

VI Conclusion

From 1973 through 1980, Arab financial assistance increased very rapidly in line with rising government revenues. A large part of this assistance was granted unconditionally, allowing recipient countries to implement their own development programs. Initially, these aid flows were to a large extent directed to neighboring countries, with whom the donor countries had the closest economic, social, and religious ties. With experience in development finance, the number of beneficiary countries widened over the years and the distribution of assistance among them became more equitable. Also, Arab donors set up a number of national, regional, and multilateral agencies during those years and sharply augmented their contributions to multilateral aid agencies with broad membership.

The decade of the 1980s saw a reversal of this trend as the weakening of the international oil market resulted in a sharp drop in Arab donor government revenues and in balance of payments difficulties for certain donor countries. Also a factor was the Iran-Iraq war, which lasted for most of the decade. Forced to cut down on their own public expenditures and to adopt austerity measures to consolidate their internal and external positions, Arab donor countries gradually reduced disbursements of financial assistance, which by 1989 had dropped to about one eighth of its peak in 1980. It is expected that the invasion of Kuwait and the ensuing crisis in the Middle East will have significant consequences for the future volume and orientation of Arab financial assistance.

Although the absolute amounts of Arab donors' assistance have declined in recent years, their contribution as a share of combined GNPs remains by far the most generous among the major donor groups and well above the target set in the 1970s by the United Nations, which is remarkable considering the prevailing adverse economic and financial circumstances faced by this group of donor developing countries.⁷¹

⁷¹The OPEC Fund for International Development, *Annual Report 1988*, p. 11.

The national and multilateral agencies set up by Arab donors have over the years vastly ameliorated their capacity to appraise and administer their own loans. Also, driven by a philosophy that development policies are in general best evaluated by the economic and political institutions of the countries themselves, they have displayed creativity in trying to meet their borrowers' special needs. Cooperation among donors and the cofinancing of projects have increased over the years, in particular since the diminishing resources in the 1980s made it all the more necessary to concentrate assistance on the most worthwhile projects.

The Arab recipient countries absorbed approximately 61 percent of total net disbursements of financial assistance by Arab donor countries between 1973 and 1989. Most of this assistance was extended bilaterally, with a significant part consisting of general support assistance, often following decisions taken at Arab summit meetings or other developments in the Arab world. These aid flows represented a noticeably large part of most of these recipient countries' GNPs, imports, and fixed investment, and thereby contributed positively to their economic development.

The economic development of both Arab donors and recipients during this period was also heavily influenced by the migration of labor. Because of their sparse populations and low participation rates to the labor force, most Arab donor countries imported labor on a large scale to promote their very rapid economic development. The major part of this labor was provided by nationals of the Arab recipient countries. The ensuing workers' remittances were about one and a half times larger than total financial assistance extended by Arab donors between 1973 and 1989. During this period these two financial flows taken together represented on average about 5.5 percent of the Arab recipient countries' GNPs, nearly one fifth of their imports, and more than 20 percent of their total investment. For a number of recipient countries, these ratios were much higher than that, even surpassing 100 percent by a wide margin for certain countries in certain years. These flows undoubtedly acceler-

ated the recipient countries' economic development far beyond what would have otherwise been possible. Their GDP growth rates were generally much higher than those of developing countries as a group, and their investment was sustained throughout the period. In fact, most of these countries were able to graduate to the middle-income category of countries.

These flows also brought some negative side effects. They created entrenched consumption habits, a high dependency on imported goods, often unrealistically overvalued exchange rates disfavoring the promotion of home-grown export or import-substitution industries, and a higher degree of vulnerability to external shocks. These weaknesses brought the economies of a large number of Arab recipient countries under strain when assistance flows fell markedly in the 1980s. Many of them had to adopt stringent adjustment programs by the late 1980s to redress their economic situation.

The adjustment programs sought to make these economies leaner and more efficient, and thus escape some of the negative side effects of the period of abundant financial flows. The economic advancement that these countries enjoyed in the past two decades, however, was to a large extent due to the generosity of Arab donors, indicating that cooperation and significant resource transfers can have a lasting impact.

Looking ahead, the crisis in the Middle East that erupted after the invasion of Kuwait in August 1990 may have a profound impact on Arab aid flows in the coming few years. Oil prices are widely expected to remain at relatively low levels when compared with those in the 1970s, a growth in defense expenditures is anticipated in the main Arab donor countries, and reconstruction needs in some countries are substantial. These developments are likely to put pressure on those countries' imports and budget expenditures.

As in the past, however, Arab aid donors will likely continue to provide substantial levels of assistance, although the declining trend of the past years might be somewhat prolonged. Also, these aid flows will probably be accompanied by a geographic concentration, particularly in favor of certain Arab recipients. On the other hand, Arab multilateral aid institutions have now reached a degree of maturity that should allow them to continue their assistance programs unabated. At the same time it is likely that private investment from oil producing countries will play an increasing role in the development of neighboring countries undertaking economic reform. All in all, assistance will continue to play a substantial role, and it will be an important element in the formidable task of both reconstruction and structural adjustment in the economies of the region.