I Introduction

Economic developments in the Arab world during 1973–89 have been intimately affected by changes in oil production and price levels—in a direct manner for oil producing Arab countries and indirectly through official assistance, employment opportunities, and workers' remittances for most other Arab countries. The five years following the quadrupling of oil prices in 1973–74 were characterized by a massive increase in Arab donors' growth rates, exports, current account surpluses, and total reserves. The substantially augmented national savings were used for a sharp increase in government expenditures, especially on services, and in investments, characterized by a wide range of impressive development projects.

Most of the Arab donor countries were also characterized by small indigenous populations and a relatively minor percentage of the population participating in the economic activity.[1] The explosive growth in investments tremendously increased the demand for labor in these countries. With internal labor insufficient in size, type, and specialization to fulfill this demand, labor had to be imported, and was drawn particularly from other Arab countries and from Asia.

The importance of petroleum in the economies of oil exporting Arab aid recipient countries[2] differed from one country to the other, but was on average smaller than in the Arab donor countries. Nonetheless, oil exporting Arab aid recipient countries and, in particular, Bahrain and Oman, to a certain extent experienced the same economic development as Arab donor countries. The economies of most non-oil exporting Arab aid recipients were characterized by relatively scarce capital, important trade and current account deficits, and abundant population. These countries provided the much needed labor in the large development projects in the Arab donor countries. Arab labor represented, on average, about 70 percent of the total labor migration to Arab countries. Egypt, the Yemen Arab Republic, and Jordan were the main exporters of labor in the Arab countries, accounting for 70 to 80 percent of the total Arab labor movement. Next came the People's Democratic Republic of Yemen, the Sudan, Somalia, and Tunisia—the latter especially to the Libyan Arab Jamahiriya. Morocco also consistently exported labor, but essentially to European countries. Three aid recipient countries were the exception to the rule: Oman was both an importer and an exporter of labor, while Bahrain and Mauritania were importers of labor.

Because of oil revenue or increasing workers' remittances,[3] or both, GDP growth rates of Arab aid recipient countries were, on average, sustained throughout the second half of the 1970s, with consumption averaging 90 percent of total GDP, and even exceeding GDP in some of them. Also, Arab donor countries started channeling large amounts of development aid very early on in their development process to neighboring Arab recipient countries. For many countries that received Arab aid, foreign grants formed a large proportion of total governmental resources, thereby further widening the gap between expenditures and domestic resources. For the period 1975–78, the average ratio of foreign grants to internal resources was 49 percent for Jordan and 52 percent for the Yemen Arab Republic. Furthermore, over this period, a large number of these countries relied increasingly on foreign borrowing to finance their budget deficits. The share of foreign borrowing in total deficit financing averaged 45 percent in the People's Democratic Republic of Yemen, 40 percent in Tunisia, and 57 percent in Morocco.[4] Also, the recipient countries' imports grew nearly twice as fast as their

[1]See "A Study on the Dimensions and Specifics of the Arab Labor Movement in the Arab Countries" published in a series in the *Middle East News Economic Weekly*. The Middle East News Agency, Cairo, Egypt, December 1, 1989–January 26, 1990.

[2]Among the Arab aid recipients, Bahrain, Egypt, Oman, the Syrian Arab Republic, and Tunisia were net oil exporters during 1973–89.

[3]Aggregated net workers' remittances of Arab recipients leaped from less than $1 billion in 1973 to more than $5 billion in 1979 and further to an annual average of $6.6 billion in the 1980s (see Table 35).

[4]Arab Monetary Fund, *Annual Report, 1979*, p. 19.

exports over the period 1973–78, resulting in an increasingly weakened balance of payments position.

Initially because of developments in the Islamic Republic of Iran and the consequent reduction in that country's oil production, oil prices leapt to unprecedented levels in 1979–81. This led to a broad recession in the industrial economies, and, as a consequence, demand for oil began to decline sharply. Energy conservation and the greater use of alternative sources further reduced demand. World consumption of crude oil (outside the Eastern bloc) fell from 54.4 million barrels per day in 1979 to 48 million barrels a day in 1983, and then recovered gradually to 51.8 million barrels a day in 1987.[5] Furthermore, because of significant increases in output by non-OPEC oil producers over the years and the inability of OPEC members to enforce a price-production strategy, OPEC's share of world demand was drastically reduced. Falling consumption and sales put increasing pressure on oil prices, with average export prices of Arab donor countries falling from a high of $33.5 per barrel in 1981 to a low of about $13 per barrel in 1986. A small price recovery was attained in 1987–89, with average export prices increasing to about $16.4 per barrel.

Although the 1979–81 surge in oil export earnings had an initially positive impact on growth rates of most Arab donors, the subsequent radical reductions in oil income forced an economic slowdown in Arab donor countries between 1982 and 1989. Combined exports of Arab donor countries fell continuously from 1980 to 1986, recovering only slightly in 1987–89. Because of the long implementation period for large capital-intensive projects, imports continued to grow in donor countries between 1980 and 1982, while falling from 1983 through 1987, as countries started to defer large new projects. Only in 1988 and 1989 did import levels grow again slightly, in line with the modest recovery in oil prices.

As a result of these developments, the combined current position of Arab donor countries declined from a surplus of $92 billion in 1980 to a deficit of $15 billion in 1983. The further decline in the barrel price of oil in the mid-1980s was accompanied by a fall in the value of the U.S. dollar against the major currencies, thereby further deteriorating the Arab donors' terms of trade. At the same time, interest rates on major currencies, and especially on U.S. dollar deposits, showed a declining trend. Consequently, the Arab donor countries' current accounts remained continuously in deficit from 1983 onward. The deficits were financed initially by investment earnings, themselves sharply diminishing, with the result that the countries became dependent for finance on drawings from their accumulated reserves.

Total government revenues also decelerated sharply in Arab donor countries, resulting in significant cutbacks in government spending, including aid contributions. Furthermore, employment opportunities in the Arab countries showed a diminishing trend. These combined factors had a negative influence on the economies of most Arab recipient countries. More recently, the invasion of Kuwait and the crisis in the Middle East will have major consequences for the future volume and orientation of Arab aid.[6]

[5]International Energy Agency, *World Energy Statistics and Balances, 1971–1987*, pp. 4–5.

[6]For a preliminary analysis, see *Development Co-operation: Efforts and Policies of the Members of the Development Assistance Committee, 1990 Report*, p. 14.