationships, the responsibility to extend to these countries a helping hand, and the need to develop a spirit of solidarity. Trade with this area has almost tripled between 1960 and 1970 and represents a hefty share of EC total trade with third countries, including, of course, large amounts of oil shipments.<sup>48</sup>

Israel has had a regular trade agreement since 1964, but was given preferential treatment in 1970 in line with the above described Mediterranean policy of the EC. The agreement was modified and extended in 1975 into a "cooperative" type accord, which encompasses industrial, scientific, and trade fields and establishes a joint committee to identify opportunities for cooperation and to help in the realization of such joint ventures. We should note that "cooperation" going beyond the mere regulation of trade relations is now the aim of all bilateral negotiations by the EC with, third countries.

Of the Arab countries in the Eastern Mediterranean, Lebanon was the first country to sign a trade accord with the EC (1965). The agreement was modified and extended into a preferential agreement in 1972, and in that year, Egypt signed a similar accord. Since 1977, these countries and Syria have become parties to a broad "cooperation" agreement, emphasizing economic, technical, financial and commercial collaboration through a suitable institutional mechanism.<sup>49</sup> Similar agreements have been in force with

<sup>47b</sup> *Agence Europe Bulletin*, February 16, 1979.

<sup>48</sup> Feld, *op. cit.*, pp. 149-150.

<sup>49</sup> For details see *Agence Europe Bulletin*, January 19, 1977.

Algeria, Morocco, and Tunisia since 1976.<sup>50</sup> In all countries, the EC will open information offices.

Iran has also been interested in a preferential cooperation agreement with the EC. However, since Iran does not border on the Mediterranean, the EC cannot give Iran the same preferential treatment as accorded to the Mediterranean countries. The Iranians argued that they deserved this treatment because Iran had been buying 36 percent of their nonmilitary goods from the EC countries. No progress has been made so far on defining the content of a commercial agreement. If the Barzagan Regime were to follow the same objectives as the Shah's government, Iran would like the joint cooperation committee to be established on a ministerial (political) level rather than only on a more technical level.<sup>51</sup> This the EC may well accept, because it may increase leverage on oil delivery for its member states.

It is obvious that this extensive economic and political network of EC relations and contacts with the Middle East and North African Arab countries and oil producers may well further the attainment of the West European policy goals to ensure optimal petroleum-supply security and perhaps to influence price development and balance-of-payments patterns. In addition, individual EC countries seek to bolster the links with the oil producers further and gain balance-of-payments benefits through sales of major capital goods and military hardware. For example, Iran has ordered nuclear power stations from Germany and France and the latter country has completed negotiations to supply Egypt with jet fighters and build an aircraft industry funded by the Arab oil producers.<sup>52</sup>

## THE SEARCH FOR NON-ARAB OIL AND URANIUM SUPPLIES

### *The Lomé Convention*

The Western Europeans have also been preoccupied with petroleum resources outside the Middle East and with uranium supplies to fuel the growing number of nuclear energy plants that may compensate for Europe's gradually declining oil reserves. Oil and uranium resources are both available in Africa within the territories of the EC-Lomé affiliates; Nigeria and Zaire are examples. It would therefore not have been surprising if the Lomé Convention had been and would be used as some kind of leverage by the EC to obtain preferences for the supply of these raw materials. However, the Convention does not contain any guarantees of delivery of these commodities in periods of shortage and thus does not discriminate against other countries buying on the world market the raw materials found in the areas covered by Lomé. Of course, some concealed favoritism toward Community countries under conditions of supply shortages cannot be ruled out. Indeed, it should be anticipated.

<sup>50</sup> All agreements permit duty-free entry of industrial products of the Mediterranean countries into the EC, which benefits especially Israel. But only Israel must make reciprocal concessions by 1980; the principal of reciprocity does not apply to the Arab agreements (*Agence Europe Bulletin*, July 4/5, 1977).

<sup>51</sup> See *Agence Europe Bulletin*, July 1, 1978, also April 20 and May 14, 1977.

<sup>52</sup> *Agence Europe Bulletin*, June 23, 1977, and *Wall Street Journal*, September 7, 1977.

In this regard it is interesting to report on the foreign policy coordination meeting of the EC foreign ministers held in July 1977. The discussion dealt with African matters and sought to determine whether a "Euro-African" doctrine, which could be used as a basis for policy toward Africa, should be elaborated. Although the ministers' concern was caused mainly by instabilities arising from South African problems and the situation in the Gulf of Aden, thoughts about oil and uranium must not have been far away. After the meeting it was stated that Europe should bring all its economic influence to bear to insure that changes in Africa come about in a peaceful manner. "Europe must be Africa's lawyer in its legitimate demand to be free of any foreign influence."<sup>53</sup> Africa should never be able to become a base from which Europe's security could be threatened. What all this may imply, specifically in terms of oil and uranium supply, is difficult to judge. The Political Committee has been instructed to draw up a text regarding a policy which Europe should pursue vis-a-vis Africa, and when that becomes public, it may be possible to draw more definite inferences.

Preparations are now under way for the renewal of the Lomé Convention (Lomé II) which will come into force in March 1981. The Commission has proposed as an initial negotiating stance that the principles of the Lomé Convention will be continued. Commercial and industrial cooperation is to be strengthened, however, and greater emphasis is to be placed on regional cooperation. The European Community might underwrite private investments in the Lomé affiliates, especially insofar as the supply of specific commodities is concerned.<sup>54</sup> It is interesting that France is especially anxious to enhance Euro-African solidarity.

#### *Other Supply Possibilities*

Substantial crude oil resources in Southeast Asia and in parts of Latin America are also of interest to policy makers in the EC and its member states. During a first industrial cooperation conference between the EC and ASEAN countries, held in April 1977, future cooperation in energy was given major emphasis.<sup>55</sup> The procurement of energy sources is likely to be an important factor in the cooperation agreements with Mexico and Brazil as well. During the last few years Mexico has announced the discovery of additional oil reserves, and extensive exploration for oil is underway in Northern Brazil, especially the Amazon River Basin. In Northern Brazil considerable deposits of uranium have also been discovered.<sup>56</sup>

Since the United States has not always been the most reliable supplier of uranium, and since its non-proliferation of nuclear weapons policy could cause difficulties for the future supply of enriched uranium, the Community countries have cast about for alternate sources of supply. Although Canada also has large uranium deposits and has been a major supplier of this commodity to Western Europe, the Canadian government suspended shipments at the beginning of 1977. The reasons for this step included

<sup>53</sup> *Agence Europe Bulletin*, July 13, 1977. See also *ibid.* May 25, 1978.

<sup>54</sup> *Die Welt* (Bonn), January 27, 1978; *Agence Europe Bulletin*, February 1978. For an analysis of the problems facing the negotiators of Lomé II see M. Hedrich and K. von der Ropp, "Lomé II in the Light of Experience of Lomé I" *Aussenpolitik* (Vol. 29 No. 3, 1978) pp. 300-315.

<sup>55</sup> *Agence Europe Bulletin*, April 7, 1977.

<sup>56</sup> *Ibid.*, May 7, 1977.

France's refusal to submit to inspection by the International Atomic Energy Agency (IAEA), and the fact that reprocessing plants of waste material could produce plutonium, used in the manufacture of nuclear weapons. The interruption of uranium supply became the subject of very high level negotiations in July 1977 between German Chancellor Helmut Schmidt and Canadian Prime Minister Trudeau. These negotiations have led to a temporary relaxation of Canadian restrictions on uranium supplies, especially to Germany, but the final agreement in January 1978 between the Canadians and the EC was possible only after further discussion of the non-proliferation issue between the Canadian and U.S. governments.<sup>57</sup>

Australia, another source of uranium, has also announced restrictions in its exports, for the same reasons as Canada. This, too, has caused concern among the EC countries and efforts are being made to come to an agreement with the Australian government in this matter.<sup>58</sup>

Finally, in view of what the EC considers: (a) "the growing politicization" of the question of nuclear fuels; (b) the "exorbitant" demands in respect to safety, formulated by the countries which are the Community's main suppliers of uranium; and (c) the continuous rise in prices, intensive prospecting for uranium has begun within the territory of the EC. Prospecting ventures have been initiated in Britain, Ireland, Italy, Belgium, Greenland, and Germany. The Commission has provided grants for this purpose, but results so far are not known.<sup>59</sup>

#### THE NON-PROLIFERATION ISSUE

As noted earlier, the oil crisis has stimulated extensive plans for the use of nuclear energy for the generation of electricity. Although the projections made in 1974 have not been realized thus far, President Carter's policies on the non-proliferation of nuclear weapons (policies basically initiated already by former President Ford toward the end of his term) have caused much consternation in West European governmental circles. The U.S. desire to halt the sales of reprocessing plants for nuclear waste and the transfer of appropriate technologies to countries not now possessing such facilities<sup>60</sup> have affected especially the Federal Republic of Germany and France. Germany had signed a multibillion-dollar contract with Brazil for delivery of nuclear plants including reprocessing facilities, and France had signed a similar undertaking with Pakistan. Although all participants to the London Summit agreed to a pause in the production progress of "sensitive" installations, Germany declared that it would proceed with the fulfillment of its contractual obligations toward Brazil regardless of American arm twisting. Chancellor Schmidt insisted that Germany must be faithful to the contract and, besides, thousands of German jobs were at stake. France, at first more hesitant to defy American policy, later joined Germany in wanting to carry out its commitment toward

<sup>57</sup> *Agence Europe Bulletin*, July 14, 16/17, 1977.

<sup>58</sup> *Ibid.*, May 27, 1977. A definite Australian uranium policy is in the process of being formulated. See also *ibid.*, September 27, 1977.

<sup>59</sup> *Ibid.*, July 21, 1977.

<sup>60</sup> For details of this issue see Andrew J. Pierre with Claudia W. Moyne, *Nuclear Proliferation, A Strategy for Control* (New York: Foreign Policy Association, 1976).

Pakistan despite concerns about the politically unsettled situation in that country. But in the Fall of 1978, the French government had a change of heart and initiated the cancellation of the sale of reprocessing facilities.<sup>61</sup>

Potential conflict with the United States has been largely defused, at least for the time being, by an agreement of fifteen countries which have been major exporters of nuclear technology or are on the threshold of joining this group.<sup>62</sup> Future sales of sensitive nuclear technology are to be subject to tough controls and lax safeguards as found in the German and French contracts (possibly there to gain a competitive advantage) are to be avoided.

In order to ensure non-proliferation of nuclear weapons, the United States also has indicated the need for a gradual suspension of shipments of highly enriched uranium and has strongly opposed the construction of fast breeder reactors. These positions have also given rise to serious concern in Western Europe although it may not be fully understood that Washington does not object to fast breeders per se, only to those models that cannot be safeguarded under the IAEA inspection program. The Commission has come out strongly against the American policies and is determined to continue the fast breeder pilot program, now close to reaching the industrial stage. It also persists on a policy of reprocessing nuclear waste. It points out that fast breeder reactors are sixty times more efficient than light-water reactors and reprocessing will save up to 20 percent a year in uranium costs. At the same time, the Commission seems to realize that in view of the tougher attitudes of the United States, Canada, and Australia, perhaps the Euratom inspection methods will have to be tightened up to satisfy the strong non-proliferation interests of these countries.<sup>63</sup> In June 1978 the Community acceded to Washington's wishes for a renegotiation of the Euratom-U.S. cooperation agreement to strengthen Euratom inspection procedures despite strong initial opposition by France to the American request.<sup>64</sup>

The EC Council of Ministers has not as yet given its approval to all Commission proposals, but is likely to do so with only minor modifications. France and Germany have signed a cooperation agreement for improving R&D work on the fast breeder reactors and other member governments have agreed on the need of working toward the construction of various demonstration plants. Great Britain, Italy, Belgium, and the Netherlands are in the forefront of those pushing ahead with these projects.<sup>65</sup>

Meanwhile France has perfected a new uranium enrichment process making it possible to produce weakly enriched uranium to feed nuclear power stations (light water). This process excludes high-concentration enrichment, which is indispensable for the manufacture of atomic weapons, and would therefore help to dissipate anxieties over their proliferation. Adoption of this process would demonstrate France's determination not to encourage the proliferation of nuclear weapons, and would permit an independent nuclear

<sup>61</sup> *Facts on File*, September 1, 1978, p. 668.

<sup>62</sup> U.S., Soviet Union, France, Great Britain, Japan, West Germany and Canada. Newcomers are Poland, East Germany, Czechoslovakia, Belgium, the Netherlands, Italy, Sweden and Switzerland. See *International Herald Tribune*, September 23, 1977.

<sup>63</sup> See *Agence Europe Bulletin*, June 30, July 28-29, September 26-27, 1977, April 14, 1978.

<sup>64</sup> *Ibid.*, July 1, 1978.

<sup>65</sup> *Ibid.*, July 2 and 30, 1977.

policy that meets French energy requirements. However, France will continue its program for the construction of power stations of the Super-Phenix fast breeder type, as well as the reprocessing of nuclear fuels at the factory at La Hague, near Cherbourg.<sup>66</sup>

#### TENSIONS IN EC FOREIGN RELATIONS

The oil crisis has injected new discussions and potential sources of conflict in the foreign relations of Western Europe with other industrialized as well as developing countries. A pervasive and very serious concern with economic well-being has been the motivating force for policy initiatives and responses which seek to assure needed sources of energy. These policies have made it necessary, at least on the part of some governments, to jettison traditional sympathies toward Israel, although in view of the Camp David successes these tendencies may be reversed again. New links with developing countries have been constructed, in an effort to secure the continued good will of the oil producers which, despite their newfound wealth, remain essentially part of the Third World. The changed attitudes of some European governments toward Israel and the intensive search for alternate energy sources have generated occasional frictions with the U.S. which retains a dominant position in uranium technology and is eager to implement a new non-proliferation policy perceived by most Europeans as severely harmful to crucial West European interests.

How successful have the oil-related external policies of the EC countries been so far in reaching their goals? What are the prospects for the future? As a policy instrument the North-South Dialogue may have expanded and reinforced useful contacts, but despite major concessions to the Third World that could also have been made in the U.N. fora, no guarantee for oil delivery or price restraint has been obtained from the Arab oil producers. Indeed, as pointed out above, negotiations on the CIEC topics are now taking place within the U.N. itself or UNCTAD, and therefore the North-South Dialogue as a separate mechanism has practically been abandoned.

The Euro-Arab Dialogue has also strengthened the network of relations between the EC countries and the Arabs, but how much it has concretely enhanced supply security of oil resources is difficult to say. It would be prudent to be skeptical of any plan that would hope to sway the oil producers to a decisively more favorable attitude toward Western Europe in times of crisis.

Greater leverage for the Community countries may be available under the Lomé arrangements at least as far as oil supplies from Africa are concerned. The Lomé connection has become increasingly important for the affiliate countries, and the economic and political influence of the Community has been on the rise. How much impact these relationships might have, directly or indirectly, on oil producers in other parts of the Third World, especially in the Middle East, cannot be judged with any certainty, but most likely it would be rather minor. On the other hand, the individual economic cooperation agreements with such countries as Mexico or

<sup>66</sup> See *Agence Europe Bulletin*, May 6, 1977, August 5, September 23, 1978. The Commission regrets the compartmentalization of the Community nuclear market into national units, but prospects for the reversal of this trend are very poor.

the ASEAN group may help keep oil flowing to Western Europe. In this connection it must be kept in mind that Great Britain may well achieve oil sufficiency in 1980<sup>67</sup> and that Norway will be a net exporter of oil in the future. At the same time, the Third World cannot ignore widespread belief that the raising of the oil price has been a major cause both for inflation and for the general economic malaise in Western Europe and elsewhere, and that this continuing malaise adversely affects its own economic fortunes. Cartels to regulate other raw materials mostly found in the Third World will not help to improve the economic situations; rather they will add to the forces fueling inflation. Indeed, in view of the well-publicized interdependence affecting all the economies of the world, the developing countries might be well advised to put pressures on all oil producers in order to restrain from further increasing price or reducing the flow of oil.

The rejection by Germany and France of the key features of the U.S. nonproliferation policy—the U.S. policy having been largely based on strategic, political, and to no small degree, on moral considerations—initially gave rise to major transatlantic tensions. This rejection had strong popular support in Germany, as my own observations as a visiting professor in West Berlin and lecturer on energy-related topics in other parts of West Germany suggested again and again. Despite widespread protests against all nuclear activities by vociferous groups in both countries, it seems that much of the French populace also agreed with its government's stand. Although the joint studies on uranium enrichment and reprocessing of nuclear waste agreed upon at the London Summit in May 1977 have not been completed as yet, the EC Council of Minister's support of most of the Commission's plans and concepts on these matters and on the need for fast breeder reactors could set the stage for a smoldering feud between the U.S. and the EC member governments. Indeed, the already existing stiff commercial competition regarding sales of nuclear facilities to third countries between the U.S. and major European countries<sup>68</sup> and the very legitimate concern of Western Europe to ensure sufficient energy sources for its needs can not but contribute to making the transatlantic economic and political relations more difficult. On the other hand, the continued deliveries of enriched uranium by the United States to EC countries and the forthcoming renegotiation of the U.S.-Euratom agreement will help to ease transatlantic tensions. Still, the danger exists that instead of heeding the rational imperative of cooperation among the Atlantic alliance members, national egoism on both sides of the Atlantic may become a disruptive factor. Much will depend on the perceptions of top-level foreign policy makers on both sides of the Atlantic regarding the differential between the "cost" of divergent policies and the "cost" of closely coordinated policies in terms of domestic politics. The greater the cost of policy divergence, the more attractive will be close policy coordination. The IEA, an example of such coordination, has

<sup>67</sup> *Agence Europe Bulletin*, April 28, 1977, and *Wall Street Journal* September 12, 1977. See also Pierre Desprairies, "Le Probleme de l' Energie Trois Ans Apres La Crise Pétrolière," *Politique Etrangere* (Vol. 42, No. 1, 1977), pp. 21-34.

<sup>68</sup> France, in 1977, succeeded in selling Iran two nuclear power plants worth \$3 billion and has offered to reprocess nuclear fuel to Japan on a long-range basis. (*Wall Street Journal*, September 6 and 10, 1977), but it is now very doubtful whether this sale will be consummated.

clearly proved its usefulness by reducing the threat of another oil embargo and thereby reducing the potential for panic in Western Europe. Without doubt, the coordination procedures and institutional mechanisms developed on an intergovernmental basis to cope with the effects of the oil crisis have sharpened diplomatic and bureaucratic skills for cross-national policy cooperation. Some indication of the worth of those procedures and mechanisms became apparent in the aftermath of the Iranian revolution when, in March 1979, the member states of the IEA set an overall target of curbing the consumption of oil by two million barrels a day.<sup>69</sup> This first voluntary action, which might have a stabilizing effect on world prices, could be reinforced later by actual sharing of oil reserves to counter the exploitation of the petroleum shortage by oil producing countries. "Proof" of the worth of those procedures and mechanisms would be evidence that the target had been met.

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<sup>69</sup> *The Wall Street Journal*, March 5, 1979.

## V. NATIONAL SECURITY

### THE MILITARY BALANCE IN THE MIDDLE EAST IN 1978 \*

By Geoffrey Kemp\*\* and Michael Vlahos\*\*

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#### 1. INTRODUCTION

For as long as recorded history, the area we call the "Middle East" has been a strategic buffer between rival "imperial systems." Egyptians and Hittites; Romans and Parthians; Romans and Sasanians; Byzantines and Arabs; Crusaders and Arabs; Turks and Mamelukes; Turks and Persians; since Napoleon landed in Egypt, the great powers of Europe; and, since the 1950's, the United States: all have at one time contended for mastery of this arena.

Indeed, the history of great power rivalry in this area is so rich that it is easy to find many analogies for current events that concern us. The passing of the Russian Black Sea Fleet through the Turkish Straits in 1973 reminds us of Sinope in 1853 and the ensuing Crimean War. The recent coup in Afghanistan recalls the three wars Britain fought in that region to exclude Russian influence from its Indian buffer. The crisis in Iran brings to mind memories of Anglo-Russian and United States-Soviet struggles over spheres of influence in that land. The fragile security of oil production in the Persian Gulf reawakens images of German drives toward the oil fields of the Middle East during World War II, including plans for a transcaucasian descent after the Stalingrad offensive.

Turbulent, unstable, essential; the Middle East is both a strategic arena and a strategic frontier. In this context, the local power balances within the region provide indicators of the larger balance

\* This essay was completed in early 1979 and revised slightly in January 1980. [Editors note.]

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between two rival systems. Both the United States and the Soviet Union are intimately involved with the relative health, as well as the ideological inclination, of the military establishments of the Middle East; yet, in the wake of the Iranian revolution, questions about the utility of well-equipped but poorly-led local forces need to be carefully addressed. In time of peace, the local military can be used in the pursuit of the diplomacy of influence; in time of war, they can, in theory, serve the crucial role of ally.

It is the purpose of this essay to discuss the contemporary strategic balance in the Middle East from this wider global perspective. For this reason, the region will be taken to include an area roughly embracing Libya in the west, Iran and Afghanistan in the east, Turkey in the north, and the Sudan and all of the Arabian Peninsula to the south. Even this definition is arbitrary since, in reality, Libyan security cannot be decoupled from Algeria; Turkey cannot be decoupled from Greece, and the future of Iran and Afghanistan is intimately bound up with Pakistan, which, in turn, is not immune from events in India.

Yet, despite these obvious geographic spillovers, there are, within the Middle East, two critical centers of gravity for potential war which are of immediate concern to the great powers: the Arab-Israeli confrontation zone and the Persian Gulf region. There are, revolving around these two regional hubs, two groups of potentially belligerent states who have prepared for war with each other over the years and whose arsenals and force structure create the military balances of the Middle East. This essay first summarizes the "set and drift" of the military components of the strategic environment of the Middle East from 1973 through 1978, and then relates these factors to great power strategies.

The magnitude of the military buildup in the Middle East-Persian Gulf area over the past few years has been unprecedented both in terms of quantity and quality. However, although oil-rich states, especially Iran and Saudi Arabia, have joined the ranks of leading arms recipients, the most serious military problem since 1973 has remained the possibility of a new war breaking out between Israel and its immediate neighbors. This explains the bifurcation of the strategic environment of the Middle East into two centers of gravity. The Israeli center of gravity has, since 1948, experienced five major wars and an almost continuous staccato of low-level combat actions. The Arab-Israel military balance is, above all, a dynamic balance. A static balance measures force levels, current inventories, and overall posture. The dynamic balance relates to inventory acquisitions and "lead time," changes in organization and force posturing, and evolution in battle doctrine. The Arab-Israel military balance must be an attempt to assess the actual war-fighting, combat capability of opposing states. It must, furthermore, provide a calculus of assessing potential capability through time. It is, before all else, a combat balance rather than a bookkeeping balance.

In contrast, the Persian Gulf has been a focus of conflict and international tension, but not of war. The states surrounding this hub have acquired their nominal military capabilities through oil wealth. Their arsenals and establishments have been built for the purposes of diplomacy, display and deterrence. The military bal-

ance in the Persian Gulf can be more easily measured from year to year on the basis of inventory and establishment growth on the materiel plane. Combat capability has grown little from year to year as most countries of this region have, up to now, seemed more intent upon procuring very advanced weapons than fine-tuning their combat capabilities.

It is essential to examine each center of gravity as a self-contained strategic theater before attempting to link all states of the area in an overall regional picture. Before speculating about alternative military strategies or the nature of future conflict, it is necessary to outline some of the elements basic to any calculation of the military balance.

Three factors must enter into such an assessment: manpower and weapons levels—the quantitative sum of opposing forces; the technological sophistication and availability of these weapons in the context of their expected mission environments—the qualitative edge; and comparative battle doctrine and force structuring—a crucial measure of expected operational efficiency. At this point, an assessment can be made as to the extent of changes in combat capability over time. Extrapolations into future capabilities can then be attempted.

## 2. THE ARAB-ISRAEL BALANCE

Since the 1973 October war, the military capabilities of Israel and its major Arab adversaries have improved, but both quantitative and qualitative indices suggest that Israel has made the more significant advances to date. Insofar as it is possible to calculate the military balance, and so speculate on the changing military capabilities of both sides, most experts agreed that Israel will remain the strongest local military power in the Middle East through the near-term future. How long this "superiority" will continue, and whether it will be sufficient to deter an Arab coalition from launching a new war if current peace negotiations break down, remains uncertain.

### *a. Manpower Levels and Weapons Levels*

Since the First World War, mobilizable military manpower as an indicator of strength has lost much of its usefulness as a yardstick of the raw military balance. However, in the case of Israel, it is a crucial index of a small population's ability to reach the highest efficient limit in total war mobilization. Despite its small total population, the Israeli Defense Forces (IDF) have kept pace with the Arab order of battle in manpower levels and in force posture. From a total mobilized manpower limit of just under 300,000 in 1973, Israel has recently raised its potential to something over 400,000.<sup>1</sup> However, before mobilization, the Israelis have only some 164,000 deployed.<sup>2</sup> Current Israeli staff planning envisages preparations against a Northern and Eastern Front of Lebanon, Syria and Jordan. A Northern coalition might field up to 14 divisions—five Syrian, five Iraqi, four Jordanian.<sup>3</sup> A bilateral peace agreement

<sup>1</sup> *International Defense Review*, April 1977, p. 205.

<sup>2</sup> *The Military Balance*, London: IISS, 1978-79, p. 36.

<sup>3</sup> Drew Middleton, *The New York Times*, June 5, 1977, p. 5.

and U.S. diplomatic leverage might well keep Egypt immobilized in such a conflict. However, with Soviet-supplied bridging equipment providing rapid deployment into the Sinai by Egyptian forces, Israel, even in such a "best case" scenario, could not ignore this front. In a "worse case" situation, Egypt's ten active divisions in the eastern Sinai could increase the potential combination against Israel to 24 divisions.<sup>4</sup> But the increase in Israel's reserves since 1973 means that by 1980, on a mobilization base of 450,000 men, some 14 full-establishment divisions will be deployable, as opposed to the seven rough divisional groupings sent to the fronts in 1973.<sup>5</sup>

Without full Jordanian participation, the local Arab manpower ratio after mobilization has deteriorated. Since 1973, mobilizable Israeli manpower has increased by 50 percent (by 1980), while that of Egypt, Syria, and Iraq has remained relatively stable. What had been a 2.5:1 ratio against Israel in 1973 is now no more than 1.8:1. Only through the addition of the Jordanian order of battle, as well as significant unit deployments from outlying Arab states at the brigade level and above, can the 1973 ratio again be attained.<sup>6</sup>

A comparison of the Arab-Israeli inventories in five key weapons systems—tanks, armored personnel carriers, artillery, combat aircraft and major air-defense systems—shows a shift of the quantitative balance in the five years since 1973. The Israeli arsenal has grown at a consistently higher rate than those of its primary Arab opponents, with the major exception of air-defense systems.

The main battle tank, the armored personnel carrier, and artillery are the weapons that, in modern battle doctrine, form the core of the "combined arms team" triad. As mutually supporting weapons systems, they are the basis of offensive force structuring and are still perceived as the key to the land battle, in spite of speculation as to the impact of new anti-tank weapons.<sup>7</sup> Table 1 shows the extent to which Israel's relative position in stocks of these three weapons systems has improved.

TABLE 1.—CHANGES IN WEAPONS INVENTORIES, 1973-78: ISRAEL, EGYPT, SYRIA, AND IRAQ<sup>1</sup>

|                             | 1973               | 1978               |
|-----------------------------|--------------------|--------------------|
| Main battle tanks:          |                    |                    |
| Israel .....                | 2,000              | 3,175              |
| Egypt .....                 | 1,960              | 1,600              |
| Syria .....                 | 1,600              | 2,500              |
| Iraq .....                  | 860                | 1,800              |
| Armored personnel carriers: |                    |                    |
| Israel .....                | 1,000              | 4,700              |
| Egypt .....                 | 2,000              | 3,000              |
| Syria .....                 | 1,000              | 1,700              |
| Iraq .....                  | 300                | 1,000              |
| Artillery:                  |                    |                    |
| Israel .....                | <sup>a</sup> 400   | 1,200              |
| Egypt .....                 | <sup>a</sup> 1,690 | <sup>a</sup> 1,300 |
| Syria .....                 | <sup>a</sup> 575   | <sup>a</sup> 800   |
| Iraq .....                  | <sup>a</sup> 300   | <sup>a</sup> 800   |

See footnotes on p. 427.

<sup>1</sup> *The Military Balance*, 1978-79, p. 35.

<sup>2</sup> Abraham R. Wagner, "The Middle East Force Balance and Israeli Assistance Requirements," Analytical Assessments Corp., Los Angeles, 1976.

<sup>3</sup> *The Military Balance*, 1978-79.

<sup>4</sup> See especially, *Field Manual 100-5*, section 2-2, for a concise statement on current U.S. doctrine.

TABLE 1.—CHANGES IN WEAPONS INVENTORIES, 1973–78: ISRAEL, EGYPT, SYRIA, AND IRAQ<sup>1</sup>—Continued

|  | 1973         | 1978         |
|--|--------------|--------------|
| High-performance, operational combat aircraft: |              |              |
| Israel.....                                    | 340          | 620          |
| Egypt.....                                     | 568          | 475          |
| Syria.....                                     | 290          | 392          |
| Iraq.....                                      | 218          | 327          |
|  | Arabs:Israel | Arabs:Israel |
| MBT ratios.....                                | 2.21:1.00    | 1.85:1.00    |
| APC ratios.....                                | 3.30:1.00    | 1.34:1.00    |
| Artillery ratios.....                          | 6.41:1.00    | 2.41:1.00    |
| FB ratios.....                                 | 3.16:1.00    | 1.93:1.00    |

<sup>1</sup> The Military Balance, 1973–74, 1978–79, the International Institute for Strategic Studies, London: 1973, 1978.

<sup>2</sup> 250 self-propelled.

<sup>3</sup> No self-propelled.

For the first time, the main battle tank ratio has fallen below the 2:1 factor against Israel. Furthermore, mechanized armored personnel carriers (APC's) and the artillery arm of the Israeli combined arms triad have been traditionally neglected in favor of concentration on tank stocks. Since 1973, however, these deficiencies have been greatly improved vis-a-vis the Arabs. Israeli armor now possesses both the direct anti-tank support (in the form of anti-Arab ATGW dedicated APC's) and the indirect fire support (of integrated self-propelled artillery regiments) that it lacked in the 1973 war.

In contrast, although Arab inventories have grown, they have not received the self-propelled artillery tubes necessary for highly mobile operations. This deficiency may well restrict their strategic options in event of a new war.

In comparisons of air power, Israeli odds have followed the same significant course of improvement. A 2:1 (Arab-Israeli) ratio here should ensure Israeli air superiority in war, and leave enough of a combat reserve for its Air Force to engage in high-attrition missions such as battlefield close air support and air defense suppression, if the battlefield environment demands such intervention.

Numbers and ratios can never form an absolute index from which to measure military power. However, among certain writers on military strategy, success in the offensive was often linked to the attainment of a 3:1 ratio advantage in manpower and weapons levels. Until recently, the Arab "confrontation" states have never faced the prospect of their arsenals falling below this symbolic level necessary for battlefield success. The Israeli General Staff, for its part, felt that it "could live" with such odds.<sup>4</sup> Through 1978, however, such key indicators in the Arab arsenal as main battle tanks and high-performance combat aircraft barely held a 2:1 ratio over Israel. The trend in these weapons systems since 1973 indicates that Israel, today, might well be able to concentrate its forces in event of war on a chosen sector of front and, there, achieve actual numerical superiority. If manpower and weapons level ratios remain static, or continue to develop in favor of Israel, the

<sup>4</sup> Drew Middleton, *The New York Times*, June 5, 1977, p. 5.

symbolic perception of the military balance will continue to reinforce the current image of Israeli "superiority."<sup>9</sup>

There are, however, significant indications that such future trends, at least over the mid-term future (post-1980), will again tend to favor the Arab "correlation of forces." It must be remembered that much of the present Arab situation is due to a condition of "zero growth" in the Egyptian arsenal, caused by a collapse in relations with its main supplier through 1973, the Soviet Union. Over the course of 1978, however, orders of sophisticated arms from the United States, Great Britain, France and Italy were a sign of relative resurgence in the equipment stocks of the Egyptian arsenal which, over the course of the next three to five years, might well put Egypt once more in a battle-ready position. In spite of the impending peace treaty with Israel, Egypt had already ordered \$72 million worth of Swingfire missiles from BAC, 50 Lynx helicopters, 6 FPBG from Vosper, 14 Mirage V fighters, 2 Lupo-type frigates, 50 F-5E and F-5F fighters, 800 M-113 APC's, and shown increasing interest in the Dassault Mirage 4000,<sup>10</sup> not to mention an aging guided-missile destroyer from Great Britain (Devonshire) (although this last option was vetoed by UK MoD).<sup>11</sup> This represents a formidable order book for a single year.

Not only was Egypt ordering sophisticated weapons systems from the West, it began making plans to build them indigenously. Cairo and Helwan are fast becoming the center of a multinational Arab military industrial base. The Arab Organization for Industrialization (AOI), a consortium of Egypt, Saudi Arabia, Qatar, and the United Arab Emirates, is already supplying Dibber bombs, rockets, and ordnance. By the end of 1979, it was hoped that AOI would be producing Jeeps (AMC), Swingfire ATGW (BAC), and Lynx helicopters (Westland). The balance of 230 Lynx aircraft will be produced in Egypt after the initial batch of airframes is shipped from Yeovil in England. Later, 160 Alpha Jets (Dassault/Breguet/Dornier) are to follow, succeeded eventually by production of the Mirage 2000 fighter (Dassault/Breguet). In terms of creating an indigenous base for the replenishment of Arab arsenals (especially that of Egypt's) AOI, had it survived the threatened Arab League boycott of Egypt might have eventually freed the largest military establishment in the Arab world from the kind of dependence on great power support that has all but grounded its Mig-21 fleet. Of even greater potential importance, however, AOI offered the kind of technical and managerial training necessary to maintain, over time, the infrastructure of "real" military power—organic and self-sustaining—as opposed to "show" power. This comparison is important in any analysis of other military establishments in the Middle East, especially that of Iran.<sup>12</sup>

To balance relative Egyptian deterioration over the past five years, Iraq and Syria have made impressive gains in key weapons'

<sup>9</sup> For a representative example of this perception in certain Washington circles, see Anthony H. Cordesman, "The Arab-Israeli Balance: How Much is Too Much?", *Armed Forces Journal International*, October 1977.

<sup>10</sup> "Major Defense Contracts," *International Defense Review*, 1977-78; "Arms Transfer Tables," *Defense and Foreign Affairs Digest*, 1978; *The Military Balance*, 1978-79, pp. 97-98.

<sup>11</sup> John Moore, editor, *Jane's Fighting Ships*, 1978-79, London: 1978.

<sup>12</sup> Robert R. Ropelewski, "Arabs Seek Arms Sufficiency," *Aviation Week and Space Technology*, May 15, 1978, pp. 14-15; Robert R. Ropelewski, "Arabs Push Arms Industry Despite Peace," *Aviation Week and Space Technology*, November 6, 1978, pp. 16-18.

stockpiles. In the early months of 1977, Iraq sealed a reported \$3 billion, 3-year arms deal with the Soviet Union.<sup>13</sup> In February of 1978, Syria concluded an arms agreement with the Soviets which, according to Israeli analysts, was "the largest ever signed by Moscow and an Arab country."<sup>14</sup> These agreements with the Soviet Union help to explain the 64 percent growth in Syrian and 209 percent growth in Iraqi main battle tank stockpiles; a growth of 58 percent and 533 percent in armored personnel carriers; and of modern high performance combat aircraft of 74 percent and 67 percent.<sup>15</sup> Furthermore, Syria and Iraq have concluded agreements with Western arms suppliers for Milan and HOT ATGW's, Kormoran ASM, Dassault Mirage F-1 fighters, EE-11 Cascavel APCs, and even 2,000 Pinzgauer all-terrain vehicles for the Syrian Army, which will greatly enhance the mobility of its armored/mechanized formations.<sup>16</sup>

Jordan, as well, has been re-equipping its ground formations. With the full spectrum of U.S. equipment available, Jordan now has a modern inventory of MBT's, APC's (mostly M-113), and SP artillery (including M-110A1's); as well as Redeye, M-163 Vulcan, and improved Hawk air defense systems to fully equip its two armored divisions to current U.S. standards.<sup>17</sup> Saudi Arabia has not been included in the initial calculus of the Arab-Israel balance, as it is not a member of the "inner ring" of confrontation states. However, it is quite possible that, with new stocks of some 250 AMX-30 and 250 M-60 MBT's, as least two new armored brigades will be formed as stockpiles grow, and that these brigades could be stationed on the Northwest frontier, near the Negev.<sup>18</sup>

Thus, although Israel's position vis-a-vis its potential opponents has dramatically improved since 1973 in terms of available manpower and weapons' inventories, this trend will level out, if not reverse, in the course of the next five years. Large accretions of modern weapons will enable combat-ready Arab units to deploy along every sector of the Israeli frontier. Furthermore, the Arab confrontation states will increasingly be equipped and trained to Western levels of sophistication. Under these circumstances, raw weapons' ratios became less meaningful to a calculus of the military balance.

Actual defense expenditures of Israel and its potential enemies provides another yardstick for measuring Israel's relative position. In 1978, the Israeli defense effort equated to \$3.31 billion, in contrast to that of Egypt, Syria, Jordan, and Iraq, which totalled \$5.894 billion. Israel's military budget, at 56 percent of the total of surrounding Arab states, is thus quite consistent with a basic, rough 2:1 ratio of key weapons' stocks. If Saudi Arabia is included, however, Israel's position drops to a mere 21.3 percent. Furthermore, Israel's defense effort has, in this context, been declining, from 23.8 percent of the combined Arab defense effort in 1975. In this context, Saudi Arabia's support of Egypt and Jordan could be crucial to these states' future raw military strength.

<sup>13</sup> *Aviation and Marine*, March 1977, p. 21.

<sup>14</sup> *The New York Times*, March 16, 1978.

<sup>15</sup> *The Military Balance*, 1973-74, and 1978-79.

<sup>16</sup> "Major Defense Contracts," *International Defense Review*, 1977-78; "Arms Transfer Tables," *Defense and Foreign Affairs Digest*, 1978.

<sup>17</sup> *The Military Balance*, 1978-79, p. 37.

<sup>18</sup> *Ibid.* p. 40.

### b. Technology and Systems Efficiency

Israel has maintained a significant lead in military technology since 1973. Although this lead has widened in some sectors, the gap may narrow after 1978 as the acquisition of sophisticated Western weapons systems by Arab states continues. However, in the critical support areas—weapons' maintenance, battle efficiency, and operability—Israel is unlikely to lose its longstanding lead for some time to come.

It is possible that either Syria or Iraq may soon receive small numbers of the new Soviet main battle-tank, the T-72. To date, however, the latest MBT deliveries to both states from the Soviet Union have been late-model T-62's, and only India has received a trial batch of T-72's, the first to leave the Soviet Union.<sup>19</sup> This tank, with its powerful 125mm semi-rifled gun and its improved mobility and suspension systems, could overshadow much of the current Israeli tank inventory. Meanwhile, the standard 105mm gun mounted in Israeli tanks will retain its proven superiority over the 115mm smoothbore gun of the T-62.<sup>20</sup>

Israel's indigenous main battle-tank—the Merkava or "Chariot"—entered series production in the autumn of 1978, after a nine-year development program. Although Israel is at present under no pressing need for tanks, having received to date nearly 1,000 M-60's from the United States, a full-scale production capability could, in future, free Israel from its current dependence on American armor. Furthermore, the Merkava embodies special design qualities tailored to battle experience in the Middle East environment. Armed with an indigenously-produced 105mm rifled gun, the Merkava, at 56 tons combat weight, gives an immediate indication of its emphasis on armor protection. Firepower and mobility are second and third priorities in its design philosophy, although both these areas will receive improvement in the Mark II model now under development. Turret-shape, front-mounted engine, and slope of the glacis plate also indicate a predominantly hull-down, tank-destroyer role from pre-prepared firing ramps, indicating a 1973-like tactical employment. The Merkava is, above all, a thoroughbred tank-killer, built to survive an initial onslaught and keep fighting without relief for extended periods.<sup>21</sup>

This role in tactical employment is, in large part, an outgrowth of experience in 1973, which proved a tank consistently to be the most effective tank-killer.<sup>22</sup> As the October War revealed, the ability of a tank to achieve repeated hits at range tends to overshadow all other considerations in the heat of battle. To this end, tank fire-control systems and night/zero visibility sensors are, in some ways, more responsible for battle performance than the quality of the vehicle they service. In this respect, Israel still holds a decisive edge. The Soviet tanks of the Arab armored forces lack both optical and laser range-finders. Israel, in contrast, has equipped its inventory and with optical equipment equal to any in service in the

<sup>19</sup> *International Defense Review*.

<sup>20</sup> "Details of the Soviet T-72 Battle Tank," *International Defense Review*, June 1977, pp. 1031-34; also, Jac Weller, "Middle East Tank Killers," *RUSI*, December 1974.

<sup>21</sup> "An Israeli Tank Ready for Series Production: The Merkava MK1," *International Defense Review*, vol. 11, No. 7/1978.

<sup>22</sup> *Field Manual 100-5*; also Jac Weller, "Middle East Tank Killers."

West and is currently in the process of fitting Hughes' laser range-finders to its armed forces.<sup>23</sup> Egypt has contracted for Swedish ISKRA 22A laser battle sights.<sup>24</sup> Until these are incorporated into the Arab arsenal, the armor of the states opposing Israel will depend on a graticule in the battle sight for simple stadiametric ranging: a relatively inaccurate system, which does not exploit to the fullest the theoretical range of the 115mm smoothbore of the T-62.<sup>25</sup>

In anti-tank guided weapons (ATGW) systems, Israel holds an advantage in possessing the U.S. TOW system. Arab armies, with the exception of Jordan, did not acquire ATGW's until recently.<sup>26</sup> After 1978, the incorporation of Milan and HOT into the Syrian arsenal and Swingfire into the Egyptian inventory will return some of the anti-tank "punch" lost to the Arab armies when Israel developed effective Sagger-suppression tactics during the 1973 war.<sup>27</sup> Furthermore, large stocks of TOW and Dragon equip the Jordanian and Saudi ground forces, so that Israeli armor might well have to cope with U.S. anti-tank technology.

Israel has recently made further improvements in its anti-tank capability by acquiring 36 Hughes 500 attack helicopters, to be employed in the anti-tank role with eight TOW per aircraft.<sup>28</sup> This gives Israel a mobile anti-tank reserve that none of the Arab "inner ring" will be able to match until Egypt begins license production of some 230 Lynx after 1979 and Jordan receives some 10 AH-1H.<sup>29</sup> The attack helicopters will be held not at divisional or at corps level but by the front HQ's of the Israeli Army. In this fashion, a local Arab armor breakthrough at the forward edge of the battle area (FEBA) can be dealt with behind the front without redeploying forward units, and response would be very nearly immediate.<sup>30</sup>

In the realm of indirect fire support, Israel has made major improvements since 1973 in comparison to Iraq, Syria, and Egypt. The Arabs, with the exception of Jordan, are still dependent upon towed artillery and have not yet acquired either European or new Soviet 122mm and 152mm self-propelled (SP) guns. Israel has ordered large numbers of medium and heavy SP guns from the United States, as well as embarking upon an extensive indigenous effort, involving the marriage of 155mm tubes with Sherman and Centurion chassis components.<sup>31</sup> The most recent order from the United States for 94 M-109A1's and an unspecified number of M-107s will bring Israel's SP artillery park to something over 500 tubes.<sup>32</sup> The buildup of mobile, long-range artillery in Israel is

<sup>23</sup> *Jerusalem Post*, May 24, 1977; *International Defense Review*, April 1977, pp. 4, 205.

<sup>24</sup> R. M. Orgorkiewicz, "Tank Fire and Gun Control Systems," *International Defense Review*, January 1976, p. 71.

<sup>25</sup> *Ibid.*, p. 70.

<sup>26</sup> "Major Defense Contract," *International Defense Review*, 1976-78; "Arms Transfer Tables," *Defense and Foreign Affairs Digest*, 1978.

<sup>27</sup> Jac Weller, "Middle East Tank Killers," *RUSI*, December 1974; Jac Weller, "Armor and Infantry in Israel," *Military Review*, April 1977.

<sup>28</sup> "Arms Transfer Tables," *Defense and Foreign Affairs Digest*, March 1978.

<sup>29</sup> Robert R. Ropelewski, "Arabs Push Arms Industry Despite Peace," *Aviation Week and Space Technology*, November 6, 1978, p. 16.

<sup>30</sup> See *Field Manual 100-5*, sections 4-8, 5-5, and 5-9; and, Col. Charles F. Drenz, "The Cobra/TOW Helicopter," *National Defense*, November/December 1975.

<sup>31</sup> Lt. Col. P. Crevecoeur, "The Tampella 155mm. Gun-Howitzer," *International Defense Review*, August 1976, 662-663.

<sup>32</sup> Perhaps as much as 660, if figures in the *Military Balance* 1978-79, p. 37, can be fully accepted.

significant. With a maximum range of 32.8km, the 175mm M-107 provides Israel with excellent counter-battery capability. In addition, the M-107 can be used most effectively against enemy air-defense sites, a factor of supreme importance in the air-defense suppression battle.<sup>33</sup> Finally, Israel has pushed development of the Rigoletto command-and-control system for mechanized forces, which would provide precise artillery-surveying capability and target acquisition capacity in a fluid battlefield.<sup>34</sup> In contrast, Arab towed artillery, although present in large numbers, almost predicates a static or ponderously rolling front and cannot respond to the degree of battlefield flexibility demanded in the modern combat environment.

In terms of new technologies in manned aircraft, Israel was able to take the lead after 1973 mainly through its acquisition of 25 F-15 Eagles. In other respects, the U.S. F-4's and the indigenously produced Kfir represent an older generation in aircraft design. The Kfir is an inspired improvisation, combining the Mirage airframe and U.S. Pratt & Whitney engines. In contrast, the 180-odd Mig-23 Floggers now in the combined inventories of Egypt, Syria and Iraq are a formidable combat aggregate, at the very least in maneuver and maneuver curves, the combat equal of the Kfir. Furthermore, the acquisition by Iraq of 36 Dassault Mirage F-1's (with an option for another 36) and the possible co-production by Egypt and the AOI consortium of the Mirage 2000/4000 in the 1980's would have eroded Israel's present position. The 50 F-5E and F-5F fighters that were to have been delivered to Egypt by Northrop would not so much in themselves markedly improve Egypt's air order of battle (OB). They and the F-4's that Egypt is now scheduled to receive, however, incorporate certain missile guidance and air/nav attack electronics for such U.S. missile systems as the Maverick ASM. Such missiles, if transferred from Saudi Arabia, could play potential havoc with Israeli tank columns.<sup>35</sup> Finally, Saudi Arabia holds the trump squadrons of 60 F-15's. When they enter squadron service in the early 1980's, these aircraft will quantitatively outmatch Israel's only comparable all-weather interceptor: the IAF's own 40 F-15's. These, if thrown into the balance from the eight new airfields building in the Tobuq area, could well tip the scales in the next air superiority battle over Israeli airspace. Even with some 40 F-15's and 75 F-16's, Israel would be facing the most sophisticated air combat technology on something like even odds.

To make the air battle yet more difficult for Israel, the Arabs have retained a clear SAM superiority over Israel. Egypt has c.635 surface-to-air missiles (SAM's) SA-2/3/6; Syria at least as many in 42-48 batteries; and Iraq nearly 400 SA-6 in 25 batteries. In addition, both Syria and Iraq have been receiving numbers of SA-7/18/9 tactical air-defense systems.<sup>36</sup> Egypt has just acquired the highly effective Crotale tactical system from France, providing an all-weather, low-level SAM coverage for ground units on the battlefield. The Israeli air-defense suppression mission could once again

<sup>33</sup> Truman R. Strobridge and Ronald H. Schriefer, "The U.S. Army's Improved 203mm SP Howitzer," *International Defense Review*, May 1978, pp. 389-92.

<sup>34</sup> *Aviation Week and Space Technology*, February 7, 1977, p. 9.

<sup>35</sup> *International Defense Review*, July 1977, p. 784; Robert R. Ropelewski, "Arabs Seek Arms Sufficiency," *Aviation Week and Space Technology*, May 15, 1978, p. 15.

<sup>36</sup> *The Military Balance*, 1978-79, pp. 35-40.

prove highly costly in a future war.<sup>37</sup> Arab air defense is now completing the ring around Israel by linking with Jordan. But-tressed and confident of its air defenses for the first time in many years, Jordan's newly acquired U.S. Hawk batteries, Redeyes and Vulcan air-defense systems will allow King Hussein the choice of whether or not to deny Israel the use of his airspace in the event of war—an option he did not have in 1973.<sup>38</sup>

Nevertheless, Israel has made great improvements in its air defense/air defense suppression capabilities. In addition to ordering another 60 improved Hawk missiles for area coverage, Israel has received up to 900 Vulcan/Chaparral gun and missile systems, based on the 20mm Vulcan cannon and the Sidewinder heat-seeking AAM. These will provide excellent new low-level, tactical coverage near the FEBA.<sup>39</sup> In terms of air-defense suppression, new techniques in electronic countermeasures (ECM) have reduced the combat effectiveness of the old generation SA-2 and SA-3. Evasive tactics (developed very quickly by the IAF in 1973 against the SA-6), in conjunction with stand-off air-to-surface missiles (ASM) such as Maverick, have further reduced the expected lethality of the SA-6. It will be the new low-level tactical systems such as Crotales and the SA-7/8/9 that will provide the greatest obstacle to viable close air support (CAS) by Israel in the future.

The priority combat mission of the IAF remains air superiority, or the defense and control of air space over both Israel and the forward battle areas. So long as the IAF can keep the Arab air forces from the skies—as they have done in all previous wars—the air threats to Israel proper and its land forces are considerably reduced. Aircraft inventories and procurement reflect this paramount doctrine. Mission-specific close-support aircraft such as the Fairchild-Republic A-10 have been rejected in favor of additional orders for the Kfir and General Dynamics F-16, which can be considered classic dogfighters. Furthermore, Israel's weakness in medium-altitude SAM coverage can also be attributed to the confidence and reliance placed upon manned aircraft in the air-superiority mission. The Israeli decision to procure four Grumman E-2C airborne early-warning aircraft will significantly increase IAF capabilities in the air-to-air theater. The E-2C can perform tracking, follow up to 500 targets simultaneously, and monitor multiple-target intercepts for c.30 fighters at a time.<sup>40</sup> There is, so far, no indication that the Arab air forces have placed orders for this type of sophisticated system.

For the immediate future, Israel still holds the technological edge at sea. While the navies of Egypt, Syria, and Libya have been saddled with the obsolescent SS-N-2 *Styx*, with its evadable beam-riding guidance, Israel has introduced the Mark II model of the successful *Gabriel* SSM, and is to receive the 100km-range U.S. Harpoon SSM. The naval-technological balance, however, is rapidly changing, as Libya and Egypt both receive the *Otomat* SSM, and Syria and Iraq the *Kormoran* and *Exocet* ASM's, respectively. The *Otomat* SSM's will be carried on two new Egyptian frigates of the *Lupo* type and four new corvettes for Libya: a building in the

<sup>37</sup> *Ibid.*, p. 97.

<sup>38</sup> "Major Defense Contracts," *International Defense Review*, 1976-78.

<sup>39</sup> *The Military Balance*, 1978-79, pp. 36-7.

<sup>40</sup> John F. Brindley, "Grumman Eyes New Markets," *Interavia*, October 1976, pp. 976-977.

Cantieri Navali Riuniti.<sup>41</sup> These fine ships will be every bit a match for the *Reshef*-class corvettes, and possess both the technological punch and staying power to dispute Israeli control of the Levantine-near seas.

Israel has always managed to equalize the weapons' ratio on the battlefield through the maintenance of peak battle efficiency and operability. This has been true of aircraft sortie rates and turn-around time, as well as with tank repair and recovery. Thus Israel has been able to count on double, or even triple, the operational effectiveness of the opposing Arab arsenals. The Arab maintenance problem has been compounded since 1976 by the lack of spare parts for key equipment inventories in the Egyptian arsenal. Their foremost difficulty has been the increasing depletion of Egypt's Mig-21 fleet. Attempts to persuade India and then Yugoslavia failed. Egyptian hopes now rest on a Rolls-Royce contract to overhaul Mig-21 engines and avionics.<sup>42</sup>

Israel's maintenance problem has never been one of operability, but rather of combat resupply in high-intensity conflict. Estimates now place Israeli stocks of ammunition and combat stores at between 21 and 28 days for a war at the intensity of the 1973 October war.<sup>43</sup> Given the military balance today, that would suffice for a short war, without U.S. aid.

### *c. Israeli and Arab Battle Doctrine and Force Structuring*

Battle doctrine and the tactical structuring of combat units have become a crucial area of focus for both Israeli and Arab planners. The nature of the "next war" can never be precisely forecast. Nevertheless, unit organization and tactical training for battle must attempt to adapt an army to the climatic conditions of future war. Within this context of doctrinal preparation, a central question facing Israel concerns the fluidity of the front of the emerging battlefield. In another war, will Israeli armor once more be able to force a war of movement? Will its tank columns once more be seen encircling Arab armies from the rear, or will they face the fortified lines of a hardened front? For example, the relatively narrow Northern/Syrian front tends to create a very dense battle area. Massed force levels and high-intensity arms concentration could "pack the front." As experience in 1973 showed, as the Israeli counter-offensive expended itself on the route to Damascus, lead units were halted along the highly fortified Sa'sa-Aliqin lines some 30km in front of the city.<sup>44</sup>

In facing a potential Syrian/Iraqi/Jordanian combination, where the decisive theater would be the Northern front, Israel faces the choice of either rough movement through Lebanon or Northern Jordan, or a head-on assault of the main Syrian/Iraqi forces attempting to combine and mass south of Damascus. Elaborate out-flanking movements—which so often seem attractive as an alterna-

<sup>41</sup> Paolo Penoni, "Genoa: 7 May 1978," *Aviation and Marine*, May 1978, pp. 35-42. This issue also co-tains, as well as a rundown of Italian shipbuilding and marine industries, summaries of characteristics of warships building in Italy for Egypt.

<sup>42</sup> "Egypt Begins Search for Arms Supply," *Aviation Week and Space Technology*, March 22, 1976, p. 51.

<sup>43</sup> Irvine J. Cohen, "Israeli Defense Capability," *National Defense*, January/February 1976, p. 272.

<sup>44</sup> Maj. Gen. Chjaim Herzog, *The War of Atonement*, Boston: Little, Brown, 1975, pp. 135-6.

tive to direct assault—would be extremely difficult for major armored formations over the broken ground and winding river ravines of Lebanon and Jordan. In order to succeed in rolling up Syrian/Iraqi flanks, initial objectives would need to be obtained in 24 to 36 hours, as they were in the canal crossing of 1973, but over much greater distances.

If Israel, on the other hand, were forced to approach a "hard front" and, like Luddendorf in March of 1918, attempt to achieve a massive breakthrough on a select sector of front, then vastly superior tactics and force structuring would be necessary to maximize its offensive "punch" and hold losses to a minimum. This would require weapons' concentration, flexibility of application, and staying power on the battlefield, which would in turn mean enormous supplies of ammunition.

In this context Israeli force structuring requires assault-and-maneuver units with the firepower to break through, the mobility to exploit the breakthrough, and the staying power to keep going until operational objectives are reached. This required capability demands evolutionary restructuring from traditional brigade order of battle to a mature divisional battle posture. As recent articles have indicated, this evolution of the *ugdah* from a loose command network for brigade-level task forces to a cohesive, organic formation is now complete.<sup>45</sup>

In the United States, a rethinking of basic battle doctrine over the last five years has resulted in a new field manual, FM-105, promulgated in 1976. Emphasizing firepower and staying power, its doctrinal perspectives have led to the introduction of what is known as the "heavy division" into the U.S. Army order of battle.<sup>46</sup> With 112 medium and heavy artillery tubes, as opposed to the 54 medium tubes of the old-standard armor division, and 15 maneuver battalions in place of the nine available to the old-standard division, the "heavy division" concept creates a nearly self-sufficient armored corps, capable of sustained operations on the battlefield.<sup>47</sup>

Israel, although it does not possess the scale of modern equipment necessary to restructure all of its divisions on the U.S. "heavy-division" model, possesses sufficient armor and SP artillery to form at least six "first-class" assault-and-maneuver divisions. These would be the first echelon "breakthrough" units, heavy in MBT's, APC's, and SP artillery. With Israel able to field some 11 divisional units by 1980, the remaining five or more *ugdahs* would be structured more along the lines of current standard mechanized divisions, with fewer tanks and towed artillery.<sup>48</sup>

Some of the basic restructuring decisions were made early in 1974, with General Israel Tal, then Deputy Chief-of-Staff, presiding over the discussions. Recently when writing of Israeli defense doctrine in *Maarachot*, Tal underscored the theme of the central importance of the need to achieve conditions which would allow for a pursuit of a mobile offensive in future war. Tal stresses that Arab

<sup>45</sup> Jac Weller, "Armor and Infantry in Israel," *Military Review*, April 1977; Maj. Gen. Israel Tal, "Israel's Defense Doctrine: Background and Dynamics," *Maarachot*, December 1976.

<sup>46</sup> Col. John W. Foss, Col. Donald S. Pihl, Lt. Col. Thomas E. Fitzgerald, "The Heavy Division," *Military Review*, March 1977, *Field Manual 100-5*, "The New Lethality," section 2-2.

<sup>47</sup> "The Heavy Division," p. 20.

<sup>48</sup> 450-plus pieces of towed artillery in the 120/122/130/155 mm. range is certainly enough to equip 5 support/mechanized divisions, and manpower and transport is certainly available, as well as second-line armor (mainly T-54/55s).

war objectives, in combination with Israel's lack of strategic depth, preclude a war option of "flexible defense"—where ground is traded for time, and where enemy forces are destroyed at the expense of territorial loss.<sup>49</sup> Today, more than ever, there is no alternative to the offensive in Israeli strategy. A separate peace with Egypt, followed by an uncertain status for the "Left Bank", would essentially, with the exception of a measure of security on the Golan, put Israel essentially back into the strategic picture of 1967. If attacked, or imminently threatened with attack, Israel would have little choice but to strike Arab ground forces.

In this context of a future war following current "peace" arrangements, which would measurably pull back Israel's frontiers, Israel's survival would hinge on the speedy destruction of at least one Arab army. There are indications that command-and-control functions for an operational Syria/Iraq/Jordan coalition are, in fact, being forged. This coalition is the major current concern of Israeli planners. If this triple threat, backed by Saudi arms and support, decides to move against Israel, victory could be achieved only through the neutralization of the main center of Arab military power: the combined Syrian and Iraqi armies massed South of Damascus. In order to crush the forces facing them, Israel would have to reach its objectives within a week, before international intervention.

By concentrating six TOW-augmented (anti-tank "heavy") mechanized brigades in the Sinai to screen possible Egyptian moves, three more in the Negev to face Saudi and Jordanian armor, and several low-grade infantry brigades to hold the Jordan River line, The Israeli Army could free most of its armor/assault units for the Northern front. If at least one armored division and all five para/airborne brigades were held in a central reserve for all four fronts, no less than eight divisions, with the bulk of Israeli armor and its entire park of SP tubes, could be concentrated on the relatively narrow "breakthrough sectors" of the Northern front.

Arab battle doctrine to date has not stressed unit/mission reassessment. The Egyptian, Syrian and Iraqi armies still generally hold to most of the organizational and tactical doctrines of the Soviet armies of five years ago. If, however, new Soviet aid to Syria and Iraq includes the kind of thorough-going emphasis on mobility and on continuous combat now incorporated by the Group of Soviet Forces in Germany (GSFG), these Arab states, at least, may come to offer a very formidable kind of offensive ability against Israel. Given their new relationship, Syria and Iraq might well achieve a unified command structure capable of effectually integrating both armies. If the ten or eleven "fast" divisions (armored/mechanized) of Syria and Iraq could be combined before an assault, Israel would face a head-on, "meat-grinder" clash of arms on the Golan Heights which would far surpass the fighting of 1973 in intensity, and in potential casualties.

Only by striking first, and destroying the Syrian Army before the Iraqi divisions joined the battle, could Israel employ its massed assault forces to numerical advantages: eight Israeli divisions to anywhere from three to five Syrian divisions in the immediate frontal area.

<sup>49</sup> Maj. Gen. Israel Tal, "Israel's Defense Doctrine," *Maarachot*, December 1976, pp. 2-8, 11-12.

Pre-emption of this kind implies an immediate ground offensive, to cripple, and if possible destroy, the armies of an Arab coalition piecemeal. The pre-emptive role of the IAF associated with the 1967 war might well be more limited, and confined at first to key interdiction missions, such as disrupting the progress of reinforcing Iraqi divisions. Close air support would be subsumed by divisional artillery, while the major role of air defense suppression would be undertaken by a combination of long-range corps artillery and Lance SSM's. The primary mission of the IAF would be air superiority: to keep the skies free of Arab strike aircraft. The suppression of air-defense systems could come later. Only in a SAM-free, or at least low-attrition battle area environment, would Israeli aircraft engage in major close air-support missions. Even with air-to-surface missiles such as the Maverick, a high-performance aircraft such as the F-4 must approach its target in a shallow dive—say, 5,000 to 1,500 feet at a 20-degree angle—to acquire, lock onto, and guide a missile toward its target. That can still be a dangerous mission in a sophisticated SAM environment.<sup>50</sup>

Since 1973, Israel has, against any likely Arab coalition, had the capability of being able to mass superior forces against a single national component of a coalition, as well as having the option of striking first. The Arab states surrounding Israel, in contrast, have not possessed the physical means, nor the unity, nor the clearly defined war strategy, to equal their success of 1973, had they chosen the course of war. Given Israel's current superiority, an Arab coalition might expect, within the parameters of a conventional war, to be soundly defeated in the space of a week of Israel's decision to strike.

Israel's superiority is one of a combination of: (1) The ability to concentrate force, the result of classic interior lines; (2) efficient mobilization capability, which can bring nearly half a million men to the frontline in less than 48 hours;<sup>51</sup> (3) marginally better technology generally, and measurably superior technology in key areas such as electronics and gunnery control; (4) a level of weapons' operability three to four times that of opposing forces; (5) battle doctrine and force structuring that make the most out of operational planning; (6) weapons and equipment inferiority vis-a-vis its potential enemies of no more than 2:1, a far better absolute position than at any time in its history.

As Arab abilities to (1) concentrate and (2) rapidly mobilize overwhelming force, (3) marshal highly sophisticated Western battle technology, and (4) use it effectively, and deploy armies that are (5) trained and organized to best achieve their objectives, then (6) critical ratio of battle numbers becomes less crucial to victory. After 1980, if the Arab armies can overcome these deficiencies, a 2:1 ratio of basic weapons in favor of an Arab coalition will be more than enough to bring victory to their cause. The lesson for Israel is that one never can be too well-armed when facing an increasingly intelligent "Goliath."

<sup>50</sup> Borgart, Peter. "The Vulnerability of the Manned Weapon System, Part 3: Influence on Tactics and Strategy," *International Defense Review*, 7/1977, pp. 1062-1066; Gen. W. W. Momyer, "Close Air Support in the USAF," *International Defense Review*, June 1977; Gary Tobin, "The Viability of Air Support in the Next Decade," *International Defense Review*, 3/1976, p. 363.

<sup>51</sup> In a full test run mobilization in 1974, 90 percent of Israeli combat units were mobilized in 22 hours; *International Defense Review*, 2/1977, p. 205.

Israel has reached a plateau in military capability. the prospects for continued real growth, whether in terms of inventory, continued technological superiority, or in battle-doctrine innovation, are clearly limited. The same cannot be said of a potential Arab coalition. In such a "worst case" scenario, the world's shortest interior lines would be of little service to a nation whose back was truly "to the sea."

### 3. THE BALANCE IN THE PERSIAN GULF

While it has been stressed that the military balance between Israel and the Arab "inner ring" of Egypt, Jordan, Syria, and Iraq is, before all else, a combat balance, it has been suggested that the military balance in the Persian Gulf area represents more of a prestige balance. The most recent Arab-Israeli war was concluded in 1973, and the intensity of combat operations rivaled that of moments in the last European war.

Before the ouster of the Shah, the scope and intensity of the Persian Gulf buildup rivaled that of the great European arms races of another era. However, the military establishment of the area are not geared to function under conditions of full-scale war. They are primarily suited to the purposes of peacetime diplomacy: deterrence and display. This objective is revealed on two levels:

Only the most ostentatious weapons systems, in terms of price and technological appeal, have been consistently procured by Saudi Arabia, Iran and the lesser states of the Gulf region.

The military establishments of the area, although lavishly equipped, and trained by the most expensive Western advisors, are not capable of sustained operations, at mobilized strength, in a combat environment.

To be fair, it must be remembered that the forces created and groomed in this area, especially those of Iran and Saudi Arabia, have not sought an actual war-fighting capability as an institutional objective. The economic and social superstructure of both states has been fastened to such unstable foundations that a major war, for either state, would probably mean the collapse not only of the present regimes but the underpinnings of their fragile modern society as well.

It can be argued that the armed forces of the Gulf region must preserve and defend their state and society through the image, rather than the application, of power. This image may best be obtained, so it is reasoned, through the acquisition of the most impressive and fearsome weapons systems that oil can buy. In any paper calculation of the military balance in the Persian Gulf, therefore, the order of battle of the Saudis and the Iranians should demand respect.

Whether the respect that was actually accorded to either Saudi Arabia or Iran must be the focus of analysis on the Persian Gulf center of gravity. The questions must be asked: Can a prestige military establishment still attain even its limited objective of deterrence? Could Saudi Arabia and Iran have achieved a higher level of military "credibility" if they had sought a viable war-fighting capability—even if that be achieved at the expense of a "display" arsenal? In creating these "display" arsenals, high levels

of government expenditures were maintained by Iran, and continue on the part of Saudi Arabia. Since 1973, the Iranian military budgets have averaged 13.5 per cent of that nation's annual GNP. For Saudi Arabia, the effort has averaged 14.1 per cent.<sup>52</sup> Furthermore, the wealth actually expended for weapons and equipment has been staggering. Since 1973, the Persian Gulf states have placed \$15,973 million in recorded defense contracts abroad.<sup>53</sup> The combined total for Egypt, Jordan, Syria and Iraq for this period totalled \$6,342 million; some 39.7 percent of that spent by their oil-rich neighbors.<sup>54</sup> Could this wealth have been spent in the pursuit of an actual war-fighting combat capability? It is a useful point of departure to examine the strategic objective, procurement policies, and posture options open to both Iran and Saudi Arabia from this perspective.

### A. Iran's Balance Sheet

Under the Shah, Iran acquired weapons and equipment stockpiles which would soon have rivaled those of the foremost medium conventional power, the Federal German Republic. In each of the three major services, however, the acquisition of weapons far outstripped the ability of existing units to assimilate either their numbers or their high level of technology. The Iranian Army received or had ordered some 3280 medium and light tanks, yet this army had raised only some three armored divisions at the time of the Shah's departure. Iran's tank inventory was, in theory, more suited to an army of 12 armored and mechanized divisions.<sup>55</sup> As it is, most of this magnificent array of weapons was placed in storage as it was received. The new regime has cancelled many of the orders for new equipment, though what its new defense policy will be remains unclear at the time of writing.

If, under the new regime, Iran still really wished to be able to defend against Soviet conventional assault with some chance of success, it must capitalize on the strengths not just of its geography but of its people. Rather than funnel money into equipment beyond the operability levels and maintenance skills of its people, Iran should keep its weapons as simple as is consistent with basic battle performance. If military, rather than political, criteria determine Iranian defense policy, expenditures should be focused on training, raising reserve levels, ensuring efficient mobilization schedules, building a survivable infrastructure of combat maintenance, supply and production. In other words, Iran needs a 1930's-style five-year plan to develop the basic skills needed to fight, and survive, a major war.

Instead of three armored and three infantry divisions, Iran, given its population, should be able to mobilize 30 reserve divisions, backed by armor, capable of fighting a prolonged defensive battle.

The most wasteful expression of Iran's previous quest for great power status through the marketplace was its navel procurement policy. Iran possessed both the attack aircraft (F-4E) and the patrol

<sup>52</sup> *The Military Balance*, 1973-79 editions.

<sup>53</sup> "Major Defense Contracts," *International Defense Review*, 1973-78; *The Military Balance*, 1973-79 editions.

<sup>54</sup> *Ibid.*

<sup>55</sup> "Major Defense Contracts," *International Defense Review*, 1973-78.

aircraft (P-3F) necessary to control the Persian Gulf and near-seas areas of the Arabian Sea. In terms of surface patrol, an emphasis on small frigates (such as the Saam class built by Vosper), corvettes, and Harpoon-armed FPBG's—types all ordered by Iran—would be more than sufficient to complete the spectrum of the sea-control mission with patrol and missile-attack craft. It was decided, however, that Iran, to be considered a great power, required a navy possessing large surface ships and, if money would allow, aircraft-capable capital ships. Toward this end, it was initially planned to order some six Spruance-class "destroyers" (but with the size and function of more traditional cruisers) in the air-defense configuration (with two Mk.26 launchers for Standard SAM's and Harpoon SSM's). These ships, however, would merely serve as escorts for the core of Iran's future ocean-ranging task forces. This core of future naval strength would take the form of two very expensive carriers, highly sophisticated, of the type then building in the United Kingdom: the *Invincible*. Known in British circles as "Through-deck Cruisers," these are actually small aircraft carriers of 19,500 tons, designed to carry both anti-submarine helicopters and VSTOL fighter/aircraft (Hawker-Siddeley Harriers).

This program, of which the shipbuilding costs alone would have reached several billion dollars, was, in the end, too expensive even for the Shah. Under the new regime, the Spruance-class orders have been cut to two ships. Given the current unrest in Iranian society despite the revolution, it is very unlikely that the military establishment will be able to maintain its current inventories. Further orders will undoubtedly be cancelled and the money that has been earmarked for current inventories will have to be used for essential services and support for a society in turmoil. If money must now be spent on the Army, it must go to personnel, not equipment.

The Shah missed the opportunity to mobilize, educate, and train an entire generation of Iranian manpower. By emphasizing the creation of an elite, privileged officer caste at the expense of a more egalitarian citizen army, the Shah eventually limited his military power base. His problem was that though his officer corps was devoted and rigorously conservative, even reactionary, by the standards of the times, it was too constricted to effectively run the country in times of crisis. The Shah's conscripted soldiery demonstrated no such connections to the institution of monarchy.

In other words, fifteen years ago the Shah had the chance to create a military-political base, as well as a self-sustaining military-industrial infrastructure that would have evolved into a powerful tool for the implementation of the Shah's modernization policies. Conservative Islamic opposition could have been crushed in Kemal-like fashion by the mobilized, indoctrinated manpower of the state.

Whatever the outcome of the current Iranian upheaval, it is the end of Iran's grandiose dreams of a *Pax Persiana*. No more will Iranian strategists be able to seriously plan for an assumption of command over the Persian Gulf and its approaches. Instead of developing a sturdy, defensive army, like Serbia before World War I, Iran toyed with imperial dreams and spent its new-found wealth on the imperial trappings of a "show" arsenal. As Clausewitz so

often pointed out, an army is a political as much as it is a military force.

### B. The Saudi Balance Sheet

Saudi Arabia, with a population of only 7.72 million and even less of a modern economic infrastructure than Iran, is in no position to move toward a potential war mobilization capability. If Saudi Arabia is to possess a war-fighting posture to enhance the credibility of its armed forces in peacetime diplomacy and display, then it can at best be geared to limited contingencies. Unlike Iran, Saudi Arabia is not threatened geographically by sharing a common frontier with a great empire such as the Soviet Union. Unlike Iran, Saudi Arabia need not labor under memories of decades of 20th-century servitude as a protectorate or sphere of influence of either Britain or Russia. Iran might well feel justified in creating a credible military posture in the conventional spectrum against the Soviet Union: it has only been argued here that a defense in economic and strategic depth might be a more mature consideration in the *desideratum* than an ostentatious arsenal.

The Saudis, in contrast, need develop armed forces to meet far less demanding scenarios of conflict. Saudi Arabia needs a combat-ready force for two basic challenges to its security: a challenge to "domestic tranquility" in the form of civil war and/or insurrection; a challenge to the strength of Saudi sovereignty, tested at its desert frontier, in its airspace, or on its territorial waters. Within this context, Saudi weapons procurement makes some degree of sense. Solid mobile armored forces, built around the 250 AMX-30 and 250 M-60 main battle tanks now received or on order, provide the Saudis with just enough panzer punch to dissuade any frontier testing by, say, the Iraqis near Kuwait. The harpoon-tipped corvettes and gunboats now on order from the United States give Saudi Arabia a balanced, narrow-seas naval force well-suited to potential conflict situations in the Persian Gulf. Finally, the 60 F-15's on order from McDonnell-Douglas give the Saudi Air Force the ability to deter intrusion of Saudi airspace at less than all-out air assault levels. If Saudi Arabia would stop here, and focus on training the units that must operate and, if necessary, employ these weapons systems, then its ruling leadership could count on an elite, but limited, force tailored to limited contingencies. With the present and future economy almost exclusively dependent on oil, the fields of which are certain hostage to the ramifications of major war, the Saudis can do no more. Unfortunately, the emphasis in Saudi military policy remains rapid procurement of more and more sophisticated arms beyond realistic levels of assimilation, and realistic options for their use. The recent multi-billion franc deal in aircraft and armor is yet another example of waste in the pursuit of the trappings of military power on the shores of the Persian Gulf.

The conflict between North and South Yemen merely underscores Saudi Arabia's security needs. At present, Saudi Arabia could hope to put three modernized national guard battalions, each of some 800 combat personnel, into North Yemen on short-term notice. These units were, in fact, put on alert on March 1, 1979,

Beyond the component basis of a light infantry brigade group, the Saudi Army would be severely constrained by logistic limitations. Furthermore, the Saudi Army does not have the communications and intelligence-gathering capabilities to adequately support even this modest force. A squadron of F-5's has been put on alert at Ta'if airbase. With fewer than 100 trained F-5 pilots in all of its air force, Saudi Arabia does not have the capacity to realistically provide combat air support to the frontier area of North/South Yemen. In spite of all the billions that Saudi Arabia has sunk into military procurement and force expansion, current Saudi combat capability is limited to internal defensive operations.

If the Saudis are to be able to guarantee the physical security of its smaller allied neighbors—Oman, North Yemen, Qatar, U.A.E., and Kuwait—then Riyadh must be able to field and logistically support a modest, though respectable, ground force for extended operations on the periphery of the Arabian Peninsula. This capability implies an intervention force of up to one mobile division, with armored support as is necessary. In addition, Saudi Arabia must increase the number of trained air force personnel, especially pilots, to provide air support for this intervention force. It must, at the same time, have air resources available to maintain the air defense of the kingdom at an acceptable level. Accordingly, there is an urgent need for Saudi Arabia to incorporate, and make operational, its F-15 order.

#### 4. THE REGIONAL BALANCE AND GREAT POWER RIVALRIES

With the active military intervention of the great powers of Europe after 1798, the Middle East became a strategic arena, mirroring the rivalries and conflicts of an expanding West. During the course of the nineteenth century, the region evolved from the strategic role of "arena" to the demarcation line of grand strategy, as an imperial frontier. As a sensitive buffer region, the Middle East served to separate a transcontinental empire—the pre-eminent "land" power—from a transoceanic empire—the pre-eminent "sea" power. The regional balance in Persia, Afghanistan, or the Ottoman Empire were the crucial components of stability in the tension of great power rivalry. This was the nineteenth century interface between global strategy and the regional balance in the Middle East.

Since the Second World War, the Middle East has served the same function as a buffer zone between rival coalitions. As Britain's traditional nineteenth century role, in spite of CENTO, declined to nothing in the decade following Suez, the United States stepped in. The "Northern Tier" of the 1960's, from Turkey through Iran to Pakistan, helped to solidify the image of an "arc of containment" connecting Western Alliance in the Levant to U.S. interests in East Asia. The Soviet "jump" to Egypt broke the metaphor of encirclement and drove a regional "wedge" in our "imperial" frontier.

Although reminiscent of MacKinder and imperial geopolitics, the images of regional "breakout" and "encirclement" form an appropriate framework for viewing contemporary United States-Soviet jockeying for influence in the Middle East. The continuities of

global rivalry force us, however unwillingly, to return to the useful shorthand of "grand strategy."

Since the Soviet Trans-Caucasian drives of the 1830's, Persia has been a high-priority objective of Russian grand strategy. The Anglo-Russian agreement of August, 1907, actually created a recognized Russian sphere of influence in northern Persia. During World War II, in agreement with its Anglo-American allies, the Soviet Union occupied northern Iran. There is a certain receptivity among Russians to the concept of a Soviet "sphere" in Iran, especially the northern half.

Unlike the imperial geopolitics of the nineteenth century, however, the interests of the Western alliance and Japan in the Middle East are not, as was the British Empire, concerned simply with strategic lines of communication (SLOC's). The oil of the Middle East keeps the West alive: 70 percent of Western Europe's oil, 90 percent of Japan's, and almost all the oil use by South Africa and Israel passed through the Persian Gulf and the Straits of Hormuz. Certainly the fear of a Soviet occupation of Iran similar to that undertaken in 1941 raises profound questions about the future security of Western oil supplies and the cohesion of the Western Alliance in event of a serious crisis over access to oil.

Although the primary activities of the great powers in the Middle East have to be examined at the political and economic levels, there are several strategic truths that stem from the analysis in this essay and help to place in perspective the role of military power in the region. The main strategic lessons for the great powers are as follows:

Only the United States and the Soviet Union can any longer be regarded as major military actors in the region. Although Britain and France, and especially the latter, retain some residual capacity to intervene, their primary interests are in arms sales and military training programs. Each country could be of great help to the United States if it wanted to intervene; but in lesser roles, not as equal partners.

In the context of the Arab-Israeli conflict, the capability of either superpower to intervene could depend a great deal on specific scenarios. In any "most probable" conflict in the near future, Israeli superiority would suggest that the Soviet Union would be hard pressed to intervene to help the Arabs unless it was either prepared to issue a general war ultimatum to the United States or was prepared to risk high casualties and possibly defeat in any limited engagement. The primary U.S. concern would relate to the question of resupply in event that Israel needed more materiel than was the case in 1973.

Given the continuity of Russian/Soviet pressure to establish effective influence and control over at least the north of Iran and given the extreme vulnerability of the Western economy to an interruption of Middle East oil supplies, it is no more than a basic lesson to the Western powers that, in the last contingency, it may become necessary that the security of these supplies be maintained by military force. Leading military experts believe that the force and the necessary plans and preparations for its employment must not only be ready but be known to be ready and that it must be a credible expeditionary

force in contemplation as well as in action. Few deny that the Civil war/revolution in Iran could easily be turned to Soviet advantage, as it was so in Afghanistan and that in that eventuality a U.S. carrier task force is not enough of a counterweight. It has been suggested that in order to effectively deter the Soviet Union from active intervention in Iran, the United States should make it known that an effective, mobile expeditionary force on the 100,000-man level exists and can, if necessary, intervene.

Perhaps this is the key lesson to be learned, at least by the Western powers, in the creation of regional security in the Middle East. After Britain withdrew its military and naval forces from the Persian Gulf area in the middle 1960's, the Shah, bolstered by an inrush of British and American weaponry, was actively encouraged to become the policeman of the region. In attempting to use a client state as an imperial proxy for Western interests, the United States glossed over the essential instability of Iranian society. Ultimately, the weapons that we lavished on the Shah may either be turned against us or end up in the hands of Soviet military intelligence.

Iran has provided a lesson to the United States. The discussions now underway in the Pentagon concerning the formation of a "Fifth Fleet," based at Diego Garcia, are the result of painful recent experience. Client kingdoms are a thin reed upon which to place the military security of a region vital to the West's security. In order to guarantee the flow of life-giving oil, the United States may be forced to establish a permanent naval presence in the region. The dispatch of Task Group 77.7, with the CV *Constellation*, is no more than a first step in the creation of a permanent security framework in the Persian Gulf center of gravity.

# SOVIET ARMS AID IN THE MIDDLE EAST SINCE THE OCTOBER WAR

By Roger F. Pajak\*

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## INTRODUCTION

The priority accorded the Middle East in Moscow's foreign policy calculations is reflected in that area's share of total Soviet arms exports to all Third World countries. Of the estimated \$21 billion in Soviet military equipment exports provided from the inception of Moscow's foreign assistance program in 1955 through 1977 (the last year for which comprehensive, unclassified data are available), the Arab countries of the Middle East have received an estimated \$13 billion, or roughly 60 percent, of the total.<sup>1</sup>

Despite some setbacks and frustrations, particularly with regard to Egypt, the military assistance and sales program is probably still regarded by the Soviet leaders as one of their most flexible and durable policy instruments toward the Arab countries. Although the net cost of the program has increased substantially over the years, from a low cost dispensing of largely surplus, obsolescent weapons to provision of some of the most advanced equipment in the Soviet inventory, there is little doubt that arms exports on balance have proven a worthwhile political investment from Moscow's perspective.

The history of the program has demonstrated that the arms relationship with all of the U.S.S.R.'s client states has been based primarily on political and strategic considerations. At the same time, recent Soviet requirements for hard currency to finance a growing foreign trade involvement with Western countries has made the economic benefits derived from the sale of arms to the Arab oil-producing countries increasingly attractive to Moscow. Indeed, the Soviet Union reportedly gained an estimated \$1.5 bil-

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\*U.S. Arms Control and Disarmament Agency. The views in this paper are the author's and do not necessarily reflect the views of the U.S. Government or any of its Agencies or Departments.

<sup>1</sup> Data on total Soviet arms exports are from Central Intelligence Agency, *Communist Aid to Less Developed Countries of the Free World 1977* (Washington, November 1978), p. 1.; the Arab countries' share of exports is derived from estimates calculated in each of the country sections below.

lion in hard currency earnings in 1977 alone through sales of arms.<sup>2</sup>

This is not to say that the arms sales program has proven to be a diplomatic panacea for Moscow. As will be discussed below, the Soviets have experienced serious, even severe, problems with virtually all of their Arab arms clients before and since the October 1973 war. At the same time, the fact that arms relationships with most of the major Arab States confronting Israel—with the notable exception of Egypt—have endured to the present time speaks for itself in explaining how important the program has been for Moscow and for each of the recipient countries.

This analysis attempts to place in perspective the record of Soviet arms aid diplomacy in the Middle East, particularly since the October war. It delineates the checkered paths of the Soviet arms transfer relationships with Egypt, Libya, Iraq, and Syria, with a view toward assessing the successes and shortcomings of this key instrument of Moscow's policy, as viewed in Soviet and Arab eyes.

### EGYPT

Among Soviet arms clients in the Third World, Egypt, despite the virtual cessation of Soviet military deliveries since mid-1975, still ranks as the leading recipient. Since the beginning of Moscow's assistance program in 1955, Egypt has received an estimated \$4 billion in Soviet arms aid.<sup>3</sup>

On the eve of the June 1967 war the arsenal of modern Soviet equipment in its hands gave Egypt, in conjunction with the well-equipped Syrian and Iraqi forces, a formidable military capability against Israel. But in the brief six day conflict, the Arab forces were decimated, with Egypt taking the heaviest losses.

Whatever second thoughts Moscow may have had about its provision of modern arms to the Arabs, who used them neither wisely nor well, the immediate Soviet reflex action was to initiate a large scale resupply airlift. Even while the fighting was going on, Soviet transport aircraft began deliveries of replacement equipment to rebuild Arab arms inventories.<sup>4</sup>

A year later, Soviet deliveries of military equipment had brought overall Arab inventories nearly up to pre-war levels. By July 1968, the Egyptian air force consisted of about 400 aircraft, only 30 fewer than prior to the June war.<sup>5</sup> By the second anniversary of the war, Moscow had delivered approximately \$700 million in aircraft, tanks, and other equipment to Egypt to replace what had been destroyed.<sup>6</sup>

Accompanying the heavy volume of materiel was an influx of Soviet instructors and advisers to improve the qualitative shortcomings in the Egyptian armed forces. Within several months after the June war, the number of Soviet advisory personnel in Egypt

<sup>2</sup> *Ibid.*

<sup>3</sup> Central Intelligence Agency, *Communist Aid to Less Developed Countries of the Free World, 1977* (Washington, November 1978), p. 28.

<sup>4</sup> Lawrence Whetten "The Military Consequences of Mediterranean Super Power Parity," *New Middle East*, Nov. 1971, p. 17.

<sup>5</sup> George Lenczowski, *Soviet Advances in the Middle East* (Washington: American Enterprise Institute for Public Policy Research, February 1972) p. 150.

<sup>6</sup> Honorable R. Lawrence Coughlin, *The Congressional Record* (Washington: U.S. Congress, House, Sept. 16, 1969), p. E7537.

grew to about 3,000, several times the number present before the June conflict.<sup>7</sup>

In assuming a broadened training and advisory role in the Egyptian forces, Moscow penetrated the Egyptian military establishment to a depth it had never before achieved in any non-Communist country. Soviet advisers and technicians were reportedly assigned to every air and naval base, training facility, and major maintenance depot in Egypt.<sup>8</sup>

The role of Soviet advisers thus changed dramatically after the June war. With the acquiescence of the Egyptian High Command, the Soviet Union acquired an important voice in Egyptian training and tactical matters.<sup>9</sup>

In January 1970, a watershed event occurred in the Soviet-Egyptian relationship. As a result of Nasser's personal entreaties for some response to Israeli deep-penetration bombing raids in the Egyptian interior, the Soviets in effect agreed to establish and operate a full scale air defense system in Egypt. The first contingent of Soviet SAM missile crews—numbering about 1,500 men—arrived in March 1970 and began installation of an SA-3 surface-to-air missile system, specifically designed to counter low-flying aircraft. Shortly afterwards, the first Soviet-piloted Mig-21J interceptors (an improved version of the Mig-21), with supporting elements, began arriving at special Egyptian air bases that would come under Soviet control.<sup>10</sup> By late spring, newly-arrived Soviet military personnel numbered about 15,000, some assigned as advisers to Egyptian air defense units, but the majority manning the new SA-3 and improved model SA-2, SAM sites proliferating in the Egyptian interior and in the canal zone.<sup>11</sup>

The widespread Soviet presence forced Israel to discontinue her deep penetration raids into Egypt as of mid-April. At about that time, Soviet-piloted Mig-21J aircraft began flying defensive combat patrols over the Egyptian interior, but refrained from interfering with Israeli aircraft operating in the canal zone.<sup>12</sup> Despite the presumed interest of both sides in avoiding a direct aerial clash, one such incident did occur on July 30, when the Israelis shot down four Soviet Mig-21's.<sup>13</sup>

During the remainder of 1970 and into 1971, Soviet deliveries continued at a high level, as Moscow introduced a variety of modern equipment into the Egyptian inventory. Egypt received some of the same types of air defense equipment in use by Soviet forces, even before the Warsaw Pact nations in some cases. Besides being the first non-Communist state to receive the new SA-3 missile system, Egypt received the Frog tactical ground rocket and the mobile ZSU-23-4 radar controlled anti-aircraft gun—regarded as the Soviets' most effective weapon against low-flying aircraft.<sup>14</sup> Also noteworthy among Soviet deliveries was some of Moscow's

<sup>7</sup> *New York Times*, July 16, 1968.

<sup>8</sup> William Beecher, "The Soviet Push in the Mideast," *Army*, April 1968, p. 23.

<sup>9</sup> A. Y. Yodfat, "Arms and Influence in Egypt—the Record of Soviet Military Assistance, since June 1967," *New Middle East*, July 1969, p. 30.

<sup>10</sup> Charles Wakebridge, "Electrons over Suez," *Ordnance*, May-June 1972, p. 475.

<sup>11</sup> Lenczowski, *op. cit.*, p. 152.

<sup>12</sup> Wakebridge, *op. cit.*, p. 475.

<sup>13</sup> Lawrence Whetten "June 1967 to June 1971: Four Years of Canal War Reconsidered," *New Middle East*, June 1971, p. 23.

<sup>14</sup> *Ibid.*, p. 21.

latest electronic command and control equipment to improve the Egyptian air defense system.<sup>15</sup>

For her largesse, the Soviet Union exacted various elements of non-economic repayment. The first was the use of port facilities for ships of the Soviet Mediterranean squadron. Following the June war, the Soviets were granted the use of various naval supply and repair facilities in Egypt, including a large dry dock, two floating docks, and repair yards in Alexandria,<sup>16</sup> as well as facilities at the former British naval base at Port Said.<sup>17</sup> The Soviets also were allowed to begin development of a deep water port, largely for their own use, at the secluded port of Mersa Matruh, near the Libyan border.<sup>18</sup>

Besides the use of Egyptian port facilities, the Soviets were allowed to base naval patrol aircraft in Egypt, thereby providing their fleet with important reconnaissance support. A variety of Soviet Aircraft with Egyptian markings, located at several bases in Egypt, provided valuable tracking and positional data on U.S. and NATO naval craft for the Soviet Mediterranean squadron.<sup>19</sup>

Another significant quid pro quo received by Moscow in return for its assistance was Cairo's acquiescence in a Soviet-Egyptian Treaty of Friendship and Cooperation, signed on May 26, 1971. The treaty committed both sides to consult on matters of joint concern and threats to the peace and to avoid joining alliances hostile to the other partner. Without precluding any of its options, Moscow thereby instituted a new element of deterrence against Israel, while reminding Cairo of its limited ability to maneuver.<sup>20</sup>

Reflecting the vagaries of the Middle East, however, Soviet-Egyptian relations plunged to a new nadir barely a year later, when in July 1972, President Sadat ordered the expulsion of nearly all Soviet military personnel from Egypt. Sadat took this startling action largely as a result of frustration resulting from the military stalemate on the Suez Canal front and irritation at continued Soviet footdragging on his entreaties for more advanced weapons. Given several days' advance notice, the Soviet withdrawal began even before Sadat's public announcement of July 18.<sup>21</sup> The suddenness and extent of Sadat's order apparently caused Moscow to retaliate against Sadat by withdrawing Soviet air defense units—which reportedly were exempted from the expulsion order—as well as instructors and technicians.<sup>22</sup> This in turn may have prompted Sadat to order out the Soviet naval reconnaissance units.<sup>23</sup>

By early August, nearly all of the reported 21,000 Soviet advisory and air defense personnel in Egypt,<sup>24</sup> as well as naval reconnaissance units, had returned to the Soviet Union. Most of the air

<sup>15</sup> *International Defense Review*, No. 3, May-June 1971, p. 211.

<sup>16</sup> *Washington Post*, July 21, 1972.

<sup>17</sup> *Sunday Telegraph* (London), June 7, 1970.

<sup>18</sup> Wynfred Joshua, *Soviet Penetration into the Middle East* (New York: National Strategy Information Center, 1971) p. 17.

<sup>19</sup> Vice Admiral Isaac Kidd, Jr., "View from the Bridge of the Sixth Fleet Flagship," *U.S. Naval Institute Proceedings*, February 1973, p. 27.

<sup>20</sup> Joshua, *op. cit.*, p. 18.

<sup>21</sup> Anthony McDormott, "A Russian Withdrawal; or Divorce, Egyptian Style," *New Middle East*, August 1972, p. 6.

<sup>22</sup> *New York Times*, July 19, 1972.

<sup>23</sup> *Washington Post*, August 2, 1972.

<sup>24</sup> *Military Aviation News*, June 1975, p. 7.

defense equipment, however, was turned over to the Egyptians.<sup>25</sup> Only an estimated 700 or so Soviet instructors were believed to be in Egypt by the end of 1972.<sup>26</sup>

A flow of spare parts and some replacement equipment was maintained to Egypt after the Soviet exodus, but it was not until the October 1973 war that Moscow resumed arms deliveries in earnest. The Soviets instituted a vast resupply airlift on the second day of the war.<sup>27</sup> During the resupply operation Egypt reportedly received about 100 fighter aircraft, 600 tanks, and equipment for 30 SAM batteries.<sup>28a</sup>

Even during the war, however, further strains arose in the Moscow-Cairo relationship. The reported Soviet insistence on payment in hard currency for new advanced equipment did nothing to endear the Soviets to the Egyptians.<sup>28b</sup> Cairo showed its displeasure by restricting Soviet contact with Egyptian troop units and access to equipment evaluation reports.<sup>29a</sup>

These accumulated strains were reflected in a major speech by Sadat on April 18, 1974, in which the Egyptian leader announced that Egypt would end its exclusive reliance on the Soviet Union for arms and would seek them elsewhere. Sadat said that he had made this decision because Moscow, for the previous six months, had not acted on his requests for more advanced weapons.<sup>29b</sup> In the wake of Sadat's announcement, all shipments of Soviet military equipment, including badly needed spare parts, came to a halt.<sup>30a</sup>

From the date of Sadat's speech through the rest of the year, no Soviet deliveries of arms—with the exception of two shipments of spare parts in August—are known to have been made to Egypt.<sup>30b</sup> An October announcement that Soviet Party Secretary Brezhnev would visit Cairo in January heightened Egyptian hopes that a resumption of Soviet deliveries was imminent. These hopes were dashed on December 30 when Moscow suddenly announced the indefinite postponement of Brezhnev's visit, ostensibly for reasons of health.<sup>31a</sup>

In his first public remarks after the postponement of the visit, Sadat again took the Soviet Union to task for its refusal to replace all equipment lost in the October war. During an interview he stated: "I want every Arab to know that since the ceasefire of October 1973 \* \* \* there has been no Soviet replenishment and no major arms received up to this moment."<sup>31b</sup>

In a dramatic move to secure military equipment from the visit, Sadat visited Paris in January 1975 with a shopping list for arms. During his visit, the Egyptian leader reportedly concluded contracts for some equipment and opened a dialogue for future arms requirements.<sup>32a</sup> Also by that time Egypt had begun to receive the

<sup>25</sup> *Ibid.*, July 1975, p. 4.

<sup>26</sup> *Strategic Survey 1972* (London: The International Institute for Strategic Studies (IISS), April 1973), p. 26.

<sup>27</sup> *New York Times*, November 28, 1973.

<sup>28a</sup> *Washington Post*, November 24, 1973; *Near East Report*, January 16, 1974, p. 10.

<sup>28b</sup> *Washington Post*, November 19, 1973.

<sup>29a</sup> *Aviation Week and Space Technology*, December 17, 1973, p. 16.

<sup>29b</sup> *New York Times*, April 19, 1974.

<sup>30a</sup> *Washington Post*, May 23, 1974.

<sup>30b</sup> *Military Aviation News*, November 1974, p. 7.

<sup>31a</sup> *Washington Post*, December 31, 1974.

<sup>31b</sup> *New York Times*, January 9, 1975.

<sup>32a</sup> *Ibid.*, February 19, 1975; *Washington Post*, January 30, 1975.

first of 36 Mirage III fighters which had been financed by Saudi Arabia.<sup>32b</sup>

Sadat's Paris shopping spree apparently sent a message to Moscow, as reflected in the arrival in Cairo on February 3 of Soviet Foreign Minister Gromyko for two days of talks. Gromyko attempted to soothe bruised Egyptian feelings by "activating" some arms contracts that had been suspended by Moscow since early 1974.<sup>33</sup> On February 18, the delivery of six advanced, swing-wing Mig-23 fighters to Egypt was reported, the first shipment of major Soviet equipment in nearly a year.<sup>34</sup> Some spares and other equipment also began to arrive, reportedly under existing contracts concluded before and shortly after the 1973 war.<sup>35</sup>

The arrival of two squadrons—about 24 aircraft—of Mig-23's and a similar number of SU-20 fighters in early 1975 finally raised overall Egyptian combat strength to nearly the pre-October war level, according to Western specialists.<sup>36</sup> Even the Mig-23's in Egypt's inventory, however, could not be optimally employed without the accompaniment of TU-114 radar-equipped early warning aircraft, which the Soviets apparently were unwilling to export because of the sensitive equipment involved.<sup>37</sup> Furthermore, the cessation of Soviet shipments of air defense equipment—SAM's antiaircraft guns, and radar—since the war began to seriously affect the operational readiness of the Egyptian air defense forces. According to Egypt's air defense commander, his forces "had not received a single missile replacement from the Soviet Union since the end of the October war."<sup>38</sup>

Exacerbating these technical and materiel problems for Egypt were Soviet demands that Cairo resume repayments for military equipment. Cairo had been seeking a renewed moratorium on repayment of its Soviet military aid debt—estimated at \$4 billion<sup>39</sup>—for some time. With a reported 75 percent of Egypt's annual exports—otherwise capable of earning badly-needed hard currency—then going to Communist countries for overall foreign debt servicing, Sadat appealed for a renewed 10-year suspension of arms payments to enable Egypt to concentrate on rebuilding its economy. Sadat claimed that Syria had already been granted such a moratorium.<sup>40</sup>

During a May 1, 1975, speech, Sadat complained publicly of the Soviets' rejection of the moratorium on repayments which had been requested by Foreign Minister Fahmi in Moscow. "We never said we will not pay," Sadat stated. "We are asking for a reassessment of our position." Finally, making clear that recent Soviet deliveries were made under pre-October war commitments, not new agreements, he complained, "The Soviet Union has refused to replace our losses, even if we pay cash."<sup>41</sup>

<sup>32b</sup> *New York Times*, November 20, 1974.

<sup>33</sup> *Washington Post*, February 17, 1975.

<sup>34</sup> *New York Times*, February 19, 1975.

<sup>35</sup> *Washington Post*, February 9, 1975.

<sup>36</sup> *Ibid.*, June 13, 1975; *The Middle East*, March 1977, p. 24.

<sup>37</sup> Robert Jackson, *The Israeli Air Force Story* (London: Tom Stacey, Ltd., 1970), p. 244.

<sup>38</sup> *Aviation Week and Space Technology*, July 7, 1975, p. 15.

<sup>39</sup> *Washington Post*, October 27, 1977.

<sup>40</sup> *The Economist*, June 28, 1975, p. 67; *Aviation Week and Space Technology*, February 3, 1975,

p. 16.

<sup>41</sup> *Washington Post*, May 2, 1975.

Further infuriating Sadat was a new Soviet arms aid arrangement with Libya disclosed in May 1975 (see below). With Libya's small 30,000 man army scheduled to receive as many as 1,200 tanks, additional SAM equipment, and late-model Mig-23's, compared with the relative trickle of Soviet equipment then arriving in Egypt, the Egyptians were understandably disgruntled. Sadat was especially vexed by Soviet "irresponsibility" in giving "expensive and dangerous war toys" to Libyan leader Qadhafi, whom Sadat characterized as "100 percent sick."<sup>42</sup>

Egyptian officials conceded that Cairo's increasing shift in procurement policies entailed a high degree of risk for Egyptian war readiness. This was especially marked because of the reported increase in Israeli combat capability since the October war.<sup>43</sup> While Egyptian government officials were publicly optimistic over the country's prospects for diversifying its arms procurement, while still fielding a credible military force, some Egyptian military officers took a gloomier view.<sup>44</sup>

Indications of military dissatisfaction over Sadat's arms diversification policies may have been reflected in an abortive plot to overthrow him in June 1975. According to a Beirut newspaper, the Egyptian chief of intelligence and some 40 senior officers were reported to have been summarily retired under suspicious circumstances.<sup>45</sup> Other reports indicated that some military elements also were upset by Sadat's espousal of peace negotiations which they feel squandered the fruits of the October war and made the option of renewed hostilities less credible.<sup>46</sup>

Another element contributing to the fraying Soviet-Egyptian relationship was Cairo's hampering of the Soviets' use of Egyptian naval facilities. In the early summer of 1975, the Soviet Mediterranean fleet reportedly began to be denied the use of two of its prime berthing facilities—the port of Mersa Matruh, near the Libyan border, and an anchorage in Egyptian waters in the Gulf of Sollum. While Soviet naval craft had always been required to request permission to enter Egyptian ports and anchorages, these requests theretofore had been treated as formalities and routinely granted. Beginning in June 1975, however, Soviet request to enter the above two areas reportedly were not answered, in effect amounting to a denial of entrance.<sup>47</sup>

Soviet ships continued using the important maintenance and repair facilities in the main port of Alexandria, but they encountered increasing harassment on the part of Egyptian port officials. Long delays in gaining permission to enter the port were reported, as well as requirements to fill out additional forms and other types of red tape. Arab sources ascribed this Egyptian harassment as pressure on Moscow vis-a-vis Egypt's military debt question and the freezing of spare parts shipments.<sup>48</sup>

An interview published in a Kuwaiti newspaper on September 9, 1975, provided the occasion for another of Sadat's bitter denunciations of the Soviet Union. Stating that "no person with dignity

<sup>42</sup> *Ibid.*, June 13, 1975.

<sup>43</sup> *Strategic Survey 1974* (London: IISS, April 1975), p. 15.

<sup>44</sup> *New York Times*, July 22, 1975.

<sup>45</sup> *Washington Post*, July 30, 1975.

<sup>46</sup> *Ibid.*

<sup>47</sup> *New York Times*, July 28, 1975; *Washington Post*, July 20, 1975.

<sup>48</sup> *Washington Post*, July 20, 1975.

can accept the method of Russian dealing," Sadat accused Moscow of failing him in his "year of decision," prior to the October war. "Since I assumed power in Egypt," Sadat continued, "the Russians have not been satisfied with me. They want another president." Speaking of arms supplies, Sadat complained that he was "ten steps behind Israel and three steps behind Syria."<sup>49</sup>

The deteriorating state of Soviet-Egyptian relations was further reflected in the reported withdrawal of four Soviet-manned Foxbat advanced reconnaissance aircraft from Egypt in September. These high performance aircraft had been operating in Egypt since the October war. To replace their Egyptian base of operations for these aircraft, the Soviets reportedly arranged with Syria to base them in that country.<sup>50</sup>

With prospects for new Soviet arms acquisitions increasingly remote, Sadat began to entertain serious hopes for securing some assistance from the United States, particularly following conclusion of the Sinai II disengagement pact with Israel on September 1, 1975. While realistically aware that Washington could approve nowhere near the scale of major arms commitments in effect for Israel, Sadat hope for at least a symbolic amount of defensive equipment, such as a squadron of F-5 fighter aircraft.<sup>51</sup>

Statements by U.S. officials following Sinai II indicated that the United States might favorably consider Egyptian requests for military equipment during Sadat's planned visit to the United States in October 1975. In an interview with the Los Angeles Times on September 24, 1975, President Ford stated that "we will discuss with the Egyptians certain arms assistance for them," adding that "there is to some extent an implied commitment." Due to the strains between Egypt and the Soviet Union, Mr. Ford averred that Sadat "has taken a very strong position" that "his own national security" would be jeopardized if Western sources of military equipment were not found.<sup>52</sup> Several days later, the White House press secretary reiterated that the United States would consider Egyptian requests for military equipment "to increase Egypt's confidence in its course" of diversifying its sources of arms supply.<sup>53</sup>

While the United States appeared to be seriously considering ending its two-decade-long arms embargo against Egypt, indications were that Washington was not prepared to make any specific commitments to Sadat in the near term. Several days prior to the scheduled arrival of Sadat in the United States, Secretary of State Kissinger stated: "I don't think we will be prepared at this moment to make any specific commitments of military aid, but we will be prepared to discuss the problem with him in general terms."<sup>54</sup>

Not surprisingly, the question of U.S. military sales to Egypt during Sadat's visit to the United States, October 26-November 5, 1975, apparently was restricted to general discussions of Egyptian military needs, with no commitments made on an arms supply relationship. Sadat reportedly was told that the United States could not now discuss specific arms acquisitions, but that "the

<sup>49</sup> *Ibid.*, September 10, 1975.

<sup>50</sup> *Baltimore Sun*, November 23, 1975.

<sup>51</sup> *Washington Post*, October 19, 1975.

<sup>52</sup> *Ibid.*, September 25, 1975.

<sup>53</sup> *New York Times*, September 27, 1975.

<sup>54</sup> *Wall Street Journal*, October 24, 1975.

subject would be reopened later.”<sup>55</sup> Sadat also received an administration promise of approximately \$1 billion in economic and food assistance. Despite the lack of a specific American arms supply commitment, Sadat thus viewed his U.S. visit as an important element in formalizing the end of his prior exclusive dependence on Moscow.<sup>56</sup>

Following his visit to the United States, Sadat stopped in London for three days of arms supply talks with British officials. At a press conference there on November 8, 1975, Sadat claimed to be “completely satisfied” with the discussions in “diversifying the sources of Egyptian weapons supply.”<sup>57</sup> Asked why his arms purchasing mission apparently had been more successful in the United Kingdom than in the United States, Sadat replied that he had begun his arms diversification program with the United Kingdom and France last year and could now negotiate “specifics” with both countries. While in the United States, he stated that he could only sketch his military needs in “broad outlines.”<sup>58</sup>

Sadat’s discussions with the British reportedly centered around fighter aircraft, including the supersonic Jaguar fighter bomber, and Swingfire anti-tank missiles. In addition, the Egyptians expressed an interest in purchasing the British Chieftain main battle tank, but London reportedly was unwilling to introduce this tank into the area because of the possibility of disrupting the Arab-Israeli military balance. As an alternative, the British proposed a feasibility study to re-engine the Soviet tanks in the Egyptian inventory, and the Egyptians agreed to consider this possibility.<sup>59</sup>

By late 1975, the Egyptian armed forces were becoming increasingly desperate for alternative sources of equipment and supplies. Because of the shortage of spare parts, the army and air force reportedly had begun resorting to cannibalization of existing equipment to maintain operational readiness. Concern in the armed forces over Sadat’s failure to obtain U.S. equipment continued to deepen. Some members of the military reportedly felt that, under the existing conditions, Egypt did not pose a credible threat to Israel and thus lacked sufficient military leverage to induce further Israeli withdrawals from the occupied territories.<sup>60</sup>

At the same time, the propaganda war in the Egyptian and Soviet presses continued to increase in stridency. Pravda in October condemned the frequent anti-Soviet attacks in the Egyptian media that “aimed at casting a shadow on the Soviet Union and on its policy in the Middle East, in particular, vis-a-vis Egypt.”<sup>61</sup> Soviet commentary castigated Egyptian insinuations of scant Soviet military aid and noted Cairo’s growing isolation in the Arab world.<sup>62</sup>

However, in his keynote speech to the Twenty-Fifth Communist Party Congress in February 1976, Party Secretary Brezhnev took a conciliatory approach toward Cairo. He specifically referred to the

<sup>55</sup> *Washington Star*, November 9, 1975.

<sup>56</sup> *New York Times*, November 6, 1975.

<sup>57</sup> Cited in the *Washington Post*, November 9, 1975.

<sup>58</sup> *Ibid.*

<sup>59</sup> *Aviation Week and Space Technology*, November 17, 1975, p. 22.

<sup>60</sup> *New York Times*, November 10, 1975.

<sup>61</sup> *Pravda*, October 25, 1975, as quoted in Alvin Z. Rubenstein, *Red Star on the Nile* (Princeton: Princeton Univ. Press, 1977), p. 324.

<sup>62</sup> *Pravda*, November 16, 1975, as cited in *Ibid.*

1971 Treaty of Friendship and Cooperation as "a long-term basis for relations conforming with the interests not only of our two countries, but also the entire Arab world."<sup>63</sup> At the same time, while not referring to President Sadat specifically, Brezhnev complained that "certain forces are making persistent attempts to undermine Soviet-Egyptian relations."<sup>64</sup>

Brezhnev's words, however, apparently did little to placate Sadat. In fact, less than a month later, Sadat made one of his boldest and most dramatic anti-Soviet moves by cancelling the 1971 Treaty of Friendship and Cooperation. The Egyptian president made the proposal to abrogate the treaty in a March 14 speech to the Egyptian People's Assembly, which concurred in the proposal the following day by a vote of 307 to 2.<sup>65</sup>

Sadat's move in essence was the culmination of a series of long-festering differences with Moscow. In his March speech he enumerated a number of them: First, the Soviets opposed "the trend toward peace which had taken shape" since the 1973 war, as well as Cairo's "open-door policy", the economic, social, and political changes that Egypt had set in motion.<sup>66</sup> Moreover, the Soviets had maintained their refusal to reschedule Egypt's \$5 billion military and economic debt.<sup>67</sup> "What is worse," Sadat said, "they demand interest on the military loans." Finally, not only would the Soviets not overhaul Egyptian aircraft or provide spare parts themselves, but they refused to allow India, which produces Mig-21 engines and components under Soviet license, to do so. This Soviet adamancy, in Sadat's words, was the last straw: "I can tell you this, the question with India . . . was really the main cause for ending the treaty."<sup>68</sup>

While cancelling the treaty, Sadat for a short time held off the anticipated closing of Egyptian ports to the Soviet fleet, possibly with the intention of seeing whether Moscow would relent somewhat. On April 4, however, Sadat announced that Soviet use of Egyptian naval facilities would be ended within ten days. The last Soviet naval craft accordingly left Alexandria on April 14.<sup>69</sup>

There was no doubt that Moscow was shocked and taken by surprise by this double blow. The Soviet press agency, Tass, charged that Sadat's action was a "new manifestation of the unfriendly policy with regard to the Soviet Union that he has actually been pursuing for some time now," and warned that the Egyptians would be responsible for any consequences.<sup>70</sup> Tass further contended that Cairo had cast relations in a "distorted light" and stated that Moscow would pursue a "principled consistent policy aimed at developing friendly relations with Egypt and its people."<sup>71</sup>

The quick Soviet reaction indicated that the Kremlin was sharply stung by Sadat's actions, which marked the lowest point in relations since Sadat's expulsion of Soviet military advisers in 1972

<sup>63</sup> Quoted in the *New York Times*, March 16, 1976.

<sup>64</sup> *Ibid.*

<sup>65</sup> *Aviation Week and Space Technology*, March 22, 1976, p. 21.

<sup>66</sup> FBIS, *Middle East Report*, March 17, 1976, P. D3, as cited in Rubinstein, *op. cit.*, p. 325.

<sup>67</sup> Central Intelligence Agency, *Communist Aid to the Less Developed Countries of the Free World, 1976* (Washington, August 1977), p. 29.

<sup>68</sup> FBIS, *Middle East Report*, March 30, 1976, p. D7, as cited in Rubinstein, *op. cit.*, p. 325.

<sup>69</sup> Rubinstein, *op. cit.*, p. 326.

<sup>70</sup> *New York Times*, March 16, 1976.

<sup>71</sup> *Ibid.*

and underscored a new period of chill between the two countries. Egypt's abrogation of the friendship treaty in particular was embarrassing for Moscow in the Middle East and the Third World in general since it appeared to call into question the reliability of Soviet friendship to developing countries. Moreover, with the previous discontinuation of political coordination and the virtual severing of the military assistance connection between Egypt and the Soviet Union, the treaty was the last vestige of the "special relationship" between the two countries that had begun under Nasser some 20 years previously.<sup>72</sup>

In addition to the adverse diplomatic impact resulting from Sadat's moves, the Soviet navy's loss of its Egyptian naval facilities was a serious strategic setback for Moscow. Although Soviet use of Egyptian ports had dropped off substantially since the 1972 ouster of Soviet military personnel from Egypt, the major Soviet repair and refueling facilities at Alexandria for surface craft and submarines had continued in operation and proved extremely useful for the Soviets. The loss of these facilities forced the Soviets to fall back upon less capable ports in Syria (see section on Syria below) or less accessible facilities in Yugoslavia.<sup>73</sup>

Yet, in the face of these mounting difficulties and strains in the Soviet-Egyptian relationship, some economic cooperation persisted. Soviet technical assistance continued in the areas of agriculture, rural electrification, fisheries, and the textile industry, with about 1,500 Soviet technical experts still remaining in the country. Expansion of the Hulwan steel complex and an aluminum plant was proceeding with Soviet assistance. Moreover, a trade agreement was concluded in April, calling for \$500 million worth of Egyptian exports and \$320 million in imports in 1976, with the \$180 million surplus earmarked for servicing of Cairo's military and economic debt to the Soviet Union.<sup>74</sup> The U.S.S.R. accordingly remained Egypt's largest trading partner.

While a modicum of relations remained in effect between the two countries, Soviet enmity toward Sadat was scarcely concealed. In early 1977, the smoldering press war between Cairo and Egypt again erupted to flashpoint in the form of a blistering attack in Pravda directed against the memoirs of Sadat, which were then appearing in Egypt. A long unsigned editorial, apparently reflecting high-level Kremlin thinking, accused Sadat of spreading "lies, slander and falsification" about the Soviet role in Egypt and the Middle East. The Soviet broadside charged that Sadat's reminiscences involved "political libel" and "misinformation on every question."<sup>75</sup>

The Soviet newspaper provided a rare acknowledgement of the extent of Soviet military assistance to the Arab countries. Pravda stated that the Soviets had rapidly re-equipped the Egyptian armed forces after their 1967 defeat with "large quantities of modern weapons" and had even "assumed the defense of Egyptian airspace," a hint that Soviet personnel were later flying fighter aircraft and manning radar and missile defenses within Egypt. Pravda then referred to the "additional large quantities" of equip-

<sup>72</sup> *Ibid.*

<sup>73</sup> *Washington Post*, April 18, 1976.

<sup>74</sup> CIA, *Communist Aid to the Less Developed Countries, 1976*, op. cit., pp. 9, 29.

<sup>75</sup> Quoted in the *New York Times*, February 20, 1977.

ment delivered in the 1973 war, and rhetorically asked, "what has changed since?" In response, the Soviet newspaper continued:

There has been a change in the political line of the Egyptian leadership. . . . In his unfriendly attitude to the Soviet Union, A. Sadat goes far beyond the limits of elementary propriety and norms generally accepted in relations among states.<sup>76</sup>

As charges and countercharges were hurled between Moscow and Cairo with increasing stridency, the capabilities of the Egyptian armed forces continued to decline. Sadat had claimed in his March 1976 speech that Egypt's military equipment would be "nothing but scrap" within 18 months due to a lack of spare parts.<sup>77</sup> Western military analysts maintained that Sadat was exaggerating slightly—that it would take about three to five years.<sup>78</sup>

Egypt has received no major equipment deliveries from the Soviet Union since mid-1975 and only a trickle of spare parts since then.<sup>79</sup> Press reports of several shipments of Soviet equipment in early 1977 actually referred to used Egyptian jet engines and other components which had been sent back to the Soviet Union for overhaul and which, after some delay, were finally released by the Soviets and returned to Egypt.<sup>80</sup> China has provided a few aircraft and tank engines<sup>81</sup> but, given limited Chinese technological capability, this cooperation has served more as a political gesture than significant military assistance.

A senior Egyptian official in early 1976 characterized the Egypt military situation rather succinctly:

Even if we were to maintain the weapons we have in good order with supplies of ammunition and spare parts—and that is clearly impossible, given our relations with Moscow—the Israelis will soon have weapons so superior that we will be rather defenseless. The military implications of this are quite clear: we would lose any future war.<sup>82</sup>

Were there a resumption of Arab-Israeli hostilities, the consensus of Western and Arab military observers is that Egypt could temporarily hold its positions in the Sinai, but not advance beyond those positions, nor provide troops to fight on other fronts.<sup>83</sup>

The decline in Egypt's military capabilities due almost entirely to the Soviet arms embargo, has several manifestations. First of all, Egyptian air force strength, currently comprising less than 500 aircraft, equates to about 80 percent of the pre-October war inventory.<sup>84</sup> Similarly, the army has not received replacements for all of its October war losses, with tank strength presently reported at approximately 1,850, about 85 percent of 1973 strength.<sup>85</sup> Reliable published reports of surface-to-air missiles (SAM) stocks are not available, but the normal "shelf life" of Soviet 5A-2 and SA-3 missiles is reportedly about five years, after which reliability begins to fade. Since Egypt's missile stocks are now on the order of

<sup>76</sup> *Ibid.*

<sup>77</sup> *Washington Star*, March 15, 1976.

<sup>78</sup> *Baltimore Sun*, March 31, 1976.

<sup>79</sup> *CIA Communist Aid to the Less Developed Countries of the Free World, 1976, op. cit.*, p. 28.

<sup>80</sup> *Boston Globe*, January 15, 1977; *New York Times*, June 4, 1977.

<sup>81</sup> *CIA, Communist Aid to Less Developed Countries, 1976, op. cit.*, p. 28.

<sup>82</sup> *Baltimore Sun*, March 31, 1976.

<sup>83</sup> *Ibid.*

<sup>84</sup> "Can the Arabs go to War?" *The Middle East* (London), March 1977, p. 24; *Baltimore Sun*, April 14, 1978.

<sup>85</sup> *Baltimore Sun*, April 14, 1978.

five or more years old, there is some question as to the current effectiveness of Egypt's air defense missile system.<sup>86</sup>

Equally serious for Egypt's military capabilities is the deteriorating state of Soviet-furnished equipment, given the virtual cessation of spare parts deliveries and technical assistance since mid-1975. As mentioned above, Cairo's attempts to secure alternative sources of spares have been largely fruitless. Moscow earlier prohibited India from furnishing spare parts, and Chinese assistance has not gone very far.<sup>87</sup>

Of all branches of the Egyptian armed forces, the air force has been most affected by the spare parts situation. The stoppage of replacement engine and spare parts deliveries has seriously curtailed the operational effectiveness of the aging Mig-21 fleet, the backbone of Egypt's fighter force.<sup>88</sup> Egyptian pilots reportedly are performing fewer than 10 hours per month of flying time, one-quarter of what they received in 1974, to avoid wear and tear on the aircraft.<sup>89</sup>

The army is generally credited with maintaining the highest standards of training and operational effectiveness, under the existing conditions, of any of the Egyptian armed services. Ground forces equipment does not age as rapidly as more sophisticated and delicate aircraft and missiles.<sup>90</sup> At the same time, such parts as gaskets, oil seals, and valves still wear out relatively quickly in the Egyptian desert environment, and equipment will malfunction at an accelerating rate unless such parts are regularly replaced. Observers have reported increasing numbers of tank transporters and trucks out of operation due to lack of maintenance and replacement parts, with even truck tires said to be in short supply.<sup>91</sup>

While Egypt remains heavily dependent on Soviet-equipped countries for whatever spare parts and technical support it can produce, Sadat has intensified his efforts to obtain technical assistance and replacement equipment, especially aircraft, from the West. Thus far, Egyptian efforts have met with only limited success. Purchases from the United States have comprised 50 F-5E fighters, six C-130 transports, and electronic equipment related to these aircraft.<sup>92</sup> The British firms of Rolls Royce and British Aerospace have contracted to overhaul and refurbish Mig-21 engines and airframes, respectively, to keep those aircraft—which constitute the mainstay of Egypt's fighter force—operational in the face of the cut-off of Soviet spaces. Egypt had initially considered the possibility of fitting British manufactured Spey engines into the Mig-21's, but this would have entailed producing a completely new rear fuselage and the project was deemed uneconomic and rejected.<sup>93</sup>

Besides the above, the Egyptian government has contracted with the United Kingdom for a variety of other equipment. The BAC Corporation will supply substantial quantities of Land-Rovers and Swingfire anti-tank missiles. Cairo has reportedly ordered 15 HS-748 short take-off transport aircraft, as well as six missile-

<sup>86</sup> *Washington Star*, July 5, 1977.

<sup>87</sup> "Can the Arabs Go to War?" *op. cit.*, p. 24.

<sup>88</sup> *London Daily Telegraph*, February 13, 1978.

<sup>89</sup> "Can the Arabs Go to War?" *op. cit.*, p. 24.

<sup>90</sup> *Washington Star*, July 5, 1977.

<sup>91</sup> *Washington Post*, March 19, 1976.

<sup>92</sup> *International Defense Review*, No. 5, 1977, p. 23.

<sup>93</sup> *Washington Post*, April 26, 1978.

equipped fast patrol boats and several hovercraft. The Egyptians also have been negotiating with various British firms for such items as night sights, fire control systems, and track components for Soviet-built T-55 tanks, artillery fuzes, air defense radars, and naval fire control systems.<sup>94</sup>

A major step toward establishing a new Arab arms supply relationship with the West was the April 1975 agreement by Egypt, Saudi Arabia, Qatar, and the United Arab Emirates to set up a military industrial complex called the Arab Organization for Industrialization (AOI). The agreement called for an initial capitalization of \$1 billion, with the Saudis providing the bulk of the financing, and Egypt contributing several factories, skilled manpower, and military production experience.<sup>95</sup>

While some Western and Arab observers regard the organization's planned production program as overly ambitious, the multifaceted project has made substantial progress in recent months with the conclusion of several important licensed production agreements and the completion of certain production facilities. Among the more notable milestones achieved by AOI are the following:

A subdivision of the organization is scheduled to begin turning out Arab-assembled American Motors jeeps and other vehicles at a plant near Cairo in early 1979.

Production and assembly buildings are under construction for the licensed manufacture of British Swingfire antitank missiles, with first production deliveries scheduled for late 1979.

Construction is underway for facilities to co-produce the British Westland Lynx helicopter, with assembly operations scheduled to begin in the spring of 1979.

A preliminary agreement was concluded in late 1978 with France for licensed production of the Franco-German Alpha Jet trainer/light attack aircraft. The agreement, which calls for assembly of 160 of these aircraft, has been described by AOI officials as a step toward eventual co-production of the advanced Mirage 2000 fighter.<sup>96</sup> The latter aircraft, designed as France's first-line interceptor and strike aircraft of the 1980s, could eventually replace Egypt's aging Mig-21's.<sup>97</sup>

While the AOI has made some measureable progress in working toward its goal of establishing a modern diversified Arab arms industry, which eventually could have an impact on the military situation in the Middle East, formidable financial, technical, and political problems remain to be overcome. Whether AOI's objectives will be realized in the foreseeable future thus remains to be seen.

As the erosion of Egyptian military capabilities continued, Sadat apparently has come under increasing domestic pressure to move toward at least a limited reconciliation with Moscow to secure some spare parts and replacement equipment. In early June 1977, Egyptian newspapers abruptly ceased their almost daily diatribes against the Soviet Union, with Moscow following suit, as Egyptian Foreign Minister Fahmy visited the Soviet capital for talks with

<sup>94</sup> *Ibid.*

<sup>95</sup> See Roger F. Pajak, *Soviet Arms Aid in the Middle East* (Washington: Georgetown University Center for Strategic and International Studies, 1976), pp. 10-11.

<sup>96</sup> *Aviation Week and Space Technology*, November 6, 1978, p. 16.

<sup>97</sup> *International Herald Tribune*, November 16, 1978.

Brezhnev. The talks reportedly focused on Egypt's need for spare parts and new equipment, the rescheduling of Cairo's debts to the Soviet Union, and Soviet and Cuban "interference" in Africa.<sup>98</sup> Although Fahmy's visit affected a temporary end to the propaganda war, it resulted in no progress on the basic issues separating the two governments.

Egypt for some years had been in the forefront of the Arab effort to draw Somalia away from Moscow and to support the Moslem Eritreans in their move for independence from Soviet-backed Ethiopia. The Soviets are reported to have told Fahmy that Egypt would have to relinquish her "anti-Soviet policy" in Africa before Moscow could consider the Egyptian request for additional spare parts and for rescheduling Cairo's debts.<sup>99</sup>

In response to the new Soviet demands, Sadat angrily attacked Moscow in a speech to a stormy session of the Arab Socialist Union in Cairo in July 1977. Sadat reported that high-level efforts at rapprochement had failed and that the Soviets had cancelled all military contracts with Egypt. He added that the Soviets declared that henceforth Egypt would have to pay in hard currency for new equipment or spare parts. According to Sadat, the Soviet officials behaved "rudely and adopted a very hard line."<sup>1</sup>

The persistent failure of the U.S.S.R. and Egypt to agree on rescheduling Cairo's \$5 billion combined military and economic debt continued to compound the strain in Soviet-Egyptian relations. For several years, Moscow had refused to acquiesce in Egypt's request for a renewed ten-year moratorium on debt payments, followed by 40-year repayment period. By September 1977, Sadat finally was goaded into declaring a unilateral ten-year moratorium on the military debt.<sup>2</sup> Coupled with the suspension of such payments, Sadat announced a ban on the export of Egyptian cotton, the country's export staple, to the Soviet Union and Czechoslovakia. Raw cotton, textiles, and yarn had comprised nearly half of Egypt's \$435 million in exports to the Soviet Union in 1976. Indicating that payments to Moscow would be resumed in ten years, Sadat stated: "We are not refusing to pay, but the other side should understand our circumstances."<sup>3</sup>

Two months later, Egypt announced that economic assistance payments to Moscow would be cut to about \$20 million annually. Payments on the combined economic and military aid debts had been effected from 1973-76 through substantial Egyptian trade surpluses with the Soviet Union. Egypt now expected to sell her cotton commodities, previously reserved for Communist customers, to other countries for sorely-needed hard currency.<sup>4</sup>

As frigid as the Soviet-Egyptian relationship had become at that point, it grew even icier following Sadat's dramatic peace overture and visit to Israel in November 1977. Sadat viewed Moscow as instrumental in instigating opposition among the other Arab states to his peace proposal to Israel. He branded the Soviets as hypocritical in their attack of his trip to Israel, claiming that Premier

<sup>98</sup> *New York Times*, June 25, 1977.

<sup>99</sup> *Ibid.*, June 26, 1977.

<sup>1</sup> *Washington Post*, July 17, 1977.

<sup>2</sup> CIA, *Communist Aid to the Less Developed Countries of the Free World, 1977*, op. cit., p. 30.

<sup>3</sup> *Washington Post*, October 27, 1977.

<sup>4</sup> CIA, *Communist Aid to the Less Developed Countries of the Free World, 1977*, op. cit., p. 30.

Kosygin had proposed in 1971 that a meeting be arranged for Sadat and then Israeli Prime Minister Golda Meir in the Soviet city of Tashkent. "Now they condemn my visit to Jerusalem when the whole world reacted to it as a genuine move for peace," Sadat said in an interview with the *New York Times*.<sup>5</sup>

Sadat contended that the Soviets were blocking a peace settlement for fear of losing their remaining influence in the region. The Egyptian leader maintained that the Soviets "didn't want us to reach any settlement. They wanted no peace, no war \* \* \*. They thought as long as the situation was kept boiling, we would have to have them here, until the settlement, and we would get rid of them after a settlement."<sup>6</sup>

Following Cairo's severing of diplomatic relations with Syria, Iraq, Libya, and Southern Yemen in early December 1978 in reaction to the hardline position of those countries against the Egyptian peace overture, Egypt closed the cultural centers and some consulates of the Soviet Union and four East European countries in retaliation for their opposition. In Sadat's parlance, the latter move was intended as a "lesson" to the Soviets for their backing of the Arab hard-liners. The Egyptian government justified the measures on the grounds that the cultural centers were propagating Marxist propaganda in violation of pledges not to interfere in Egyptian internal affairs.<sup>7</sup> Once again, however, Cairo's moves stopped short of a complete break in relations with the Soviet Union.

The Egyptians, in fact, have been painstakingly careful to keep the door to Moscow ajar. In February 1978, Sadat, in the face of a just-completed visit to Moscow by Syrian President Assad to discuss additional arms, characterized Brezhnev as the "best figure in the Kremlin." If and when relations return to normal, Sadat stated, it will be "thanks to the political experience and wisdom of Mr. Brezhnev."<sup>8</sup>

Sadat obviously does not wish to burn all of his bridges to Moscow. It is quite clear that his efforts to diversify his sources of arms in the West have not met his earlier expectations. Although some Egyptian goals in the way of foreign arms procurement and co-production arrangements have been attained, as described above, evidently not enough results have been accrued to offset the continuing decrease in Egyptian military effectiveness, especially in the eyes of the Egyptian military establishment itself.

Indeed, a number of reports have surfaced in the press of Egyptian military dissatisfaction over Sadat's turn away from the Soviet Union as a source of arms and the limited procurement results thus far achieved in the West.<sup>9</sup> There is little doubt that Sadat is under pressure from his military establishment to reestablish some arrangement with the U.S.S.R. for a resumption of military deliveries.<sup>10</sup> Nevertheless, given Sadat's exchanges and dealings with Moscow over the past several acrimonious years, it is likely that the Egyptian president will continue to resist pressures from his

<sup>5</sup> *New York Times*, December 8, 1977.

<sup>6</sup> *Ibid.*

<sup>7</sup> *Ibid.*

<sup>8</sup> *Monthly Report on Strategic Middle Eastern Affairs*, March 1, 1978, p. 2.

<sup>9</sup> See for example, FBIS, *Daily Report: Middle East Report*, December 20, 1977, p. E1; *Baltimore Sun*, April 14, 1978; *New York Times*, June 22, 1978.

<sup>10</sup> *Boston Globe*, June 2, 1977.

own military to fully reestablish ties with Moscow. At the same time, he could possibly accept some improvement in relations sufficient to allow a limited resupply relationship.

At this point, Egypt regards the acquisition of U.S. military equipment as especially critical to its long-term security requirements. As viewed by the Egyptian high command, Egypt has sufficient military capability to defend against an Israeli attack in the Sinai and inflict substantial Israeli casualties and, if necessary, to fight Israel in combination with the other Arab states. The major preoccupation of Cairo is the military balance in the early 1980's,<sup>11</sup> with the major Egyptian effort currently being devoted to rebuilding the air defense system. In this regard, the air force has top priority for spare parts and maintenance facilities, as well as for replacement fighter aircraft. In addition, French Crotale surface-to-air missiles and new air defense radars are being installed.<sup>12</sup>

As procurement efforts continue, Egyptian training and maneuver activities are being maintained at fairly high levels. The Egyptians contend that the Israelis are fully cognizant of these activities and are aware that they do not threaten Israel. The military exercises reportedly are intended to remind Israel that the Egyptian armed forces cannot be written off and that, in the long run, the Arabs still have a military alternative to negotiations. These actions concomitantly redound to Sadat's domestic political benefit, inasmuch as the military establishment accordingly feels better prepared and more inclined to have confidence in Sadat's leadership.<sup>13</sup>

On the Soviet side of the equation, Moscow again appears to be caught in a dilemma, as it has in other military aid relationships in the Horn of Africa and elsewhere. The Soviets presumably realize that in the long run close ties with Egypt provide them with their most hopeful opportunities for real influence in the Middle East. As a Soviet observer has stated: "In terms of its geo-strategic location, its level of development and its pre-eminence in the Arab world, there is simply no other country which is capable of replacing Egypt."<sup>14</sup>

As recently as mid-1977, a Soviet official stated that relations with Cairo could be renewed if Sadat would cease his anti-Soviet campaign. Although the U.S.S.R. remains opposed to various of Sadat's policies, the Soviet official added that "if the problem of bilateral relations is solved, everything else becomes minor."<sup>15</sup>

The fundamental Soviet interest in close relations with Cairo notwithstanding, it is doubtful that anything short of significant Egyptian efforts to eliminate the causes of Soviet dissatisfaction would be sufficient to persuade Moscow to resuscitate a large-scale military assistance program. The Soviets, having endured so many affronts from Sadat over the past several years, would probably seek a relationship that would assure them of some congruence between Egyptian policy and their fundamental policy objectives. It would therefore be unlikely for Moscow to resume significant arms

<sup>11</sup> *New York Times*, October 22, 1975.

<sup>12</sup> *Baltimore Sun*, April 14, 1978.

<sup>13</sup> *Ibid.*

<sup>14</sup> "The Soviet Union in the Middle East: Setback or Comeback?" *The Middle East*, July 1977, p. 28.

<sup>15</sup> *Ibid.*

shipments without first requiring substantial politico-military concessions on the part of Cairo. What such concessions might be and what they would entail for Egypt would depend on the exact state of play of Soviet-Egyptian relations at the time. Meanwhile, the Soviet Union seems to have accepted the price of strained relations with Cairo as tolerable in view of Moscow's other current policy objectives in the Middle East.

#### LIBYA

In September 1969, a group of radical officers overthrew the constitutional monarchy in Libya. The ruling Revolutionary Command Council quickly established close ties with Cairo. Its leader, Colonel Qadhafi, became the most ardent proponent of revolutionary Pan-Arab policy and called for the early liberation of Arab lands occupied by Israel.<sup>16</sup>

The overthrow of the royalist government opened a new phase in Soviet relations with Libya. Moscow moved quickly to recognize the Qadhafi regime. The latter, while remaining hostile to Arab Communism, was not averse to establishing ties with the Soviet Union. In the process of consolidating its hold on the country, the new government ingratiated itself with Moscow by causing the United States and the United Kingdom to evacuate their Libyan bases in early 1970.<sup>17</sup>

Soviet military equipment sought by Qadhafi was not long in coming. The first deliveries of 30 medium tanks and 100 armored personnel carriers and other vehicles arrived in July 1970.<sup>18</sup>

For the next several years, the Soviets kept a low profile in Libya. When the October 1973 war erupted, Libya made a substantial contribution to the Arab cause in the form of financial assistance and equipment transfers. Libya was reportedly to have provided some \$500 million in support for the war effort, including the financing of 70 replacement aircraft and other equipment for Egypt and Syria.<sup>19</sup>

Meanwhile, a rift that began during the October conflict between Qadhafi and Sadat over the latter's handling of the war grew increasingly bitter. Qadhafi subsequently condemned Sadat's willingness to engage in negotiations toward a peace settlement, repeatedly advocating a renewed war to destroy Israel. The feud finally degenerated into a series of personal accusations and counter-accusations between the two Arab leaders.<sup>20</sup> Cairo ended its close military cooperation by abruptly withdrawing all Egyptian pilots from Libya, as well as the SAM equipment and two naval craft that Egypt had loaned to that country.<sup>21</sup>

In an attempt to diversify sources of arms, in early 1974 Libyan Prime Minister Jalloud reportedly sought additional military equipment from Western European countries. Unsuccessful in this attempt, among other reasons because of Libya's support of various

<sup>16</sup> George Lenczowski, *Soviet Advances in the Middle East* (Washington: American Enterprise Institute for Public Policy Research, 1972) p. 153.

<sup>17</sup> Charles McLane, *Soviet-Middle East Relations* (London: Central Asian Research Center, 1973), p. 77.

<sup>18</sup> *Washington Post*, July 23, 1970.

<sup>19</sup> *Military Aviation News*, May 1974, p. 20.

<sup>20</sup> *Sketch*, September 13, 1974, p. 13.

<sup>21</sup> *Washington Post*, February 18, 1974.

dissident movements in Northern Ireland and elsewhere,<sup>22</sup> Libya had little choice but to again approach Moscow, despite Qadhafi's continued antipathy toward the Soviets. During Prime Minister Jalloud's first visit to Moscow in May 1974, an overall trade agreement was concluded which included the Soviet supply of SAM missiles and other arms in exchange for Libyan oil.<sup>23</sup> It should be noted that this accord was concluded shortly after Moscow's initial suspension of arms shipments to Egypt, following steadily deteriorating relations with Cairo. The strain in relations with Egypt probably made it easier for the Soviet leadership to paper over existing differences with Qadhafi and come to a *modus vivendi* with him.

Libya's largest arms agreement with the Soviets was reported concluded in December 1974. In addition to TU-22 supersonic bombers (until then provided only to Iraq), Mi-8 helicopters, SA-3 and SA-6 SAM missiles, tanks, and anti-tank missiles, the deal included advanced Mig-23 Floggers, the first 13 of which were delivered in early May 1975, shortly before the visit to Libya of Soviet Premier Kosygin.<sup>24</sup>

Following the Kosygin visit to Libya in May, the semiofficial Egyptian newspaper, *Al Ahram*, reported the conclusion of yet another Soviet arms deal—valued at \$4 billion—with Libya, in return for the use of military bases.<sup>25</sup> Egyptian President Sadat, in an interview with the *Los Angeles Times*, put an even higher figure of \$12 billion on the value of the accord.<sup>26</sup> Foreign observers believed, however, that the Egyptian reports probably were generated by the increasingly vehement polemics between Libya and Egypt, which had reached the stage of a bitter personal feud between Qadhafi and Sadat. Observers expressed doubt in particular over the alleged agreement to establish Soviet bases, citing Qadhafi's public opposition to any such facilities in the Mediterranean area.<sup>27</sup>

A "Libyan spokesman" in Cairo in early June placed the value of the arms accord at a more realistic \$800 million, still a vast deal in itself for a country of two million people.<sup>28</sup> Shortly thereafter, Qadhafi publicly scoffed at reports of a multi billion deal with Moscow or of Libyan acquiescence in the use of Libyan base facilities by the Soviet "We deal with the Soviet Union on a commercial and not an ideological basis," he stated.<sup>29</sup>

Although definitive information on the May 1975 arms accord is still sparse, Western officials believed the arrangement includes an increase to 1,000 tanks from the 600 reportedly ordered in 1974.<sup>30</sup> In addition, six F-class diesel submarines are included, as well as assistance in the rebuilding of World War II submarine servicing and repair facilities at the Libyan ports of Tobruk and Benghazi. About 100 Libyan naval personnel were reported to have gone to the Soviet Union for submarine training, while the number of

<sup>22</sup> *Ibid.*

<sup>23</sup> *Washington Post*, May 21, 1974 and October 20, 1974.

<sup>24</sup> *Military Aviation News*, March 1975, p. 17, and May 1975, p. 17.

<sup>25</sup> Cited in the *New York Times*, May 23, 1975.

<sup>26</sup> *Ibid.*, May 29, 1975.

<sup>27</sup> *Ibid.*, May 23, 1975.

<sup>28</sup> *Washington Post*, June 13, 1975.

<sup>29</sup> *Ibid.*, July 16, 1975.

<sup>30</sup> *New York Times*, May 29, 1975.

Soviet military advisers in the country was expected to reach about 600.<sup>31</sup>

Shortly after the Kosygin visit, Libya and the Soviet Union jointly announced that Moscow would provide Libya with the latter's first nuclear reactor. The 10-megawatt facility would be used for "peaceful measures only," as announced by the Libyan news agency. U.S. nuclear experts confirmed that a reactor of that size could only be used for research purposes, being too small for the production of sufficient quantities of plutonium for a weapon.<sup>32</sup>

The overall motivations behind the May accord still remain somewhat puzzling. The arms deal may have been a supplementary contract under the already sizable December 1974 agreement. Egyptian officials have disparaged the Libyan capability to absorb, let alone maintain and operate, the types of modern, sophisticated equipment now being delivered or on order.<sup>33</sup> President Sadat himself has voiced concern that Libya might use the newly delivered equipment—some of which Moscow has denied him—against Egypt. Sadat went on to suggest that training the Libyan army to operate the equipment reportedly earmarked for it would necessitate a Soviet presence of 20 to 50 years.<sup>34</sup> A Soviet instructor who has trained Arab tank crews reportedly went even further, saying he doubted whether the Libyans could ever be trained to operate sophisticated weapons.<sup>35</sup>

In the September 1976 military parade, commemorating the seventh anniversary of Qadhafi's seizure of power, 25 Scud surface-to-surface missiles—with a 160 mile range—were displayed for the first time in Libya. Also exhibited were Soviet-supplied SA-2, SA-3, and SA-6 SAM's, as well as French-built Crotaie missiles. Deliveries of large numbers of tanks and other ground equipment also have been continuing. All in all, Libya was reported to have received \$750 million worth of Soviet equipment since early 1975, apparently paid for in hard currency from oil revenues.<sup>36</sup>

The Libyan armed forces have one of the highest ratios of military equipment per man in the world.<sup>37</sup> By mid-1977, its army of some 22,000 was equipped with over 1,000 tanks, including about 200 advanced T-62's.<sup>38</sup> The 5,000-man Libyan air force was equipped with some 100 Mirage fighters (with 38 F-1's still on order), plus about 30 Mig-23 Flogger interceptors and 12 TU-22 Binder supersonic bombers.<sup>39</sup> The presence of several high altitude Mig-25 Foxbat fighters, one of the most sophisticated Soviet interceptors, also was reported in Libya by early 1978.<sup>40</sup> It is probable that these advanced aircraft were being piloted by Soviet personnel while Libyan pilots were undergoing training.<sup>41</sup> The Navy, smallest

<sup>31</sup> *Baltimore Sun*, June 30, 1975; *Washington Post*, July 20, 1975.

<sup>32</sup> *Washington Post*, June 3, 1975.

<sup>33</sup> *Ibid.*, June 13, 1975.

<sup>34</sup> *New York Times*, May 29, 1975.

<sup>35</sup> *London Telegraph*, September 21, 1975.

<sup>36</sup> *Military Aviation News*, September 1976, p. 19.

<sup>37</sup> *Military Aviation News*, January 1977, p. 16.

<sup>38</sup> *Christian Science Monitor*, June 21, 1977.

<sup>39</sup> *Military Aviation News*, January 1977, p. 16.

<sup>40</sup> *US News & World Report*, April 10, 1978, p. 40.

<sup>41</sup> *Military Aviation News*, September 1978, p. 19.

of the services with about 3,000 men, has received the first of six F-class submarines ordered from the Soviet Union in 1975.<sup>42</sup>

According to a statement by the Israeli Chief of Staff, General Mordechai Gur, Libya has been stockpiling quantities of major Soviet military equipment "in quantities far in excess of those which could be operated by trained Libyan personnel within the foreseeable future." General Gur continued that "it was impossible to exaggerate the size of the Libyan stockpile," and observed that each Arab state "had at least 10 times more arms than it required in relation to its size and objective needs." For Libya's reported 1,000-plus tanks, he noted that the Libyans had only about 300 crews.<sup>43</sup>

Although much, if not the bulk of the vast arsenal of Soviet armaments delivered to Libya must be kept in storage for lack of trained Libyan manpower to operate and maintain it, Qadhafi's acquisition of this equipment has ended his isolation from the Arab confrontation states. Moreover, the very existence of this stockpile has allowed Libya to recoup some of the influence it enjoyed prior to the October war. Qadhafi has stated that the arms stockpiled in Libya could provide a common arsenal for the Arab countries in a renewed war with Israel, provided they first settled their disputes among themselves.<sup>44</sup>

Meanwhile, the festering Libyan dispute with Egypt actually resulted in brief hostilities in July 1977. Long simmering tension on the desert frontier of the two countries erupted into a six day conflict in which aircraft and ground forces were engaged. This skirmish cost Libya 10 aircraft destroyed on the ground, about 30 tanks disabled, and some 300 casualties, including several Soviet advisers. Egyptian losses were reported as 3 aircraft and a few tanks.<sup>45</sup> To Western military analyst, this experience confirmed that, despite its modern military arsenal, Libya still lacked the capability of effectively waging even a brief conventional conflict.

Qadhafi, meanwhile, has continued to support various dissident and guerrilla groups in the world, including the Palestinians.<sup>46</sup> Moreover, according to a reported statement by Palestinian leader Yasser Arafat, PLO personnel are undergoing pilot training with the Libyan air force on Mig and Mirage aircraft.<sup>47</sup> In addition, Qadhafi has allowed the use of Libyan bases as staging areas for Soviet military supply flights to Ethiopia.<sup>48</sup>

While the Soviets have grafted a modern arsenal onto the small, ill-trained Libyan military establishment, they have simultaneously created significant training and maintenance problems for Libya's armed forces. Despite these difficulties including the deterioration of some equipment in the Libyan desert, Qadhafi remains reluctant to significantly expand the Soviet advisory presence in the country, presently estimated at 800.<sup>49</sup> Instead, Libya is relying

<sup>42</sup> *Military Aviation News*, January 1977, p. 16; *Weekly Report on Strategic Middle East Affairs*, January 5, 1977, p. 1.

<sup>43</sup> *Military Aviation News*, February 1977, p. 17.

<sup>44</sup> *Christian Science Monitor*, June 21, 1977.

<sup>45</sup> *U.S. News & World Report*, April 10, 1978 p. 30.

<sup>46</sup> Central Intelligence Agency, *Communist Aid to Less Developed Countries of the Free World, 1977* (Washington, November 1978), p. 14.

<sup>47</sup> *Air International*, October 1978, p. 155.

<sup>48</sup> *Christian Science Monitor*, June 21, 1977.

<sup>49</sup> Central Intelligence Agency, *op. cit.*, p. 14.

also on other foreign advisors, including Pakistanis and Cubans.<sup>50</sup> Qadhafi presumably regards the presence of the latter in the country as more palatable than an increased contingent of Soviets.

The arms length relationship maintained by Qadhafi with the Soviets has not dissuaded Moscow from entering into other forms of cooperation with the Libyans, with a nuclear program being a case in point. In late 1977 it was reported that Libya had contracted with the Soviets for construction of a 440-megawatt nuclear powerplant. The plant, of the so-called Lovissa type which the Soviets have already provided to several Eastern European countries and Finland, was reported to cost \$330 million.<sup>51</sup> While the facility would be Libya's first nuclear power plant, it would house the country's second reactor, the first being a small Soviet 10-megawatt research type, contracted for in 1975.<sup>52</sup>

Qadhafi is anxious to develop a nuclear energy program for both peaceful and military purposes. Much already has been said about the nuclear intentions of the Libyan leader, who has offered to buy nuclear weapons from anyone who would sell them. Libya, of course is totally dependent on foreign assistance to obtain the necessary facilities and technology. To acquire such assistance, Libya has signed and ratified the Nuclear Non-Proliferation Treaty by which Libya agrees to place its reactors under international safeguards. Since it is Soviet policy to sell nuclear powerplants to any country which has signed the treaty and which can afford the facilities, Moscow has not hesitated to sell such equipment to Libya.<sup>53</sup> Although the reactors in question will not appreciably further Libya's quest for nuclear weapons, they will provide a modest first step toward acquiring some necessary technical expertise.

The current Soviet relationship with Libya is based on limited mutual interests. Libya, formerly an outcast in the Arab world, has sought to enhance its influence and prestige. The Soviet Union has been anxious to offset the loss of its formidable presence in Egypt. Tripoli and Moscow both seek to topple traditionalist regimes in the region, while Libya is interested in building a modern arsenal quickly with equipment from the Soviets, who in turn are much interested in Libya's hard currency.

Although it is commonly assumed that Libya is paying for her massive amounts of Soviet equipment on a cash basis, there is practically no information available on prices, terms, or other details of the repayment process. Soviet cooperation in Libyan oil operations per se dates from 1972, when the Soviets agreed to provide technical assistance in prospecting, drilling, and refining, following Western companies' boycotting of Libyan oil in retaliation for Libyan nationalization of the British Petroleum-owned Sarir oil fields.<sup>54</sup> Libya in May of that year also announced the sale of crude oil to the U.S.S.R., but Soviet imports of Libyan crude fell short of the anticipated level of 2.5 million tons a year.<sup>55</sup> Soviet purchases in 1972 totaled 1.9 million tons while 1973 sales fell to

<sup>50</sup> *Christian Science Monitor*, June 21, 1977; *Military Aviation News*, January 1977, p. 16.

<sup>51</sup> *Washington Post*, December 12, 1977.

<sup>52</sup> See Roger F. Pajak, "Soviet Arms Aid to Libya," *Military Review*, July 1976, p. 86.

<sup>53</sup> *Washington Post*, December 12, 1977.

<sup>54</sup> *Oil and Gas Journal*, March 13, 1975, p. 35, as cited in A. J. Klinghoffer, *The Soviet Union and International Oil Politics* (New York: Columbia University Press, 1977), p. 143.

<sup>55</sup> *Petroleum Press Service*, September 1972, p. 325, as cited in *ibid.*, p. 144.

1.7 million tons, the decrease attributed primarily to Soviet unwillingness to pay high Libyan prices.<sup>56</sup>

Given no indication of Soviet-Libyan oil barter arrangements for military equipment since then, it seems reasonable to assume that Libya has largely repaid Moscow with hard currency earnings derived from oil revenues. As the world's seventh largest oil producer in 1977, Libya earned an estimated \$8 billion in oil revenues in that year.<sup>57</sup> Given that level of income and Libya's relatively small population, there would be little problem for Libya in financing even the high volume of Soviet military equipment deliveries since 1975.

It is therefore likely that Soviet arms sales to Libya are a substantial source of convertible currency to Moscow. It is further reasonable to assume that Moscow is fully utilizing its economic opportunities by charging Libya what the traffic will bear for the modern weaponry being supplied. The Soviets will likely maintain the flow of high priced military equipment to the lucrative cash market provided by the Libyans, the degree of redundancy to Libyan needs notwithstanding.

Despite the handsome economic benefits being derived from arms sales to Libya, the prime considerations underlying the Soviet relationship with Libya still appear to be political. The Soviets' consolidation of their presence in Libya not accidentally serves to put pressure on Sadat to reestablish his unravelled ties with Moscow. The U.S.S.R.'s close arms relationship with Libya probably is intended to unsettle Sadat, as well as to recoup some of the prestige lost at Egypt's hand in the Middle East since 1974. Concomitantly, while the Soviets evidently have not acquired military base rights in Libya, they reportedly have gained limited access to ports in the country.<sup>58</sup>

The Soviet leaders presumably realize Qadhafi's intention of using his arms stockpile to influence Arab policies. They may think it worthwhile to underscore Moscow's capability and willingness to provide the materiel to challenge Israel with the aim of thus achieving a positive impact in this regard on other Arab states.

The Soviet arms program in Libya also is part of the broader objective of demonstrating continued Soviet influence in the Middle East despite setbacks in Egypt. A close relationship with Libya allows the Soviets to maintain a presence in the radical Arab "rejectionist" camp in the region, while concomitantly serving as a reminder that the Soviet Union must not be ignored in any political settlement in the Middle East.

Serious difficulties meanwhile persist in the Soviet-Libyan relationship, despite the close arms transfer and technical assistance ties between the two countries. The Soviets no doubt are concerned by Qadhafi's strong anti-Communist feelings and his erratic behavior. They presumably realize that Libya's position and prestige in the Arab world do not equate with that of Egypt, or even Syria. Nevertheless, it is likely that the Soviets will maintain their relationship with Libya, regardless of its tenuousness and uncertain-

<sup>56</sup> *Vneshnaya Torgovliya SSSR za 1973 god*, p. 284, as cited in *ibid*.

<sup>57</sup> *U.S. News and World Report*, April 10, 1978, p. 39.

<sup>58</sup> *Military Aviation News*, June 1975, p. 18.

ties, as long as their overall geopolitical interests continue to be served.

### IRAQ

As a consequence of the upsurge in Soviet military deliveries since the October war, Iraq through 1977 ranked as the second largest Third World recipient of Soviet arms (after Egypt), having received an estimated \$3.5 billion in such assistance.<sup>59</sup> The close Soviet-Iraqi arms supply relationship began following the coup of General Abdul Karem Kassem against the Nuri al-Said government in July 1958. As the sole Arab member of the anti-Soviet Baghdad Pact, Iraq had alienated Arab nationalist elements and had been eclipsed in prestige by Egypt, one of Iraq's traditional rivals in the Arab world Kassem, seeking to counteract these factors, changed Iraq's foreign policy stance to one of nonalignment, severed military ties with the West, and approached the Soviet Union for military assistance.<sup>60</sup>

The Soviets responded quickly to the Iraqi requests. Delivery of a squadron of Mig-15 fighters in late 1958 was followed by the arrival of a large military training mission. Other deliveries of aircraft, including Mig-21 fighters, transports, helicopters, and trainers, took place in the early 1960's as the Iraqi air force was modernized.<sup>61</sup>

Despite this assistance, strains arose in Baghdad's relations with Moscow. Even more troublesome than Iraqi pressures against the local Communist party in Moscow's eyes was the regime's war against the rebellious Kurdish tribesmen in northeast Iraq, underway since 1961. Moscow, which had maintained a protective attitude toward the Kurds for some time, was seriously disturbed by Baghdad's handling of the rebellion.<sup>62</sup> It went so far as to publish a warning in Pravda in June 1963 that the Soviet Union would not remain indifferent if Soviet arms were used against the Kurdish dissidents. Arms shipments shortly thereafter were curtailed. These moves provided the first known instance of Moscow's use of this type of leverage against an aid recipient and served to restrain the Iraqis in their anti-Kurdish operations.<sup>63</sup>

While Soviet-Iraqi relations improved over the next several years, the Kurdish problem continued to fester between the two countries. In 1965, Baghdad again launched a large-scale offensive against the dissidents. This time, however, Moscow appeared unwilling to strain relations with Baghdad and refrained from pressuring Iraq. Within the broader context of overall policy objectives in the Arab world, Moscow apparently was not prepared to manipulate its arms aid tie at this time.<sup>64</sup>

Iraqi losses in the June 1967 war, though sizable, were on a much smaller scale than those of Egypt and Syria. As a result of

<sup>59</sup> Based on (1) data contained in ACDA, *World Military Expenditures and Arms Transfers 1967-1976* (Washington: GPO, July 1978), p. 158, (2) an increment of 15 percent as an upward adjustment factor in recent years, as cited in CIA, *Arms Flows to LDCs: U.S.-Soviet Comparisons, 1974-77* (Washington, 1978), p. 4, and (3) an estimate for 1977 contained in CIA, *Communist Aid to Less Developed Countries, 1977* (Washington, November 1978), p. 32.

<sup>60</sup> Wynfred Joshua, *Soviet Penetration into the Middle East* (New York: National Strategy Information Center, 1971), p. 17.

<sup>61</sup> Robert Jackson, *The Israeli Air Force Story* (London: Tom Stacey, Ltd., 1970), p. 171.

<sup>62</sup> McLane, *op. cit.*, pp. 55-56.

<sup>63</sup> *The Economist*, June 29, 1963, p. 1344.

<sup>64</sup> Joshua, *op. cit.*, p. 19.

Soviet replacement deliveries, Iraqi force strength a year after the war substantially exceeded the pre-war level. By mid-1971, the Soviets had, over a 4 year period, provided Iraq with 110 Mig-21 and SU-7 fighters, over 20 helicopters and trainers, about 150 tanks, some 300 armored personnel carriers, and about 500 field guns and artillery rockets.<sup>65</sup>

The Soviet aid relationship with Iraq flourished, nurtured at least partly by Baghdad's unusually good repayment record. With hard currency earnings from oil exports, Iraq was better able than any other Soviet client to meet its repayment obligations to Moscow.<sup>66</sup>

The military-diplomatic relationship between Moscow and Baghdad was formalized in April 1972 in the signing of a fifteen-year Treaty of Friendship and Cooperation during Premier Kosygin's first visit to Iraq.<sup>67</sup> The treaty constituted a major step in Soviet efforts to consolidate and formalize a political position in the Arab world, independent of the Soviet presence in Egypt.

Similar to the 1971 treaty with Cairo, the accord called for cooperation in the military, political, and economic spheres and regular consultations on international issues affecting the interests of both parties. Also, like the Egyptian treaty, it did not provide for mutual assistance in the event of hostilities, but stipulated only that the two sides would continue to assist each other in strengthening their defense capabilities and to "coordinate their positions" should a threat to peace arise.<sup>68</sup>

Despite the relatively cautious nature of the Soviet commitment, Soviet-Iraqi relations continued to be close. Soviet arms shipments continued, highlighted later in the year by the installation of the first SA-3 SAM sites in the country.<sup>69</sup>

A rather curious—and still unexplained—development occurred in the late summer of 1973 with the delivery of about a dozen supersonic TU-22 Blinder medium-range bombers to Iraq. Although the Blinder had been in Soviet service for some 12 years, this was the first deployment of this type of aircraft outside the Soviet Union or Eastern Europe. Capable of speeds of approximately 900 mph, with a range of 1,400 miles, the blinders were described by the Pentagon as "far more formidable than any aircraft supplied by Moscow to Egypt or any other Arab nation so far."<sup>70</sup> Oddly enough, though delivery occurred just prior to the October war, no mention was made of the aircraft being used in the war.

While the bomber could represent a threat to Israel or Iran, Iraq's prime adversaries, the general assessment of Western military specialists was that introduction of the aircraft did not alter the military balance.<sup>71</sup> Soviet motives in supplying the aircraft were nuclear, but U.S. officials viewed the move as an attempt by

<sup>65</sup> Lenczowski, *op. cit.*, p. 153.

<sup>66</sup> A. Y. Yodfat, "Russia's Other Middle East Partner," *New Middle East*, November 1971, p. 28.

<sup>67</sup> Alvin Z. Rubinstein, "The Soviet Union in the Middle East," *Current History*, October 1972, p. 169.

<sup>68</sup> International Institute for *Strategic Studies*, *Strategic Survey 1972* (London: IISS, April 1973), p. 28.

<sup>69</sup> *Ibid.*

<sup>70</sup> *Military Aviation News*, October 1973, p. 15.

<sup>71</sup> *New York Times*, October 3, 1973.

Moscow to reassure its Arab clients that they could continue to rely on the Soviet Union for advanced military equipment.<sup>72</sup>

Little definitive information is available on the extent of Iraqi involvement in the October war, but Baghdad's equipment losses were believed to be small. Following the conflict, the Soviets continued to supply new types of late model equipment to Iraq. Scud surface-to-surface missiles—with conventional warheads—were reported in Iraq for the first time in late 1974. Additional Soviet military advisory personnel also were reported in the country, giving rise to speculation that the missiles would remain under Soviet control initially.<sup>73</sup>

In October 1974, the Mig-23, one of the most modern fighters in the Soviet inventory, was introduced into Iraq for the first time. About 12 were reported to have arrived, although no fully qualified Iraqi pilots were yet available to fly them.<sup>74</sup>

By early 1975, however, problems again arose in Soviet-Iraqi relations. Friction began with the Soviet purchase of a sizable amount of Iraqi oil which Moscow apparently resold at a profit to third countries. Baghdad was further perturbed by Moscow's non-reaction over Iran's occupation of two small, but strategic inlets in the Persian Gulf, Iraq's outlet to the sea. Overshadowing these two developments, however, was the perennial sore spot caused by the Kurdish war.

The festering problem of Kurdish separatism had practically transfixed Iraqi foreign policy for some time. While Baghdad remained committed to preventing any significant Kurdish autonomy, Moscow had long viewed the Kurdish minority in Iraq as a potential base from which similar separatist tendencies could perhaps be fostered in the larger Kurdish population of neighboring Iran.<sup>75</sup>

As the harsh winter weather stalled Iraq's anti-Kurdish offensive at the beginning of 1975, Baghdad made repeated urgent entreaties to the Soviet Union for additional artillery, infantry weapons, and ammunition. These entreaties elicited little response from Moscow, severely straining ties with the Iraqi government.<sup>76</sup> The uncooperative Soviet attitude apparently contributed to intensified Iraqi efforts to acquire military equipment from France.

Baghdad had already made some purchases from France the previous year. Included in the 1974 deals were 31 Alouette III helicopters, armed with SS-11 antitank missiles,<sup>77</sup> 1,000 automatic 60 mm mortars, 60,000 rounds of artillery ammunition, and other equipment for a total reported value of about \$70 million.<sup>78</sup>

Iraq's discernible edging away from its traditional xenophobic isolation thus was given added impetus by Moscow's foot dragging in providing additional arms supplies in early 1975. Questioned about Iraq's reported arms shopping in the West, after a decade and a half of nearly exclusive reliance on Moscow, Iraqi President Saddam Tikriti in April 1975 stated: "If national conditions dictate

<sup>72</sup> *Ibid.*

<sup>73</sup> *Washington Post*, February 2, 1975.

<sup>74</sup> *Ibid.*

<sup>75</sup> *Ibid.*, February 9, 1975.

<sup>76</sup> *Ibid.*

<sup>77</sup> *SIPRI Yearbook 1975* (Cambridge: MIT Press, 1975), p. 203.

<sup>78</sup> *Military Aviation News*, September 1974, p. 16.

that we should diversify in this field we shall do so . . . We have a free will." <sup>79</sup>

Iraq indeed appears to have emerged from its former paranoiac isolation toward a more open role in the Arab world. In March 1975, Baghdad—while still wary of Iranian ambitions for hegemony in the Gulf area—concluded a border accord with Tehran. This accommodation paved the way for a successful culmination of the Iraqi offensive which finally ended the Kurdish war a few weeks later.<sup>80</sup> Also, development contracts concluded with Japanese and Western European firms <sup>81</sup>—instead of the Soviet Union—to enlarge the Iraqi port of Um Qasr may have signified a further degree of estrangement between Iraq and the Soviet Union.<sup>82</sup>

Developments in 1976 injected further strains in the checkered pattern of Soviet-Iraqi relations. According to reports from Baghdad, the Iraqis were annoyed at the Soviets for several reasons. The first of these was Soviet construction of a dam on the Euphrates River in Syria which affected the water flow to some of Iraq's prime agricultural area. Another factor galling to the Iraqi was Moscow's failure, in Iraq's eyes, to act decisively to protect the Palestinian and Arab leftist forces in Lebanon from Baghdad's then arch-rival, Syria, and the Christian forces. A third element in Baghdad's displeasure was the Soviets' construction of some industrial facilities which the Iraqis claimed did not operate properly.<sup>83</sup>

These dissatisfactions on Baghdad's part, combined with the U.S.S.R.'s regional setback resulting from its eviction from Egypt and the strains in its relations with Syria, apparently prompted urgent action on the Iraqi front in Moscow's eyes. As a result, Soviet Premier Kosygin visited Baghdad in May 1976 and signed a record \$1 billion arms sales agreement—an accord matched only by Moscow's 1974 agreement with Libya. This transaction placed Iraq first among Soviet arms aid recipients.<sup>84</sup>

The Soviets, in view of their eroding position in the Middle East, probably felt that restraint in meeting Iraqi arms requests would not at that time be in their interest, and accordingly agreed to supply a wide range of additional major equipment. Reportedly included in the accord were a squadron of advanced Mig-25 Foxbat interceptors, additional numbers of Mig-23 swing-wing fighters and troop-carrying helicopters, as many as 600 additional T-62 tanks, several more batteries of Scud surface-to-surface ballistic missiles, as well as submarines and missile-equipped naval patrol craft.<sup>85</sup> Separate reports indicated that Moscow agreed to sell Iraq a number of its latest IL-76 long-range military jet transports, the first such aircraft exported outside the Soviet Union.<sup>86</sup> According to other press reports,<sup>87</sup> the Soviets gained exclusive control of two

<sup>79</sup> *Washington Post*, April 25, 1975.

<sup>80</sup> *New York Times*, March 3, 1975.

<sup>81</sup> *Washington Post*, July 20, 1975.

<sup>82</sup> Instead of a "formidable Soviet naval base" located at Um Qasr, as widely reported in the Western press at the time, two U.S. newsmen who visited the site in February 1975 reported only "half a dozen jetties built out into the estuary from naked sand," plus "a cluster of sheds, housing, and headquarters buildings of the Iraq navy" (see *Washington Post*, February 12, 1975).

<sup>83</sup> *Washington Post*, September 23, 1976.

<sup>84</sup> Central Intelligence Agency, *Communist Aid to the Less Developed Countries of the Free World, 1976* (Washington, August 1977), p. 30.

<sup>85</sup> *Events*, November 4, 1976, p. 3.

<sup>86</sup> *Washington Post*, February 27, 1978.

<sup>87</sup> See for example *Weekly Report on Strategic Middle Eastern Affairs*, October 13, 1976, p. 1.

major air bases and a naval base in Iraq in exchange for the weaponry provided under the 1976 accords, but such reports are almost certainly false, in view of the poor Soviet bargaining position referred to above, as well as the unlikely Iraqi predisposition to permit foreign military facilities on their soil. At the same time, Iraq reportedly has made its Persian Gulf port of Um Qasr available to Soviet naval craft for short term visits.<sup>88</sup>

The year 1977 saw a nearly record-high volume of Soviet arms deliveries to Iraq, as the Soviets began the implementation of accords signed the previous year. The value of equipment deliveries rose by 20 percent over the level of 1976 to an estimated \$600 million, one-fifth of total Soviet military shipments to the less developed countries in that year. About 1,150 Soviet and East European military advisers and technicians were believed to be present in Iraq in 1977, acting in a variety of training, instructional, and advisory roles.<sup>89</sup>

Iraq's excellent financial situation, derived from its high oil production levels, has enabled Baghdad to attract increasing Western interest in Iraqi economic development, thus providing serious competition for Moscow. Prior to 1977, the Soviets had invested approximately \$700 million in Iraq,<sup>90</sup> the site of some of the U.S.S.R.'s most ambitious development projects in the Third World. Among the roughly 200 Soviet development projects underway in the country<sup>91</sup> are a national oil industry and power projects designed to eventually triple Iraq's electric capacity. Reacting to the threat of Western competition, Moscow in 1977 moved to implement a number of major new industrial and agricultural projects under an expanded line of economic credit extended in 1976. These new development projects, which will have a total price tag of nearly \$3 billion, will probably be under commercial contract and paid for in hard currency and oil.<sup>92</sup>

Iraq, with its \$16 billion level of oil revenues in 1977,<sup>93</sup> has been without doubt the Soviet Union's favorite customer for arms and economic assistance. In addition to its geopolitical interests in Iraq, the Soviet Union became interested in Iraq as a source of oil, once Moscow decided, in the late 1960's, to initiate purchases of crude. Iraq, for its part, was the Middle East oil producing state most predisposed to becoming economically involved with the U.S.S.R. The Soviets began close cooperation in the development of Iraqi oil fields and facilities in 1967, the first time that they agreed to extensively participate in the oil operations of an Arab state.<sup>94</sup> Moscow also was instrumental in encouraging and supporting Iraq's nationalization of its foreign-owned oil companies.

As Iraqi oil production increased steadily with Soviet technical assistance, Moscow reportedly agreed to accept Iraqi crude as payment for Baghdad's military and economic debts.<sup>95</sup> In 1972, Iraq began exporting crude oil to the U.S.S.R.,<sup>96</sup> which in turn may have

<sup>88</sup> *New York Times*, April 10, 1977.

<sup>89</sup> CIA, *Communist Aid to Less Developed Countries, 1977*, op. cit., p. 32.

<sup>90</sup> CIA, *Communist Aid to Less Developed Countries, 1977*, op. cit., p. 32.

<sup>91</sup> *Weekly Report on Strategic Middle Eastern Affairs*, February 9, 1977, p. 1.

<sup>92</sup> CIA, *Communist Aid to Less Developed Countries, 1977*, op. cit., p. 32.

<sup>93</sup> *The Middle East*, July 1978, p. 30.

<sup>94</sup> Klinghoffer, op. cit., p. 135.

<sup>95</sup> Klinghoffer, op. cit., pp. 136-37.

<sup>96</sup> The Economist Intelligence Unit, *Soviet Oil to 1980* (London, 1973), p. 34.

resold it to the East European countries. However, as oil prices began to increase in 1973, Iraq reconsidered its oil barter arrangements with the U.S.S.R. and, while agreeing to honor its debts, decided to make future repayments in hard currency, rather than crude oil. As a consequence, Iraqi crude oil exports to the Soviet Union first increased from 4 million metric tons in 1972 to 11 million in 1973, but then decreased to less than 4 million in 1974.<sup>97</sup> Despite the decrease in crude oil shipments to the Soviet Union, Moscow has given no indication of any displeasure over this development, indicating that it values its Iraqi connection primarily for its political benefits and secondarily, but not inconsequentially, for its economic returns.

In mid-1978, the mercurial relationship between Iraq and the Soviet Union deteriorated to its lowest point in several years. As a result of several developments exogenous to Iraq—pro-Soviet coups in Afghanistan and South Yemen, the assassination of the leader of North Yemen, and Soviet support of Ethiopia against the Moslem Eritrean rebels in the Ogaden region—the Iraqi leaders began to shift their political positions more to the middle ground of non-alignment that they had long claimed to occupy. In an interview with a U.S. newsmen, Iraqi leader Saddam Hussein reproached Soviet machinations in the Persian Gulf and Africa, stating: “They won’t be satisfied until the whole world becomes Communists.”<sup>98</sup>

A dramatic example of changing Iraqi attitudes toward the Soviet Union occurred in June when Baghdad announced that 21 Communist Party members in the Iraqi armed forces had been executed for plotting against the government. Some of the executions apparently were carried out despite entreaties by the Soviet and East European ambassadors in Baghdad.<sup>99</sup> The Iraqis clearly intended to warn the Soviets against meddling in Iraq’s internal affairs. The government-controlled press in Iraq further warned the local Communist Party that any subversive activity in the armed forces was punishable by death.<sup>1</sup> A recent resurgence of Kurdish guerrilla activity in Northern Iraq may have been a related factor in Iraqi internal security sensitivities at the time.<sup>2</sup>

The Soviets, in return, indicated that they would not send a high-ranking delegation to Baghdad to attend the tenth anniversary proceedings of the 1968 Baathist seizure of power.<sup>3</sup> Soviet press commentary in July referred to “difficulties” with the Iraqi government and cautioned Baghdad against “complicating” relations between the Baathists and the Iraqi Communist Party.<sup>4</sup>

Iraqi leaders continued to publicly criticize Soviet and Cuban policies in the Horn of Africa, particularly Soviet support of the Mengistu regime in Ethiopia against the Ogaden-based rebels. Baghdad asked Moscow and Havana to call a halt to the Ethiopian offensive against the rebels. A Kuwaiti newspaper reported that Iraqi leader Saddam Hussein had threatened to sever diplomatic

<sup>97</sup> Klinghoffer, *op. cit.*, p. 138.

<sup>98</sup> *Newsweek*, July 17, 1978, p. 50.

<sup>99</sup> *Ibid.*

<sup>1</sup> *New York Times*, June 11, 1978.

<sup>2</sup> *The Middle East*, July 1978, p. 30.

<sup>3</sup> *New York Times*, June 11, 1978.

<sup>4</sup> Foreign Broadcast Information Service, *Daily Report: Soviet Union*, July 18, 1978, P. F-5.

relations with Moscow over the issue, but the report was denied by Baghdad.<sup>5</sup>

Iraq went so far as to formally refuse the Soviets landing rights for direct aircraft supply flights to Ethiopia. This caused the Soviets to make cosmetic stopovers in Southern Yemen where the equipment presumably was transshipped by sea to Ethiopia.<sup>6</sup>

Despite these serious strains in Soviet-Iraqi relations, the mutual interests of both sides—as they have on past occasions—served to stop the unravelling process from going beyond a certain point. The suggestion made by Syrian Foreign Minister Abdel Halim Khaddam that Iraq was considering cancelling its 1972 treaty of friendship with the Soviet Union was castigated as a “vulgar insinuation” by a high Iraqi official.<sup>7</sup> Naim Haddad, secretary general of the ruling National Progressive Front and member of the Iraqi Revolution Command Council, declared that the claim was “an attempt to undermine relations between Iraq and a friend.” He continued, “As far as we are concerned our strategic alliance with the U.S.S.R. will not change. . . . The Soviet Union is a friend with whom we can cooperate as long as there is no interference in our internal affairs.”<sup>8</sup> Haddad confirmed Baghdad’s crackdown on Iraqi Communists, stating that the Iraqi party “follows the Soviet Communist Party like a tail.” Nevertheless, he denied any threat of severing relations with Moscow over existing strains between the two countries, saying merely that “We expressed our concerns.”<sup>9</sup>

In addition to disagreeing with the Soviet Union on the issues discussed above, Iraq has been at odds with most of the other Arab states on the question of a peace settlement with Israel and other matters. Of the so-called “rejectionist states” opposed to a settlement with Israel on anything but Arab terms, Iraq has maintained the most extreme position, as evidenced by Baghdad’s refusal to attend a 1978 meeting of the “Steadfastness Front,” composed of Syria, Libya, Algeria, and other radical states. The opposition of the latter countries to Egyptian President Sadat’s peace initiatives toward Israel did not go far enough to satisfy Baghdad, which complained that the other Arab states were too “soft” on Israel.<sup>10</sup>

Iraq has long manifested its most vehement differences with the rival Baath Party in Syria. The Iraqi media has bitterly attacked Syria on numerous occasions, one of the most recent occurring during the spring 1978 Israeli incursion into Lebanon, when Iraq condemned Syria for “standing by.” Other major areas of contention between the two countries were the Middle East peace negotiations (in which Syria was preprepared to join in a Geneva or similar context), Syrian involvement in Lebanon, and the long-standing ideological rivalry between the two Baath governments. Secondary unresolved issues include oil transit fee water rights, and access to overland transportation routes.<sup>11</sup> Iraqi distrust of Syria and Baghdad’s intention to avert Syrian blackmail potential over the old trans-Syrian oil pipeline were prime factors motivat-

<sup>5</sup> *The Middle East*, July 1978, p. 30.

<sup>6</sup> *Newsweek*, July 17, 1978, p. 51.

<sup>7</sup> *Middle East Economic Digest*, June 9, 1978, p. 35.

<sup>8</sup> *The Middle East*, July 1978, p. 30.

<sup>9</sup> *Washington Post*, June 8, 1978.

<sup>10</sup> U.S. Congress, House, Committee on International Relations. *Review of Developments in the Middle East—1978* (Washington: GPO, June 1978), p. 125.

<sup>11</sup> *Ibid.*, p. 128.

ing Iraq's construction of a several hundred million dollar pipeline through Turkey.<sup>12</sup>

Baghdad's disenchantment with some of Moscow's policies, a desire to pursue an increasingly independent foreign policy, and Iraq's strong financial position have impelled further Iraqi attempts to broaden a military supply relationship with Western countries. The June 1978 visit to Baghdad of French Defense Minister Yvon Bourges stirred renewed speculation over the possibility of substantial additional Iraqi purchases of jet aircraft and other military equipment from France. Such feelings were heightened by the statement at the time of the Iraqi Information Minister, who stated that his government was seeking to diversify its sources of weapons which would be obtained "from any source," with no strings attached.<sup>13</sup>

Other reports had indicated that Iraq had earlier ordered from France as many as 72 advanced Mirage F-1 fighters.<sup>14</sup> The June visit of the French delegation reportedly entailed discussions for missiles, helicopters, and electronic equipment. In addition to the French equipment, the Iraqis have reportedly been discussing the purchase of German tank transporters and Swiss light trainer aircraft.<sup>15</sup>

A French consortium is also constructing a \$275 million nuclear research center near Baghdad, which will house a 70-megawatt experimental reactor when completed sometime in 1979. The Israeli, Iranian, and Syrian governments are reportedly concerned over this development, and U.S. officials have expressed some misgivings over the apparent French intention to supply enriched uranium for the facility. French officials have insisted, however, that France has taken "all the necessary precautions" to prevent diversion of any materials for nuclear weapons and that Iraq has fully agreed to U.N. International Atomic Energy safeguards as part of the deal.<sup>16</sup>

Needless to say, these developments presumably have not been well received in Moscow, which recently has been forced to respond also to the "standard" type of complaint from the Iraqis. The December 1978 visit to Moscow of Iraqi leader Saddam Hussein reportedly again involved Iraqi complaints over Soviet delays in shipments of spare parts for Iraqi equipment—a perennial sore point on the part of nearly all of Moscow's arms customers—and Soviet attempts to coordinate and standardize arms supplies to both Iraq and Syria to avoid duplication.<sup>17</sup>

Such frictions notwithstanding, it still appears likely that the Soviet-Iraqi relationship will endure. Both countries simply have too many mutual interests at stake to allow matters to cause a breach in relations.

Saddam Hussein, in a recent interview with French journalists, aptly characterized Iraq's perspective in confronting such disagree-

<sup>12</sup> *Washington Post*, April 8, 1976.

<sup>13</sup> *Military Aviation News*, June 1978, p. 16.

<sup>14</sup> *Ibid.*, August 1978, p. 11.

<sup>15</sup> *Ibid.*, June 1978, p. 16 and August 1978, p. 11.

<sup>16</sup> *Washington Post*, February 27, 1978.

<sup>17</sup> *Military Aviation News*, December 1978, pp. 14-15.

ments. "We are pragmatists," he stated. "If confrontation doesn't work, we change. We haven't closed any doors."<sup>18</sup>

## SYRIA

Syria, with an estimated \$3 billion in Soviet military aid received through 1977,<sup>19</sup> then ranked as the third largest recipient of Soviet arms among the nonaligned countries. Soviet arms aid cooperation with Syria dates from 1956, when in January of that year the Syrian government concluded its first arms accord with Moscow, because of the "impossible conditions" for purchasing arms attached by the West. After the 1956 accord, follow-up agreements, technical assistance, and good will naval visits ensued in the usual Soviet pattern.<sup>20</sup>

Though encountering problems and periodic setbacks, a Soviet working relationship was maintained with Syria over the next decade. by the eve of the June 1967 war, Syrian military and economic dependence on Moscow was pronounced.<sup>21</sup>

While Syria remained crucial to Soviet calculations in the area, policy differences between the two countries grew more acute after the war. The apparent central difference was over policy toward Israel. In contrast to Moscow's espousal of a political approach to a settlement, the Syrians continued to press for reprisals and the total defeat of Israel, as underscored by their heavy support of the Palestinian guerrillas. These differences placed a considerable strain on Soviet-Syrian relations.<sup>22</sup>

Despite such periodic strains, Syria, by mid-1970 was nearly totally dependent on the Soviet Union for the sustenance of its military machine. The air force, which had tripled in size since the war, boasted 175 late model Mig-21 fighters and SU-7 fighter bombers (as opposed to 55 before the war) and 85 Mig-17 fighters.<sup>23</sup> Deliveries to the ground forces during the three-year period included 250 to 300 tanks, over 100 armored personnel carriers, 400 field guns and mobile rocket launchers, and an estimated 40 SA-2 SAM missiles.<sup>24</sup> Transfers to the navy included two Soviet-supplied minesweepers, six *Komar*-class missile patrol boats, and at least a dozen motor torpedo boats.<sup>25</sup>

Striving to correct the operational deficiencies in the Syrian armed forces were an estimated 2,000 to 3,000 Soviet military instructors and advisers, perhaps one-fifth the number in Egypt at the time. As in Egypt, the Soviet personnel were in training, planning, and logistics activities down to divisional and in some cases lower, levels.<sup>26</sup>

While the April 1972 Soviet friendship treaty with Iraq received considerable attention in the Western press, a similar treaty with

<sup>18</sup> *Los Angeles Times*, November 12, 1978.

<sup>19</sup> Based on (1) data contained in *World Military Expenditures and Arms Transfers 1967-1976*, *op. cit.*, p. 158, (2) an increment of 15% as an upward adjustment factor in recent years, as cited in CIA, *Arms Flows to LDCs: US-Soviet Comparisons, 1974-77* (Washington, 1978) p. 4, and (3) a minimal estimate for 1977, based on average deliveries over the past few years.

<sup>20</sup> Lenczowski, *op. cit.*, p. 105.

<sup>21</sup> Lenczowski, *op. cit.*, p. 123.

<sup>22</sup> McLane, *op. cit.*, p. 91.

<sup>23</sup> *Aviation Week and Space Technology*, June 1, 1970, p. 16.

<sup>24</sup> Lenczowski, *op. cit.*, p. 152.

<sup>25</sup> Joshua, *op. cit.*, p. 20.

<sup>26</sup> *Christian Science Monitor*, July 9, 1970.

Syria was conspicuous by its absence. Syrian wariness over a closer involvement with Moscow reportedly caused Damascus to reject Soviet offers of such a treaty.<sup>27</sup>

Following the sudden ouster of virtually all Soviet personnel from Egypt in July 1972, Western observers awaited some reactive move by the Soviets in the area. It came two months later in the form of a prominent airlift of Soviet military equipment to Syria. During late September and early October, some 20 AN-12 transport aircraft, as well as several merchant ships, arrived in Syria with new equipment, reportedly including 12 to 15 Mig-21 fighters, new T-62 medium tanks, and SA-3 missiles.<sup>28</sup> Moscow evidently took this conspicuous and dramatic step to demonstrate that it still maintained a secure foothold in the Middle East.

Also in September, Western sources reported that Moscow negotiated some type of arrangement with Damascus, whereby the Soviets would expand naval facilities at the Syrian ports of Latakia and Tartus for their use. Up to that time Soviet naval craft could only make port calls at those locations. The exact nature of the arrangement was not made clear, but the Soviets presumably desired to establish an alternate base of operations in the Eastern Mediterranean, until the status of their Egyptian bases became clarified.<sup>29</sup>

Deliveries continued on a heavy scale during 1973. During the first six months, Soviet shipments amounted to a reported \$185 million, compared with about \$150 million for all of 1972.<sup>30</sup>

The October war showed the extent of the vast Soviet-supplied arsenal in Syria. The Syrians deployed a reported total of 32 SA-6 batteries (Egypt deployed 46), each battery having four launchers with three missiles apiece. In the first three days of hostilities, the number of SAM missiles fired on the combined Syrian and Egyptian fronts reportedly totalled over 1,000, reflecting a deployment density surpassing that of any known SAM System in the world, the Soviet Union included.<sup>31</sup> Syrian losses reportedly totalled 222 aircraft of all types (about two-thirds of total air force strength), some 1,100 tanks (50 percent of total tank holdings), and 17 to 20 SAM batteries (over half of Syria's inventory).<sup>32</sup>

While Soviet arms deliveries to Egypt virtually ceased after the war, Soviet shipments to Syria continued at a high rate. By August 1974, Israeli Defense Minister Shimon Peres claimed that not only were Syrian losses replaced, but that Syria was stronger than before the war. Mr. Peres stated that Syrian air force strength totalled about 400 aircraft—about 25 percent more than prior to October 1973—and that its SAM system was about 20 percent larger. In addition, all tank losses had been made up, mostly with modern T-62's. Peres added that about 3,000 Soviet advisers were in Syria, some operating the missile defense system and other electronic equipment.<sup>33</sup> A Pentagon spokesman in effect subsequently confirmed the Israeli information, saying he would not quarrel with the levels mentioned by Peres.<sup>34</sup>

<sup>27</sup> *Strategic Survey 1972* (London: IISS, April 1973), p. 27.

<sup>28</sup> *Washington Post*, September 28, 1972.

<sup>29</sup> *New York Times*, September 19, 1972.

<sup>30</sup> London Sunday Times Staff, *The Yom Kippur War* (New York: Doubleday, 1974), p. 72.

<sup>31</sup> *Ibid.*, p. 189.

<sup>32</sup> *New York Times*, August 8, 1974.

<sup>33</sup> *Ibid.*

<sup>34</sup> *Defense/Space Daily*, December 19, 1974 p. 264.

Besides replacing Syrian war losses, the Soviets provided additional modern equipment to Damascus. In the spring of 1974, the first advanced swing-wing Mig-23 fighters were identified in Syria,<sup>35</sup> the first country outside the Soviet Union to receive this late-model aircraft.<sup>36</sup> A total of 45 were reported in the country.<sup>37</sup> Other newly-arrived sophisticated equipment included 30 Scud surface-to-surface missiles with a range of 180 miles, over 100 Frog short-range tactical rockets,<sup>38</sup> vehicle-mounted multiple SA-7 SAM launchers, and 180mm howitzers.<sup>39</sup> The Scuds, with their capability of striking Israeli cities with high explosive warheads, posed the gravest concern to Tel Aviv and raised the threat of an Israeli preemptive strike in the event of an imminent renewal of hostilities.<sup>40</sup>

The critical Syrian weakness remained trained and experienced manpower. Half of Syria's tanks were reportedly manned by inexperienced crews, while many aircraft remained grounded due to the shortage of fully qualified pilots, only about 60 of whom were reported to have survived the war.<sup>41</sup> Until Syrian pilots could be trained, some of the newly arrived Mig-23's were reportedly being flown by Cuban and North Korean pilots.<sup>42</sup>

To further strengthen the Syrian forces, the Soviets reportedly concluded a major new arms agreement in October 1975, during the visit to Moscow of Syrian President Assad. While details were sketchy, the arrangement was said to call for the provision of 500 additional tanks of the T-55 variety over a two year period. This would amount a 25 percent increase in the existing Syrian inventory of 2,100 tanks, according to Israeli officials.<sup>43</sup> The deal also was reported to include additional advanced aircraft and surface-to-air missiles.<sup>44</sup>

At about the same time, the Soviets reportedly were negotiating with the Syrians for the use of an air base to station several Mig-25 Foxbat reconnaissance aircraft. Four of these Soviet-manned high performance aircraft, among the most advanced in the Soviet inventory, had been operating in Egypt until September 1975, when Soviet-Egyptian strains resulted in their withdrawal.<sup>45</sup> Their primary purpose reportedly was surveillance of U.S. naval activities in the eastern Mediterranean. Israeli officials stated that several Foxbats—presumably piloted by Soviets—had arrived in Syria by November 1975.<sup>46</sup>

The Soviet eviction from the Egyptian base of Alexandria in April 1976 caused a loss in Soviet naval operating potential which Moscow was anxious to replace. Within a month after the last Soviet naval craft left Egypt, reports surfaced indicating Soviet

<sup>35</sup> *Washington Post*, September 12, 1974.

<sup>36</sup> Known by the NATO codename, *Flogger*, the aircraft is capable of speeds more than twice the speed of sound, with approximately the same performance characteristics as the F-4 *Phantom*, except for a less favorable range and ordnance capacity (*Washington Post*, February 2, 1975).

<sup>37</sup> *Ibid.*, September 12, 1974.

<sup>38</sup> *Ibid.*, November 20, 1974.

<sup>39</sup> *International Defense Review*, No. 3, May-June 1974, p. 284.

<sup>40</sup> *Washington Post*, November 20, 1974.

<sup>41</sup> *U.S. News and World Report*, March 17, 1975, p. 14.

<sup>42</sup> *Time*, December 2, 1974, p. 46.

<sup>43</sup> *Baltimore Sun*, November 23, 1975.

<sup>44</sup> *Defense and Foreign Affairs Daily*, October 30, 1975, p. 2.

<sup>45</sup> *Baltimore Sun*, November 23, 1975.

<sup>46</sup> *New York Times*, November 18, 1975.

overtures for increased use of the Syrian ports of Latakia and Tartus. Western observers noted that the already-overcrowded Syrian ports would be even more sorely taxed, if the Syrians acquiesced in granting the Soviets refueling rights and maintenance facilities. Consequently, while presumably agreeing to the continuation of periodic port visits, the Syrians apparently demurred at the requests for immediate port expansion, indicating instead that future proposals for expanded construction and use of naval facilities would be considered on a case-by-case basis.<sup>47</sup>

This unaccommodating response on the Syrians' part was somewhat surprisingly tendered in the face of mounting Syrian economic and political troubles. On March 8, President Assad claimed in a speech that an arms debt of \$412 million was imposing hardships on the Syrian economy.<sup>48</sup> These financial strains were exacerbated by Syria's high level of defense expenditures—nearly \$1 billion in 1976<sup>49</sup>—which were seriously taxing the economy, as well as causing friction with the wealthy Arab states.

While Syria in 1975 received an estimated \$500 million or more in economic aid from the oil-rich Arab countries, principally Saudi Arabia and Kuwait, the amount reportedly dwindled to a trickle in 1976, as the conservative states apparently sought to pressure Syria into a settlement in the ongoing Lebanese civil war.<sup>50</sup> At the same time, Syrian involvement in the latter conflict was already costing an estimated \$1 million a day,<sup>51</sup> mainly for the supply of (Syrian-based) Saiqa guerrilla units, and pay and support for Syrian army troops stationed just across the Lebanese border and in the port of Tripoli. Also, in April, Iraq cut off the flow of crude oil to the Syrian refinery at Homs because of disagreement over oil prices and transit fees, causing Syria the loss of some \$135 million in transit fees.<sup>52</sup>

Serious as were these difficulties for Syria, they became overshadowed by the further strain in relations with the Soviets which followed the major Syrian intervention against the Palestinians in Lebanon in mid-1976. Adding insult to injury from the Soviet perspective was the timing of the major Syrian move into Lebanon, which occurred just as Soviet Premier Kosygin arrived on his first visit to Damascus in early June.<sup>53</sup> The Soviets undoubtedly were annoyed and upset by this brash move on the part of Damascus, which served to pit Syrian forces against the Palestinians in Lebanon while provoking the Iraqis into threatening the Syrians. The Soviets, witnessing the falling out among several of their prime clients, all equipped with Soviet weaponry, evidently felt chagrined and frustrated and implicitly criticized the Syrian move several days later in a statement on the Lebanese situation.<sup>54</sup>

By mid-July, the Syrian contingent in Lebanon had grown to about 15,000 men, which, together with the Christian militias, was causing heavy casualties among the Palestinian and Lebanese left-

<sup>47</sup> *Boston Globe*, May 24, 1976.

<sup>48</sup> *New York Times*, June 2, 1976.

<sup>49</sup> U.S. Arms Control and Disarmament Agency, *World Military Expenditures and Arms Transfers, 1967-1976* (Washington: GPO, 1978), p. 64.

<sup>50</sup> *Boston Globe*, May 24, 1976.

<sup>51</sup> *New York Times*, June 12, 1976.

<sup>52</sup> *Boston Globe*, May 24, 1976.

<sup>53</sup> *New York Times*, June 12, 1976.

<sup>54</sup> *Ibid.*

ist forces. "We want the Soviet Union to tell Assad that it will cut off all spare parts, fuel, and ammunition to Syria until Syrian forces are withdrawn completely from Lebanon," a PLO official stated. "However," he added, "realistically it's unlikely that Moscow will do this. They have too good a thing in Syria to lose. And they don't want to see Assad following the example of Sadat and moving further toward the United States."<sup>55</sup>

As the summer progressed and Syrian hostilities against the Palestinians persisted, the tone of anti-Syrian broadcasts and communiques increased in fervor. As one Soviet commentator stated, "The Soviet people stand firmly behind the Palestinian people in the aggression being waged against them."<sup>56</sup>

In mid-summer, Arab newspapers reported that the Soviet Union had suspended deliveries of military equipment and spare parts to Syria. Such a suspension of arms shipments was never publicly confirmed by Moscow, but an Arab source in Beirut claimed that the Soviets intended "to lean hard on the Syrians," wanting the latter to relax their harassment of the Palestinians."<sup>57</sup>

It became apparent that the Syrian involvement in Lebanon precipitated a serious cooling in Soviet-Syrian relations in the latter half of 1976. There seems little doubt that Moscow opted to pressure Syria into changing its policy by at least slowing arms deliveries and delaying the conclusion of new contracts. While the Soviets remained fully aware of the limitations of their arms supply relationship, as dramatized by their recent difficulties with Egypt, Moscow probably felt that it had little choice other than to apply pressure on Syria in the Lebanese situation, given the strong and emotional Soviet commitment to the Palestinian cause. Once again, as was happening increasingly of late, the Soviets were caught in a dilemma of having to choose which of two clients to support.

In apparent retaliation for the Soviet cutback or slowdown in arms supplies, President Assad reportedly ordered a reduction in the Soviet military advisory presence in Syria. According to Syrian broadcasts, the Syrians terminated the services of several thousand Soviet military advisers over a period of several months in late 1976. Damascus also was reported to have stopped sending military personnel for training to the Soviet Union.<sup>58</sup>

Even more portentous for Moscow as a consequence of its evident pressuring of the Syrians were reports that the Syrian government had asked the Soviet navy to discontinue its use of port facilities at Latakia and Baniyas.<sup>59</sup> Although neither the Syrians nor the Soviets ever confirmed that such a request was made, the very possibility of such a development would have proven extremely worrisome to the Soviets. The Syrian ports were far inferior to the excellent naval facilities in Egypt formerly enjoyed by the Soviet Mediterranean Fleet, but the Syrian facilities did provide at least some support capability which the Soviets would find difficult to replace in the Eastern Mediterranean.<sup>60</sup> Furthermore, the symbolic import

<sup>55</sup> *Washington Post*, July 16, 1976.

<sup>56</sup> *Ibid.*

<sup>57</sup> *Ibid.*

<sup>58</sup> *Weekly Report on Strategic Middle Eastern Affairs*, March 23, 1977, p. 1.

<sup>59</sup> *Defense and Foreign Affairs Daily*, January 15, 1977, p. 2.

<sup>60</sup> *Ibid.*

of the loss of port privileges in Syria, coming on the heels of the Soviet eviction from Egypt, would have been a doubly hard blow to Soviet prestige.

In any case, reports emanating from Damascus in early 1977 indicated a sudden and dramatic change in Soviet-Syrian relations. Shipments of Soviet major weapons were again reported, including the first deliveries of Mig-21 fighters in nearly a year, as well as other equipment.<sup>61</sup> Also reported shortly thereafter were deliveries of Mig-27 fighter aircraft, an advanced variant of the Mig-23.<sup>62</sup> At the same time, Arab sources noted that Soviet naval craft were continuing to use Syrian port facilities as they formerly had—on a limited basis—for repair and replenishment.<sup>63</sup>

In April 1977, President Assad visited Moscow for the first time in two years.<sup>64</sup> While new Syrian arms requests were almost certainly central to the agenda, the Soviets also reportedly brought up their former request for the expanded use of naval facilities in Syria. A Syrian official admitted that the Soviets “wanted to establish military bases on our soil.”<sup>65</sup>

In response to the renewed Soviet overture for bases, the Syrian source continued, Assad reportedly told the Soviets that such a request placed them in the same category as the imperialist powers whom they were always criticizing.<sup>66</sup> Despite Assad’s reported refusal of the base overture, as well as his continued rejection of a long-term friendship treaty with the U.S.S.R.,<sup>67</sup> Arab observers believed that the Syrian President’s visit to Moscow, prior to his first meeting with President Carter, was largely successful in easing the strained relations between the two countries over the Syrian role in Lebanon.

Another Syrian sore point in relations with Moscow reportedly discussed during Assad’s visit, according to Syrian officials, concerned recent Soviet increases in the prices charged for new military equipment.<sup>68</sup> It was not clear whether Moscow had increased prices charged for its arms to all recipients, or to which types of equipment the new prices applied. The Soviets had long charged varying prices and applied differing terms and rates of discount for the same types of equipment to different recipients, depending on political favoritism.<sup>69</sup> It is likely that, despite Syria’s central status in Soviet arms aid diplomacy, Moscow was disposed to raise its equipment prices because of the substantial financial backing committed to Syria by the oil-rich countries.

Western analysts estimated that Syria received about \$400 million in financial assistance from Arab and non-Arab sources in 1976, and expected that amount to roughly double in 1977. At a financial meeting in January 1977, the Arab oil states promised \$500 million for Syria, reportedly about half of what the Syrian government thought it needed. Syrian Finance Minister Mo-

<sup>61</sup> *Washington Star*, May 4, 1977.

<sup>62</sup> *Air International*, September 1977, p. 150.

<sup>63</sup> *Weekly Report on Strategic Middle Eastern Affairs*, March 30, 1977, p. 1.

<sup>64</sup> *Baltimore Sun*, April 18, 1977.

<sup>65</sup> *Washington Post*, April 30, 1977.

<sup>66</sup> *Ibid.*

<sup>67</sup> *CIA, Communist Aid to Less Developed Countries*, op. cit., p. 33.

<sup>68</sup> *Baltimore Sun*, April 18, 1977.

<sup>69</sup> See Roger F. Pajak, “Western European and Soviet Arms Transfer Policies in the Middle East,” in Milton Leitenberg, ed., *Great Power Intervention in the Middle East* (Westview Press, forthcoming).

ammed Imadi stated the Arab states' contributions to Syria were "negligible to the burden we carry, and less than we need, less than they promised."<sup>70</sup>

Although Syria is currently self-sufficient in crude oil and a net exporter, Syria's oil production lags far behind that of Libya and Iraq. The Soviets clearly played a central role in the development of Syria's oil industry with the apparent intention of reducing Western economic control. Following Soviet assistance in the exploration and extraction of crude oil and in the building of storage facilities, Syrian oil exports to the Soviet Union began in 1972. Some 315,000 tons were sold to the U.S.S.R. in 1972 and 247,000 tons in 1973, with some of it marketed by the Soviets in Western Europe.<sup>71</sup> The U.S.S.R. currently receives about 500,000 tons of Syrian oil annually (out of total Syrian production of some 10 million tons),<sup>72</sup> an amount minimal to Soviet needs and probably adequate for only partial repayment of the high levels of military and technical assistance being provided to Syria.

As Moscow increased its aid flow following Assad's visit, the downward trend of the Soviet military advisory presence also was reversed. The number of military advisers and technicians which reportedly had fallen from about 3,000 to around 1,500 in late 1976,<sup>73</sup> again rose to some 2,200 the next year.<sup>74</sup> These "experts," so termed by the Syrians, were serving mainly as instructors in the maintenance and repair of late model equipment. Unlike the Soviet advisory personnel in Egypt some years ago, the experts in Syria were reported to be considerably tactful and less obtrusive. However, some elements of the Syrian armed forces apparently still distrusted and resented the Soviet presence.<sup>75</sup>

General Mustafa Tlas, the Syrian Minister of Defense, claimed in a June 1977 interview that he had "no serious problems" in weaponry or training. He stated that the Syrian forces had assumed a "basically defensive position" vis-a-vis Israel, and that the Syrian Army was reorganizing, as "one of our lessons from the 1973 war."<sup>76</sup>

"These are the best forces on the Arab side," a foreign observer stated, "but they recognize Egypt's present military weakness and know they could not fight Israel on their own." Some foreign diplomats also noted changes in command that may reflect increased battlefield flexibility. Foreigners, moreover, have observed a deep interest among Syrian staff officers in U.S. and other Western weapons developments and tactical doctrine. Remarkd one diplomat, "There's no doubt that many officers would welcome . . . American weapons and an opportunity to test Western doctrine. But for the moment that's out of the question. The Russian connection is too strong, too important."<sup>77</sup>

Despite the importance of the Soviet connection, however, Damascus appears to be increasing its shopping for Western military equipment. Over the past several years, Syria has already ordered

<sup>70</sup> *Washington Post*, February 26, 1977.

<sup>71</sup> *Vneshnaya Torgovliya SSSR za 1973 god*, p. 265, as cited in Klinghoffer, *op. cit.*, p. 143.

<sup>72</sup> CIA, *Communist Aid to the Less Developed Countries*, 1977, *op. cit.*, p. 33.

<sup>73</sup> *New York Times*, June 2, 1977.

<sup>74</sup> CIA, *Communist Aid to Less Developed Countries*, 1977, *op. cit.*, p. 3.

<sup>75</sup> *New York Times*, June 2, 1977.

<sup>76</sup> *Ibid.*

<sup>77</sup> *Ibid.*

15 *Super Frelon* and some missile-armed *Gazelle* helicopters from France, 48 MBB-223 light trainers from Spain, and several Lockheed L-100 non-military type transports from the United States. In addition, Syrians have been negotiating for some 60 helicopters of various types with Agusta-Bell of Italy.<sup>78</sup>

Syrian efforts to diversify their equipment holdings by acquiring Western arms will continue to be hampered by several factors. Political conditions will likely constrain the possibility of any major weapons sales by at least the United States and probably the United Kingdom and West Germany as well. In addition, Arab funding for the Syrians remains uncertain. Finally, the Syrians realize that introducing any Western weapons systems into their inventory would concomitantly cause problems in logistics and maintenance—areas which are not exactly strong points in Arab military capabilities.

Nevertheless, Syria's armed forces remain largely in better condition, equipment-wise, than those of Egypt, given the cut-off of Soviet military supplies to the latter. The Syrian forces—especially the air force—have been rebuilt to levels substantially exceeding those prior to the October war, while intensive training has continued since then. At the same time, Syrian military capabilities remain critically hampered by two fundamental military problems: (1) The near impossibility of a successful military campaign against the Israelis, without the Egyptian forces; and (2) the fact that a large proportion of the Syrian Army remains tied down in Lebanon.<sup>79</sup>

Following Egyptian President Sadat's peace overture and visit to Israel in November 1977, Assad visited Moscow in February 1978 to discuss diplomatic strategy and request additional arms. Not only did the Soviets indicate a willingness to negotiate a major new economic and military assistance package,<sup>80</sup> but it was reported that Libya and other oil states would provide up to \$1 billion in financing for new Soviet arms deliveries.<sup>81</sup> Besides additional quantities of Mig-23's and Mig-27's (Syria being the only Arab country to already possess the latter), equipment reportedly contracted for in the Soviet agreement included SA-8 and SA-9 surface-to-air missiles, the newest Soviet models of these weapons.<sup>82</sup>

Despite the new Soviet pledges of rapid additional assistance, indications were that Soviet arms deliveries were behind schedule in 1978, and in general did not exceed the level of the previous year.<sup>83</sup> Furthermore, another slip between cup and lip occurred in terms of an additional broken promise from a fellow Arab country, when Libya purportedly failed to provide \$300 million for Soviet equipment earlier pledged to Syria at the February 1978 Algiers summit of Arab hard-line states. A Kuwaiti newspaper claimed that Libya refused to make the payment after Syria failed to take action against the Israeli incursion into Lebanon the following spring.<sup>84</sup>

<sup>78</sup> *Military Aviation News*, August 1976, p. 18; *Air International*, September 1977, p. 150.

<sup>79</sup> "Can the Arabs Go to War?" *The Middle East*, March 1977, p. 24.

<sup>80</sup> U.S. Congress, House, Committee on International Relations, *op. cit.*, p. 107.

<sup>81</sup> *Weekly Report on Strategic Middle Eastern Affairs*, March 1, 1978, p. 2.

<sup>82</sup> *Ibid.*, p. 4.

<sup>83</sup> U.S. Congress, House, Committee on International Relations, *op. cit.*, p. 108.

<sup>84</sup> *Middle East Economic Digest*, September 15, 1978, p. 41.

Another uncertain, and somewhat complicating, factor in the Soviet-Syrian relationship concerns the ostensible rehabilitation in relations between Syria and Iraq that was dramatized at the November 1978 Arab summit meeting in Baghdad. It remains to be seen how durable the rapprochement between the two Baathist states will ultimately prove. In the meantime, there has been speculation that Moscow has been less than pleased with the development.<sup>85</sup> While preparations were underway for a December visit to Moscow by Assad to seek additional advanced equipment, apparently including the long desired 400 mile SS-12 Scaleboard ballistic missile,<sup>86</sup> reports arose of Soviet reluctance to agree to new arms supplies. On November 25, Syrian Information Minister Ahmad Iskandar Ahmad was quoted in a Damascus newspaper as saying that "Syria measures friendship (with other countries) by the extent of help to establish a strategic military balance with Israel."<sup>87</sup> The statement was viewed as a sign of displeasure with Moscow:

The situation became more ominous for Syrian expectations when Syrian Chief of Staff General Shihabi cut short his November visit to Moscow. An Arab newspaper stated that Shihabi left Moscow suddenly following the Soviets' refusal of Syria's request for additional long-range missiles "capable of carrying nuclear weapons."<sup>88</sup> Shortly thereafter, Syria's ambassador to the Soviet Union was recalled to Damascus for "consultations,"<sup>89</sup> and several days later, President Assad cancelled his December visit to Moscow.<sup>90</sup>

Accounts differed sharply over the reasons for Soviet reluctance in meeting the latest Syrian requests. One explanation was that Moscow was still holding out for a treaty of friendship with Syria, but Western observers regarded this as an unlikely possibility. Another theory offered was that Moscow was making new arms commitments subject to close trilateral military cooperation between Iraq, Syria and the U.S.S.R. As logical as this might be from the Soviet perspective, however, the Soviets presumably realized that this might force more cooperation on the two Arab countries than either was willing to exhibit at this time. Another plausible interpretation was that the Syrians broke off the Moscow talks because of anger that the Soviets were not living up to the pledge earlier given to Assad that they would provide all the arms necessary for a "strategic balance" with Israel.<sup>91</sup>

The Syrians reportedly felt that they should be equipped by the Soviets to the same degree that Israel was by the United States, with this being in the U.S.S.R.'s interest, as well as Syria's. The Soviets were reported to feel that the international balance depends not only on arms, but also on "options and political obligations," which could be interpreted that Moscow was reluctant to augment Syria's bargaining power without strings.<sup>92</sup> While these latest Soviet-Syrian differences appeared to fall short of an open

<sup>85</sup> *Weekly Report on Strategic Middle Eastern Affairs*, December 13, 1978, p. 2.

<sup>86</sup> *Military Aviation News*, August 1976, p. 19.

<sup>87</sup> *Middle East Economic Digest*, December 1, 1978, p. 33.

<sup>88</sup> FBIS, *Middle East Report*, December 8, 1978, p. H-2.

<sup>89</sup> *Chicago Tribune*, November 30, 1978.

<sup>90</sup> *Weekly Report on Strategic Middle Eastern Affairs*, December 13, 1978, p. 2.

<sup>91</sup> *Events*, December 15, 1978, pp. 17-18.

<sup>92</sup> *Ibid.*, p. 18.

breach, they again underscored the difficulties both sides continue to experience in finding a mutually acceptable modus vivendi in furthering their respective policy objectives in the area.

# THE ARAB-ISRAELI CONFLICT: STRATEGIC CONCEPTS AND PRACTICES

By Amos Perlmutter\*

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In this paper dealing with the Arab-Israeli conflict, I will examine the strategic concepts and practices involved, paying particular attention to the effects of regional and international politics on the military situation.

### ISRAEL

#### *National Security Policy: Geography and Strategy*

Unquestionably, Israel's small size and distribution of its boundaries are the determining factors in the formation of its national security policy.<sup>1</sup> In 1977, General Israel Tal of the Israel Defense Forces (IDF) summarized: "The geographical factor had a decisive influence on the defense concept, the doctrine of war and the situation of our IDF forces."<sup>2</sup> In fact, to 1967, the limited area was an advantage. It made internal communication easier, served to transfer the war to the enemy's territory, and offset the fact that Israel could not win a decisive military victory over the Arabs due to international constraints and Israel's small population. Israel had to build its armed forces by exploiting to the utmost its natural resources in men and technology. Armor would be developed as the

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<sup>1</sup>On Israel's military security doctrines see Moshe Dayan, "Israel's Border and Security Problems," *Foreign Affairs*, January 1955. Steven I. Rosen, "What a Fifth Arab-Israeli War Might Look Like," Center for Arms Control and International Security, UCLA, November 1977. Michael I. Handel, *Israel's Political-Military Doctrine*. C.F.I.A. Harvard, Occasional Paper No. 30, July 1973. Amos Perlmutter, *Military and Politics in Israel*, Cass, London, 1969. Amos Perlmutter, *Politics and Military in Israel 1967-1977*, Cass, London, 1978.

<sup>2</sup>Israel Tal, "Israel Defense Doctrine," *Military Review*, March 1978, p. 23.

major force, while the Air Force would enable Israel to mobilize effectively.<sup>3</sup>

Strategic depth would be created artificially by means of area defense, and war must be concluded with the annihilation of the armed forces of the enemy. The 1967 War was the fulfillment of this strategy. Despite Nasser's surprise mobilization, Israel delivered the first blow and transferred the war deep into enemy territory. The mobilization of the IDF was successfully due to the three weeks' respite between May 15 and June 5 when diplomacy, and politics were abortively attempted. The Israeli Air Force was thus free to destroy the enemy's air forces on the ground.

This was not true in 1973. The IAF was necessary to protect the mobilization of IDF, but it faced a superior Egyptian air defense system and was unable to destroy the enemy armor that crossed the Canal. Strategic depths were not exploited; the intelligence was faulty. The Israelis made virtually no use of their anti-tank weapons.

Critical weaknesses were:

The equipment for mobilized forces was badly maintained.

The high command had no real war planning staff or command and control centers.

IDF was not properly trained for combined operations.

Overall mobilization training was low.

The defensive Bar-Lev line and the Golan fortifications had not yet been erected.

IDF ammunition stocks grew critically low.

IDF and IAF failed to prevent an effective counter-attack on Israel's air defense.

IAF had no real battle management centers for attack air missions.

Many of the above weaknesses can be attributed to the structure of IDF as a military reserve army; the regular standing army is rather small. Time and air force protection are needed for the mobilization of reserves.

Israel must also compensate for its very long borders, but it failed to take advantage of the territorial depth gained in 1967, mainly because of problems in mobilizing, compounded by the political decision-making process.

### *The Political Dimension and Its Implications for Strategy*

Israel, a state under constant military threat since its independence in 1948, has already fought four major wars and maintains one of the most burdensome military budgets in the world—close to 30 percent of its GNP in 1973. Yet the state has no formal, legal-institutional structure for the making of national security policy. Between 1947 and 1974, national security was conceived and implemented by a small, informal, unofficial body known first as Ben Gurion's "inner circle" and later as Golda Meir's "kitchen cabinet." Only under Levi Eshkol's reign (1963–1969) did the official

<sup>3</sup> Tal, *ibid.*, p. 22.

cabinet play a significant role in determining national security policy.<sup>4</sup>

### *National Security Misperceptions*

Israel's political and military strategy between 1967 and 1973 was constructed on three major political misperceptions, in my view:

#### 1. THE ISRAELI CONCEPT OF DETERRENCE

Deterrence means "working on the psychology of the enemy so that he will not decide to attack."<sup>5</sup> The Israeli model of deterrence is clearly distinguished from the nuclear model in the sense that the latter means, among other things, the deployment of nuclear forces capable of inflicting "unacceptable damage" on the enemy in a second-strike attack. The Israeli concept was based primarily on the deployment of superior conventional forces and little attention was given to the "unacceptable levels of damage" the Arabs were prepared politically and psychologically to suffer. Based on a preponderance of military power, Israeli deterrence failed because its military power was not sufficient to discourage the combined Egyptian and Syrian forces from initiating an attack, even though the Arabs did not expect to win an all-out war. Israeli policymakers failed to perceive the willingness of the Egyptian and Syrian leaders to accept high levels of damage in order to change the political status quo that the government of Israel seemed unprepared to alter.

#### 2. MISREADING ARAB INTENTIONS

Israel's misreading of Arab intentions is the foundation stone of the Arab-Israeli conflict in its present form.<sup>6</sup> Both antagonists suffer from political paranoia and harbor deep animosity for each other that has intensified with the institutionalization of the conflict over the years.

Israeli policy did not recognize that the Arabs were committed in 1973 to settle the conflict by military means rather than diplomatically or politically, even though there were vague signals that the

<sup>4</sup> On the position and attitudinal behavior of some members of the national security inner circle, see Michael Brecher, *The Foreign Policy of Israel* (New Haven, Conn.: Yale University Press, 1972). Also, see Shabtai Tevet, *Moshe Dayan* (Boston, Mass.: Houghton Mifflin, 1973); Yuval Elizur and Eliahu Salpeter, *The Establishment* (in Hebrew) (Tel-Aviv: Levin-Epstein, 1973). On Dayan's military doctrine, see Michael Handel, *Israel's Political-Military Doctrines* (Cambridge, Mass.: Harvard University, Center for International Affairs, Occasional Papers, No. 30, August 1973), and Moshe Dayan, *Diary of the Sinai Campaign* (New York: Harper and Row, 1966). On the institutionalization of the security function, see Brecher; also, Meir Pail, "The Transformation of the Concept of the High Command from the Haganah to Zahal," unpublished M.A. thesis, the University of Tel-Aviv, 1971. For an evaluation of Israeli military and security relations, see Amos Perlmutter, *Military and Politics in Israel* (New York: Praeger, 1969). See also Zeev Schiff, *Earthquake in October* (in Hebrew) (Tel-Aviv: Zmora Publishers, 1974), pp. 68-72.

<sup>5</sup> Lawrence Martin, *Arms and Strategy* (New York: David McKay, 1973), p. 13.

<sup>6</sup> The leading Israeli expert on Arab attitudes toward Israel is undoubtedly Professor (General) Yehoshafat Harkabi, who, for over a decade, has written the most important studies on the Arab position, in both Hebrew and English. Among his numerous essays and books, the following are perhaps the most important: *Arab Attitudes Toward Israel* (New York: Hart, 1971); *The Israeli Position in the Arab-Israeli Conflict* (in Hebrew) (Tel-Aviv: Dvir, 1967); "The Fog of Peace Has Hidden the War," *Maariv* (in Hebrew), November 2, 1973; and his prophetic and perceptive "Who is Responsible for the Persistence of the Arab-Israeli Conflict?," *ibid.*, September 26, 1973, p. 25. See also Gil Carl Alroy, "Patterns of Hostility," in Gil Carl Alroy, editor, *Attitudes Toward Jewish Statehood in the Arab World* (New York: American Academic Association for Peace in the Middle East, 1971).

Arab commitment was adamant. Israel failed to see the war hidden under the fog of peace.

### 3. FAILURE OF TIMING, SURPRISE, AND DETERRENCE

Not one of IDF's vital military strategic concepts of timing, surprise and deterrence was employed during the 1973 war.<sup>7</sup>

#### THE HOURGLASS CONCEPT

As chief of staff from 1953 to 1957, General Moshe Dayan defined clearly what was meant by timing, which he called the "hourglass concept." Israeli military victories had to flow rapidly and decisively from beginning to end, or from top to bottom as with sand in an hourglass, or they might be cancelled by Arab political and diplomatic advantages. Israel, a non-allied nation—isolated by and large—needed rapid victory to deny the Arab world time to mobilize the international community and the United Nations, which was heavily disposed toward the Arabs. In 1973, however, the hourglass concept of deterrence failed. In 1967 deterrence had also failed, but the elements of time and surprise had brought victory to the superior army. In 1973, a superior army was deprived of these two essential elements. As a result, after seventeen days of war the Arabs' political power increased disproportionately to their military position, the danger of superpower intervention arose, and Israel found herself political isolated and subjected to combined Soviet and American pressure to end the war before her armies could achieve a decisive victory.

#### THE SURPRISE FACTOR

Between 1948 and 1967, Israeli military strategy required the immediate transfer of the conflict into the enemy's territory and the use of a mailed fist to inflict upon his forces a war of surprise and annihilation. Two convergent actions were required: pre-emption and rapid mobilization of reserves. Neither was achieved in the 1973 war. IDF was not mobilized the moment the intelligence reports reached the inner council concerning the ominous mobilization of Egyptian and Syrian troops. In any event, intelligence reported a low probability of an Arab attack. But IDF's error was not that it relied on faulty intelligence. The military disaster of the first several days was caused by a political misperception concerning the deterrent effectiveness of IDF. No concentrated or combined armored assault was attempted in the Sinai even though military plans required no less than 300 tanks to be deployed there to deter the aggressor. Despite the fact that three armored divisions were ready for action on October 8, the third day of the war, it was not until the next day that IDF launched its major thrust, and the only surprise occurred when General Ariel Sharon, on the evening of October 15, struck the canal—ten full days after the outbreak of the war. The delay in fully mobilizing IDF's reserves and the failure to transfer the war immediately to enemy territory led

<sup>7</sup> Again, for a short summary of IDF's military-tactical doctrine, see Handel, pp. 51-63; also the Zeev Schiff series of six articles on the failure of intelligence, Haaretz, June 22-27, 1974.

to monumental tactical errors: loss of time, surprise, and the ability to wage mailed-fist warfare as IDF strategy required.

### *Deterrence After 1973*

#### THE MILITARY

The concept of deterrence is still favored by Israel's decision-makers. The concept has been broadened, however, and now extends beyond military matters to political and diplomatic spheres, as we shall see. First, since 1973, the military has chosen the following courses of action:

- (1) The enlargement of the nuclear option.
  - (2) The widening of the technological gap between Israel and the Arabs.
  - (3) The quadrupling of IDF and its almost total technologization and the upgrading of standards and professionalization of the officer corps.
  - (4) The concentration on the aggrandizement of military industries and weapons systems and above all the creation of an autarkic weapons system for Israel.
  - (5) The development of a most sophisticated network of air interception, air suppression, infra systems, radar jamming and other missile suppressants.
  - (6) The development of heavy artillery.
  - (7) The development of a new tank and integrated battle system.
  - (8) The creation of better ratios of territory and force.<sup>8</sup>
  - (9) The determination to maintain superiority of the Air Force on a more equitable basis, this time insuring a 2:1 ratio vis-a-vis the Arabs.
  - (10) Mechanized armored personnel carriers (APC's) and artillery have been strengthened and improved.<sup>9</sup>
- See the following table of ratio factors, 1973-77:<sup>10</sup>

|                                 | 1973  |        | 1977  |        |
|---------------------------------|-------|--------|-------|--------|
|                                 | Arabs | Israel | Arabs | Israel |
| Main battle tanks.....          | 2.21  | : 1.00 | 1.90  | : 1.00 |
| Armored personnel carriers..... | 3.30  | : 1.00 | 1.47  | : 1.00 |
| Artillery.....                  | 6.41  | : 1.00 | 2.90  | : 1.00 |
| Fighter bombers.....            | 3.10  | : 1.00 | 2.03  | : 1.00 |

#### POLITICAL-DIPLOMATIC FRONTS

Between 1973 and 1978, Israel demonstrated a structural awareness and sensitivity to the ongoing ideological change in Arab strategic doctrines and behavior, namely the substitution of an incrementalist strategy for the Nasserite concept of all-out war.

The Arab option for a political-diplomatic struggle against Israel replaced the dictates established by the Arab nations at the confer-

<sup>8</sup> Tal. *op cit*, p. 35.

<sup>9</sup> Geoffrey Kemp and Michael Vlahos, "The Arab-Israeli Military Balance 1977" In Collin Legum ed., *Middle East Contemporary Survey*, Vol. I, 1976-1977, Holms & Meier, New York, 1978, p. 75.

<sup>10</sup> From Kemp, *ibid.*, p. 76.

ence at Khartoum, Egypt, in 1976—the fundamentalist “No’s”: no peace, no negotiations, no recognition of Israel, and no free navigation for Israeli fleets. Diplomacy—the Kissinger Rounds, the troop separation and disengagement agreements of Sinai I and II, and the Golan agreements (1973–74)—replaced direct military confrontation.<sup>11</sup> The conflict was not reduced to diplomatic managerial levels. New contingencies emerged in the post-1973 era among the Israeli-Arab belligerents: that the Arabs were willing to settle the dispute by other than military means, even if the military option was clearly open; and that the Israelis were willing to make significant territorial compromises, especially in Sinai and the Golan Heights. Obviously, the sticking bone remained the West Bank and the Palestinian question. But the diplomatic momentum, however protracted, has not ceased since October 1973 (and here the United States played a key and decisive role). It has been sustained through three troop separation agreements, and consequent Israeli withdrawals in Sinai and the Golan Heights, Israeli and Arab willingness to accept U.N. Resolutions 224 and 338 as the bases for a negotiation agenda, and an agreement to meet in Geneva (despite the problem of Palestinian representation). All this led to the Sadat-Begin summits in Jerusalem in November 1977, and Israel in December 1977, and the Camp David September 1978 Summit.

## EGYPT

### *Military, Geography, and Strategy*

Until 1944, Egypt did not consider itself politically an Arab country, nor did it join the Arab alliance even if it was a significant actor in inter-Arab politics. The formation of the League of Arab States in 1945, whose purpose, among others, was to deal with the Palestine question, signaled Egypt's entry into pan-Arab politics, especially when Abdal-Rahman Azam Pasha, an Egyptian pan-Arabist, became its first secretary general (his successors have been Egyptian as well.)<sup>12</sup> Egypt reluctantly joined the 1948 first Arab-Israeli war,<sup>13</sup> and was among the first to sign the Rhodes 1949 armistice with Israel. Radical and national groups, and the Fundamentalist Muslim Brotherhood, Young Egypt (national socialist in orientation) and other groups continued to put pressure on the monarchy to pursue the palestinian war and to annihilate the Zionist state. Finally, in July 1952, a military junta, comprised mainly of radical nationalists and pan-Arabists, toppled the monarchy by a military coup d'etat. Between 1952 and 1954 the Free Officers' Junta concentrated on internal and domestic affairs, in an internal struggle for power, while eliminating the monarchy and the party system. Since 1954 with the emergence of the Junta's strong man, Gamal Abdul Nasser (Nasir),<sup>14</sup> it turned to foreign

<sup>11</sup> Amos Perlmutter, *Politics and the Military in Israel*, Frank Cass, 1978.

<sup>12</sup> Nadav Safran, *From War to War*, Pegasus, New York, 1967.

<sup>13</sup> See above and also Abdallah al-Tall, *Memoirs*, 1959.

<sup>14</sup> Gamal Abdul Nasser, *Falsafat al Thawrg (The Philosophy of the Revolution)*, Cairo, 1954. Jean and Simone Lacouture, *Egypt in Transition*, Criterion Books, 1958. Robert Stevens, *Nasser*, Simon and Schuster, New York, 1971. Anthony Nutting, *Nasser*, E. P. Dutton, New York, 1972. P. J. Vatikiotis, *The Egyptian Army in Politics*, Indiana Univ. Press, Bloomington, 1961. P. J. Vatikiotis, *Nasser and his Generation*, Croom Helm, London, 1978. Raymond W. Baker, *Egypt's Uncertain Revolution Under Nasser and Sadat*, Harvard Univ. Press, Cambridge, 1978, and Amos Perlmutter, *Egypt: The Praetorian State*, Transaction Books, New Brunswick, 1974.

affairs and proclaimed Nasser's Egyptian doctrine on the concentric circles:<sup>15</sup> Egypt's foreign policy would be dictated by its geographical and geopolitical *weltanschauungen*, with Egypt as the political-ideological center surrounded by an Arab-Muslim world which is surrounded by an African-Third World.

The doctrine of the concentric circles enabled Nasser and his Junta to divert much of Egypt's human mass energy to turn the impoverished economy, burdened by bureaucratic lethargy, in the direction of ambitious (but mainly symbolic) modernization programs. This was coupled with an ambitious foreign policy that extended far beyond the geographical, physical and demographic confines of Egypt. This stretching of Egypt's limited resources beyond its capacity was just one of Nasser's efforts to legitimize his rule via army-party organizations such as the Liberation Rally, National Union, Arab Socialist Union.

Nasser paid for his international fame and Third World and Arab grand strategies with two disastrous and calamitous wars with Israel, an "Egyptian Vietnam" in Yemen, and countless abortive coups and countercoups throughout the Arab world (Iraq, Jordan, Syria and Sudan).

President Anwar Sadat is less charismatic than Nasser, a more realistic and nonrevolutionary Egyptian who opted for cutting his predecessor's losses. He abandoned the doctrine of concentric circles and began the de-Nasserization and de-radicalization of Egypt. Sadat, aware of Egypt's advantage in human resources, concentrated more on Egypt's destiny than on maintaining the Nasserite pan-Arabic, pan-Islamic and Third World stances. He switched Nasser's Egyptian allegiance from the U.S.S.R., expelled Soviet advisors, abrogated the fifteen year Egypt-Soviet treaty and challenged, in collaboration with Syria, Israel's military "invincibility."<sup>16</sup>

I think the principles that lay behind the 1973 Sadat strategy are most appropriately summarized by the then (1973) Chief of Operations (Minister of War until September 1978) General Muhammed al-Ghani al-Gamasy: that the function of the war was to challenge most of Israel's doctrines and conceptions.<sup>17</sup> It shattered Israel's concept of security based on preventive war. This was accomplished by ending Israel's "geographic expansionism" at the "expense of Arab lands," challenging the concept of strategic superiority through a surprise attack, destroying Israel's "link" to a "Big Power" and curtailing its ability to "weaken and disperse" Arabs.

For that purpose Egypt devised a plan to establish a foothold on the Eastern Bank of the Canal and destroy Israel's "best ditch," creating a two-front strategy that was unexpected by Israel mainly because it was successful.

The strategy for war devised by Egypt included:

Learning the lessons of the 1967 defeat which were political, military and diplomatic (see next section).

Creating an Egyptian army well drilled for Canal crossing.

<sup>15</sup> See Gamal Abdul Nasser, "The Egyptian Revolution," *Foreign Affairs*, April 1955.

<sup>16</sup> On Sadat, see Baker, *op cit*, and Anwar el Sadat, *Revolt on the Nile*, Golantz, London, 1955.

<sup>17</sup> Field Army General Muhammed El-Gamasy, "The Military Strategy of the October 1973 War," in *International Symposium on the 1973 October War*, Cairo, October 28-31, 1973, Vol. I, pp. 31-43.

Professionalizing and dipoliticizing the military.  
 Recruiting Egypt's intelligensia into the military.  
 Raising the morale of the armed forces.  
 Adhering to the Soviet doctrine of force and mass.<sup>18</sup>

What Sadat and his generals actually did was create a state within a state in Egypt. Aware of its demographic disadvantage, they turned this into an advantage by creating quality of out quantity. Thus, as regards the modernization of Egypt, they were advancing in Sinai but regressing in economic development.<sup>19</sup> Students and numbers of Egypt's best brains and most qualified human resources were mobilized to create an armed force that would cross "the canal of shame."

Like General Tal, Gamasy believes in the leading role of the tank among land forces, the diversification of arms sources, and the development of a larger national potential for an armament industry.<sup>20</sup>

### *The Political-Diplomatic Dimension*

The concept of the annihilation of Israel has been practically abandoned for now except among extreme Palestinians and the rejectionist alliance of Iraq and Libya. The doctrine of "Solution in the Ways of Peace" has become the norm at least among moderate Arab states, leaders and political and intellectual elites since the 1960's, culminating after the October 1973 war.<sup>21</sup> This political conception stems mainly from the following considerations:

The destruction of Israel is not feasible because of Israel's military superiority and world public opinion.

Neither super power would tolerate total military victory for either Israel or an Arab coalition.

The nuclear balance of terror in the Middle East.

The high rate of attrition for weak states fighting with super weapons.

The need to concentrate on domestic, economic and social reform.

Modernization, change, and the limitations of population.

The new strategy replacing total war is the strategy of stages,<sup>22</sup> the consensus of most of the actors (except the extremists) in the Arab world. The strategy is divided into long-run and short-run goals. The short-run (temporary and immediate) goals, since 1973, are mainly to shrink Israel politically, diplomatically and, it is hoped, militarily (what Gamasy and other Egyptian generals call the destruction of Israel's "security doctrine" and military "invincibility.") The long-term pan-Arabist goals, though not abandoned, appear to have been shelved at least for some time to come.

The alternatives to the military option (not abandoning the latter) would be (and already are):

Economic boycott.

The Arab oil weapon.

<sup>18</sup> These ideas are based on Gamasy, *ibid.*, Mohamed Heikal, *The Road to Ramadan*, Collins, London, 1975; Chain Herag, *The Yom Kippur War*, Weidenfeld, London, 1975.

<sup>19</sup> Interview with General Gamasy, Cairo, November 25, 1977.

<sup>20</sup> Gamasy, *op cit*, p. 43.

<sup>21</sup> I have borrowed here considerably from a provocative essay by Rivka Yadlin and Amazia Baram, "Political Pragmatism Theorized: Are Arab Attitudes Toward Israel Being Moderated?", *Hamizrah Hehadash*, (*The New East*), No. 105-106, 1977, pp. 1-17.

<sup>22</sup> See General Taha El-Magdoub, General Aly Fahmy, in *International Symposium*, *op cit*, pp. 86-96, 275-281; M. H. Haykal, *The Road to Ramadan*, Collins, 1975.

The diminution of Israel through UN actions sponsored by that body's dominant Arab-Muslim-Third World members.

The use of the Palestinian issue as a moral mailed fist against Israel.

The influence of liberal and left elite opinion-makers.

The portrayal of Israel as "unregenerate," "intransigent," and "belligerent".

The political and moral isolation of Israel.

Between 1973-1978 Sadat institutionalized the strategy and tactics of stages, becoming its most conspicuous practitioner. He spoke of "coexistence," "peace only in a decade from now," intermittently of "peace only in five years from now," "recognizing Israel," and its "security problems."

Settlement, according to Sadat, does not mean the abandonment of long-range strategy, of the Palestinians, the military option, the Arab coalition, the use of force, "surrender to Zionism," or "deserting the rights of the Palestinians." There is no surrender of long-term goals but there is no concentration on them either. However, the pragmatism and moderation does not mean recognition of Israel on Israel's terms or the abandonment of some form of political solution for the Palestinians. Throughout the Sadat-Begin and the Sadat-Carter-Begin negotiations, Sadat refused to surrender two pillars of Egypt's fundamental policy: return of all territories (with minor rectification of borders) or the right of the Palestinians to determine their political future and conditions conducive to the fulfillment of the pragmatic short-term Arab goals. The major strategic change in policy is certainly in style, tone and in the postponement of the "final solution" for the Palestinians. The Sadat-Egyptian strategy is a product of the international, regional and internal constraints that affected the Arab world, and particularly Egypt, since 1973. Certainly the Jerusalem Israeli-Egyptian summits have prepared the political grounds for an alternative Egyptian—if not Arab—strategy in its conflict with Israel.

## SYRIA

### *Demographic-Geographic Implications for Politics*

Historically the crossroad at the center of Asia minor, Syria and Lebanon—divided after World War I—were part of the historical Roman provinces of the second century A.D., composed of Syria, Phoenicia and Palestine. It played an important role in Arab history as the seat of the Abbasid empire (A.D. 750-877). The Turkish province of Damascus stretch down the Gulf of Akaba into the Mediterranean coastlands. After the First World War, the French won the mandatory role for Syria after contesting it with Great Britain. A short period of Hashimite reign of King Faisal, son of the Sherif of Mecca (1918-20), was replaced by The League of Nations Commission that divided Syria from Lebanon. Syrian hopes to rule Palestine and the Jordan River were not fulfilled, but not forgotten either.

What characterizes Syria is its polyglot demographic composition. Syria is composed of different racial, religious and ethnic stocks. This historical ethnic diversity left its mark on Syrian

politics, which, since 1945, have been in turmoil. Between 1949 and 1966, Syria experienced close to two dozen military coups (successful and unsuccessful). Since 1963 it has been dominated by both the military and the Baath party and has been without a parliamentary or civilian rule.

Syria is most vulnerable to both internal and external war. The struggle between ethnic and separatist groups was known through its recent history<sup>23</sup> of Druze and Alawi Wars, and Christians versus Moslems. Syria continues to struggle with Iraq over Baath party and fertile crescent supremacy. Only recently (1978) it finally made its peace with Jordan. Since 1975 there has been the Lebanese Civil War to contend with. Above all, three wars with Israel (1948, 1967, 1973) created a deep consciousness of vulnerability. By 1978 Syria's standing army was over 200,000 compared with an army of some 40,000 in 1949. Syria now commands the Eastern front in partnership with Jordan, the PLO, and Saudi Arabia. Their combined armed forces is around 350,000, with total main battle tanks at over 3,000 and high-performance operational combat aircraft close to 500. In case of war with Israel, the Syrian eastern coalition could count on an additional two Iraqi divisions joining the battle if Israel does not decisively determine the outcome of the war very early in its inception. Since the Lebanon War, Syria has become vulnerable to Israeli offensive in three areas: the Golan Heights, the Israeli dominated Israel-Lebanese border strip, and from the sea to cut Moslem from Christian territory, into the heart of Syria. Damascus is vulnerable to an Israeli pincer move from the Golan and Lebanon areas.

### *The Political Dimension and Its Implications for Strategy*<sup>24</sup>

Since 1966, three major institutions have been dominating Syrian politics: the Presidency, the Baath party and the defense establishment.<sup>25</sup> To begin with, the Baath party,<sup>26</sup> the brainchild of the revolutionary and fanatic Greek orthodox Syrian Michel Aflaq, was characterized, until 1970, by the messianic ideology which extols Arabism as an avenue for Arab solidarity and social justice. A revolutionary, populist, pan-Arabist party until 1970, the party went through endless convulsions until it was finally torn assunder, first by the military (whom the party sponsored as Syria's and Arabism's savior), then by the Alawi sect. The Baath, however, since 1970, has become a significant partner of the military regime of President Assad. Since 1970, President Assad's popularity and stature in Syria, especially after the 1973 War, increased the power

<sup>23</sup> On Syria, see Patrick Seale, *The Struggle for Syria: A Study of Post-War Arab Politics 1945-1958*, Oxford Univ. Press, Oxford, 1965. Malcolm Kerr, *The Arab Cold War*, 3rd Edition, Oxford Univ. Press, London, 1971. Amos Perlmutter, "From Obscurity to Rule: The Syrian Army and the Baath Party," *Western Political Quarterly*, December 1969. Albert K. Hourani, *Syria and Lebanon: A Political Essay*, Oxford Univ. Press, Oxford, 1946. Moshe Maoz, *Assad's Syria*, American Professors For Peace in the Middle East, New York, 1977. Tabitha Petran, *Syria*, Ernest Benn, London, 1972. A. I. Dawisha, "Syria Under Assad, 1970-1978: The Centers of Power," *Government and Opposition*, Summer 1978.

<sup>24</sup> See A. I. Dawisha, *op cit*, pp. 341-342.

<sup>25</sup> A. I. Dawisha, "Syria in Lebanon—Assad's Vietnam?" *Foreign Policy*, Winter 1978-79.

<sup>26</sup> On the Baath Party, see Kamal Saleh Aba Jaber, *The Arab Baath Renaissance Party*, Syracuse Univ. Press, 1966. Nabil Kaylani, "The Rise of Syrian Baath 1940-1958," *International Journal of Middle East Studies*, January 1972. Michael Hudson, *Arab Politics*, Yale Univ. Press, New Haven, Conn., 1978, section on Syria, pp. 251-267. Yitchak Oron, "The History of the Ideas of the Baath Renaissance Party," Hamizrah Hechadash, A. I. Dawisha, "Syria Under Assad," *Government and Opposition*, *op cit*. Patrick Seal, *Syria*, *op cit*.

of the presidency as the source of authority and a key factor in the making of national security policy. However, unlike Sadat, Assad must share power with the effective and mobilizational Baath party, organizationally and politically the Arab world's most powerful and influential party, probably the only party that shares power with the army (though this is true to a lesser extent for the Baath in Iraq).

The third source of power in Syria since 1970 is the defense establishment. Historically, the military dominated the policy since 1963. And Assad, as President, leaves much authority with the Minister of Defense, Major General Mustafa Talas, and the Army Chief of Staff. The military institution's input into national security is considerable, particularly with President Assad.

These three structures dominate Syria and are autonomous, though the final arbiter of power is, of course, President Assad. The Baath, however, legitimizes Syria's Arab role as the military keeps a vigilant eye on internal and external enemies. The Syrian government represents the mixed power of the three—the military, the Baath, and the ethnics (composed of Sanni, Alawi, Druze, Ismali, Kurd, and Christian minorities).

### *Diplomacy and the Lebanese Civil War*<sup>27</sup>

When Syrian armor rolled into Lebanon on June 1, 1976, in an effort to terminate a war that raged for fourteen months between various Maronite militias on the right, and Moslem and Palestinians on the left, it changed the destiny of Syria and Asad. The hero of 1973, the country whose only real foe was Israel, though still at loggerheads with the Iraqi Baath, now became involved in a "Syrian Vietnam." Israel tacitly accepted Syrian involvement in Lebanon, while international and Arab moderate support was behind the Syrian intervention, as were substantial segments of the Lebanese.

What motivated the Syrians?

(1) Fear of "Israeli expansionism" into Lebanon, now torn assunder between feuding Christians and Moslems.

(2) Israeli occupation of Southern Lebanon that could increase (as it did) Syrian strategic vulnerability.

(3) Syria, as the champion of pan-Arabism, of Baath unity and national integration, could not stand by and accept Lebanon's disintegration.

(4) The challenge to "Greater Syria," a cherished goal.

Another factor that motivated a Syrian intervention in Lebanon is connected with the special nature of the regime's ethnic composition, where Alawis are substantially represented in the presidency, the military establishment and the Baath party. Thus, it was necessary for Asad, the Alawi leader of a Sunni-dominated Syria, to demonstrate his dedication to Syrian-Arab and Moslem integrity. Syria, harboring glorious visions as the task force of Pan-Arabism, could not relinquish its "Arab" responsibility. Thus, the tragedy of Syria and Asad is that the burden of ideological Baathism is beyond Syria's political and military capabilities, even under the astute and cautious Asad. So, first aiding the Christians against the

<sup>27</sup> I am grateful to my friend A. I. Dawisha for advice on this section.

radical PLO and Moslems, and then turning against the Christians, Syria's unilateral action triggered Israeli involvement. After the Riyadh Pact of 1976, mediated by King Khalid of Saudi Arabia a cease fire was achieved. But, when Assad turned against the Christians, Israel began, after June 1977, to assist them militarily. Syrian-dominated Arab deterrent forces (the Syrian inter-Arab peace force of some 30,000) became involved in a Syrian Vietnam. The Syrian-left-PLO rapprochement, that meant a turn against Syria's erstwhile Christian allies, left Assad at the mercy of Saudi pressures, isolated from Egypt in messy Lebanon, and confronting his arch enemies, the Israelis, on two fronts.

## SAUDI ARABIA

### *Demography, the Military, Diplomacy and Strategy*

Saudi Arabia, a desert kingdom of some 870,000 square miles with a population ranging between estimates of 2.5 to 6.5 million people—without water, but the petro-state par excellence—has come of age recently. From a puritanical patrimonial *wahhabi* and fundamentalist Moslem state, it has become the richest state per capita in the world. Conquered and pacified by King Abd al Aziz Iban Saud in 1925 and aided by Aramco in 1933 to discover the richest oil field in the world, Saudi Arabia is the leading Arab modernizing monarchy legitimized by the traditional political culture of fundamentalist Islam. The system is patrimonial-consultative, and authority stems from tradition and Quaranic ethics and laws.

The present Saudi regime may be domestically conservative; however, its foreign policy and military policies contribute to destabilization of the Middle East. A politically and militarily weak state, the Saudis maintain internal stability by "buying off" radical intervention. The legitimization of an essentially medieval monarchy is based partly on Saudi funding of military hardware for other Arab states.

Saudi aspirations for its regime's survival far surpasses its national, political, and military capabilities. No private family bank dominating such a vast territory has been known historically to substitute for the strength of a national entity.

Neither with the PLO (Palestine Liberation Organization), nor in Lebanon, nor in the November 1977 Cairo Conference, nor in the African Horn or in the Baghdad Arab Summit of October 1978 did Saudi Arabia demonstrate an inherent capability either to alleviate or moderate or resolve conflict. It did nothing to improve the process of peace in the Middle East during or after the negotiations between Egypt and Israel that culminated in a peace treaty.

The total dependency of Saudi Arabia on the United States to furnish it with a complete military infrastructure could possibly mean an eventual American involvement to support failing Saudi aspirations and abortive involvement. The United States may be unwittingly moving toward an oil quagmire. This would be the result of a continued Saudi effort to placate its most powerful Arab secular rivals for the latter's legitimization of a medieval partimomial Saudi dynasty.

Saudi Arabia can bankroll and equip Arab secular states, but it is in no real position to restrain, control, or moderate the pan-Arabist and expansionist designs of some of these states. Though it is the most authentically Arab of all the Arab societies, and therefore incompatible with secularist, Nasserist, and Baathist pan-Arabism, the only way the Saudis can legitimize their medieval kingdom is to establish a positive linkage between pan-Arabism and Saudi legitimacy. It is significant that the Saudis voted against the Camp David Accords at the Baghdad rejectionist summit in September 1978.

Let us examine a few recent cases. Bankrolling the PLO, the Saudis were unable to settle the Lebanese civil war. Only after 14 months, when Lebanon was finally torn assunder, and when its tacit ally, the PLO, and its leader, Yassir Arafat, were close to being annihilated by the Syrian occupying forces, did the Saudis come to the rescue. By this time, Syrian aspirations in Lebanon had been fulfilled.

When Sadat actually and demonstratively opted for moderation, the Saudis found no way to support openly, decisively, and realistically his courageous deed. Such support, the Saudis argue, could only destabilize their regime. When the chips were down, the Saudis were in no position to exercise their imaginary moderate influence. Thus, indirectly, the Saudis are also responsible for Sadat's isolation and Jordan's reluctance to join the November 1977 Cairo Conference, thus bringing that conference to stalemate. Arab nationalist ideology, in which the Saudis have brought a membership, is still the most destabilizing political factor in the Middle East.

To legitimize themselves, the Saudis in 1973 and 1974 demonstrated their commitment to the core issue of Arabism, i.e., a Palestinian state. In a single stroke, they punished the United States for aiding Israel in 1973 with a limited oil embargo, thus infusing into their system more legitimacy at home and abroad than ever before. To further shore up this legitimacy, the Saudis are becoming the arsenal for the most lethal modern aircraft, the F-15, and in this way the Saudis hope to further placate the goals of pan-Arabism. By supporting a pan-Arabist, pan-Islamic policy of suppression and expulsion of non-Muslim minorities, Christians, Jews and black Africans, the Saudis hope to guarantee their stability.<sup>28</sup>

Saudi dependency on the United States is a two-day street. On the one hand, the United States relegated to the Saudis a great role to play in Middle Eastern and Horn of Africa politics. The Saudis were able to secure an F-15 sale from the Americans, despite the Jewish lobby's strong protests; this was to demonstrate America's debt to the Saudis for controlling the price and production of oil with American interests in mind. The United States also expected the Saudis to moderate the Arab radicals and strengthen the hand of the moderates. However, the Israelis consider Saudi Arabia, by virtue of its air force buildup, a confrontation state, and

<sup>28</sup> On Saudi Arabia, see H. St. John, Philby, *Arabian Jubilee*, Robert Hale, London, 1952. Elizabeth Monroe, *Philly of Arabia*, Faber and Faber, London, 1973. George Rentz, "The Beginnings of Unitarian Empire in Arabia," unpublished Doctorate dissertation, University of California, Berkeley, 1948.

the Saudis are clearly on the map of Israeli pre-emption planners in another all-Arab-Israeli war.

Another threat to the regime could be internal. A probable coup scenario might feature an Islamic radical, Ghadafi style. The rise of radical Islam in Iran threatens the Saudis also. It has been argued that the smooth succession from Faisal (assassinated by a member of the Royal family) to Khalid-Fahd was stable. This may not necessarily be true in case of a radical-Arab or Marxist-style coup (as the Marxist coup in Yemen in July 1978).

#### NATIONAL SECURITY POLICY AFTER THE ISRAELI-EGYPTIAN PEACE TREATY, 1979

The most remarkable change in the Middle Eastern conflict in 1978-79 is not so much in the military as it is in the diplomatic field. After more than a year of protracted but continuous Israeli-Egyptian negotiations since the Sadat-Begin Summit in Jerusalem, with the active intervention of the United States, the Camp David Accords produced two sets of agreements—one along general principles, and the second concerning specifically detailed political, diplomatic and military treaties between Egypt and Israel.

Obviously the Accords, the Peace Treaties and the maintenance of the momentum toward peace will modify aspirations, allay fears and possibly change the goals of the belligerents in the near future.

The Egyptian-Israeli Peace Treaty also means a change in the nature of the formerly intense Arab-Israeli ideological conflict, which is still ongoing between Israel, the PLO and the North Eastern bloc headed by Syria, Iraq and Jordan, and supported by Saudi Arabia and the Gulf states. Although Egypt was removed from the Arab confrontation front and its absence will result in the weakening of the offensive front coalition, the Arab aid coalition has been strengthened.<sup>29</sup> The Arab rejectionist front (rejecting the Accords and the Israeli-Egyptian Peace Treaty) was invigorated by the October 1978 Syrian-Iraqi rapprochement. The closer cooperation established between the North Eastern members of both the offensive coalition (Syria, Iraq, the PLO and Jordan), supported by the Southern aid coalitions of Arab states, and the supposedly moderate Saudi Arabia, Kuwait, and the Gulf states, represents a new type of offensive coalition in a new context of Arab-Israeli confrontation. The continuing Soviet supply of political and economic support to Syria and Iraq also strengthens this combination of offensive and aid coalitions. This new coalition threatens the Middle East with another Israeli-Northern Arab coalition war and threatens the fulfillment of the Accords and the Peace Treaty as well. The end of the Lebanese Civil War, with the annihilation of the Maronite Christians' political and military powers, means Syria's full attention can be given to building up the October 1978 Baghdad Summit's newly established Arab Northern offensive coalition. Return of the territories will replace legitimacy of Alawi rule as a Syrian prime goal. In my view, Iraq's goals after the

<sup>29</sup> Selten and Perlmutter distinguish types of coalitions as (1) an *offensive coalition* formed in order to take military action against another actor(s); and (2) an *aid coalition*, where some actors agree to render some type of assistance to other actors in the coalition. See Reinhard Selten, Amos Perlmutter, et al, *Decision Analysis, Focusing on the Persian Gulf: The Schwaghoff Papers*, Frank Cass, London, 1979, p. 24.

Baghdad Summit have changed as well, so that Arabization of the Gulf predominates, followed by war against Israel; those aims take precedence over those of internal stability and economic prosperity.

These changes of goals should not be overlooked in the optimism stemming from the Accords and the Egyptian Israeli Peace Treaty. Certainly the Northern Arab arms race, the closer alliance with the U.S.S.R. and the radicalization of the PLO augur serious military threats to peace in the Middle East both in the Arab-Israeli and Gulf area conflicts. Unless the Syrian regime turns about and becomes ready to negotiate with Israel on the future on the Golan and Israel's northern borders, IDF will deploy forces on an intensive alert in the North. This will affect the security posture and armament scope and pace in post-Camp David Israel.

Another source of conflict is the unsettled future of the West Bank-Gaza Palestinian autonomy. The aspirations of Israel, Egypt, Jordan, the PLO, and the PLO supporters in Jordan and the occupied territories, are asymmetrical.

Serious problems will emerge from the different interpretations of what the Palestinian autonomy administration means to Israel and various Arab states. What Prime Minister Begin envisions is an enhancement of Israel's military position through the formation of new IDF and NAHL (army-Kibbutz volunteers) settlements that will create a link between the Israeli settlements of the West Bank and IDF military bases.<sup>30</sup>

IDF military posts will replace the Israeli occupying military administration in the major West Bank populated areas. These areas will be linked to Israel with roads and military axis transport facilities. Begin hopes that at the end of the transition period, an administration of the sparsely populated areas dominated by Israel and linked to Israeli settlements and IDF bases will have emerged, and Israel can claim sovereignty over this part of Palestine—if, as it seems obvious, the autonomy administration of the Palestinian Arabs seeks sovereignty for their land. This is to allay Israeli fear that the PLO will eventually dominate the autonomy administration. Officially, the PLO boycotted the local elections in the West Bank in 1976. But three weeks before the elections the PLO encouraged its sympathizers to enter the race and then overwhelmingly defeated the Jordanian sympathizers in the West Bank. The Israelis are apprehensive that despite the PLO's official boycott of the Accords, they will repeat 1976, enter the race, and turn the autonomy administration into an instrument of an emergent PLO-oriented Palestine rather than the super mayoralty Begin has in mind.

#### FUTURE COALITIONS

There are a number of possible coalitions that can emerge in the future. One such, an agreement coalition,<sup>31</sup> formed in order to remove some source of conflict between its members in a peaceful way, is already well underway. This is the Camp David Egypt-Israel-United States coalition, contingent of Israeli withdrawal from the Sinai, the establishment of normal peace and diplomatic

<sup>30</sup> Interviews with leading West Bank pro-Jordanian and pro-PLO leaders aided in this analysis. I am grateful to Y. Litany for his invaluable information given to me in Jerusalem, October 20, 1978.

<sup>31</sup> Selten-Perlmutter, *op cit*, p. 25.

relations between Israel and Egypt, and on their actions as patrons of the Palestinian autonomy plan. This coalition could extend into economic cooperation in the development of Sinai. It could also establish cooperation in military and technological research and development between Israel and Egypt and the United States.

A second possibility is a peace-imposing coalition, one formed to abrogate regional conflict. One could be formed between Israel and Jordan over the future of the West Bank, and one between Israel and Egypt over Gaza.

Two offensive coalitions, formed to take military action, are composed of the anti-Sadat, anti-Camp David coalition of Syria, the PLO, Iraq and Libya, and the Baghdad Summit (October 1978) Iraqi-Syrian-PLO-Jordanian coalition designed to prepare for war over Israel's northern and northeastern borders.<sup>32</sup>

And there are the aid coalitions, wherein the actors agree to render some sort of assistance to other actors:

(1) Saudi Arabia, Kuwait, and the Gulf States' (minus Oman) aid coalition designed to support the Iraqi-Syrian offensive coalition against Egypt and Israel.

(2) Sudan, Morocco, West Bank-Gaza Palestinians and Jordan coalition to aid the Egyptian-Israeli accords for the West Bank and Gaza.

The history of modern war and recent international relations demonstrates that the agreement and offensive coalitions are the most effective and sustaining types. The most plausible coalitions in the Middle East in the coming era seem to be the Egyptian-Israeli-United States agreement type and the Iraqi-Syrian offensive type. We should carefully watch the evolution and development of the above coalitional actions for, in my view, they could alter considerably the strategic map of the Arab Middle East, the Horn of Africa, and the Persian Gulf in the late 1980's.

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<sup>32</sup> Another possibility, not truly relevant here, is the Nile coalition of Egypt, Sudan, Eritrea, Somalia, against Soviet, Cuban and Arab radicals in the Horn of Africa and in the Nile Valley.

## VI. THE PEACE PROCESS: OBSTACLES AND OPPORTUNITIES <sup>1</sup>

### THE BASES OF POLITICAL POWER AND PERCEPTIONS IN THE MIDDLE EAST

By Bernard Lewis\*

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#### BACKGROUND: CLASSIFICATION AND TYPOLOGY

As a preliminary to an examination of recent changes in the structure and direction of political leadership in Middle Eastern countries, it may be useful to attempt a political classification and typology of the various countries, states and regimes which exist in the area.

##### *Ethnic and Linguistic*

The first and most obvious dividing line is ethnic and linguistic. Turkey is inhabited predominantly by Turks who speak Turkish; Iran (Persia) by Iranians (Persians) who speak Persian; Israel by Jews who in principle at least speak Hebrew; and the remainder by a group of peoples known collectively as the Arabs, who share a common cultural and linguistic heritage and have been inspired by the sense of a common destiny. The definition and classification of nations in ethnic or linguistic terms is a result of the imposition on the Middle East of Western ideas of group identity, and, thanks to

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<sup>1</sup> This paper was completed in October 1978, and has been slightly revised since then. [Editor's note.]

the incursion and spread of nationalist ideologies, has won considerable ground among Middle Easterners themselves.

### *Religious*

A more traditional form of classification is by religions or rather by religious communities. The Middle East is the birthplace of three major religions, Islam, Christianity and Judaism. The first of these is the religion of the overwhelming majority of the inhabitants of the area, the other two are professed by minorities of varying size and importance. In our own day, for the first time in many centuries, both Christianity and Judaism have achieved political expression as such. The Christians found it in Lebanon, a state which, though not officially Christian, is strongly marked and was for a while led by its Christian community; the Jews in the modern state of Israel.

These national and communal differences play a great part in the political structures of the Middle East. It should be borne in mind that unlike the map of Europe, the map of the Middle East with its present political boundaries is of comparatively recent origin, and few of the states of the area date back before the First World War. Many indeed only attained their independence during or after the Second World War.

The policies and even characters of these states are much affected by the manner in which they acquired statehood and the length of time they have held it.

### *Historical*

An historical classification might divide the states of the region into four groups. The first would consist of old independent states—those which, though their independence may at times have been threatened and even endangered, never actually fell under imperial rule. Only two states come into this category: the one is Turkey, the republican successor of the defunct Ottoman Empire, the other is Iran. Both have long experience in the conduct of their own affairs and the acceptance of responsibility for their own decisions.

A second group consists of those countries which, though not formally independent, nevertheless managed to retain a large measure of autonomy under the nominal or loose control of their imperial masters. There are three such areas in the Middle East, differing considerably from one another. Egypt was for centuries part of the Ottoman Empire and then subject to British occupation, only acquiring full formal independence comparatively recently. Nevertheless Egypt under both Ottoman suzerainty and British occupation was able to retain her own distinctive political identity. This is a country clearly defined by both history and geography, with a vigorous and continuing historic character. Under both Turkish and British rule, Egypt had a locally based ruler and government and civil service in the Nile Valley, administering what in effect amounted to an Egyptian state. The modern state of Egypt, under the republic, is thus no recent creation, but the result of a long process of political evolution and experience.

A second state with a long tradition of semi-independence and internal autonomy is Lebanon. Superficially, Lebanon would seem

to be one of the numerous new states fashioned out of the debris of the Ottoman Empire at the end of the First World War, with political structures, frontiers, and even identities devised and imposed by the Western powers. But Lebanon differed significantly from the others in one important respect. It rested on an established and living tradition of autonomy and separate identity, maintained for centuries in what is sometimes called the little Lebanon, in contrast to the subsequent greater Lebanon. This consisted of Mount Lebanon, with a rough rectangle of territory running from just south of Tripoli to just north of Sidon, and extending inland. The majority of its population was Christian, mostly of the Maronite Church, with minorities of Druzes and Shi'ites, two heterodox Muslim groups. This country had for long enjoyed a large measure of autonomy under local chieftains, which was generally respected by the Ottomans, and had built up a distinctive way of life. The Maronites belonged to a Uniate Church in communion with Rome and in contact with Europe. From 1861 until the first World War, they enjoyed a special regime known as the *Reglement Organique*, and were governed by a Christian governor with an elected administrative council. After the first World War the French did not restore the *Reglement Organique*; instead they created a new "greater Lebanon" by adding a number of neighboring districts to the original Lebanese territory. The intention no doubt was to strengthen the Lebanese base by increasing its size; the effect in the long run was to weaken and perhaps ultimately to destroy it.

The third area of old established autonomy was the Arabian peninsula. Nominally under the suzerainty of the Ottoman sultans, the greater part of the peninsula was in fact left to its own devices, and was ruled by dynasties of local, and, except in Yemen, tribal origin. The Ottomans maintained garrisons in the towns of the Hejaz and attempted from time to time to assert their authority in the Yemen, but with little success. The rest of the peninsula—northern, eastern, south-eastern Arabia and the Gulf—was virtually left alone, and in time parts of it fell under British influence and indirect control. The south-western corner became the British colony and protectorate of Aden.

Paralleling the states with an independent or semi-independent past are those emerging from a colonial or semi-colonial status. The former are those which were directly administered and often in a sense created by the colonial powers; the latter those where the imperial power took over and in large measure retained an existing political and territorial entity, sometimes even keeping the existing institutions of sovereignty.

### *Political*

At the present time the states of the Middle East may be divided by the type of political regime under which they live. The first and smallest group is that of the democracies—using this term in its common Western sense and not in any of the wide variety of other meanings which this word has been given in other parts of the world. This means states with a free press in which the open expression of opinion and criticism of the government, its actions,

its policies and its ideologies are permitted; with a number of parties competing to win power and not just one serving as a means of exercising power; and with free elections, genuinely contested and offering genuine alternatives, and the possibility of a change of government resulting from the choice of the electorate.

In this sense only two, possibly three, states in the Middle East may be described as democracies—Turkey, Israel and until recently Lebanon. In these states there is a free press reflecting a wide range of opinions, a variety of political parties and other groups competing for power without impediment, elections held at regular intervals, and the right to remove and replace the government by electoral processes. In Lebanon the democratic process has been complicated—and some would say undermined—by the association of political groupings with religious communities. Defenders of the Lebanese system have argued that grouping by religious allegiance is in no way less democratic than grouping by political ideology or class interest and that such an organization suits the special conditions of this multi-denominational society. For a long time the best argument in defense of the Lebanese system was that it worked. Now it has manifestly ceased to work, though it is questionable whether the Lebanese or their system can be held responsible for its failure.

A second group consists of those states which, though not democracies in the normal Western sense, are still somewhat short of being dictatorships. They might perhaps better be described as authoritarian rather than dictatorial regimes. These may be divided, formally, into republics and monarchies. The first group consists of Egypt, the Sudan, and North Yemen; the second of Saudi Arabia, the Gulf States, Jordan and, until its revolution, Iran. If North Africa is included, Tunisia might be added to the first group, Morocco to the second. It is noteworthy that all of these states are relatively old regimes. Iran is an old sovereignty; Egypt, the Yemen, Saudi Arabia and the Gulf States have traditions of autonomy dating back to Ottoman times and beyond. Tunisia and Morocco, though under French protectorates, retained their own monarchies and distinctive political institutions, as separate entities within the French imperial system. Even the Sudan, after a period of eclipse, was reconstituted as a distinctive political entity in its modern form in the course of the 19th century, through the action of the Sudanese and of their Egyptian and British condomini. Only Jordan within this group is a completely new political entity, dating from after the first World War, but maintained with remarkable success as a monarchy with a traditional base and a modernizing policy.

A third major group consists of what might be called radical dictatorships, all governed by military regimes, professing various types of socialism, established by proclamation and confiscation. This too may be subdivided into two groups—a more radical one consisting of Iraq, Libya and South Yemen, a somewhat less radical one consisting of Syria and Algeria. A common feature of all the states in this group is that they are new entities, not only controlled but, for most of them, even created by the imperial powers. Syria and Iraq were parts of the Ottoman Empire and, along with Palestine, first came into being as separate political entities as a

result of the actions of Britain and France during and after the First World War. Their very names were imposed on them by their new imperial rulers—Syria and Palestine taken from classical antiquity, Iraq from medieval Islam. With the withdrawal of the Ottoman administration and the arrival of the British and the French, everything had to be created anew—government, administration, even frontiers.

South Yemen again was a former British possession, consisting of Aden colony and protectorate. Algeria, unlike the two neighboring countries of Tunisia and Morocco which retained some internal autonomy, was completely incorporated within the French Colonial system, and the coastal districts even became legally part of France. Libya was created by Italian royal decree of December 3, 1934 when the two separate Italian colonies of Tripolitania and Cyrenaica, both of them conquered by the Italians from the Turks not long previously, were united in a new colony for which the Italian ministry found this name from ancient Greece. It may be that as the revolution in Iran develops, that country too may evolve into a radical dictatorship.

At first sight this would appear to complete the enumeration of the political entities in the Middle East. Two categories however remain. One of these is the remaining colonial territories—that is to say those parts of the Middle East which are still incorporated in a non-Middle Eastern political system with its capital elsewhere. It is usual to set the northern limit of the Middle East at the Soviet frontier. There is however little justification in either history or geography for this practice. The countries to the north of the border in Transcaucasia and in Central Asia are inhabited predominantly by Turkish and Persian speaking Muslims. Historically, culturally, religiously, they belong to the Middle East, and such cities as Baku and Samarkand are as much a part of the historic Middle Eastern civilization as Istanbul or Isfahan. For long part of the Perso-Turkish world, these countries were conquered and incorporated in the Russian Empire in the course of the 19th century, as part of that vast expansion of Europe, from both ends, which brought the whole world into the orbit of European imperialism. The west European empires, which were created by expansion across the seas, have come to an end and the imperialists have gone home. The east European empire created by expansion across the land still flourishes and important parts of the Middle East are still within its grip. Notable among these are the republic of Azerbaijan, taken from Iran, and the four republics of Soviet Central Asia—Kirgizia, Uzbekistan, Türkmenistan and Tajikistan, acquired later in the 19th century. Turkmen, Kirgiz, and Uzbek are all forms of Turkish; Tajik is more or less the same as Persian. This resemblance is only partially disguised by the fact that all four are now compulsorily written in modified versions of the Russian script. All these states are constituted as Soviet republics and therefore as parts of the Soviet Union. Unlike the two major Slavic republics apart from Russia, Byelorussia and the Ukraine, they are not separately represented at the United Nations.

In addition to these various states, one other category should be mentioned—political organizations which have not attained statehood, in other words the so-called liberation movements. There are

a number of these, three of which have achieved some importance; the Armenian, Kurdish and Palestinian movements. Smaller groups such as that concerned with liberating the Persian shore of the Persian gulf, claimed as Arab, have not as yet had much impact.

Of the three mentioned above the Armenian and Kurdish movements are comparatively old established. Both represent recognizable national groups, each with its own language and culture, and with a long national history. The Armenians possess a state of sorts—an Armenian Soviet Republic occupying part of the traditional Armenian homeland and incorporated in the Soviet Union. Among the Armenian movements some are pro-Soviet, some anti-Soviet, but both groups agree in seeking a more extensive homeland with greater political independence. Their actions are directed almost exclusively against the Turkish Republic, which possesses virtually all the territory which they claim. The Kurds are divided between Turkey, Iran and Iraq, with smaller groups in Syria and the Soviet Union. Apart from some limited cultural rights in Iraq, they enjoy no form of autonomy anywhere, still less any political sovereignty. The Kurdish movement aims at a minimal objective of national and cultural autonomy within the existing states, a maximal objective of an independent Kurdistan. It has, in the past, operated mainly against Iraq, and lost its main source of outside support after the Iraqi-Iranian agreement of March 1975. The Palestinian movement, organized, for the most part, in the Palestine Liberation Organization, seeks the elimination of Israel and the establishment of an Arab Palestinian state within the borders of Palestine as defined in the British Mandate.

Of the three movements, at first sight the Palestinian was the one that seemed to offer the least prospect of success. Unlike the Armenians and the Kurds, the Palestinians have no separate language, culture or historic identity of their own. Palestine as a political entity came into being with the British Mandate, for the first time since antiquity. Its people had at various times defined themselves as Arabs, by their language, culture, and ethnic nationality; as Muslims, by the faith and loyalty of the overwhelming majority of their people; and, for a while, as Syrians, by the country of which Palestine was seen as an artificially separated fragment. Even the Covenant of the PLO—a declared revolutionary and anti-imperialist organization—takes its stand on the frontiers of the British Mandate. Nevertheless the Palestinians have won far greater success than the other two, if not in obtaining their objectives, at least in their impact on world public opinion.

This was accomplished by several means. Unlike countless millions of refugees in Europe, Asia and Africa who were displaced in the brutal aftermath of World War II, the Palestinian refugees were not resettled but kept in their camps for 30 years. To retain the identity imposed on them by the defunct British Mandate, and use it to resist absorption into the vast lands and expanding economies of the Arab world, required a great act of will, and was a remarkable achievement of the Palestinian Arab leadership. It provided their movement with an immensely effective political weapon and a permanent reserve of manpower. A further advantage enjoyed by the Palestinians in contrast to the Armenians and

the Kurds is that they have had the support of a number of Arab governments willing to provide them with funds, weapons, and sanctuary, and later also of the Soviet Union. This patronage helped them to develop a new technique of struggle. Unlike the Armenians and the Kurds they did not confine their struggle to their homeland or their attacks to their enemies, but made the free world their battlefield and their objective. This brought immense successes in publicity and achieved diplomatic recognition at the United Nations and by many governments. Not surprisingly the same technique is being followed by other groups.

## POLITICS AND POWER

### *Political Parties*

Certain broad trends may be discerned in the political life of the region. One of these is the failure of the single party system. In the Western democracies, a party is a group of people banded together to win elections and thus gain power. In the nature of things there is more than one party, and they compete with one another. It is in this sense that the term "party" is used in the surviving democracies of the Middle East, in Turkey, Lebanon and Israel.

Two of the democracies in the area, Turkey and Israel, passed what is perhaps the final test of a successful parliamentary system—a change of power by electoral processes. In both countries elections were held in May 1977. In both the results brought a significant shift in the balance of power between the parties and led to the emergence of new governing coalitions. In Turkey the government of Süleyman Demirel, leader of the Justice Party, and his allies was replaced by a more left wing government headed by Bülent Ecevit, leader of the Republican People's Party. In Israel the movement was rather to the right, and the Labor Alignment, which in various forms and alliances had held power since the establishment of the state, was finally unseated and replaced by a coalition of nationalist and religious parties, the *Likud*, headed by Menahem Begin, the leader of the Herut Party.

In the other states of the region however the term party has a quite different meaning, more closely related to its use in past and present European dictatorships. In this sense the party is not a way of gaining power; it is rather an instrument for keeping and wielding power. There is only one party, and it is part of the apparatus of government—a kind of ideological ecclesiastical establishment, the purpose of which is to win and mobilize popular support for the government, and to provide justification for its actions.

The single party system was introduced in Egypt by the late President Nasser, after the abrogation of the constitution, the dissolution of Parliament and the banning of the old political parties. They were replaced by the Liberation Rally, headed by Nasser and directed by a group of officers. In 1956 this was replaced by the National Union, which in turn gave way to the Arab Socialist Union established by the National charter of 1962. This remained the sole legal political party in Egypt until the measures of political liberalization introduced by President Sadat after the 1973 war.

In the course of these the Arab Socialist Union was deprived of its monopoly position and prepared for liquidation. In November 1976 Sadat permitted the emergence of three political parties representing approximately the right, the center and the moderate left. In 1977, under pressure of increasingly violent protest and a dangerous economic crisis, Sadat to some extent reversed the liberalization, and assumed emergency powers to deal with subversion and sabotage—terms sometimes rather broadly interpreted.

Sadat's change of foreign policy, away from the Soviet Union and towards the United States, led inevitably to a clash with the Egyptian communists, who were in the main oriented towards Moscow. As well as objecting to his pro-Western line, they also opposed his economic liberalization, the encouragement of private enterprise and the reversal of Nasser's socialist legislation. To counter this, Sadat in 1977 began to speak of a substitute—a "democratic socialism" in which "all producers and the state sit together and decide what is best for us". The Egyptian communists, not suprisingly, were not appeased, and began a vigorous attack on Sadat and his policies.

Already in August 1975 the Egyptian Communist Party, which under Nasser voluntarily dissolved itself as redundant, had announced that it had reconstituted itself in Beirut. It now published a manifesto attacking Sadat's pro-American foreign policy, the Sinai Agreement and the move towards capitalism. In the main however Egyptian leftists worked through the "National Progressive Unionist Rally" the left wing party authorized in the liberalization decree. The left however failed to mobilize any extensive support, and the success of Sadat's policy in seeking peace with Israel further weakened their position. Sadat now felt strong enough to pursue his liberalizing policies in both the economic and political spheres, and to complete the dismantling of the Arab Socialist Union.

In Libya, where the official doctrine is direct popular rule, the government found it expedient to establish a single party on the Nasserite model, also entitled the Arab Socialist Union. This functioned for a few years after Qaddafi's advent to power in September 1969 but the results proved disappointing. In April 1973 Qaddafi declared a new phase of "popular revolution" and thereafter developed a set of new doctrines and institutions. By the beginning of 1977 the Arab Socialist Union was tacitly set aside and replaced by a new concept, a pyramidal organization of "people's committees" and "people's congresses." This so far remains largely theoretical.

In Iran too the Shah sought to rest his power more firmly on a single party. On March 1, 1975 he established the *Rastakhiz* or Resurrection Party, membership of which was open to every Iranian accepting the "constitution, the monarchy and the principles of the [shah's] revolution." Members of the Armed Forces were however excluded from membership. Between 1975 and 1978 a mass movement with some millions of members was built up. The *Rastakhiz* party however failed to resolve the tensions that were building up in the Iranian system and with the troubles of September 1978 the failure of the Shah's one party system was apparent.

In the radical Arab dictatorships the one party system, sometimes disguised as a front with other minor groups, remained in force, though often with considerable and sometimes violent internal conflicts. In Iraq the second Ba'th regime remained in power, with its official ideology as laid down in the political report to the 8th Regional Congress of the Ba'th held in January 1974. The Revolutionary Command Council, the real government of Iraq, consists entirely of Ba'th members.

In Syria the Ba'th movement suffered severely from internal dissensions but Asad, who had achieved full power in November 1970, was able to maintain his position both in the party and in the country. The party is now mentioned by name in the state constitution as the source of authority and defined as "the leading party in society and the state. It leads a national progressive front, seeking to unite the energies of the masses."

In the Sudan the Sudanese Socialist Union remains the sole party in the state and an essential pillar of the regime. Its importance and power were if any thing increased after the unsuccessful coup d'état of July 2, 1976 which the regime narrowly survived.

In South Yemen the National Front which has ruled the country since it attained independence in 1967 remained in solitary control, and underwent a series of shifts to the left as a result of internal struggles for power and external involvements.

#### *National Assemblies*

In addition to parties, most of the states of the area, including the single party dictatorships, experimented with some form of assembly. In Iran and Egypt parliamentary life is of long standing, dating back in Iran to the constitutional revolution in 1906, and in Egypt to the mid-19th century, and even under authoritarian regimes parliamentary life in both countries has shown some vitality. At times of crisis it is in the parliamentary assemblies that critics of governmental policies have found the occasion and the opportunity to express their views. Experiments with assemblies have also been conducted in some of the newer states of the Persian Gulf. National assemblies were set up both in Bahrain under the constitution of December 1973 and in Kuwait (Constitution of November 1967). In the former it was dissolved in August 1975, in the latter in August 1976, when parts of the constitution were also suspended, and some restrictions imposed on the previously rather independent press. In Bahrain the dissolution of the assembly and the detention of a number of political suspects were attributed to the activities of the "Popular Front for the Liberation of Oman and the Arabian Gulf" described as a leftist terrorist organization. In Kuwait the elections held in 1975 had brought into the assembly a number of members of a new type, no longer content to limit themselves to purely formal functions. Some were rivals of the leadership within the regime; others, more dangerous, opponents of the regime itself. Criticism of government policies and personalities became open and vigorous and was accompanied by growing leftist influence in the country as a whole. Matters were brought to a head by some acts of terror (ascribed to expatriates) and by the

impact of the Palestinian and Lebanese problems, especially on the large and growing community of non-Kuwaiti Arabs.

### *The Military*

In most of these countries however the ultimate source of power lay neither in the party nor in elected bodies, but in the army. In the radical dictatorships this was manifestly so; in the more patriarchal or traditional monarchies power still rested with the ruling family. These families were often very large, but their retention of power depended on retaining the loyalty of the armed forces and an overthrow by a military coup was and remained an everpresent threat.

The uncertainties of such regimes were vividly illustrated by the assassination of King Faysal of Saudi Arabia in March 1975. The King, who had held the regime together and directed its policies, was suddenly removed. There was an agonizing period of uncertainty for the Saudis, the Middle East and the world as a whole during which it was by no means clear whether the direction of Saudi policy or the very character of the regime would be maintained under Faysal's successor or indeed who or what that successor might be. In the event the Saudi monarchy proved to have sufficient strength and resilience to survive the crisis, and, thanks very largely to the personality of Prince Fahd, was able to continue unshaken. Fahd had played a role of some importance under King Faysal and continued to do so under the new King. The network of relationships by kin, marriage and patronage held firm, though it is increasingly menaced by economic, technological and military developments, all creating new elites with some modern education and more than corresponding ambitions.

In Saudi Arabia as in other traditional societies, the most likely successors to the existing rulers are the soldiers, whether as defenders or opponents of the regime—and with larger and more sophisticated armies, and more numerous officers, the danger is growing.

Why the army? The answer is not difficult to find. In the fragmented politics and pulverized societies of the Middle East, at a time of collapsing structures and jaded loyalties, the army is the only body left in the state which retains hierarchy, loyalty and discipline, and in a situation of general chaos the army is inevitably drawn into politics and almost compelled to take over power. Major changes in the basis of recruitment to the armed forces and more particularly to the officer corps have brought important social changes in the role and attitudes of the army, and color both the aspirations and activities of the military regimes. The military also, unlike many other elements in society, have a powerful vested interest in modernization and change, and this too can impel them towards the seizure of power.

### *Traditional Bonds*

But once in power the army can lose those very advantages which enable it to seize power in the first place. The army in politics means politics in the army; the discipline and loyalty which were its main advantage can be corroded and destroyed by political

rivalries. In such a situation, when even military loyalty can no longer be relied upon, only the most traditional bonds remain—regional, tribal, ethnic, sectarian. It is for this reason that we have seen in Syria and Iraq the emergence of regimes which are based—behind all the ideologies and programs—on quite specific and identifiable groups of people. In Syria it is a small group of followers of a sect of Islam called the Alawis, concentrated in the northwest of the country; and among those, more particularly a group who emigrated from the Sanjak of Alexandretta, formerly part of Syria and ceded to Turkey in 1939. At the time of cession a number of people in the Sanjak who felt themselves to be Syrian rather than Turkish left their homes and went to Syria. These emigrés and their descendants even now, some 40 years later, form an important solidarity group of a kind that is of special value in such situations.

It is also a source of weakness. The fact that they come from a particular region is inherently limiting; that they belong to a specific sect viewed with disapproval by mainstream Sunni Muslims adds to the fragility of their regime.

Iraq too is governed by a predominantly regional group from the city of Takrit, on the Tigris, north of Baghdad. These have no special sectarian color.

In many other Arab countries rulings groups rest ultimately on this kind of bond. In some, as for example Saudi Arabia and the Gulf Sheikdoms, power is held by the reigning family with its members and adherents by marriage or patronage; in others it rests on a variety of solidarity groups, sometimes tribal, sometimes regional, sometimes sectarian. Perhaps the ultimate example of this kind of politics is the Lebanon where all the different elements—sectarian, ethnic, regional, tribal are to be found.

Within these ruling groups there is constant tension—coup and counter-coup and a constant need for vigilance and repression to maintain power.

### THE POLITICAL TRANSFORMATION SINCE 1973

Three major events have helped to transform the political scene in the Middle East during the last five years. One of these is the October War itself; the second is the oil crisis, with its consequences; the third is the Lebanese Civil War. The beginnings of a fourth, potentially more important than all three of these, may be seen in the development of bilateral dealings between Israel and Egypt and the movement towards peace.

#### *The War of 1973*

Perhaps the most important single consequence of the Crisis of 1973 is the restoration of some measure of self-confidence to the Arab world, badly shaken by the conflict with Israel. The decline of the Islamic world in relation to the west—the encroachment of Europe on the Middle East—had been going on for centuries, but to a large extent this process was hidden from the Arab countries, sheltered behind the still imposing military might of the Ottoman Empire. The ending of Ottoman rule and its replacement by a brief interval of Anglo-French hegemony did little to correct old illusions

but instead provided easy victories over weakened and half-hearted imperial powers. The War of 1948 and the failure of half-dozen Arab armies to strangle the infant Jewish state at birth were a terrible shock which started a wholly new process of development within the Arab world. All the rulers and most of the regimes who had participated in that failure were overthrown. By 1967, mainly as a result of the rise of Nasser and the immense political successes achieved by him, the Arab world had recovered a large measure of self-confidence. But this was again destroyed by the Six Day War of June 1967, which made even deeper lesions on the Arab psyche. It also started a long and sometimes profound debate on the weaknesses of Arab politics and societies.

The War of 1973 may be variously judged by military experts, and the convergence of opinion appears that it ended either with or just before an Israeli victory. Two things are however clear; first that during the early days of the war the Egyptians and to a lesser extent the Syrians achieved considerable military successes, and second, that whatever the military results of the war its political results were a significant Arab victory.

### *The Oil Crisis*

The increased self-confidence rising from this was further boosted by the oil crisis and by the power which it revealed. At first there was the heady feeling of having the world by the throat, the joy of at last being able to subject what Arabs considered as the arrogant and domineering West, which had for so long subjugated the world of Arabism and Islam, to a dose of its own medicine. This may be passing, at least among the leaders. But it has left a very solid base of real power, derived in the first instance from the supply of oil and in the second—in the long run perhaps more important—from the financial impact of the money received for the oil.

This power is being used by the Arabs with increasing skill and sophistication. The very acquisition of this new wealth, and the power that accompanies it, has given rise to a new kind of realism in international and also in internal affairs. This is particularly noticeable in those countries with a longer tradition of separate and independent political existence. This confers two advantages—on the one hand comparative freedom from the crises of identity that bedevil more recent and less rooted political entities; on the other the possession of an accumulated reserve of political and diplomatic skills. To take a single example—the Egyptian civil service has successfully maintained the stability and continuity of the Egyptian state and society through a succession of political upheavals, military defeats, and economic crises which would have thrown a less stable and less competently governed society into utter turmoil.

With this new realism came a new perception of regional and international problems. For a long time Arab attention was focused almost exclusively on Israel to the exclusion of all else. This caused them to underestimate or even to disregard dangers coming from other sources. In recent years there has been a growing awareness of dangers other than Israel and some believe in the long run

greater than Israel—and more specifically the dangers of intrusion from outside the Middle East and subversion from within. Israel even at the worst estimate of her intentions and the best estimate of her power cannot constitute more than a very minor threat to the Arab world as a whole, and recognition of this fact is gradually percolating to more and more people. The satisfactions of 1973, by healing the psychological wounds, have made possible more rational and realistic assessments of the relative importance of this and other dangers.

### *The Lebanese Civil War*

Two dangers in particular—and the linkage between them—have impinged increasingly on Arab political attention. One of them is the danger of subversion from within, either at home or from rival Arab leaders. All the Arab regimes are in varying degrees precarious. They rest on a slender basis of support and the possibility always exists that either the leader will be overthrown and replaced or that the regime itself will be swept away. In Egypt the regime rests on a ramified and effective administrative structure; in Saudi Arabia and the Gulf states on the manifold bonds of loyalty of the traditional dynastic system. In most other Arab countries it rests on very fragile foundations indeed. The Lebanese Civil War revealed in dramatic form the dangers which threaten virtually every Arab country—dangers to their national well-being and political survival.

At the same time it revealed the danger of intervention from outside. Several Arab states became involved in one way or another in the Lebanese conflict, and their support—in arms, in money and in other respects—served to fuel the struggle and to keep it going. Any Arab government faced with a similar internal challenge could expect similar external interference. Indeed the subvention of internal conflict is already a major problem in many countries where regimes are threatened less by their own people than by their ambitious competitors.

More dangerous in the long run than the activities of other Arab states is the possible interference of the Soviet Union. Russia is the near neighbor of the Middle East, with a continuous policy of imperial expansion extending over centuries, both westward into eastern Europe and southward into the lands of the Turks, Persians and latterly also the Arabs. When the Russians first arrived as a political factor in the Arab world more than 20 years ago they were unknown and were therefore welcomed. Since then they have become better known, and their welcome has worn somewhat thin. So far, their successes in the Middle East, however great, have always been precarious, mainly because they did not succeed in penetrating either Turkey or Iran and were thus separated from the Arab countries by a land bridge which they could not cross. This made it possible for Sadat summarily to dismiss his Russian advisors in a way which would have been quite impossible for any East European government. Increasingly, Arab governments are becoming aware of this danger and of the mortal threat which would be offered to them by a Soviet penetration of Turkey or Iran. The point has been underlined by the recent events in Iran, the

message of which is clear to every Arab monarch. A Soviet expansion into the Middle East would in all probability be irreversible, and would have far-reaching effects on the whole nature of their economies, societies and politics. In a Soviet dominated Middle East, they might hope at best for the position of Cuba, more probably that of Bulgaria, perhaps even that of Uzbekistan, now an integral part of the Soviet Union.

### *The Israeli-Egyptian Treaty*

All this has given rise to a new and different perception by some Arab governments of the relationship between their conflict with Israel on the one hand and the confrontation of the superpowers on the other. In the past their main preoccupation was with the conflict with Israel, and their dealings with the superpowers were seen very largely within this context. The superpowers for their part were obliged to take account of this in their dealings with the Arab states. Now there is an increasing tendency to see Arab-Israel relations in terms of superpower confrontation, rather than the superpower confrontation in terms of the Arab-Israel conflict. This has in turn required a fundamental reassessment of the whole nature of the Arab-Israeli problem, with effects that can already be seen in the Camp David accords, the Israeli-Egyptian Treaty, the Arab meetings in Bagdad, and their aftermath.

Within the Arab world some countries have chosen a western alignment, even if this means finding themselves in the same camp as Israel. Others have drawn the logical conclusion, and it is significant that at the first meeting of the rejectionists after Camp David one of the major decisions was for a closer alignment with the Soviet Union. Some of the radical Palestinian groups came out explicitly for a formal alliance with the Soviets, in order to obtain "the same Soviet protection as is accorded to Cuba, Angola, and Ethiopia." But not all leaders, even among the rejectionists, are fired with enthusiasm at the thought of a closer tie with Moscow, and there are already signs of unease among them.

### IDEOLOGY AND REALISM

Even the prospect of the elimination of Egypt from the conflict is having striking effects on the other Arab countries. If that prospect becomes a reality the effect will be much greater. One immediate effect, not surprisingly, is an attempt at the closing of ranks among the rejectionists and in particular between Syria and Iraq. The rivalry between the two is of long standing and has deep roots. The single governing parties in both countries are ostensibly of the same persuasion—adherents of the Ba'th, the "Arab Renaissance" movement founded in Syria in 1953. With the adoption by Syrian and Iraqi parties of divergent and conflicting versions of Ba'th ideology the difference between the two states and between the two ruling groups was given clear ideological expression.

But beyond ideologies there are other differences of a more material nature. Although both Syria and Iraq are comparatively new states created from former provinces of the Ottoman Empire after the end of the First World War, they nevertheless embody old rivalries. Both have aspired to the leadership of the pan-Arab

movement and of the unified Arab state which, it was hoped, would arise as a result of that movement. Iraq in addition has a need to seek an outlet to the Mediterranean and to control the course of its vital oil pipelines. This aspiration is seen by the Syrians as threatening their economic and ultimately their political independence. One of the causes of the Syrian intervention in the Lebanese Civil War was the fear that leftists factions favorable to the Iraqi government might win power in Lebanon, and the Syrians would thus find themselves with Iraqi style Ba'athists on both sides—a prospect which no Syrian government could contemplate with equanimity.

The new realism in international and internal affairs brought a decline of ideology—a dwindling concern both with pan-Arabism on the one hand and social radicalism on the other. Arab governments, like most Arab leaders and writers, still tend to pay lip service to the ideal of pan-Arabism, but increasingly they function as nation-states pursuing their own separate national interests rather than as separated fragments of some ideal large entity. In Egypt this has become explicit, especially in light of the treaty with Israel, and Egyptians speak openly of an Egyptian rather than an Arab national identity. In other countries with a less distinctive historical personality and a less distinguished national past, the process has been more gradual. But here too, there is a clear movement towards the separate nation-state as the basis of political and other action. The state may not yet be as fully identified with the nation or the country as in other societies and may still be little more than a regime. Nevertheless the ganglion of inter-related interests, careers, and loyalties that constitutes the organized coercive power in society has shown a remarkable capacity for survival despite many attempts by leaders and even sometimes by rulers to merge their separate states into some larger grouping.

With pan-Arabism, established social radicalism has also lost a good deal of its appeal. One reason for this is the manifest failure of the radical regimes, even those endowed with enormous funds, to bring about much improvement in the lives of people over whom they rule. The other is the rapid economic development in countries benefiting from oil revenues—a development which is transforming these countries and turning them into consumer societies bent on achieving personal and national prosperity and enjoying the good things of life. This rapid economic development brings its own problems and tensions, but in the short run at least it diminishes the appeal of what has by now become an old fashioned form of social radicalism. These are no longer subsistence economies of peasants and nomads, and arguments addressed to such societies, or techniques designed for them, are losing their effectiveness. The effects of this prosperity are spreading even to those countries without oil revenues, thanks to the rapidly growing need for their products and their skills.

With bursting prosperity, massive development and an inflow of hundreds of thousands of guest workers from Black Africa, from India and Pakistan and even South Korea and the Philippines, extremist radical organizations are beginning to lose or at least to change their appeal and the spectacle of refugees living in camps on United Nations rations no longer carries conviction.

All these changes are helping to produce, in some quarters, a new attitude towards the United States. The obvious and perhaps primary reason is that the United States possesses leverage with Israel, which the Soviet Union conspicuously lacks. The Russians of course have no influence with Israel, and at present show little sign of acquiring any. The United States on the other hand clearly has very considerable influence, and though this has not always been exercised in the way or to the extent that Israel's Arab enemies would desire, its presence has nevertheless been felt and effective.

There are, however, additional reasons for the growing preference among Arabs for the United States rather than the Soviet Union. One is the difference between the American and Soviet purposes in the Middle East. To those with eyes to see the Soviet Union is now the only old style imperial power still seeking expansion, or at least domination; the United States on the worst interpretation seeks only to exploit, not to annex or dominate. A disillusioned Egyptian put the point with brutal simplicity; "Both the Americans and the Russians see us as a cow for their use. The difference is that the Americans want milk while the Russians want beef." One Arab interpretation holds that Russian domination could mean the end of everything that is distinctive and national in Middle Eastern life; American domination at worst could mean a period of exploitation, not without incidental benefits.

But an increasing number of middle easterners have a more positive appreciation of what America can offer them. American books, films and performers are more interesting, American artifacts better made and most American products immeasurably superior to their Russian equivalents. Middle Eastern societies are in many ways different from that of the west. Their recent development—in particular the trend towards modernization and liberalization—is however bringing some of them closer to the western pattern. This is increasing the difference between theirs and the Soviet way of life and sharpening their awareness of the dangers that Soviet expansion could bring.

The United States still has few reliable friends in the Middle East, but there are some indications that their number is growing. Only some of these friends govern stable and orderly societies with a continuity of outlook and policy unlikely to be modified even by changes of government—but of these too there are signs that the number is growing. Amid all the complaints that one hears of the difficulties and setbacks of American policy in the Middle East, it is well to remember that this is one of the most successful regions—the one in which the United States at present enjoys a far better position, as compared with the Soviet Union, then for example in Southeast Asia, South Asia or Black Africa. Indeed, only in western Europe, Australasia and Japan does America enjoy greater good will.

This underlines an important lesson—that an alliance is safer and more reliable when it rests on a real affinity of outlook, of way of life, of social and cultural tradition and aspiration, of political faith and institutions, than when it is a mere arrangement or accommodation between governments. The latter can be ended by

an assassination or a coup; the former will survive any number of changes of government or leadership.

The safety and reliability of an alliance are of course concerns not just of one but of both parties. The U.S. must inquire into the reliability of its Middle Eastern allies; the latter will assuredly ask questions about the reliability of the U.S. The answers they find will be shaped in large measure by their perception of America's power and will to defend her friends and her own interests.

#### EFFECTS OF ECONOMIC CHANGE

The present pattern of moderate westward looking regimes in Middle Eastern countries is however threatened from a number of sources. The most important of these is the growing tension resulting from economic development and consequent social disruption. The old gap between rich and poor is still there and is not lessened by the increasing riches flowing into these countries. On the contrary, it is in many ways becoming wider and more visible, sharpening the resentments of those who see but do not share the new amenities. The abandonment of old loyalties, the undermining of old ties is leading to social pulverization. New social elements are emerging as the result of economic change, and new elites are in process of formation—often frustrated by their failure to achieve what they regard as their due.

These feelings of frustration find expression in various forms. One of the most important of these is religious revival—a series of reassertions of traditional Islamic loyalties which among predominantly Muslim populations never entirely disappeared and are now finding new expression, again most notably during recent months in Iran.

This reassertion of Islam takes several forms. One is purely reactionary—a desire to return to the old ways, and to abolish such unwelcome innovations as the emancipation of women and the adoption of modern penal codes. Another is what might be described as Islamic radicalism—an attempt to return not to the old ways, which existed before the beginnings of modernization, but to an idealized remoter past—to the “authentic Islam” of the Prophet and his Companions, by which is meant a series of new and radical ideas. Islamic radicalism of this kind often has close links with left wing movements, and has hitherto had its main champion in Colonel Qaddafi. A third form of Islamic revival, used by the governments themselves, is what one might call Islamic diplomacy—the holding of Islamic summit conferences of heads of governments, foreign ministers and other dignitaries, and the growing network of inter-Islamic social, cultural, financial, educational and even to some extent political organizations.

The immediate threat to the existing regimes in the moderate countries may be seen at three levels; first from rivals within the existing leadership groups; second from rival leadership groups; and third from more radical opponents of various types. Of these last, the religious are the most important. The western term rightist and leftist, though commonly used, are not really helpful in classifying these movements, where extreme right and extreme left often find a common bond in their extremism.

Whatever the economic and political strains which give rise to popular discontents, their most natural form of expression, for the Muslim masses is through Islam—in a reassertion of their basic communal identity and a rejection of what they see as an alien culture, one that has dominated their society and disrupted their way of life.

Islam still appears to be, in the short run at least, the most widely acceptable form of consensus in Muslim countries, and Islamic symbols are the most effective for the mobilization of society behind a leader or against an enemy. It remains to be seen whether they are also effective in the long run.

The Camp David agreements and the Israeli-Egyptian peace treaty created a new situation. Sooner or later other Arab countries may well follow; a few have already shown some inclination to do so. With the removal of Egypt from the conflict against Israel, the military option becomes very hazardous from the Arab point of view.

Also important is the genuine yearning for peace, and the desire to participate more fully in the bounty which is being showered on the Middle East at the present time. This is already affecting some countries and will no doubt in time penetrate to others. Finally, a dawning awareness of the threat from the north may lead to a reassessment of priorities by some Arab states.

# THE ROLE OF ARAB NATIONALISM

By Elie Kedourie\*

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## INTRODUCTION

From its very inception, just before the First World War, the doctrine of Arab Nationalism was a doctrine of Pan-Arabism. In its first articulations, towards the turn of the nineteenth and twentieth centuries, by writers such as Abd al-Rahman al-Kawakibi (1849-1902) and Muhammad Rashid Rida (1865-1935), the doctrine was not so much a claim for Arab independence and autonomy, as an assertion of the primacy of the Arabs within Islam. Following the Young Turk Revolution of July 1908, and the deposition of Sultan Abd al-Hamid in April 1909, Arab intellectuals and officers began increasingly to make a claim for Arab autonomy within the Empire. These claims have for their context the turbulent factional politics of the Ottoman Empire which encouraged and exacerbated group tensions. Also, the parlous international situation of the Ottoman state in the years immediately preceding the First World War itself encouraged the autonomist and even secessionist views of these elements.

The doctrine, then, as it took shape during these years, claimed that the Arabs, because they spoke Arabic, formed a distinct nation which was entitled, as such, to enjoy an autonomous political existence within the Ottoman Empire, or perhaps even to secede from it. The territory which the proponents of Pan-Arabism then had in mind comprised the Arabian Peninsula (considered by them to be the cradle of the Arab nation), Mesopotamia, and the Levant, i.e. the territories known as Syria, Lebanon and Palestine. Egypt was not part of the Arab world as they envisaged it. The Arabic-speaking parts of the Ottoman Empire (which the doctrine had chiefly in view) were and had always been distinct in point of language from the Turkish-speaking areas. But until the twentieth

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century this distinction was not considered politically significant, and was not seen to warrant claims for autonomy, let alone secession: the Ottoman Empire was an Islamic state, and Islam whether by Turk or Arab was taken to be the supreme political value.

Before the 1914-18 war these ideas were by no means widespread. On the contrary, they were the affair of a very small number of officers and officials. The great majority, both among the educated and among the common people, were unquestioning in their loyalty to the Ottoman Sultan as the head of the Islamic realm with which they identified themselves. In Egypt, furthermore, insofar as these ideas were known they attracted great hostility. Egypt was then under British occupation, and many among the official and educated classes looked to the Ottoman Empire for support against the occupant. They were therefore opposed to any movement which might pose a danger to its cohesion or continued existence.

### WORLD WAR I AND ITS CONSEQUENCES

Arab nationalism (as understood by its earliest proponents) received a great push forward during the First World War. The British, who found themselves at war with the Ottomans, encouraged the Sharif of Mecca to declare a rebellion in the Hijaz against his Ottoman suzerain. He eventually did so in 1916, alleging that the Arabs were being persecuted by the Young Turk regime then in power, and claiming that his movement would liberate his fellow-Arabs from the foreign yoke. At one point he even proclaimed himself King of the Arab Countries, but this title was not recognized by the Allies. Allied, and particularly British, help was extended to him to enable him to wage war on Ottoman troops in the Hijaz. The Sharifian movement attracted Arab officers who either deserted from the Ottoman army to serve in the Sharifian forces, or volunteered for such service while in British prisoner-of-war camps. These officers, and such Arab civilians as made their way to the Hijaz in 1916-18, formed the nucleus of the post-war Arab nationalist movement which now had official standard-bearers in the person of the Sharif and in that of his sons.

Two of these sons in particular were to have an important role to play in the post-war development and extension of the Arab nationalist movement: Faysal, and his elder brother Abdullah. Faysal became the protégé of colonel Lawrence and General Allenby. He was installed (nominally as Allenby's deputy) in October 1918 in Damascus, falsely claimed to have been captured by Sharifian arms, and he was allowed to rule over Syria in an attempt to check-mate the French, who claimed the area and whom the British considered to be their dangerous rivals. In Damascus, where he stayed less than two years before being evicted by the French, Faysal made large claims on behalf of Arab nationalism. His supporters used their position in the administration and in the Sharifian army, armed and financed by the British, to propogate Arab nationalist doctrine, which was now however directed against the Western Powers rather than against the Ottoman Empire which these Powers had destroyed. The doctrine was specifically directed against France which had now occupied the Lebanese coast and

wanted also to control the Syrian hinterland. But it was also directed against the British, even though the British were Faysal's paymasters and supporters. Faysal in Damascus at one point aspired, or was encouraged by some British officials to aspire, to rule over Palestine which was under British occupation, and Sharifian propaganda couched in the terms of Arab nationalist doctrine was indeed widely spread in Palestine. This propaganda found a wide response because it filled the vacuum created by the disappearance of Ottoman rule and the loyalties it inspired, and because of the fears raised among the indigenous population by the Zionist commitments of the British occupants. In today's perspective, it may seem puzzling that the British should at one and the same time encourage Arab nationalism in Damascus and Zionism in Palestine. But difficult as this may be to understand now, the British really did believe at the time that the two movements were not antithetical, and that there was no contradiction in supporting both. These movements, they felt, were weak and in need of their protection against the ambitions of other Great Powers, and the British themselves were in any case powerful enough to deal with any difficulties which might arise, and keep the whole area under their control.

Mesopotamia, i.e., the former Ottoman provinces of Mosul, Baghdad and Basra, too, was under British occupation, and Arab nationalists in the Sharifian administration in Syria organized armed forays in the country, and tribal and urban resistance against British occupation. Eventually the disorders in Mesopotamia induced the British government to install Faysal as the King of Iraq (as the territory was now to be known), in the belief that such a regime would serve to safeguard British interests without the expense of a British occupation. This belief seemed all the more reasonable in that, all along, Faysal had been a British protégé, who might now be expected to feel gratitude for being given another throne to replace the one he had lost in Damascus. His disagreeable experiences in Syria might also, or so it was thought, make him stick closer than ever to the British connection.

Under Faysal, Iraq became the focus and the base of Arab nationalist doctrine, and its proponents, small in number as they were, became nevertheless able, through their control of a state and its administration, to propagate and to realise if they possibly could, the aims of Arab nationalism as they had been formulated in the decade 1908-18.

Faysal's brother, Abdullah, was also established by the British as a ruler in a territory of his own. The territory was Transjordan, much less important, rich or populous than Iraq. Transjordan too remained under formal British tutelage longer than Iraq: the British mandate in Iraq was terminated in 1932, but it was not until 1946 that Transjordan escaped the fetters of British control. Abdullah was as much a believer in Pan-Arabism as his brother, and like his brother reckoned to benefit from its spread. But his importance in this connection was to become manifest only later.

Between the two world wars, with Syria and Lebanon under French control, with Abdullah in Transjordan unable to play much of a role, with Egypt intent as ever on its own problems and very little interested in the Arab world or Pan-Arabism, Iraq was the

centre of the movement. Before his death in 1933 Faysal tried to persuade the French to follow in Syria a policy similar to that of the British in Iraq—a policy which would at once redound to the advantage of his house and widen the base of Pan-Arabism and increase its appeal. His son and successor Ghazi, more strident and more adventurous, sought to annex Kuwait, and made Baghdad attractive to nationalist figures from Syria and Palestine, who made his capital a base for anti-French and anti-British action in these mandated territories.

#### PALESTINE AND PAN-ARABISM

As events unfolded it was Palestine that provided the occasion for the extension of the Pan-Arab movement, and eventually for a far-reaching change in its character. The disturbances that broke out in Palestine in 1936 were a response by the Palestine Arabs to the Jewish national home policy which the British had undertaken to follow in their administration of the Palestine mandate. The leaders of the Palestine Arabs decided to use force in opposing the mandatory government and its policies, and they also sought, in order to strengthen their position, to involve independent Arab governments in their quarrel so that greater pressure might be brought on the British. Of these governments the most important were Iraq and Saudi Arabia. They were by no means unwilling to be involved, moved as they were by Muslim and Arab solidarity, but also by the calculation that successful intervention in Palestine would increase their standing in Arab politics, and perhaps give them the leadership in the Pan-Arab movement. Anti-Zionist disturbances were by no means new in Palestine, but owing to the deteriorating international situation, the British now came to view the continuing troubles in Palestine during 1936-38 with a new, and an increasing alarm, and they were led in the end to respond to the pressure of Arab governments by recognizing the right of Arab states to intervene on behalf of the Arabs of Palestine. The public and formal consecration of this right occurred at the Palestine round-table conference which took place in London at the beginning of 1939 and where virtually all of the Arab states—even one as far away as Yemen—were officially represented. Palestine was henceforth unequivocally a Pan-Arab cause, and was in fact to serve as the focus of Pan-Arab schemes and ambitions.

#### WORLD WAR II

The presence of one particular state at the 1939 London conference marked yet another change in the character of Pan-Arabism which was to have far-reaching consequences. The state was Egypt, and its presence at the conference showed that it was now interested in playing a regional role in the Middle East, a role, as the next few years were to show, which was to be unmistakably Arab. This Egyptian ambition manifested itself after the Anglo-Egyptian treaty of 1936 which freed Egypt from almost all British tutelage. Henceforth the rulers of Egypt, whether monarchical or presidential, claimed for Egypt the leading role in the Pan-Arab movement. Such a claim seemed a strong one, since Egypt was in fact the most

populous, the most advanced and the most powerful of the Arabic-speaking countries.

This new role of Egypt's could not but be disturbing to the original proponents of Pan-Arabism who felt it to be a threat to their own longstanding and in a sense legitimate ambitions. This was true of Iraq, ruled (until 1958) by descendants of the Sharif of Mecca, and in whose government some of those who had joined the Sharifian revolt after 1916 still played a very prominent role. It was just as true of Abdullah in Transjordan who considered himself entitled to the premier position in a Pan-Arab union. During the second world war when the British helped Syria and the Lebanon to throw off French tutelage and attain independence, Abdullah advocated a union with himself as head comprising Syria, the Lebanon, Palestine and Transjordan—a union which would also be linked with Iraq. But such a union (which would have realized the earliest Pan-Arab dreams) was by then not feasible. Not only was Britain unwilling to use its power and influence in such a cause, but it also aroused the strong opposition of Egypt, Saudi Arabia, Syria and the Lebanon, as well as the Zionists. None of these wanted to be ruled or overshadowed by Abdullah.

#### THE LEAGUE OF ARAB STATES

By then, Pan-Arabism had found expression in the League of Arab States, a loose association of states founded in 1945, of which the leading member was Egypt. This primacy was symbolized by the fact that the headquarters of the League was in Cairo. The League entailed absolutely no diminution in the sovereignty of any of its members. In effect it was a focus for the mutual fears and rivalries of its constituent members, the more prominent among whom aspired to establish their leadership of the Pan-Arab movement, and of Arab unity, when and if it should come.

It became clear very soon that the League was split into two factions, one of which (comprising Egypt, Saudi Arabia and Syria) was opposed to the other (Iraq and Transjordan). The main problem confronting the states forming the League was Palestine. The problem was twofold: first how to defeat Zionist ambitions in Palestine, and—just as important—how to ensure advantage for oneself in the struggle for Palestine and how to ensure that one's rivals within the League did not in any way make the Palestine Arab cause a vehicle for their own territorial and power-political ambitions. The members of the Arab League, therefore while professing a fervent and intransigent Pan-Arabism, actually held one another at arm's length and treated one another with the utmost suspicion.

#### THE ARAB-ISRAELI WAR, 1948

We can go further and say that the intervention of the members of the Arab League in Palestine in 1948 was an outcome of their mutual suspicions, and their anxiety to deny their rivals the opportunity to annex parts of Palestine or establish a dominant influence there. The defeat of 1948 was a great humiliation for the Pan-Arab movement as well as for individual Arab governments, some of which could not survive the blow to their prestige.

But Pan-Arabism by no means declined in its fervour. Always a radical doctrine (in that it aimed at a fundamental change in Arab politics) it became even more radical as a result of 1948. In the view of many influential Arab thinkers political arrangements were by themselves of no use. Only a fundamental restructuring of Arab society, the eradication of corruption and obscurantism, would make possible a true Arab unity. This was the gospel of the Arab Socialist Ba'ath Party, as well as of countless officers in Egypt, Syria, Iraq and Jordan. It became the doctrine by which Nasser (who with fellow-officers had toppled the Egyptian monarchy in 1952) hoped eventually to establish Egypt's—and his own—hegemony over the whole Arab world. But even though the doctrine was now different, and the stakes higher (by reason of the fact that internal subversion and military *coups d'état* now seemed as potent a weapon as external military force or political influence in bringing a whole country into one camp or another) the essentials of the game remained the same. Egypt claimed the leadership of the Arab world, and other states, notably Iraq and Saudi Arabia, resisted this claim, Iraq going at times so far as to make a rival claim for leadership.

#### THE ARAB COLD WAR

The period which runs roughly from the Suez War of 1956 to the Six-Day War of 1967 was what Professor Malcolm Kerr has called the Arab Cold War.<sup>1</sup> It was also the period when the Arab world began to be commonly described as being divided between "Conservative" and "Radical" states. One must not however be misled by these expressions, for in the Yemem in 1962-67 the "Arab Cold War" was actually a shooting war, while the labels "Conservative" and "Radical" are by no means an infallible guide to the actual policies and alignments of these states.

#### THE UNITED ARAB REPUBLIC

The high-water mark of Pan-Arabism was reached in February 1958 when Egypt and Syria joined together in the United Arab Republic and it seemed that this union would prove an irresistible magnet for the rest of the Arab world. In fact, it had three immediate consequences. Iraq, which was then Egypt's principal rival, organized a counter-union with Jordan, which proved even more short-lived than the United Arab Republic. In the second place, the Lebanese Muslims, who had never reconciled themselves to a Lebanon where Christian, specifically Maronite, influence preponderated, were seized with an enthusiasm for Arab unity such that, encouraged by the new unionist regime in Damascus, they raised a great opposition to the existing Lebanese government, an opposition which degenerated into a civil war, to end which US troops had to be landed in Beirut.

Another direct consequence of the United Arab Republic was a military *coup d'état* in Iraq which ended the Hashimite monarchy and the recently inaugurated Iraqi-Jordanian union. The officers who carried out this *coup d'état* declared themselves votaries of Nasser and the expectation was widely held that they would short-

<sup>1</sup> Malcolm, Keevr, *The Arab Cold War, 1958-1967: A Study of Ideology in Politics*. 2d ed., 1967.

ly join the United Arab Republic. But these officers soon divided into a pro and an anti-Nasser faction. The latter had the upper hand and ruled Iraq until they were toppled in turn by the pro-Nasserites in February 1963. So long as the United Arab Republic lasted, i.e. until July 1961, Iraq, ruled by anti-Nasserites showed even more hostility than under the monarchy to Nasser's ambition to become the undisputed leader of Pan-Arabism.

The Syrian anti-Nasserites who overthrew the United Arab Republic in 1961 were in turn themselves overthrown in 1963 by a military *coup d'état* in which Nasserists and Ba'thists predominated. Since Nasserists and Ba'thists were also now in power in Baghdad, hopes were strong that new and even enlarged United Arab Republic would once more be in the vanguard of Pan-Arabism. Talks to this end between Egypt, Syria and Iraq took place in the spring of 1963, but Syria and Egypt were wary of one another and the negotiations came to nothing. This phase of Pan-Arabism, in which Egypt strove for primacy and seemed at times so near to the achievement of her objective, ended with the Six-Day War of 1967 which dealt Nasser's prestige and Egypt's regional ambitions a mortal blow.

But if, after 1967, there was no visible leader to take up the banner of Pan-Arabism, the doctrine, radical in its rhetoric and divisive in its application, still remained the staple of Arab political discourse. With Egypt no longer able to sustain the role, and with Nasser himself dead in 1970, other contenders come to the fore. One of these was Qadhafi of Libya. He had come to power in 1969 through a military *coup d'état*. His inspiration, his political style and his rhetoric were Nasserist. Time and again, he strove for Arab unity or an approximation thereto. At one point he tried to cobble together a union with Tunisia; on another occasion, a similar union with Egypt, Syria and the Sudan. Both attempts proved ephemeral, for neither Libya's geographical position, nor its political weight or military power are such as to make it a credible leader of Pan-Arabism.

#### AFTERMATH OF THE YOM KIPPUR WAR, 1973

Libya was able to play the Pan-Arab role it did after 1969 only because it could make use of the wealth which its oil put at the disposal of its rulers. This wealth was prodigiously increased first as a result of successful confrontation with the oil companies by Libya on its own and by OPEC collectively in 1970-71, and then the quadrupling of oil prices imposed by OPEC in the immediate aftermath of the Yom Kippur War of 1973. But Libya's oil resources of course pale into insignificance when compared with those of Saudi Arabia, and after 1973 the actual and prospective wealth of the latter became such as to transform its position both in Arab and in world politics, to make it in fact Egypt's successor as contender for Arab leadership.

In fact it is exclusively its oil wealth which allows Saudi Arabia to aspire to such a position. Neither the extent of its population, nor the past achievement of its leaders in Pan-Arab politics, nor its military power, nor its geographical position would have fitted it for such a role. Again, the Islamic sect dominant in Saudi Arabia,

namely Wahabism, would until recently have elicited opposition and objection among the Sunnis who constitute the great majority of the Arabs. From its appearance in Najd and its adoption by the house of Sa'ud in the middle of the eighteenth century until the conquest of the Hijaz in 1924 by King Abd al-Aziz ibn Sa'ud, and even for some time afterwards, Wahabism occasioned fear and dislike in wide areas of the Arabic-speaking world, and the Sa'udi rulers were in more or less continuous conflict with their neighbors in the Arabian peninsula and beyond. But circumstances and the accident of the enormous oil reserves within its borders have thrust Saudi Arabia into the position of leadership. What does Saudi Arabia's new prominence mean for the Pan-Arab cause and its prospects?

### *Saudi Arabia and Islam*

The prominence of Saudi Arabia means, in the first place, a new prominence for Islam in Arab politics. The Arabian Peninsula has been the last area of the Arab-speaking world to be affected by the influence of Western ideas and attitudes. The inhabitants of the Peninsula, again, have been for centuries a homogeneous Arab population for whom Arabism and Islam are virtually synonymous. Lastly, Wahabism, as is commonly known, is a strict fundamentalism preaching a return to the purity and simplicity of early Islam. Saudi influence therefore is likely to work in favour of a greater assertion of Islamic values and principles in Arab politics.

This of course would go counter to the secularism which the last few decades has increasingly characterised those parts of the Arab world—the most populous and the most sophisticated parts, Egypt and the Levant in particular—which have long been in contact with the West. It would also go counter to the political ideologies hitherto dominant in the Arab world—Ba'thism, Nasserism etc.—which, whatever their present influence, have succeeded in inculcating a secularist outlook among the educated classes of the Arab world. It must also be remembered that the Arab states outside the Arabian Peninsula are far from homogeneous either ethnically, or in point of religion. As a result of Saudi Arabia's prominence, Islam will undoubtedly assume a new importance. But this very fact may itself provoke fear of Sa'udi influence within the heterogeneous and increasingly secular societies in the rest of the Arab world, and resistance to any Sa'udi claim to assert Pan-Arab leadership.

But it is by no means clear that Saudi Arabia, prominent as its role has become in Arab politics, will really want to establish Arab unity under its own aegis, in the way in which Egypt sought to do so from the foundation of the Arab League to the Six-Day War. Saudi Arabia is very rich, and its riches are exclusively under the control of the Sa'udi royal family who have hitherto been able, with little serious challenge, to govern their domain in autocratic fashion. This enterprise has been made singularly easy by the fact that the kingdom has been kept a closed society insulated to a very large extent from foreign intellectual and political currents. An aggressive foreign policy, and specifically an active attempt to secure Pan-Arab leadership would make this isolation more diffi-

cult to maintain and hence threaten the position and power of the royal family.

Again, the very fact that Saudi Arabia is for its rulers so valuable a property must induce caution in foreign policy. Revolutionary, Soviet-supported regimes are, so to speak, on Saudi Arabia's doorstep; political upsets, say in Africa or Iran, might have dangerous repercussions on Saudi Arabia and its immediate neighbours. Arab states like Syria or Iraq could prove a serious ideological or military threat. All this means that Saudi Arabia is faced, in the conduct of its foreign policy, with a range of issues and problems which did not trouble Egypt in its quest for Pan Arab leadership. Owing to the fact that the Soviet Union was not active in the Middle East when Egypt made its bid for Arab leadership in Faruq's reign, it did not have to consider what bearing Soviet activities would have on its policies. Nasser could afford to pursue blithely a policy of doctrinaire radicalism in the Arab world since he reckoned he had little to lose and much to gain by its success.

Saudi Arabia, then, may be considered as Egypt's successor in the leadership of Arabism, to the extent that Arabism can be said to have a leader. But circumstances preclude the Saudis from pursuing a full-blooded policy of Pan-Arabism. Rather, they have to use their great resources to prevent the rise of a preponderating power in the Middle East or in the Arab world. The policy must therefore be a balancing act, one of warding off threats or of inducing a desired behaviour chiefly by offering or denying financial rewards. But it must also be a policy of defence against radical and subversive doctrines by strengthening Islamic solidarity and the appeal of Islam understood as far as possible in a fundamentalist sense. But such a policy is itself not without drawbacks and risks.

#### *A Cause in Search of a Leader*

Since 1967, or at any rate 1973 (we must conclude) Pan-Arabism, though still alive in the mind of the official and intellectual classes of the Arab world and though still very prominent in their rhetoric, is yet a cause in search of a leader.

The interval which has elapsed between the heady days of the October war of 1973, the oil embargo, and the stupendous rise in the price of oil have not disclosed any new element which might change this conclusion. In October 1973 and the months which immediately followed, it seemed as though a new era was dawning in the Arab world, and that its weight and influence in international affairs would equal that of the Great Powers who have hitherto dominated the scene. The situation which obtains today belies these expectations. The divisions and rivalries which have characterized inter-Arab politics since the establishment of the Arab League in 1945 have persisted, and in some respects have become more serious. It soon became apparent that the October war had ended in a political stalemate, and no agreement among Arab states on the way to end the stalemate was forthcoming. This deep disagreement which was as much a matter of principle as of interest, became most manifest following President Sadat's visit to Jerusalem in November 1977. Some Arab states—Iraq, Libya, Algeria—were absolutely uncompromising in their opposition, insisting

that unrelenting struggle was the only possible stance to adopt towards Israel; Syria was hardly less opposed, fearing to be left alone to face the Israelis; Jordan could see no advantage in following or approving Egypt's policy, since it feared that if it made a deal with Israel and resumed its rule in the West Bank, it would needlessly lay itself open to Syria's enmity and PLO-fomented resistance within its own territory; the oil-rich states of the Peninsula—chief of whom was Sa'udi Arabia—could not bring themselves, for various reasons, to approve of the Egyptian initiative, even though they did not wish to be as outspoken in their opposition as, say, Syria or Libya. One may add that even in the period following the signing of the Egyptian-Israeli peace treaty the rifts within the Arab world are likely to remain.

#### CONCLUSION

The wealth brought by the rise in oil prices, though it has undoubtedly made possible for its owners the exercise of influence, and sometimes great influence, has not made possible unquestioned assertion of leadership in the Arab world. The wealth has also enabled its owners to buy very great quantities in arms; but this has not resulted, so far, in any visible shift of power within the region. Among the oil-rich states, only Iraq and Sa'udi Arabia have the potential to engage in rivalry, and the arms acquired by the one may be assumed to balance those acquired by the other. Only if these arms are put to use will it be possible to establish if in fact there is a balance. However, the events which have taken place in 1977-78 in the Horn of Africa, in North and South Yemen, in Afghanistan and in Iran raise the question whether the local rivalries, alliances and combinations within the Arab world will not be overshadowed by more complicated, wider and more dangerous problems. If this should happen, then the new weight and importance which the Arab states acquired following the October war may be appreciably diminished.

## THE PALESTINIAN ISSUE

By Don Peretz\*

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The importance of the Palestinian issue in the Arab-Israel conflict is epitomized by the epigram frequently cited in Middle Eastern capitals, "the Arabs can't make war without Egypt but they can't make peace without the Palestinians." Should the Camp David accords lead to a long-term settlement between Egypt and Israel, removing possibilities for another round of full scale war, political uncertainty and instability will continue to plague the region until the cluster of disputes between Israel and the Palestinians has been dealt with. While several of the issues in dispute intersect with Israeli-Egyptian relations and with Israel's disagreements with other Arab confrontation states, it may be impossible to resolve them without the Palestinians. It will be difficult to bypass Palestinian involvement through third party negotiations because of Palestinian claims, or because of their predominant physical presence in most disputed areas. Among these controversial issues are Israel's eastern borders, Jerusalem, Israeli security on its eastern front, and the refugee question.

By far most difficult, is the question of "national rights." Although moderate Israelis and Palestinians have been more willing to recognize each others national rights since 1973, this ideological rift remains the most intractable obstacle to settlement of the Arab-Israel conflict. Before discussing the present status of the Palestinians in the controversies of the Middle East it would be useful to briefly review the origins of the so-called Palestinian issue.

### HISTORICAL BACKGROUND

Palestinians are relatively new as an identifiable national group in the Middle East political setting. The modern concepts of Palestine and Palestinian emerged during and after World War I when Great Britain established control over the new League of Nations Mandate for Palestine. Before World War I, inhabitants of the present area were mostly Ottoman subjects who identified themselves as Muslim, Christian or Jewish. A few were Arab nationalists and some lived in the vaguely defined geographic region of

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Syria which then overlapped with parts of the territory becoming mandatory Palestine. After the war the local Arab population represented by the Muslim-Christian Associations demanded self determination and sent delegates to the new Syrian parliament in Damascus.

The concept of separate national identities developed after the Arab provinces of the former Ottoman empire were placed under British and French Mandates for Syria and Lebanon, Iraq, and Palestine and Transjordan. Ideas of Syrian, Iraqi and Palestinian nationalism were reinforced by separate governmental and administrative organizations. Diverse nationalist movements in the Arab East were united through a common Arab identity and sentiment, but it seemed that in shaping future trends, individual Iraqi, Syrian, and Palestinian movements were more influential than the overarching Arab nationalist idea.

In mandatory Palestine, with its own British-run administration, governmental apparatus and legal system, the Arab inhabitants became even more aware of their identity as a separate people and started their own nationalist groups and organizations. Throughout the mandate era Arabs in Palestine considered themselves more Arab than Palestinian. The latter term was used then also to define the country's Jewish population. Both Jews and Arabs in the country traveled on Palestinian passports issued by the British authorities. The Jewish community or Yishuv was called the Palestinian Jewish community. In the United States, a predecessor of the United Jewish Appeal was the United Palestine Appeal. The American League for Free Palestine raised funds to support the Jewish underground organization Irgun Zvai Leumi (National Military Organization) during the struggle against the British. The term Palestinian became the exclusive property of the country's Arabs and the former Arab inhabitants of Palestine only after the mandate ended and Israel was established.

The main thrust of Palestinian Arab nationalism during the mandate was the demand for self determination and opposition to British rule, which was held accountable for growth of the Zionist enterprise. As the Jewish population increased from approximately ten percent of the population at the end of World War I to about a third by 1948, Arab apprehensions intensified. The increased Jewish immigration was widely visible in the many new settlements and towns; in development of an independent Jewish agricultural, industrial and commercial economy; and in emergence of a well organized and relatively unified Jewish national movement.

The Palestinian Arab nationalist movement was not nearly as well organized, as unified or as cohesive as the Jewish one. The leadership of the Arab movement, despite many grass root affiliations, was divided among notables, many of whom were lacking confidence of the country's peasantry and urban proletariat. The weakness of the Palestine Arab nationalist movement was all too evident in its collapse during the fighting between Jews and Arabs after the United Nations General Assembly resolution to partition the country in November 1947. Over 700,000 Palestinian Arabs became refugees, most Arab leaders fled from Israel-held areas, and the political, social, and economic structure of Arab Palestine disintegrated as a result of the struggle.

The first Arab-Israel war of 1947-48 ended a significant chapter in the development of Palestinian Arab nationalism. Most leaders who initiated the movement such as Haj Amin al-Husseini, former Mufti of Jerusalem, and notable Palestinian Arab families like the Nashashibis and Khalidis, were dispersed and discredited. About half the Arab population were refugees scattered through the Arab East, many in United Nations camps, most unemployed and rootless. Those who stayed in their homes were divided, remaining either under jurisdiction of Israel, or Jordan, or of Egypt. Palestinian Arab organizations and institutions including schools, social welfare agencies and cultural associations disappeared or were taken over by new non-Palestinian governments.

In the next twenty years, the term Palestinian was increasingly associated with Arab refugees from territory under Israel's jurisdiction. Although the United Nations Relief and Works Agency for Palestine Refugees in the Middle East (UNRWA) and its predecessor (UNRPR) were originally established to care for all victims of the first Palestine war, the few thousand Jews classified as Palestine refugees were absorbed into Israel's economy. Jews who lived in the country were called Israelis, and the term Palestinian became synonymous with the Arab population.

Many different economic and social groups of Palestinians now lived in the Middle East. The largest concentration remaining in their homes was in the West Bank area occupied by Jordan during 1947-48. Some of the Arabs who fled from Israel also found refuge in West Bank camps and among local Arabs nearly equal to the refugee population. In Israel, most former Arab refugees were integrated into the local Arab community by 1952. Large concentrations of Palestine Arab refugees also fled to and continued to reside in East Bank Jordan, Lebanon, and Syria. Smaller numbers of Palestinians found opportunities in other Arab countries including Iraq, Libya, Kuwait, Saudi Arabia and the Gulf states. A few found their way to the West establishing themselves in Europe and North America.

Political and social conditions of Palestinian life in the diaspora varied from country to country. In Jordan, the Palestinians were considered subjects of the King, traveled on Jordanian passports, voted in the country's elections—such as they were—held government posts up to and including the prime ministry, and were legally equal with East Bank Jordanians. Yet tensions between the mass of Palestinians and the country's rulers always remained, culminating in the death of hundreds during the 1970-71 civil war. Mutual mistrust was based on historical antecedents and a social chasm that separated Palestinians from Jordanians.

While the Egyptian government permitted small numbers of Palestinians to attend its universities and live in its cities and even assisted some of them to find employment, its policy was to keep those in Gaza from departing. Throughout the two decades of Egyptian rule (with a brief interval of Israel occupation in 1956-57) Gaza was not annexed, but remained under the Egyptian military government established in 1948. The administrative apparatus and laws of mandatory Palestine were kept intact, subject to modification suiting Cairo's requirements. The fact that more than half of the population in Gaza were refugees created peculiar circum-

stances. There was little hope of the Gaza economy becoming viable or of its population being self sustaining. Since 1948 Gaza has been a political and administrative anomaly, never annexed or claimed as its territory by any state. The people of Gaza remained stateless, with claims to no national identity other than Palestinian. In recent years some Gazians have been provided with Jordanian passports when traveling abroad.

Arabs remaining in Israel became citizens with equal rights under the country's law. However, the continued state of war with the surrounding countries and ambiguities in the situation of non-Jews living in a Jewish State created difficulties for the country's Arabs. Many have close relatives living in "enemy" territory. Not only were they suspect by Israel's security authorities, but when tension rose between the Jewish State and its Arab neighbors there were inevitable identity crises. Israel's own priorities such as ingathering the Jewish diaspora, recreating a Jewish system of values and Jewish identity, were not only irrelevant to the Israeli Arab, but incompatible with his aspirations. Israeli Arabs are faced with a variety of issues straining their relations with the government, such as the questions of nationality, education, land holding, economic disparity, and the extent of free political expression. Since Israel's occupation of the West Bank and Gaza in 1967, many of these difficulties were carried over into the occupied areas.

Although Palestine refugees in Syria are not citizens, the government established a special organization, the Palestine Arab Refugee Institution (PARI), to deal with political and social matters affecting them. PARI, assists in finding employment; during periods of economic expansion and growth it recruited Palestinians to work in areas of labor shortages. Political connections between Palestinian organizations in Syria and the Government are close. Individual Palestinians have served the Government; one, Ahmed Shukairy, was Syria's representative to the United Nations, and Damascus has been the headquarters of a major guerrilla organization (to be discussed), al-Saiqa, and the chief source of its material support and political direction. Despite the close ties, Damascus authorities have kept a tight rein on Palestinian activities in the country, never permitting them to get out of control.

Only ten percent of the Palestinians live in Lebanon, but their presence has been the focus of greater controversy and disruption than in other areas. Lebanon's social structure with its anomolous political system have placed the Palestinians there in a difficult position. They hold a critical place in the precarious balance between Christians and Muslims, although they comprise only ten percent of the population. Because almost all Palestinians living in Lebanon are Muslims, Lebanese Maronites fear that their integration would make the changing ratio between Lebanese Christians and Muslims more apparent. Acceptance of Palestinians as permanent residents in Lebanon would help to destroy the myth of a Christian majority which was the basis of the country's political system since it was established. On the other hand, Palestinians have been a vital asset in economic development since the 1950's. Palestinian bankers, merchants, contractors, professionals, and entrepreneurs of all types have helped greatly to make Lebanon the center of Middle Eastern trade and commerce. At the other end of

the social scale, those in the refugee camps and in the urban proletariat, along with other disenfranchised groups like Syrians from Houran, have been a major source of cheap, unskilled labor. Their services have frequently been procured through black market transactions to avoid minimum wage scales and work standards. These conditions were one of the causes of social unrest leading to the recent civil war.

Palestinians have also been active in economic, social and political developments of other Middle Eastern countries. They are the largest groups of non-citizens in Kuwait, serving at all levels of business, trade, and commerce. Because they are not citizens, they have been unable to assume the highest political posts, yet they have influenced the opposition and become a powerful if unofficial political force. Similar Palestinian influences are pervasive in the Gulf Arab states and in Saudi Arabia. Small numbers of Palestinians and, individuals as well as groups, have similar contacts extending as far as Morocco.

### SOCIAL STRUCTURE AND CHANGE

While the total number of Palestinians is now estimated at about three and half million, only 1,700,000 are classified as refugees by UNRWA. Fewer than 700,000 actually live in UNRWA camps; most other refugees are recipients of some form of United Nations assistance but do not live in UNRWA housing. Palestinian non-refugees are those still living in their homes in Israel, the West Bank, Gaza, and several thousand of those who have immigrated to other countries.

The pre-diaspora Arab population of Palestine was largely a rural peasantry engaged in subsistence agriculture. At the end of the mandate about three quarters of the Muslims lived in rural areas. The Christian Arab population was largely urban; only a fifth were rural. Christians constituted only about ten percent of the country's 1,200,000 Arabs in 1948. Even after rapid urbanization began during the mandate, the Arab population remained mostly rural, organized in a quasi-feudal fashion. Bareness of the soil, antiquated agricultural methods, insecure land tenure, an outdated landholding system, limited markets, and an ever increasing rate of population growth conspired to impoverish the peasantry. However, its conditions compared favorably with those of other peasant communities in the Middle East and in Asia. Only a third of the Palestinians were landless and about two thirds had at least the minimum land required for subsistence. Conditions of the rural sector improved considerably by the end of the mandate as a result of government efforts to raise health standards, extend the road network, construct government hospitals, child-welfare centers and clinics, and develop the rural school system. As a consequence of these improvements and the rapidly rising expectations of the peasantry, the Palestinian Arabs were among the best educated and most productive in the Middle East. By the end of the mandate, Arab Palestine was well on the way from a traditional Middle Eastern society to a modernizing one. The new middle and professional classes were growing rapidly and the political interests of ordinary Palestinians had been awakened.

The most significant change after the 1947-48 dispersion was the transformation of the Palestine community from a rural peasantry to a dispossessed urban proletariat. Two thirds of the community's Muslims were farmers at the end of the mandate. While there is no comprehensive figure for recent occupational distribution, and figures differ from region to region, estimates range from 20 to 30 percent now engaged in farming. Some conception of occupational distribution can be obtained from the Palestinians who now live under Israel's jurisdiction, as Israeli citizens or in the occupied areas. In Gaza less than a third of the refugees and about a fifth of the non-refugee Arab population were employed in agriculture, forestry and fishing. In the West Bank less than thirty percent of the total Arab population are farmers. In Israel the shift of the Arab population from agriculture to urban pursuits was caused by loss of farm lands confiscated by the government and by the overall trend from agriculture to other occupations. Refugees outside Israel who owned land before 1948 no longer have access to it, thus they have also turned to other pursuits. In Gaza and the West Bank many of the refugees are casual farm laborers, either in the Arab sector or as transient workers in the Israel economy. Large numbers in the camps, many adjacent to cities, have become unskilled and semi-skilled transients in the urban economy. Few have permanent employment; most families supplement their UNRWA assistance with temporary low paying jobs and with remittances from their family members now employed in Libya, Kuwait, Saudi Arabia or in other distant places.

The large refugee population living in camps are at the bottom of the social scale. Many camps are now largely populated by children, older people and women because men of working age have temporarily departed to seek employment opportunity in Arab countries with expanding economies. Those who remain are casual laborers often filling the least desirable jobs in urban centers like Beirut, Damascus, Amman, or Jerusalem.

Many of the more than sixty UNRWA camps have become appendages of urban areas, but camp residents are in limbo between their former rural existence in Palestine, and the modern city life. Over the years many camps have become indistinguishable from the cities adjoining them. Living structures have become more or less permanent, shopping areas and government centers have developed. Yet the camp life is separate from that in the surrounding cities. It is a ghetto existence with Palestinians living in a semi-rural communal structure transplanted from the homeland.

Often camps are organized by the villages or towns where the refugees come from. They arrived in many areas with social structures intact and village elders, mukhtars and their successors as community leaders. Social contacts and marriages are largely with other Palestinians. Tribal, clan and family ties are still powerful reminders of their identity.

Most of the officials and employees of UNRWA, from sanitary workers to camp leaders and UNRWA section chiefs are Palestinian, providing the services which help to sustain the community. Not only camp residents, but those classified as refugees living outside the camps are provided with these services. Perhaps the strongest bond maintaining Palestinian identity is the UNRWA—

UNESCO education system. Its organizers, administrators, and teachers, as well as pupils are Palestinians; a major goal is to preserve Palestinian identity. Schools, as well as many camps, are named after places in the homeland—the Jaffa or Lydda school, or the Beisan or Haifa camp. Curriculum strongly emphasizes the ties of school children with Palestine. Youngsters of the second or third generation, who have never seen Palestine, when asked where they are from usually respond with the name of their parents' or grandparents' Palestinian home. Without having been in their homeland hundreds of thousands of Palestinians have developed an attachment to the country as strong as that of Jews in the diaspora to Israel.

The Palestinian urban proletariat and the new middle class living outside the camps formed many similar attitudes and attachments. A fairly large middle class emerged because Palestinians provided badly needed services and skills for the rapidly expanding economies of the Arab world during the 1950's, 1960's and 1970's. In countries like Saudi Arabia and the Gulf states, and even in more developed nations such as Iraq and Syria, better educated Palestinians provided engineers, physicians, lawyers, teachers, administrators, and other skills. They produced an unusually large ratio of intellectuals and university graduates at the service of the larger Arab society. Many in business and finance prospered reaching the highest levels of influence and social status.

Yet despite their economic success, the new Palestinian middle class also remained a group apart. They were subjected to the discrimination of successful minorities like Armenians, Jews, or overseas Chinese, living in the diaspora; many Arabs called the Palestinian the "Jews" of the Arab world. Invidious reactions to Palestinian attainments in education and accomplishments based on the fruits of education led to covert hostility, occasional political suppression and at times official extortion. Many developed the mind set and emotional reactions of minority groups. Physiological manifestations of these conditions are evident in the high degree of psychosomatic illness among Palestinians, according to UNRWA medical reports. Material success was an inadequate balm for the psychological trauma; the high level UNRWA welfare system was insufficient compensation to the lower classes for their displacement. In this environment a new form of Palestinian nationalism was born after twenty years of displacement.

#### NEO-PALESTINIANISM

From 1948 until the late 1960's political manifestations of the Palestinian issue were largely initiated by the Arab states surrounding Israel. Palestinians were not themselves a major force, but rather the subjects of political activity initiated by others. After fragmentation of their community and dispersion of their political elite, Palestinians in the diaspora turned to other leaders. A few joined leftist movements, where it was not suppressed, the Communist party. In Israel, Arab national consciousness was expressed through the Arab vote for the Israel Communist Party. Other Palestinians became members of the Ba'ath party or the

Syrian Social Nationalists. Local politicians recruited Palestinians in every Arab country where they lived in large numbers.

The Palestinian issue became central in domestic as well as in Arab international politics. At the local level politicians outbid each other in proclaiming loyalty to the Palestinian cause in much the same way that American politicians of the time demonstrated their anti-communism. The intensity of Arab feeling about Palestine deepened, and the extent of involvement spread after each of the first three Arab-Israeli wars, so that Arab North Africa also became conscious of the problem.

The most influential Arab figure during the 1960's was Egyptian President Gamal Abd el-Nasser. He generated wide enthusiasm and expectations among the refugees that he would return them to their homeland. Throughout Arab refugee encampments and in Palestinian homes Nasser's photograph frequently appeared beside those of local leaders or among cherished family pictures. Egypt's central position in the Arab world, its deep involvement in inter-Arab politics, its large armed forces, and Nasser's repeated promises to the Palestinians, helped to make him a charismatic figure.

Several Arab states including Egypt organized Palestinian political or para-military groups under their own direction. An Arab Government of All Palestine was set up in Gaza during 1948 under Egyptian auspices. The former Mufti of Jerusalem, Haj Amin al-husayni, was elected president of the Gaza national assembly claiming authority over a free, democratic and sovereign state in all Palestine. Although recognized by all Arab states except Jordan, its shadowy authority was limited to Gaza. In time the Gaza assembly disappeared, all significant political decisions were made by Egyptian authorities and, after 1967, by the Israelis.

Rivalries during the mandate between notable families of Palestine were reflected in inter-Arab quarrels after 1978. Jordan's King Abdullah refused to recognize the Gaza government headed by his old enemy the Mufti. A Jordanian-sponsored Palestine refugee conference of some 5,000 notables was convened in Amman; it invited King Abdullah to take Palestine under his protection and repudiated the Mufti. By 1950 the Hashemites had rallied sufficient support from Palestinian enemies of the Mufti to annex the West Bank. During the two year preparatory period King Abdullah appointed a new Mufti of Jerusalem and designated Raghīb Bey Nashashibi, former Mayor of Jerusalem and traditional foe of Haj Amin, as Deputy Governor of Arab Palestine.

Fatah, established in 1959, began military actions against Israel in 1964 with Syrian assistance and direction. Its strategies were against the mainstream Arab nationalist theme of unity at the time. Fatah and the Syrian authorities believed that liberation of Palestine should come first, to be followed by Arab unity. These tactical-ideological differences were reflected in the sharp political clashes between Egypt and Syria.

In an effort to keep the various issues involving the Arab-Israel dispute under his control, President Nasser convened the "First Arab Summit" in Cairo during January 1964. The summit created a Unified Arab Command to resist Israel's diversion of the Jordan River. Ahmad Shukairy, Palestinian representative to the Arab League and Nasser's man, was charged by the meeting with orga-

nizing the Palestinian people. By the next summit conference held in Alexandria during September 1964, Shukairy had established the Palestine Liberation Organization (PLO). The summit recognized the PLO and ratified its decision to form a Palestine Liberation Army (PLA).

The new PLO was hardly representative of the Palestinians. Few of the more than 400 delegates who attended the organizational congress in May 1964 were from the working class, the peasantry, or the refugee camps. Shukairy's hand-picked fifteen member executive committee were mostly middle aged professionals. Funds were provided by individual countries in the Arab League and were often distributed according to the connections of PLO executive committee members in Arab capitals.

Opposition to Shukairy's domination of the PLO, his autocratic manner, his subservience to Nasser, and his identification with the old Palestinian leadership led to creation of dissident factions and clashes with more radical groups outside the organization. Even before the massive Arab defeat in 1967 there were tremors of discontent. Younger Palestinians not identified with the old elite who fought in the Arab-Israel wars and in guerrilla bands after 1948 were organized in many small organizations with a variety of patriotic names. They included the Vengeance Youth, Heroes of the Return, and groups named after Palestinian resistance heroes such as Abd al-kader Husseini, Abd al-Latif Shuru, and Izz al-Din al Kassam. The Arab Nationalist Movement (ANM), organized during the 1950's, included many Palestinian students at the American University of Beirut led by Dr. George Habash, born in Palestine of Greek Orthodox parents. Its motto, Unity, Liberation, Revenge, indicated ANM's devotion to Arab unity as the key to liberation of Palestine. By the early 1960's younger members of the ANM adopted a leftist ideology, began to use Marxist-Leninist terminology, and many joined Habash in forming a new militant organization, the Popular Front for the Liberation of Palestine (PFLP).

Arab defeat in the June 1967 war intensified opposition of younger Palestinians to the political elite of the mandatory era and to established leaders in all Arab countries. Even Nasser was discredited. Disillusionment was also widespread against radical groups like Baathists and Communists. Hopes of redeeming the homeland in conventional wars waged by the official Arab armies seemed betrayed. The PLO with its Liberation Army organized on conventional lines had performed no better than the defeated armies of Egypt, Syria, Jordan, and Iraq. Furthermore, the whole PLO apparatus was too closely identified with established regimes, especially with Egypt.

After the 1967 debacle about forty self-styled "liberation" groups emerged with the common goal of retaking Palestine by popular uprisings. The central theme was Palestinians self reliance, free from control or political manipulation of Arab governments. Major obstacles were the lack of an effective operational base from which guerrilla warfare could be carried out, and insufficient resources to supply a mass rebellion. Israel's military government in the occupied territories soon ended hopes of uprisings in the West Bank and Gaza. The Arab governments opposed large scale commando activities from bases along their borders because they feared Israeli

massive retaliation. Furthermore, Palestinian dependence on economic aid, military supplies, and the good will of Arab governments soon again led to political involvements with the host countries.

Nevertheless the image of self-reliance and independence projected by the younger leadership gave a new elan to Palestinian consciousness. The 1948 to 1967 image of the displaced refugee living a miserable camp life, was replaced by the image of the guerrilla fighter struggling for liberation and a new social order.

A new radicalism swept through the community of Palestinians living in the camps and in large urban concentrations, despite intact family structures and social codes. Many values associated with the former elite such as veneration of the old generation and strong emphasis on traditional Islam were replaced by respect for the young fighter. Ideological rhetoric was redirected toward doctrines of equality, self-help and militant nationalism. Instead of perceiving themselves as displaced refugees, Palestinians began to identify as a national entity removed from its land, closely associated with third world groups like the Blacks of South Africa and Rhodesia.

The new Palestinian groups and those reorganized after the 1967 war acquired a special mystique, especially in the refugee camps, and a mythology developed about their guerrilla activities. After the battle of Karameh in East Bank Jordan during March 1968, Fatah capitalized on its "victory" over the invading Israel forces with an eminently successful campaign to win supporters and recruits. More significant than the relatively high Israeli losses was the symbolic value of Palestinian resistance against the large and heavily armed Israel force.

To many young Palestinians, 1967 marked the birth of a Palestinian "revolution," not only against Israel, but against "reactionary" forces in the Arab world, and against outmoded values of their own society. Increasingly, rhetoric of the new organizations referred to the Palestinian "revolution," associating it with other third world revolutionary and liberation movements.

Conclusions of a study carried out by Rosemary Sayigh in one Lebanese Palestinian camp showed results that most observers could generalize to other refugee concentrations. Many of those interviewed discussed their lives in terms of changes since the "Revolution." "Before the Revolution there was pressure from outside to prevent us from learning about Palestine," one teacher asserted. "Before the Revolution we read literature. Now we read politics," a university student explained. Some of the youngest interviewed felt that, "We need more revolutionary education, from first elementary to the end, to teach nationalism to make up for the schools that still do not teach such things."<sup>1</sup>

While camp Palestinians defined themselves as Arabs, they were primarily Palestinian, refusing to accept another Arab identity. Palestine had "become a more potent symbol of national identity through separation from it than when it was 'taken for granted' in natural settlement. Other related paradoxes: dispersion unites; expulsion creates the necessity for return; attempts to destroy the Palestine identity strengthen it; oppression creates the Revolu-

<sup>1</sup> Journal of Palestine Studies, vol. VI, No. 4 (24), summer 1977.

tion." Return was not visualized as restoration of pre-1948 situation. Camp Palestinians saw themselves "as very different from what they were in 1948; no longer peasants, no longer 'unconscious.'" National identity acquired a mass character, "part peasant, part proletarian, part intellectual," lacking in 1948.<sup>2</sup>

Camp Palestinians consider themselves as closer to the struggle than the middle classes, but "do not completely exclude them from their concept of the nation." While hardship and suppression had led to themes of resistance, rejection, refusal of expulsion, statelessness and subordination, it had not led to self-hatred. After the 1967 political awakening, the struggle was perceived as uniquely difficult ("Maybe no other people could have borne such hardships"), and was expressed in a new self-confidence and solidarity. Instead of an individual leader symbolizing the struggle, "the gun, the people, the land \* \* \*". Were the most often mentioned symbols \* \* \* Admiration of particular leaders was expressed in terms such as 'they live the life of the people.'"<sup>3</sup>

Another study, "Political Socialization of Palestinian Children in Kuwait," reported by Tawfec E. Farah of Kuwait University Political Science Department revealed similar attitudes.<sup>4</sup> The Kuwait government is presented there as a mainstay of support for Palestinian national efforts, and the local media are highly sympathetic, although Kuwait differs from other large concentrations of Palestinians because it has no refugee camps and no armed Palestinian presence. Nevertheless Palestinian children are continuously in touch with the national movement because their countrymen comprise about a fifth of Kuwait's more than one million residents.

An interesting aspect of the Kuwait study was comparison of attitudinal differences among children in PLO run schools, in private schools, and in the Palestinian youth groups, Ashbal (lion cubs), who are given military training and political indoctrination by one of the commando groups. Children interviewed in PLO and private schools overwhelmingly identified themselves as Palestinian when asked, "Who are you?" Seventy percent of those in Ashbal asserted that they were Fedayeen, and only thirty percent Palestinian. When asked if they were Jordanian, Syrian, Lebanese or Palestinian, responses ranged from a low of 87 percent, to a high of 100 percent among the Ashbal in favor of Palestinian identity. In the choice between family and country (Palestine) the range in favor of country was from 89 to 100 percent. As for the choice between parents and country, it ranged from 86 to 100 percent.

Feelings about Jews showed a wide range of difference. None stated that they liked Jews, but only 44 percent of the Ashbal compared to 92 percent of PLO students and 98 percent of private school children stated dislike. The overwhelming majority of PLO and private students disagreed that there was any difference between Zionists and Jews while 80 percent of the Ashbal could make the distinction. The effect of this distinction was evident in the response to the question, would you live with the Jews in Palestine? Eighty-seven percent of the Ashbal could accept this proposi-

<sup>2</sup> Ibid.

<sup>3</sup> Ibid. pp. 22-23.

<sup>4</sup> Ibid. pp. 90-102.

tion, but only 24 percent and 19 percent, respectively, of the PLO and private students could agree.<sup>5</sup>

#### PALESTINIAN POLITICAL REORGANIZATION

As a result of the "Palestinian revolution," the PLO reorganized under a younger leadership. Six months after the 1967 defeat, Shukairy was removed and steps were taken to consolidate PLO activities with those of other new groups within the resistance movement. Fatah invited a dozen resistance organizations to Cairo for discussion of plans for unity, and the new PLO leadership convened the Palestine National Assembly to restructure the movement.

After months of bickering among the organizations, a new one hundred member Palestine National Congress was convened with half the seats allocated to the PLO, thirty-eight to Fatah, ten to the Popular Front for the Liberation of Palestine (PFLP), and two to independents. Each of the constituent organizations in the Congress continued to experience internal fights and splits, and the PLA refused to accept orders from its parent organization, the PLO. By 1969 Fatah became the most powerful Palestinian organization and when the congress met in Cairo during February, Fatah's spokesmen, Yasir Arafat, was elected PLO chairman. The new PLO executive committee now included Fatah and its sympathizers and representatives of the Syrian controlled al-Sa'iqa guerrilla organization, as well as a member of the old PLO executive committee responsible for the Palestine National Fund.

Since he assumed control of the PLO, one of Arafat's major objectives has been to create a unified national movement. But ideological and personality clashes among organizations affiliated with the National Council, and within major groups has made unity impossible. Those who see revolution throughout the Arab world as a prerequisite to the establishment of a Palestinian state, differ—often violently—from those whose primary goal is the establishment of the state. There are secondary disputes over the question of Palestinian relationships with Jewish nationalism. Some recognize the legitimate existence of Jewish nationalism and are ready to coexist and negotiate with its representatives. Others adamantly deny its right to exist and refuse to treat with Israelis who are Zionists. These arguments lead to clashes over peace negotiations. Some Palestinians are prepared to enter the formal negotiation process, others believe that a settlement with the Jewish state means betrayal of their ideals. Both Syria and Iraq support Palestinian groups affiliated with their governments—al-Sa'iqa affiliated with Syria, and the Arab Liberation Front (recently changed to Palestine Liberation Front) affiliated with Iraq. Fatah's loyalties have shifted in the last fifteen years, at times it was closely tied to Syria, sometimes in harmony with Egypt but frequently at odds with all the official governments.

The diverse range of affiliations was demonstrated in the Lebanese civil war when the struggle there became the focal point of inter-Arab quarrels and clashes between various Palestinian organizations. Diverse political orientations often shape military tactics

<sup>5</sup> Op. cit. pp. 90-100

and strategy, leading to disagreement over when and where to carry out guerrilla operations. Should the major thrust be inside Israel or outside? Should actions be taken against non-Israelis who are sympathetic to the Jewish State? Should commando hijackings of international commercial aircraft be directed only, or primarily at Israeli traffic, or should the planes of other nations also be hit? What kinds of targets should be attacked inside Israel, and should Arabs who "collaborate" with the Israel administration be punished? What are proper attitudes and policies of the national movement toward Palestinians living in the West Bank, Gaza, and those who are citizens of Israel? Differences over these and similar questions have not only stymied development of coherent and consistent PLO policies, but they frequently precipitate internecine clashes in which Palestinians kill each other.

To the extent that there is a unified movement it is represented by the Palestine National Congress or Council, with PLO as its administrative and operational arm. The National Congress has gone through several transformations since it was established with the Arab League backing in 1964. There were 400 hundred representatives, at the first Congress, the number diminished to 100 by the fifth Congress held in Cairo during 1968 when Fatah finally eliminated the old guard. Since then the number was increased to 179, and in 1977 at the thirteenth session, it expanded to 293. Members of the National Congress are not elected, but designated as representatives by the various constituent organizations and groups. Because the Palestinian people are dispersed in countries, it would be difficult if not impossible to hold credible elections.

The thirteenth National Congress represented a wide constituency including the commando or resistance organizations. Fatah, al-Sa'iqa, PFLP, Democratic PFLP, PFLP—General Command, the Arab Liberation Front, and the Palestine Popular Struggle Front (PPSF), with 143 seats. Three of these groups, the PPSF, ALF and PFLP constituted the Rejection Front; they were opposed to any form of peace negotiations or recognition of a Jewish State in Palestine. About fifty of the Congress members represented trade unions and professional organizations affiliated with the PLO. These ten affiliated groups show a strong middle class orientation, representing students, teachers, women, writers and journalists, doctors, engineers, artist, and lawyers. One organization represented workers, another peasants. About one hundred Congress members represented the occupied territories and Arab communities in the diaspora. Three representatives were American citizens or Arabs living in the United States. Thirty from the occupied territories failed to appear because Israeli authorities would not permit them to attend.

The Congress elected Yasir Arafat president of its new fifteen member Executive Committee, responsible for conducting day to day affairs of the PLO. The Committee included six members of resistance organizations (Fatah, Saiqa, DPFLP, PFLP—General Command and the ALF) and nine independents. The PFLP refused to join the Executive Committee because it disagreed with the fifteen point Congress program; however, it remained in the PLO. The Executive Committee was given broad authority to determine PLO positions on peace negotiations without having to refer back

to the Congress. This decision strengthened Arafat and he emerged from the Congress with three titles, chief spokesman for Fatah, president of the PLO, and head of the Executive Committee of the Palestine National Council.

#### IDEOLOGICAL CHANGE AND CONFLICT

After protracted and bitter debate the Congress adopted its new program, perceived by some observers as a significant departure from fundamental PLO ideology. Most significant was affirmation of the "right of the PLO to participate autonomously" in all the peace conferences on the Middle East, "on the basis of resolution 3236 adopted in 1974 by the United Nations General Assembly." The Resolution recognizes "the right of the Palestinian people to national independence and sovereignty," emphasizes that "the realization of the rights of the Palestinians is indispensable for reaching a just and durable peace in the Middle East" and requires the UN Secretary-General to "establish contact with the PLO on any matters concerning the Palestine problem." The new policy coincided with abandonment of previous PLO resolutions calling for creation of a democratic, secular state in the whole of Palestine, and for overthrow of the Hashemite regime in Jordan. These statements were compatible with Arafat's open support at the Congress for contracts made by PLO representatives in Paris with leaders of the Israel peace movement, many of whom were part of or close to the Israel establishment. Implicit in the new policy statement was readiness by the PLO mainstream for direct contacts with Israel and for an initial, although hesitant participation in the peace initiatives related to the Geneva Middle East Peace Conference. PFLP refusal to participate in the PLO Executive Committee was mainly to protest abandonment of hardline opposition to peace negotiations and recognition of Israel.

While the PLO mainstream seemed to be moving toward a more moderate position, it still refused to change the 1964 Palestine National Covenant. Refusal to amend the Covenant was a stumbling block to recognition of the PLO by Israel and the United States. As long as the PLO refused to amend the Covenant, the United States would not accept it as a partner in the peace negotiations.

The provisions of the Covenant most objectionable for the United States and Israel are the ones calling for creation of a democratic, secular state to replace Israel in the whole of Palestine. Only those inhabitants of Israel who had arrived or were living there "before the Zionist invasion" could become Palestinian. Some observers assumed that only Jews living in the country before the Balfour Declaration in 1917 would be accepted as Palestinian citizens. A few PLO leaders have stated that Jews living in the country before 1967 could be acceptable as "Palestine" citizens; some would grant citizenship to any person living in the country who would accept its obligations.

The Covenant was the basis for the PLO rejection of United Nations Security Council Resolution 242 calling for Israel's withdrawal from Arab territories occupied in 1967, and for mutual recognition by all states in the area. In an effort to mitigate the

harmful effects of Ahmed Shukairy's anti-Jewish interpretations of the Covenant, the Fifth Palestine National Congress in 1969 declared for the first time that "the aim of the Palestinian people is to establish in Palestine a democratic state in which Muslims, Christians and Jews will enjoy equal rights." To further clarify its position toward Israeli Jews, the Democratic PFLP proposed creation of a "popular democratic state" in Palestine in which the national rights of both Jews and Arabs would be recognized, but Fatah rejected this formulation at the sixth National Congress. Another ideological deviation proposed by the DPFLP was establishment of a national democratic state on both banks of the Jordan, also rejected by the PLO mainstream in 1973.

The 1973 war led to reconsideration of the National Covenant with favorable response to the theory of "intermediary states" on the road to liberation of Palestine. While still unwilling to accept President Sadat's proposal for establishment of a Palestinian government in exile, some groups called for a "national authority" in any area of liberated Palestine. If areas such as the West Bank and Gaza could be "liberated" peacefully, they would be eligible for this national authority. The twelfth National Congress in 1974 reaffirmed that "establishment of a Palestinian state in the whole of Palestine remained the strategic goal of the PLO," but in the interim, it favored "establishing an independent Palestinian state on any part of Palestinian territory to be liberated." Implicit in this strategy was recognition of Israel as part of the "intermediary stage" theory. Recognition of Israel would prevent return of the West Bank to Jordanian control in the event of Israel's withdrawal. The new policy coincided with efforts by PLO leaders to improve relations with the Soviet Union which recognized Israel's existence. The policy also helped to open contacts with Western European countries and with the United Nations by diminishing the extremist image of the Palestinian national movement.

Advantages in the changed strategy were offset by internal disruption they caused in the national movement. Fatah, the DFLP and Saiqa endorsed the new approach; Saiqa insisted that it meant implementation of the 1947 United Nations partition plan which allocated only about 6,000 square miles to the Jewish state. This meant that 2,000 of Israel's 8,000 square miles should have been part of the Arab state. Another gesture of moderation by the PLO was a proposal to permit the return of Jewish emigres, many now settled in Israel, to the Arab countries of their origin. Fatah leader Abu Mazen was charged with responsibility for making contacts among Arab states to expedite a Jewish return. He successfully obtained consent from Sudan, Iraq, Morocco, North Yemen and Egypt for repatriation of their Jewish exiles, but the results of his efforts were meager. The only country to which Jews returned in number of even minor significance was Morocco.

Parallel with this new "intermediary stages" policy was the opening of direct contacts with Israelis close to or part of the establishment. Before 1973 the PLO had contact with Israeli leftists, mostly in Matzpen, the Israel Socialist Organization, a tiny group of dissidents who rejected fundamental Zionist ideology. Post 1973 contacts were significant because they were between PLO officials and Israelis who were not only Zionists but influential in

the academic community; and included high ranking Israeli reserve officers and members of the Knesset.

An initial signal was given Said Hammami, PLO representative in England. In two articles published in the London press he declared that the PLO supported creation of a Palestine state in the West Bank and Gaza as part of an overall statement. Later in an article published by the Israeli monthly, *New Outlook* (March/April 1975: vol. 18. no. 3), Hammami, explained his position at length. Creation of Israel, he asserted was not only a political error, but a "crime perpetrated against the natural, fundamental and inalienable rights of the Palestinians." With this view, "it is entirely natural that we should wish and hope that one day this interloper state will disappear from the scene in the Middle East. Most of us believe that some day, sooner or later, Israel, as it exists today—a racist, exclusive Zionist State—will indeed disappear. We will rejoice when that happens, but we would prefer it to happen peacefully and by mutual agreement, rather than amid violence and recrimination."

While the Palestinians would do whatever was in their power to further this "happy day," they had no intention of driving the Jews "into the sea." This slogan was a myth propagated by Zionists, he charged, to reinvoké the spectre of genocide and to excite world sympathy for Israel and hostility towards the Palestinians. Not only did all Jews living in Israel have the right to remain there, but "in principle, we are prepared to accept that Jews living abroad who are really in need of a refuge and a new home should continue to be permitted to come and settle in Palestine." However, on grounds "of justice and relative need the 'ingathering' of our exiles, the Palestine refugees, ought to take priority."

Comparing Israel with South Africa and Rhodesia, Hammami explained that despite Palestinian opposition to the Zionist state it would be necessary to live with this distasteful state of affairs until "a better basis for co-existence emerges between our people and the Jewish people now settled in our land." It is just and legitimate, he asserted, "for us Palestinians to look forward to a day when Zionist supremacy in Israel will be replaced by a democratic system in which Jews, Moslems and Christians belonging to this land will live together in peace and equality." This position was not aimed at sabotaging peace, but in bringing about change through peaceful means.

The basic question for the Palestinians, Hammami believed, was the acceptability of an evolutionary strategy according to which a Palestinian state would be established on a part of the Palestinian homeland as a first step toward its ultimate goal of a "state in partnership" covering the whole area of Israel/Palestine. If this strategy were adopted, it would be necessary to promote the progressive "ingathering" of diaspora Palestinians and their rehabilitation with massive economic assistance.

In pursuit of these goals, "we would aim to open and maintain a continuous and developing dialogue with any elements within Israel who are prepared to meet and talk with Palestinians regarding the form of a mutually acceptable co-existence which might in time be developed between the two peoples living in the country to which they both lay claim \* \* \*. To promote confidence and a

frank and realistic exchange of ideas, consideration could be given to the maintenance of open frontiers between Israel and the Palestinian state and to permitting, even encouraging a mutual interpenetration of ideas \* \* \* .”

Hammami went on to envisage a Palestinian and Israeli state living in peaceful, co-existence and peaceful competition, with interchange of commerce, industry and cultural activities. Jews might be permitted to live in the Palestinian state provided they accepted its citizenship, and Palestinian Arabs would be permitted to live in Israel. When a Palestinian state is established, “we shall be offering to anyone in Israel who cares to listen the chance to sit down and talk with us like sensible human beings about our future, on the basis not of conflict, but of peaceful and mutually advantageous co-existence. We hope that it will be possible before long to work out a form of co-existence which will enable the two peoples to live together within a reunited Palestine, while maintaining the distinctive character of each of them through cantonal arrangements and a constitutional division of legislative and administrative powers.”

A similar proposal was offered by the secretary general of the DPFLP, Nayef Hawatmeh, during March 1974, in an interview with the mass circulation Israeli newspaper, Yediot Aharonot, conducted through an American intermediary, Paul Jacobs. Hawatmeh laid out conditions for a “democratic dialogue” between Israelis and Palestinians, distinguishing between rightist and leftist Zionists. The latter were called upon to join with Arab democratic and progressive forces in the struggle against Zionist and Arab reactionaries for re-unification of Palestine. Until this long term goal could be achieved, Hawatmeh felt it was necessary to give Hawatmeh priority to the establishment of a Palestinian state in the West Bank and Gaza, with the right of Palestinian refugees to choose between repatriation or compensation for property left in Israel.

Both statements were welcomed by Israeli doves, including Arie Eliav, former Secretary-General of the Labor Party, then Israel’s major party; Yitzhak Ben Aharon, ex-Secretary-General of the country’s large labor federation, the Histadrut; and Matti Peled, an ex-major-general and former member of the Army General staff. Their response led to creation of a new Israel Council for Israeli-Palestinian Peace.

The dialogue, initiated through third parties, led to bilateral meetings in France during 1975 and 1976 between moderate PLO officials and Israeli members of the council who were close to the establishment. Issam Sartawi of Fatah’s central committee was officially authorized by Arafat to continue the contacts, and Arafat publically endorsed them at the Palestine National Congress in March 1977.

According to General Peled there were at least twenty-five meetings, several held at the residence of Pierre Mendes France under his auspices. After the last discussion in January 1977, the Israelis published a joint statement in which the PLO reportedly affirmed “that the peace principles specified in the manifesto of the Israel Council for Israeli-Palestinian Peace constituted an appropriate basis for a solution to the Israeli-Palestinian conflict.” The princi-

ples called for creation of a Palestinian state in the West Bank and Gaza, Israel's return to the 1967 borders and Palestinian recognition of the state of Israel.

The statement caused considerable embarrassment to the PLO in the Arab world and stirred a hornet's nest of intra-Palestinian recriminations. In Beirut, a spokesman attempted to deflect accusations of the rejectionist groups with clarifications pointing out that PLO representatives in the discussions did not subscribe to the whole Israeli Palestinian peace plan. For example, the PLO could not accept designation of Jerusalem as "the eternal capital of the Jewish people," or the ideology of Israel and world Zionism.

One of the latest dialogues occurred in September 1977 at a conference sponsored by the British section of the Parliamentary Association for Euro-Arab Cooperation. The PLO was represented by Sartawi and Hammami; General Peled and Israeli editor and former member of parliament Uri Avnery represented the Israel council. The mayor of Ramallah on the West Bank, Karim Khalaf, and Tewfiq Zayyad, communist mayor of Nazareth and Rakah member in the Knesset represented Palestinians under Israel's control. Both mayors declared that the PLO was "the sole representative of the Palestinian people." Hammami's imagery of a unified Palestine, where in a few generations the state of Israel would cease to exist, aroused the Israeli representatives to declare as unacceptable, even in the distant future, the demise of the Jewish state.

Hammami's articles, Arafat's sanction of the meetings with Israelis, and periodic statements by various PLO officials indicating consideration of a peaceful settlement and co-existence with Israel, intensified quarrels in the national movement. Ambiguous as the statements seemed to many Israelis and their friends in the West, the PLO Rejection Front perceived them as treasonous. Threats and counter threats soon led to open violence. Hammami was shot by unknown gunmen in London during January 1978. The assassins were believed to be zealots intent on punishing appeasers inside the movement. By the summer of 1978 there was a major blood feud between Palestinians loyal to Arafat and the rejectionists, backed by the government of Iraq. Attacks and counterattacks were staged on PLO and Iraqi government offices in London, Paris, Beirut and Karachi.

Differences between the Palestinian groups reflected disagreements among the Arab states over peace negotiations. Baghdad and the Iraqi-backed Palestinian rejectionist groups were the most militant opposition. They accused Arafat, Sadat and Syrian President Hafez el-Assad of being tools of American and Zionist imperialism. The feud between the PLO and Iraq began in 1974 when Baghdad began to support Abu Nidal (Father of the Struggle a former Fatah member), who was affiliated with "Black September." More recently he started "Black June" to commemorate the month in 1976 when Syrian and Maronite forces in Lebanon defeated the Palestinians at Tel el-Zatar near Beirut.

Lebanon has frequently been the scene of hostilities between Palestinian moderates and rejectionists, and among Palestinian groups representing conflicting Arab interests. The PLO mainstream opposed initial Syrian intervention in Lebanon during 1975,

at the same time the Damascus-backed al-Sa'iqā was cooperating with Syrian forces. When Syria and Iraq were waging a propaganda war against each other, Arafat's relations with Damascus improved, thus Baghdad accused the PLO of being a "Syrian puppet," and Arafat's followers were charged with trying to liquidate Iraqi-backed Palestinian guerrillas in Lebanon. After the reconciliation between Syria and Iraq during October 1978, the PLO, Syria, and Iraq, joined the "steadfastness front" which rejected the Camp David peace negotiations. There was bitter disagreement among the Palestinians early in 1978 over the question of cooperation with the new United Nations Interim Force in Lebanon (UNIFIL). After protracted discussion Arafat finally agreed to cooperate with the UN force, and was consequently bitterly denounced by the rejectionists.

### THE PALESTINIANS AND SADAT'S PEACE INITIATIVES

Since November 1977 there has been a resurgence of militancy across the spectrum of Palestinian organizations. Contacts with Israelis initiated between 1973 and 1977 diminished, and discussions of peace have been played down. There is apprehension among most Palestinians that Sadat's unilateral initiatives will bypass them and that their interests will be sacrificed for those of Egypt. Despite Sadat's insistence that the Palestinian issue is central to a comprehensive peace settlement, Palestinians generally believe that he has already compromised their "legitimate interest."

After the PLO called on Arab countries to "impose maximum sanctions and complete isolation" on Sadat because of his November 1977 visit to Jerusalem, relations between Egypt and the Palestinians were seriously strained. Sadat retaliated by shutting off Palestinian radio broadcasts from Cairo, closing PLO offices in Egypt, and expelling scores of Palestinians, especially students known for their zealous nationalism. Relations further deteriorated when the PLO joined Libya, Syria, Algeria, South Yemen, and Iraq at a conference in Tripoli during December 1977 convened to oppose Sadat's initiatives. The participants, except for Iraq, established a "front for resistance and confrontation" to combat Egypt's "high treason," and called for a freeze on political and diplomatic relations with Cairo. Iraq, finding the Front's censure inadequate, left the conference in protest. It charged the Syrians and PLO with appeasement and betrayal. The split among these rejectionists was reflected in hostilities between the Iraqi and Syrian-backed Palestinian organizations. Relations among the "Rejectionists" were not repaired until the Arab summit conference held in Baghdad during November 1978.

Relations between Egypt and Palestinians reached a low point in February 1978 when terrorists assassinated Yusuf Sebai, Egyptian Secretary-General of the Organization for the Solidarity of Afro-Asian Peoples, in Nicosia, Cyprus. During an abortive attempt by Egyptian commandos landing in Cyprus to free hostages seized by the Palestinians, fifteen of the Egyptians were killed and seventeen wounded. Public opinion in Cairo was outraged at the Palestinians and President Sadat held the PLO responsible. Egyptians have

increasingly expressed open hostility to the PLO in particular and to Palestinians in general. They were accused of ingratitude for the many contributions Egypt made to their struggle, and recklessness in pursuing their national goals. Egyptian hostility was reciprocated by a large section of Palestinian public opinion which believed that Sadat betrayed their cause and that Egyptians were interested first and foremost in their own welfare rather than Arab national objectives.

Apprehensions of Palestinians about the Sadat peace initiatives sparked a new militancy among those in Israel-occupied territories during 1978. Rather than joining with Israelis in the welcome for Sadat, or in the euphoria following the Camp David agreements in September, their mood became bitter and pessimistic. There have been periodic demonstrations and strikes by West Bank students and denunciations of Sadat's "betrayal" by mayors of West Bank cities. The uncertainties and ambiguities of Israel's policies in the occupied territories deepened anxieties about the status of the Palestinians in the peace settlement. The agreements, according to Fayez Sayegh, a Palestinian spokesman, condemned the vast majority "to permanent loss of its Palestinian national identity, to permanent exile and statelessness, to permanent separation from one another and Palestine—to a life without a national hope or meaning."

Complications caused by fighting among the Palestinians themselves, by their factionalization into groups associated with conflicting Arab countries, and by the growing unrest among inhabitants of the West Bank, has been compounded by increased terrorist activity inside and outside Israel as part of the protest against Sadat. One of the most serious incidents was the attack on an Israeli bus traveling between Haifa and Tel-Aviv in March 1978. Thirty-five Israelis and nine terrorists were killed in the incident for which Fatah claimed credit. Israel responded with an invasion of southern Lebanon, occupying the country up to the Litani River. The terrorist attack and Israel's retaliation set off a chain of reactions which jeopardized the already precarious peace negotiations and demonstrated how fragile stability in the region would be without a settlement involving the Palestinians.

Although most Palestinians and many of their friends perceive the Camp David accords as a threat, the actual agreements give Palestinian interests high priority. Provision is made for major changes in the status quo, calling on Israel to modify substantially its position in the occupied areas. For the first time Israel officially recognizes the Palestinian people as a political entity which "should participate in negotiations on the resolution of the Palestinian problem in all its aspects." Israel agrees to "a peaceful and orderly transfer of authority" . . . with "transitional arrangements for the West Bank and Gaza for a period not exceeding five years." "Full autonomy" is to be provided for the Palestinian inhabitants of the West Bank and Gaza; the Israeli military government and its civilian administrators are to be redeployed in specific security locations. They will be replaced by a "freely elected" self-governing authority. The arrangements will "give due consideration to both the principle of self-government by the inhabitants of these territories and to the legitimate security concerns of the

parties involved." To assist in providing security, "a strong local police force will be constituted by the self-governing authority." It will be composed of West Bank and Gaza inhabitants and will maintain liaison with Israeli, Jordanian, and Egyptian officers.

Provisions of the accord are to be worked out in agreements between Egypt, Israel, Jordan and the self-governing authorities in the West Bank and Gaza. The Egyptian and Jordanian delegations may include Palestinians from the occupied territories as well as those living elsewhere.

After the self-governing authority or administrative council is established, there will be a five-year transitional period during which the final status of the West Bank and Gaza, and the future relationship with its neighbors will be determined. Negotiations for a peace treaty between Israel and Jordan will also be negotiated during the transition period by representatives of Jordan, Israel, Egypt and the representatives of Gaza and the West Bank.

The negotiations will be carried out by two separate but related committees, one to determine the final status of the West Bank and Gaza, the second to negotiate the Israeli-Jordanian peace treaty. These negotiations will be based on U.N. Security Council Resolution 242. "The solution from the negotiations must also recognize the *legitimate rights of the Palestinian people* and their just requirements. In this way, the Palestinians will participate in the determination of their own future. \* \* \*

Notable in this formulation was acceptance by the Begin government of the term, "legitimate rights of the Palestinian people," long considered a code expression by most Israelis for negation of Israel's legitimate rights. Before Camp David, even the Israel Labor Party refrained from using the term. Only Israelis considered "doves" recognized Palestinian "legitimate rights," and even then with specific qualifications and reservations.

Despite opposition of most Palestinian organizations to the Camp David accords, an opportunity has been created for their participation in the peace process, with recognition by Israel and support from Egypt and the United States. If the inhabitants of the West Bank and Gaza seize the opportunity to establish self-governing institutions, they can soon overcome long-standing Israeli opposition to Palestinian self-determination. An effective administrative council could establish the basis for full sovereignty after the five-year transition period.

There is nothing in the agreements to preclude Palestinian selection of any responsible representation, including PLO sympathizers or representatives. At present most of the West Bank local representatives chosen in elections conducted under Israel military government are openly associated with, or support the PLO. There is every likelihood that they or others with similar political views could be elected under the Camp David accords.

Despite progress made in changing Israeli and Palestinian perceptions of and attitudes toward each other, the major obstacle of political semantics remains. The Palestinians supported by the Arab League, by the United Nations, and by many Third World countries, have determined that the PLO is their "sole political representative." Israel, with qualified support from the United States, has taken a firm, almost ideological, stance against any

recognition of or dealing with the PLO. Israel's position is in large measure determined by the outmoded dogma of the 1964 Palestine National Covenant calling for elimination of the Jewish state. But political realities have bypassed ideology; both Israel and the PLO have shown that in practical relationships they can accept each other's existence. The peace process would be hastened and greatly facilitated if the ideological debates over recognition were circumvented and negotiations were to proceed with tangible issues such as delineation of the borders between Israel and the Palestinian state; accommodation on Jerusalem, a city of importance to both the Palestinians and Israelis; establishment of arrangements to assure mutual security for both Israel and the Palestinian state; rehabilitation of the Palestinian refugees in Palestine or elsewhere; and establishment of normal relations between the two neighbors.

# ECONOMIC DIMENSIONS OF A MIDDLE EAST PEACE

By Jerome F. Fried\*

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## WHAT KIND OF PEACE

Over the past three decades, war and the preparation for war has had a distorting and in some years a disruptive effect on the economic development of the principal participants to the Arab-Israeli conflict. For these confrontation states—Egypt, Israel, Jordan and Syria—the economic consequences of peace could be equally disruptive if the transition from a war to a peace environment is not successfully managed.

The problem must be put in its political context. Whether the Camp David framework for negotiations will ultimately produce a

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comprehensive peace in the Middle East is uncertain. If "peace breaks out", the settlement between Israel and Egypt might lead in time to one with Jordan; then to a determination of the political status of the West Bank-Gaza; and finally a settlement with Syria.

Whatever the sequences, a comprehensive peace could only be achieved in stages and would require at least five years and possibly as long as ten. At each stage in the process, forward movement will remain in doubt. The peace-making process will be under continuous threat because of the political instability of the region, and because of the deep distrust between Israel and the Arab countries that long years of conflict have produced. However, as a counterpoise, all the states involved have a vital stake in economic development. And, if forward movement in the peace process leads to forward movement in the development process, the states involved will acquire a stake in sustaining the peace process. In a fundamental sense, the peace process, once it is initiated, will be linked to the development process for each of the four confrontation states, with progress in one tending to reinforce progress in the other. The converse might also be true; deterioration of their economic growth might lead to the disintegration of movement toward a durable peace.

Economic growth in the near term, even after the peace process is underway, will continue to be constrained by high defense expenditures. Moreover, a dismantling of current barriers to trade between Israel and its Arab neighbors, which might develop eventually, would have little impact on economic growth in the area: markets for the area's exports and sources for its imports will remain predominantly outside the region.

However, in the initial years of peace, the current strong momentum of economic growth of the Arab confrontation states may prove to be sustainable, and Israel may regain its earlier high economic growth, if large-scale foreign aid continues. Strong economic growth in the peace period will reduce the defense burden even though the absolute level of defense expenditures do not fall. This decline in the share of GNP taken by defense will be the form which the hoped-for economic "peace dividend", if any, will take.

#### THE CONFRONTATION STATES: THE PROBLEMS AND PROSPECT

There is a considerable disparity between Egypt, Jordan, Syria, and Israel with respect to the complexity of their economies and the character of the development problems they face. Some of these differences are conveyed by table 1.

TABLE 1.—ISRAEL: LAND AREA, POPULATION, LABOR FORCE, GNP—1977

|   | Jordan | Syria   | Egypt     | Israel |
|---|--------|---------|-----------|--------|
| Land area (thousand square kilometers).....       | 97,700 | 185,400 | 1,002,000 | 20,700 |
| Agricultural.....                                 | 14,600 | 77,870  | 27,000    | 4,140  |
| Population (millions).....                        | 2      | 7.8     | 39        | 3.3    |
| Labor force (thousands).....                      | 380    | 1,800   | 9,700     | 1,170  |
| Employed in agriculture (percent).....            | 19     | 32      | 42        | 7      |
| Gross national product (millions of dollars)..... | 1,150  | 6,580   | 10,000    | 9,600  |
| Gross national product per capita (dollars).....  | 575    | 840     | 260       | 2,900  |

Sources: Israel: Central Bureau of Statistics. Syria: Central Bureau of Statistics. Egypt: Central Agency for Public Mobilization and Statistics, Ministry of Planning. Jordan: Department of Statistics.

Perhaps the most telling of the above disparities is in the GNP of Israel and Egypt, comparable in magnitude at \$10 billion, but produced by a labor force of 1.1 million in Israel and a labor force of 9.7 million in Egypt.

More important for the problem at hand than their disparities are the similarities; all four countries share in common:

A demonstrated capacity for, as well as a commitment to, rapid economic growth;

Defense costs that are an exceptionally high ratio of their GNP and constitute a constraint of economic growth; and

An unusual degree of dependence on external financial assistance to carry forward a strategy of rapid growth and development despite an excessive defense burden.

The analysis that follows centers on relations between defense costs, the growth process, and flows of economic aid since the October 1973 war for each country; and the implications these hold for a peace era.

In addition, because the disposition of the occupied territories of the West Bank and Gaza will be a critical issue, the impact of the peace process on the current economic status of the territories will be briefly considered.

#### EGYPT<sup>1</sup>

Egypt has a relatively sophisticated economy. An industrial sector accounts for over 20 percent of a gross domestic product that in 1977, was \$10 billion. Its agriculture, completely based on irrigation, and long noted for its cotton, and more recently other major commercial crops, has an extensive history of development behind it. The huge outpouring of graduates from its universities provide a surplus of professional skills. Since 1973 these highly trained personnel in addition to much larger numbers of less skilled workers have found employment in the labor-short, oil-wealthy Arab states. An estimated 1.4 million Egyptian workers—almost 15 percent of Egypt's labor force—are currently employed in these states. In the last four years remittances from these workers rose from \$300 million to \$1,600 million. These remittances have become a major supporting factor in Egypt's balance of payments and in the employment prospects of the Egyptian labor force.

There are other elements of strength in Egypt's current situation. The Suez Canal, once again open, is an efficiently organized operation. Its current earnings of \$400 million a year are expected to increase substantially in a few years with the completion of the present project to enlarge the Canal. The tourist industry since 1973 has again become a major industry, realizing foreign exchange earnings in 1977 of \$660 million. Export earnings of the petroleum industry of \$600 million are expected to double in the next four years.

The underlying situation of Egypt, however, is grim. Overhanging the economy and its development is a severe population-resource imbalance and a per capita income of less than \$300 a year. The population of 40 million is increasing by one million a year.

<sup>1</sup> General economic data for Egypt are drawn from various official government sources.

Concentrated in the Nile Valley, with 96% of the remaining land area being desert and practically uninhabited, the imbalance between population and resources threatens to worsen to a disaster point. If Egypt is to overcome a tendency toward stagnation caused by population pressure, it has only one option: rapid development, sustained over a period of at least two decades.

Central to a perspective of Egyptian development over the long term is the necessity to break out of the Nile Valley. At present the 40 million Egyptians are concentrated in an area of 35,000 sq. kilometers. Unless the current trend is checked, the population concentration in the cities, particularly Cairo, will make the cities unmanageable. For the country as a whole, density per inhabited area is now 1030/sq. kilometer or over 2500/sq. mile. (In densely populated countries of the UK and the Netherlands with a modern industrial base, the population density is 300/sq. km.); in the Cairo governate the average density is 24,000/sq.km. and in some areas it rises to 170,000/sq.km. An index of density with 1947=100 shows the following density trend in Egypt: 1947=100, 1960=134, 1966=155, 1976=188.

Even if Egypt succeeds in introducing an effective population control policy, and such efforts are now underway, its population will increase over the period 1975-2000 by about 30 million. This population increase will have to be absorbed by new land development, which in turn will require reclaiming desert areas that have a potential for agriculture, tourism, mineral exploitation, and industry. Water to reclaim the land can be provided from the Nile, underground sources, and desalting technology—though, in each case, at substantial costs.

Preliminary development planning on new land programs is underway for regions bordering the Red Sea, Sinai, Matruh, the New Valley, Suez, and the Northern Delta. Approximately 3.3 million acres of agricultural land would be reclaimed providing an economic base for a population of 9 million. Non-agricultural development in these regions could absorb an additional 17 million people. The inhabited area of Egypt would in little more than two decades expand from 35,580 sq. km. (3.5 percent) to 202,000 sq. km. (20 percent) of Egypt's total area. The average population density would be reduced to 310/sq. km. The resources of the designated desert areas joined to large investments in infrastructure and efficient economic organization would create the new productive areas in agriculture, industry, mining, tourism, and services upon which Egypt's longer term growth must depend.<sup>2</sup>

Egypt's "new land" strategy is long term. Detailed and definitive planning still remains to be done. Pilot programs to test out the limits of the strategy need to be undertaken. As outlined, however, it conveys the magnitude and nature of the economic challenge Egypt faces over the next two decades and for which it must prepare in the immediate period ahead. Of concern, in this connection is the need to meet the objectives of Egypt's current (1977-82) five-year plan. It is in this period and the five year period that succeeds it that Egypt expects to impart a new and urgently needed efficiency into the economy, with foreign private enterprise and technology assuming a major role. Egyptian private enterprise

<sup>2</sup> Source: Government of Egypt. Ministry of Planning.

will also be expected and encouraged to assume a more positive role than had been the case for the past 15 years—particularly in a number of critical industries such as construction. Public sector industries need to be reoriented to meet market tests of efficiency and this will require a shake up of special interests throughout the economy. A large-scale program of improvement of roads, communication facilities, ports, power, irrigation facilities, and other infrastructure must be undertaken.

The high rate of economic growth and income planned can result in a visible and much needed improvement in the standard of living of the Egyptian people inside a decade and, at the same time, increase national savings to the point where dependence on foreign assistance will be substantially reduced—if not eliminated.

These are the plans. Egypt has already begun on their execution. In doing so, Egypt is pushing toward a rate of investment that would result in a growth in GNP averaging 10 percent a year for the period 1975-85.

In the three years, 1975-77, growth in GNP was about 9 percent a year and the investment rate about 25 percent a year.

In an initial period of peace, whether, and how effectively, Egypt will be able to convert the spurt of sharp economic recovery experienced after the October 1973 War into a development trend of rapid growth is uncertain. Its longer term development prospects hinge on the outcome.

The kind of economic growth Egypt is projecting requires investment on the order of 30 percent of GNP a year over, at least, the next five years. This represents an exceptional effort in itself and more so when related to the resources that defense expenditures now preempt. This should be put in some historical perspective.

In the period 1955-65, Egypt had experienced sustained growth of about 6 percent a year and relatively high rates of investment approaching 20 percent a year. After the 1967 war with Israel, Egyptian defense costs steadily rose from 7 percent of GNP in 1965-66 (an already high ratio) to 15 percent of GNP in 1972. Correspondingly, the Egyptian savings rate fell from 12 to 8 percent, the rate of investment to less than 12 percent, the rate of growth of GNP to about 3.5 percent, and per capita income growth to one percent. Egypt, faced with the necessity of a choice, had opted to build up its defense forces at the cost of something close to economic stagnation.

The costs were large: income and productive employment foregone; deterioration of the economic infrastructure—ports, roads, communication facilities; and a backlog of 1.5 million housing units. The price system has been administered so as to distribute more equally among the population the burden of low growth in a poor economy; but this has resulted in a rigidity and a subordination of its principal function, namely, to allocate limited resources efficiently.

Since the October 1973 war, despite low domestic savings and high defense costs, the investment rate doubled to about 25 percent per year, and GNP increased by 9 percent a year. An extraordinary flow of foreign financial assistance from the Arab oil producing countries, the U.S., the Western European countries and Japan, and the World Bank provided Egypt with the resources to offset

the constraints of defense costs and move into this expansionary phase. The total foreign capital disbursed over the four years (1974-77) exclusive of direct military aid amounted to \$12.2 billion.

TABLE 2.—Gross foreign financial flows to Egypt (1974-77)

| From:                | Billions    |
|----------------------|-------------|
| Arab countries.....  | \$7.2       |
| United States.....   | 2.3         |
| IBRD/IDA/IMF.....    | 1.0         |
| Other countries..... | 1.7         |
| <b>Total.....</b>    | <b>12.2</b> |

Source: U.S. A.I.D. Report on Egypt, 1977.

This assistance permitted Egypt to service its large foreign debt and to finance an import surplus of \$7.2 billion. Total investment in this period is estimated at \$12.9 billion. Foreign finance accounted for over 55 percent of the total. The growth in gross domestic product (GDP), in constant prices, and basic saving, investment and defense costs relative to GDP were as follows:

TABLE 3.—EGYPT: GDP, SAVINGS, INVESTMENT, DEFENSE EXPENDITURES, FOREIGN FINANCE

|   | [In percent] |      |      |      |      |                   |
|---|--------------|------|------|------|------|-------------------|
|   | 1965-66      | 1973 | 1974 | 1975 | 1976 | 1977 <sup>2</sup> |
| <b>Gross domestic product:</b>          |              |      |      |      |      |                   |
| Growth.....                             |              | 2.8  |      | 8.9  | 9.4  | 8.3               |
| Domestic savings.....                   | 13.6         | 8.0  | 5.4  | 7.3  | 11.5 | 14.8              |
| Defense expenditures <sup>2</sup> ..... | 7.1          | 15.5 | 14.9 | 11.2 | 10.5 |                   |
| Investment.....                         | 18.1         | 13.1 | 17.4 | 27.3 | 24.1 | 24.1              |
| Foreign finance <sup>2</sup> .....      | 4.5          | 5.1  | 12.0 | 20   | 12.6 | 9.3               |
| <b>Investment:</b>                      |              |      |      |      |      |                   |
| Foreign finance <sup>2</sup> .....      | 24.8         | 38.9 | 70.0 | 73.3 | 52.3 | 39                |

<sup>1</sup> Preliminary.

<sup>2</sup> Excludes military imports. These are financed directly by Saudi Arabia. Also excludes part of an emergency defense budget expenditure financed by grants from the Arab oil wealthy countries.

Source: Central Bank of Egypt, Ministry of Planning.

Egypt, after October 1973, faced a major reconstruction task that had to begin quickly if disintegration of the economy was to be avoided. The availability of foreign assistance provided the means for reconstruction. Egypt is now moving from reconstruction to a program and policy of long run development.

The current foreign aid on which this policy rests, however, is essentially short-term in nature. It is confined to Egypt's reconstruction-recovery phase, and it is politically related to the no war-no peace environment in the Middle East in which Egypt has been perceived as the key factor. With a settlement, the political rationale that has governed much of the recent economic assistance to Egypt, on the part of the U.S. as well as Egypt's Arab supporters, largely disappears. A peace settlement thus carries with it a good deal of uncertainty as to the future of Egyptian development.

In the initial phase of a peace era Egyptian development will be as dependent on foreign assistance as it has been over the past four years. It may be even more so if investment in the next five years is accelerated as planned. Under current Egyptian planning, the

magnitude of the requirement for foreign aid is likely to be in the range of \$1.5 billion to \$2 billion a year, for at least five years. With a successful development performance the gap between investment and domestic savings should, however, narrow, as indeed has been the case since 1975; and by the end of a decade of peace Egypt might be able to sustain an investment rate in excess of 25 percent a year free of any dependence on official foreign assistance. This estimate assumes a trend of defense costs and the financing of these defense costs that should be made explicit. For this purpose a closer examination of the composition and financing of Egypt's defense costs since 1974 is necessary.

Between 1974 and 1977, military imports for the re-equipping of Egypt's defense forces of 400,000 men are estimated at 2,890 million Egyptian pounds or, at the official exchange rate of (1 Egypt Pound = 2.5 dollars)<sup>3</sup> \$7.2 billion. These have been financed directly by Saudi Arabia and other Arab oil producing states grants.

The oil producing states have also been financing part of an emergency budget of defense-related expenditures. For the period 1974-77 this additional Arab budget defense support amounted to about 1,458 million Egypt pounds, or \$3.2 billion. Thus, in the four years (1974-77) the military assistance totaled \$10.3 billion from Arab oil countries. This compares with a total of official foreign economic assistance in this period of \$12.2 billion (see table 2). On the average, the annual flow of direct Arab assistance underwriting a large part of Egypt's defense costs was about \$2.5 billion a year. The total of Egypt's defense costs and that part representing a direct burden on the Egyptian economy is summarized in table 4.

Egypt's domestic defense expenditures are projected to continue at current absolute levels after a peace treaty with Israel. If experience with the peace process proves favorable and confidence in a durable peace grows, defense costs should decline significantly. For the initial period of the peace process, at least over the next five years, this is not likely to be the case.

Egypt's military imports may average \$1 billion a year over the next five years. And Egypt would depend upon foreign grants to finance them.

TABLE 4.—EGYPT: GDP, DEFENSE BUDGET EXPENDITURES, EMERGENCY BUDGET, AND MILITARY IMPORTS, 1974-77, CURRENT PRICES  
(In millions of Egyptian pounds)

|  | 1974  | 1975  | 1976  | 1977  |
|--|-------|-------|-------|-------|
| 1. Gross domestic product .....  | 4,197 | 4,886 | 6,276 | 7,341 |
| 2. Defense expenditure from ordinary budget .....  | 304   | 302   | 457   | 342   |
| 3. Defense expenditure from emergency budget .....   | 507   | 730   | 385   | 764   |
| 4. Total—defense from ordinary and emergency budget .....                                  | 811   | 1,032 | 842   | 1,106 |
| 5. Foreign financed part of emergency budget .....   | 471   | 446   | 82    | 459   |
| 6. Summary:  |       |       |       |       |
| Total—defense budget from Egyptian resources as<br>percent of gross domestic product ..... | 8     | 12    | 12.1  | 9     |

<sup>3</sup> For 1977 and 1978, the parallel exchange rate of \$1.4=1 Egyptian pound is used in this paper.

TABLE 4.—EGYPT: GDP, DEFENSE BUDGET EXPENDITURES, EMERGENCY BUDGET, AND MILITARY IMPORTS, 1974-77, CURRENT PRICES—Continued

[In millions of Egyptian pounds]

|  | 1974 | 1975  | 1976  | 1977 |
|--|------|-------|-------|------|
| Total defense budget as percent of gross domestic product.....       | 19   | 21    | 13.4  | 15.1 |
| 7. Additional military imports not reflected in budget—estimate..... | 414  | 1,068 | 1,408 | NA   |

NA—Not available.

Source: Ministry of Finance; SIPRI Year Book, 1978.

Egypt's budgeted defense expenditures<sup>4</sup> similarly are projected for this five year period to continue at about \$1.5 billion a year. In 1977 this constituted 15 percent of GNP. About \$650 million of this amount was financed by Arab country grants. Thus, in the five years after a treaty, Egypt's foreign aid requirements for defense could be on the order of \$1.5 billion—comparable to the economic assistance requirements estimated earlier.

On the assumption that following a peace settlement with Israel, Egypt's budget defense costs will not fall, significant relief from the defense burden will depend upon rapid development. If Egypt achieves its current targeted growth and GNP does grow by 10 percent a year in real terms, then budgeted defense expenditure, though continuing at current high levels could fall as a ratio of GNP from 15 percent to less than 5 percent inside of a decade. This trend would be a powerful factor allowing Egypt, over a decade, to reach a savings capacity in excess of 20 percent of its GNP, permitting it to be independent of foreign economic or military assistance.

Currently the tensions between rapid development and high defense costs are reflected in a rate of inflation of almost 20 percent a year. For Egypt to achieve rapid and sustained economic growth in the initial decade of peace, inflation must be brought under control; annual defense expenditures borne directly by the economy cannot rise much above their current level (measured in real terms); and foreign assistance, economic and military, of the magnitudes indicated above will be required. If these severe conditions are met, Egypt, in the period after a peace settlement with Israel, may become securely set in the kind of economic development, vital to its long term survival. This could reinforce Egypt's commitment to the peace process.

#### SYRIA

Despite the tensions and volatility of Syrian politics, the various groups that succeeded each other in power managed to keep the Syrian economy on a persistent development course over the last two decades. Between 1960-65 Syria's gross domestic product increased on the average by 8.5 percent a year. From 1965-70, following wide scale nationalization, growth slowed to 5.5 percent a year. Since 1970, under the Assad regime, Syrian economic development, as its politics, has taken a more positive and pragmatic turn. In line with a new emphasis on industrialization, the private sector has been encouraged to assume a more affirmative role. While the

<sup>4</sup> Excludes military imports.

Socialist orientation of the economy is still dominant, the private sector has become exceptionally active and has added a new impetus to economic growth, accounting for over 50 percent of the growth in the gross domestic product since 1973.

From 1960 through 1973, Syrian development was predominately self financed with domestic savings providing the resources for 75 percent to 85 percent of the country's investment.

Since 1973, Saudi Arabian and other Arab aid has become available on a substantial, though fluctuating, scale indicated in table 5.

TABLE 5.—Arab grants in aid to Syria

| [In millions of dollars] |     |           |       |  |  |
|--------------------------|-----|-----------|-------|--|--|
| 1972.....                | 48  | 1975..... | 612   |  |  |
| 1973.....                | 351 | 1976..... | 395   |  |  |
| 1974.....                | 392 | 1977..... | 1,136 |  |  |

Source: Central Bank of Syria—Balance of Payments.

U.S. government loans, including food aid, has been about \$100 million a year since 1975.

The sharp increase in economic assistance since 1973 has fundamentally altered the character of Syrian development. Inside of five years the rate of investment virtually doubled and over this period (1973-1977) the gross domestic product increased at an average rate of 9 percent a year. This acceleration of investment and growth was possible even though defense costs as a percent of GDP increased from 8 percent in 1972 to 16 percent in 1975 and the savings rate fell from 12 percent in 1972 to less than 3 percent in 1977. The annual changes in these basic relations during this period are given below:

TABLE 6.—INVESTMENT, DOMESTIC SAVINGS, DEFENSE COSTS, GDP—PERCENT

|                         | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 |
|-------------------------|------|------|------|------|------|------|
| Gross domestic product: |      |      |      |      |      |      |
| Fixed Investment .....  | 15   | 14   | 15   | 21   | 18   | 27   |
| Fixed investment:       |      |      |      |      |      |      |
| Domestic Savings .....  | 78   | 75   | 44   | 23   | 11   | 10   |
| Gross domestic product: |      |      |      |      |      |      |
| Domestic Savings .....  | 12   | 11   | 7    | 5    | 2    | 3    |
| Defense Costs.....      | 9    | 15   | 12   | 17   | 15   | 15   |

Source: Syrian Central Bureau of Statistics, 1977-78.

Defense costs in Syria's budget and the size of the armed forces for the period (1974-78) were as follows:

TABLE 7.—DEFENSE COSTS AND SIZE OF ARMED FORCES, 1974-78

|                                | 1974  | 1975  | 1976  | 1977    | 1978 <sup>1</sup> |
|--------------------------------|-------|-------|-------|---------|-------------------|
| Defense costs:                 |       |       |       |         |                   |
| Millions of Syrian pounds..... | 1,682 | 3,280 | 3,614 | 3,908   | 4,545             |
| Millions of dollars.....       | (430) | (840) | (925) | (1,000) | (1,165)           |
| Armed Forces (thousands).....  | 130   | 230   | 230   | 230     | 230               |

<sup>1</sup> Preliminary.

Sources: Ministry of Finance—budget; World Military Expenditures & Arms Transfers, 1967-76—U.S. Arms Control Agency; The Military Balance, 1978-79, International Institute for Strategic Studies.

Syrian intervention in the Lebanese civil war in 1975 and its role in maintaining the precarious peace established since then largely accounts for the expansion of its armed forces and military expenditures since 1975. And this in turn is the primary explanation for the depressed rate of savings<sup>5</sup> since 1975 (see table 5) despite an average rise in GDP, in constant prices, of 9 percent a year from 1973 to 1977.

By 1977, on the basis of preliminary official estimates, and in current prices, Syria's gross domestic product had reached \$6.6 billion; fixed investment was \$1.6 billion (25 percent of GDP); the import surplus, financed through foreign grants and loans, was \$1.4 billion or 85 percent of investment; defense current budget costs were \$990 million or 15 percent of GDP; the per capita income was \$850; and the labor force of 1.8 million (23 percent of the population) was fully employed.

The recently published development plan for the period 1975-1985 indicates a commitment on the part of Syria to an intensive rate of growth on the order of 10 percent a year. The plan and its targets would presumably continue to govern Syrian development policy in the initial phase of peace.

If development targets are met, Syria's GDP (in 1975 prices), should increase from \$5.3 billion in 1975 to \$13.7 billion in 1985 and per capita income would increase from \$750 in 1975 to \$1,350 in 1985.

Success of this policy will depend on three factors:

(1) The assurance of uninterrupted external assistance on the order of \$1 billion a year at least through 1985 to bridge the gap between the high rate of investment and low rate of savings in the initial period of peace.

(2) The containment of defense expenditures to current levels of about \$1 billion a year in 1977 prices. With GDP increasing at a rate of 10 percent a year and defense expenditures not increasing, the current gap between savings and investment should be substantially reduced and with it a corresponding reduction in the amount of foreign aid required.

(3) The ability of the Syrian government to manage successfully an economy growing at the exceptionally fast rate of 10 percent a year. This ability will be particularly tested in three areas:

The Euphrates Basin High Dam under construction since 1968 with Soviet financial and technical assistance, has recently been completed (1977). It is a project comparable in scope to Egypt's Aswan High Dam, and, if efficiently exploited over the next ten years, can result in a basic transformation of Syrian agriculture. Over 1.5 million acres of land will either be reclaimed or converted from a presently highly unstable rain-fed agriculture to a stable and more productive irrigated agriculture. This could have a major ripple effect throughout the economy. A major transportation system (roads and ports) linking the Euphrates region to potential domestic and export markets is in place. What lies ahead, however, is the most difficult part of all: to organize on a large scale an irrigated agriculture, that will be able to produce efficiently.

<sup>5</sup> Public consumption includes defense expenditures. Savings is the residual in GDP after deduction of public and private consumption.

The ability to sustain a high rate of growth will also depend on a dynamic Syrian private sector continuing to assume an important role in agriculture and industrial expansion.

Finally, as the labor market gets increasingly tight, a substantial reduction of the armed forces, releasing manpower and skills to the civilian sector may be needed. Syria may be able to do this if Lebanon's internal situation becomes more stable, permitting a Syrian withdrawal and a reduction of her armed forces from 230,000 to 130,000, the level prevailing in 1974 before the Lebanese intervention. Progress with the peace process that would lead to a negotiated settlement of the Palestinian issue could bring the necessary stability to Lebanon and thus a Syrian withdrawal. However, such a propitious conclusion would seem to be at best five years in the future.

#### JORDAN

Jordan's principal resource is and has been an educated and enterprising people. A small country of limited natural resources with a low per capita income, Jordan has been dependent on foreign aid to a high degree since its inception as an independent state in 1946. This assistance first provided by the U.K., after 1957 by the U.S., and since 1973 predominantly by Saudi Arabia, has been closely related to its need to maintain a relatively large and costly defense force.

In the 1960's the government with assistance of foreign aid was able to get a development momentum going despite an excessive defense burden. This was based on the expansion of tourism centered on the West Bank (Jerusalem), a program of irrigated agriculture in the Jordan Valley on the East Bank, exploitation of phosphates and other minerals of the Dead Sea basin, and the establishment of a small industrial base. Economic growth of over 8 percent a year was sustained for almost a decade. And Jordan's goal of freeing itself from dependence on foreign budgetary grants seemed in sight. Nevertheless, throughout this period a substantial degree of unemployment existed.

Jordan's promising economic development suffered a major disruption as a result of the 1967 war and its aftermath. Intermittent border conflicts with Israel continued for some time after, generated by Jordan-based PLO raids into Israel. The economic slowdown in the period 1967-1970 and the reduced economic base due to the occupation of the West Bank by Israel raised once again questions as to the economic viability of Jordan, particularly in face of the need after the 1967 war to absorb several hundred thousand new Palestinian refugees from the West Bank. However, the resiliency of Jordanian enterprise and the ability of the Jordanian government to effectively use the financial grants provided by Saudi Arabia and the U.S. resulted in a substantial recovery and expansion of the economy. By 1975, Jordan's gross national product had reached \$1.1 billion. This reflected not only the significant increase in domestic product of the preceding three years but also income from a sharply rising trend of remittances sent by Jordanians working abroad, principally in the Arab Gulf States. These remittances went from 8 percent of GNP in 1973 to 26 percent in 1976.

With a population of about 2 million, Jordan's per capita income in 1975 of \$570 was approximately equal to the per capita income achieved in 1966 after allowing for the price inflation during this period. That it took almost ten years and a substantial amount of investment to again reach the 1966 per capita level of income is one measure of the cost to Jordanian development of the 1967 war.

Capitalizing on the recovery momentum of the economy and on an extraordinary current flow of foreign grants, Jordan, since 1975, is once again undertaking a long run development program. It involves basic structural changes in its economy and a rate of economic growth on the order of 10 percent a year.

If sustained as planned, Jordan's per capita income (in 1975 prices) would double by 1985 and reach or exceed \$1,200. The government would have carried out a major program of agricultural expansion in the Jordan Valley with the construction of the Marquin Dam, fulfilling a long standing plan for the utilization of the water of the Yarmouk tributary of the Jordan River. There would be an acceleration of exports of high value agricultural products primarily to the markets of the Arab Gulf States. Phosphate production, a current government development project, would be expanded on an intensified scale, and by the early 1980's become a major source of export earnings and of revenue for the government, moving Jordan once again close to its goal of independence of foreign grants in aid. By the early 1980's, a significant potash industry on the Dead Sea would also be established. Tourism, and remittances from Jordanian workers in the Gulf Oil States would constitute major foreign exchange earners. Finally, in the buoyant domestic market generated by a high growth rate and the expanding regional market, Jordan's base of small and medium scale industries in the private sector would be measurably expanded.<sup>6</sup>

The scope and current direction of Jordan's development is promising. If maintained, by 1985, Jordan may have a base for achieving long run and self sustaining development. In addition, successful rapid growth holds important implications for the economic prospects of a future Palestine Entity that may be negotiated in the period ahead.

Jordan's goal of rapid development, however, faces problems that could in the end defeat the current development strategy. These have to do with the exceedingly low saving rate; the high defense costs that become a critical burden for Jordan when it opts for rapid development; the magnitude and volatility of the foreign grants on which Jordan currently depends; and finally, the size of the workers' remittances Jordan now receives from abroad. These remittances are a major factor in Jordan's current economic growth but the manpower drain they involve could limit future growth.

The magnitude and direction of these relations are given in table 8.

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<sup>6</sup>Source: Jordan Five-Year Plan, 1976-80.

TABLE 8.—JORDAN: SAVINGS, INVESTMENT, FOREIGN GRANTS, WORKERS REMITTANCES FROM ABROAD AS PERCENTAGE OF GNP

|  | 1973  | 1974 | 1975  | 1976  | 1977  |
|--|-------|------|-------|-------|-------|
| Domestic savings.....                  | 0.2   | -1.3 | -8.0  | +7.3  | ..... |
| Domestic investment.....               | 23    | 26   | 24    | 26    | ..... |
| Workers remittances from abroad.....   | 8.4   | 10.1 | 16.7  | 26.2  | ..... |
| Foreign grants.....                    | 27    | 28   | 38    | 21    | ..... |
| Defense costs in Jordan's budget.....  | 20    | 17   | 15    | 12    | ..... |
| GNP (millions of current dollars)..... | 715   | 920  | 1,105 | 1,700 | 1,900 |
| GPN (in millions of 1975 Dinars).....  | 311   | 344  | 368   | 482   | ..... |
| Annual growth rate in percent.....     | ..... | 11   | 7     | 131   | ..... |

<sup>1</sup> Reflected exceptional economic activity because of Lebanese civil war and temporary influx of Lebanese into Jordan.

Source: Central Bank of Jordan, National Planning Council, and Department of Statistics.

Foreign grants, since 1973, have escalated at an extraordinary rate, largely due to Saudi Arabia support. Since 1974, they have, as indicated in the table above, amounted to over one-third of the country's GNP. The magnitude and source of these payments as they have expanded in the last few years in millions of current Jordan Dinars are as follows:

TABLE 9.—JORDAN: FOREIGN GRANT RECEIPTS

(In millions of dollars)

|  | 1973 | 1974 | 1975 | 1976 | 1977 |
|--|------|------|------|------|------|
| Total foreign grant receipts from..... | 198  | 252  | 420  | 367  | 510  |
| Arab governments.....                  | 72   | 141  | 318  | 234  | 396  |
| United States.....                     | 93   | 75   | 66   | 78   | 48   |
| United Nations.....                    | 21   | 27   | 30   | 40   | 51   |
| Private.....                           | 12   | 9    | 6    | 15   | 15   |

Source: Central Bank, Monthly Statistical Bulletin.

In the three years 1975-77, foreign grants have averaged out to \$435 million annually. They have varied substantially from year to year. While they have been sufficient to enable Jordan to meet both defense and development costs they are no reliable substitute for long term, assured development assistance. Nor are they an acceptable substitute for the much higher rate of savings Jordan needs if it is to meet its objective of independence from foreign grants by 1985. The necessary increase in savings will depend in large part on the trend in defense expenditures and GNP.

The magnitude of Jordanian defense expenditures (exclusive of military imports) for the period 1973-1978 are as follows:

TABLE 10.—Defense Expenditures

(In millions of dollars)

|           |     |           |     |
|-----------|-----|-----------|-----|
| 1973..... | 144 | 1976..... | 192 |
| 1974..... | 153 | 1977..... | 234 |
| 1975..... | 168 | 1978..... | 285 |

Source: Ministry of Finance, Budget.

Defense expenditures, exclusive of military imports, currently at \$300 million a year, absorb 12 percent of the GNP. Unless this

defense cost ratio is substantially reduced, it is difficult to see how Jordan can generate the savings that its growth objectives over the longer run will require.

Currently Jordan faces a manpower shortage which threatens to become a serious constraint on her development in the immediate period ahead. This is in sharp contrast to the serious unemployment problem that has been an endemic aspect of the Jordanian economy in the past. The manpower turnaround is clearly related to the accelerated flow of Jordanian labor to the Arab Gulf States reflected in a reverse financial flow of worker remittances:

TABLE 11.—*Jordan: Workers Remittances From Abroad*

| [In millions of dollars] |     |           |     |
|--------------------------|-----|-----------|-----|
| 1973.....                | 60  | 1976..... | 420 |
| 1974.....                | 95  | 1977..... | 430 |
| 1975.....                | 185 |           |     |

Source: Central Bank, Balance of Payments tables.

The seven-fold increase in worker remittances in the short period of three years has radically changed the structure of Jordan's balance of payments. Foreign exchange earnings of over \$400 million generated by worker's remittances in 1976 were comparable in value to the total of Jordanian exports. Put into the broader context of Jordan's balance of payments on current account, the present importance of these remittances is even more impressive. Jordan's foreign deficit on goods and nonfactor services in 1976 was \$740 million. As a result of workers' remittances from abroad the necessary financing of this deficit through foreign grants and borrowing was reduced to \$320 million.

Certainly for the period through at least 1985, maintaining of workers' remittances at their current level would be a major factor in Jordan's development. But to do this Jordan faces the need to tap new sources of labor and skill. The 250,000 Jordanians working abroad (compared with a non-farm civil work force resident in Jordan of approximately 150,000) represents a substantial drain of skilled and semi-skilled labor. For the longer term, expanded training programs and increase in the participation of women in the labor force may be the remedy. However, in the short and medium run this will not be the answer. If there is a comprehensive peace settlement, some reduction in the armed forces and an inflow of Palestinians that may be in temporary surplus in the West Bank-Gaza could meet Jordanian manpower requirements.

The simultaneous pursuit of rapid development and a relatively large defense force is the fundamental factor underlying Jordan's current high inflation. Price stability had been characteristic of the Jordan economy until the last five years. Bringing the inflation under control, an inflation that is currently running in excess of 10 percent, represents an immediate and basic challenge to the continuation of Jordan's development momentum.

If the peace process maintains some momentum, Jordan's defense expenditures may not rise over the next five years. Jordan's defense budget would remain at about \$300 million a year (in 1978 dollars). With defense expenditures at this level and GNP continuing to rise at the current rate of about 10 percent a year, the ratio of defense costs to GNP would fall from 15 percent in 1977 to about

6 percent by 1985. There may be a corresponding rise in savings to about 15 percent of GNP and Jordan would have made substantial progress toward the achievement of its development goals.

Jordan may well free itself from its current dependence on foreign grants by the end of its next plan period 1980-85 if it is able to maintain its current rate of growth. Given the high rate of investment required and the current limited savings of the country, the essential elements for such growth will be an uninterrupted annual flow of foreign assistance through 1985 of about \$400 million a year and defense expenditures financed by Jordan's budget remaining at their current levels of about \$300 million a year.

#### ISRAEL <sup>7</sup>

Israel's economic development has been marked by a high rate of capital formation approaching 30 percent of GNP a year, a highly skilled and motivated labor force, and a remarkable mix of government and private enterprise. Over a period of two decades, Israel's GNP increased at an average rate of 10 percent a year, a record of sustained economic growth matched only by that of Japan. Israel's development at this pace was all the more impressive in view of the poor natural resource base of the country.

By 1975 the country's gross national product at \$9.6 billion was more than eight times what it had been in 1950. An efficient agriculture accounts for 12 percent of the GNP and employs less than 7 percent of a labor force of 1.1 million. The share in GNP of a diversified manufacturing sector is 25 percent. In 1975, the per capita income of the population of 3.3 million was \$2,900.

Despite this record, Israel still is dependent on external assistance and remains a vulnerable economy.

Since the establishment of the state in 1948, the country has been dependent upon external official grants and loans and private transfer payments—first, to help absorb an influx of new citizens that doubled the population within three years after the state was formed; and since then to help it absorb the impact of its defense burden.

Economic development, at the sustained and phenomenal rate Israel maintained, should have led to independence of foreign assistance. And, in fact, in the period from 1952 to 1966 the economy was moving, through at a delayed rate, in this direction. By 1965, savings had increased to 15 percent of GNP despite defense costs of 10 percent of GNP and the country was able to finance half of its ongoing capital formation. Moreover, with the share of exports in national output growing, Israel was developing an export capacity that would enable it in time to finance its import needs through its exports. The ratio of the import surplus to the gross national product declined continuously from 26 percent in 1952 to 14 percent in 1966. A further and substantial shift of resources into the export sector and a substantial increase in the rate of savings was still necessary if the trade-resource gap was to be closed without foreign aid. The trend was clearly in this direction. However, the 1967 and the 1973 wars intervened.

<sup>7</sup> General economic data for Israel are drawn from various government publications.

After the June 1967 war, defense expenditures almost trebled—from \$640 million in 1967 to \$1,640 in 1970—and remained at that level through 1972, constituting 20 percent of the GNP in that year. Nevertheless, in the four years (1969-72) the Israeli economy grew at a high rate: an average annual increase in GNP of 11 percent a year. Investment was 30 percent of GNP, and, foreign receipts (loans and grants) doubled, financing 50 to 75 percent of total investment each year.

The Israeli experience in this period was similar to that of Egypt, Jordan, and Syria since 1973: defense costs in excess of 15 percent of GNP, a low domestic savings rate, but large foreign capital inflows that made possible high rates of investment and a high growth rate of the economy. Whether this unique combination of factors is sustainable is not clear from the Israeli experience since it was cut short by the October 1973 war. Indeed, by the fourth year 1972 the rate of inflation had intensified in Israel, as is the case currently in Egypt, Syria, and Jordan, reflecting a strain imposed on resources by high defense costs and a high rate of investment, that foreign receipts, despite their magnitude, do not fully offset.

After the October 1973 war, defense expenditures in Israel escalated further, more than doubling, from \$1.6 billion in 1972 to \$3.7 billion in 1973, 38 percent of GNP.

TABLE 12.—ISRAELI DEFENSE EXPENDITURES, DEFENSE IMPORTS, GNP, 1973-78

|                                       | (In millions of dollars) |       |       |       |       |       |                   |
|---------------------------------------|--------------------------|-------|-------|-------|-------|-------|-------------------|
|                                       | 1972                     | 1973  | 1974  | 1975  | 1976  | 1977  | 1978 <sup>1</sup> |
| Defense costs:                        |                          |       |       |       |       |       |                   |
| Total .....                           | 1,690                    | 3,740 | 3,260 | 3,552 | 4,214 | 4,259 | 3,310             |
| Military imports .....                | 490                      | 1,253 | 1,200 | 1,500 | 1,600 | 1,300 | 1,660             |
| Domestic resources .....              | 1,200                    | 2,487 | 2,060 | 2,052 | 2,614 | 2,959 | 1,650             |
| Defense costs as percent of GNP ..... | 19                       | 38    | 31    | 36    | 36    | 30    | 23                |

<sup>1</sup> Estimated.

Source: Central Bureau of Statistics, Israel.

TABLE 13.—ISRAEL: FOREIGN GRANTS AND LOANS, PUBLIC AND PRIVATE, 1972-78

|   | (In millions of dollars) |        |        |        |        |        |                   |
|---|--------------------------|--------|--------|--------|--------|--------|-------------------|
|   | 1972                     | 1973   | 1974   | 1975   | 1976   | 1977   | 1978 <sup>1</sup> |
| Grants .....  | 1,052                    | 2,188  | 1,580  | 1,638  | 2,281  | 2,355  | 2,355             |
| Net medium and long term borrowing ..                   | 580                      | 812    | 640    | 1,442  | 1,386  | 945    | 850               |
| Total (grants and loans) .....                          | 1,632                    | 3,000  | 2,220  | 3,080  | 3,667  | 3,300  | 3,205             |
| Balance on goods and services on international account. | -1,101                   | -2,597 | -3,395 | -3,335 | -3,269 | -2,695 | -2,845            |

<sup>1</sup> Estimated.

Source: Bank of Israel.

Foreign grants and loans to Israel have also escalated averaging out at about \$3 billion annually for the period 1973 to 1978. The U.S., since 1974 has been providing about two-thirds of this inflow, consisting of about \$1.2 billion a year of grants and loans to finance military imports and about \$800 million a year for general economic assistance.

In contrast to the experience in the 1967-1972 period, and in contrast to the current experience of the Arab countries, the flow of foreign finance, despite its extraordinary levels, has not made it possible for Israel to meet simultaneously its security and economic growth objectives.

Investment had to be cut back from \$3.1 billion in 1975 (33 percent of GNP) to \$2.2 billion in 1977 (24 percent of GNP). Some restrictive measures affecting public and private consumption were undertaken. Total consumption in the national accounts (which includes defense expenditure) exceeded GNP in 1976 by \$700 million. The resources to meet this deficit (negative savings) as well as the total of investment was provided by the surplus of imports over exports financed by foreign loans and grants. In 1977, negative savings was reduced to \$75 million and investment expenditures from \$2.7 billion to \$2.1 billion. Despite these reductions, the high inflation of the last four years has intensified and was reported running in excess of 40 percent a year in 1978. At the same time there has been a virtual cessation of economic growth from 1976 to 1978.

Israel has the capacity and the need to resume a rapid pace of economic growth in the decade ahead. Before it can expect to do so, however, it will clearly have to bring the current inflation under control. This is the immediate problem and one that Israel may try to meet this year and the next through further restrictions on public and private consumption and investment. If the peace settlement with Egypt is successful, the government should be able to carry out the necessary stabilization program with more confidence. The reduced external threat should enable it to better confront the internal tensions.

The possible economic impact of peace, however, goes beyond the problem of restoring stability to the Israeli economy. It opens up the opportunity to move toward a kind of economic growth that could prove to be self-sustaining and not dependent on foreign grants.

Israel's fundamental "structural" problem has been low national savings. In the years after 1973, when defense costs rose to almost 40 percent of GNP, Israel's saving, as has been noted, turned negative. A successful stabilization program should result in positive savings, perhaps in the range of 5 to 10 percent of GNP. This will be far short of the 25 percent of GNP needed for investment. However, given the probability that in the initial phase of a peace era defense expenditures will continue at their current high levels, this may be the best that Israel can achieve.

Defense expenditures are currently running in excess of \$3 billion a year with military imports accounting for about \$1.2 billion of the total and the defense-GNP ratio down to about 25 percent. This, however, is in sharp contrast to the period before the 1967 and 1973 wars. In 1966 Israel's armed forces were 65,000. Today

they are 170,000, with a capacity to mobilize an army of 400,000 within 24 hours. And in 1966, total defense expenditure (in 1974 dollars) was \$425 million, about 11 percent of GNP.

In the initial five years following a peace settlement with Egypt, experience with the peace will be a determining factor in the size of Israel's defense forces. If this period proves to be a transition leading to a comprehensive peace in the region, a sharp phasing out of Israel's current program of military imports is possible and a reduction of defense costs to a more "normal" rate of less than 10 percent of GNP may not be unrealistic in the succeeding five years. For the initial five years of peace, however, the prospects are that defense costs will continue at between 15 and 20 percent of GNP, and this in turn will prove a severe constraint on the nation's ability to save. Large-scale aid will be required if substantial economic growth is to be achieved.

If Israel is to achieve a dynamic pace of economic growth, the current level of foreign aid will probably be necessary during the initial five years of peace—about \$1 billion a year for military imports and \$1 billion a year for general economic assistance. This would be additional to the aid that the Israelis anticipate they will require to establish new air bases in the Negev after the withdrawal from the Sinai.

The dynamics of Israeli development in the period ahead will turn on the growth of new industries manufacturing high technology products utilizing Israel's abundant supply of low cost but highly skilled professional manpower. The market for such products are primarily the industrial countries of Western Europe. Israel's recent access, as an associate member, to the European Common Market places her in an improved position to manage such a drive. The recent liberalization of the exchange rate system, the freeing of the Israel pound, and the adoption more generally of policies moving toward a liberalized market economy should provide further support.

Israeli development strategy over the past five years has begun to emphasize such exports. For it to take on the necessary momentum will require a major shift of resources into the export sector and away from defense expenditures and from industries producing for the domestic market. The phasing down of defense expenditures will be essential if such a shift in resources is to take place. And this may in turn be possible if the initial phase of peace proves indeed to be a bridge to a comprehensive peace in the region.

Normalization of relations with its Arab neighbors in a peace period should open up new export markets for Israel. However, the economic importance of these will be limited. Israel's expansion of exports will be directed largely to the markets of the U.S. and Europe.

#### THE WEST BANK-GAZA \*

During the past ten years the West Bank-Gaza economies, administered by the Israeli military authorities, experienced an exceptional rate of income growth but very limited economic development.

\* General economic data for the West Bank and Gaza are drawn from official Israeli sources.

Because of uncertainties as to their future status, there was little investment in the economy of the territories, either on the part of the Israeli government or the Israeli private sector.

Israeli agricultural teams working with the local Palestinian farmers measurably improved the efficiency of West Bank agriculture; but without substantial investment to expand the irrigation base, significant development of the region's agriculture is not possible. In contrast to Israel, where 40 percent of the adjoining agricultural land is irrigated, only four percent of the West Bank's two million acres of agricultural land is under irrigation.

Nor did the Palestinian Arabs of the West Bank-Gaza undertake any substantial investment. Local private enterprise investment was restricted because of the uncertainties connected with the occupation. And in the absence of acceptable banking facilities, savings in general did not get channeled into productive investments.

Public sector investment did not take place because there was in effect no independent Gaza-West Bank public sector authority.

Finally, because of its occupation status, the West Bank-Gaza has been largely sealed off from the benefits of either Arab capital or Arab trade. The continued permitted link with Jordan is a limited exception to this, with some trade taking place and small amounts of capital (about \$3 million a year) being provided by Jordan for West Bank municipal projects. A small amount of U.S. aid (\$3 million) is channeled into the region through private, non-profit, organizations.

The consequence of all this has been that the productive base of the region's economy has not been substantially altered in the past ten years.

The expansion of GNP in excess of a phenomenal 15 percent a year during the period 1968-69 to 1974-75 was due to large scale employment of unemployed or underemployed Gaza-West Bank labor in the Israeli economy. It failed to generate a cumulative development process. Instead of the high rate of investment that the unusual growth in GNP might have induced, investment over the past decade was in the 10 percent to 15 percent range.

Industry remains primitive, predominantly simple craft shops and, in the West Bank, traditional olive processing plants. Industrial production constituted eight percent of the gross national product in 1975. The agricultural base remains essentially unchanged apart from the important exception already noted and some modest investment in equipment and in expanded use of fertilizers and pesticides. There has been no expansion of the negligible Gaza port facility with its potential as a Mediterranean port serving not only the Gaza-West Bank but also Jordan, and possibly Israel.

Tourism, moreover, which had been a substantial source of employment and income for the region, had been reduced to a minor industry, with the loss of Jerusalem and the general cessation of Arab visitors since the occupation.

Finally, there has been a depletion of the principal resource of the region, the reservoir of educated and skilled in its population. Lacking the opportunities that development would create, 40,000 to 50,000 have joined the flow of manpower to the Gulf Oil States over

the past five years. This represents 20 to 25 percent of the current labor force.

Despite these limitations, per capita income of the West Bank-Gaza in the period 1968-69 to 1974-75 more than doubled and the GNP, in 1974 prices, increased from \$236 million to \$530 million. There was a substantial improvement in welfare and in the standard of living of the population of 1,100,000. The per capita income in 1974-75 of about \$500 was comparable to that of Jordan.

The surplus West Bank-Gaza work force employed in the rapidly expanding Israeli economy in 1974 amounted to over 70,000 registered workers and an estimated 20,000-30,000 unregistered, and accounted for more than 40 percent of the region's labor force. However, since 1974 there has been little room for further expansion of income through this route. The substantial pool of underemployed and unemployed had been exhausted, and the basic wage rate for unskilled labor in Gaza and the West Bank had risen and was tending to approximate that in Israel.

Since 1976, growth in GNP has leveled off. In 1977, the increase was less than two percent. In the last two years, with the Israeli economy in a contracting phase, employment of Gaza and West Bank workers in Israel fell by at least 20,000. There was, however, a compensatory emigration of workers mainly across the Jordan river where jobs were available in the booming Jordanian economy. The West Bank-Gaza territories were thus able to remain full employment economies. However, further significant economic growth depends at this point on a peace settlement and the economic development that might follow from it.

If the peace-making process progresses under the Camp David framework, the region faces a transitional period of at least five years during which negotiations to establish its status take place. During this period the scope of economic development that will be politically possible remains to be determined.

The uncertainty as to the ultimate status of the region will continue as a deterrent factor on investment. However, if a central Gaza-West Bank governing authority is established within the Camp David framework and if it will have responsibility for development planning and execution, the possibility opens up of initiating a major development process through public sector investment. In the public sector, the role of foreign aid becomes central. It will be the primary source of funding that the Authority can draw on to carry out a public investment program.

By the end of the transitional period, negotiations may lead to the conferring of some form of acceptable independent status to the West Bank-Gaza. The new Palestine entity will then face the major task of absorbing a large influx of Palestinians. While no precise estimate is possible, a plausible range appears to be between 500,000 and 1,000,000 during the first five years following the establishment of the entity. Near doubling of the population is thus possible in a short space of time. The economic consequences of a peace settlement for a Palestine entity, in the medium term, will depend on how effectively the influx is absorbed. This will depend upon a number of factors, two of which will probably be of crucial importance:

The economic relations established between the entity, Jordan, and Israel, particularly as they might affect the flow of labor, skills, and capital between them in the initial phase of peace.

The kind of development process that gets underway in the Gaza-West Bank during the five year transitional period.

The transitional period offers an opportunity to get a significant development process underway for the West Bank-Gaza. A public investment program on the order of \$150 million a year and a focusing on major projects in housing, water resources and a port facility in the Gaza might provide the necessary leverage. The Gaza-West Bank economies in 1977 had a GNP of about \$600 million—\$200 million in the Gaza and \$400 million in the West Bank. Public investment of the above magnitude would be about 25 percent of GNP in the initial year.

Whether the opportunity will be seized upon is uncertain. If it is not, the prospects are enhanced that with the establishment of an entity, a massive inflow of Palestinians would have a major destabilizing impact on the entity in the first five to ten year period of its existence.

#### CONCLUSIONS

(1) The conflict between economic growth and high defense expenditures has dominated the economies of Israel, Egypt, Jordan and Syria since 1973. In the initial period following an Israeli-Egypt peace treaty, ambitious economic development plans may be frustrated by a continued high level of defense expenditures in each of these countries.

(2) Currently, defense expenditures (apart from military imports financed from abroad) constitute about 15 percent of the GNP in Egypt, Syria, and Jordan, and 20 percent in Israel. No reduction of these defense costs is likely until confidence in a durable peace is established. This must wait upon sufficient experience of Egypt and Israel with normal relations with each other that a treaty makes possible. And, it will further depend upon the expansion of the peace process to include the Palestinians, Jordan, and Syria. Given the step by step nature of the current peace process, a comprehensive peace is at least five years in the future, possibly ten, and it is by no means assured.

(3) If a high growth policy is followed and defense costs are not to operate as a severe constraint on economic growth, an extraordinary level of foreign grants and loans will be necessary for at least the initial five years of the peace period. If this aid is to be effective, the assurances of its availability throughout this period will be as important as the amounts. A stop-go pattern of aid and, consequently, economic development, could have a serious destabilizing impact on the process of growth in these countries.

(4) The magnitude of economic aid would be comparable to current levels on the order of \$4 to \$5 billion a year. Aid will also be required to finance military imports, currently running some \$3 billion a year. Thus, total aid required for the first five years of a peace era is estimated at roughly \$37 billion, as follows:

TABLE 14.—ESTIMATES OF AVERAGE ANNUAL FOREIGN AID REQUIRED FOR SUSTAINED ECONOMIC GROWTH, 1980-85

(In millions of dollars)

|                               | Economic | Military         | Total  |
|-------------------------------|----------|------------------|--------|
| Egypt.....                    | 2,000    | 1,300            | 3,300  |
| Israel.....                   | 1,000    | 1,500            | 2,500  |
| Jordan.....                   | 500      | 200              | 700    |
| Syria.....                    | 1,000    | ( <sup>2</sup> ) | 1,000  |
| Total per year.....           | 4,500    | 3,000            | 7,500  |
| Total for the five years..... | 22,500   | 15,000           | 37,500 |

<sup>1</sup> Includes an average of \$500 million per year for aid-financed cost of replacing Sinai air bases by new air bases in the Negev.<sup>2</sup> No available basis for making an estimate.

(5) If Saudi Arabia and the other Arab oil states cut back their aid to Egypt, the current U.S. commitment may have to be increased accordingly. Saudi aid is now some \$2 billion a year. This might continue, but it could be reduced or even eliminated. If it were eliminated, and the high growth option pursued, the United States might have to provide as much as \$5.5 billion per year in economic and military aid to the four countries, compared to the current rate of about \$3 billion annually.

(6) The West European countries and Japan have a deep interest in a Middle East peace. If they were to assume a share in the foreign aid program, the U.S. commitment could be reduced correspondingly.

(7) The economic momentum achieved over the past five years by Egypt, Jordan, and Syria is impressive. However, present economic growth is precariously based. It depends heavily on annual foreign aid appropriations, which are uncertain, and on the income earned by their nationals working in the oil countries of the region. Nevertheless, if proper domestic policies are followed, if current levels of economic aid are assured, and if there is no substantial increase in military expenditures from domestic resources, the present economic momentum can be sustained. These are not easy conditions to meet.

(8) Israel is another matter. On the one hand, it is an advanced economy with two decades of rapid growth behind it. On the other hand, it is now experiencing serious inflation and no economic growth. To break the stagflation, current levels of foreign aid are required along with restraints on domestic consumption, on domestically-financed military expenditures, or both. With tough domestic policies and today's foreign economic aid, Israel has the capacity to reach a self-sustaining, healthy rate of economic growth in five years. But it will not be easy.

(9) Even if the current high levels of defense expenditures persist—and this need not be the case if the peace process prospers—defense costs for Israel as well as the Arab countries could fall to between 5 percent and 8 percent of GNP within a decade, as a result of the rapid growth in GNP. Consequently, dependence on foreign aid could be reduced, if not eliminated.

(10) In the next five years, economic growth of the West Bank-Gaza economy will depend heavily on whether a duly elected local

authority will have the power to plan and execute development programs.

(11) A period of economic instability, with an adverse impact on long-term political and economic prospects and hopes for all four countries, may well follow an Egypt-Israel peace treaty. Economic assistance may be too late, too little, or too erratic. Serious short-falls in the management of their economies could undermine the goal of rapid development. Defense costs, instead of remaining at current levels, could rise. As a result of any one of these factors, the opportunity to convert current economic momentum into long-term growth would be reduced, or even lost. The resulting disarray, and the internal dissension associated with it, could adversely affect progress toward a durable peace.

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