ISTITUTO AFFARI INTERNAZIONALI

PAPERS

THE MEDITERRANEAN:

POLITICS ECONOMICS STRATEGY

VOLUME TWO:

DOMESTIC DEVELOPMENT AND EXTERNAL ACTORS

TABLE OF CONTENTS

PREFACE

In putting together this work, published in two volumes, the following persons collaborated: Samir Al Qaryouti (Part Two - Chap. I), Gianpaolo Calchi Novati (Part Two - Chap. II), Pier Virgilio Dastoli (appendix to chap. V, Part Two), Raffaele De Mucci (Part One - Chap. II), Gianluca Devoto (Part. One - Chap. IV), Francesco Gozzano (Part II - Chap. VIII), Paolo Guerrieri (Part. Three - Chap. VI), Georges Irani (Part One - Chap. I), Giuseppe Leuzzi (Part One - Chap. I, III, Part Two - Chap. III), Giacomo Luciani (Part III - Chap. III-V, Part IV - Chap. III), Margherita Paolini (Part Two - Chap. IV), Franco Passacantando (Part Three - Chap. VII), Sergio Augusto Rossi (Part One - Chap. IV), Stefano Silvestri (Part One - Chap. IV), Fabio Tana (Part Two - Chap. V-VI), Luigi Troiani (Part Two - Chap. VII, Part Four - Chap. I-II), Stefano Vona (Part Three - Chap. I-II), Adachiara Zevi (Part Two - Chap. I). Giampaolo Calchi Novati, Gianluca Devoto, Stefano Silvestri, Roberto Aliboni and IRECI (*Istituto per le Ricerche sull'Economia Internazionale* - Research Institute for International Economics - Rome) acted as consultants for the research. Aliboni coordinated the work. Richard Walker did the translation from the Italian.

For the elaboration of the tables numerous sources, generally cited in the text, were utilized, the principal ones being: *The Oil and Gas Journal,* 1975; *Energia e Idrocarburi, Sommario Statistico,* 1955-1974; AMMI, *Metalli non ferrosi e ferroleghe, statistiche 1974;* UN, *Statistical Yearbook;* IISS, Military Balance, *Statistical Yearbook 1974;* Commodity Research Bureau Inc., *1974 Commodity Yearbook;* IISS, *Military Balance;* SIPRI, *Arms Trade Registers;* SIPRI, *Yearbook, World Armaments and Disarmaments;* UN, *Demographic Yearbook;* Ministero degli Affari Esteri, *"Problemi del lavoro italiano all'estero"*, World Bank, Year Report; *Recent Economic Development;* International Monetary Fund, *Recent Economic Development;* World Bank, Atlas; The Economist Intelligence Unit, *Quarterly Economic Review;* International Monetary Fund, *International Financial Statistics;* UN, *Monthly Bulletin of Stastistics;* OCDE, *Etudes Economiques;* Europa publications, *Europa Yearbook; Survey of Current Business.*

The term Mediterranean in this work is complex. Countries considered strictly Mediterranean are those with a coastline on the Sea, that is: Albania, Algeria, Cyprus, Egypt, France, Greece, Israel, Italy, Yugoslavia, Lebanon, Libya, Malta, Morocco. Syria, Spain, Tunisia, Turkey, For political reason the term is often extended to include two other countries: Jordan and Portugal. In order to analyze certain themes the definition was amplified to include several neighboring zones, essentially three: a) the Balkans, i.e., Rumania and Bulgaria, besides the coastal Balkan countries already mentioned; b) the Gulf and the Middle and Near East: Irak, Iran, Kuwait; Oman, Saudi Arabia, North Yemen, South Yemen, Bahrein Qatar, Union of Arab Emirates, in addition to Jordan and the other coastal countries already indicated; c) the European Economic Community.

INDEX OF TABLES

Part. III

Part. IV

PART III

DOMESTIC DEVELOPMENT

I. IRAN

Iran is one of the countries in which the radical change in the international economic situation brought about by the massive increase in oil prices is most likely to be translated into rapid progress towards long-term economic development.

The country possesses all the prerequisites for successful economic "take-off:" a large population (34 million in February 1975) which provides a guarantee against bottlenecks due to the lack of an internal market, a fairly broad and diversified industrial sector (albeit somewhat over-concentrated in traditional manufactures) and, above all, huge reserves of oil (proved reserves at the beginning of 1975 standing at 8,800 million tons), natural gas (with proved reserves on the same date equivalent to 12.8% of the world total), as well as coal, iron ore, zinc and lead. Between 1962 and 1972 a 10.2% per annum growth rate in GDP was accompanied by a major change in the country's economic structure.

Table III/1 shows changes over time in the contribution of different economic sectors to GDP. Immediately one is struck by the growing importance of the oil sector which has expanded significantly more rapidly than the rest of the economy.

The sector's contribution rose from 20.1%

in 1962 to 50.6% in 1974. Although notable in absolute terms, the contribution to the GDP of the manufacturing, mining and services sectors appears to have diminished, in percentage terms, in relation to the oil sector. Table III/2 shows how the proportion of output going to consumption is falling with respect to that devoted to saving. Although in absolute terms there has been a considerable increase in consumption, its share of gross national product fell between 1962 and 1972 from 84.5% to 78.4%. Within this trend public consumption has increased rapidly (from 10% to 21% of GDP), this being due to an intensification of government spending between 1967 and 1972. Meanwhile private consumption's share has fallen from 74.1% to 57.4%.

Domestic gross fixed capital formation was especially intensive between 1962 and 1967 when it grew at an average annual rate of 18%. Although in the following five years there was something of a slow-down (to 13.3% per annum) capital formation's contribution to GDP rose during the period from 13.9% to 23.2%. The two sectors which made the largest contribution to accumulation were agriculture and manufacturing and mining industries, whose respective contributions to national capital formation rose between 1965 and 1972 from 6.7% to 10.8% and from 12.3% to 16.1%.

State intervention in the Iranian economy has been growing and is now of considerable importance. In the last fifteen years government strategy has been concentrated on three main fronts. Firstly, oil revenue has been used to finance a national network of roads, railways, ports, airports and telecommunications. Secondly, a public sector has been created including not only civil and military services but also NIOC (the Iranian national oil company), the Bank Markazi Iran, a number of special banks and a growing number of state enterprises. Thirdly, measures have been taken to encourage the development of modern industrial production beginning with investment in the steel and petrochemical sectors and in modern trading facilities and social services.

Government intervention has been based on a series of economic plans. The most recent of these (including the present plan for the period from 1973 to 1978) have been on a five year basis. Planning priorities may be deduced from Table III/3.

Whereas the heavy growth in expenditure, particularly in the mining and industrial sectors, should be judged positively, the reduction in government aid to agriculture seems to go against the general line of policy. The agricultural sector is in urgent need of massive government intervention to improve the living conditions of the labour force (about half of the national total), to reduce unemployment (3%) and underemployment. (About 30% of the labour force works for less than 42 hours per week. A further 15% works for less than 28 hours weekly).

Table III/1. Iran: Industrial origin of GDP (%)

	1970	1971	1972	1973	1974
Agriculture	19.9	16.5	16.5	12.3	9.4
National Oil	18.7	20.0	27.0	40.8	50.6
Industries and Mines	22.3	22.8	20.1	17.6	14.4
Services	39.1	40.7	36.4	29.3	25.6
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0

Source: Bank Markazi Iran.

Table III/2. Iran: Resources supply and demand
(billion rials)

	1962-63	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73
Consumption expenditures	287.7	457.5	524.3	584.9	664.2	761.0	929.7
Gross domestic fixed capital formation	47.4	119.3	136.5	156.4	167.3	216.3	276.6
Exports of goods and non factor services	78.1	127.8	148.4	172.5	211.0	317.0	363.6
Factor income received abroad	3.6	6.8	9.6	11.5	9.7	13.0	17.9
Imports of goods and non factor services	43.7	101.1	120.4	139.6	158.4	199.3	248.5
Factor income paid abroad	32.7	53.8	69.0	81.5	95.6	128.9	152.9
GNP at market prices	340.4	556.5	629.4	704.2	798.2	979.1	1,186.4

Source: Bank Markazi Iran.

Many of the difficulties facing agriculture in Iran are caused by the hydrological structure of the country. About half of the total area (165 million hectares) is taken up by a semi-arid central plateau (average altitude 1200-1300 metres). On this plateau are situated a large number of villages the surivval of which is made possible only by scarce local water supplies.

Fifty million hectares of land are classified as cultivable. Of these only 20 million are at present under cultivation and only 8-9 million hectares are sown in any one year. There are 3.3 million hectares of irrigated land. It would however be possible to irrigate up to 5.5 million. Irrigation systems are still backward and inefficient, this being largely due to a serious lack of irrigation canals. Only one-fifth of all irrigated land receives an optimal water flow. A further fifth receives a flow which is barely sufficient to meet requirements. The remaining 2 million hectares have only nominal access to irrigation.

The North-western zone, including the coastal strip along the Caspian Sea, one of the few naturally fertile areas of the country, has a quarter of Iran's rural land area and 40% of all irrigated land. The greater part of agricultural production is concentrated in this region.

In 1971 of the total cultivated area (8.8 million hectares), 80% was devoted to grain production, the remainder to cotton, sugar-beet, forage, fruit and vegetables. Within the irrigated zones some of these last, more specialized crops, were of greater significance.

The volume of production shows an upward trend with some fluctuations. Nonetheless, the increase in demand for food products following increases in real incomes due to rapid economic growth has led to an explosive expansion in imports of foodstuffs and other agricultural products.

This has nonetheless failed to satisfy demand from urban centres for certain products (meat, sugar, milk products). The result has been strong pressure on prices.

The gravity of the problems caused by the backwardness of Iranian agriculture becomes even more apparent when it is taken into consideration that in 1975 55% of the population still lived in rural areas. Although, due to a high level of urbanization, the share of the rural in the total population will, by the end of the 1970's, fall to around 50%, the rural population will nonetheless increase by the mid-1980's from its present level of 18 million to about 20 million.

There is thus a danger that if the state fails to intervene effectively, the already serious differences which exist between the standards of living of city families and of those in the countryside will worsen. Seen in this light the agrarian reform, carried out between 1963 and 1971, which led to the redistribution of 8 million hectares to about 2.3 million families and which eroded the existing semi-feudal system of latifundia, appears as only a first step towards the solution of the problems of the sector.

Let us return however to the examination of the economic plans. The fifth five-year plan, adopted in 1973, projected a total state expenditure of 1,299 billion reals. Owing, however, to the rapid increase in oil revenue in August 1974 the plan was revised, projected expenditure being increased to 2,847 billion reals, an increase of 119.2%.

The largest scale expenditure is planned for infrastructural development, especially in the electrical, transport and communications sectors, improvements in which are highly necessary in a vast country planning an annual economic growth rate in the next few years of around 26%.

Heavy expenditure is also planned on industrial development, oil and agriculture. Nonetheless industry's contribution to GNP is expected to fall to 16.1% and agriculture's to 8% despite planned average rates of growth in the two sectors of 18% and 7% respectively. This will be due to a massive increase in the contribution made by the oil industry (which by 1978 is expected to provide 48.7% of GNP) and by natural gas. Production in these two sectors is expected to increase at an annual rate of 51.5%.

In the future, therefore, oil may be expected to play a still more important role than at present in the economic development of the country, particularly given that since the 20th of March 1973 the whole production process, from drilling to refining has been controlled by NIOC, which has taken control over the plant belonging to foreign companies in the famous Iranian oil consortium. Despite massive price increases in 1974 NIOC's strategy has remained that of continually increasing production. Oil revenue in that

Table III/3. Iran: Foreseen expenses in the development plan (billion rials)

	Plan 1	Plan 2	Plan 3	Plan 4
Total	14.1	83.2	204.6	506.8
of which:				
Agriculture and irrigation	5.7	17.4	47.3	41.2
Industry and mining	4.1	7.0	17.1	113.1
Transport and communication	3.5	27.3	53.8	71.4
Social services	0.8	9.3	43.1	73.5
Fuel and other energy supplies	...	...	32.0	79.7

year reached 21 billion dollars.

It can thus be seen that Iran possesses several factors favouring a development of the industrial sector. Of especial importance is the presence of a large potential labour force, in particular of a labour force of ex-artisans with the ability to acquire complicated skills.

Rapid development and changes have occurred in the industrial sector and in its internal structure. As well as a considerable increase in overall production, there has been an increase in the share in this total of intermediate and investment goods (from 19.6% in 1962 to 23.7% in 1972) and of consumer durables (9% in 1962, 12.3% in 1972). The share of non-durable consumer goods in the same period fell from 70.7% to 63.2%. All this is indicative of a general strengthening of Iranian industry.

Amongst intermediate goods one should note rapid increases in production of base metals, chemical and chemical products and the importance of metal products and non-metallic mineral products. The most rapid increase in non-durable consumer goods production has been in the clothing industry. Food and textiles production are nonetheless of greater overall importance.

Despite the rapid development of her own industry, Iran is still to a large extent dependent on imports. In general the pattern of Iranian external economic relations reflects two characteristics of the economic development of the last decade, namely reliance on raw material exports and import substitution. If oil and natural gas are excluded from consideration, exports represent only a small proportion of GNP (1.4% in 1974). Growth in non-oil exports has been slow. Between 1962 and 1972 there was no significant change in their composition. Iran continues to export largely unprocessed goods, mainly carpets, cotton, fresh and dried fruit, skins, and skin and leather products.

The main aim of import substitution is to develop local consumer goods industries. To this end national companies have received protection from both domestic and foreign competion allowing high profit rates which may act as a powerful motor of growth.

Table III/4. Iran: Main imports
(million US dollars)

	1970-71	1971-72	1972-73
Intermediate Goods	1,068.5	1,336.3	1,596.2
Capital Goods	391.0	482.9	642.6
Consumption Goods	217.1	241.7	331.6
Total	1,676.6	2,060.9	2,570.4

Source: IBRD.

At the same time the rapid increase in imports due to industrialization has tended to hide the real importance of the substitution process. Policies of import substitution enabled Iranian enterprises to increase sales of consumer goods. The share of the latter in total imports thus fell continuously. Meanwhile imports of machinery and vehicles rose rapidly.

The majority of imports come from developed capitalist countries (about 70% in 1974). In these years East European countries provided 6.3% of the total. The United States and the German Federal

Republic play a dominant role. Japan is continually increasing her share. Britain on the other hand has lost some of her importance.

In so far as exports are concernerd, we should make a distinction between oil and non-oil exports. Of the latter 42% go to western developed countries. The largest market for Iranian non-oil exports is provided by the Socialist countries.

Owing to oil exports, between 1962 and 1973 the Iranian balance of trade ran constantly at a surplus. This surplus, together with long-term foreign loans, allowed an unusual rate of growth in those imports necessary for rapid economic development.

Despite this surplus in the balance of trade, from 1964 onwards current account showed an overall deficit which, between 1968 and 1972, grew to considerable proportions. This was due, in the main, to profit remittances by foreign investors in the oil industry. The general balance of payments position varied from year to year, influenced mainly by the level of official borrowing abroad. Foreign loans were used for industry (which between 1965 and 1972 absorbed 17% of alla foreign lending) and above all for military expenditure

Table III/5. Iran: Geographical distribution of exports (*)
(million US dollars)

	1969	1970	1971	1972	1973	1974
Common Market Countries	62.2	70.4	89.8	106.5	211.5	174.8
United States	25.4	24.2	27.8	41.5	54.8	46.1
Japan	9.3	12.3	12.7	12.9	43.1	31.6
Socialist Countries Party to Clearing Agreements	96.2	100.3	106.5	151.4	152.6	167.5
ECAFE Member Countries (**)	6.6	9.2	21.6	22.1	34.1	21.9
Turkey and Pakistan	1.4	1.7	0.8	0.8	1.7	4.0
Other Countries	43.6	54.5	75.4	104.6	136.9	164.1
Total	244.7	272.6	334.6	439.8	634.7	610.0

(*) Excludes export of oil and gas.
(**) Excludes Japan and Pakistan.

Source: M. Ganji, A. Milani, "Iran: Development During the Last 50 Years", in *Aspen Institute for Humanistic Studies, Iran: Past, Present and Future,* New York 1976, pp. 33-67.

It is difficult to estimate whether there has been any increase in the competitivity of Iranian exports, not least because of the nature of the trading agreements which have been reached with the eastern bloc countries. Certainly however Iran has improved her position with respect to the average performance of the developing countries on the Japanese, Gulf, Middle-Eastern and North African markets.

(26%). Despite these factors the balance of payments was, for most of the period under consideration, in surplus, as may be seen from Table III/6.

After the 23rd of December 1973 the massive increase in oil prices and the changes of ownership which occurred in the oil sector led to profound changes in the balance of payments situation (and indeed in the economy at large). Whereas in September 1973 oil revenue for 1974 was estimated at 3.7 billion dollars the final figure was 21 billion. Between 1974 and 1980 oil revenue could amount to as much as 170 billion dollars. This could give a healthy balance of payments surplus for a long time in the future, particularly if income from investment abroad is sufficient to compensate for any future reversal of the terms of trade in favour of industrial products.

Iran has thus become a net exporter of capital. The government has clearly indicated that it wishes to provide financial aid both to developing and developed countries. During 1974 and 1975 a considerable number of trading agreements were made with this end in view. A number of these agreements aimed at instituting new relations with the countries of western Europe and the Arab world. Others sought to consolidate Iranian hegemony over neighbouring countries.

The conviction that Iranian security in the East depended on the territorial integrity of Pakistan persuaded the Iranian government to concede a three-year loan of 580 million dollars to cover Pakistan's immediate development requirements. At the same time emphasis was given to the improvement of relations with the Afghan republic. Again the aim was to maintain the political balance in the region. Close collaboration agreements were reached in the agricultural, banking and communications sectors. Talks were resumed with Turkey over plans to build a large-diameter gas pipeline linking the two countries. ENI, Ruhrgas and Gaz de France are all involved in the project.

Trading relations with India and Senegal have been improved. Important agreements have been reached with Syria (for a $150m loan) and with Egypt (for a $750m loan).

Iran has also concluded large-scale agreements with the major European countries. In June 1974 the Shah visited France. During his visit contracts were signed to a value of not less than four billion dollars. France is to provide Iran

Table III/6. Iran: Balance of payments
(million US dollars)

	1970-71	1971-72	1972-73
1. Trade Balance	574	1,364	1,074
Exports	2,615	4,048	4,654
Imports	2,041	2,684	3,580
2. Services and transfers (net)	— 1,230	— 1,639	— 1,937
3. Balance on current account (1 + 2)	— 656	— 275	— 863
4. Capital account (long term)	777	818	556
5. Short term capital (errors and omissions)	— 242	— 177	825
6. Balance (3 + 4 + 5)	— 121	366	518

Source: IMF

with 5 nuclear power stations, a steel mill and six warships. French companies will also be involved in the extension of the Iranian road network and in the building of the gas pipeline mentioned above. Iran has paid an advance of 1 billion dollars.

The second most important agreement (to a value of 3 billion dollars) was reached with Italy, for the construction of a steel mill with an annual production capacity of 3 million tons and a modern integrated industrial centre on the Gulf at Bandar Abbas.

In May agreements were reached with Germany for joint investments to a value of 2.5 billion dollars. These provided for a large jointly financed refinery costing 1 billion dollars, a technical university and the installation of a PAL colour TV system. Germany was to finance a gas pipeline linking Iran to Germany via the Soviet Union.

Finally a loan of 1.2 billion dollars was made to Britain to finance investment in the nationalized industries.

Iran sees herself as a worthy partner for the Western industrialized countries. She is seeking large-scale economic development. Nonetheless her development model, which does not seem to be guided by any coherent strategy, is managed by a small, repressive, ruling class.

The obstacles facing Iran are less economic than social. There is still the risk that development will grind to a halt due to the lack of a set of well-defined objectives.

II. LIBYA

In the last few years there have been profound changes in the structure of the Libyan economy. Since the foundation of the republic, in September 1969, Libya's leaders have in practive followed a policy of "balanced development". The aim for this policy is to reduce the strains caused by the dualism between the oil and the non-oil sectors of the economy. Government economic policy has thus sought to pursue a programme building up national infrastructures of broad, diversified industrialization and for improvements in agriculture. The declared intent of this policy is to free the country from its position of relying on a single product with the dependency and vulnerability to which this leads.

The development of the sector of the economy which today constitutes the motor of Libyan growth, namely the oil industry, is comparatively recent. The first major discoveries were made in 1959. Since then, and particularly since the closure of the Suez Canal, which conferred a great cost advantage on Libyan oil, production has risen rapidly, reaching a maximum level, in April 1970 of 3.7 million barrels per day. Libya thus became the third largest world oil producer after Iran and Saudi Arabia.

Already, halfway through the 1960's oil had taken a dominant role in the economy leading to an ever stronger tendency towards dualism. The isolated oil sector, totally under foreign control, absorbed resources from other sectors, in particular, manpower from agriculture. This led to a chaotic process of urbanization. In 1970 oil production was responsible for two-thirds of gross domestic product.

After the fall of King Idris the new republican government began a policy of economic diversification, beginning with a change in policy on oil. This led to a number of institutional changes affecting oil concessions and property rights. Concessions to foreign companies were replaced by participation agreements between these and the state-owned National Oil Corporation (NOC). The government then proceeded to take control over some of the largest companies, in a number of cases resorting to nationalization. By the first quarter of 1974 NOC was responsible for 63% of total production. Having reacquired control over national resources government policy aimed long-sightedly at the conservation of Libya's only source of wealth. Production was reduced. Despite the country's continued reliance on oil revenue, rising prices meant that no loss of income resulted.

Following these government policy decisions the oil sector's share of gross domestic product fell in 1973 to 47.9%. Simultaneously there was a rise in the importance of other sectors.

A detailed examination of the period between 1966 and 1973 allows us to see more clearly the change in direction which had taken place.

Between 1966 and 1969 gross domestic

product measured at current prices grew at a rate of 25% per annum. The oil sector expanded at a rate of 29% per annum; the other sectors at 20% per annum. In 1971, 1972 and 1973, on the other hand, the relevant figures are as follows: for gross domestic product 1971: +13.9%; 1972: +10.2%; 1973: +9.5%; for the oil sector: +13.1%; +0.1% and 0% respectively; for the other sectors: 15.2%; 25.2% and 20.0%.

Although, as we have just seen, a change has occurred in Libyan policy on the rates of growth of the various sectors of the economy a detailed break-down of gross domestic product (see Table III/7) shows that agriculture, manufacturing and mining still play a negligible role. Growth in the construction industry has had a more visible effect, the sectors contribution to GDP now standing at 13.3%. There have also been notable increases in health and education and in wholesale and retail trading. All other sectors have remained more or less stable.

Since 1971 there has been a change in the statistical criteria used in the measurement of national expenditure. As can be seen from Table III/8 however, there have been no major changes in the distribution of revenue between consumption and investment.

There has been a considerable increase in the weight of the public sector, particularly in fixed capital formation. State intervention has compensated for a fall in private investment, in particular in investment by the oil companies. The share of investment in gross domestic product

Table III/7. Libya: Industrial origin of GDP (at current prices)
(million Libyan dinars)

	1971	1972	1973	1973 (%)
Oil sector	992.1	916.0	916.0	47.9
Other sectors	664.4	832.0	998.0	52.1
agriculture	33.0	43.6	48.0	2.5
manufacturing and mining	32.7	46.0	54.5	2.8
construction	116.8	182.8	255.0	13.3
electricity and gas	7.3	9.4	11.0	0.6
transport	87.2	100.5	115.5	6.0
trade	75.6	95.8	120.0	6.3
banks	29.4	32.2	35.5	1.8
public administration	136.4	147.8	158.0	8.2
education	46.6	60.7	73.5	3.8
health	22.0	26.9	31.5	1.6
real estate	69.0	76.1	84.0	4.4
other services	4.4	10.2	11.0	0,6
GDP at factor cost	1,586.5	1,748.0	1,914.0	100.0

Source: IBRD

thus returned by 1972 to its 1969 level after a serious fall in the two intervening years.

The objectives of state intervention may be deduced from Table III/9 which shows the sectorial distribution of public expenditure over the last decade. The first period shown in the Table refers to the first five-year plan (1963-4 to 1967-8); the second, the period up to 1972-73 when,

Table III/8. Libya: Expenditure on GNP (at current prices)
(LD million)

	1971	1972
Consumption	786.8	897.5
private	468.4	488.4
public	318.4	409.1
Investment	300.7	450.6
gross formation of fixed capital	287.9	436.6
private	(79.5)	(98.7)
public	(208.4)	(337.9)
increase in stocks	12.8	14.0
Net exports	328.2	171.0
Gross national product at market prices	1,415.7	1,519.1

Source: IBRD

Table III/9. Libya: Public expenditure by sector
(LD million)

	1965-68 Plan Final amounts	%	1968-73 Plan Final amounts	%	1973-75 Plan Estimated amounts	%
Agriculture	37.7	13	159.9	16	441.3	21
Industry	14.9	5	106.1	11	261.8	12
Oil	—	—	38.2	4	189.0	9
Transport	52.7	18	115.3	12	199.0	9
Public works	87.5	30	201.2	20	361.1	17
Education	25.8	9	77.9	8	217.9	10
Health	8.7	3	30.3	3	69.8	3
Housing	29.5	10	187.6	19	295.0	14
Other	33.1	11	84.3	8	57.1	3
Reserves	—	—	—	—	23.0	1
Total	289.9	100	1,000.8	100	2,115.0	100

following the change in regime, there was no plan in operation and the third the projected expenditure for the three-year economic and social development plan for 1973-1975. The heavy increases in government expenditure in the second and third of these periods may be clearly seen.

The share of expenditure devoted to transport, communications, public works and electricity has gradually fallen. Its projected value for the period 1973-5 is 26%. Even if the infrastructural requirements of the country are still very far from being satisfied, the gradual achievement of certain important goals in these fields has enabled resources to be switched into sectors with even more urgent needs such as agriculture, industry and government housing projects to resolve the serious housing problem.

Although, following the oil price rises, Libya has no difficulty in financing the heavy flow of expenditure projected in the three-year plan, there are problems connected with the absorptive capability of the economy. In the first year of the plan (i.e., fiscal year 1973) effective expenditure was 27% below the projected level.

The main problem which the three-year plan aims to resolve is that of agriculture, which employs 30% of the Libyan population and yet which produces only 2.5% of GDP non-attributable to the oil sector. The conditions for agriculture in Libya are highly unfavourable. The total area of cultivable land is 2.5 million hectares, that is to say, less than 2% of the total area of the country. What is more, 90% of this cultivable land is devoted to cereal production, mainly barley and grain, and in any one year three quarters is left fallow. The remainder is used for olives, tomatoes, potatoes and onions.

As only a small proportion of arable land is under irrigation harvests depend on rainfall. This may vary greatly from year to year.

The main activity is however sheep-rearing. In 1974 this accounted for three-quarters of the production of the animal rearing sector.

The plan aims initially to reduce the country's dependence on food imports and thus to make Libya a net exporter rather than a net importer, as she is at present, of agricultural products. To do this the plan aims to reinforce existing agricultural structures both through long and short-term measures. In the short-term it is planned to provide better seeds and subsidies to cover 50% of the cost of fertilizers, machinery, insecticides and forage. A state enterprise, the National Supply Corporation, guarantees the purchase of large harvests at support prices.

Long-term measures have been taken aiming at reducing peasant emigration to urban centres and at increasing production, mainly by extending the area under cultivation and by improving the quality of animal heads. It is also planned to distribute land to individual farmers, thus reducing the extent of tribal property. Note should also be taken of long-term land-reclamation projects and the efforts being made to drill new wells in the desert. These have already led to the discovery of a huge underground reservoir near the Cufra oasis.

The latest figures seem to show that this massive state intervention is beginning to give good results. In 1972 agricultural production rose by 25%, in 1973 by 20% It seems that in 1974 this trend will continue. Although their contribution to gross domestic product remains small (2.8% in 1973), the manufacturing and mining industries have expanded considerably since the beginning of the 1960's. Traditionally the industrial sector is mainly involved in food, drink and tobacco production. In recent years the clearest trend has been the rapid expansion in cement production.

Industry to has been affected by political change. In 1969 value added in industry was only 3% higher than in the previous year. In 1970 the figure was 9%. In the previous period (1966-68) the annual growth rate was 12%. The improvement in 1971 (12%) and the rapid growth in 1972 (41%) show the efforts which are being made.

The three-year plan projected the expenditure of 262 million Libyan dinars on 57 industrial projects outside the oil sector. Delays with imported machinery and difficulties met during the building of plant have meant that of the nine factories whichi should have been completed in 1973 only three have so far begun production. Thus value added in the sector was in 1973 only 18% higher than in the previous year. Meanwhile the number of projects due for completion in 1974 has risen to 26.

Two criteria have been used in

determining which products should be produced, namely market conditions and raw material availability. Thus large-scale plant has been set up in the pretrochemicals sector, producing mainly for export. Production for home consumption has been concentrated in areas where there is already a good level of demand or where demand is growing rapidly and where raw materials are locally available. The aim of this policy is to reduce transport costs and to enjoy the advantages to be derived from the use of capital intensive technology.

Nonetheless the shortage of a skilled labour force and of managers is still a major obstacle in the way of industrialization. In a number of cases, despite the efforts which, as we have seen, are being made, lack of infrastructures (e.g., electricity, water and communications) has also proved a problem.

Like other sectors of the economy, the construction industry grew rapidly throughout the 1960's. After a recession from 1969 to 1970, due to the political events already mentioned, to the adverse effects of falling rents and to the departure of the Italian community, 1971 saw an exceptional 14% growth in added value in the sector (measured at current prices). 1972 value added was up a further 57%, in 1973: 40%.

The strongest drive behind the building boom came once again from the public sector. Not only was there growing investment in public works but a strong emphasis was placed on providing houses for low-wage earners. In 1970 a special board was set up with the task of building more than 30,000 houses, to be sold at prices between 30 and 90% below cost, according to the income of the buyer. Payment was interest free and spread over twenty years. Efforts were also made to encourage non-subsidized residential construction. Houses built after 1970 were exempted from rent control. Low interest loans from commercial banks were encouraged.

An important factor in the expansion of the sector helped, as it was, by the increase in public and private demand, was the use of labour from neighbouring countries. This phenomenon affected other sectors of the economy as well. In only two years from 1971 to 1973 the proportion of foreigners in the labour force rose from 7.9% to 18.2%. Meanwhile unemployment, in the strict sense, fell from 5% to 2,5%. The labour shortage is due to the small size of the Libyan population (2.26 million according to the 1973 census, growing rapidly at 3.7% per annum), to its distribution by age, to the high number of illiterates and semi-illiterates and to the generally low level of participation in the work force. Only a quarter of the population and very few women work. Indeed only 7% of the labour force are women; 60% are illiterate or semi-illiterate. This leads to a certain level of structural unemployment. In 1972, although demand for plumbers, electricians, carpenters, brick-layers, etc. was in excess of supply, 2.5% of the labour force was unemployed.

Policy on public spending is, because of the principles on which it is based, one of the factors underlying the labour shortage, particularly in industry. The social services and the construction industry employ a large number of workers. The Government's plans for agriculture are not only labour intensive but actually aim to reduce emigration from the countryside, thus preserving the traditional pool of labour in farming.

To eliminate the labour shortage the three-year plan projected an influx of 54,000 new foreign workers, that is, a 50% increase in the total number in the country. Already in 1973, however, these projections had proved to be outdated. Instead of the planned 16,500 workers at this stage, 38,000 had been recruited.

Libya does not only rely on foreign countries for her labour supply. Industrial products, from food to vehicles, and nearly all raw materials are imported. The basic pattern which shows up in the Libyan balance of payments in recent years is a heavy surplus in oil, used mainly to cover the trading deficit in the non-oil sector.

The balance of payments (see Table III/10) has nonetheless been in surplus for many years. The size of the surplus has increased from 6 million Special Drawing Rights in 1961 to 866 million in 1971. In 1972 this surplus was drastically cut to 324 million, this being due, on the one hand, to a reduction in income from the oil sector and on the other to an increase in imports by the non-oil sector, due in its turn to rapid economic growth and to even faster world inflation. The deficit on services was swelled enormously

Table III/10. Libya: Balance of payments
(million SDRs)

	1972	1973	1974
1. Trade balance	1,914	2,411	5,534
Exports	3,195	4,830	10,120
Imports	—1,281	—2,419	— 4,586
2. Services	—1,207	—2,090	— 3,049
3. Transfers	— 162	— 454	— 252
4. Balance on current account (1 + 2 + 3)	545	— 133	2,233
5. Capital account	— 106	92	— 60
6. Errors and omissions	— 115	—1,229	— 62
7. Balance (4 + 5 + 6)	324	—1,270	2,111

Source: IMF

Table III/11. Libya: Main commodities traded (%)

	1969	1970	1971	1972
Imports	100	100	100	100
Food	14.2	22.5	22.2	16.6
Raw materials	5.1	5.0	5.6	5.1
Chemical products	5.2	5.8	6.0	4.8
Manufactured goods	23.2	21.4	20.8	23.7
Machinery and equipment	39.6	29.7	29.2	34.3
Others	12.7	15.6	16.2	15.5
Exports	100	100	100	100
Crude oil	99.7	99.6	99.4	98.0
Natural gas	—	—	0.3	1.3

Source: IBRD

by remittances by foreign workers and by outflows of public capital in the form of loans to the Arab countries.

Figures for 1973 show a large deficit (1,270 million Special Drawing Rights) due to the same factors as those listed above. Their effect has, however, become more serious. The oil surplus has fallen. An increase in imports had led to an increase in the non-oil deficit. The deficit on services has doubled. Capital transfers and outflows of public capital have increased. The increase in imports, despite a large revaluation of the dinar with respect to the currencies of Libya's major trading partners, is particularly significant, being closely linked to accelerating economic growth and to the expansion of the import-intensive public sector. Finally, the worsening during 1973 of the situation on services account should be interpreted as a consequence, on the one hand, of remittances by foreign workers, on the other of government expenditure on the war with Israel (this also being reflected in the item "errors and omissions").

Strongly rising Libyan imports in 1972 and 1973 suggest that it might be useful to examine Libya's foreign trade in more detail. The largest share of imports is taken up by machinery, vehicles and manufactured goods (some of which are classified in Table III/11 as "others"). Together with foodstuffs these account for around 80% of the 1969 total. In 1972 and the first half of 1973 they maintained this share. The only significant export is still oil. No measurable progress has been made with other products.

Given the nature of Libyan imports and exports Libya's main trading partners are the western industrialized countries. Since 1970 there has nonotheless been an increase in trade with other countries. It thus seems as if the Libyan economy is more closely integrated with the developed western economies than with those of North Africa and the Middle-East. In the medium-term there seem to be few prospects for a change in this situation. Such a change would in any case require a coordination of Libyan industrial policy with that of the other Arab countries.

The main obstacles to such coordination are on the one hand differences in economic structures and, on the other, the imbalance between Libya's considerable financial influence, her limited potential for industrialization and her low population.

Such obstacles do not however exclude the possibility that in the long-term Libya might find her place in the North-African regional economy, supplying capital intensive in exchange for labour intensive goods.

III. THE COUNTRIES OF THE MAGHREB

The potential for economic development in the Maghreb is greater than in any other non-European region of the Mediterranean. The region is rich in mineral resources. These could form a basis for countries of the region from the balance of payments constraints which hamper most under-developed countries. The region is agriculturally fairly rich. There is an abundance of cultivable land; the climate favours the growing of high-priced produce. The regional population is large enough to provide a market for self-sustained development, while not being so excessive as to impose an undue strain on natural resources. In other words, the Maghreb has been spared the problems faced by the rest of the Arab world both in North Africa (Egypt and Libya) and in the Middle-East (Yemen and the Emirates).

From the point of view of natural resources, the three maghreb countries (Algeria, Morocco and Tunisia) are fairly similar. Each possesses large reserves of some export mineral; oil in the case of Algeria, phosphates in that of Morocco, both for Tunisia. In each case agriculture is the largest economic sector in terms of employment and has considerable un-exploited development potential. The regional population distribution is relatively even.

It is not clear however whether these similarities favour regional economic integration. At least to some extent the three countries compete with rather than complement each other. What is certain is that all three countries have similar prospects for development, that all three face roughly the same problems.

This has not however led to any degree of homogeneity in economic policy; on the contrary, these have tended to diverge. Algeria has steadfastly aimed at internally-orientated industrial development. The aim has been to develop a whole series of sectors simultaneously with a view to satisfying the requirements of the internal market. In development literature this strategy is known as "balanced growth". Exports are only encouraged to the extent that this is necessary to cover import requirements. Certainly they are not expected to provide the driving force behind industrial development.

Morocco represents the opposite extreme. Her economic policy has few salient features and is somewhat difficult to categorize. In financial and balance of payments policy the government follows old liberal good management criteria. This

Table III/12. Algeria: Industrial origin of GDP (at current prices)
(million Algerian dinars)

	1969	1970	1971	1972	1973
Agriculture	2,560	2,510	2,250	2,794	2,477
Mining	3,158	3,624	3,439	4,931	6,139
Manufacturing	2,659	2,895	3,280	3,385	3,819
Construction	1,432	2,126	2,321	2,760	3,422
Transport and Communication	740	880	840	914	1,075
Trade	4,850	5,210	5,430	6,060	6,910
Public administration	6,640	2,900	3,100	3,853	3,963
Other services	2,910	2,760	2,860	3,189	3,394
GDP	20,949	22,905	23,520	27,886	31,199

Source: IMF.

Table III/13. Tunisia: Industrial origin of GDP (at current prices)
(million Tunisian dinars)

	1969	1970	1971	1972	1973
Agriculture	97.9	114.5	147.7	186.0	167.2
Mining	47.3	53.8	65.6	70.9	75.8
Manufacturing	58.6	60.9	72.3	93.1	97.2
Construction	48.8	47.9	53.9	65.5	78.2
Transport and communication	44.1	50.7	49.4	56.9	62.5
Trade	73.5	83.5	100.6	124.3	128.6
Public Administration	93.3	103.8	111.1	127.2	139.2
Other services	121.9	130.0	151.9	171.0	174.5
GDP at factor cost	585.4	645.1	752.5	894.9	923.2

Source: IMF.

policy, although it may have limited price rises and maintained balance of payments equilibrium, has nonetheless acted as a brake on economic growth. At the same time, Morocco has adopted protectionist measures both in trade policy, where the aim has been to encourage the development of import substitution industries, and in policy on company and land ownership where the objective is "Moroccanisation".

Until 1970 the emphasis of Tunisian policy was on the agricultural sector where the peasants were forced into cooperatives. In that year however this policy was abandoned and it now seems as if Tunisia aims to follow a strategy of export-led growth.

GROWTH IN NATIONAL INCOME

These differences between the economic policies pursued by the three countries in the area have been clearly reflected in differing rates of economic growth. Algeria has had the most rapidly growing gross domestic product. In the period covered by the four-year plan 1970-73 gross domestic product measured at current prices increased at a rate of 11.2% per annum. Approximate estimates of price inflation allow us to calculate a real annual growth rate of around 7%, that is to say, slightly less than the projected figure in the economic development plan (see Table III/12).

Outside the agricultural sector growth has been particularly intense and relatively uniform. In 1973 the fastest-growing sector was the oil industry (24.2% up on the previous year). Building and public works grew at a similar rate (24%). Growth in other sectors varied between 10 and 20%.

In contrast with this performance, agricultural production fell by 11.3%, owing to bad weather. This was not unusual. In 1970 production had fallen by 2.0% and in 1971 by 10.4%.

Tunisian gross domestic product also grew, although on average at a slower rate than the Algerian figure, (see Table III/13). During the period covered by the third development plan (1969-72) the average annual growth rate stood at 9,6%. Growth was fastest in 1972 when GDP (measured at current prices) rose 17.6% over the previous year. This represented a 16.9% increase in pro capita income.

A sectorial analysis shows however sharp differences between the two economies. Rapid Tunisian growth in 1972 was mainly due to excellent results in agriculture in that and the preceding year (1971: +28%; 1972: +25%). These were exceptional. In 1973 agricultural production fell by 11%. In 1972 manufacturing industry also expanded rapidly (28%). Growth in the following year was however much slower (4%). Unstable growth rates were also characteristic of the other main sectors of the economy. It may thus be concluded that although between 1969 and 1972 the Tunisian and Algerian economies expanded at a similar rate, it is unlikely that Tunisia will be able to maintain this performance

Table III/14. Morocco: Industrial origin of GDP (at 1960 prices) (million dirhams)

	1968	1969	1970	1971	1972
Agriculture	3,980	3,650	3,720	3,950	4,090
Mining	890	950	970	1,000	1,190
Manufacturing	1,490	1,580	1,700	1,780	1,840
Construction	570	610	700	750	740
Transport and communication	2,010	2,090	2,190	2,300	2,390
Trade	2,440	2,550	2,730	2,840	2,950
Public Administration	1,380	1,440	1,540	1,640	1,710
GDP	12,760	12,870	13,550	14,260	14,910

Source: IMF.

unless in one sector a stable pattern of rapid expansion is established, allowing that sector to act as a motor of growth.

The rate of growth of the Moroccan economy is significantly lower than that to be found in Algeria or Tunisia. In 1972 gross domestic product grew by only 4.8% and in 1973 by only 1.4%.

This shows a gradual slow-down in economic activity. During the five-year plan 1968-72 the annual rate of growth was 5.7%. The significance of this last figure is however somewhat doubtful owing to a high degree of variance in annual results. In 1968, for instance, gross domestic product rose by 12.4%. The figure for the following year was 0,9%. As in the Tunisian case, these extreme results could be traced back to agriculture which generates about 28.4% of gross domestic product. Whilst in 1968 agricultural production rose by 29.6%, in 1969 it fell by 8.3%. 1973 was an even worse year with a fall of 10.7%. Other sectors of the economy have maintained a more stable pattern of growth.

Expansion has not however been rapid. The average annual growth rate between 1968 and 1972 was 5.8% in mining and 5.3% in manufacturing and artisanal industry. In 1973 both sectors grew more rapidly (17.1 and 10.3% respectively). It is unlikely however that this represents a firm trend.

Another interesting way of seeing the different development strategies being pursued by Algeria, Tunisia and Morocco is to look at expenditure patterns, in particular, the propensity to invest. In Algeria investment is growing at 18.4% per annum, more than twice as fast as consumption. In 1969, gross domestic savings were equivalent to 26.9% of gross domestic product devoted to investment rose even more rapidly by 7.7 points to 37.4% (Table III/15).

In Tunisia, on the other hand, investment, at an annual rate of growth between 1969 and 1972 of 12.7%, rose only slightly faster than consumption (12.4% per annum). Gross fixed captial formation represented only 20.2% of gross domestic product, a

Table III/15. Algeria: Resources supply and demand (at current prices) (million AD)

	1969	1970	1971	1972	1973
Resources supply	25,600	29,913	30,400	35,039	41,145
GDP	20,529	22,905	23,520	27,886	31,163
Imports	5,071	7,008	6,880	7,153	9,982
Demand	25,600	29,913	30,400	35,039	41,145
Consumption	15,000	16,216	17,140	19,801	20,889
private	11,325	12,180	12,840	14,725	15,447
public	3,675	4,036	4,300	5,076	5,442
Investment	6,109	8,256	8,538	8,958	11,651
gross fixed capital formation	5,745	7,600	8,600	9,180	12,001
increase in stocks	364	656	— 62	— 222	— 350
Exports	4,491	5,441	4,722	6,280	8,605

Source: IMF.

Table III/16. Tunisia: Resources supply and demand (at current prices) (million TD)

	1969	1970	1971	1972	1973
Resources supply	708.6	780.9	884.4	1,043.1	1,123.4
GDP	678.2	746.9	866.6	1,028.0	1,067.4
Net imports	30.4	34.0	17.8	15,1	56.0
Demand	708.6	780.9	884.4	1,043.1	1,123.4
Consumption	561.5	629.9	701.6	806.6	870.7
private	443.4	499.1	563.7	649.7	699.8
public	118.1	130.8	137.9	156.9	170.9
Investment	147.1	151.0	182.8	236.5	252.7
gross fixed capital formation	141.6	146.2	173.4	207.4	257.2
increase in stocks	5.5	4.8	9.4	29.1	— 4.5

Source: IMF.

Table III/17. Morocco: Resources supply and demand (million dirhams)

	1970	1971	1972	1973
Resources supply	21,280	22,890	24,540	27.050
GDP	16,960	18,550	20,210	21,650
Imports	4,320	4,340	4,330	5,400
Demand	21,280	22,890	24,540	27,050
Consumption	15,200	16,470	17,830	18,750
private	12,740	13,770	14,880	15,425
public	2,460	2,700	2,950	3,325
Investment	2,550	2,690	2,680	3,200
gross fixed capital formation	2,610	2,620	2,690	2,750
increase in stocks	— 60	70	— 10	450
Exports	3,530	3,730	4,030	5,100

Source: IMF.

much lower figure than for Algeria (see Table III/16).

In Morocco, finally, investment, after having risen by 19.7% in 1970, was steady in 1971 and in the two following years only rose very slowly (2.3% in 1972; 2.6% in 1973).

During the last three years this rate of growth has been slower than that of consumption. There has thus been a steady fall in the share of gross domestic product devoted to investment (from 15.4% in 1970 to 12.7% in 1973) (see Table III/17).

AGRICULTURE

Throughout the Maghreb agriculture is the largest sector of the economy in terms of employment (see Table III/18). The agricultural labour force represents 41% of the total in Tunisia, 50.4% in Algeria and 56.3% in Morocco, a figure surpassed in the Mediterranean area only by Syria with 66.5% and Turkey with 71.8%.

The significance of the sector in terms of gross domestic product varies considerably between the three countries. In Algeria agriculture is responsible for only 7.1% of gross domestic product; in Tunisia for 14.6% and in Morocco for as much as 28.4%.

Table III/18. Economically active population by sector (%)

	Algeria	Morocco	Tunisia
Agriculture	50.4	56.3	41.0
Mining	0.9	1.2	2.2
Manufacturing	6.4	8.2	9.5
Construction	5.0	1.7	5.4
Electricity	0.4	0.3	1.6
Trade	5.9	7.3	6.7
Transport	3.4	2.5	3.5
Services	13.2	9.9	19.5
Others	3.3	3.3	6.9
Not yet employed	11.1	9.3	3.7

National sources

This in no way means that Algeria gives a lower priority than Tunisia or Morocco to agricultural modernization. In all three countries the size of the farming population is such that if agriculture remains marginal to economic development an intolerable situation is bound to result. On the one hand the modern industrial sector will be deprived of a domestic market; on the other, traditional agriculture will be excluded from the benefits to be derived from industrialization. Agriculture is thus vital both to Algeria (where the problem is that of transforming industrial growth into real economic development) and to Morocco (where agricultural modernization is an essential prerequisite for any industrialization at all).

Climatic conditions in the Maghreb are fairly uniform. Thus more or less the same main crops are grown in all three countries. Cereal crops are of prime importance throughout the region. In 1973 Algeria produced 1,170,000 tons, Morocco 3,402,000 tons and Tunisia 846,000 tons of cereals. In Algeria and Tunisia the most important cereal crop was hard grain (Algeria — 500,000, Tunisia 481,000 tons) followed by soft grain (420,000 and 231,000 tons respectively) and barley (250,000 and 134,000 tons). In Morocco this was the main cereal crop (1973 production totalling 1,250,000 tons) followed by hard grain (1,182,000 tons) and soft grain (392,000 tons).

The level of cereal production varies greatly from year to year. The same is true of olives and olive oil, products which are especially important in Tunisia and Morocco. Between 1971 and 1972 Tunisian olive production rose from 450,000 to 900,000 tons. In the following year, however, production fell to 350,000 tons. In 1971 Moroccan production stood at 160,000 tons, tripling the following year to 506,000 tons. Again, however, 1973 saw a drastic drop with a harvest of only 200,000 tons.

Wine production is mainly concentrated in Algeria, and represents the country's main agricultural export. After reaching a peak of 9.3 million hectolitres in 1971, production declined significantly and in 1972 only 5.8 million hectolitres were produced. The following year saw a slight improvement to 6.6 million hectolitres. The drop in production was only partially due to poor weather conditions. At the same time the Algerian government was encouraging the substitution of cereal for vine cultivation. Between 1969 and 1973 the area under vines was thus significantly reduced from 300,000 to only 214,000 hectares. As a result wine's share in Algerian exports fell from 14% in 1969-70 to 8.6% in 1973.

Citrus fruit production is important throughout the Maghreb. The largest producer is Morocco (987,000 tons in 1973). Algeria produces about half this quantity (1973: 450,000 tons). Tunisian production is much lower (75,000 tons in 1973 despite a crop of 120,000 tons the previous year). Vegetables are also produced in all three countries. Production levels are however much lower than for the crops above.

In Algeria and Morocco animal husbandry is an important activity. In the former, sheep (of which there are 87 million) are of prime importance. The level of cattle rearing (less than 1 million head) is insufficient to meet national requirements. In Morocco the ratio between sheep (13.2 million) and cattle (2.7 million) is rather more favourable.

The statistics above clearly show the problems faced by agriculture in the Maghreb. The organization of production is backward and the colonial legacy has yet to be overcome. The sector is thus incapable of satisfying domestic demand and of realizing its export potential. It is easy to see that policy on agriculture is vital to Maghreb development strategy.

There can be no doubt that the most innovative policy has been adopted by Tunisia. Up to 1969 the government made great efforts to encourage or to oblige the peasants to set up agricultural cooperatives. Under Ahmed Ben Salah the cooperatives came to control 24% of all land under cultivation. In 1969 however, the year in which the cooperatives should have begun for the first time to take over land belonging to modern agricultural enterprises, Ben Salah was eliminated from the Tunisian political scene. Since 1969 Tunisian policy on agriculture has been somewhat ill-defined. Production has however grown more rapidly than in the years preceding 1969, this being due, in part, to Ben Salah's concentration on long-term infrastructural investment with deferred returns — in irrigation, erosion control and reforrestation programmes.

Algerian policy on agriculture has been less radical. During the first stage of the agrarian reform programme about 800,000 hectares (23.5% of all land under cultivation) was redistributed to about 50,000 peasants organized into 2,614 cooperatives. During the second stage, 250,000 hectares (about 7.5% of all cultivated land) will go to 10,000 peasants similarly organized. 9.5% of public investment funds in the economic development plan (1970-73) have been allocated to investment in agriculture. A large proportion will go to mechanization.

Morocco also has a plan for agricultural land redistribution, although it is far more cautious than those adopted by her neighbours. At the beginning of the 1960's land distribution in Morocco was extremely unequal. About 23% of the farming population owned no land. 52% had less than two hectares. Meanwhile 4% owned more than 10 hectares and controlled 33% of all cultiviated land. Since independence 181,194 hectares have been redistributed, under the terms of the agrarian reform programme. This represents however only 3.2% of all cultivated land. 11,101 farmers in 348 cooperatives have benefitted from the redistribution.

OIL AND MINERAL RESOURCES

Oil is easily the Maghreb's most important mineral resource. Reserves are mainly concentrated in Algeria. Morocco has practically none. In 1974 Algeria produced 45 million and Tunisia a little over 4 million tons. The difference between the two countries' reserves is even greater. Algeria has reserves of 1,100 million tons. If extraction continued at its 1973 level this would be enough to last a century.

Tunisia, on the other hand, has already reached optimal levels of production and the quantity of oil produced is now expected to fall at a rate of 8% per annum.

The Algerian oil wells are mainly situated in two areas of the Sahara desert, one in the central-northern region and one in the east. The first of these, a single well at Hassi Messaoud, is the larger of the two and is responsible for 50% of total Algerian oil production.

Algeria has followed a distinctly nationalist line in her policy on hydrocarbons. All oil and natural gas production is in the hands of the *Societé nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures* (SONATRACH). Since 1971, the year in which the Algerian wells were completely nationalized, SONATRACH has been responsible for the management of the whole Algerian oil industry.

In 1971,following nationalization, there was approximately a 23% fall in oil production due to the French companies' refusal to accept the nationalization decree and the temporary suspension of French imports of Algerian oil. Following the settlement of the dispute (in which the French more or less capitulated) production and exports began once again to rise although at a slower than the initially projected rate.

Algeria has made an effort to increase the share of her oil refined on Algerian soil and to export ex-refinery products rather than crude. Up to 1973 there was only one refinery, with a capacity of 2.3 million tons, situated at Algiers. At the beginning of that year, however, a second refinery at Arzew with a 2.3 million tons capacity became operational. With increased refining capacity exports of refined products have risen rapidly. 1973 exports stood at 2.4 million tons, about four times the figure for the previous year.

The most dynamic area of Algerian hydrocarbons policy however has been the exploitation of the country's natural gas reserves. In 1974 production should reach 3.5 million cubic metres.

Between 1970 and 1973 about 50% of this total was exported as liquid gas. Over the next few years this proportion may be expected to increase rapidly. Algeria is the only oil producing country which has succeeded in establishing a natural gas industry organically linked to oil production. In other countries the gas which is usually found in large quantities during oil drilling used to be simply burnt off. Only recently has it become common practice to reinject it into the well in order to increase the oil pressure. Only tiny quantities are actually put on line.

Algerian gas exports mainly depend on two liquification plants at Arzew and Skikda. When the gas pipeline linking Algeria and Italy, via Tunisia and the Mediterranean, is completed, it will become possible to export methane as a gas.

Algeria's hydrocarbons policy is thus, in many respects, exemplary and this explains her great authority within OPEC. Although she produced less than some other Arab countries (Libya, Kuwait and Saudi Arabia) she succeeded before them in winning complete independence for her oil industry from foreign control. She was helped in this aim by her generally more favourable economic situation. Although oil is Algeria's main export and thus provides foreign currency necessary for development it is not, as in other Arab countries, the only source of national income apart from an impoverished agricultural sector.

Tunisian oil policy is much less interesting and this is bound to be so given the relatively modest size of the country's oil fields. The main El Borma field is exploited by the *Societé Italo-Tunisienne d'Exploitation Petrolière* (SITEP), a mixed enterprise half of whose working capital is provided by the Tunisian state and half by ENI. A second field at Douleb is worked by a similar Franco-Tunisian company. Prospects for offshore production in the Gulf of Gabés are good.

Given the level of Tunisian production, refining is fairly large-scale (a little more than 1,000,000 tons per annum). There is at present only one refinery, owned by the STIR (*Societé Tuniso-Italien de Raffinage*) and situated at Bizerta. A second refinery is to be built at Babés.

The Maghreb's second most important mineral resource is phosphate, which is to be found in all three countries of the region. Morocco is the largest producer with a total production in 1973 of 16.6 million tons, that is to say, 20% of the world total. Tunisia also produces a considerable quantity of the mineral (3.7 million tons in 1973).

Algerian production is much lower (604,000 tons in 1973). Reserves are however large, being estimated at 500,000,000 tons. This explains why production in Algeria has grown more rapidly (at 11% per annum) than in Morocco (8.7% per annum) and Tunisia (7.0% per annum). Throughout the Maghreb phosphate production is under the direct control of the state. Efforts have been made to achieve vertical integration within the phosphates industry. Moroccan and Tunisian policy has concentrated on building plants to produce prosphoric acid, mainly for export. Algeria, on the other hand, has concentrated on producing fertilizers for internal consumption. Thus the percentage of total production devoted to export has fallen from 93% in 1971 to 47% in 1973.

Iron ore is also present throughout the Maghreb. In Algeria production is growing and in 1972-3 reached 3.4 million tons. In Tunisia and Morocco on the other hand it is falling. Tunisian production in 1968 stood at 1 million tons but by 1973 had dropped to 0.8 million tons. Between 1971 and 1972 Moroccan production fell from 623,000 to 234,000 tons. About a third of

Algerian production is consumed within the country at the El Hadgiar steel works, owned by the *Societé Nationale de Sidérurgie*. The remainder is exported.

In the next few years Algerian production way well grow considerably as work begins on vast new deposits of about 2 billion tons of ore which have been discovered on the frontier with Morocco and Mauritania.

Algeria also has large deposits of mercury. The Ismail deposit began to be worked in 1971 producing 245 tons of the metal. In the following year production reached 462 tons. Once the mine is fully operational annual production should reach 900 tons, that is to say, about 10% of the world total.

From this brief summary of the situation in the Maghreb mineral sector it is possible to see its three main characteristic features. Firstly, resources are diversified. Oil is the most important but not the only source of mineral income. Secondly, the sector is almost entirely under state control, allowing resources to be used appropriately. Finally, the region's mineral resources may be used for purposes other than export. The availability of oil, phosphates and iron is of considerable importance in the setting in motion of an autonomous development process.

MANUFACTURING AND BASIC INDUSTRY

The different economic development strategies adopted by the three Maghreb countries are more visible in the manufacturing than in any other sector of the regional economy. The differences are such that it seems legitimate to speak of the growth in Algeria of an industrial development pole for the whole region. Algeria has been the only country to set up heavy industry orientated towards the satisfaction of internal needs. In the two countries on the perifery, industrial development has been limited to light industry producing for export. Although on the one hand this increases the degree of complimentarity between the three economies, at the same time it leads to the danger of the creation of a regional economic hierarchy which might degenerate into some kind of dual economy.

The development of manufacturing industry has been one of the main goals of Algerian government economic policy. In order to achieve this objective state enterprises have been set up and have received most of the funds allocated, in the plan, to investment. The main aim pursued in the development of the manufacturing sector has been to make use of and to set up processing plant for the country's natural resources (oil, natural gas, phosprates, iron ore and other minerals) whilst at the same time taking advantage of potential external economies and linkages between specific activities. The new initiatives which have been taken in the manufacturing sector have been dictated more by the requirements of the domestic than of the international market; more by the need for industrial development and thus for capital goods than by private consumer demand. The technology chosen has been highly capital intensive. In the belief that this problem will be more easily solved once the country has a sound industrial backbone the government has not aimed at any immediate reduction in unemployment.

The largest heavy industrial sector is the steel industry. In the period covered by the 1970-73 development plan, the *Societé Nationale de Sidérurgie* (SNS) took 38% of all state enterprise investment. Most of these funds went to build the El Hadjar steel complex which began production in 1972.

Algerian steel production thus rose from an average of 30,000 tons between 1967 and 1971 to 98,000 tons in 1972 and 183,000 tons in 1973. Plans are now under examination to expand El Hadjar giving it by 1980 an annual capacity of 2 million tons.

The electrical and mechanical engineering sectors are controlled by the *Societé Nationale de Constructions Mecaniques* (SONACOME) and between 1970 and 1973 took 22% of investment.

The fastest growing lines were trucks, tractors, diesel engines and machine tools. Since 1974 bicycles and motorcycles have also been manufactured.

The chemical industry mainly consists of processing plants for oil, natural gas and phosphates. SONATRACH has two fertilizer plants. The market for secondary chemicals (soap, detergents, paint, etc.) is divided between the *Societé Nationale des Industrie Chimièue* (SNIC) and small private firms.

The building materials sector has

developed differently. The *Societé Nationale des Materaux de Construction* (SNMC) has a monopoly over both domestic production and imports.

Light manufacturing industry engages in food, textile and shoe production. There has been little state investment in these sectors. Nonetheless the food industry, mainly controlled by small state enterprises has expanded production considerably. The same does not apply to the textile industry where private investment seems to have fallen in recent years. The sector includes SONITEX (the *Societé Nationale des Industries textiles*).

Up to 1970 Tunisia also followed an industrialization policy based on state intervention and import substitution. Owing to deficiencies of management, however, the policy proved to be a failure. Since 1970 it has been reversed and Tunisia has tried to increase exports and attract foreign investment. A law passed on the 27th of April 1972 encouraged exports, granted tax and tariff concessions to exporters and exempted the latter from exchange control. In 1973 the *Agence de Promotion des Investissements* was set up, the aim being to encourage foreign investment with aid and information.

Moroccan industrial policy, unlike that of Tunisia, has always been founded on classic, liberal principles.

In both countries the main manufacturing sector in terms of added value has been the food industry producing in part for domestic consumption, in part for export. Growth in this sector is influenced by results in agriculture. This leads one to doubt whether it is capable of becoming a driving force behind industrial development.

The textile industry is the second most important sector both in Tunisia and in Morocco. In Tunisia the sector has expanded very rapidly with a rate of growth in production of 23.2% in 1972 and 30.4% in 1973.

The Tunisian textile industry is dominated by a public enterprise, SOGITEX. Many foreign companies have begun textile manufacture in Tunisia, drawn by low labour costs. Tunisian firms have made agreements to supply European companies. The Moroccan textile industry is less dynamic. Growth is slow (7.4% in 1972; 6.1% in 1973).

Both in Tunisia and Morocco there has been a certain development in the chemical industry producing phosphate derivatives.

Lastly, Tunisia has a steel works at El Fouledh. There are plans to increase its capacity during the fourth economic development plan.

POPULATION AND LABOUR FORCE

The total population of the Maghreb is almost 36 million of which 15.4 million in Morocco, 14.6 million in Algeria and 5.4 million in Tunisia. Population growth rates vary. In Tunisia the population is expanding at a rate of 2.15% per annum. In Algeria and Morocco the annual rate of growth is about 2.15%. In the Mediterranean area only Libya, Jordan and Syria have a faster rate of growth than those to be found in Algeria and Morocco. Although Tunisia has the slowest growth rate, 45% of Tunisians are less than 15 years old.

Algeria, Tunisia and Morocco use different definitions of the "labour force". In 1973 the Algerian labour force was estimated at 2.5 million, that is to say, 12% of the population. The Moroccan labour force was estimated at 3.6 million with 9% uneployment. The Tunisian labour force was estimated at 2.7 million, of whom only 1.4 million were employed. Only 55.7% of this last category had a stable job. Nonetheless the ratio of economically active total population is far higher in Tunisia (about 1:3) that in either Morocco or Algeria.

As can be seen in Table III/18, the structure of the labour force is fairly similar in all three countries. The lesser importance of the manufacturing sector in Algeria reflects the government's preference for investment in heavy, capital-intensive industry. The greater importance of the services sector in Tunisia and Morocco reflects the encouragement given in these two countries to the tourist industry.

To talk about trends in employment is rather difficult given the lack of adequate data. The whole of the Maghreb has been affected by an exodus away from agriculture and a parallel process of urbanization. This has led in some cases to serious social problems. The pattern of employment continues however to be that characteristic of non-industrialized countries. The lack of sufficient employment opportunities at home has led to a steady migratory flow away from the Maghreb, mainly towards EEC countries. In 1971, 30,000 workers left Algeria; in 1972, 25,000; in the first four months of 1973, 40,000. Between 1968 and 1973 nearly 25,000 workers emigrated from Morocco. In the early 1970's emigration from Tunisia averaged 15,000 workers per annum.

Most emigrants from the Maghreb are employed in France. Only Algeria has made an attempt at diversification. An agreement has recently been made with East Germany whereby the latter is to accept 35,000 migrant workers over a period of four years.

Emigration is certain to continue for a numbler of years and will provide a safety valve for unemployment in the Maghreb. It is too much to hope that the expansion of industry in the region will be sufficient to keep pace with the rapid expansion of the working population and with the rural exodus.

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

The share of gross domestic product devoted to exports is similar in all three Maghreb economies (about 27% in Tunisia and Algeria; 24% in Morocco). The types of goods exported reflect differences in productive structures and available resources (see Table III/19, 20, 21).

In 1973 oil and oil derivatives made up 82.6% of Algerian and 32.6% of Tunisian exports (more than any other group of produce). 25% of Moroccan exports were phosphates. It is hardly worth pointing out that in 1974 and in the following years the value of oil and phosphate exports should be much higher, on account of massive increases in price in both these products.

Uncertainty as to future price increases makes it impossible to predict trends in Maghreb exports. In particular, it is uncertain whether the expansion of exports in 1974 (in value terms) will be followed by a period of stability, by a recession or by further expansion. The only thing which can be said with certainty is that, given the prospects for increased exports of liquid methane and methane gas, Algeria runs a smaller risk of seeing her hydrocarbon exports stagnate or fall than do the other oil producers. The investments made in this sector by the Algerian government have yet to have their full effect on exports.

Table III/19. Algeria: Main exports (million AD)

	1972	1973	1973 (%)
Oil	4,628	5,660	75.3
Oil products	49	380	5.1
Gas	139	164	2.2
Wine	334	647	8.6
Fruit and vegetables	164	140	1.9
Iron ore	120	52	0.7
Metals and products	73	58	0.8
Others	347	413	5.4
Total	5,854	7,514	100.0

Source: *Sécretariat d'Etat au Plan*

In all the Maghreb countries the second most important category of exports, in value terms, is agricultural produce. This group is especially important for Tunisia. Up to 1972 agricultural produce was the country's most important export (32.6% of total exports). In 1973 agricultural exports fell by 5.6% and the share of agricultural produce in total exports by 17.7%. This was due to a poor olive harvest. Olive oil represents between one-half and four-fifths of all Tunisian exports of processed agricultural produce. 30% of Moroccan exports are similarly of agricultural produce. Many different products are exported. In value terms the most important export is citrus fruit (which represents about 25% of all agricultural exports) followed by tomatoes, conserved fish, dried vegatables, olive oil and wine (each with between 7 and 10%).

In Algeria about 13% of exports are of agricultural produce. Wine, on its own, makes up two-thirds of agricultural and 8.6% of total exports).

It is only in Tunisia that other exports

Table III/20. Tunisia: Main exports
(million SDRs)

	1972	1973	1973 (%)
Unprocessed agricultural products	21.3	22.7	8.0
Processed agricultural products	111.1	50.3	17.7
of which: olive oil	(89.7)	(33.3)	(11.7)
Primary products	29.1	29.3	10.3
Oil and oil products	78.7	92.4	32.6
Construction materials	2.7	2.7	1.0
Chemical products	21.1	29.5	10.4
Products from mechanical and electrical industry	12.6	18.5	6.5
Wood and wood products	1.5	2.1	0.8
Textile products	15.4	30.1	10.6
Other products	7.3	6.2	2.1
Total	300.8	283.8	100.0

Source: IMF

Table III/21. Morocco: Main exports
(million dirhams)

	1972	1973	1973 (%)
Citrus fruits	429	510	14.2
Tomatoes	179	210	5.8
Wine	35	85	2.3
Preserved fish	134	170	4.7
Olive oil	111	100	2.7
Phosphates	673	810	22.5
Lead	90	95	2.6
Fertilisers	69	90	2.5
Carpets	59	70	1.9

Source: Europa Publications, *The Middle East and North Africa 1974-75.*

are being expanded. In 1973 textile and leather products made up 10.6% of the total. Both sectors are growing rapidly.

Chemical products made up 10.4%. Up to now, this sector, based mainly on phosphate derivatives, has not proved to be very dynamic. The same may be said of raw phosphates, Tunisia's most importnt mineral export (10.3% of total exports).

Marketing patterns for Maghreb exports vary little from country to country. In this respect the region has yet to escape from the influence of French domination in the not so distant past.

For Tunisia, however, the period between 1968 and 1972 saw an increase in the influence of the European Economic Community as a trading partner. The Community's share of Tunisian exports grew from 49.9% to 62.4%. The share of Community exports in Tunisian imports rose from 57.8% to 62.8%. Up to 1970 Tunisia's largest market was in France. Since 1970, Italy has taken first place. This is on account of the expansion of oil exports. 47% of Tunisian oil goes to Italy.

In recent years there has been no change in the geographical pattern of Moroccan trade. The EEC takes 66% of the country's exports and provides 54% of imports. France alone absorbs 36% of exports and supplies 32% of imports.

Table III/22. Algeria: Balance of payments
(million SDRs)

	1970	1971	1972	1973	1974 * %
1. Trade balance	— 104	— 274	— 148	— 304	1,158
Exports	1,013	819	1,096	1,527	4,196
Imports	— 1,117	— 1,093	— 1,244	— 1,831	— 3,038
2. Services	— 311	— 252	— 295	— 382	— 601
3. Unrequited transfers	245	456	254	226	227
Public	12	196	12	— 30	— 40
Private	233	260	242	256	267
4. Current balance (1 + 2 + 3)	— 170	— 70	— 189	— 460	784
5. Capital account	105	106	262	956	— 226
private	91	17	249	880	n. a.
public	14	89	13	76	n. a.
6. Errors and omissions	— 16	— 73	— 3	22	n. a.
7. Balance (4 + 5 + 6)	— 81	— 37	70	518	558

* Provisional.

Source: IMF.

Table III/23. Morocco: Balance of payments
(million SDRs)

	1969	1970	1971	1972	1973
1. Trade balance	— 38	— 137	— 137	— 61	— 91
Exports	484	487	498	582	709
Imports	— 522	— 624	— 635	— 643	— 800
2. Services	— 44	— 60	— 31	— 21	— 37
3. Unrequited transfers	69	73	109	125	147
public	11	4	3	—	5
private	58	69	106	125	142
4. Current balance (1 + 2 + 3)	— 13	— 124	— 59	43	19
5. Capital account	30	137	117	7	21
6. Errors and omissions	—	—	—	—	—
7. Balance (4 + 5 + 6)	17	13	58	50	40

Source: IMF.

Table III/24. Tunisia: Balance of payments
(million SDRs)

	1969	1970	1971	1972	1973
1. Trade Balance	— 111.6	— 131.2	— 140.6	— 149.7	— 251.4
Exports	169.9	188.2	223.2	300.8	283.8
Imports	281.5	319.4	363.8	450.5	535.2
2. Services	8.2	26.9	84.0	97.1	99.0
3. Unrequited transfers	51.0	52.7	51.4	41.4	51.4
4. Current balance	— 52.4	— 51.6	— 5.2	— 11.2	— 101.0
5. Capital account	70.9	65.0	91.4	77.8	126.0
6. Errors and omissions	—	—	—	—	—
7. Balance (4 + 5 + 6)	18.5	13.4	86.2	66.6	25.0

Source: IMF

In Algeria, on the other hand, the government has deliberately attempted to increase the number of the country's trading partners and in particular to find new outlets for Algerian oil and wine. Before 1970 about half of all exports were sold to France. Between 1971 and 1973 this proportion was reduced to 23%. At the same time exports to the GFR, to the USA, to Spain and to Italy increased rapidly. The scale of French imports was also considerably reduced (from 57% of total imports in 1968 to 33% in 1973). In the same period the GFRs share of total imports doubled to 14%.

There is still very little trade between the Maghreb countries. 3.1% of Tunisian exports go to the other two countries of the region. 3% of Moroccan exports go to Algeria. From an Algerian point of view links with Tunisia and Morocco are of very little importance. This shows the low level of success achieved by attempts at regional integration in the Maghreb.

If we leave foreign trade to look at balance of payments figures we see how, in recent years, all the Maghreb countries have ended up in surplus. In each case, however, there are different reasons for this performance.

Up until 1973, Algeria (see Table III/22) ran a growing deficit on trading account and on services where shipping and insurance were especially important.

1974 should see a radical change in this position. Due to oil price rises trading account will go into substantial surplus. The deficit on services may however be expected to increase considerably. Despite a large surplus on private capital transfers, owing to remittances from emigrants, between 1971 and 1973 there was a worsening of the overall deficit on current account. In 1973 this deficit should be turned into a surplus. In the past the conversion of the deficit on current account into surplus was effected by medium and long-term private capital movements (other than direct investment) mostly coming from the Eurodollar market.

The main features of the Moroccan balance of payments (see Table III/23) are similar to those shown in the Algerian figures. The general trend is however in the opposite direction. Between 1970 and 1973 there was a reduction in the deficit in the balance of trade and in 1974 a surplus is expected. Up until 1973 the deficit on services was also falling, due to tourism. Transfers showed a growing surplus due to remittances from emigrants. The result is that since 1972 current account has been in surplus.

At the same time there has been a reduction in inflows both of public and private capital, this being mainly due to the uncertainty caused by the process of "Morocanization". The net result has been a mildly fluctuating payments position. The balance of payments has however always remained in surplus even if at times the surplus was a small one.

Tunisia (see Table III/24) has suffered like Algeria from a steadily worsening deficit in the balance of trade. It is as yet unclear whether this will be eliminated in 1974.

At the same time her surplus on services and transfers has risen even more rapidly than Algeria's, this being due, as in Morocco's case, to tourism and remittances from emigrants. As a result the position on current account improved until in 1972 the deficit was virtually eliminated. In the following year, however, the situation worsened considerably, this being entirely due to a fall in exports.

On capital account, direct investment, which until 1970 had been gradually falling, has reacted positively to the new line in economic policy, showing an upward trend. There has been a surplus in medium and long-term capital flows, which has allowed a constant overall balance of payments surplus.

IV. THE MIDDLE EAST

INTRODUCTION

In no region of the Mediterranean are there more contrasts to be found than in the Middle East. If we look at per capita incomes the region includes countries which are extremely rich such as Kuwait and the Emirates and others which are extremely poor such as North and South Yemen. If we look at agriculture we see fertile zones, such as the Nile Valley, Mesopotamia and the Eastern coast of the Mediterranean and others which are just desert. If we look at natural resources we find the countries with the largest oil reserves in the world, in particular Saudi Arabia, and others such as Lebanon, Jordan and South Yemen without a drop. There are countries with large populations (Egypt, Syria and Iraq) and others which are simply city states, owing their independence more than to any other factor, to the interests and the calculations of the western powers.

The existence of these contrasts in no way reduces the area's potential for regional economic integration; on the contrary, it makes the advantages which might be drawn from such a process even more obvious. If we exclude Israel (the reasons for whose isolation are exclusively political rather than economic) it can be said that there is a greater degree of economic interdependency in the Middle-Eastern region than in any other area of the Mediterranean. The region, furthermore, is, when considered as a whole, extremely rich in natural resources. The potential for development is enormous. If economic integration were successfully achieved, the Middle East could become the second industrial development pole in the Mediterranean after the EEC.

Given the great differences among them, it is necessary to attempt some form of classification of the Middle-Eastern countries. The first distinction to be made is that between the countries of the Arabian peninsula and the others in the region. The Arabian peninsula countries are in some ways "paradoxical". Kuwait and the Emirates, with enormous oil wealth have tiny populations — less than 900,000 in the case of the former; 300,000 in that of the latter. Even Saudi Arabia has only an estimated population of between 4.5 and 7.5 million. (The doubt as to the true figure is not of course due to any lack of finance preventing the taking of an accurate census. Rather it is due to the fact that the missing 3 million, if they actually exist, are nomads). This means that the labour force and the market for industrial goods are limited in size. Both the two Yemens and Oman have sizeable populations (totalling close to 8 million). These countries, however, have very limited resources and there is little scope for accumulation. To speak in non-economic terms we might say that the countries of the peninsula are one-dimensional. In some all that one sees is oil, in others — poverty.

This is not true of the rest of the Middle-East, which is characterized by a series of complex, if diverse, economic systems.

A second distinction should be made between the countries remaining. Only a few of these are capable of pursuing an independent development strategy. The remainder are conditioned by the performance of foreign economies. The dividing line is drawn according to size of territory and population and resource availability. There are two possible poles around which autonomous development processes might be set in motion. The most important of the two is undoubtedly Egypt, which on her own has a population of 35 million, 45% of the Middle-Eastern total. The other pole is the zone of the Tigris and Euphrates valleys, that is to say, Syria and Iraq. The area has a population of 16 million: 20% of the regional total. The remaining countries of the region (Lebanon, Jordan and Israel) are all characterized by a high degree of dependency due to low population (Lebanon - 3 million; Jordan - 2.5 million; Israel - 3.3 million). The war influences all three economies, though to varying extents. This influence is greatest in Israel.

This chapter will thus be divided into two parts, the first covering the countries at the heart of the region, the second the Arabian peninsula. The first part will in its turn be divided into three sub-sections, the first devoted to Egypt, the second to Syria and Iraq and the third to Lebanon, Jordan and Israel.

EGYPT

There can be no doubt that Egypt will in the future play a dominant role in Middle-Eastern economic development, and this not only because she has 45% of the population of the region but also because she has the greatest untapped potential both for agricultural development (linked to the Aswan dam project) and for industrial expansion (linked to the re-opening and the exploitation of the opportunities offered by the Suez canal). As will be shown, we are talking here of the future. In 1973, Egyptian per capita income stood at $250 US per annum, that is to say, one-twelfth of the figure for Israel, or one-quarter of that for Lebanon just a little more than half per-capita income in Syria.

During the first five years of the 1960's Egyptian gross domestic product grew at a rate which varied between 5% and 6% per annum. This was not unusually rapid; it represented nonetheless quite a good performance, especially since government policy had concentrated on ambitious projects, such as the Aswan dam, which could only be expected to give a return over a long period of time. At the same time structural reforms were carried out. The agricultural latifundia were broken up; farming cooperatives were created. Large scale industry and the banks came under state control.

Aggregate demand nonetheless grew faster than production, this being due, on the one hand, to military expenditure, on the other to government policy on income redistribution. This led to inflationary pressures and to a serious deterioration in the balance of payments. The government resorted to import controls but by so doing harmed industry which found it impossible to obtain a number of vital imported inputs.

Defeat in the 1967 war meant, for the Egyptian economy, the closure of the Suez Canal, the loss of the Sinai oil fields and serious damage to industrial plant in the Canal zone. This led to a slight reduction in national income. Between 1968 and 1969 however production began once again to expand rapidly. 1968 national income was 6% higher than in the previous year. In 1969 the rate of growth was 7%. Despite this improvement the period of slower growth between 1965 and 1968 meant that the real annual rate of growth, over the 1960's, was only 2.9%. Production in other words grew only slightly faster than the population.

The first years of the 1970's were again a period of recession. Between 1970 and 1971 national income increased by 5%. In the two following years the annual rate of growth was only 4%.

If we look at sources of national income (Table III/25) we see that since 1965 there have been no significant changes in the structure of the Egyptian economy. Agriculture continues to provide nearly 30% and the industrial sector about 22% of national income. The biggest change has been the reduction in the importance of the transport sector, whose share has been almost halved falling from about 9% to about 5%. This is entirely due to the closure of the Suez Canal.

Not only does agriculture provide 30% of national income; agricultural products also account for 60% of exports. Agricultural growth (averaging about 2% per annum) has been slow. This is due to the failure of the Aswan dam project to extend the area of irrigated land as much as was originally expected.

Table III/25. Egypt: Industrial origin of GDP (at current prices)
(million Egyptian pounds)

	1969	1970	1971	1972	1973
Agriculture	688	772	774	933	1,018
Manufacturing	504	542	611	641	705
Construction	110	124	121	118	124
Transport and communication	116	131	144	151	159
Trade	216	229	239	279	304
Public administration	535	628	667	776	754
Other services	527	545	589	492	581
GDP at factor cost	2,696	2,971	3,145	3,390	3,645

Source: Ministry of Planning.

There is a vast literature on the advantages and disadvantages of the dam and the interest which has been aroused by the problem is political as well as technical. Nonetheless there can be little dobut that the building of the dam has allowed the achievement of extremely important goals, namely the elimination of flooding and drought. At the same time, however, there can be equally little doubt concerning the problems that it has caused, such as increased salinity levels and lower soil fertility. These have made it necessary to use more advanced irrigation techniques and this in turn has meant that the extension of the area of cultivable irrigated land has proved to be a longer, more costly and more difficult process than originally expected.

Egypt's main agricultural product is cotton, followed by grain. The former is produced for export, the latter for the domestic market. The main decision on agricultural policy which the Egyptian government has to take each year is how to divide the available land between these two crops. Policy is implemented through adjustments to government purchase prices from the agricultural cooperatives.

Although more than half of the Egyptian cotton crop is exported, the proportion of the country's grain requirements imported is even higher. Annual home consumption of grain stands at about 4.6 million tons. Given that in a year domestic production is equivalent only to about 1.8 million, the remaining 2.8 million have to be purchased abroad. This has led to an extension of the area under grain and a parallel reduction in the area under cotton. At the same time new varieties of Mexican grain are being introduced. These could lead to 16% higher yields. The most important crops apart from cotton and grain are rice and maize.

If we exclude the Nile valley and the Aswan dam, which, although it is not yet working at full capacity, already produces enormous quantities of hydroelectricity, Egypt's most important natural resource is oil. Production is relatively small-scale, compared to other Middle-Eastern countries. In 1971 it reached a record level of 16.4 million tons (i.e. less than half a million barrels per day). It is only of limited importance with respect to the rest of the Egyptian economy, contributing less than 2% of gross national product. Egypt, in other words, does not rely on oil, it just produces oil, oil which is almost as important a source of energy as hydroelectricity and which is the country's second most important export. Oil exports should increase Egyptian convertible currency earnings, thus allowing a reduction in the scale of cotton cultivation and greater self-sufficiency in food.

Egyptian oil production recovered quickly from the loss of the Sinai fields following defeat in the 1967 war. Production rose from 5.7 million tons in 1968 to 16.4 million tons in 1971. This was mainly due to off-shore fields in the Gulf of Suez but also in part to new discoveries in the western desert along the Libyan border. After 1971 there was a noticeable drop in production due to loss of pressure in the Gulf of Suez fields. In the near future, however, this trend should be reversed when plans are completed to restore oil pressure. Potential production levels are thus higher than those presently being achieved.

The Egyptian oil industry is managed by a state monopoly, the Egyptian General Petroleum Corporation. This corporation has a number of participation agreements with foreign companies.

Oil and agriculture provide solid foundations for the development of a modern industrial sector. Egyptian industry is mainly state controlled. This has led to the emphasis being placed on large scale projects in heavy industry. After a period of rapid expansion during the early 1960's, stagnation set in until after the 1967 war. Results in the last years of the 1960's were good.

Between 1971 and 1972 real growth in the manufacturing sector was only 4%, this being mainly due to supply difficulties caused by import controls. In 1973 these problems worsened. The past emphasis on large scale projects here played a negative role at least in the short term. Returns on such projects were necessarily slow.

If we look at figures for production in the public sector we see that the most important branches of industry are still food and textiles. In 1973 industrial production totalled 1,215 million Egyptian pounds of which 408 million came from the former and 413 million from the latter. The other most important branches of production were chemicals (£103m), mechanical engineering (£107m) and metals (£99m). There are insufficient statistics for the private sector to allow a structural analysis. 1973 production stood at £436m, that is to say, about one-third of the figure for the public sector.

In the 1973-82 development plan, investment is concentrated in the industrial sector and on infrastructures. The largest industrial projects are for the building of a third blast furnace at the Helwan steel complex and for the completion of the Nus Hamady aluminium smelter which will use hydroelectric energy from the Aswan dam. A fertilizer plant with an annual production capacity of 277,000 tons is to be built at Talkha. Finally there is a project to construct a refinery to process crude oil for export. The refinery will have an annual capacity of 12 million tons and will cost 400 million dollars. It is to be financed by the oil producers of the Arabian peninsula.

The heaviest planned expenditure is on transport. There is to be large scale investment in aircraft, ships and on the improvement of the railways and urban transport systems. The largest projects, however, are those for the building of an oil pipeline (SUMED) from Suez to the Mediterranean and for the reopening and enlarging of the Suez canal.

SUMED should cost 345 million dollars. It is planned to lay two 42 inch pipes allowing an annual flow of between 65 and 85 million tons of oil. The pipeline is to be the property of a mixed Arab company, 50% of whose capital share is to be owned by Egypt, the rest being divided between Abu Dhabi, Kuwait, Saudi Arabia and Qatar.

The plan for the Suez Canal aims — following its restoration — to widen and deepen the canal so as to allow the passage of super-tankers drawing up to 300,000 tons.

Linked to this plan there are numerous reconstruction and industrialization projects for the canal zone. These include the building of tunnels connecting the two canal banks and the opening of duty-free zones in Cairo, Alexandria, Port Said and Suez.

This emphasis on infrastructures reflects changes which have occurred in Egyptian economic policy. This now allows a broader margin for private initiative and for medium scale enterprises in light industry.

Egypt is counting on attracting capital from other Arab oil producing countries as a preferential market. Given the country's potential this is an intelligent policy. For several reasons Egypt runs no risk of being transformed into a mere appendix of the western industrial system. She already possesses basic heavy industry. The other Arab countries provide her with a market and with "homegrown" capital, she has a large labour force, including skilled workers; she produces her own energy; she has an economically viable agricultural sector; her geographical

Table III/26. Egypt: Main exports
(million E £)

	1972	1973	1974	1974 (%)
Oil	20.3	36.9	23.9	4.0
Oil products	3.0	7.8	26.5	4.4
Cotton	162.0	191.9	279.1	47.0
Cotton cloth	42.6	44.2	65.1	10.9
Textiles	30.8	31.8	25.9	4.4
Chemical products	10.3	4.6	4.7	0.8

Source: Central Agency for Public Mobilization and Statistics.

position is extremely favourable.

Although the shadow of political instability continues to hang over the country there can be no doubt that Egypt's prospects for industrial development are more promising than those of any other non-European Mediterranean country. The civilian working population (i.e., the working population excluding the armed forces) was estimated in 1973 at about 9 million, that is, about a quarter of the total population. On account of inadequate statistics, there are no available estimates of unemployment or under-employment. Given the large proportion of the labour force absorbed by the armed forces, these are likely however to be relatively low. The working population is rising at a rate of about 2% per annum, at a rate close to that of the population at large. In the last few years there has been some migration away from agriculture. Agricultural employment has fallen from 35% to 30% of the total. The tertiary sector absorbs 36% of the working population.

Levels of education are fairly high - high enough, in any case to lead to an unemployment problem among graduates and school-leavers which the government has tried to resolve by allowing easy access to posts in public administration.

Emigration is on quite a large scale. The principal migratory flows are not however, as is the case for most Mediterranean countries, towards Europe but rather to neighbouring countries. The workers who leave are relatively skilled, that is to say, their average level of education is higher than that of workers in the host country.

Egypt has a structural deficit in her balance of trade. During the 1950's the deficit on trading account was only a small one. During the 1960's however the situation worsened owing to high levels of demand for investment goods and to increased dependency on foreign food supplies. After a brief improvement which lasted until 1968 the deficit grew continuously, this being due in part to the fact that in recent years prices for grain (Egypt's main import) have risen faster than those of cotton.

Cotton remains Egypt's main export product (see Table III/26), although its share of total exports has fallen from 75% during the 1950's to 47% in 1973. A further 11% of exports is however made up of cotton cloth. Finished textile products account for another 5%. Cotton and cotton products thus still make up 60% of Egyptian exports. Oil products provide 10%. This is an improvement over the position in 1968 when the figure was 3% (immediately after the loss of the Sinai fields). Rice, on the other hand, has become less important as an export, providing 6% of the 1973 total as opposed to 17% in 1968.

Figures for imports show the efforts Egypt has made to industrialize. In 1973 36% of imports were of intermediate goods. A further 22% consisted of investment

Table III/27. Egypt: Balance of payments
(million E £)

	1972	1973	1974	1975
Trade balance	— 205.5	— 261.3	— 703.6	— 1,078.3
Exports (f.o.b.)	353.7	396.3	653.9	612.8
Imports (c.i.f.)	— 559.2	— 657.6	— 1,357.7	— 1,691.1
Services (net)	3.0	2.7	66.2	109.7
Receipts	134.1	166.4	277.6	422,5
Payments	— 131.1	— 163.7	— 211.4	— 312.8
Unrequited transfers	128.2	289.0	509.9	421.3
Current balance	— 74.3	30.4	— 127.5	— 547.3
Capital transactions (net)	56.4	— 31.9	— 77.6	153.3
Long-term loans (net)	39.5	15.5	— 66.8	129.3
Suppliers credit (net)	19.2	— 46.2	— 4.5	32.2
Others (net)	— 2.3	— 1.2	— 6.3	— 109.6
Errors and omissions (net)	— 3.2	— 3.9	— 4.9	— 9.6
Allocations of SDRs	94	—	—	—
Overall balance	— 16.8	— 5.1	— 200.8	— 403.6
Monetary movements	11.7	5.4	191.6	403.6

Minus = increase in assets.

Source: Central Bank of Egypt and the IMF.

goods. Grain on its own made up 15% of imports, whilst non-agricultural consumer goods took 17%.

During the last two decades the geographical pattern of Egyptian foreign trade has noticeably changed. Western Europe, which in 1950 took 70% of exports, now only takes about 20%. The largest share (52%) is taken by Eastern Europe under a number of bilateral agreements. The Arab League countries absorb about 8%. On the imports side, western Europe's decline has been less drastic. 40% of Egypt's imports still come from this quarter. Eastern Europe's share comes around 30%. Imports from other Arab League countries account for about 7%.

As far as the balance of payments is concerned, one notes an increasing trade deficit (see Table III/27). Increased earnings from oil and the Suez Canal due — after its re-opening — are expected. A crucial role in the financing of the Egyptian deficit is to be seen, however, in the assistance given to Egypt by Arab oil producing countries. This assistance is shown by the unrequited transferts in Table III/27. From the October War of 1973 until the end of 1975 the Arab oil producers provided some 3 billion dollars to Egypt. In 1975 Saudi Arabia and Kuwait placed on deposit with the Egyptian Treasury over 1 billion dollars. This sum — shown as monetary movements in the table — has been a decisive factor for the financing of the balance of payments last year. It should be noted that both deposits and aid from Arab oil producing countries amount to more than Egyptian exports in 1975. In any case, the growing engagement of countries such as Saudi Arabia and Kuwait has led to a firm request for the Egyptian pound being made convertible in 1976.

SYRIA AND IRAQ

The second potential economic development pole in the Middle East is the area of the Tigres and Euphrates valleys, basically Syria and Iraq (though Syria extends beyond this zone to the Mediterranean).

These countries are distinguished from the others in the region by two main characteristics, namely the size of their respective populations and their relatively high levels of economic diversification. These two characteristics are obviously interrelated.

revenue from oil exports made up 56.8% of national income. In Syria, on the other hand, production is relatively small scale, though not insignificant. Production in 1973 totalled 6 million tons (that is to say, two-thirds of the highest level ever reached by Egypt. The Syrian is only one-fifth the size of the Egyptian population).

If we ignore the oil sector we see the similarities whcih in fact exist between the two economies. In both countries about 22% of national income (excluding the oil sector) comes from agriculture. Industry accounts for about 20% in Syria and 13% in Iraq. In economic development terms however the oil sector questions cannot be ignored.

Table III/28. Iraq: Industrial origin of GDP (at 1966 prices)
(million Iraqi dinars)

	1967	1968	1969	1970	1971
Agriculture	167	182	187	219	221
Mining	248	319	320	370	518
Manufacturing	76	84	89	116	135
Construction	25	28	30	39	45
Transport and communication	56	62	64	71	75
Trade	52	58	61	99	106
Public administration	97	112	121	125	137
Other services	91	103	108	150	164
GDP	812	948	980	1,189	1,401

Source: IMF.

The region is, however, much less credible than Egypt as a development pole, this on account of its political division into separate states, the two of which, although they both have the characteristics mentioned above, are nonetheless very different.

The main difference between Syria and Iraq is in the oil sector. Iraq's main economic role is as an oil producer. The oil sector produces 36% of gross domestic product. Even looking at figures for 1971, that is to say, figures which date from before the price increases, we see that

Given the size of the Iraqi oil industry, it is necessary to be very cautious in interpreting aggregate data. For instance it is meaningless to say that Iraq's national income grew by 18% in 1971, by only 2% in 1972 and again by 18% in 1973. The figure for 1974 has yet to be published but is bound to be astronomical. The poor performance in 1972 was due entirely to a 13.3% reduction in the volume of oil produced, following the nationalization of wells belonging to IPC.

The figures for Syrian national income growth are a little more meaningful. In the years up to 1968, growth was generally slower than 5% per annum, with the exception of 1964 when the figure was 9.3%. At the same time a number of radical structural reforms were carried through. The largest companies were nationalized. Land was redistributed in an ambitious programme of land reform.

Since 1969 Syrian gross national product has grown much faster, at an average rate of 10% per annum. In the Syrian case too however the examination of a single series of aggregate data is liable to prove deceptive. Behind the aggregate national income statistics there is in fact a double trend. Whilst value added in agriculture, despite strong year-to-year variations, is in fact stagnant (the figures for 1970 and 1971 being lower than those for 1963), value added in industry is rising very fast indeed, doubling in the ten year period between 1963 and 1972. In 1971, for the first time, industrial overtook agricultural production.

If we examine resource utilization, we see that in both Syria and Iraq investment absorbs about 15% of available income. The share of national income taken by government differs, although in both cases it is very high. In Syria, government expenditure absorbs about 30% of available resources. Two-thirds of all investment is by the state. In Iraq public spending accounts for 54.1% of national income. This is due to the fact that oil revenue (which as we have seen accounts for more than half of national income) flows directly to the state in the form af taxes.

Just as in Syria, agriculture in Iraq suffers from violent fluctuations in production levels and shows no detectable upward trend. Grain production, for example, totalled 1,236,000 tons in 1970. In 1971 it fell to only 822,000 tons, jumping in 1972 to 2,625,000 and falling again in 1973 to 957,000. Given that in both Syria and Iraq, 50% of the labour force is employed in farming, it is easy to see how agriculture is the main problem which these countries will have to resolve if they are to develop.

If this problem is to be resolved, there must be massive investment in irrigation works and river control projects. There has, in fact, been large-scale investment in both countries. This has not yet, however, proved sufficient.

In Iraq the main problem seems to be an inadequate number of drainage ditches

Table III/29. Syria: Industrial origin of GDP
(million Syrian pounds)

	1963	1968	1970	1971	1972
Agriculture	1,196	1,087	1,153	1,187	1,525
Manufacturing	631	826	1,109	1,204	1,447
Construction	119	159	159	205	209
Transport and communication	328	506	623	797	682
Trade	758	829	998	1,040	1,176
Public administration	360	574	704	815	854
Other services	588	768	870	938	1,012
GDP	3,980	4,749	5,616	6,186	6,905

Source: IMF.

leading to increased soil salinity. There is also, however, a need to adopt more modern methods of cultivation, in particular to make a more widespread use of fertilizers. A few figures show the size of the problem. The total area open for cultivation is about 7.5 million hectares. Primitive farming methods make it necessary however to leave the land fallow one year in two; thus in any one year only a little more than 3 million hectares are actually planted. Of this area, only half is under irrigation. The remainder is at the mercy of the rains.

In this situation the Iraqi government has recently decided to give agriculture a larger share of public investment than any other sector of the economy. Not all the projects included in the plan have, however, been carried out to completion. Thus in practice public investment continues to be concentrated in industry.

The difficulties of applying planning decisions in agriculture can also be seen from the history of Iraqi agrarian reform. The law is an extremely radical one. 2.3 million hectares, i.e., about one-third of the area under cultivation, have been expropriated. Only 1,100,000 have, however, been redistributed. The rest awaits the completion of complicated bureaucratic procedures.

In Syria too the main problems to be resolved are irrigation and the improvement of farming methods with intensified use of fertilizers. In the third five-year plan the largest single slice of investment has gone to the Euphrates Basin Project. This should allow the total area under cultivation to be increased by about 640,000 hectares. The Tabqa dam, the nucleus of the project, was opened in 1974. The smaller-scale Balikh Basin project is now also nearing completion. Initially this will provide irrigation for about 25,000 hectares. Later, however, it is planned to add a further 41,000 hectares.

In the industrial field Syria concentrates on light industry. Iraq has placed a greater emphasis on large scale projects in heavy industry. The Syrian manufacturing sector is divided into three sub-sections (food, textiles, chemicals and engineering) each of which is controlled by a separate public holding company. (All large companies are state-owned). The very way in which this subdivision has been carried out suggests the priority given to light industry. Even the chemicals and engineering sector only produces consumer goods (refrigerators, batteries, televisions, washing machines, soap) and building materials. Until a few years ago Iraq too followed a policy of import substitution. This led to concentration on light industry such as food and textiles. Recently, however, a greater emphasis has been placed on a few large scale projects in heavy industry. In this field too, however, the planner's success rate has not been high. In the years up to 1970, only 50% of planned investment was in fact carried out. Since 1970 the situation appears to have improved greatly and this figure has risen to an average of 73%.

Among the main projects completed in 1973 were the enlargement of the Mishray sulphur plant to an annual capacity of 1.25 million tons, the building of a refinery at Basrah and a steel tubes plant. Work has begun on building a steel works capable of producing 400,000 tons per year. In this plant natural gas will be used to smelt imported iron ore. Among other large scale projects is one for an aluminium plant, producing 15,000 tons of sheet metal per year. Later it is hoped to build factories building electric generators, diesel engines, tractors and other heavy vehicles. These ideas represent, however, more general lines of thinking on future development than clear projects.

We have already mentioned the relative importance of the oil sector to Syrian and Iraqi national income. We should add that Iraqi is the world's tenth largest oil producer and is responsible for 9% of total world production. The Syrian share of world production is, on the other hand, negligible.

The Iraqi oil industry is completely state controlled. The main nationalizations were carried out in 1972 before nationalization became a general trend amongst the oil producing countries. The Iraqi action was in fact of considerable strategic importance, marking a turning point in relations between oil producing and oil consuming countries. Iraqi demonstrated the producers' position of strength. The boycott proclaimed by the nationalized company failed and Iraqi production fell only very temporarily, soon resuming its previous growth trend. Iraqi leaders (unlike their counter-parts elsewhere in the Middle East) hope that in the future, growth in oil production will be very rapid.

Iraqi crude oil is at present sold directly by the state-owned Iraq National Oil Company either through long-term supply agreements with foreign companies or alternatively through economic cooperation agreements with foreign governments.

The main agreement of the first type is that with the French company CFP, for the supply of 14 million tons of oil per year, over a ten-year period. A less important agreement has been reached with ENI for the supply of 20 million tons, also over ten years.

The main economic cooperation agreements are those with Japan, Spain, Italy and Yugoslavia. All of these agreements are "open". No detailed definition is given of the projects to be carried out by the consumer countries. The agreements with Italy and Yugoslavia lay down that Italian and Yugoslav companies will each be responsible for projects to a value of 3 billion dollars. By the terms of the agreement with Japan, Iraq will receive a credit of one billion dollars to be spent on projects, the value of which is not stated, to be carried out by Japanese companies. In return Iraq has committed herself to providing Japan, over a ten-year period, with 90 million tons of crude oil and 70 million tons of refined petroleum products and liquid gas, all at market prices. The agreement with Spain is for 30 projects in agriculture and industry. In return Iraq has committed herself to increasing oil supplies to 25 million tons before the end of 1974. Given the lack of details it is impossible to calculate the importance of these agreements to Iraqi development. What is certain is that with the exception of Iran, no country has made a greater effort to establish new bilateral relations with the importing countries, based on industrial cooperation.

The Iraqi and Syrian oil sectors are closely linked. A large proportion of Iraqi oil reaches the Mediterranean through a pipeline which crosses Syria as far as Homs (the site of the main Syrian oil refinery) and then forks with one line reaching the Mediterranean at Banias, on the Syrian coast and the other at Tripoli ,in Lebanon. The "Tapline", the pipeline linking the Saudi Arabian oil fields to the Lebanese port of Sidon, also crosses Syria. Since 1969, however, the pipeline has been out of operation. Iraq and Turkey are planning to build a new pipeline giving Iraqi oil an alternative outlet on the Mediterranean.

Oil is not the only mineral resource at Syria's disposal. Phosphates are also produced in large quantities. Production began in 1971 with the opening of a 300,000 ton capacity plant. In 1972 and 1973 annual production stood at an average level of about 100,000 tons. In 1974 production should reach 500,000 and in 1975 — 1,000,000 tons.

Both the Iraqi and Syrian populations are growing rapidly, at more than 3% per annum. The working population stands at about 1.6 million in Syria and 2.8 million in Iraq. There are no precise estimates of unemployment but it must be high. The number of jobs has risen more slowly than population, leading to increased unemployment. In the last two or three years, however, Syria has reversed this trend due to an increase in the size of the armed forces and to intensified emigration towards the other Arab countries.

The Iraqi and Syrian balance of payments (Tables III/30, 31) are both dominated by oil; in the former case because oil makes up 95% of all exports, in the latter because oil makes up 20% of exports and because revenue from the pipelines brings in a sum equivalent to 70% of total export earnings.

Iraq therefore has a substantial structural surplus on trading and current account. The Syrian trading account, on the other hand, suffers from a structural deficit. Only since 1973 has current account run at a small surplus. The Syrian balance of payments thus continues to depend on donations from other Arab countries and on private capital flows.

Syria's most important export is still cotton (35% of total exports). Grain and meat are also exported. Exports of certain industrial products, such as textiles, are growing rapidly.

Iraq's main export is oil, followed by dates. The only significant industrial export is cement.

Syria and Iraq's largest imports are food and investment goods. However whilst for Iraq the latter are clearly the most important, (in 1973 making up nearly half of total imports) in Syria imports of food products (25% of total imports) are slightly higher than of investment goods (22%).

Table III/30. Iraq: Balance of payments
(million SDRs)

	1969	1970	1971	1972	1973
1. Trade balance	602	584	838	585	1,174
Exports	1,045	1,098	1,538	1,265	1,930
Imports	— 443	— 514	— 700	— 680	— 756
2. Services	— 422	— 483	— 648	— 82	— 385
3. Current balance (1 + 2)	180	101	190	503	789
4. Capital account	— 36	18	— 56	— 318	8
private	— 24	32	— 112	— 692	160
public	— 12	— 14	56	374	— 152
5. Errors and omissions	— 127	— 123	— 53	— 37	— 257
6. Balance (3 + 4 + 5)	17	— 4	81	148	540

Source: IMF.

Table III/31. Syria: Balance of payments
(million SDRs)

	1969	1970	1971	1972	1973
1. Trade balance	— 167.5	— 149.4	— 210.7	— 188.0	— 148.6
Exports	201.8	196.5	201.0	259.5	288.4
Imports	— 369.3	— 345.9	— 411.7	— 447.5	— 437.0
2. Services	97.5	93.7	134.3	116.2	159.6
3. Unrequited transfers	17.9	29.9	50.1	76.2	105.6
4. Current balance (1 + 2 + 3)	— 52.1	— 25.8	— 26.3	4.4	116.6
5. Capital account	2.4	0.7	31.3	13.3	— 20.0
private	— 4.2	—	34.7	13.9	— 1.0
public	6.6	0.7	— 3.4	— 0.6	— 19.0
6. Errors and omissions	17.4	— 26.4	— 21.1	— 17.1	21.0
7. Balance (4 + 5 + 6)	— 32.3	— 51.5	— 16.1	0.6	117.6

Source: IMF.

Western Europe constitutes both Syria and Iraq's most important trading partner. Its importance as a market for Syrian products is increasing. Its share of Syrian exports passed from 27% at the end of the 1960's to 39% in the early 1970's. There has been a parallel fall from 37 to about 22% in the importance of Syrian exports to other Arab countries. Western Europe provides 41% of Syrian imports. The socialist countries take second place with 20%. The other Arab countries provide 14% of the total.

The pattern of Iraqi exports is tightly linked to developments on the international oil market. It is fairly meaningless to talk in terms of the share of Iraqi exports going to different countries, given that this changes rapidly from year to year. It seems clear however that the Iraqis are seeking to diversify market outlets for their crude oil which has traditionally gone to the countries of Western Europe.

Most non-oil exports go to the Arab countries (69% of the total in 1971). In 1973 however this figure fell to 57%.

On the imports side, Western Europe is still of prime importance providing 41% of all Iraqi imports. Imports from the socialist countries and from Japan are both falling. This cannot however be seen as a long-term trend. In the last analysis, the pattern of Iraqi foreign trade depends on the greater or lesser degree of success achieved by the recently signed economic cooperation agreements.

LEBANON, JORDAN AND ISRAEL

Lebanon, Jordan and Israel form a single geographical region. Apart from this they have nothing in common. The Syrian intervention in the Lebanese war could have a unifying effect absorbing — in some way which today is impossible to predict — the Lebanese and the Jordanian economies. In that case the Syrian pole, which was mentioned in the previous chapter, would have an even greater consistency. Whatever the result of the war being fought in Lebanon, since World War II, political events have so divided these countries that their only common economic features are their dependency on foreign economic systems and their lack of potential for autonomous development. Thus, Lebanon and Jordan depend on the Arab World and belong, economically, to the Middle East. Israel, on the other hand, depends on Western Europe and the United States. It is an enclave within and in no way belonging to, the region.

Although Israeli pro-capita incomes are easily the highest in the region, in reality, there are few similarities between the Israeli and the industrialized western economies.

Her advantages have mainly been in services and in superior entrepreneurship. She also engages in a very special form of craft — diamond cutting. It is difficult to argue that Israel is a vital cog in the western capitalist machine.

Lebanon's role in the Middle-East was of relatively greater importance. As well as being a holiday resort for the Arab elite, the country also acted as an important financial, trading and service centre. It is hard to judge whether this specialized position can be restored; or whether it can survive the war.

In Jordan's case, so many "if's" come to mind both as to make it impossible to foresee the future or even to give an evaluation of the present situation. The country seems to have stood the loss of the most fertile part of its territory and of 30% of its population in the 1967 war very well indeed. Very underdeveloped economies are like simple biological organisms, composed of numbers of similar segments with no functional specialization. Their pattern of economic activity is one of mutually independent uniform segments rather than the complex web of intedeperndency to be found in advanced economies. Like simple biological organisms, they often withstand very serious damage without undue suffering. The early 1970's during which some embryonic industry came into being, showed how Jordan was more affected by developments amongst her Arab neighbours than by events within her own borders. If rumours of large-scale copper deposits are confirmed this could, in the not too distant future, prove to be a turning point for the country.

It should be added here that both Jordan and Israel's balance of payments depend on donations from governments and private sources abroad.

Even here however the two countries are different. Jordan costs her protectors relatively little (in 1973, 158 million special drawing rights). In the same year Israel received more than eleven times this figure (i.e., 1,800 million special drawing rights). In 1972 she received nearly 1,000 million. In 1974 she should receive 1,500. The 1973 figure is unusually high but is not really much more than average. 1,800 million means nearly 600 dollars per Israeli, that is to say more than per capita incomes in Egypt, Syria, and Jordan. To look at the position in another way, only 58% of resources available to the Israelis in 1973 came from national income. 42% were the result of imports. Only 20% of available resources were exported.

These figures should be remembered in order to avoid slipping into the error of looking at economic structures in these three countries in the same way as those of any other country. We need always to bear in mind that we are talking here of "political" economies, that is to say, of economies which have been artificially manipulated and supported for politicial ends. This is hardly surprising in a region which has been at war for decades.

Let us now look at the three countries one by one.

In the past the Lebanese economy has grown rapidly. Between 1956 and 1966 national income grew at a real annual rate of more than 6%. In October 1966 one of the main Lebanese banks, the Intra Bank, went into a period of crisis. There was a general reduction in the credibility of Lebanese finance houses. In the following year there was the war. Lebanon has already lost the calm which had made it a "Middle-Eastern Switzerland". After two or three years of relative stagnation, growth was resumed, at a rate of 8% in 1971 and 6% in 1972.

The long civil war of 1975-76 has seriously damaged the entire Lebanese economy. Thus it is probable that the war will not just be a simple break in the life of Lebanon.

The Lebanese economy before the war was dominated by the tertiary sector, the importance of which was growing continually. In 1966, the sector was responsible for 59% of gross domestic product. By 1971 this figure had reached 63% (Table III/32).

Table III/32. Lebanon: Industrial origin of GDP (at current prices) (million Lebanese pounds)

	1967	1968	1969	1970	1971
Agriculture	426	436	432	445	430
Manufacturing	493	552	609	661	760
Construction	196	194	216	219	260
Transport and communication	329	380	383	401	445
Trade	1,161	1,360	1,435	1,527	1,756
Public administration	337	358	393	424	453
Other services	879	995	1,097	1,190	1,346
GDP	3,821	4,275	4,565	4,867	5,450

Source: Ministry of Planning.

Commerce on its own was responsible for one-third of gross domestic product. Before the war its development benefitted from the closure of the Suez Canal.

Agriculture's share of national income is continually falling. The figure for 1971 was about 8%. About 40% of the labour force is nonetheless still employed in farming. Lebanon's most important agricultural product is fruit which in 1966 made up 38% of total agricultural production. By 1972 this had reached 43% consisting mainly of citrus fruit and apples. The most interesting point here is that more than half of the former and two-thirds of the latter are exported to other Arab countries. At the same time however Lebanon depends on foreign supplies for 85% of her cereal needs. This is a very high figure even if in recent years it has tended to fall.

In 1971 industry was responsible for about 14% of gross domestic product; this mainly from light manufactures — consumer goods and building materials.

out final processing of some goods for export to the Middle-East in Lebanon.

In the years following 1967, industrial production grew at an average annual rate of 12%. The trend in growth was upwards. Between 1967 and 1970 the average annual rate was 10% reaching 15% in 1971 and 16% in 1972.

Exports of industrial products grew even faster, at a rate of 25% per annum. The fastest growth was in textiles, chemicals and metal and timber products.

Table III/33. Lebanon: Balance of payments
(million SDRs)

	1967	1968	1969	1970	1971
1. Trade balance	— 304	— 358	— 345	— 360	— 421
Exports	203	238	263	306	373
Imports	— 507	— 596	— 608	— 666	— 794
2. Services	234	290	295	312	373
3. Unrequited transfers	28	27	28	29	31
4. Current balance (1 + 2 + 3)	— 42	— 41	— 22	— 19	— 17
5. Capital account	22	82	84	176	267
private	17	78	80	171	262
long-term	5	11	12	13	15
short-term	12	67	68	158	247
public	5	4	4	5	5
6. Errors and omissions					
7. Balance (4 + 5 + 6)	— 20	41	62	157	250

Source: IMF.

The most important sectors were the food and textile industries, followed by building materials and metals. These were responsible for about half total capital investment in industry. In recent years this share has declined in parallel with increased economic diversification. Chemical, petrochemical, paper and timber processing plants have been set up, producing mainly for export to other Arab markets. The closure of the Suez canal encouraged the re-exporting business and has created new incentives to carry

(In 1973 plywood production rose by 47%).

Tourism was very important to Lebanon and provided 9% of gross domestic product. Every year the country was visited by more than a million tourists, the majority (65% in 1966, 71% in 1972) Arabs.

These structural characteristics of the Lebanese economy are reflected in the balance of payments.

There is a very high level of imports, the value of which is equivalent to about 40%

of gross domestic product. In 1966 Lebanon exported only a third as much as she imported. Since then exports have risen rapidly so as to stand a little more than half the level of imports. A deficit on trading account is thus a fundamental characteristic of the Lebanese balance of payments. This deficit is, however, offset by large surplusses on services and on capital account.

The last year in which the balance of payments (Table III/33) showed an overall deficit was 1967. Since then the surplus has risen steadily. This improvement, which has affected all items, is most visible on short-term capital account. In 1970 short-term capital movements returned to their 1966 level of 150 million special drawing rights (1966 was the year of the Intra Bank crisis). In 1972 they reached 250 million. More recent figures are unavailable. It is extremely probable however that with increased oil prcies this trend has continued.

Given the steady balance of payments surplus, between 1970 and 1973 the value of the Lebanese pound rose by an average (weighted by imports) of nearly 15%. The revaluation with respect to the US dollar was nearly double that amount.

In February 1976, despite the war, the pound was still strong. This was mainly due to unusual inflows of foreign currency to the participants in the war, before and during the fighting.

Lebanon's main markets were amongst the Arab countries. These have not however expanded as rapidly as other outlets for Lebanese goods. Their share of total exports has fallen from 67.4% in 1968 to 58.1% in 1972. The EEC's share has remained stable at around 12%. The US share has risen from 2.3% in 1968 to 6.1% in 1972, as has that of European countries belonging neither to the EEC or COMECON (from 9.9% in 1968 to 14.3% in 1972).

On the imports side, Lebanon's main supplier in 1973 was the EEC (with about 45% of total imports). Arab countries are of much less importance (about 10%) and their share of imports is slowly falling. Imports from other Asian and African countries are rising (7.8% in 1968, 13.3% in 1972).

In the same way as for most of her Arab neighbours, for Israel too the 1967 war had the effect of stimulating economic growth. Between 1968 and 1972 the real average annual rate of growth in national income was 10%. This level of growth continued through 1973 up to the outbreak of the Yom Kippur war. During the first nine months of 1973 production was 7.58% up on the same period the previous year.

The effects of the October 1973 war left a significant mark on the Israelian economy, contrary to what happened in 1967. The uncertain outcome of the conflict together with an acute worsening in the international situation caused a slowing down in the rapid development which had previously taken place. The most serious period of this crisis was in 1974 when, at the end of the year, the Israeli pound was devalued by 43%.

The structure of Israel's economy is very different from that of her neighbours. The industrial and mineral sectors provide more than 24% of gross domestic product. Agriculture's share is little more than 5%. If we now include building (nearly 14%) we see that commodity production makes up less than 45% of domestic product. The rest consists of private and public services.

This extreme weight of the services sector is linked to various factors. It reflects both the war effort and government social policy. It is possible only on account of Israel's high level of dependency. (Services, normally, cannot be imported. Neither, however, may they be exported. Israel can rely on foreign supplies of goods whilst creating her own services domestically. Meanwhile the deficit on trading account is offset by unilateral transfers of funds).

Statistics on Israel's industrial structure suffer from more than a few gaps. The largest sectors are the textiles, the food and the diamond cutting industries. Between 1972 and 1973 this last sector grew faster than any other. Vehicle production is the greater importance of animal rearing, which makes up 40% of total production. The most important agricultural product is easily citrus fruit, which accounts for a little less than 20% of total production. Other fruit, greens and vegetables are also important. Cereals however (about 4% of total production) are of little significance. From a structural point of view then there is some similarity with Lebanese agriculture.

Amongst the service industries tourism is especially important and is on a scale comparable to that in Lebanon. Every year Israel is visited by more than 600,000 foreign tourists.

Between 1972 and 1973 the Israeli population increased by 33%, much of this increase being due to immigration which continued to be intense. In 1972, net immigration was 42,000 and in 1973 — 38,000. It should be noted however that in both years gross immigration was 55,000. This shows a considerable outflow. By the end of 1973 the total population stood at 3,300.000. Of these about 2.8 million were jews, of whom less than half had been born in Israel. If the occupied territories with an Arab population of about a million are excluded, then Israel proper has an Arab population of around 500,000. These figures are of fundamental importance. They show that Israel's main resource is, or least has been in the past, immigration.

Given that the growth of the Israeli population is largely due to adult immigration, the labour force has risen even faster (4.2% in 1972, 4.0% in 1973). Despite this rate of expansion the labour market is characterized by an excess of demand over supply. The percentage of the population in the labour force is very high (49.6% in 1972, 49.8% in 1973. In most neighbouring countries the corresponding figure is around 25%. In particular the percentage of the female population working is rising rapidly.

The number of people with jobs is rising faster than the labour force (in 1972 by 5%, by 4% in 1973). Over the last two years the rate of unemployment has thus dropped to an average level of 2.7%. Really. however, it is the population in the occupied territories which provides a safety valve. The number of people from the occupied territories working in Israel rose by 55% in 1972 and by 24% in the first 9 months of 1973. Most of these worked in the building trade or as agricultural labourers.

There can be no doubt that conditions in the labour market constitute a serious constraint on future Israeli economic development. The Israeli economy works at full capacity — it relies mainly on human resources, used as fully as possible. This means that if there was ever a lack of these human resources the effects on the economy would be immediate. Continued hostilities, diverting a proportion of the labour force

Table III/34. Israel: Industrial origin of NDP (at 1972 prices)
(million Israeli pounds)

	1971	1972	1973
Agriculture	1,435	1,557	1,495
Mining and manufacturing	5,315	5,932	6,650
Construction	3,058	3,511	3,760
Transport and communication	1,978	2,209	2,386
Trade	5,160	5,547	5,913
Public administration	4,348	4,548	4,839
Other services	1,822	1,940	2,082
Net Domestic Product	23,116	25,244	27,125

Source: UN, *Monthly Bulletin of Statistics.*

away from production or a peace which deprived Israel of her access to manpower in the occupied territories, would both have an immediate effect on production.

Compared with those of other Middle-Eastern countries, Israeli exports are relatively diversified. In recent years industrial products' share of total exports has been rising, this being due in part to a rise in their absolute value, in part to a fall in exports of citrus fruit, Israel's main agricultural export. In 1972, 85% of exports were of industrial products. It is expected however that in 1974 this figure will fall. Nearly half of all industrial exports are of diamonds. The proportion of agricultural exports covered by citrus fruit varies between two-thirds and three-quarters.

These figures, however, which do not take imports of uncut diamonds into account, exaggerate the importance of diamond cutting to the Israeli balance of trade. Imports of uncut diamonds usually offset more than three-quarters of the value of diamond exports..

The Israeli balance of trade is in substantial deficit, and would be, even without imports of military material. In 1972 for example, total imports amounted to 2,293 million US dollars, of which no more than 700 million could be accounted for by war needs. 1,500 million were thus due to civilian imports. The value of exports was only 1,212 millions.

In 1974 the deficit was even larger than in 1972, especially for "civilian trading". Demand for diamonds fell due to the general economic crisis which has hit the countries of the industrialized western world.

Damage from the western economic crisis is not restricted to diamond exports but has affected the whole of Israeli trade. 52% of Israeli exports go to western Europe and 18% to the USA. Japan, with 6% of the total, is also an important buyer of Israeli goods.

The EEC is also Israel's main source of supply (providing 54% of the country's total imports). The USA follows with 19%.

Despite a deficit the situation in services differs to some extent from that on trading account. Most of the expenditure her eis due to the war. Without it there would be a small surplus.

Table III/35. Israel: Balance of payments
(million US dollars)

	1971	1972	1973	1974
1. Trade balance	— 1,224	— 1,081	— 2,457	— 3,020
Exports	997	1,212	1,558	2,000
Imports	— 2,221	— 2,293	— 4,015	— 5,026
2. Services	— 7	— 20	— 194	— 329
3. Unrequited transfers	768	1,054	2,171	1,674
Private	773	996	1,383	1,050
Government	— 5	58	788	624
4. Balance on current account (1 + 2 + 3)	— 462	— 48	— 470	— 1,681
5. Capital account	692	515	969	1,118
6. Errors and omissions	8	59	24	— 252
7. Balance (4 + 5 + 6)	238	527	524	— 815

Source: IMF.

We thus see that the balance of trade and services is in large deficit. This deficit however is offset on current account by a massive surplus under unrequited transfers at the scale of which we have already hinted. Here it is sufficient to add that they consist mainly of war reparations paid by West Germany and private donations. Until 1973 these transfers were sufficient to compensate for the deficit in trading and services. The residual deficit on current account was offset by foreign investment and by large-scale borrowing abroad.

Until 1973, the Israeli balance of payments ran at a surplus. In 1974, however, even without further expenditure necessitated by the war, and despite an extensive flow of donations and loans the Israeli balance of payments ended in substantial deficit.

Perhaps in Israel's case it is meaningless to talk of the country's development prospects in purely economic terms. The an economist however the data suggests, that, were Israel to return following a peace agreement, to those frontiers which she has accepted on several occasions (that is to say, if she kept the Golan Heights, Jerusalem and Gaza), she would face an extremely serious economic crisis, recovery from which might prove possible but certainly not easy.

A period during which income levels and standards of living were visibly lower than today, would be inevitable.

During the 1967 war Jordan lost control over the West Bank, losing with it 40% of her national income, 30% of her population and 6% of her territory. One of the results has been that no data has been compiled on national income trends. The only data available is for the volume of production in that part of the country which the Israelis have not occupied. This seems to suggest that the East Jordanian economy has not suffered unduly from the loss of ties with the West Bank. The effects of the conflict between the Amman government and the Palestinians were rather more serious and in 1970 resulted in a slow - down in economic growth. Performance in other years has been good.

The largest sector in the Jordani economy is agriculture, which produces about a fifth of gross domestic product, employs around a third of the population and provides 40% of the country's exports. Given the lack of a system capable of providing permanent irrigation, agricultural production depends on the rains. Levels of production are consequently unstable. The political and military situation has hindered the extension of modern methods of irrigation. To have an idea of how in their absence, production may vary from year to year we will take the figures for grain production (Grain is Jordan's main agricultural product). In 1969 the harvest totalled 159,300 tons. In 1970 this figure fell by two-thirds to 55,000 tons, returning in 1971 to around the 1969 level — 168,200 tons. In 1972 there was a further 30% improvement to 211,400 tons. Then in 1973 production fell to less than a quarter of this level, 50,400 tons.

The industrial and mineral sector, responsible for 12% of national income, shows a much higher degree of dynamism. In 1971 industrial production increased by 18.6%, in 1972 by 22%, in 1973 by 10%.

The main industries are phosphates, cement, oil refining and steel. In 1969 and 1973 phosphate production reached the record level of 1 billion tons.

Cement production and a number of light manufactures (food, cigarettes, textiles, pharmaceutical products) have reacted very positively to new openings in neighbouring Arab countries. According to statistics for 1972, Jordan has a labour force of 360,000 out of a total estimated East Bank population of 1.4 million. 42.% of the labour force works in public administration. Jordan has more technicians and university graduates than neighbouring countries and continues to supply the latter with white collar workers.

The Jordani balance of trade suffers from a heavy structural deficit. From 1967 to 1973 the percentage of imports covered by exports varied between 14 and 25%. Jordan's main exports are raw materials. Before 1970 phosphate, fruit and greens made up 70% of all exports. In recent years, this proportion has fallen to 60%. Exports of industrial products on the other hand have expanded rapidly. Cement exports, for instance, have risen from 62,000 Jordani dinars in 1969 to 1,296,000 dinars in 1973.

Jordan's most important imports (about 30% of total) are food. 70% of Jordani exports go to other Arab countries. A further 14% are taken by Japan and India.

Jordan's main suppliers of imports are the other Arab countries, the USA and the EEC. In 1973 the Arab countries' share rose from 17 to 20%, the USA's fell from 18 to 10%. The EEC's share of the market was stable at 28%.

Given the large deficit on goods and services the Jordanian balance of payments depends on donations from foreign governments and on remittances from Jordani emigrants, the former being by far the most important. From 1969 to 1970 the Arab governments were Jordan's main supporters. In the following years the USA resumed its position as chief donor. In 1973 Jordan received 80 million special drawing rights from the USA, 61 million from other Arab countries and 17 million from various United Nations agencies.

Table III/36. Jordan: Balance of payments
(million SDRs)

	1971	1972	1973
Exports	31.9	43.9	62.4
Imports	—213.3	—244.9	—278.1
Trade balance	—181.4	—201.0	—215.7
Net service	19.0	27.9	58.8
Net transfers	102.5	176.2	166.7
Capital account	19.1	16.3	16.8
Errors and omissions	5.2	— 4.4	5.7
Balance	— 35.6	15.0	32.3

Source: IMF.

THE ARABIAN PENINSULA

The Arabian peninsula has a population of about 16 million. Politically it is divided into seven different states, the ones with the largest populations being North Yemen (6 million), Saudi Arabia (between 4.5 and 7.5 million) and South Yemen (1.5 million).

From an economic point of view these political divisions are irrelevant. Although it is true that the statistics show huge differences between economic conditions in the different countries of the region (annual per-capita incomes in Kuwait, for instance, standing at close to 12,000 dollars whilst the figure for South Yemen is closer to 100 dollars), it is also true that these apparent differences are merely the result of the differing weights of the oil agricultural sectors in particular countries. The boundaries between wealth and poverty do not follow the frontiers of states but are drawn within each country between the two sectors of the economy. In any one of these countries per-capita income is determined by the relative importance of the oil and traditional agricultural sectors. In Kuwait there is no traditional agriculture; in South Yemen, no oil.

Over the Arabian peninsula as a whole agriculture is easily the largest source of employment (with about half the work force and two-thirds of the population in Saudi Arabia, higher percentages in North and South Yemen and Oman and lower ones in the Emirates and Kuwait).

Relatively speaking the most favourable conditions for agriculture are in North and South Yemen, especially the former, where the rains are more regular and where the climate ressembles that to be found in the East African highlands. In North Yemen the main agricultural product is coffee, in the South, cotton. The other main crops are cereals, fruit and greens. There is also some pastoral farming but only on marginal land.

Progress in agriculture is hindered by irregular rainfall, by inadequate methods of irrigation and by a quasi-feudal system of land tenure. Much of the land belongs to religious orders - the Waqf. The only country to have carried through a thorough land reform programme has been South Yemen, where religious and other large holdings have been abolished. South Yemen is also trying to improve the irrigation system. To this end four new dams are being built. On the irrigation front, however, it seems as if Saudi Arabia has the best prospects. Large underground water deposits have been discovered (although there are no estimates yet available as to their precise size).

In South Yemen, the Emirates and Kuwait, fishing is an important activity. Only in the last of these countries, however, is the industry organized along modern lines.

Agricultural production in the Arabian peninsula is insufficient to meet the region's food requirements. The shortfall is especially large for cereals and animal products.

The gap between incomes earned in agriculture and those earned in the oil and dependent industries is bound to lead to a flow of population from one sector to the other, and to migration between states. "Moving to where the oil is" is common not only within the Arabian peninsula but also in other Middle-Eastern countries. The country most affected has undoubtedly been Kuwait. Only 46% of the country's present population are nationals. The remaining 54% are foreigners.

Paradoxically the huge gap between agriculture and the oil sector means that the "agricultural problem" in the Arabian peninsula is less serious than in the rest of the Middle East. In one sense the most efficient agricultural policy for the peninsula is simply the creation of new jobs in other sectors of the economy. By the time the rural exodus has assumed proportions such as to allow agricultural modernization, the sector will have become a purely marginal one. If the main activity of the peoples of the Arabian peninsula is farming then the main activity of their respective governments is oil. Oil requires very little labour (in Saudi Arabia - 18,000 men, i.e., 0.3% of the population). The great majority of the population can only benefit from oil revenue through an extension of the public sector. In Kuwait this policy has been carried to extremes. Nationals make up only 30% of the labour force, 40% of which is in government employ. The government will offer a post to any citizen who requests one and even offers many to foreigners.

It is not our task, in this chapter, to describe the development of the Arabian peninsula oil sector, not least because the regions' oil field are so large as to condition the whole world oil industry. Here we will mention only two characteristics of the sector of especial importance to economic development strategy.

Firstly, the scale of the oil revenues, received by these countries is such as to make it impossible to invest them all within the Arabian peninsula. Even the Middle East, taken as a whole, cannot provide sufficient investment opportunities. (In any case the only part of the Middle East which counts from this point of view is Egypt. Syria and Iraq are financially self-sufficient).

Secondly, the ratio between production and reserves is such that, especially for Saudi Arabia, the main worry is not that reserves should come to an end but rather that the oil era will come to an end before them. The most recent estimates give Saudi Arabia reserves of more than 130 billion barrels, that is to say, more than sixty times 1972 production. Presently Saudi Arabia has an excess production capacity of 3 million barrels a day. Kuwait's situation is different. The government has been forced to adopt a conservationist policy. Production has been reduced from three to two million barrels of oil per day. Saudi Arabia however plays a dominant role. Her importance as an oil exporter is bound in the future to increase greatly.

It should be added at this point that oil is not the Arabian peninsula's only mineral resource. There are also deposits of coal, copper, iron, sulphur, lead, zinc, silver and uranium, mainly located in Saudi Arabia and Yemen. The size of these deposits has yet to be determined. If these factors are taken into account, it is easy to see that even if the Arabian Peninsula and the Middle East reach the highest level of industrialization consistent with the size of their population, the Arabian peninsula's main role is bound to remain that of exporting raw materials to the rest of the world.

The only valid development strategy for the countries of the Arabian peninsula is unbalanced growth, i.e., growth centred on a few, mainly export-orientated, activities.

This is in fact the line taken by the countries in question. Priority has been given to investment in oil and oil-dependent activities. The biggest outlays have been on the purchase of super-tankers and on the building of adequate transport facilities (including dry docks for repairs), on refineries, on basic petrochemical production (urea and fertilizers) and on other capital and energy intensive activities (aluminium smelters and steel plants).

It is hard to tell how far this process of specialization can be pushed. It is too early to see the effects on international markets. If expansion is rapid, it is easy to foresee a situation in which there will be international excess capacity. There is already this sort of crisis on the super-tankers' market. The western oil companies are reacting with largescale cancellations of orders.

As far as integration with the rest of the Middle East is concerned, this is clearly in the interests of the oil producing countries of the Arabian peninsula, especially in the imports field. Already, whilst nearly all exports go to the industrialized countries (oil traditionally to Europe and Japan, although the USA's share is growing) a significant proportion of imports come from other Arab countries (22% for Saudi Arabia, 8% for Kuwait).

V. THE IBERIAN PENINSULA

The origins of the Iberian Peninsula's (Spain and Portugal's) economic backwardness relative to the rest of Europe may be traced far back into history. Thus to some extent the peninsula is similar, in other respects different, from other Mediterranean countries. It shares in the general backwardness and yet has a very different level of social development. It is problably this higher level of "human capital development" which explains why the peninsula is a favoured investment location for multinationals in search of low cost labour. An alliance of foreign investment and local entrepreneurship has led, in the last decade, to the beginning of a process of export-orientated industrialization. It is not possible however to speak of a Spanish or of a Portuguese "miracle". The strategy of export-led growth was adopted too late. The explosive period of European growth in the 1950's was over. American companies, facing European and Japanese competion, had already begun to search out even cheaper supplies of labour in places such as Northern Mexico, or Eastern Asia (Singapore, Taiwan, South Korea). The industrialization process in the Iberian peninsula has thus proved incapable of accommodating the massive exodus from agriculture. The number of emigrants to other European countries has thus continued to be high, especially if one considers the size of the populations concerned. Between 1969 and 1973 an average of 140,600 people left Portugal per year, that is, 1.6% of the 1972 population (8,590.000). In the same period an average of 104,000 people left Spain, i.e., 0.3% of the 1972 population (34,365,000).

GROWTH IN NATIONAL INCOME

During the last few years Spanish and Portuguese growth have proceeded at approximately the same rate, that is to say, at around 6.5% per annum. In particular years there have however been differences. For Portugal 1969 was an exceptionally bad year; for Spain it was a good one. The trend in Portuguese growth is upwards. This is not the case for Spain. The same holds true of trends in national income formation. In both countries agriculture is becoming less important. However whilst in Spain agricultural production is still growing, though at a slower rate than the economy at large, in Portugal it seems to be falling. In both countries manufacturing industry is expanding faster than national income, at around 8.5% per annum. Other sectors of the Portuguese economy such as building and transport and communications (counted for statistical purposes as one) are growing very rapidly. In the five years between 1968 and 1972 the former expanded by 58.4%, the latter by 57.5%. Public administration and defence are also expanding rapidly. Whether or not defence should be included as a source of income

Table III/37. Spain: Industrial origin of GDP (at 1964 prices) (billion pesetas)

	1969	1970	1971	1972	1973
Agriculture	219.7	224.9	242.6	248.4	262.1
Mining	16.5	14.8	15.2	16.0	15.9
Manufacturing	427.2	459.2	483.0	540.0	599.4
Construction	80.1	82.5	81.5	88.8	96.8
Transport and communication	94.4	103.1	110.3	120.6	127.2
Trade	147.0	156.2	163.3	177.7	194.2
Public administration	66.4	68.3	69.7	72.6	81.3
Other services	340.5	363.9	385.8	411.7	435.1
GDP at factor cost	1,391.8	1,472.9	1,551.4	1,676.4	1,812.0

Source: OECD.

Table III/38. Portugal: Industrial origin of GDP (at 1963 prices) (million escudos)

	1969	1970	1971	1972	1973
Agriculture	18,450	19,557	18,365	18,444	18,502
Mining	578	606	683	706	720
Manufacturing	42,802	46,820	50,507	56,721	61,320
Construction	6,268	6,607	8,143	9,432	10,104
Transport and communication	6,978	8,465	9,183	10,079	10,820
Trade	13,510	13,621	14,924	15,482	16,031
Public administration	7,862	8,137	8,641	10,072	11,120
Other services	19,372	20,872	22,392	24,531	25,820
GDP at factor cost	115,820	124,685	132,838	145,467	154,437

Source: *Instituto Nacional de Estatisticas.*

is arguable especially in Portugal where the military account for 38% of public expenditure. In Spain, on the other hand, sectorial growth has been fairly uniform.

When we examine Tables III/39, 40, we see significant structural differences between the two countries. Whilst the proportion devoted to private consumption is more or less the same in both the proportion going to public consumption is higher in Portugal. The rate of accumulation (1973) is significantly faster in

Table III/39. Spain: Resources supply and demand (at 1964 prices)
(billion pesetas)

	1969	1970	1971	1972	1973
Resources supply	1,755.2	1,859.9	1,931.9	2,124.5	2,325.3
GDP	1,494.1	1,583.8	1,653.9	1,789.5	1,932.7
Imports	261.1	276.1	278.0	335.0	312.6
Demand	1,755.2	1,859.9	1,931.9	2,124.5	2,325.3
Consumption	1,133.6	1,184,5	1,225.7	1,312.2	1,399.1
private	1,012.5	1,052.1	1,084.7	1,162.7	1,240.6
public	121.1	132.4	141.0	141.5	158.5
Investment	405.1	416.8	410.2	480.9	554.1
fixed	369.5	383.7	377.5	439.4	502.3
increase in stocks	35.7	33.0	32.8	41.5	51.8
Exports	216.4	258.7	295.9	331.4	372.1

Source: OECD.

Table III/40. Portugal: Resources supply and demand (at 1963 prices)
(million escudos)

	1969	1970	1971	1972	1973
Resources supply	170,001	180,456	198,822	216,127	226,942
Gross Domestic Product	127,178	137,258	145,201	157,761	161,231
Imports	42,823	43,198	53,621	58,366	65,711
Demand	170,001	180,456	198,822	216,127	226,942
Consumption	112,610	121,598	132,538	138,078	145,020
private	95,784	103,595	113,380	117,270	123,400
public	16,826	18,003	19,158	20,802	21,620
Investment	22,950	24,977	28,138	33,752	35,920
fixed	22,605	25,052	27,870	33,965	35,728
increase in stocks	345	— 75	268	— 213	192
Exports	34,441	33,881	38,146	44,297	44,197

Source: INE.

Spain, where gross fixed investment takes up 23.8% of available resources as opposed to 15.7% in Portugal. However, whilst in Spain, between 1968 and 1973, the rate of accumulation remained practically unchanged, in Portugal there was a tendency towards an intensification of the process (in 1968 only 12.6% of resources went to fixed investment).

Portugal suffers from a higher degree of dependency than Spain. During the last years her position has worsened. Whilst exports' share of resources has remained more or less constant there has been a significant increase in the proportion of resources which are imported. For Spain the foreign sector of the economy is less important, although its importance is growing.

After 1973, following the political events which affected Portugal, the economic situation of this country worsened. In 1975, gross national income underwent a real contraction of 14%. Due to the massive repatriation of the colonies, the metropolitan population increased by 4.3% and per capita income decreased by approximately 23%. Unemployment reached 14% of the active population (including repatriates) and industrial production fell by 40% compared with the preceding year. Imports covered by exports proved to be just on 55%. Naturally it is impossible to say when and how, having overcome this difficult moment of change, Portugal will resume a normal economic development.

AGRICULTURE

Agriculture plays an important economic role throughout the Iberian peninsula. Its importance is slightly greater in Portugal (where it is responsible for 12% of GDP and 28.8% of employment) than in Spain (where the corresponding figures are 14 and 24.8%). The only two European countries where agriculture is more important are Greece and Turkey. From an economic point of view the main crops are the same in both countries.

The most important agricultural product is wine, of which, in 1972, Spain produced 26.5 million and Portugal 70 million hectolitres. Taken as a whole the Iberian peninsula is responsible for about 12% of world wine production.

The second most important product is olive oil. In 1972 Spain produced 4.85 million and Portugal half a million quintals. Spain is the world's largest olive oil producer. 37% of world production comes from the Iberian peninsula.

Cereal growing is widespread. In 1972 Spain and Portugal produced respectively 45 million and 6 million quintals of wheat, 19 million and 5 million quintals of maize, 43.5 million and 0.5 million quintals of barley and 3.3 and 1.8 million quintals of rice.

Animal rearing is of considerable importance to Spain. In 1972 the country possessed 4.3 million cattle, 7.2 million pigs and 17.8 million sheep.

Despite crop and climatic similarities Portuguese agriculture is very backward example Portuguese maize yields were 13.3 quintals per hectare whereas the Spanish figure was 21.9 quintals on nonirrigated and 48.9 quintals on irrigated land. In Portugal rice yielded 37.7 quintals per hectare, in Spain 59.1 quintals. Rye yielded 7.3 quintals per hectare in Portugal and 9.2 or 20.8 quintals in Spain according to whether the land was irrigated or not.

It is this technological backwardness which explains the stagnation of Portuguese farming and the gigantic proportions assumed by the exodus from the countryside. Nonetheless Spanish agriculture also suffers from serious structural deficiencies. There are less than 2.3 million hectares of irrigated land; equivalent to 11.5% of all land under cultivation and somewhat less than half the area which could be irrigated. Irrigation is only expanding slowly. If we index the area under irrigation in 1920 as 100 by the end of the 1960's this figure had only risen to 169.

Agriculture also suffers from an irrational pattern of land distribution. More than 96% of farming units take up less than 40% of the area under cultivation. Less than 2% take up more than 52%.

EXTRACTIVE INDUSTRIES

The Iberian peninsula is well endowed with minerals. Mining has a long history and today is passing through what one might term a difficult transition period.

The richest deposits, which have been mined now for a very long time, are approaching exhaustion. At the same time no one has yet completed a serious geological study of available resources. The mining industry is more or less stagnant, as it has been since the First World War.

Mining is much more important in Spain than in Portugal, whose only important mineral is tungsten. 1972 production totalled 1,769 tons. If one sums this with Spain's production of 560 tons, a total is reached, equivalent to 5% of world production.

Spain has large deposits of fossil fuels (9,912,000 tons of coal and 3,000,000 tons of lignite produced in 1973). There are also sizeable deposits of iron ores (3,450,000 tons produced in 1973) pyrites (2,163,490 tons) mercury (2,087 metric tons) lead (63,840 tons) and fluorspar (in 1972 490,000 tons).

Overall the Iberian peninsula's mineral resources, although quite large, are insufficient to become a motor of economic development. Despite the size of the deposits mining conditions are unfavourable and production costs therefore high.

Nonetheless, if at some future date there are further increases in raw material prices the possession of domestic sources of supply may come to represent a significant factor favouring the expansion of the Spanish economy.

MANUFACTURING INDUSTRY

In both Spain and Portugal manufacturing industry's contribution to gross domestic product has now overtaken that of agriculture. Judging from industry and agriculture's contributions to national income, it seems as if the level of industrialization is similar in both countries. In both cases production in manufacturing industry is about 200% that in agriculture.

If, however, we look at the proportion of the economically active population employed in the sectors, a significantly different picture emerges. Whilst in Spain the number of workers in the manufacturing sector is more or less the same as that in agriculture, in Portugal the latter absorbs 41.5% and the former only 21.1% of the economically active population.

Spanish manufacturing industry expanded particularly rapidly between 1961 and 1967. After a slow-down at the end of the 1960's, the early 1970's saw a recovery which lasted until the oil crisis. Taken as a whole sectorial production was 36% higher in 1972 than in 1964. The fastest growing industries were traditional manufactures: food (+51%), clothing (+40%) and woodworking (+42%). The only other sector to grow at a faster than average rate was the paper industry (+38%). The most technologically advanced industries were also those which grew the slowest (chemical products — +28%; vehicle production — +23%).

This dynamic expansion is reflected in the 1972 figures for industry by industry production in the manufacturing sector. Food (with 14.5% of total production) and textiles and clothing (with 17%) continue to hold their position at the top of the league. The third most important sector is metals (14.3%) followed by chemicals (11.7%).

Spanish industrialization is driven by two basic forces: state intervention and foreign investment. The state has encouraged the process mainly through INI (the Instituto Nacional de Industria), established in 1941 in line with the model provided by the Italian state holding, IRI. INI has concentrated its investment in heavy industry. To date, steel has taken 38%, the energy sector 32%. The following figures illustrate the group's importance to the rest of the Spanish economy. INI controls 62% of car production (the group has a 35.22% share in SEAT, in which FIAT has an identical share). It controls 38% of steel and 33% of electricity production, 35% of oil refining, 61% of aluminium and 55% of coal production. INI is massively involved in ship building which is one of Spain's (and Portugal's) fastest growing industries. Taken together, INI companies are responsible for 10% of Spanish industrial production and 25% of industrial investment.

The second force driving Spanish industrialization is foreign investment. Up to 1959 Spanish policy was basically opposed to direct investment from abroad. Since then there has been a clear upward trend in the flow of foreign capital. In 1959 the influx of capital amounted to 62 million dollars. In 1961 this figure reached 200 million, in 1965 300 million; in 1969 nearly 500 million and in 1972 more than 900 million. During the last two years there has been a slight decline.

Chemicals took the largest share of

investment (in any given year between 59.3 and 26.3% of the total). Engineering and steel came second with between 14 and 16%. Vehicle production is growing in importance, passing from 2.7% of total investment in 1962 to 9.2% in 1973. It should be borne in mind that these figures apply to investment in general, and not just to investment in manufacturing industry. Property investment for instance took fourth place with a share of 8.4%. Most of the investment came from the United States, either directly or via Switzerland. The lack of complete data is due to the fact there exists no statistical study of the scale of foreign investment. Such a study is at present approaching completion. Some observers feel that it will lead to a lowering of estimates of the quantitative level of direct foreign investment. It seems unlikely however that it will lead to any doubts as to the qualitative importance of the phenomenon, especially from the point of view of the integration of the Spanish with the European and Mediterranean economies. State intervention through INI is mainly aimed at building up basic industry; its objectives are domestic. Given the lack of national companies involved on international markets, Spanish industry's integration with industry in neighbouring countries largely depends on the strategy of foreign multinationals. Perhaps the only exception to this rule is ship building, which is both Spanish controlled and highly active internationally (in 1973, 68.5% of production was for export).

To judge the vitality of this process of economic integration, entrusted to foreign capital, it is thus necessary to look more closely at the multinationals' motives for chosing to build their plant in Spain.

Contrary to what one would assume on *a priori* grounds, low labour costs do not seem to have been a fundamental factor in this choice. In any case, even if such has been their role in the past, it is unlikely that this will continue to be the case. In recent years Spanish wages have risen rapidly. Although they are still lower than in other European countries, recent developments seem to show that even a fascist regime is incapable of controlling wages once labour supply begins to decline.

Average hourly earnings in manufacturing industry have risen from 18.60 pesetas in 34.69 pesetas in 1969 and 62.48 pesetas in 1973. These average figures conceal widely differing trends in different industries. In other words, there has been a significant increase in salary differentials, hitting labour-intensive industries (textiles, clothing, wood). Given the lack of an independent trade union movement, this is hardly surprising (the government may have a very clear interest in the creation of an "aristocracy of labour"). As we have seen however, foreign investment is concentrated in sectors (such as chemicals and engineering) characterized by a relatively high ratio of capital to labour.

The main factors attracting multinational investment to Spain must then be sought elsewhere. The most important seems to be the rapid expansion of the highly protected Spanish domestic market, and Spain's association agreement with the EEC, giving Spanish exports free access to Community countries. A company which invests in Spain has the broadest possible market open to it, broader in fact than if it located in the EEC itself and broader than if it located in other countries with similar agreements with the Community and yet with less dynamic domestic markets.

Another important factor is the plentiful supply (as opposed to the low cost) of labour available. In a number of sectors the reliance of companies operating in Central Europe on supplies of immigrant labour from the periphery creates serious problems for management. Companies have reacted in some instances by locating factories close to their labour supply. For Europe's recent decision to build a new small car production plant in Spain appears to be a case in point.

The existence of essential infrastructures, and especially ports, is also a considerable attraction. This has been especially so for the chemicals industry. Plant for the production of basic chemicals for export outside Europe has been located in Spain.

It seems therefore legitimate to suppose that for some years to come direct foreign investment will continue to provide a driving force behind Spanish industry. In the long term, however, Spain will probably lose her advantages. On the one hand, she will have to reduce her protective tariffs against EEC exports; on the other, the potential labour supply in agriculture is bound, eventually, to be exhausted.

Portuguese industry seems to reproduce, on a reduced scale and with some peculiar features of its own, the main characteristics of Spanish industry. Textiles and clothing are the largest manufacturing sectors. In recent years, however, the relative importance of chemicals, oil refining, and capital goods production has been growing rapidly.

Portuguese industry's future seems to be closely linked to that of a few large-scale projects begun under Caetano's fascist regime. The largest of these is for the area around Sines, today just a fishing village on the Atlantic. The port is to be greatly expanded so as to allow large ships to take advantage of its unusually deep craters. A huge integrated industrial zone is to be built around the port, centred around a massive petrochemicals plant owned by the *Companhia Nacional de Petroquimica*. The total cost of the project is to be 500 million dollars.

The ship-building industry is of considerable importance and has benefitted in recent lears from the closure of the Suez canal and from the growing size of freight transporters. There are two main companies: Limace and Setanace a Setubal. The former began operations in 1967, the latter only in 1974.

Portugal has a fairly high level of foreign investment. This, unlike investment in Spain, is attracted mainly by low labour costs which give companies an incentive to locate a number of simple assembly operations in the country. (Grundig, for instance, assembles radios for export to the United States. The American Timex Company assembles watches for sale on the European market). This is a very low grade form of industrialization similar to that to be found in Singapore, Hong Kong, Taiwan, etc.

Wage levels in Portugal have been indeed very low. Increases have varied considerably from industry to industry. According to ILO figures for the period between 1964 and 1970, the largest increases in average daily earnings during the period were in the paper industry (+161%). The lowest increases were in metals (54%). There are very great differences between average daily earnings in different sectors. Workers in oil refining (who in 1970 received 242.0 escudos per day) are paid more than five times metal workers' wages (44 escudos per day). By European standards all these wages are very low. In 1970 oil refining wages in Italy were seven times higher than in Portugal (where the sector, compared to others, was relatively well paid). In other sectors there were even greater differences.

It seems hardly necessary to point out that this situation was due to the existence of a fascist regime. Since the revolution wages have been increasing at a rate of 25% per year.

The *coup d'état* on the 25th of April 1974 was followed by a wave of strikes, resulting in large increases in wages. It is no coincidence that one of the companies which put up the longest resistance to the new wage demands was Timex. If the multinationals continue to take an interest in the Portuguese economy, it will no longer be for the same reasons as in the past. As far as the new government is concerned, it has taken great care, in its first year of life, to avoid measures which might discourage foreign investment. The *Servicio de Apoio ao Investidor*, which helps foreign companies seeking to invest in Portugal, has continued its operations. The nationalization of banks and insurance has affected only national companies.

THE BALANCE OF PAYMENTS: FOREIGN TRADE

Spain and Portugal's balance of payments (Tables III/41, 42) are similarly structured. Both countries have growing balance of trade deficits offset by large surplusses on services and foreign investment. In recent years both countries' basic balance (current account + long-term capital movements) has remained in surplus.

Spain and Portugal's surplusses on services and private transfers are due mainly to tourism and to emigrants' remittances. Tourism is especially important to Spain. Between 1967 and 1972 net annual receipts more than doubled from 1,110 to 2,245 million dollars. Thus in 1972 the deficit in the balance of trade (2,254 million dollars) was completely covered by this single item. Tourism's importance to Portugal is somewhat less. Between 1967 and 1973 net annual earnings rose from 196 to 280 million dollars. This represented a smaller increase (43%) than that in Spanish receipts. Given that in 1973 the deficit in the balance of trade was 989 million dollars, tourism covered less than a third of this.

Emigrants' remittances are of much greater, indeed of fundamental, importance. Between 1967 and 1973 they increased

Table III/41. Spain: Balance of payments
(million US dollars)

	1968	1969	1970	1971	1972	1973
1. Trade balance	—1,575	—1,871	—1,874	—1,599	—2,254	—3,545
Exports	1,667	1,994	2,483	2,978	3,812	5,403
Imports	3,242	3,865	4,357	4,577	6,066	8,948
2. Services	885	945	1,293	1,687	2,050	2,688
3. Unrequited transfers	448	532	659	768	868	1,413
Public	—	— 18	—	— 4	— 9	
Private	448	550	659	772	877	
4. Current balance	— 242	— 394	78	856	664	556
5. Capital account	313	163	735	401	805	1,007
Private	168	138	763	504	808	
long-term	436	481	697	602	937	
short-term	— 268	— 343	66	— 98	— 129	
Public	145	25	— 28	— 103	— 3	
6. Balance (4 + 5)	71	— 231	813	1,257	1,469	1,563

Source: OECD.

Table III/42. Portugal: Balance of payments
(million US dollars)

	1969	1970	1971	1972	1973
1. Trade balance	—505	—646	—806	—766	—989
Exports	923	1,053	1,199	1,589	2,282
Imports	1,428	1,699	2,005	2,365	3,271
2. Services	163	223	335	375	437
3. Unrequited transfers	397	486	656	824	1,082
4. Current balance (1+2+3)	55	63	185	433	530
5. Capital account	—	25	172	— 70	—210
Private	— 5	26	169	— 30	—190
long-term	33	46	81	46	—112
short-term	— 38	— 20	88	— 76	— 78
Public	5	— 1	3	— 40	— 20
6. Balance (4 + 5)	5	88	357	363	320

Source: INE.

Table III/43. Spain: Main exports
(billion pesetas)

	1970	1971	1972	1973	1973 (%)
Agricultural products	60.1	64.9	70.1	90.6	29.9
Mining and oil	12.7	12.8	13.0	18.8	6.2
Chemical products	12.3	15.6	18.1	22.9	7.6
Leather and skins	3.2	4.3	6.2	7.5	2.5
Cellulose and paper	5.9	7.5	9.4	10.1	3.3
Cotton and textiles	8.7	11.2	15.4	16.6	5.5
Metals and products	13.4	19.0	24.4	32.2	10.6
Machinery	17.1	22.5	23.9	29.2	9.6
Transport equipement	15.3	20.9	29.0	35.7	11.8
Others	18.4	26.9	35.7	39.1	12.9
	167.1	205.6	245.2	302.7	100.0

Source: OECD.

Table III/44. Spain: Main imports
(billion pesetas)

	1970	1971	1972	1973	1973 (%)
Agricultural products	53.3	62.3	73.7	98.6	17,6
Mineral products	11.0	12.2	15.5	18.7	3.3
Oil products	44.1	57.0	63.1	72.9	13.0
Chemical products	41.1	43.5	54.7	69.2	12.3
Timber	7.0	7.5	9.1	15.6	2.8
Cotton and textiles	13.9	14.4	18.9	24.4	4.3
Metals and products	47.3	34.3	39.7	50.7	9.0
Machinery	66.7	70.3	90.8	116.5	20.7
Transport equipment	16.0	10.9	21.5	31.9	5.7
Others	31.9	35.0	50.6	63.0	11.3
Total	332.3	347.4	437.6	561.5	100.0

Source: OECD.

nearly five-fold, from 211 million to more than one billion dollars. The value of 1973 remittances was about half that of exports and one-third that of imports. They were in other words of crucial importance to the Portuguese balance of payments. Any decline in remittances would have immediate negative effects on the Portuguese economy.

In Spain, emigrants' remittances are on a much smaller scale, increasing, between 1967 and 1972 from 320 million to 599 million dollars. If, however these figures are to be compared with those for Portugal, it is first necessary to add those for other private transfers, bringing the total up to 446 million dollars in 1967 and 877 million in 1972. These new figures are still however lower than those in the Portuguese balance of payments.

Foreign capital flows are much more important to Spain than to Portugal. Between 1968 and 1972 the net annual flow of long-term private capital increased from 433 to 937 million dollars. On the other hand, there was a deterioration in the situation with regard to flows of long-term public capital. A surplus of 145 million dollars in 1968 by 1971 had become a 103 million dollar deficit, reduced in the following year to only 3 million.

In Portugal there is no clear trend in capital movements. After a record 81 million dollar surplus in 1971 in 1973 there was a 112 mililon dollar deficit. This shows clearly the more speculative nature of foreign investment in Portugal.

The prospects for the two countries' balance of payments seem to be very different, this, on account of diverging trends in imports and exports. First of all, Portugal's reliance on trade is growing far more rapidly than Spain's. Between 1962 and 1967 Portuguese imports and exports more than doubled. The Spanish increase was significantly lower. Furthermore whilst in Portugal imports and exports were growing at approximately the same rate, in Spain the fastest growth was in exports. In 1974 Portuguese imports expanded spectacularly leading to a deficit in the balance of payments.

The kinds of goods in which Spain trades (Table III/43, 44) reflect the industrialization process. Between 1970 and 1973 agricultural and food products' share of total exports fell from 39.5 to 29.9%. At the same time industrial goods (e.g., metal products') share rose from 8.0% to 10.6%, as did vehicles from 9.1 to 11.8%. The trend on the imports side has been similar. The improvement in standards of living was reflected in a higher lever of agricultural imports (whose share of total imports increased, between 1970 and 1973 from 16.0 to 17.6%) and imports of durable consumer goods (motor vehicles share of the total increased from 4.8 to 5.7%).

Investment goods have kept a large share of total imports (20.7% in 1973, that is to say, 20% more than in 1970). Metal products' share has fallen (9% in 1973, 14.2% in 1970). This is obviously due to import substitution.

In Portugal too the kinds of goods in which the country trades are changing (Tables III/45, 46). On the exports side there has been a significant fall in food products' share of the total which between 1968 and 1972 fell form 22.9% to 17.7%. Simple manufactures (classified as raw materials) also fell (from 38.7 to 35.4%). Machinery and means of transport increased from 5.7 to 11.7% of the total. Other manufactures' share rose from 10.9 to 13.8%. On the import side the changes were less clear. Between 1968 and 1972 foodstuffs' share increased from 12.5 to 13.8%. Raw materials and semi-processed products fell from 24.0 to 19.9%.

Manufactures classified as raw materials also fell (from 20.1 to 17.6%). Machinery and means of transport increased (from 29.9% to 34.1%).

Spain's main trading partner is the EEC which in 1973 absorbed 46.6% of Spanish exports and supplied 42% of the country's imports. In 1973 the most important community members were West Germany (11.6% of exports, 13.6% of imports) and France (12.8% of exports, 10,3% of imports). The United States was also very important, absorbing 15% of 1973 Spanish exports and supplying 17.1% of the country's imports. OECD members are of only limited importance, absorbing only 15.4% of exports and supplying 21.4% of imports.

The geographical distribution of Portuguese foreign trade is rather different. On the export side, Portugal's main trading partner is Britain, which in 1973 took nearly a quarter (23.7%) of total exports. Second place is taken by the United States with a share of 9.8%. On the imports side, on the other hand, West Germany (with

Table III/45. Portugal: Main exports
(million US dollars)

	1969	1970	1971	1972	1972 (%)
Food and beverages	169.9	177.0	182.3	229.5	17.7
Raw materials and semifinished products	128.1	162.6	159.1	180.4	13.9
Chemical products	51.9	69.5	75.0	84.2	6.5
Metal and textile products	337.8	335.1	381.8	458.2	35.4
Machinery and transport equipment	60.2	79.6	102.2	152.4	11.8
Other manufactured goods	93.1	112.2	139.0	179.3	13.9
Others	12.0	13.5	12.8	9.8	0.8
Total	853.0	949.5	1,052.2	1,293.8	100.0

Source: INE.

Table III/46. Portugal: Main imports
(million US dollars)

	1969	1970	1971	1972	1972 (%)
Food and beverages	150.6	180.2	232.9	306.9	13.8
Raw materials and semifinished products	305.3	342.4	370.8	443.5	19.9
Chemical products	134.3	158.9	177.8	216.2	9.7
Textile and metal products	266.5	353.8	374.8	392.5	17.6
Machinery and transport equipment	386.4	478.0	580.1	759.7	34.1
Other manufactured goods	52.8	68.7	86.2	108.2	4.9
Others	0.2	0.3	0.4	0.5	—
Total	1,296.1	1,582.4	1,823.0	2,227.2	100.0

Source: INE.

14.5 of all imports) takes first place, followed by Britain (with 11.5%). Portuguese trading relations with non-OECD countries are of considerable if rapidly declining importance. In 1973 non-OECD countries took 21% of Portugal's exports (35.6% in 1969) and provided 22.8% of the country's imports (28.9% in 1969). This drop was almost entirely due to the decline in trade with the colonies. Here, between 1969 and 1973, exports fell from 27.8% to 14.7% of total and imports only by slightly les (from 15.0% to 10.1%).

Trade between Spain and Portugal is negligible. The two countries have a competitive rather than a complimentary relationship. Spain trades mainly with the EEC, Portugal with EFTA. Britain's membership of the EEC and the coming into force of the commercial agreement between Portugal and the Community should encourage Portuguese interest in the Common Market. This should in its turn encourage a higher degree of integration within the Iberian Peninsula itself.

VI. GREECE, TURKEY, CYPRUS

GENERAL TRENDS

From an economic point of view there are few links between Greece, Turkey and Cyprus.

Their economies, like those of most Mediterranean economies, are competitive rather than complimentary. What is more, Cyprus' closest links, for historical reasons, are with an outside power, Great Britain. Nevertheless the region is so tightly held together by external political and economic ties, so bound in conflict, that we have found it useful to present its economic profile within the confines of a single chapter. This brings out certain homogeneous structural factors which migth in the not too distant future prove to be important. We will thus begin by describing those development trends common to all three countries and then proceed to give a separate analytical outline of the structural situation of each.

To begin with Greece, we should note that although in the last ten years industry has expanded fairly rapidly, agriculture is still the main sector of economic activity, this despite serious structural problems such as the fragmentation of agricultural property and technological backwardness. Greek farms are generally very small. Mechanization is difficult. Their productivity is low. Price elasticities for traditional export crops, such as grain, tobacco and olives, which make up 40% of total exports, are characteristically fairly low.

The aim of the five-year plan for the period 1968-72 was to increase the average size of farms and to introduce technical improvements. This objective was not achieved. Farms continued to be too small to be economic. Production levels were disappointing. Farm workers' incomes remained far below those earned in other sectors. The plan had aimed at an annual rate of growth in production of 5.2%. The actual growth rate achieved was only 1.8%. The changeover to products with higher price elasticities than traditional crops was also much slower than planned. Nevertheless in 1972 the growth rate accelerated to 3.4%. The projected annual rate of growth for the 1973-77 plan is 3.5%. Agricultural policy still aims to influence the kinds of products produced and to improve the general structure of the sector in the direction indicated above.

In Turkey, on the other hand, the last ten years have witnessed far more sustained growth in the agricultural sector. The Turkish economy as a whole has expanded extremely rapidly and has gone through a number of important structural changes. National income has grown at an average annual rate of 5.7%, agriculture at a rate of 3.3%, industry at 7.2% and services at 7.1%. Rapid industrialization has profoundly changed the structure of the Turkish economy. Agriculture's contribution to national income at factor cost, measured at current prices, has fallen from 48% in 1950 to 28% in 1972. Industry's contribution has risen, over the same period, from 13% to 23%, as has that of services, from 39 to 49%. Many of the raw materials used in industrial production come from agriculture. Farming is responsible for little less than a third of net national product and two-thirds of all employment.

Above all, this expansion in agricultural production, has been extremely steady and over the last ten years, has kept up with and at times overfulfilled, planning targets. The high production levels achieved in 1971 and 1972 seem to have been due partly to favourable weather conditions and partly to experiments in the massive use of fertilizers, machinery and new irrigation systems under the second plan. This rapid growth was however in production for export. Improvements in productivity were not followed by any increase in per capita food production. The significant increase in the use of fertilizers during the period covered by the last two plans, shows the shift away from extensive towards highly productive intensive farming. It is largely this shift which lies behind the rapid rise in productivity in sugar-beets, cotton and many cereal crops.

Despite these good results, agricultural policy still faces serious structural problems which need to be resolved. These may be summarized under four headings: Irrigation: the completion of projects begun under the two previous plans; Pricing policy: The need for a new policy on prices which gives incentives to diversify agricultural investment and to modifiy traditional production patterns; Credit: The fact that since 1963 credit has been mainly used to finance large-scale government irirgation projects; the public sector has tended to concentrate its financial resources in plans to increase productivity through the purchase of machinery and the building up of infrastructures; Agrarian reform: The 1945 Agrarian reform law gave only one-quarter of the land then under cultivation to the poor and to the agricultural labourers. Between 1947 and 1967 about 2 million hectares were distributed to 370,000 peasant families. The situation is however obscured by delays in the land registration process and by major regional difference. In the most fertile and best irrigated regions large-scale landed property has survived.

In Cyprus too agriculture represents the backbone of the economy. 35% of the economically active population work in the sector. Food conservation makes up most of the island's industry.

The Cypriot economy suffers from other structural weaknesses, the first of these being the insecure nature of the sources of income upon which it relies: foreign military expenditure and capital transfers. The island's mineral resources are approaching exhaustion. Finally, it should be noted that 30% of the country's imports come from Britain which at the same time supplies a market for 60% of Cypriot exports.

Over the last ten years the island's real average rate of growth has been more than 7% per annum. In 1973 however after an extremely serious drought, growth fell nearly to zero whilst the rate of inflation came close to 8%.

The drought affected the performance of the whole economy. Production fell even outside farming. The collapse in agricultural production hit the balance of payments leading to increased imports and to an 8 million dollar deficit. Employment, which up to 1972, had been expanding in all manufacturing sectors, in 1973 declined.

The Third Development Plan aims at a broader diversification of output, ready for Cypriot association with the EEC. Agricultural productivity is to be improved through an expanded irrigation programme and through rationalization of land-holding patterns. Farming still suffers from over-fragmentation. The average scale of enterprise is too small to be economic.

GREECE

We have seen how in Greece agriculture has remained the dominant economic activity. In 1972 farming production rose by 3.4% (see Table III/47). The year was especially good for wheat. The area of land under cultivation increased. The main agricultural products are olive oil, meat, grapes and milk.

Production in manufacturing industry is also expanding rapidly. Industry is still however faced with the problems resulting from a weak structure of excessively small, family managed businesses surviving only with the aid of special credit facilities. The 1969 census showed that 41% of Greek firms employ less than five people. Such small enterprises serve only the domestic market and lack the entrepreneurship or the financial independence to compete abroad. More than 90% of total production is in fact absorbed by the home market. Since the beginning of the 1960's there has, however, been no large-scale investment in this sector.

Owing to a fall in foreign demand in the iron, nickel and aluminium sectors, there has been a slow-down since 1972 in manufacturing industry expansion. It was rapid growth (26% per annum) in these sectors which from 1965 onwards had provided the driving force behind Greek industry. Growth in non-metallic minerals and in a number of oil-derivatives also slowed. By 1973 however a recovery could be detected in basic metal production.

Between 1968 and 1972 total gross investment grew at a real rate of 14% per annum (that is to say, faster than the 9.9% projection in the plan) (See Table III/48).

Table III/47. Greece: Industrial origin of GDP
(million drachmae)

	1969	1970	1971	1972
Agriculture and mining	56.5	51.9	63.4	65.3
Manufacturing	61.7	70.8	80	89.5
Construction	24.2	26.1	29.4	35.9
Transport and communication	24.8	27.0	30.1	33.2
Trade	32.8	36.5	40.5	44.5
Public administration	14.9	15.5	15.5	15.8
Other services	73.5	79.9	87.9	83.7
GDP	288.4	317.7	346.5	377.9

Source: OECD

Table III/48. Greece: Resources supply and demand
(million drachmae)

	1969	1970	1971	1972
Resources supply	306.6	341.2	369.8	401.4
GDP	288.4	317.7	346.5	377.9
Net Imports	18.2	23.5	23.3	23.5
Demand	306.6	341.2	369.8	401.4
Consumption	234.2	253.4	275.6	299.0
private	206.2	227.7	239.0	250.8
public	28	25.7	36.6	48.2
Investments	72.4	87.8	94.2	102.4

Source: OECD

Public and private investment grew at more or less the same rate. Private investment, however, varied more from year to year.

The largest share (about two thirds) of private investment went to building. The instability of investment in this sector explains the large annual variations in private investment.

The government has no direct control over industry and tends to act through incentives and the creation of infrastructures. A wide range of financial and cash incentives have been used to attract foreign and to encourage domestic investment. Special incentives have been given to firms which are highly labour-intensive and to those planning to invest in depressed areas, thereby increasing employment in rural zones.

Given that the building sector is, as we have seen, one of the most important components of the private sector, it is important to recall a few figures. In 1970 real growth in the sector was 2.2%. In 1971 this rose to 13% and in 1972 to 24%. These figures include investment in infrastructures. Nevertheless there is no doubt that most of this investment went to private housing. Rising average incomes have increased demand in this sector. On the supply side, however, there are a number of obstacles which have to be overcome. In particular there is a lack of specialized labour. Bottlenecks have led to increased costs and have delayed completion of many projects.

In the services sector, shipping is expanding rapidly. This has led to a substantial improvement in the balance of payments situation. The sector has passed the growth targets set in the plan. In 1972 projected rate of growth was 13%, the actual rate 16%.

The key feature in government policy has been the encouragement given to Greek ship owners to register their ships in Greece. The sector has been able to expand thanks to tax and financial incentives and new infrastructures.

Between 1965 and 1973 the tonnage of the Greek fleet doubled. 50% of the fleet was registered in Greece.

The tourist industry is also expanding extremely rapidly. Between 1960 and 1970 there was a steady growth in the sector's importance in the balance of payments. In 1972 earnings from tourism made up 36% of total income from exports of goods and services.

In 1971 a census was carried out of the labour force, measured at about 3.3 million people, 37% of the total population. 41% were employed in agriculture, 18% in industry and 34% in services. The rate of unemployment was 1%. Here, however, it should be pointed out that in recent years only through massive emigration has the labour supply been kept within bounds. Account should also be taken of relatively high levels of underemployment in agriculture and seasonal unemployment, neither of which are included in the official figures.

Betwee 1966 and 1972 increased productivity led to wage rises ranging from 0.1 to 5.1% per annum. The average annual rise over the period was 2.5%. In 1972 productivity improved by a further 7.8%. Hourly earnings rose by 8%. The increase in unit labour costs was smaller than the average annual increase between 1966 and 1972.

At least officially, Greece has no income policy. Nonetheless the plan makes provision for a 32% increase in minimum wages for men and a 35% increase for women, both to be implemented, in three stages, before the end of 1975.

Over the last five years there have been considerable changes in the composition of Greek exports.

Manufactured goods' share of total exports has risen from 23 to 38%. Meanwhile agricultural goods' share has fallen from 65% to 49%. Nonetheless, between 1968 and 1972, the Greek balance of payments (Table III/49) was characterized by a growing trade deficit. This deficit, which in 1971 stood at 1,320 million special drawing rights, was due in part to a 14% increase in imports, in part to stagnating exports, caused as we have already seen, by a drop in foreign demand for iron ore. Import elasticities proved to be very high. Between 1968 and 1972 imports grew at an annual rate of 16%. At least some of the trade deficit was, however, offset by invisible earnings, which grew at a rate faster than exports. The most important items were transport (14% per annum), tourism (18%) and emigrants' remittances (14%). The increase in remittances was more than the projected value in the plan (7%). Tourism, however, grew slower than the planned rate (25% per annum).

TURKEY

We have already seen how Turkey, too, is passing through a phase of rapid change in the agricultural sector and intensive industrialization (Table III/50). Agriculture still plays a dominant role in the economy, employing two-thirds of the labour force and providing about one-third of gross national product. The area under cultivation is 54 million hectares. Half this area is planted with cereals which provide one-quarter of agricultural value added. Patterns of production reflect regional differences. The most productive areas are on the coast.

Table III/49. Greece: Balance of payments
(million SDRs)

	1968	1969	1970	1971	1972
1. Trade balance	— 784	— 904	—1,093	—1,320	—1,480
Exports	465	530	612	625	769
Imports	—1,249	—1,434	—1,705	—1,945	—2,249
2. Services	719	788	949	1,292	1,454
3. Unrequited transfers	— 194	— 241	— 267	— 317	— 373
4. Current balance (1 + 2+ 3)	— 259	— 357	— 411	— 345	— 399
5. Capital account	271	328	369	520	870
private	203	222	318	324	524
public	68	106	50	196	346
6. Errors and omissions	6	29	14	1	— 23
7. Balance (4 + 5 + 6)	18	0	— 28	176	448

Source: IMF.

Table III/50. Turkey: Industrial origin of GDP
(million Turkish liras)

	1968	1969	1970	1971	1972
Agriculture	30,319.9	32,376.6	37,968.4	46,989.6	52,893.1
Mining and manufacturing	20,320.0	22,582.8	25,441.4	33,812.7	43,549.3
Construction	7,320.0	8,332.3	9,463.1	10,031.4	12,330.6
Transport and communications	6,895.8	7,494.1	8,377.8	10,219.8	12,106.6
Trade	—	—	—	—	—
Public administration	10,480.3	11,387.4	13,323.1	20,029.5	25,530.2
Other services	22,534.0	25,397.4	29.089.0	36,556.6	44,065.6
Gross Domestic Product at Factor Cost	97.870.0	107,570.6	123,662.8	157,639.6	190.475.4

Source: OECD

Between 1950 and 1972 value added in agriculture grew at a rate of 3.3% per annum, a good performance when compared with the world average rate of 2.7%. At the beginning of the 1950's growth was due to increases in the area under cultivation. In the 1960's however, this pattern began to change. Increased production of many crops (such as cotton and beets) was due much less to increases in the area planted than to increased productivity. Over the last ten years arable land has gained in importance over pastoral farming, although cereals have been in decline. Between 1962 and 1972 agricultural production grew by 44%. It is thought that in the future the area under cultivation will continue to expand at a rate of 0.5% per year. The real development of farming will however depend on productivity increases on land already farmed.

Although the *"dirigiste"* approach adopted by the government had led to a certain degree of growth, by the beginning of the 1950's, the industrial sector was still relatively small. According to the 1950 industrial census, the private sector produced 54% of value added and provided work for 64% of the industrial labour force. At the same time, however, public companies, on account of their size, their market power and their financial capacity, dominated the national economy. 103 public companies generating value added to the sum of 4.1 million Turkish liras, were responsible for 58% of industrial output. 2,155 private companies were responsible for 42%.

Broadly speaking, industrialization in the period from 1950 to 1970 may be divided into three phases. The first phase, from 1950 to 1962 was dominated by a trend towards import substitution. This task was entrusted to state companies. There were special development projects. New, large scale companies were created. Aided by a stringent policy of protectionism and by the setting up of a Turkish industrial development bank, the private sector also grew rapidly.

The second period, from 1963 to 1969, was similarly characterised by import substitution. At the same time, however, an active effort was made to strengthen exports and to improve efficiency in the nationalized industries. The third period, from 1969 to 1973, was marked by devaluation in 1970 and by an increase in emigrants' remittances, that is, by increased Turkish earnings abroad.

Thus in 1973 industrial production rose by 23%. The corresponding figures for 1950 and 1960 were 13 and 17% respectively. In 1972, 85% of industrial value added was generated in manufacturing industry.

Industrial growth, which during the 1950's had been slow, speeded up in the 1960's. The first and second plans gave priority to industrialization. During the first plan the average annual rate of industrial growth was fixed at 10.5%, during the second at 9.8%. The growing importance of manufacturing industry may be seen from its rising share of total investment. In the last ten years this has increased from 24 to 32%.

The expansion of the manufacturing sector has not, however, led to any parallel growth in employment. New work is appearing only very slowly. In 1962 there were 8% more jobs than in the previous year. By 1972 the annual rate of expansion in employment was still only 11%. The general expansion of the labour force has been characterized by a fall in employment among young people (between 15 and 25) and women. The mature labour force is relatively stable. The lack of job opportunities explains the fall in the size of the labour force relative to the population at large. In 1962, 44% of the population worked. By 1972 this had fallen to 38%.

The strategy for development laid down in the plan gives a greater emphasis to rapid growth and to labour productivity than to employment. Although there has been an increase in the rate of expansion of employment in industry this has been insufficient to completely absorb the labour force. Available estimates of unemployment are not very reliable, being influenced by seasonal unemployment and by underemployment. Emigration has had a significant effect in limiting the labour supply and in reducing the demand for jobs. (Since 1966 about 700,000 Turks have gone to work abroad).

There is nothing in the third plan likely to change the situation on the labour market. The emphasis is still on capital intensive industry. In the medium-term therefore unemployment is expected to rise. This is the inevitable price which must be paid if there is to be rapid economic growth and if the government is to achieve its target of full employment by 1985. According to calculations in plan, by 1977 unemployment should have reached nearly 2 million.

In recent years central government has had an extremely important role in the Turkish economy. State expenditure has risen from 15.9 to 23.2% of gross national product.

At this point it is worth giving a little attention to the problem represented by

Table III/51. Turkey: Balance of payments
(million US dollars)

	1969	1970	1971	1972	1973
1. Trade balance	—264	—360	— 494	— 678	— 782
Exports	537	588	677	885	1,317
Imports	—801	—948	—1,171	—1,563	—2,099
2. Services	— 5	4	21	44	79
3. Unrequited transfers	48	185	351	626	1,199
4. Current balance (1 + 2 + 3)	—221	—171	— 122	— 8	496
5. Capital account	249	315	345	275	341
private	44	92	72	82	129
public	205	223	273	193	212
6. Errors and omissions	105	— 6	121	360	240
7. Balance (4 + 5 + 6)	133	138	344	627	1,077

Source: OECD.

Table III/52. Cyprus: Industrial origin of GDP (at current prices
(million Cyprus pounds)

	1972	1972 %	Rates of change		
			1970	1971	1972
Agriculture	48.6	18.4	—10	30	7
Mining	9.5	3.6	2	—15	—11
Manufacturing	32.5	12.3	10	15	16
Construction	23.0	8.7	17	17	16
Transport and communication	25.8	9.8	13	18	12
Trade	41.5	15.7	4	17	11
Public administration	17.1	6.5	4	13	27
Other services	66.1	25.0	11	7	14
GDP at factor cost	264.1	100	6	15	11

Source: IMF.

state enterprise, set up and developed by the government less for doctrinal than for pragmatic reasons, dictated by the urgency of the economic situation. The main lines of action were suggested by Italian, Russian and German experience. State enterprise came into being on account of the failure of the Turkish managerial and entrepreneurial class, during the early years of the Republic, to live up to the expectations of the country's political leaders. Local private enterprise lacked completely the necessary management ability and entrepreneurship to take advantage of the generous incentives offered by the government. As a result the government turned to a strategy of massive investment in industry and transport and to a lesser extent in agriculture, trade and services.

The expansion of the public sector met with serious financial difficulties, particularly in mining and transport. It appears however as if between 1969 and 1972 there was an improvement in the situation.

The Third Plan (which covers the present period) is especially ambitious with regard to state enterprise. It is proposed to carry through a general reform of the mixed economic system tried out in recent years. The failings of the system, from an organizational, financial and marketing point of view, are clearly pointed out.

During the second world war, Turkey enjoyed a balance of payments surplus. This allowed her to accumulate substantial gold and foreign currency reserves. From the time of the war up until 1970 the balance of payments was characterized by a chronic deficit on trading account. During the 1950's the average level of the deficit was about 120 million dollars per annum. In the 1960's this rose to 180 million dollars (Table III/51).

Over the period in question Turkish foreign trade and foreign trade policy were marked by this structural disequilibrium. Tight controls of various kinds were placed on trade. During the early 1950's there was a period of relative liberalism following Turkey's joining of the European Payments Union. After the 1958 stabilization programme and devaluation, the period from 1959 to 1926 saw something of a relaxation in import controls. During the 1960's however they were again tightened. Afeter a further devaluation in August 1970 and a new stabilization programme, the system was again relaxed.

The lack of equilibrium in the balance of trade during the 1950's and 1960's was mainly due to rapid growth in demand for imports (due in its turn to increased investment requirements and higher imports of raw materials and maintenance equipment) and stagnation in exports (caused by inelastic demand for traditional Turkish products and the failure to develop new, more readily marketable ones).

Certainly the balance of payments was affected by inflation, by poor entrepreneurship and by outflows of capital. Attempts to remedy this situation through the use of quantitative controls to eliminate the balance of payments effects of inflation and increased demand rather than through adjiustments to the exchange rate, led to a major liquidity crisis and, during the 1960's, to an intolerable mix of long and short term liabilities.

Controls have however been effective in reducing the overall volume of imports and in allocating scarce foreign currency resources to investment rather than to finished consumer goods.

CYPRUS

Let us take a detailed look at the main structural features of the Cypriot economy.

The effects of the 1973 drought on production have already been mentioned. Agriculture is truly the activity upon which all else depends. Its importance becomes clear when it is borne in mind that Cypriot light industry relies on agricultural imputs. Since 1960 exports of agricultural produce and conserved food have quadrupled. The main market is Britain which absorbs as much as 90% of exports such as potatoes, carrots, grapes, and so on. Cyprus also exports to the USSR, West Germany, Czechoslovakia and the Netherlands.

The most important crops are citrus fruits and potatoes. In 1971 the total value of agricultural exports reached £24m of which £12m were of citrus fruit, £4m of potatoes and £3m of wine. In recent years great efforts have been made to diversify. At the same time large scale projects have been begun to expand animal rearing and to improve the water supply (which at the moment is poor). Attempts to begin a process of industrialization and to develop small industry have not given the results hoped for or at least have not succeeded in shifting production away from agriculture, which still generates 20% of gross domestic product (see Table III/52). In 1971 gross agricultural production totalled £56m. The corresponding for

1966 was only £38m.

One of the main goals of the Third Five Year Plan (for the period from 1972 to 1976) is the development of manufacturing industry.

Cyprus has recently negotiated with the Unuited Nations a five year technical assistance programme and a programme to promote exports of manufactured goods. The development of manufacturing industry is intended to lead to the substitution of domestically produced for imported goods.

This is natural enough if the country's resources are to be exploited. If, however, manufacturing industry is to expand at the desired rate, it must necessarily turn towards the export market. The present expenditure of effort in manufacturing has, as its objective, the development of those sectors with the greatest change of penetrating foreign markets. In the future Cyprus' associate membership of the European Community may prove of considerable benefit to Cypriot exports, which will be able to profit from preferential tariff rates.

The Cypriot entrepreneurial class is much more active and better endowed with managerial talent than its counter-
literacy rate and the degree of mobility of the labour force are higher than in under-developed countries.

Salaries are relatively low, compared with the rest of Europe. These factors, combined with government policy of encouraging foriegn investments in those sectors where the local capital market is incapable of providing sufficient funds, are attracting large quantities of outside capital to Cyprus. (This capital is invested both in industry satisfying local demand and in the exports sector).

From 1959 to 1972 the balance of payments was in surplus (Table III/53. A deficit on trading was offset by a surplus on capital account.

In 1972 the value of exports rose by 6%, though this was due to rising prices. Imports on the other hand rose by 14%. Most of this increase was due to an increase in the volume of imports. Consumer goods' share of imports, which at the beginning of the 1970's had fallen, began to rise again. By 1973 it had reached 35%. Much of this boom in imports could be attributed to the expansion of the tourist trade and to the pressure of domestic demand. The figures show a close correlation between variations in the real value of imports (that is to say, the current value deflated by an import price index) and real national income.

Given the country's position this high degree of correlation is hardly surprising.

Table III/53. Cyprus: Balance of payments
(million SDRs)

	1969	1970	1971	1972
1. Trade balance	— 88.5	— 107.3	— 120.5	— 147.1
2. Exports	92.2	99.1	106.3	112.6
3. Imports	— 180.7	— 206.4	— 226.8	— 259.7
4. Services and net transfers	78.7	86.2	104.6	123.8
5. Current balance	— 9.8	— 21.1	— 15.9	— 23.3
6. Capital account	28.8	50.3	65.9	46.1
7. Balance	19.0	29.2	50.0	22.8

Source: IMF.

Imports of consumer durables, raw materials for industry and construction work and capital goods made up about 70% of the total.

In 1973 public expenditure was deliberately increased. The authorities' main aim was to counteract the effects of the drought. They hoped to expand public spending without giving rise to inflation. At the time taxes were increased on a large number of consumer goods. Income tax was increased.

In recent years government expenditure has risen faster than revenue. Spending on development has increased enormously, passing, it is estimated, from 4.4 to 6% of national income.

The budget surplus of the 1960's has in recent years been replaced by a deficit. The 1972 deficit of 4.7 million Cypriot pounds was financed by foreign loans and by funds from the domestic market. In recent years the treasury has made a steady policy of borrowing more than sufficiently to cover the deficit.

VII. THE BALKANS

HOMOGENEITY AND DIVERSITY

Within the Balkan peninsula, the Bulgarian, Rumanian and Yugoslav economies, despite having evolved in different directions over the last twenty years, still have extremely similar structural characteristics.

The Balkan geographical region is in an intermediate position between the countries of the third world and those with more highly developed economies. The agricultural sector is still very large, employing 52% of the economically active population in Yugoslavia and Rumania and 42% in Bulgaria. Per-capita incomes (852 dollars per annum in Rumania, 612 in Bulgaria and 492 in Yugoslavia) are below average European levels. Yugoslavia, furthermore, has marked differences between the richest republics, Slovenia and Croatia, where per-capita incomes stand respectively at $900 and $624 per annum and the underdeveloped areas of Macedonia, Montenegro and Kossovo, where average yearly incomes are below $300.

Even from a purely quantitative point of view the performance of the Rumanian, Bulgarian and Yugoslav economies has been remarkably similar. Between 1950 and 1970 the industrial sector developed much faster than the agricultural sector. In all three countries industrial production has increased eleven-fold. Agricultural production on the other hand has increased by about 110% in Rumania, 130% in Bulgaria and 200% in Yugoslavia. Net material product was seven times higher in Yugoslavia, six times higher in Rumania and five-times higher in Bulgaria, at the end than at the beginning of the period. Yugoslavia's exceptional results should be attributed mainly to rapid growth in tourism and the hotel trade. The fastest rates of expansion were achieved in the years between 1953 and 1962, during which period the average annual growth rate reached 8.5%.

If then we take a broad perspective, based on traditional indicators such as the relative importance of the agricultural sector, pro capite income levels, and rates of real growth, we can say that there exists a pattern of growth common to all three countries.

In realty however the components of the regional economy have acquired their own autonomous characteristics, in particular with regard to the institutional organization of production, their international position and the composition of national product.

During the first years of the post-war period all three countries adopted a policy of rigidly centralized economic management. Quantitative production targets for individual enterprises were laid down in the plan. Although the CMEA (Council for Mutual Economic Assistance) did not yet exist (it was set up in 1959) there was little trade with the West. Planning strategy reflected the need to integrate the Balkan economies with those of Eastern Europe and the Soviet Union.

Domestically the emphasis was placed on the development of heavy industry at the expense of consumer goods production.

Yugoslavia was the first of the Balkan countries to move away from this model towards economic de-centralization. At the same time "workers self-management" was introduced as a metrod of factory administration. There was a shift towards trade with the western countries, especially those in the Mediterranean basin.

Meanwhile domestic production of durable consumer goods, such as cars, was expanded.

Rumania, on the other hand, has made no major adjustments to the centralized planning system. On the contrary, by 1970 the socialized sector of the economy was responsible for 96% of net material product. Priority is still given to primary industry (cement, steel etc) to production goods and to oil derivates (the country is rich in oil).

Rumania has however won a degree of economic independence from the other Eastern European countries. Despite her membership of the CMEA she has always rejected proposals for economic integration incompatible with the national interest. Similarly she has never accepted trading or economic co-operation agreements with CMEA countries when it was possible to make more advantageous deals outside the organization.

Of these three countries Bulgaria has been the most faithful to the CMEA system of alliances and economic co-operation. The composition of her national product and her instituzional framework have never deviated from the Soviet model.

It can be seen then that there has been a growth in internal differentiation within the Balkan area. Yugoslavia's economic and cultural links are with the Mediterranean, in particular with Italy. Bulgaria is strengthening her integration within the Soviet bloc. Meanwhile Rumania is following a strategy of diversifying her international trade and of safeguarding her national sovereignity at all costs.

POPULATION, CURRENCY AND INCOME

In 1971 Yugoslavia had a population of 20.5 million, on a surface area of 256,804 square kilometres. The respective figures for Bulgaria were 8.5 million and 111,912 square kilometres, for Rumania 20.4 million and 237,500 square kilometres.

The Yugoslav national currency is the Dinar. After a series of devaluations (which became particularly frequent after 1972), at the end of 1974 the rate of exchange was 16.5 dinars to one dollar.

The Bulgarian national currency is the Lev. It is hard to quote an exchange rate giving a realistic idea of purchasing power in terms of Western currency. The official base rate in 1973 was 0.94 Lev to the dollar, the tourist rate was 1.65 Lev to the dollar. In June 1973 the black market rate for one US dollar was 2.7 Lev.

The Rumanian national currency is the Lei. In June 1974 the official exchange rate was 4.97 lei to the dollar. In June 1973 1 dollar on the black market was worth 24.8 Lei.

All these countries use the national accounting technique developped in the socialist countries. The main difference between these techniques and those usually used in the West is that certain services are not counted as productive activity.

The aggregate coming closest to the Western concept of national income is net material product (NMP). This is defined as the total value of goods and productive services, including indirect taxation, produced by the economy. Those services which make a direct contribution to production, such as transport and communications, are included within NMP. Others such as defence and personal service are excluded.

Table III/54 shows NMP per sector of economic activity. This table shows up what was stated early about the homogenerity existing between the three countries' productive structures. Note should be taken of the importance of the Yugoslav hotel and tourist sector which together with trade is responsible for 20% of national NMP.

In Bulgaria the agricultural sector is responsible for a greater share of NMP than that in the other two countries. Agriculture nonetheless employs a smaller proportion (39%) of the economically active population than in either Yugoslavia (45%) or Rumania (49%). This demonstrates the relatively high degree of efficiency which has been achieved.

Industry's role in the formation of national income is a dominant one especially in Rumania where it produces 57.1% of NMP. The corresponding figures for Bulgaria and Yugoslavia are respectively 50.8% and 36.2%. Extractive industry is included. This gives an advantage to Rumania which has extensive oil fields.

There are no major differences in the way in which the three countries make use of available resouces (See Table III/55). In Rumania investment takes a slightly higher percentage of NMP than in the other two countries (30% with respect to 29.7% for Yugoslavia and 27.2% for Bulgaria).

Table III/54. Yugoslavia, Bulgaria, Rumania: Industrial origin of Net National Product (%)

	Yugoslavia (1972)	Bulgaria (1971)	Rumania (1972)
Agriculture	20	23.7	21.7
Mining and manufacturing	36.2	50.8	57.1
Construction	8.9	9.2	8.5
Transport and communication	8.8	7.3	5.6
Trade	20.3 (1)	5.8	—
Other services	5.8	3.2	7.1
Total	100.0	100.0	100.0

(1) Includes tourist industry.

Source: The Economist Intelligence Unit Ltd.

Table III/55. Yugoslavia, Bulgaria, Rumania: Resources supply and demand

	Yugoslavia (1973)		Bulgaria (1972)		Rumania (1971)
	million dinars	%	million levas	%	%
Investments	43.8	29.7	3,088	27.0	30
Consumption	90.6	61.3	8,490	75.5	—
private	76.9	52.0	8,052	—	—
public	13.7	9.3	438	—	70
Net Exports	13.2	9,0	—336	—2.7	—
Net material product	147.6	100.0	11,242	100.0	100

Source: see Table III/54.

PLANNING AND ECONOMIC REFORM

All three countries in the Balkan area have five year plans showing economic priorities for the period in question. In Bulgaria and Rumania these plans are binding. The Yugoslav plan, however, does nothing more than provide guide lines to decision-makers.

Yugoslavia has in fact abandoned all direct state intervention in the economy. In practice the only means of control left to the government are monetary and to a lesser extent fiscal policy. Even budgetary planning has a limited influence. The only sectors in which central government controls expenditure are defence and administration. The other sectors are the responsibility either of the individual republics, of local government or of other socio-political bodies. Investment funds, for example, are mainly administered by banks outside the state system. The national investment programme covers only a limited number of projects.

The basic principle on which the system is founded is that workers control over the economy should be exerted directly within individual production units. The overall co-ordination of the system is left to self-regulating market mechanisms, which are meant to ensure maximum efficiency and quality. Enterprises are thus administered directly by the workers. The latter in their "collective", that is to say, in the workers General Assembly, elect the Workers Council, responsible for all major decisions, the administrative council, responsible for detached decision making and the director who acts as the enterprise's legal representative and is responsible for its actions.

In a long process, which in 1965 and 1971 culminated in important measures of reform, the enterprises's freedom of action was extended to all these fields typical of a market economy: production levels, wages, prices, investment, mergers with other enterprises, and funding. Recently enterprises have been allowed to issue shares and bonds as a means of collecting investment capital.

This system has led to many problems which the authorities must now resolve. The workers' right to decide on wage levels has led to a gradual reduction of profit margins. There is a very high level of debt wtih the banks (which are also self-managed). In practice this has led to a fall in investment. In the same way the freeing of prices has proved a stimulus to inflation. All attempts to impose some new form of control have failed.

The Yugoslav system, unlike that of the other Socialist countries, has proved incapable of guaranteeing full employment. In many cases self-management has led to a reduction in the number of workers hired and even to redundancies as the enterprise tried to increase the share of its income available for distribution.

The persistance and indeed the deepening of the gap between advanced and backward areas; and that between the more and the less dynamic sectors of the economy is another serious problem. Free enterprise decision-making on salary levels has made it ever more difficult to transfer resources.

Bulgaria and Rumania have introduced less radical reforms in their systems of economic planning. In both cases the aim was to transfer a number of decision-making powers from the centre to the periphery and to increase economic efficiency by applying economic principles in price calculations. In practice subsidies to enterprises have been more or less completely withdrawn. There has been a general revision in price levels which in many cases have been brought into line with those obtaining internationally. Recommendations made in the Plan are no longer binding. More than in the past they are based upon individual entreprises' forecasts and programmes for expansion.

Whereas in the past planning targets were specified in physical measures, planning today depends upon a series of credit and financial incentives. Enterprises have also been allowed a certain degree of freedom to fix price, wage and investment levels. The co-ordination of activities in different sectors is now entrusted to vertical and horizontal agreements between enterprises. Previously it was the exclusive reserve of the economics ministries.

The Bulgarian reform came into effect on the 1st of January 1969. The economic plan for the period from 1971 to 1975 was drawn up in line with the principles described above. The results up to 1974 were not entirely satisfactory. It is forecast that planning targets will be achieved though only by a narrow margin.

In particular there has not been the hoped for increase in labour productivity. There have been continuous calls by the authorities for a better disciplined labour force. The worst bottlenecks have been in the transport and agricultural sectors. In the latter production has consistently fallen below planning targets.

The application of the Rumanian reform began in August 1967. At first however it was limited to a restricted group of sectors and enterprises. In the last two years the country has suffered from increases in import prices and owing to administrative difficulties, from short supply of a number of products. This has led the government to suspend the application of the reform. Over the last two years there has been a thend towards economic "decentralization". The power and responsibilities of the economics ministries have grown accordingly.

In all sectors except agriculture it is expected that the planning targets for the period 1971-75 will be achieved ahead of time. The greatest success has been the energy conservation programme. In 1974 electricity consumption was reduced by 4000 million Kwh. Oil consumption fell by 1.5 million tons. Rumania and Bulgaria have already decided on the main objectives of the five year plan for 1976-1980. Yugoslavia, on the other hand, has so far only approved the general frame of reference for planning in the decade ending in 1985.

Bulgaria plans an average annual growth rate (in net material product) of between 8% and 10%. Industry is expected to expand at a rate of between 10% and 12% per annum. The most dynamic sectors should be chemical and electronics with annual rates of growth of between 20% and 25%. Foreign trade is also expected to expand rapidly (at a rate of between 15% and 17%).

Rumania's main priority is to achieve the rapidest possible real growth rate in order to catch up with the most advanced European countries. A large share of the national product is thus to be devoted to investment. Consumption is only expected to grow slowly. 75% of energy requirements should be met from domestic sources. The main emphasis is on increasing coal production. The volume of oil and natural gas production should remain constant at a slightly higher level than at present.

Investment is expected to expand at an average rate of between 10.5% and 11.4% per annum. This should allow an annual increase in revenue of between 9% and 10%. The heaviest investment will be in metals, mechanical engineering and chemicals. Foreign trade should expand at an average rate of between 11.5% and 12.5% per annum.

The main problems for Yugoslavia over the next decade are the reduction of regional inequality and the development of the extractive industries.

The following average annual growth rates are forecast: social product 7%, industrial production 9-10%, agricultural production 3%, exports 9-10%, imports 8-9%, employment 3%.

AGRICULTURE

32.0% of the surface area of Yugoslavia, 40.8% of that of Bulgaria and 44.3% of that of Rumania, is given over to arable and tree crops. Grass and permanent pasture take respectively 24.8%, 13.4% and 18.4%; forests and woods 34.6%, 33.4% and 26.6%; uncultivated and unproductive land 8.6%, 12.4% and 10.5%.

In all three countries a large proportion of arable land is devoted to cereals. In 1972 Yugoslavia produced 79.4 million quintals of maize, 48.6 million quintals of wheat and 4.8 million quintals of barley. The total area sown was 4,598,000 hectares. In the same year the Bulgarian wheat harvest totalled 35.8 million quintals, Bulgaria also produced 29.7 million quintals of maize and 14.6 million quintals of barley. The area sown amounted to 2,096,000 hectares.

In Rumania the harvest produced 60.5 million quintals of wheat, 95.5 million quintals of maize and 8.5 million quintals of barley, from an area under cultivation of 6,116,000 hectares.

The most typical Yugoslav agricultural products are prunes (10.6 million quintals in 1972) and apples (3.2 million quintals). The former are not only eaten fresh but are also dried for use in jam. Some are also distilled to produce Slivovic. Much of the apple crop goes to make cider. Dalmatia, Eastern Slovenia and the Danube region also produce considerable quantities of wine (63 million hectolitres in 1972).

Bulgarian agriculture's most typical product is roses. These are used to produce essence, mainly for export. It is calculated that Bulgaria produces four fiths of the world total. Among Bulgaria's other export crops are sunflowers (4.9 million quintals in 1972) tobacco (1.4 million quintals), strawberries (3.2 million quintals) and wine (3.4 million hectolitres).

Rumania's most important crop is sunflower seeds (8 million quintals in 1972). She is the world's third largest producer. She also produces large crops of sugar beets (53 million quintals) and potatoes (36.2 million).

In all three countries agriculture has been the most backward sector of the economy. In recent years the state has intervened directly to try and improve production levels.

In Yugoslavia the main cause of this backwardness is to be found in the atomization of agricultural property. In 1971 there were 2.6 million private holdings each with an average area of 3.2 hectares. The average area of the 1900 cooperatives and state farms was 728 hectares. In order to increase the average size of land holdings the state has introduced a large number of incentives encouraging the formation of cooperatives and the purchase of peasants' land by state farms.

At the same time the authorities hope to improve yields through the introduction of new crop strains. The removal of price controls and the price rises to which this has led should improve farmers' profit margins.

As has already been mentioned the Bulgarian agricultural sector has achieved remarkable results. Its performance has been better than that of agriculture in neighbouring countries. In part this is due to a favourable climate and environment, in part to a high level of mechanization and generally superior organization. The state and cooperative sector is larger than in either Yugoslavia or Rumania. Out of a total of 5.5 million hectares the state owns 475 thousand and the cooperatives control 3.6 million.

The worst problems are frequent flooding calling for heavy investment in preventative measures and the difficulty of planning production in line with demand from consumers and the processing industry. In order to resolve this last problem the government has launched a programme to build large agro-industrial complexes combining agricultural production and processing within a single unit.

Special teams will supervise the whole production cycle from the harvest to the market place. They will also have control over research.

In Rumania there have been difficulties in coordinating the collectivised sector with other kinds of farm. Despite massive investment production has failed to make any great leap forward.

Since 1974 the government has been making a major effort to increase productivity. A start has been made in restructuring the irrigation system. At the same time new seed has been introduced. The most important organizational reforms have been the reduction in the number of farms, the granting of greater responsibility to farm managers and the improvement of incomes and profit margins through increased prices and subsidies.

MINERAL AND ENERGY RESOURCES

The Balkan area is, as a whole, rich in mineral and energy resources. Many of these have yet to be exploited.

Yugoslavia is the most richly endowed of the countries of the area. She is Europe's largest producer both of copper and of bismuth. Of the former in 1973 she produced 118,000 tons. It is forecast that in the future production will expand considerably, due to new deposits which have been discovered. The country is also Europe's second largest producer of silver (11 tons in 1973) and mercury (566 tons in 1972) and the third largest producer of bauxite (2.2 million tons in 1972). There are also extensive deposits of iron ore. In 1973 these yielded 1.6 million tons of metal.

As far as energy resources are concerned Yugoslavia produces legnite (27.7 million tons in 1973), oil (3.4 million tons in 1973) and natural gas (1.5 billion cubic metres in 1974). Oil exploration is going on in the Adriatic sea. The results are encouraging.

Bulgaria has fewer mineral resources. There are bauxite deposits along the Yugoslav border, most of which have yet to be exploided. The country also produces copper (in 1972 42,400 tons of metal) natural gas (in 1973 220 million cubic metres) oil (in 1973 189,600 tons) Until a few years ago Bulgarian oil was all refined in the Soviet Union. Recently however production has begun in a number of refineries on Bulgarian soil. These should provide a basis for an independent petrochemical industry.

Rumania is mainly known for its huge oil fields and the large refineries at Ploesti. In 1972 crude oil production totalled 14.1 million tons. It is not expected that there will be any major increase in production in the coming years. Recent exploration at great depths has failed to yield significant results.

Bulgaria and Yugoslavia have large deposits of uranium. In recent years this has begun to be used to produce electricity. Yugoslavia is at present receiving British technical assistance and Anglo-American credits to build her first nuclear power-station, with a capacity of 600 megawatts.

Bulgaria and Rumania, on the other hand, have received Soviet aid to build two power-stations with a capacity of 800 and 440 megawatts respectively. These are still being built.

INDUSTRY

As we saw when we looked at national income the Balkan peninsula has achieved a fairly high level of industrialization. In 1969 the Yugoslav index of industrial production stood at 154 and in 1973 at 213 (1963=100). The corresponding figures for Bulgaria were 199 and 285 (1965=100) and for Rumania 202 and 285 (1963=100).

In the first two decades after reconstruction the accent was on primary industry. Only in the last decade has there been a diversification towards light and consumer goods industry.

From figures for steel and cement production it can be seen that the country with the strongest primary industry is Rumania, which in 1973 produced 8.1 million tons of the former and 10.2 million of the latter. Yugoslavia came in second place with 2.7 and Bulgaria with 2.2 and 4.2 million tons.

Yugoslavia has her own copper, lead, zinc and aluminium smelting industries using ore produced within the country. The most developed sector is however engineering, responsible on its own for 19.2% of industrial production. Here the car industry plays a leading role. Although initially its activities were limited to the assembly of kits imported from abroad it has now succeeded in integrating vertically with factories producing within Yugoslavia. 1973 production totalled 124,993 private and commercial vehicles. Parallel industries have grown up producing ball bearings and engines. The second most important sector is textiles which is responsible for 11.4% of total industrial production. The industry specializes in cotton textiles and carpets. The third largest sector is the food industry (9.3% of total industrial production) followed by wood (7.6%). No Yugoslav industry has a longer tradition, especially in furniture manufacture and wood tiling.

Bulgaria boasts a long tradition in textiles. In recent years however there has also been a development of more technology-intensive industries. The electronics industry has established itself. The production of television and radio sets has been of especial importance. The ship building industry has grown up around Varna. In the coming years it will expand considerably. More recently chemicals and machine tools industries have come into being. In the present development plan considerable emphasis has been placed on these sectors.

Rumania has the largest and most highly diversified mechanical engineering industry in Eastern Europe, specializing in the production of certain kinds of agricultural machinery and of machines for use in the building industry and road construction, in ships for use on rivers, in food processing equipment and in machinery and plant for mineral (especially oil) exploration.

She also has a traditionally solid chemical industry based on an abundance of certain fundamental raw materials (rock-salt, oil and natural gas). Recently there have been major advances in the advanced chemical industry producing plastics, fertilizers and synthetic fibres.

The sectors which have begun to develop most recently are the electronics, electricity and timber industries.

EMPLOYMENT, WAGES AND PRICES

The economically active Yugoslav population is at 9.6 million. The corresponding figures for Bulgaria and Rumania are 4.5 and 10 million respectively. Yugoslavia also has an un- or under-employed population of 1 million as well as another million imigrant workers.

If we divide the work force by branch of economic activity (see Table III/56) we again see Bulgaria's higher level of industrialization with respect to Yugoslavia.

From 1973 onwards Yugoslavia first slackened and then abolished wage controls. This was left in the hands of the management councils. The result has been a fairly large rise in money wages, absorbed however, to a large extent, by price rises. Between 1952 and 1969 monthly incomes for workers in the state sector, measured at constant prices, have risen by 146%. In 1971 the average income in the socialized sector was 1222 dinars.

Many prices have also been freed. Government control has been maintained only for raw materials and basic industrial products. Three quarters of all trade now takes place without any price control. In recent years price movements in Yugoslavia have followed the same pattern as in the market economies. In 1971, 1972 and 1973 the rate of inflation was respectively 15%, 16% and 17%. An attempt is presently being made to introduce an income policy. This does not seem, however, to be giving the desired results.

Rumanian average incomes in industry have risen from 1160 lei in 1965 to 1482 lei in 1972. These increases were made possible by the new wages sytem linking incomes to labour productivtiy.

In Bulgaria too a new system has recently been introduced linking incomes to enterprise profitability. The general average wage has increased from 113 lev in 1968 to 132 lev in 1972.

Price levels in Rumania and Bulgaria, unlike Yugoslavia, have remained practically constant over the last twenty years. The increasing which occurred after the introduction of the economic reform mostly only made up for previous reductions.

Table III/56. Yugoslavia, Bulgaria and Rumania:
Active population by sector

Sectors	Yugoslavia	Bulgaria	Rumania
Agriculture	45	39	49
Industry	18	29	23
Handicrafts	6	—	—
Construction	5	8	8
Transport, communication	15	6	7
Trade	—	6	—
Services	11	12	12
Total	100	100	100

Source: national sources and Table III/54.

INTERNATIONAL TRADE

In this field, as in others, Yugoslavia's position is radically different from that of Rumania and Bulgaria. She has suffered above all in recent years, from a heavy trading deficit. The other two countries have succeeded in balancing imports and exports.

In 1969 Rumania and Yugoslavia had trade deficits of 108 million and 896 million dollars respectively. In the same year Bulgaria had a surplus of 51 million dollars. By 1973 the Yugoslav surplus had more than doubled, reaching 1,657 million dollars. Meanwhile Rumania and Bulgaria had achieved surplusses of 35 and 228 million dollars respectively.

The Yugoslav trading deficit was however more than offset by a surplus in transfers and services, deriving particularly from tourism. Overall current account showed a surplus of 329 million dollars. On capital account the country received help from the West in the form of aid, loans and trading credits. Recently a small foreign exchange market has been opened. A number of banks have been authorized to deal in convertible currency. Foreign investment has also been allowed on certain conditions. The maximum foreign stake allowed in a Yugoslav enterprise is 49%. Profit remittances to the mother country are not permitted to exceed one third of the value of the foreign currency earned by the enterprise's exports. In 1973 there was a surplus of 391 million dollars on capital account. This meant an overall balance of payments surplus (including errors and omissions) of 668 million dollars.

Table III/57. Yugoslavia: Main imports and exports in 1973

	Imports	Exports
Food products	14.0	11.1
Beverages and tobacco	2.1	0.2
Raw materials	9.6	10.8
Fuel and lubricants	0.8	7.9
Animal and vegetable oils	0.1	0.5
Chemical products	6.2	10.0
Semi-finished products	28.5	24.0
Machines and transport equipment	24.7	31.4
Other manufactured products	13.4	4.1
Others	0.6	0.1
Total	100.0	100.0

Source: Index: Statistical Yearbook of Yugoslavia.

Table III/58. Bulgaria: Main imports and exports in 1969 (%)

	Exports (%)	Imports (%)
Food products	31	4
Machinery and plants	26	40
Industrial consumer goods	22	7
Primary agricultural and breeding goods	7	10
Fuel, minerals and metals	6	27
Raw materials for the food industry	4	3
Chemical products, fertilizers and rubber	3	8
Construction materials	1	1
Total	100	100

Source: Bulgarian Statistical Yearbook, 1970.

If we examine the geographical pattern of Yugoslav trade, we see that the EEC absorbed 36% of total exports and provide 42% of imports. There exists a non-preferential trading agreement with the Community. This provides for the greatest possible degree of liberalization and contains a number of special clauses concerning trade in specific goods such as meat.

Following recent developments, including the EEC's halting of meat imports, Yugoslavia has faced serious problems. Several times she has stated her intention

Table III/59. Rumania: Main imports and exports in 1970

	Exports (%)	Imports (%)
Fuels, minerals and metals	23	31
Machinery and equipment	22	40
Industrial consumer goods	18	5.5
Raw materials and food products	16	5.2
Vegetable and food primary products	11	10.0
Chemical products, fertilizers and rubber	7.4	6.7
Construction materials	2.6	1.6
Total	100.0	100.0

Source: Rumanian Statistical Yearbook, 1971.

of intensifying her trade with the developing contries.

Since 1964 Yugoslavia has been an associate member of the CMEA which in 1973, took 30% of the country's exports and provided 22% of imports.

If we classify Yugoslav trade by class of product (see Table III/57) we see that the most important items are semi-manufactured goods, and machinery and equipment for the transport sector. These make up respectively 28.5% and 24.7% of imports and 24.0% and 31.4% of exports. The next most important items are food products, manufactured goods and raw materials.

As has already been mentioned Bulgaria is from a trading point of view, closely integrated within the CMEA area. In 1971 the CMEA countries absorbed 75.3% of Bulgarian exports and provided 73.9% of the country's imports. There was very little trade with western Europe which absorbed 9.5% of exports and provided 12.8% of imports. Recently trade with the EEC has been intensified. The deficit has however also expanded. The most important West European exporter to Bulgaria is West Germany.

If Bulgarian trade is classifed according to class of product (Table III/58) we see that the most important exports are food products (31%), machinery and plant (26%) and industrial consumer goods (22%). Bulgaria is the largest exporter of fruit and vegetables in the socialist world, Europe's largest tomato exporter and the second largest exporter of grapes and tobacco. She is also the world's largest exporter of cigarettes, providing one quarter of total world cigarette exports. Her main imports are machinery and plant (40%), fuel, minerals and metals.

58% of Rumania's exports go to and 52% of her imports come from the socialist world. Western Europe takes 20% of Rumania's exports and provides 22% of her imports. Rumania has always aimed to diversify as far as possible her trade with the socialist countries. This was confirmed in trading agreements signed during 1974 with the Soviet Union and China. The station; China will export cotton, non-ferrous metals, alloys, coke, rice and machinery for the rubber and plastics industries in return for ships, busses, oil drilling equipment, electric locomotives and machine tols.

In 1970 Rumania's main exports were mineral fuels and metals (23%) and machinery and equipment (22%) (Table III/59). Her main imports were also machinery and equipment (40%) and fuels, minerals and metals (31%).

The main problem facing Rumanian trade policy is how to maintain the balance of trade with the West in the face of rapidly growing imports. Trade with the United States is growing more rapidly than with any other country.

PART IV

EXTERNAL ACTORS

I. EXTERNAL ACTORS IN THE MEDITERRANEAN

In the Mediterranean we may speak of "external" actors located geographically outside the region. The political, military and economic presence of the latter influences the political line and policies adopted by the Mediterranean states. Leaving aside centres of multinational and transnational power, and the European countries themselves, the most important external forces present in the Mediterranean in the 30 years since the war have been the superpowers, China and Japan. The United States and Russia have been active in the political, economic and military spheres, and since the Suez crisis in 1956 which marked the withdrawal of French and British influence in the Mediterranean have stepped up their activity. The Chinese presence has almost exclusively taken the form of political penetration. The Japanese have been involved mainly in economic activity. France and the United Kingdom will not be dealt with here as France is a Mediterranean country in her own right, and Britain is clearly a declining power.

The American Presence in the Mediterranean.

Since the end of the Second World War the United States has managed to build a close network of ties with the Mediterranean countries, an area traditionally under British and French control from which it had previously been absent. The main factor behind this development was Great Britain's relinquishing of her imperial role, a result of the new balance of forces brought about by the World War, and of the socio-political upheavals in the colonies, protectorates and overseas territories of the European powers. The first move in the British withdrawal from the Mediterranean took place in February 1947 when the British government informed Washington that it was no longer able to continue supplying aid to Greek anti-communist forces. In January 1968 this trend was confirmed by Harold Wilson, head of the Labour government, who announced a definitive withdrawal East of Suez by 1971. In March 1975 came the British government's publication of a defence White Paper setting out plans for withdrawal from Malta by 1979, and for a substantial reduction of forces stationed in Cyprus. Britain stated that she would no longer keep a permanent force in the Mediterranean and that from 1977 she would reduce her naval presence to token visits and participation in NATO exercises. The British withdrawal substantially affected not only the Indian Ocean (through the dismantelling of the great Singapore naval base and the military withdrawal from the air bases of Bahrain and Sharja), but also the Southeastern sector of the Mediterranean.

The United States progressively assumed the role whcih had been Brtiain's. Her objectives and the way in which she played this role were however different. United States' goals in the Mediterranean can be summed up as the containing of Soviet influence, the covering of the Southern flank of the Atlantic Alliance, the protection of commercial sea routes and American economic interests and the support of American allies (Israel, Spain, etc.). The forms assumed by this presence had however to take account of the changed international situation. Consideration had to be given to the role assumed by the Soviet Union (a great land power with strategic interests in the nearby Mediterranean area), and to the aspirations for real autonomy being expressed by the newly independent states. The USA had to consider the claims of the countries in the Mediterranean basin and the role played by the Soviet Union as an alternative power to herself. The presence of the two Great Powers was used by the Mediterranean countries as a bargaining counter. Potentially they could play one off against the other. There are numerous examples of how, in the eyes of the small Mediterranean countries, the USA and the USSR were virtually interchangeable. The most notable example of this is the withdrawal of American collaboration in the building of the Aswan Dam in 1956 by the then Secretary of State, Foster Dulles. This, plus the American military support given to Israel, provided the occasion for Egypt's coming down in favour of the USSR. The combination of factors alluded to above has meant that the characteristics of the American presence in the Mediterranean have not been constant in all places and at all times although the steady pattern of behaviour of a number of Mediterranean countries has provided certain fixed reference points. Since 1973, however, the Yom Kippur War, the

Lebanese and the Cypriot crises have exacerbated the structural instability of the area.

The October War and the oil crisis — with its more or less artificial links with the Arab-Israeli conflict — faced the superpowers and the belligerents with a series of problems upon whose solution the entire balance of power in the southern Mediterranean, and the future relationship between the USA and the Middle East, depended.

During the war the USA had given military support to Israel, despite certain reservations on the part of the European NATO allies, and had even gone so far as to block Soviet military pressure by announcing a nuclear alert on the night of 25 October. Once the conflict was over, however, the United States government took stock of the changes brought about by the war. On the one hand it had strengthened the leadership of Sadat and Egypt in the Arab world. On the other it left deep traces of uncertainty and political instability within Israel, which made her more open than she had been after her overwhelming victory in the Six-Day War, to overtures and concessions towards the Arabs. The old Israeli political élite came under fire. Israeli public opinion felt frustrated and isolated in the world — so much so that some sectors actually began to question the very ideology of the Israeli state.

The Arab front — guided by the Egyptian-Saudi axis, the sector of the coalition most open to compromise, once again turned towards the United States, and in the nationalistic euphoria stemming from its newly-found military capacity and the satisfactory outcome of the oil dispute, was able to justify this. The Egyptian and Saudi Arabian leadership broadened the political consensus around their position favoured by the vast development plans made possible by the steady flow of petrodollars. The prestige gained by the Saudi monarchy is a striking case in point. Economic links with the USA became more numerous. Further encouragement to the Arab-American *rapprochement* was stimulated by the fact that the USSR had less technical and financial aid to offer to offset the offers coming from the West.

The only serious obstacle to closer ties between the USA and the Arab countries remained the traditional support offered by the Americans to Israel. Even this obstacle, however, began to seem less prominent and crucial than in the past. In fact, apart from the period around the time of the Six-Day War, Arab-American links had always been cordial and close. It is sufficient to recall the positive relations between the USA and Egypt, Libya, Saudi Arabia and all the other Arab countries immediately after the Second World War, when it was still Great Britain who was guaranteeing the independence of the new Israeli state. The United States' anti-colonial tradition had also favoured links with Third World leaders, including those of the Arab countries. Even Truman's policies — conditioned to a large extent by military considerations and anti-Sovietism — had not endangered these ties. The State Department had fought a long battle for a more viable plan for a Jewish homeland in Palestine: Truman's decision to give immediate recognition to the State of Israel was counterbalanced by the Soviet Union's earlier, similar action. Even later some oil experts in the State Department supported the political line of the new nationalist governments (though with some contradictions: they were against Mossadeq in Iran). It was rather a number of discriminatory decisions on development aid and the open American military aid to Israel in the 1967 war which alienated Arab sympathies. Following the October War the reassessment of policy made necessary by the changed balance of power in the Mediterranean pointed to the desirability of finding a peaceful solution to the conflict and of a more conciliatory attitude towards Arab demands. Kissinger's continual shuttling between Arab capitals and Tel Aviv favoured the restoration of Arab confidence in the USA. America was no longer seen simply as an Israeli ally. It is however premature to pass judgement on the overall results of Kissinger's step-by-step approach. It was this policy, let it be said, which produced the agreement of 4 September 1975 for a second disengagement in Sinai. Leaving aside all considerations regarding progress towards peace, the agreement bears witness to the role played by the USA as exclusive guarantor of the Middle Eastern situation. Even if there were to be no further progress, and if the chances of a Geneva Peace Conference were to improve, as the USSR has always hoped, this would not affect the improved tone of Arab-American relations. The Soviet Union, moreover, is seriously hampered in the bilateral sphere by the suspension of normal diplomatic relations with Israel.

The new Arab-American entente has led to long-term economic agreements. Some of these, such as the one signed with Saudi Arabia during Nixon's journey to the Middle-East in June 1974, can be considered as of key importance. The USA, Great Britain and Japan have won a virtual monopoly over the operations for the reopening of the Suez Canal. There is talk of 2 billion dollars to be invested in Egypt in addition to aid promised to give the country a civil nuclear energy capabality capable of producing atomic energy by 1980. One difficulty is however that Egypt has yet to sign the Nuclear Non-Proliferation Treaty. The American concessions to Egypt and the propaganda around the friendship between Nixon and Sadat were certainly strongly influenced by the urgent need for the American President, with the Watergate crisis at its height, to achieve success in foreign affairs. However, the Egyptian-American relationship has been considerably strengthened and as long as Sadat remains in government there is no reason why it should weaken. The American budget for economic and military aid in 1976 assigns 700 million dollars to Egypt, an increase of 450 million on the previous year. Syria and Jordan have also received large contributions — 50 and 192 millions respectively. Since 1967, the year of the breaking off of diplomatic relations between the United States and Egypt, the American government had been offering aid to a value of only 800,000 dollars per annum.

The USA's assumption of the role of impartial mediator between Israeli, Egyptian and Syrian demands, has also brought about an improvement in relations between the USA and those Arab countries not directly involved in the Middle Eastern conflict, the only exception being Libya. Here, although there is no longer the tension which characterised the early months of 1970, during the evacuation of the US airbase at Wheelus, Gheddafi's extreme antizionism, and the rise of the pro-Soviet Jallud have not permitted any real improvement in political relations. Nevertheless, it should be noted that during the embargo decided upon by OAPEC (the Organisation of Arab Petroleum Exporting Countries) the Libyan government continued to supply the United States with oil and refrained from nationalising American companies operating in Libya.

In the Maghreb, Tunisia and Morocco have traditionally been favourable to American policy. Morocco, apart from anything else, provides America's only base on Arab territory; although it faces the Atlantic the naval communications station at Kenitra, which costs the American treasury around one million dollars, nonetheless assists the Mediterranean VI fleet. United States' aid to Morocco in the period 1962-70 totalled 432.9 million dollars: 231.3 million was in loans and 201.6 million in grants. Over the same period Tunisia received a total of 420.9 million dollars with a sharper distinction between loans and grants; the former amounted to 237.9 million, the latter to 183 million. Both for Morocco and Tunisia, aid has varied greatly over time. Both countries have given the United States guarantees against risk deriving from changing exchange rates, expropriation, war, revoluton or insurrection.

The situation as regards Algeria is very different. American aid in the 1969-72 period amounted to approximately one million dollars per annum. To give some terms of comparison Morocco in the same period received 40 mililon dollars and Tunisia 41.3 million. The diplomatic break between the USA and Algeria took place after Nasser's denunciation of the intervention of the VI fleet in favour of Israel in the 1967 conflict. As a sanction the Algerian government expropriated the Anglo-American oil companies operating on its territory. Indemnities were only forthcoming in 1970. At the time of the oil embargo, however, it was Algeria, together with Saudi Arabia, who most strongly opposed the Iraqi proposal to nationalise all American investment on Arab oil. On the 29th-30th April 1974, in this general climate of new-found Arab-American trust, Kissinger was Boumedienne's guest at Algiers. Great prominence was given in the talks to collaboration in the exploitation of Algerian natural gas. In the future the USA was to supply a large proportion of her needs with 32 million cubic metres of gas per annum from Algeria. It should be remembered that the USA is already Algeria's fourth trading partner after France, the German Federal Republic and Italy.

The ready consensus in the Arab

countries of the Mediterranean world as to the need for closer ties with the United States should be no cause for surprise. Ties with America, which in 1945 had basically been those of King Ibn Saud of Saudi Arabia, had always been sought by the Arab bourgeoisies. These had moved away from American influence out of a reluctance to link up with the nationalist "progressive" regimes which had begun to spring up, as a result of their inability to understand that non-alignment did not mean pro-communism, that neutrality and equidistance were concepts which in no way favoured Moscow more than Washington. The USA, with Kissinger in the State Department, has shown that she has faith in the ascendant classes in the Arab countries, at least where they show themselves to be moderate in international policy and well-disposed towards American financial and technological aid for the development of their countries. Kissinger and Nixon's activities outdated the various doctrines which had contributed to an Arab move away from the Americans. In the 1950's the Truman doctrine of containing communism by all possible means, even in areas unconnected with United States' national security, was the formula which led to the Pact of Bagdad and in 1959, to the Central Treaty Organisation (CENTO). Subsequently, the Eisenhower doctrine of granting American aid to all those Middle Eastern countries which asked for it in order to combat open attacks by Communist-controlled states on their political independence, justified the American intervention in the Lebanon in 1958 and the support given to the precarious government of King Hussein in Jordan.

It was before Nixon, during the Kennedy administration in fact, that the American position began to improve in the Arab Mediterranean areas. This was partly because the USA showed signs of no longer subscribing unconditionally to the Israeli position. Kissinger make possible this new distinction between American and Israeli positions on the Middle Eastern conflict, after the Johnson presidency (during which the 1967 war had taken place) had created extreme Arab-American tension.

The present good relations between the United States and the majority of the Arab States has not altogether eliminated criticism of the American military presence, even from these countries. It is not only in the Arab World that non-alignment finds support in the Mediterranean. In the Eastern sector, Archbishop Makarios's Cyprus is an ardent supporter of the reduction of external military forces in the area. Further West there is Yugoslavia and also Malta, which has held this view since Don Mintoff came to office. Despite the constant presence of the Soviet Union, it is above all the American mliitary presence which comes under attack from Mediterranean advocates of non-alignment.

Criticism of the defence system set up by the USA through her network of bases and ports of call gained through bilateral and multilateral agreements, even come from the Allies themselves. In the Eastern sector, the Greek-Turkish dispute over oil in the Aegean and over Cyprus erodes the stability of the alliance and its military cohesiveness. This damages both multilateral and bilateral cooperation. The relationship between the two sides had already reached crisis point during Johnson's presidency in 1963. The Cyprus crisis of summer 1974 involved the United States far more than she wished. The Greek withdrawal from the military organisation of the Atlantic Alliance, although it has in fact so far been restricted to the withdrawal of Greek officials from bodies in which they had to cooperate with the Turks, and the heated debate between Turkey and the United States Congress after the suspension of military aid, all go to underline the instability of American relations with these countries and the bargaining power at their disposal. Greece, through whose territory passes the NADGE radar network, and Turkey, which acts as the watchdog of the Montreux Convention on the Dardanelles, are both almost indispensable US allies. The USA continues to maintain her base at Pireus in Greece. In Crete and elsewhere there are still NATO bases. It is likely that in the future Greece will step up bilateral relations with the Americans: the large amounts of aid allocated to her in the spring of 1975 confirm this. Moreover, the links between the Greek entrepreneurial bourgeoisie (especially in the arms business) and the Greek-American lobby, are extremely solid. The Greek lobby is well represented in Congress and in the federal administration. It even includes a vicepresident, Spiro Agnew, a supporter of the Colonels' regime. Turkey has repeatedly threatened both through NATO and bilateral channels to withdraw her contribution to the Atlantic Alliance as a retaliation for the suspension of military aid decreed by the United States Congress after her invasion of Cyprus. Ford's visit to Europe in the late spring of 1975 and the talks which took place at that time between Ford and Prime Minister Demirel seemed to have had positive results. This did not stop Turkey, in July, from blocking access to the bases. A greater degree of Turkish detachment would have involved serious military dangers for the USA, and would have favoured the expansion of Soviet influence in the Mediterranean. The continued pressures brought to bear on Congress by the State Department and by the President finally led to the signing of a new agreement in the spring of 1976. In exchange for a thousand million dollars of military aid spread over 4 years, and for various military supplies, the USA still has the use of twenty-six bases in Turkish territory which will continue to be controlled by Turkish officers. Not only NATO bases are involved; as a result of bilateral agreements, the United States has at its disposal listening devices for aircraft movement in the USSR and dozens of military installations. The most important ones are at Karamursen, Adana, Incellik, Sinople, Diyarbakir and Ismir. Even though they have been run by the Turkish military authorities for some time, a large number of these installations are in fact given over to the exclusive use of the USA. Before the Six-Day War there were 101 bases and American installations in Turkey — often with extraterritorial rights.

The United State has reacted to Greek protests and to threats of further military disengagement, by granting a similar treaty to Greece worth 700 million dollars of military aid over a four year period. This has the objective of safeguarding the American presence in the country consisting of seven bases and a series of concessions for the VI fleet. The relationship with Greece and Turkey has always been important. The Truman doctrine of containing Soviet ambitions in the Mediterranean was devised to keep these two countries in the Western Bloc. On 12 March 1947, faced with the communist struggle in Greece, and confronted with Stalin's claims for Soviet military bases in the Straits, Truman asked Congress for 250 million dollars of economic and military aid for Greece and for 150 million for Turkey. He also requested the sending of military advisors. In 1952 Greece and Turkey eventually joined NATO, and with Iran, formed the axis of the Central Treaty Organisation. Once a moderate, pro-American, albeit not always very stable government had been established in Greece, Turkey became a privileged base in the Cold War, virtually irreplaceable for the surveillance of Soviet territory. This was particularly so before the era of the intercontinental missile, when it was of considerable strategic importance to have an ally guaranteeing the Soviet borders. In that period Turkey, Iran and Israel were the countries which received most aid from the United States, this on account of the strong American interest in that sector of the Mediterranean. From January 1951 to June 1957, 703 million dollars went to Turkey as opposed to 113 million to Egypt and 14 million to Iraq. Iran, with a population of almost 20 million, received in 1956 56 million dollars, Syria with 4 million, practically nothing. In 1973 alone American aid to Turkey — including military aid — totalled about 150 million dollars. It was this kind of discrimination in aid which stimulated friendship or hostility towards the American government.

The Yugoslav case is different and more complex. Today the State Department considers Yugoslavia a 'grey non-aligned zone', the neutrality and independence of which is of crucial importance. Although this has not led to economic and military aid on a scale comparable to that received by the allies, it is by now clear that Yugoslavia is the Communist country to which the United States has dedicated most attention during the post-war period, and towards which it has directed the largest amount of aid (after Tito's split from the Cominform in 1948). Since 1950 American aid to Yugoslavia has been on a massive scale both in the economic development and in the military sectors.

Between 1950 and 1956, aid for development amounted to at least 600 million dollars. Roughly the same sum was allocated to the programme for military modernisation. This was encouraged by the prospects opened by the Bled Pact between Yugoslavia, Greece and

Turkey. Subsequently, however, Yugoslavia opted for a temporary *rapprochement* with Khruschev's Russia, and thus relinquished United States military aid while maintaining good economic relations with the West. In the early 1960's, American aid stopped altogether, having been reduced between 1955 and 1960 almost exclusively to the food sector. The Kennedy administration, which could not fail to see the importance of maintaining the friendship built up with Yugoslavia during the 1950's, tried to maintain links with Belgrade. In 1963 Tito went to Washington. From about 1965 onwards the reorganisation of the workers self-management system and Yugoslavia's need for wider western markets to maintain production, drew her once again towards the United States. The Yugoslav government was allarmed above all by the Soviet intervention in Czechoslovakia in 1968. The Brezhnev doctrine of limited sovereignty led Tito to stress his position of equidistance between the two blocs — just as he had done twenty years previously when faced with the ideology and conformist praxis of the time. The first American president to make an official visit to Belgrade was Nixon in September 1970; the following November Tito returned the visit. In 1971, there was a reciprocal exchange of military delegations. In 1972, to set the seal on good Yugoslav-American relations, the American organisation controlling investment overseas extended its guarantees to investment in Yugoslavia. During the final period of the Nixon administration the implementation of American foreign policy was fragmented in a series of bilateral initiatives and often reduced to the simple management of business in hand. The Yugoslav-Balkan area, which was not at this time involved in any particular crisis, was excluded from immediate American concern. Tito's decision to contract closer ties with Comecon and to strengthen the tenuous links existing with the Warsaw Pact date from this time. In part it was the result of internal crises and of the need to consolidate his leadership of the party within the country. Relations between Belgrade and Moscow continued to be subject to ups and downs. This made it possible to maintain good relations with the USA. Recent developments in the Mediterranean have obviously increased American interest in the area and at the beginning of 1976 led to the resumption of military aid.

The long standing Greek-Turkish crisis, far more than the Yugoslavia question, seems to have increased the strategic role of Italy on account of the latter's central position in the Mediterranean basin. It was during the second stage of the Cypriot crisis, in 1974, that there was talk of a growing American interest in obtaining new bases on Italian soil. There does not appear however to have been an official request from the USA.

If Congress, on the insistance of the executive, ratifies in the event of a Greek-Turkish *rapprochement*, the Greek and the Turkish agreements the Greek government will somehow have to reconsider its attitude towards the USA and above all towards disengagement from NATO. The question of new Italian bilateral or multilateral commitments would not, in this case, arise. In view of the fact that there is already a NATO base in Naples, and American bases in Livorno, in the Veneto, Sardinia and Sicily, a large section of Italian political opinion has shown grave concern at the prospect of the further militarization of Italy. Apart from the problem of new bases, no Italian political party is totally opposed to American policy. Even the PCI does not question the continuing presence of the Atlantic Alliance in the country. The USA can no doubt continue to view Italy as a stable partner of the Atlantic Alliance even if the social and economic unheavals which have now lasted nearly ten years, finally bring about a partial change in government.

France has no American bases. Since the Soviet intervention in Czechoslavakia in 1968 she has adopted a more conciliatory attitude towards the USA, after the bitter Gaullist polemics of the past. Her decision to move numerous warships from the Atlantic to the Mediterranean sector to support the activities of the VI fleet, dates from that period. Despite this, however, the French continue to make a distinction between economic and political questions and strategic ones. This distinction is particularly clear as regards the European Economic Community, as was most recently shown during the oil crisis. It is nevertheless a fact that France is continuing to step up the number of joint exercises with NATO.

Since 1953 Franco's Spain has been a constant factor in the network of alliances built up by the USA in the Mediterranean. The first American military mission visited

Spain in 1948 at the height of the Berlin blockade. From then on links were always extremely close. Nevertheless, in 1968, Spanish-American relations took a turn for the worse, reaching crisis point after Spain's recriminations against the Americans for its use of her bases to support Israel during the Six-Day War. It should be noted that Spain and Israel have no diplomatic relations. This crisis was overcome however when Opus Dei was brought into government and Castiella — a supporter of the annexation of Gibraltar — was removed from the Foreign Ministry and replaced by Lopez Bravo, who maintained a relatively independent Spanish policy in the Mediterranean. Despite the settlement of the crisis there was therefore no return to the spirit of the Madrid Pact (1953) which had marked the opening of economic and military Spanish-American collaboration, and to that of 1963 which had made it possible to renew the Pact.

At the beginning of 1976 a new agreement was reached. It was highly advantageous to Spain in comparison with the previous one, both from a military and political point of view. It was a complete international treaty needing the ratification of Congress. It states that by 1970 Polaris will be withdrawn from the base at Rota, and that there will be a gradual integration of the Spanish military contingent into NATO. The previous pact, on the other hand, had been an executive agreement rather than an international treaty: the United States commitments had not been clear and there was no ratification by the Senate which alone is competent to grant full defence guarantees. The new state of affairs has only been achieved since Franco's death; it is however the outcome of subtle diplomatic activity carried out during the early 1970's. The verbal skirmishes of these five years were deliberately encouraged by the Spanish who wanted (a) to stop any questioning of Franco's legitimacy, showing that there was no obstacle in the way of the Soviet Union having friendly relations with a government defined as fascist in the West, and which for this reason had been denied Marshall Aid; (b) to win support from Washington in the longstanding controversy with Great Britain over the possession of Gibraltar which continued even after the September 1967 plebiscite in which the inhabitants of the Rock had voted in favour of remaining with Great Britain by 12,153 votes to 44. Spanish diplomacy continued to work towards better relations with the USA, knowing how important it was for the Western defence system to have monopoly control over the two entrances to the Mediterranean — the Dardanelles and Gibraltar. This bilateral link has given the USA possession of air bases at Sanjuya-Valencia near Saragossa, and Torrejon near Madrid, and at Moron and Saragossa near Seville. Since 1970 she has also gained the extremely well equipped naval-air complex at Rota near Cadiz, not to mention a host of minor bases. At Rota are stationed nuclear submarines armed with atomic missiles; Rota is one of the few naval bases within effective strinking distance of Soviet targets. Although Rota is on the Atlantic coast, its strategic role is in the Mediterranean. This has obvious repercussions on the multilateral relations maintained by the USA in the area.

This state of affairs has led several of the allies to repeatedly take up position in favour of Spanish membership in the Atlantic Alliance, especially France which also supports Spanish entry into the EEC. The situation is however confused; there are currents of Spanish diplomatic opinion, which oppose American pressures, in favour of a "third road" based on links with the Arabs and on improved relations with the USSR. Spain's inclusion in NATO is hampered by the opposition of those European countries concerned above all to see evidence of a democratization of the regime. In the meantime Spain has diversified her sources of arms supplies, although 70% still come from the United States. Soviet-Spanish relations have at the same time been intensified. The USA will do its utmost to render her bilateral agreement operative in the multilateral sphere: in this sense she has given an explicit guarantee of her commitment.

All decisions on the matter will be influenced by the development of United States' relations with Greece and Turkey, but above all by the development of events in Portugal in view of her numerous strategic and other ties with Spain. Although Portugal has an Atlantic coastline, she remains essentially a Mediterranean country. The changes which took place after the coup of 25 April 1974 started up a political process which has set the country on the road to left-wing political and economic development. The USA is carefully following the development of the Portuguese situation and is concerned for her economic and strategic interests. Washington fears that apart from the Azores base which is now lost, at least as regards its potential use as a touch down point for aircraft bound for Israel, there could be a Portuguese disengagement from the Atlantic Alliance. Assurances regarding Portugal's willingness to remain in the Western Alliance have continued to arrive from Lisbon. Proof of the conciliatory attitude of the Armed Forces Movement which is leading the country, comes from their voluntary withdrawal from NATO's Nuclear Planning group which the United States did not wish to assemble out of fear of a potential danger to security from the communist members of the Lisbon government. It will be necessary to await the development of the internal Portuguese situation after the general elections of 25 April 1976, in order to know what the definitive Portuguese attitude will be towards the USA and the Atlantic Alliance. It does not however seem possible to envisage Portugal completely abandoning her military commitments towards the Atlantic Alliance. If this were actually to occur, the repercussions would affect both Italy and Spain. It should be borne in mind that Portugal's role in NATO has always been in the Atlantic.

THE SOVIET PRESENCE IN THE MEDITERRANEAN

The Soviet Union began to appear in the Mediterranean on a fairly large scale after the Cuba crisis. The confrnotation with the United States had revealed to the USSR the limits of her navy - a constraint which contradicted her policy of worldwide power. In less than fifteen years the Soviet Union managed to reduce her disadvantage in this sphere. At the present time the conventional Soviet fleet is more up-to-date than the American one. The aim is to reach by 1980 a gross tonnage of 20 million tons. This would make the Soviet navy the largest in the world. Soviet strategy itself, as regards the use of her navy, has changed. From being an extension of the army, the navy has become an autonomous entity and to a certain extent, a self-sufficient one, with worldwide commitments. These commitments have brought the average number of Soviet ships in the Mediterranean from zero to about 50: there are between 15 to 30 combat ships, 6 to 10 submarines and 20 to 25 auxiliary ships. Given the provisions of the Montreux convention, almost all the submarines enter the Mediterranean via Gibraltar. Between 1963 and 1969, the USSR became a Mediterranean naval power and in this capacity she constantly patrols the southern area around the 36th parallel, flying her flag in numerous Mediterranean ports.

Given the obvious superiority of the Western powers in the Mediterranean, Russia's presence is clearly more political than military. She is, what is more, subject to fairly substantial restrictions; firstly, all access to the Mediterranean is controlled by United States allies, though Turkey has always strictly applied the Convention signed at Montreux in 1936, and fruitful and friendly diplomatic relations with Spain have existed for years. As far as regards the Suez Canal, it does not appear that Sadat has any interest in favouring one of the super-powers in the running of the Canal nor does it seem possible that this could happen without provoking a serious reaction from the other side. Another important restriction stems from the actual technical structure of the fleet. It lacks air support, especially since 1972, when Egypt severely limited the number of Soviet fighters on her territory (with the single exception, according to some sources, of the Marsa Matruh base). This technical restriction is all the more real in that, with the exception of the helicopter carrier Moskva and the aircraft carrier Kiev, soon to be brought into service, the Soviet fleet lacks the support of ships properly fitted out for the carrying and landing of aircraft. This limitation is only partly compensated for by the relatively recent acquisition of missiles, even though some of these have quite a long range. The extensive use of satellites can compensate for the absence of strategic air reconnaissance, but this is difficult technically. In the past it was above all the Egyptian bases which guaranteed support and cover; since 1972 Russia has no longer been able to count on Egypt as before, even though it does appear that she has one touchdown point left. In Syria the base at Latakia provides the Soviet fleet with its only port of call. This is, however, quite clearly inadeguate. There are anchorage and fueling facilities in Algeria, Cyprus, Crete, Libya, Tunisia and Malta. There are also numerous anchorages in the open sea.

The expulsion of fifteen thousand Soviet technicians and advisors from Egypt in July 1972 has had a major effect on the balance of power in the Mediterranean. The Arab defeat in the 1967 war had aroused a general feeling of discontent with the Russians who stood accused of not having supplied them with arms on a scale similar to the United States' supplies to Israel, and also of having demanded cash payment for those consignments which they did receive. Antisoviet feeling took years to manifest itself openly. This only happened in July 1972 when Sadat made his notorious speech. It had taken so long because it had first been necessary for the Arab leadership to gain stability within the Arab world. Sadat's moderate leadership had only just asserted itself in 1972. De-Nasserisation had just begun to make the country less socialistic, while the local bourgeoisie was beginning to increase its economic and political power. This development in Egypt had led to the consolidation of links with other Arab states, in particular as a result of the emergence of the pro-American King Feisal of Saudi Arabia and the anti-soviet Gheddafi in Libya. Iraq tended to associate with Syria, and Libya was urging Egypt to proceed towards unity. If Soviet strength had increased at the same time it would have created a disparity between the Western and Eastern areas of the Arab world. This was even more of a potential danger given that in Iran an almost literal version of the Nixon doctrine was being put into effect by Reza Pahlevi, who had a policy of rearmament linked to American interests in the area. At that time the USSR was pressing for the concession of two naval bases in Egypt: Nasser had always opposed these requests in order not to rule out the possibility of talks with the Americans, and so as not to limit his freedom of action. Of the 15,000 Soviet advisors and technicians present in Egypt in 1972, there were barely 1,200 left in the following year, and a mere 200 at the end of 1975. It appears that Syria too, had in the meantime, reduced the Soviet presence. In 1975 there were 800 Soviet advisors in Syria.

Egypt has continued to accept Soviet economic military aid, though she is more concerned than in the past to diversify the sources of her military equipment. As a result there has been a definite drop in trade between the two countries. In 1973 Egypt ceased to be the principal Third World trading partner of the USSR, being superceded by India with 589 million roubles worth of trade. Egypt still remains, however, the main Soviet partner in the southern Mediterranean, with trade to a value of 541 million roubles. Iraq, well known as the state most friendly to the USSR in that part of the world, attained a total volume of trade equivalent to only 332 million roubles, while Syria's total was 119, and Algeria's 117. In order to give some terms of comparison we cite the figures for two non-Arab Mediterranean states: Iran, 275 million; Turkey, 133 million.

A Soviet loan for the financing of development projects over a period of four years, equivalent to 50 million dollars, was announced at the end of the Egyptian foreign minister, Mr. Fahmi's visit to Moscow in November 1974. Agreement seems to have been reached on Soviet participation in the construction of two large industrial complexes: a steel works at Alexandria and a aluminium factory in northern Egypt. All this was agreed on soon after the triumphal welcome given to Nixon during his visit to Egypt.

The Russians have never shown excessive strategic interest in the Arab Mediterranean world. The Soviet Union has always been more interested in penetrating the Gulf and the southern region of the Balkans, as has been shown, for example, by Molotov's sensational refusal of Ribbentrop's overtures. In 1947 this traditional lack of interest in the southern Mediterranean, together with resentment against the Arabs for the support they had offered to the Nazis, led to the upholding of the Zionist claims of the homeless Jews. The USSR was the first state to recognize Israel. The constitution of the Central Treaty Organisation, however, made Russia realise the impossibility of gaining the influence she desired in the Gulf, while on the other hand, the deposition of Farouk in Egypt and J. Foster Dulles' hard line policy (his intervention in the Lebanon, and the support given to Hussein in Jordan), held out some possibility of Soviet penetration in the Arab Mediterranean. It thus seems that there existed no organised global Soviet policy for the penetration of the Mediterranean. The *rapprochement* with the coastal states seems to have been of a local and contingent character, functioning as a response to immediate necessities. This was partly because these states viewed the *rapprochement* with Russia in a negative rather than a positive light; they approached the USSR as the "enemy of their enemies" rather than as a real friend. The most immediate consequence was the precarious nature of the relations which gradually developed between the USSR and the coastal states. The alliances which were formed lacked a common vision able to lead towards a concrete long term objective.

For a considerable period of time difficulties grew out of the Soviet inability to seize on the potential friendship inherent in the Mediterranean countries' declarations of neutrality. It was necessary to wait until 1955 before Stalin's policy of only helping communist and "antifascist" states was abandoned. 1955 was the year of the first arms contract with Egypt: until 1960 roughly half Soviet military aid went to the Arab Mediterranean world. The change in Soviet foreign policy had been worked for by Khrushchev: in the Mediterranean as elsewhere amongst the emerging nations, the USSR began to support all "progressive" governments, putting into full operation the resolutions of the 1955 Afro-Asian Congress at Bandung. This meant the renunciation of discrimination between popular fronts and non-marxist anticolonial or third world groups. The USSR continued however to oppose Pan-Arab nationalist claims, represented in that period by Nasser. In 1965 this policy was reversed when Kosygin recognised that even if Arab nationalism was not socialist, it nevertheless represented a progressive force. The new Soviet position ended a long period of unhealthy Arab-Soviet relations. Khrushchev's regime had been incapable of completely abandoning plans to export the revolution and had remained too narrowly bound to its ideological position. As a result of the Arab communist parties' defence of Russia, open disagreements had erupted with the Arab countries, and in the case of Saudi Arabia there had been a complete break. With Nasser the quarrel exploded violently in July 1958 as a result of the USSR's support of the coup in Iraq against the Nasser faction, led by pro-Soviet elements. A further cause of dispute was the formation of the United Arab Republic by means of which Nasser hoped to be able to draw Syria out of the Soviet sphere of influence.

During the 1960's the progress of de-Stalinisation contributed towards the weakening of the ideological side of Soviet foreign policy. Further stimulus to this process was provided by the new collegial structure of the executive which made it impossible for a single charismatic leader to hold power. The intensifying conflict with China was also a factor. The Soviet attitude towards Israel reflected this new style of policy-making. The Soviet Union had been an ardent supporter of the formation of the Jewish state, and had even quarreled with Great Britain who was more favourable to the idea of a Jewish homeland than to the formal partition of Palestine. From 1954 onwards, instead of abstaining as she had previously done, the USSR voted against Israel in the United Nations on problems regarding the Middle Eastern question. In the 1960's and the 1970's the Russian anti-Israel position grew stronger although there was still no formal refusal to recognize Israel's existence as a state; concrete Soviet support was given to the Arab armed struggle. After the 1973 war, secret Soviet diplomatic activity was stepped up. Meanwhile the USA was dealing with Egypt and Syria. This activity became even more intense after the failure of Kissinger's "step-by-step" policy. The pragmatism of Soviet diplomacy, which since 1964 has followed a coherent line can be seen with regard to the Palestinian problem: Arafat had frequent contacts with the USSR, but it was only on his sixth visit to Moscow, in August 1974, after the Arab countries had expressed support for the PLO, that he was finally received by top government officials. It was on that occasion that support was given for Palestinian representation at the Geneva Peace talks and that it was suggested that the Palestinians should open an office in Moscow. Only the month before, Brezhnev had offered the Lebanese president aid against Israel on account of anti-Palestinian raids into Lebanese territory.

Further evidence of the changed Soviet attitude towards the Arab Mediterranean countries came from the way in which during the 1960's the USSR modified her claims for bases on their territory: Arab-Soviet cooperation now takes the form of military supplies and development aid. Technological assistance was given to Egypt for fifteen years. This became a formal agreement after the signing of an inter-government agreement on technical and economic cooperation in January 1958. The agreement covered the following sectors: geology, mining, oil, metallurgy, chemicals, building, textiles, food and pharmaceuticals; particular attention was paid to the electrification of rural areas. The most impressive product of this agreement, the Aswan Dam, was finished in 1971 after ten years' work involving an expenditure of 320 million pounds sterling. Development was promoted by the financing of the public sector through the concession of long-term credits at a low rate of interest: these served to buy machinery, pay technicians, and also to finance technical and professional training in courses set up either on the spot or in the Soviet Union.

Soviet training resulted in a large reduction in the number of Russian technical staff in Egypt, and in a simultaneous rise in native employment in the field as compared with the early years of aid. Although economic aid to Egypt was on a large scale, it was five times less than the amount of military aid the country received. The most recent Soviet-Egyptian cooperation treaty dates from May 1971. When this fifteen-year treaty was made the events of 1972 were as yet unforseen. The reasons for Sadat's brusque reaction have already been mentioned. During the Kippur War the USSR gave total support to the Arab allies and set up an air lift for supplies. She was determined to eradicate the memory of the 1967 conflict. Nevertheless, this was not enough to break the pro-American axis led by Egypt and Saudi Arabia, nor did it reduce American influence in the area. The Soviet Union seemed practically powerless. This was partly because she was at a disadvantage not having official contacts with Israel, and partly because she was aware that the Egyptian entrepreneurial bourgeoisie could more easily obtain capital and technological assistance from the United States. Nevertheless, the USSR decisively opposed Kissinger's clumsy attempt to undermine her links with Syria. This led to a reopening of talks with Egypt. At the same time it seems that secret contacts with Israel were stepped up. It was not difficult for the USSR to maintain the kind of presence in Middle Eastern affairs which she had achieved by the end of 1974, at least as long as there was tension on various fronts. The Arab countries caught up in the conflict were less interested in relationships with the superpowers than in the recapturing of the territory lost in 1967, and their own development. Sadat has several times taken the advice of King Feisal of Arabia into consideration. The partnership with the Saudi sovereign marks a turning point in Egyptian foreign policy: the establishing of links with Saudi Arabia obviously involves ties with a close American ally. The USSR no doubt bears this in mind, although it is only possible to speculate about the various courses which the Egyptian-Saudi partnership might take, now Feisal is dead. The solution of the conflict between Iraq and Iran will also have to be watched carefully by the Soviet Union, which could lose ground in Iraq.

A possible return of the Middle Eastern belligerants to the conference table should however widen the Soviet field of action. It will be necessary to see what policies the superpowers eventually choose at Geneva: whether, that is, they choose to favour a peaceful solution regardless of the short term consequences on relations between the superpowers and the Middle Eastern states. A peace based on a responsible Israeli attitude would undoubtedly favour the USA. Kissinger's methods need however to be changed; bilateral diplomatic mediation has only been successful for 5% of the entire territory under dispute. During the Yom Kippur War Syria lost 800 km² on the Golan Heights. Then there is the immense Palestinian problem. Careful multilateral mediation with the support of both the superpowers may perhaps make more substantial progress towards the stabilisation of the Middle East.

The centre of Soviet diplomatic activity remains however Egypt, despite the latter's rejection of the friendship treaty in March 1976. Her unpaid debts with the USSR make it unlikely that there will be a total split between the two countries. The outstanding Egyptian debt for 20 year's economic and military aid is estimated at around 8,500 million dollars against a total received of 22,500 million. Consideration must also be given to the continuing state of tension with Israel and the latent risk of war which rules out any plans for totally substituting Egypt's predominately Russian arsenal. Such an operation would take at least five years (leaving aside the complexities of efficient technical training in the use of new weapons). Recent

Egyptian orders for weapons with British, French and American suppliers and her use of Chinese spare parts, does not signify any move away from the USSR. It is merely a sign of a continuing policy of international non-alignment and of the diversification in arms supplies already begun under Nasser. After the 1973 war, Soviet supplies continued at the usual rate. What is more, the Russians granted Egyptian requests for more modern and sophisticated equipment: in 1974 they received amongst other things, missiles with mobile ramps and a range of 250 miles and a squadron of Mig 23 jets. It is unlikely however, that Soviet power will be restored in the Mediterranean on a scale comparable to that of the 1960's. With the opening of the Suez Canal, the USSR has an opportuntiy to direct her strategic forces eastwards. From a naval viewpoint this strategy would be more suitable to her needs, since it would take care of the India route once controlled by Britain and which today interests her more than the USA. A desire to "deter" China is also of relevance.

The European negotiations at present under way show that the Russians are concerned above all with their land forces. In the Mediterranean, the USSR seems to be concentrating her strategic forces on her land frontiers (Iran, Afghanistan) rather than along the coast. This will continue to be the case as long as political and strategic devolopments in Southern Europe prevent the USSR from playing a renewed role in that area of the Mediterranean. Another possibility could be renewed Soviet initiatives in the Maghreb. There might be an attempt to offset losses in the Middle East with gains in the western Arab zone.

The Maghreb and particularly Algeria is one of the regions of the Mediterranean most strongly attached to the concept of non-alignment. After Bandung, as we have seen, the USSR decided to support the claims of emerging non-Communist nations. As a result of this decision the USSR scored heavily against American strategy which was still attached to the idea that non-alignment was synonymous with membership of the Eastern bloc. In Algeria this led to Boumedienne's declaration against any interference by the superpowers, and to the granting of permission for about a thousand Soviet military and technical advisors to be permanently stationed on Algerian soil. Algeria owes most of her armaments to the USSR, especially her aircraft and tanks. The Soviet fleet receives its most cordial welcome in the Maghreb from Algeria. Nevertheless rumours of a Soviet base at Mers-el Kebir do not seem to be well founded.

The USSR's relation with Tunisia and Morocco are less stable. Bourghiba has always taken a pro-American line in order not to alienate the sympathy of the local middle classes to whom he owes his power. The state of Soviet-Moroccan relations is illustrated by the sum of Soviet aid between 1956 and 1971, i.e., only 40 million dollars in 15 years.

During the early years of Gheddafi's leadership, Libya, which links the Maghreb and Mashrak, took up a violently anti-Soviet position. After the change in foreign ministers, Jallud effected a spectacular *volte-face* reaching concrete agreements with the Soviet Union. The worst friction had been in April 1972 when Gheddafi had recalled his ambassador from Baghdad in reply to the stipulations of the fifteen year treaty of Soviet-Iraqi friendship and coöperation. Yet, two years later, in May 1974, at the end of a week's friendly visit to Moscow, Jallud signed a wide-ranging cooperation agreement. As well as an increase in trade there was to be an arrangement for the purchase of a Soviet anti-aircraft system: it was felt that France's willingness to continue with her traditional policy of supplying the Libyan army could no longer be guaranteed. At the military parade marking the fifth anniversary of Gheddafi's revolution all the best Soviet equipment was on show - from the latest type of SAM missile to T62 tanks. The USSR had picked an ideal moment during a period of Libyan political and diplomatic isolation in the Arab world and internationally: attempts at union with Egypt and Tunisia had failed, there had been violent accusations against Sadat regarding a plot hatched in Tripoli; at the same time Egypt and the USA had drawn closer together. The USSR had understood that Jallud was the right man to eradicate the distrust of the past. At the end of his May 1974 visit, Kosygin had rightly drawn attention to the ideological differences between the two countries, underlining the imminent signing of a cultural agreement. However as factors promoting reciprocal links, he had argued the classical case for non-alignment: the need for greater justice in international relations for the small nations and the right of self-determination in all spheres of national life. On this basis, the USSR and Libya set up an intergovernmental commission for the development of economic, scientific and technical cooperation with special reference to the oil sector. Further developments are forecast in rail and road works, in non-ferrous metallurgy, in prefabricated housing, and in desalinating equipment. Libyan oil could be used by the USSR to provide for her allies in Eastern Europe. To understand how far things have changed in Libyan-Soviet relations since the rise of Gheddafi, one needs only to remember that in 1971-2, Libya had offered Don Mintoff vast sums of money to stay outside the Soviet orbit. At the end of 1975 there were 300 Soviet advisors in Libya, half the number in Algeria.

The Soviet Union has generally cordial relations with the countries of the northern coast of the Mediterranean, although she has no specific military or political alliances with them. The area most concerned in the expansion of Soviet influence has always been the Balkan region, including Greece and Turkey. In the immediate postwar years, the USSR continued to show interest in these two countries even after the reluctant withdrawal from Iran. Later, the Soviet government rejected Stalin's work in this area. Molotov had taken advantage of the decline of British military power, and had gone so far as to request the revision of the Turkish-Soviet treaty of neutrality and to ask for Russia to be allowed to participate in the patrolling of the straits leading to the Mediterranean. In the 1960's as a result of American errors over Cyprus, the USSR gained an opportunity to re-establish good relations with both countries. After 1967, the Colonels' government's need for support and international recognition, favoured a *rapprochement*. The USSR was the first nation to recognise the regime and to send an ambassador to Athens and profitted from this in January 1970 with the signing of a commercial treaty making her exports very competitive on Greek markets. The previous month, the power station at Keratsini, built with Soviet technical and economic assistance, had been opened. In that same period, plans were drawn up for the building of another power station at Filippon in Macedonia. The cost of 116 million dollars was to be repaid to the USSR almost exclusively in agricultural produce. The USSR press launched only very sporadic ideological attacks against the fascist character of the Junta: when these occurred they were provoked by the Greek role in NATO, especially at the time of the concession of the Piraeus base to the Americans.

It was only in 1953 that the USSR explicitly renounced her Turkish ambitions. It was necessary however to wait until the 1960's for concrete economic and political agreements. In 1958 the headquarters of the Central Treaty Organisation was set up in Ankara. This seemed to emphasise the line chosen by Turkey. After a joint declaration by Khruschev and the Turkish president, Gersal, in favour of détente in 1960, a railway agreement was reached in 1961, followed in 1962 and in 1963 by agreements on telephones and on the building of hydroelectric stations. 1963 marked a turning point in Turkish-Soviet relations. The following year a Turkish parliamentary delegation accepted a Soviet invitation to visit Moscow. Two years previsiously a similar invitation had been refused. During 1965 there was a continual exchange of delegations until finally in August, for the first time since 1932, a Turkish Head of State paid an official visit to Moscow. By then Soviet technicians and commercial delegations were arriving in Turkey by the hundreds. In 1967 trade reached 70 million dollars — the corresponding figure for 1963 had barely attained 15 million, whilst Soviet credit to Turkey amounted to 400 million dollars. After the events of 1968 in Czechoslovakia, Turkey's relations with the USSR became less clear. She maintained a friendly attitude but avoided any act or declaration which might create an impression of hostility towards the West. The provisions of the Convention of Montreux were left open to wideranging interpretations. The USSR was able to supply arms and aircraft to Syria, Iraq, and to other countries even during periods of warfare in the Middle East. Increasing Soviet pressure in the Mediterranean through the enlargement of her fleet contributed to a phase of "cordial coolness" on Turkey's part. In October 1968 the Soviet representative to the United Nations defined the Eastern Mediterranean as a Russian "security zone". In 1974 during the Cypriot crisis, the USSR at first favoured Turkish intervention but then came down decisively on the Greek side. The USSR will probably be unsuccessful in her aim of taking advantage of the split in the Atlantic Alliance, and of increasing links with Greece. Indeed her room for manoeuvre is likely once again to be reduced. With Caramanlis at the head of the Greek government, it seems that the USA will be able to overcome most of the outstanding problems which emerged in the 1974 crisis.

As for Cyprus, the present partition of the island by the Turkish occupying forces objectively favours the Atlantic Alliance which can already count on two British bases there. Makarios's return to power, however, does at least assure the USSR of continued Cypriot non-alignment as well as guaranteeing the security of the local communist parties' position, gained through democratic elections.

The Cypriot communist party, Akel, is the Mediterranean party which most faithfully reflects the Moscow line. Leaving aside the Yugoslavian communist party whose split from Moscow goes back to the immediate post-war years, the other Marxist parties (with the single partial exception of the Portuguese) have been at pains to distinguish their position from that of Moscow, especially since the 1968 invasion of Czechoslovakia. The possible entry of left wing parties into government as a result of elections does not necessarily give the USSR greater influence over the countries where this may occur. This, at any rate, is what one may deduce from the positions taken by the leaders of those communist parties interested in gaining a place in government: Marchais in France, Berlinguer in Italy and Santiago Carillo in Spain. In France the *Union de la Gauche* came close to victory in the 1974 elections. There is a strong possibility that by the next elections the Left will have improved its position. In Italy the most prominent political issue has, for years, been the question of a possible alliance between the largest western communist party and the Catholic party which has held power constantly since the end of the war. The "communist question" acquired overriding importance after the success of the Left in the regional elections on 15 June 1975. For the moment the PCI is rejecting speculation that Italy will abandon the Atlantic Alliance. As far as regards Spain, it will be necessary to await developments in the post-Franco era. Nevertheless Carillo's differences with Moscow are common knowledge. Portugal is a more complex case, as only two years have lapsed since the progressive army officers coup against the fascist regime, and there is no doubt that Cunhal has closer ties with Moscow. It appeared at that time that Portugal was about to grant the USSR an anchorage for her ships, and that she was involved in important economic negotiations with Eastern Europe. This however is insufficient evidence to conclude that Lisbon is moving into the Soviet orbit. Spain too has granted an anchorage to the Russians, and has an important commercial treaty with the USSR. She has also accepted the good offices of Soviet diplomacy to advance her claims on Gibraltar.

The official break between Stalin and Tito took place in June 1948 with the latter's expulsion from the Cominform. It was not until the XX Congress that the Russians accepted the principles of peaceful coexistence and "national roads to socialism"; in 1955 Khruschev went to Belgrade to recognise Yugoslavia's right to autonomy. The following year Tito went to Moscow and received a tumultuous welcome. From 1958 to 1961 there was a phase of mutual distrust following events in Hungary which had provoked alarm in Yugoslavia. The re-emergence of working relations between the USSR and Yugoslavia in the following years, promoted above all by the "confrontation" with China, which forced the USSR to make concessions towards those "renegade" socialist countries which might have provided fertile ground for the temptations of the second of the two poles of international communism. At the time Yugoslav non-alignment assumed the characteristics of a latent but stable friendship with the Soviet Union; the USSR gave Yugoslavia abundant military supplies and used Split as a port of call for her shows of force in the Eastern Mediterranean. The aggression committed by Warsaw Pact forces against Czechoslovakia did however affect Yugoslavia and she began after 1968 to increase her links with the West. Gromyko's visit to Belgrade in September 1969 must have dispelled most of the apprehension regarding the USSR's role in Europe, for in 1970 Soviet-Yugoslavian cooperation was resumed and intensive links re-established in the economic, cultural, scientific and political fields, while in the commercial sphere a five-year (1971-1975) agreement was reached. As the post-Tito era approaches, Kissinger's present policy towards Yugoslavia gives the USSR a certain amount of room to manoeuvre. It was the Yugoslav President, who in the name of non-alignment, reproached Sadat for his blatant policy of *rapprochement* with the USA during 1974. According to Tito, this upset the balance of forces in the Mediterranean. In April 1974, Tito solemnly re-affirmed his friendship with Moscow and tabled a law before Parliament proposing to grant more ports of call in Yugoslavian territory to Soviet ships.

THE CHINESE PRESENCE IN THE MEDITERRANEAN

The Chinese have only recently been present in the Mediterranean, and only on a modest scale. This is the result of China's distance from the region, of the difficulties of presenting herself as a model for the developing countries there and of the almost total isolation in which she has kept herself for years.

The turning point in Chinese foreign policy was in the early 60's when China's ideological conflict with the USSR led her to adopt an anti-Soviet as well as an anti-American position. During the cultural revolution, from 1966 to 1968, China once again withdrew to deal with her internal problems and only resumed international contacts in the 1970's.

Since that time the Chinese offensive in the Arab Mediterranean area has been directed towards Syria and Iraq and has taken advantage of disputes between these countries and the USSR. Following the abrogation of the Egyptian-Soviet treaty, an Egyptian delegation was received in Peking for high level talks. Commercial links between the two countries will probably be extended to the technical and military spheres. The Palestinian question has proved even more fertile ground. Further to the south China opposes the USSR in the Yemen, whilst in the province of Dhofar (Oman) she was opposing the imperialist policy of Iran, even though it is with Iran, in fact, that the only important Chinese commercial treaty in the Mediterranean has been signed.

This pro-Arab position is part of the Third World, anticolonial option taken by China at Bandung: before she had maintained normal relations with Israel, partly because Israel had been the first country to recognise the People's Republic of China in 1950. During the 1956 crisis Chinese support for the Arabs became explicit: it was announced that 250,000 volunteers were ready to fight for Egypt. After Suez, Egypt and Syria, followed by the Yemen, Sudan and Iraq recognised the People's Republic. Around 1960 Cairo became the centre of Chinese propaganda in the Middle East through APSO (the Afro-Asian People's Solidarity Organisation) which played on the nationalist and anti-colonialist demands of the recently independent Afro-Asian nations. Relations between China and the Arabs — especially Egypt and Iraq — were spoilt by the repression of national communist movements in many Middle Eastern countries, and by irregularities in the practical interpretation of non-alignment. From the end of December 1963 to March 1964, Chou en Lai went on a long visit to Africa: he visited Egypt, Algeria, Morocco and Tunisia, patching up many of the quarrels which had emerged in recent years. He proposed a "new Bandung" which would ratify China's role as leader of the Third World. This plan failed. Meanwhile China suffered a further setback when the Russians were not excluded from the Algiers conference. This subsequently proved abortive. China had staked a great deal of her prestige in the Third World on the exclusion of the USSR. She had to wake up to the fact that the Russians were still highly regarded.

In January 1964, the PLO resumed operations. In March of the following year its leader Chukeiri, went to Peking: the Palestinian delegation received full diplomatic treatment. Under Arafat, Chinese influence over the PLO grew and was maintained until 1970, in which year the Palestinian leader visited Peking. In 1971 however Arafat directed his requests towards Moscow. He wanted large scale military supplies and more concrete diplomatic support. Peking's reaction to Arafat's Soviet conversion was to support the more extreme organisations led by Habash and Hawatmeh.

In 1971 China concluded an economic and technical agreement with Algeria, and contracted good relations with Iran, Turkey and Egypt. In the Middle East, in keeping with her ideological tradition, China became the spokesman of the principles of "counting on one's own power", in direct opposition to the policies of the superpowers. In December 1972, the Chinese ambassador to the United Nations clarified his position, declaring that the two superpowers were deliberately fostering a situation which was "neither war nor peace" in order to maintain their foothold in the Mediterranean.

After a bitter diplomatic dispute in the mid-1960's between China and Tunisia, which in September 1967 led to the withdrawal of the Chinese delegation in Tunis, wide-ranging commercial relations were finally established between China and Tunisia, as well as with Morocco. There has been a special relationship between China and Algeria ever since the time of the anti-colonial guerrilla struggle. China was the first country to recognise the Algerian Liberation Front and by 1958, (even before independence), she had concluded a commercial treaty with the Front. This was renewed in 1963 on a broader military and technical basis. Chinese aid to Algeria, which began in 1954, rose in the period 1954-69 to 50 million dollars.

The advances of Chinese foreign policy are documented by the rate of increase in their aid. In the fifteen years from 1956-71, total Chinese aid in the Middle East was 275 million dollars. 20 million of this was given between 1956-60, and 125 for 1961-65. From 1965 to 1969 aid was reduced to about 48 million dollars. The sudden flux of 43 million dollars in 1970 was a sign of the end of the cultural revolution, while the 39 million dollars given in 1971 confirmed the internal stability of the Chinese government. Nevetheless, the amount of Chinese aid to the Middle East, as a percentage of the total given to the emerging nations, was not much more than 6% in 1970 and 8% in 1971. This is very little if one bears in mind that in Chinese strategic considerations the Arab sector was second only to Indochina.

As far as regards the Mediterranean, China has made her most notable advances in the Balkans: she has succeeded in involving herself in the conflict between the USSR and Albania and in strengthened her relations with Rumania, Yugoslavia and Greece. The most fertile period with Greece was at the beginning of the 1970's as a result of commercial agreements contracted with private Greek enterprises with explicit Greek government authorisation.

In August 1970 China's relations with Yugoslavia, which since 1958 had been conducted through a charge d'affaires, were once again directed through normal embassy channels. Commercial exchange remained, however, fairly restricted, amounting to a few tens of millions of dollars per annum. The positive trend in Chinese-Yugoslav and Chinese-Greek relations helped Albania to restore normal bilateral relations with these two countries in 1971.

Albania is the area of greatest Chinese infiltration in the Mediterranean and represents the USSR's worst defeat in the diplomatic and ideological conflict between the two leaders of world communism in the emerging nations. After a prolonged phase of full political and economic cooperation, which over the last five years gave Albania 200 million dollars' worth of aid Chinese-Albanian friendship has for some time been gradually modified: Soviet diplomacy is obviously trying to step in between the two countries in order to regain lost influence. The violent break in relations with Albania took place in 1961 when the USSR was denied the use of the port of Valona which she was planning to equip with missiles and link to the nearby lake of Butrinti which was to have provided her with a submarine base. After the invasion of Czechoslovakia in 1968 Soviet-Albanese hostility reached its peak and Albania withdrew from the Warsaw Pact. At the present time Albanian interests are represented in Moscow by the Bulgarian delegation.

The Chinese-American *rapprochement* caused the Albanian leaders particular displeasure, and they began to voice complaints about collusion between the great powers: in November 1971 the absence of the Chinese delegation to the Albanian communist party congress was noted. Another point at issue between China and Albania is the EEC. China has recognised the Community, and views sympathetically the idea of a more united and autonomous Europe able to oppose the unchallenged strength of the superpowers. She sees the EEC as a counterweight in the West to Soviet predominance on the Euro-Asian continent. Albania, on the other hand, sees the possible birth of a united Europe as a result of United States' expansionism, consented to by the USSR. As yet there is no formal pact between Albania and China although they have been in close partnership for almost 15 years. It is however quite clear that unless there were to be a drastic revision of her policy, Albania will continue for a long time to remain a trusted friend of China, despite their differences over the United States and European unity.

China has also succeeded in establishing good relations with Malta following the election of Dom Mintoff as Prime Minister. In 1972 the two countries established a ten-year agreement for economic and technical aid amounting to 40 million dallars. Malta's relations with China however do not so much mark a substantial change in political line as an integral part of a strategic design aimed at raising the cost of her bases to the Western powers.

THE JAPANESE PRESENCE IN THE MEDITERRANEAN

Since 1973 Japanese relations with the Mediterranean have taken the form of a strategy aimed at ensuring energy supplies. By 1979 Japan should have succeeded in obtaining stocks equivalent to an average of 90 days' supply.

At the time of the outbreak of war between the Arabs and the Israelis in October 1973, Japanese demand for oil amounted to 300 million tons per year, of which 90% came from the Gulf (60% from the Arab countries and 30% from Iran). Her annual oil expenditure amounted to 20 billion dollars. The OPEC oil embargo in November 1973 and the quadrupling of the price of oil, would, without adequate countermeasures, have done irreparable damage to Japanese production. On 23 December the Japanese government declared a state of emergency and proceeded to adopt drastic, selective oil rationing. At the same time the Japanese government began intensive diplomatic activity to try and restore friendly relations with the Arab countries. The Japanese far outstripped the European countries in the unyielding anti-Israel stance they adopted. For some time there had been debate in the EEC regarding the merits of a firm dissociation from American policies towards Israel, stimulated by the process of drafting European Mediterranean policy. There were those in Europe who had already opted for the Arab countries: France for example, and to some extent, Italy. The Japanese on the other hand never wavered in their support for Israel. Then, on 22 November 1973, the Tokyo government made an official declaration deploring the Israeli occupation of Arab territory conquered in 1967, adding that it might in the future review its traditional policy towards Israel. A few days later the Japanese delegation to the United Nations made a 5 million dollar contribution to the annual aid fund for Palestine refugees. The previous year the Japanese contribution had been 1 million dollars.

On 10 December the Foreign Minister Takeo Miki made a three-week visit to the seven Arab oil-producing states and to Iran. The visits to Abu Dhabi, Saudi Arabia, Qatar, Kuwait, Iraq, Syria and Egypt proved very fruitful in the following months. The Japanese strategy for the obtaining of oil supplies was based on the offer of specialised technology and technical aid for the development of the Arab world. In the political field this was backed up by gradual dissociation from Israel. In December the Tokyo government issued a strongly-worded declaration demanding the withdrawal of Israel's troops to the ceasefire line of 22 October 1973 as a first step in a complete withdrawal from occupied Arab territory.

Talks with Iranian economic advisors led to the drafting of a plan for Japanese investment in Iran amounting to about 1.5 billion dollars. 1 billion was to be spent on an oil refinery complex, the rest on a petrochemicals plant and a cement works. In March, however, the building of the oil refinery was handed over to a West German consortium.

Japan agreed on joint ventures with Saudi Arabia in the oil sector, and in September 1974 Saudi Arabia announced a 1 billion dollar loan to Japan, payable over 5 years at 10% interest, to cover the Japanese oil deficit.

In February, Takeo Miki's meetings with the Cairo authorities led to a contract for a two-year supply of 800,000 tons of crude oil. 300,000 were to be supplied in 1974 and 500,000 in 1975 at a price just under 10 dollars. The Japanese government then conceded 240 million dollars worth of credit to Egypt: 140 million for the restructuring of the Suez canal, 50 million in aid and 50 million for the purchase of Japanese goods. The money for the canal was to be repaid over 25 years at 2% with seven year grace before the first repayment. The rest was also repayable over 25 years with seven-year's grace; the interest rate was however lower at 3.5%. In December 1974 this credit was expanded by a further 175 million dollars. This sum came almost exclusively from government sources and was granted for the final stage of work on the canal to open it to ships drawing up to 150,000 tons. Japan will also provide help in the development of the canal zone. At the moment she is the industrialised country contributing most to Egyptian reconstruction.

On 17 January 1974 a wideranging commercial and economic agreement was signed between Japan and Iraq. Iraq undertook to supply 90 million tons of crude oil over 10 years and 70 million tons of liquified gas and other oil by-products. In exchange Japan offered 1,000 million dollars — a quarter of which was to take the form of a government loan and three-quarters of which was to come from private sources at an average interest rate of 5.25%. The loan is to be used for numerous industrial projects especially in the liquified gas, cement, aluminium and fertiliser sectors. In addition Japan offered her cooperation in the building of new refineries and oil tankers.

The complex Japanese-Iraqi agreement was finalised and confirmed in Tokyo in August and ratified in Baghdad at the end of October, after numerous problems regarding the price of oil had held up its progress.

In January 1974 the Saudi oil minister, Yamani, and the Algerian minister for Industry and Energy, Abdessalam, visited Tokyo as OAPEC delegates to the consumer countries. Japan seized the opportunity to re-open the question of her contribution to the second four-year plan for Algerian development. Algeria had insufficient oil as yet to guarantee the supplies needed by Japan. In the talks the Japanese made offers of joint oil prospecting and refining operations. Algeria in turn offered substantial supplies of natural gas.

If Japanese financial commitments to Arab development in the 1973-74 period are compared to those in the immediately preceding years, we gain a further indication of how the oil embargo has affected Mediterranean politics. In the short term at least, Japan's attitude towards the Mediterranean has been drastically revised, this because of her need to build up lasting relations with an area far away from the traditional axis of her commercial and strategic interests. In the four year period from 1969 to 1972, average annual Japanese aid to the Arabs amounted to 500,000 dollars, the same sum as that granted to Turkey. Countries such as Algeria, Libya, Tunisia and Saudi Arabia were completely excluded. The only countries in the area to receive aid on a significant scale were Iran, with an annual average of nearly five million dollars and, further to the North, Yugoslavia, which in 1972 received 30 million dollars of which 10.5 million (35% of the total) in the form of a grant. In that year no OECD country made a greater contribution to Yugoslav development than Japan.

Since 1973 however Japanese policy on aid has had to take account of the needs of the Southern Mediterranean, the satisfaction of which is a key point in government oil supply strategy. The immediate concrete result of this policy has been at least a medium term guarantee for the Japanese economy, always supposing of course that the policy is continued. In .974 Japan reduced her oil imports to 260 million tons and thus succeeded in covering her oil deficit, without drawing on her foreign exchange reserves, this despite quadrupled prices. This was a positive result achieved thanks to increased exports and to the agreements reached with the producer countries. It is unlikely that Japan seeks, or indeed is able to exploit her friendly relations in the area for political ends. The presence of the superpowers and of China leaves little room for political infiltration. The peace treaties signed after World War II discourage and indeed place concrete constraints on the expansion of the Japanese armaments industry. The Mediterranean countries have no intention of imitating the Japanese development model. Japan's political and strategic interests are in any case in the East rather than in the West. Japan's main problem is still her overall role in the far East, that is to say, the form of her relations with her major Asian neighbours, the Soviet Union and China, constraints upon which are imposed by her close alliance with the United States. It is not too far fetched to suppose for instance that if the optimistic forecasts regarding the oil fields off South Vietnam should prove to be a slackening in Japanese attention towards the Arabs. In the 1975 financial year alone Japan plans to invest 15.7 million dollars in off shore research. If on the other hand Japanese industry finds it impossible to supply itself with Asian oil then one might expect the transformation of present links with the Arabs into a permanent working relationship. This would represent a new feature on the Mediterranean scene which other actors in the area would have to take account of in their calculations. The re-opening of the Suez canal will certainly ease the Japanese role in the area.

THE CRISIS OF RIGID BIPOLARISM

For a long time the presence of the two superpowers in the Mediterranean resulted in a kind of *concertina* effect. The efforts of each to contain the other led to a continual search by both sides for close political and military alliances. The small Mediterranean countries used the threat of a switch of alliance as a bargaining counter against excessive superpower pretensions. In several cases these countries moved rapidly away from one power towards the other without even going through a transitional period. This situation, although it saved the Mediterranean states the impression of independence, in practice led to the perpetuation of a system of alliances whereby these states were continually subordinated either to one superpower or to the other. The crisis in this model is due above all to the spread of non-alignment and the progress of détente between the blocs. The general tendency today is to have cordial relations with both superpowers, although one may receive priviledged treatment in specific sectors. The continual crises of the last few years have confirmed this trend. The United States and the Soviet Union are collaborating to resolve the Middle Eastern crisis. Often the two powers work together though for differing motives to influnece one of the parties to the conflict. The Cypriot crisis enabled the Soviet Union to take up a position favouring Greece, despite the latter's extremely close allaince with the United States. The Portuguese revolution must take account not only of the Soviet Union but also of the United States to which Portugal is tied in the Atlantic Alliance. The crisis in the rigid bipolaristic model has been contributed to even by the behaviour of the superpowers themeselves. Neither the United States nor the Soviet Union intends to sacrifice global interests to local or regional interests. Both countries' policy priority remains the promotion of détente and security. If a crisis ever endangered détente, the United States and the Soviet Union would impose a solution which avoided that risk. The states involved in the crisis have on the other hand a local or at best a regional view of the balance of power.

The first result of this situation has been a widespread return to bilateralism, sometimes as a means of healing conflicts within multinational groupings. Already, immediately after the end of the war there was a lively debate within the American administration concerning the advisability of establishing bilateral relations with friendly Mediterranean countries. The history and the socio-political structures of these countries seemed to pronounce against multinational military alliances, the coherency of which would depend on the lack of destabilizing factors. This for example was Kennan's position. The USSR has always preferred bilateral relations in the Mediterranean. The present trend is for the superpowers to increase the efficacy of their joint action. This will undoubtedly affect their ability to exert pressure on the countries to which they are tied.

This means, and this is the second thing which emerges, that the area is so inherently unstable that it is impossible for the superpowers to devise and implement an internally coherent policy of stabilisation. The Mediterranean policies of the USSR and the USA will probably always remain basically short term in their approach. They will continue to consist of ad hoc responses to localised tension. This is a far cry from the much-needed structural recomposition of the balance of power.

Given that ideology plays an important part in her foreign policy and that she has fewer world responsibilities, it seems that China, on the other hand, has a chance of implementing a more organic, long-term policy. She is able to avoid relations with some states and choose her methods of approach with greater coherence. This can be seen from the way in which China bases her development aid policy on objectively egalitarian principles and gives practically free financial aid. Even though the volume of Chinese economic and technical aid is larger than that from any other Communist country, it is limited to a certain extent by the Soviet Union's superiority in some areas, particularly in the field of specialised military and civil technology. For example, China at present is a long way from being able to carry out the kind of large scale airlift which the USSR undertook during the October War. One should also bear in mind that at least two-thirds of Soviet aid to emerging states is still given to the Arab countries. If the present trend of a move away from superpower leadership in the Mediterranean continues at a faster rate, China may find further encouragement in her aims. Her attempts to use the European Security Conference to this end have been perhaps a little too blatant. The widening of the discussion to cover Mediterranean security would involve questioning the present division of the superpowers' spheres of influence and would lend support to the position maintained for years by Algeria, Yugoslavia, Malta, etc. Amongst those countries which favour the widening of the debate there exist differences of opinion regarding the role to be played by external forces in the Mediterranean. Italy, for example, which favours a wider debate, has also expressed her support for Soviet and US participation at the Conference. The superpowers' military presence is still considerable. Despite the present stalemate in the Soviet Union's relations with the Mediterranean, she still has about seven thousand military experts and advisors in the Middle Eastern Mediterranean countries including Iraq.

In the strictly economic field, wide-ranging possibilities are opening up for Japan. She is demonstrating that she is managing far better than Europe — a fellow sufferer in energy problems — in resolving the question of oil supplies while maintaining a certain degree of independence in the process.

It is difficult to make reliable predictions about developments in the Mediterranean. Nonetheless, that which has actually changed in the Mediterranean, and the new decisive forces there, appear quite clear. It is obvious for example that internal considerations are more important than before — that the Arab front must be taken into consideration, that a possible swing to the Left in Southern Europe could create serious problems for the present balance of power in the area and so forth. On the other hand, it is impossible to make reasonable predictions about the way in which these new forces will behave or the choices they will make. At best one can give a rough indication of the most crucial factors of internal and international change likely to act as independent variables affecting the whole Mediterranean.

These are the following in the Mediterranean: the Middle Eastern crisis and the Palestinian problem, the stability of the Cairo-Riyad axis after the death of Feisal, Iran's imperial ambitions, the Cyprus problem and nationalism in the Balkans, the development of the communist question in Southern Europe, the control and use of the Suez Canal.

In the international sphere, the crucial questions are the following: internal developments in the United States and in particular the debate between the supporters of the legislatvie and those of the executive, the strategic and technological choices made by the superpowers and their attitude at the Geneva negotiations, the outcome of the European Security Conference, the impact of changes in Southeast Asia and in Africa on American foreign policy in the West and on Chinese-Russian relations, and finally, internal developments in the Soviet Union.

The behaviour of external actors in the Mediterranean will continue to depend on global considerations. Further confirmation of this comes from Ford's visits to Europe and the Mediterranean after the final defeat in Vietnam and the simultaneous Soviet diplomatic offensive in the Middle East and amongst the forces of the Left in Southern Europe.

II. THE EUROPEAN ECONOMIC COMMUNITY'S POLICY TOWARDS THE MEDITERRANEAN

From the beginning of the 1960's onwards the European Economic Community began to conduct a policy of building special relations with the Mediterranean countries. This policy was inspired by the Community's decision to cooperate with the emerging nations of the world. The policy's specific characteristics are determined by geographical factors, cultural affinities and strategic ties linking the northern and the southern zones of the Mediterranean basin. Suffice it to say here that over 52% of Mediterranean exports go to the Community, with particularly high percentages in Libya (86%), Algeria (83%), Cyprus (72%), and Morocco (69%).

The evolution of the EEC's Mediterranean policy can be divided into four main stages:

— an initial very cautious stage marked by an agreement in 1962 with Greece and a further one in 1964 with Turkey;

— the proliferation of agreements between 1969 and 1973;

— a static period between 1973 and the first half of 1974;

— the resumption of negotiations after the oil crisis.

To date there are twelve bilateral agreements between Community and Mediterranean countries: six are association agreements, five are preferential and one is a non-preferential economic agreement. These have been signed without there being a consistent and coherent policy placing EEC-Mediterranean relations on a well-defined, less empirical footing. Albania, Syria and Libya are excluded from these agreements. Albania and Libya have never requested an accord, while Syria on the other hand began negotiations in March 1974 after Cheysson's visit to Damascus.

The EEC has association agreements with Greece, Turkey, Morocco, Tunisia, Malta and Cyprus. Preferential economic agreements have been concluded with Spain, Israel, Egypt, the Lebanon and Portugal while the only non-preferential one exists with Yugoslavia. The association agreements are based on Article 238 of the Treaty of Rome. Both forms of economic agreement are based on Article 113.

The agreements concluded by the EEC vary between countries, privileging, for economic and political reasons, one with respect to another. There are three kinds of agreement. Association agreements allow for far wider concessions than do the purely economic ones. Nevertheless there are still disparities of treatment even between different association agreements. The countries with a so-called 'European vocation' have the prospect of enjoying much closer relations. These are those countries moving towards full membership in the EEC. The only membership requirement laid down by the Treaty of Rome is that full members should geographically form part of Europe. Community practice has however added two further criteria: democracy, that is to say, a political criterion, and an acceptable level of economic development, an economic criterion. This is why fascist Greece was not considered to have a 'European vocation' whereas she has now been put back into that category. A country's right to be considered as having a European vocation can thus vary in time with her political regime and economic structure.

The EEC's Mediterranean agreements have led to international protest, especially from GATT (the General Agreement on Trade and Tariffs). The American government has protested most vigorously because of the damage done to her exports by European concessions to the Mediterranean countries. The United States has been pointing out for years that Article 24 of GATT states that customs unions or areas of free trade can only exist between countries which have freed 90% at least of their exports. It is claimed that subsequent EEC agreements with the less developed countries also contravened part IV of GATT which had been drawn up in the meantime, and which states that the less developed countries are in no way obliged to reciprocity in their trading agreements. A convergence of views thus emerged between the United States and the developing countries, although the adoption of this position on the American side was purely tactical.

These criticisms gradually led to substantial modfiications in the Community's position. In the Treaty of Lome, signed with 46 countries of Africa, the Caribbean and the Pacific, inverse preferences were eliminated. This treaty provided a concrete basis for the negotiations under way with the countries of the Mediterranean basin.

AGREEMENTS WITH NON-ARAB COUNTRIES

Greece was the first Mediterranean country to sign an agreement with the EEC. The agreement, which aims at an eventual customs union, is of indeterminate duration and came into force from 1 November 1962. The long-term objective is complete Community membership. No specific date for this has however been set. There is simply an indication that matters will be examined once Greece has fully accepted the clauses of the Treaty of Rome. The 1962 agreement stipulated that Greek tariffs on goods from the EEC should be abolished within a period of 12 to 22 years. The Caramanlis government, despite the difficult economic situation inherited from the military Junta, kept up this commitment and removed further customs barriers in November 1974. This move, along with the Greek ambassador's official request for membership, made on 12 June 1975, shows clearly that Greece wishes to join the EEC within 5 years. The freezing of Greek associate membership after the *coup d'état* in 1967 was lifted by the EEC. The Greek government received a positive reply to its request and opened preliminary negotiations. During these the Community will offer sufficient aid (800 million dollars) to balance the Greek oil deficit. At the same time it will be necessary to reactivate constitutional procedures (the Council of Association and the mixed Parliamentary Commission) as well as to harmonise agricultural policies. Commercial questions will not be neglected either: trade between the EEC and Greece, despite the events of 1967 virtually tripled, expanding from 953.9 million dollars in 1969 to 1,630.9 million dollars in 1972.

The EEC-Turkish association agreement, of indeterminate duration, was signed on 12 September 1963 and came into force on 1 December 1964; it creates a customs union between Turkey and the Community. As regards the possibility of Turkey's joining the EEC (Turkey has always stated that if Greece does so, she will also) the treaty is much more precise than that regulating EEC relations with Greece. It sets out three distinct stages comprising a preparatory 5 year period, a transitory 12 year period and a final stage, the length of which has yet to be established. The institutional links, however, are less clear: for example there is no provision for a parliamentary commission. The treaty as a whole makes it clear that the Community is rather cautious about Turkish membership. It should be remembered that when a complementary protocol was signed in 1973 the Community made no mention of eventual Turkish membership. A particularly important aspect of EEC-Turkish relations concerns the status of Turkish immigrants. Out of a total of 580,000 Turkish workers who have emigrated, a good 530,000 have gone to the Common Market. Of these about 400,000 have no official status. On 10 June 1974 the Council supported the Commission in advocating that the social rights granted to workers from the other member countries should be extended to the Turks.

The agreement between the EEC and Cyprus was signed on 19 December 1972. It came into force on 14 May 1973 and is to be executed in two stages. The first will last until 30 June 1977 and the second, initially, 5 years. The objectives of the agreement are the removal of obstacles to essential trade between the Community and Cyprus, and the setting up of a customs union.

The agreement with Malta has been in force since 1 April 1971; it provides for the setting up of a 5-year customs union from 1 April 1976. The negotiations at present under way aim at the extension of the agreement to agricultural produce and to technical and financial cooperation.

The need for an agreement with Portugal gradually became apparent as Great Britain and Denmark's negotiations for membership proceeded. Portugal had important economic links with Northern Europe in the European Free Trade Association. The agreement with Portugal came into force on 1 January 1973. It is just one of the bilateral treaties which the Community has with countries not applying for membership. It provides for a free trade area for industrial products to be established progressively by 1 July 1977, and for preferential agricultural tariffs. After 25 April 1974, the new Portuguese government seized every opportunity to let it be known that she intended to widen the relationship far beyond the scope of the commercial agreement. This did not mean that Portugal was seeking membership. Her requests were exlusively concerned with improving agricultural and industrial trade and financial cooperation. On several occasions the Community has declared itself favourable to further. negotiations. It was in June 1975 that the most important measure was adopted. The Community decided on the granting of 400 million dollars of virtually untied financial aid in Portugal, as the West's first concrete gesture of support to the new Portuguese democracy. This was in addition to the

60 million mark loan which had come from the German Federal Republic.

On 1 October 1970 the commercial agreement between the EEC and Spain came into force. Its minimum length of duration was to be 6 years. The new negotiations now under way aim at the establishing of a free trade area. Spain is requesting similar treatment to the Maghreb countries for her agricultural sector. If effective democratic reforms are carried out, Spanish membership in the EEC will be put on the Community agenda.

The non-preferential 5-year commercial agreement with Yugoslavia came into force on 1 September 1973. The distinctly discriminatory character of this agreement with respect to the other Mediterranean countries is due to economic factors (the self-managed economy) and to political factors (the fact that Yugoslavia is a Communist country). For Yugoslavia, as for Turkey, one of the most important questions at the moment concerns the status of immigrant workers in the Common Market.

AGREEMENT WITH ARAB MEDITERRANEAN COUNTRIES

The first agreements with the Mediterranean countries were made with the Maghreb. On 1 September 1969, association agreements were signed with Morocco and Tunisia. These provided for the creation of a free trade area with reciprocal trade concessions. The agreements expired on 1 September 1974. A new agreement, including the final "legalization" of Community practice towards Algeria, still based on discriminatory norms, was reached during 1976 within the framwork of general EEC Mediterranean policy, of which below.

The commercial treaty with Egypt, signed on 24 July 1973, came into force on 1 November of the same year. The agreement set up a free trade area with reciprocal commercial concessions.

The commercial treaty with the Lebanon came into force at the beginning of 1974 but has hever been ratified by the Lebanese Parliament. The agreement provides for a free trade area.

THE AGREEMENT WITH ISRAEL

Israel was the first country to which the Community applied the principles of her global Mediterranean policy. The five-year commercial agreement in force since 1 October 1970 did not provide for technical and financial cooperation, being almost exclusively based on commercial concessions. In the new agreement of unlimited duration signed on 10 May 1975 Israel accepted almost entirely the EEC's offers in the agricultural and industrial sectors. In the industrial sector there will be an attempt to create a free trade area by 1 January 1989; in agriculture there will be progressive tariff reductions ranging from 40% to 80% applying to 85% of Israeli exports to the Comunity. Israel has adopted a conciliatory negotiating position because of her need for international political recognition. Shi is now requesting for further extensions in the fields of industry and agriculture, as well as for the inclusion of an additional financial protocol.

THE GLOBAL POLICY

The empirical nature of the bilateral agreements which the Community has signed with the Mediterranean countries has been the object of strong criticism. Their fragmented and discriminatory nature has caused particular disquiet. The idea of a single, global approach to Community commercial agreements and Mediterranean development aid has made headway. There is hope in several quarters that a comprehensive scheme of commercial and financial aid and legal labour agreements will be devised to apply to all the Mediterranean countries.

The most effective arguments for such a plan are the European Community's need to establish structural economic links with the Mediterranean economies and the positive political consequences which would undoubtedly result from the ending of discrimination between countries.

Opposition to the plan came from those who pointed out the competitivity of European with respect to Mediterranean agriculture, and above all the difference in levels of economic development amongst the countries with which the EEC would have to have dealings. These doubts were easily confirmed by a rapid examination of the economic structures of the countries involved. It seems as if there are differences between them such as to discourage any idea of a single comprehensive policy for the whole of the Mediterranean.

Greece and Spain can be considered semi-industrialised, whereas Portugal and Turkey are only beginning to industrialise. Yugoslavia, despite a fairly high level of industrialisation, cannot be integrated with the other countries because of her socialist economy. Israel has a unique economic system. Amongst the Arab countries, Algeria has planned her industrialisation as far as the mid-1980's while the other two countries of the Maghreb — Tunisia and Morocco — are not in a position to attain the same objectives. Libya is staking everything on a take-off based on oil. In this respect her problems resemble those of the Gulf rather than those of the Mediterranean. Egypt is still an agricultural country **despite the** industrialisation plans begun after the Kippur War. Cyprus, the Lebanon and Malta have in common large revenues from tourism and a fairly high level of industrialisation.

A further objection was then raised. This stated that the Community, founded on democratic principles, could not treat countries with western democratic regimes and those with authoritarian or dictatorial ones in the same fashion. Added to all this there was the clear opposition of the United States and her faithful European allies, to any separate European policy of aid to the Mediterranean, which differed from the Community's general policy on development aid.

The European Parliament was the first Community organ to take up a position on the Mediterranean question. At the beginning of 1970 it gave unqualified approval to a global Community approach towards the Mediterranean countries. 1972 was the decisive year for the launching of the "global policy". The enlarging of the Community to 9 countries created serious problems for Spain and Israel, both of which had commercial links with Northern Europe. At the time the Maghreb was having further discussions with the EEC on free trade areas. The Community proposed to Spain, Israel, Morocco, Tunisia and Algeria that their negotiations should be encompassed within a global Mediterranean policy. The only state to oppose this was Great Britain, who did not fail to see the political implications of such a policy. The British government proposed that it should not be the Commission to decide, but the Davignon Committee (a diplomatic policy-coordinating body). Britain's opposition to the global policy went so far as to lead to the winding up of the 'Mediterranean executive' in Brussels: the work of this group was then divided between Directorate I dealing with North European affairs and a second Directorate concerned with development in the Southern Mediterranean. Despite British opposition, on 27 September 1972, the Commission brought out a document which made the 'global' option official. It was stated that the Commisison was aware of the present state of international relations and that there was no intention of making a series of identical agreements with everyone. The global policy was to apply to those countries bordering the Mediterranean plus Portugal. However the possibility was not excluded that the global approach might be extended to inland countries such as Jordan, Iraq and the Sudan. The objectives of the global policy were divided into three sections: commerce, economic cooperation and labour. In the commercial sphere, free trade areas were proposed as well as a customs union for those countries envisaging eventual membership. Economic cooperation was to be developed to the extent allowed by the different member states. The most important new feature was in the field of financial cooperation. This was to be undertaken with help from the European Investment Bank, with loans at advantageous repayment rates or with free subsidies. As regards labour, there was a promise of the ending of discrimination in conditions of work, equal pay, obligatory social security and professional training for Mediterranean workers in the Common Maket.

The global policy was at a standstill during 1973 and for a good part of 1974, and the interested countries continued to demand the implementation of the Commission's decisions. Difficulties came meanwhile from France and Italy, who had problems in their respective agricultural sectors. Technical problems arose with GATT, to which the EEC members are linked. The main obstacle however was inadeguate political support from certain member states: Great Britain, the German Federal Republic, Denmark and Holland had no intention of granting generalised preferences or reciprocal agreements to the Maghreb countries and by so doing contravening GATT principles. This at least was the official reason. It has escaped no one however that this is the same line as the one taken by their close ally, the United States. In Great Britain's case there was also her desire to continue preferential relations with the Commonwealth.

On 26 June 1973, in Luxembourg, the Council approved the Commission's mandate to negotiate preferential agreements with the Maghreb, Spain, Israel and Malta on the basis of the 'global' policy. In the field of agriculture the mandate fell short of the Commission's requests. There were also deficiencies in the fields of technical and financial aid and labour agreements. There was no significant change with respect to existing bilateral agreements. The reply from the Mediterranean countries was highly critical. Spain even considered whether it might not be more advantageous to continue with her present arrangements. In the Maghreb, Algeria was the most vociferous in her disagreement; she had been demanding a global policy since 1963. In February 1974, under the pressure of the oil crisis, Great Britain ended her opposition to the global policy and accepted the opening of negotiations even before maximum financial development aid had been fixed. The British decision seemed to remove the obstacles hindering an effective global policy. However, an almost simultaneous change of leadership in three major European countries (the Labour victory in Great Britain, the death of Pompidou in France and Brandt's resignation in West Germany) slowed down Community affairs over the next few months. This affected the decisions to be made regarding the Mediterranean.
Finally, on 23 July 1974, the Council adopted a new mandate for the Commission, which represented a step forward as regards the 1973 one. Algeria, for example, improved both her agricultural position (for wine in particular) and her industrial one (she was to be able to export 900,000 tons of refined oil to the Common Market, duty-free). The sum of economic and financial aid for the Mediterranean countries was to be raised to 360 million accounting units to be paid over 5 years: half was to take the form of a loan from the European Investment Bank, 120 million were to be granted under special conditions and were to take the form of a gift.

In actual fact the July 1974 mandate was simply a mandate to conclude bilateral preferential commercial agreements. Little actually remained of the Commission's 1972 'global' proposal. The negotiations in progress may lead to improvements but the 'global' plan seems to have misfired. The piecemeal empiricism which characterised early Mediterranean policy will be modified but there will be little success in achieving the free trade area and the economic and agricultural integration with its autonomist political implications for which the Mediterranean countries had been hoping.

THE EUROPEAN-ARAB NEGOTIATIONS

The modified structure of international relations brought about by the Kippur War and by the 1974 oil crisis makes it essential for Europe to make an unequivocal decision regarding her relations with the Arabs. This decision is clearly in part an economic one, given that the Arabs provide Europe with more than 80% of her oil requirements and that over 60% of her energy needs come from oil. It is also however a political choice. This is inevitable given the persistent Middle Eastern crisis bound up with the oil crisis, the American pro-Israel position and the alliances existing between the United States and Europe.

All the Community's decisions in the field of energy have to reconcile EEC energy policy, cooperation with the producer countries, and 'Atlantic' energy interests behind the scenes.

Within the Community each country's energy requirements are different. Great Britain is in the best position since in addition to coal she also has North Sea oil. Similarly well off are Germany and France, the former because of her coal and enormous nuclear potential and the latter because of favourable oil agreements signed with her ex-colony, Algeria. It is quite obvious that these countries will not adopt the same position as the other EEC countries. In the case of Britain for example it is clear that if she has as much North Sea oil as believed her interests will lie increasingly in high oil prices which cannot be in Italy's interests. Even in this respect, therefore, it is hard to speak of common positions and problems for the whole Community.

Other problems must not be forgotten. There are American interests backed by a number of European and producer countries; there is the question of the structure of the European economy and that of the institutional deficiencies of the Community. The opposition of the USA and her European and Arab allies is based on political and strategic rather than on strictly economic considerations, although a policy of high though not excessively high prices does undoubtedly favour the United States as an unrivalled producer of alternative energy sources to oil.

The United States has far-reaching economic, political and strategic links with Europe through the Atlantic Alliance and with the Arab producers, particularly Saudi Arabia and Iran. It is these links which give rise to outright American opposition to any European-Arab negotiations which ignore the United States' role in the region. This kind of methods of payment or specialised negotiation, conducted on a basis of parity between the two parties, would set in motion processes of political as well as of economic integration, which might free both Europe and the Arabs from American control.

As regards the structural deficiencies of the European economy and Community institutions, one must remember that the Arabs are demanding either suitable methods of payment or specialised technology. Both of these are more easily obtainable from the USA. It is for this reason that although the Arabs continue on every possible occasion to demand concrete European talks, they still prefer the USA for the recycling of petrodollars, for the purchase of know-how, and for the implementation of development plans. Europe has rarely been in a position to compete with United States' technology and she has never been able to offer a common currency to compete with the dollar, or a European bank to cope with recycling, etc. Simonet, the Vice President of the Commission, was not mistaken when in November 1973 he declared that the oil question had to be considered above all in a political light. But it is precisely from a political point of view that the European position has become increasingly devoid of any real independence. The highest point of achievement was reached at the Copenhagen summit in mid-December 1973 when the Community decided to maintain its freedom of choice in the energy field and in the choice of links with the producer countries, and the low point at the Washington Conference in the following February when only France remained to support the Copenhagen decisions. Two parallel courses were followed during 1974 and the first few months of 1975. The International Energy Agency and the Trilateral Conference co-existed side by side. All the member states, apart from France, associated themselves with the OECD's energy agency, as Kissinger had wished. The Community participated in the work of the International Energy Agency only as an observer. In April 1975 the Trilateral Conference, presided over by France, managed with difficulty to assemble the producer countries, the rich and the poor consumer nations. In an already chequered situation both the European states and Europe as a whole continued to seek advantageous agreements with the Arab countries as a basis for future negotiations. Italy's preferences went to Iran and Saudi Arabia. The result of this was a confusion of roles and a fundamental ambiguity particularly at the political level. The role of the Community as a unit was reduced virtually to nothing. In June 1974 talks began at the Council level with the producer countries, and on 31 July, after the British Labour government had withdrawn its veto, the EEC-Arab dialogue took place. The rocks on which these talks nearly foundered were the international status of Israel, and the Palestinian question. Europe defined her position with respect to Israel in November 1973 when the Davignon Committee deplored the acquisition of territory by force, and called for the return of occupied areas. The following year in the United Nations there was an exhaustive statement of European views declaring in favour of Israel's right to exist as a State. In the end the Community gave the Arabs a satisfactory reply on the Palestinian question by means of the French proposal, elaborated by Sauvagnargues in February 1975. In line with the Sauvagnargues proposal, Palestinian experts are now taking part in work on economic, technical and industrial cooperation between Europe and the Arab world, as members of a single Arab delegation which is negotiating with the European delegation. Since the two delegations do not actually represent individual states or governments, the question of their composition is left to the participatory countries.

At best, these talks could give Europe guaranteed energy supplies and the Arabs technological know-how. This would safeguard European, and ensure the take-off of Arab, industry. It would be possible to set up an organised petrodollar circuit from the producing countries to the European banks, and thence back to non-producer Arab countries via European technical aid, to finance development. However, for the reasons outlined above, it is unlikely that this will actually happen. Adequate economic and institutional structures are lacking, as well as sufficient political motivation. With the setting up of the International Energy Agency the USA gained the leadership of the Western side in the talks with the producer countries. One of the factors which made the International Energy Agency possible was the faithful support of some of the United States' European allies, Great Britain in particular. The decisions taken by the International Energy Agency will in practice make it impossible for the European-Arab talks to really get off the ground. They will remain more or less meaningless, nothing more than one of a series of talks between third parties and the Community. The best results which can be hoped for are clear, concrete technical agreements encompassed within the framework set by the general policies of the Agency. France alone is still insisting on the importance of a free European role in the talks with the Arabs. Considering, however, the points scored by Kissinger against Giscard both in Martinique and afterwards, one is left to wonder whether this line is not determined simply by French internal politics and prestige rather than by the actual interests of Europe.

MEDITERRANEAN POLITICS IN THE INTERNATIONAL CONTEXT

At the present time the main political and economic forces in the Mediterranean are the United States, the European Community and the Arab oil-producing countries. The question of the importance of Mediterranean politics in the international sphere is closely bound up with that of American attitudes to Europe and to the countries of the Mediterranean basin. The content and the limits of any Community policy for the Mediterranean depend on relations between the USA and Europe and on the results of US-European negotiations. Any definition of the EEC's Mediterranean policy requires first a definition of the nature of the American presence in the area.

The United States had never opposed a European Mediterranean policy; since the decline of British power in that area it has however sought to ensure control over developments.

American-European interests converge in at least three areas: namely, the Atlantic Alliance, defence against the East, and European integration. Any attempts to elaborate a European Mediterranean policy interfere with all three. The USA's concern for European integration during the post-war period can be explained by her convinction that an integrated Europe would be a force favouring Atlantic solidarity and a united stand against the East. The United States never envisaged the possibility of Community policy going beyond the limited realm of economics. Each time the Community has wanted to do this, in fact, she has come into conflict with the interests of the Amercians and with Atlantic solidarity. The first important revelaton of differences between Europe and America goes back to 1971, after the devaluation of the dollar and the problems arising from the Tokyo round. Europe argued about the harmful effects of the Eurodollar market and of the activities of the multinationals. In turn America pointed out that the cost of the Atlantic Alliance in the European sector fell disproportionately on the United States, and suggested that a new division of the financial and military expense might be in order. Kissinger declared 1973 to be Europe Year and Europe was invited to assume regional responsibility in the integrated global system which Washington was aiming to construct. The year passed in a succession of mutual recriminations and at times bitter accusations. The height of the dispute was reached on 4 March 1974 in the period immediately following the

Community's decision to open Arab-European talks. The European disengagement during the Kippur War and the oil crisis went to show the Atlantic allies the extent of their differing interests. With the embargo and the rise in oil prices Europe was threatened with total bankruptcy. The United States, which planned to be self-sufficient in energy by 1980, could run the risk of losing Arab oil by continuing to help Israel, while Europe could not. Another American advantage was her monopoly of intermediary services on the oil market. The European attempt at autonomy of 4 March remained an isolated incident. Through a system of 'prior' consultations. Kissinger obtained full European participation in the International Energy Agency and substantial support for his proposals. This meant that before making important decisions, Europe was to consult the American government. In the near future European strategy and defence will be dealt with within the framework of the Atlantic Alliance whilst economic and political decisions will remain the prerogative of the Community. This is basically what the European compromise with Kissinger amounts to. This system of consultations agreed upon by the Nine at Gymnich should avoid splits in the Atlantic Alliance. Thus the two Europes — the Atlantic and the Economic Community — will implement the same strategy towards common objectives.

American interests in the region have escaped unscathed from the oil crisis. The USA's monopoly over oil services is intact, the European Community keeps within the institutional and political limits agreed on; the risk of the Arabs superseding the Americans in Europe has been avoided. In both the European Community and the Arab countries it is clear that the United States has allies capable of blocking anti-American interests. In his famous Chicago speech in mid-November 1973, Kissinger had urged Europe to move towards greater integration to create a more compact bloc in the West. Europe today is well and truly lined up with America. Very little remains of European Mediterranean policy; there are maybe a few open possibilities, but certainly no concrete facts. Nonetheless, given structural economic weakness and her dependency on imported raw materials, the Community is able to offer the Arabs political guarantees which the United States cannot do. Europe is not a great economic power. For this reason any European-Arab negotiations would take place on a basis of parity. One side has technology and know-how while the other possesses oil and raw materials, labour, unpolluted land and agricultural potential.

If a process of integration between Europe and the Arab Mediterranean were to get under way, this would, in a few decades, produce results which could modify the present strategic configuration in the region. This could lead to the reconsideration of subordination to the superpowers. Europe might begin to differentiate her policies from those of Washington, even if she were not to actually prove hostile. In political terms this would mean a certain detachment of Europe and the Mediterranean from the United States. Kissinger fought his battle in order to make quite sure that this could not happen. He appears to have won.

III. THE MULTINATIONAL CORPORATIONS' STRATEGY IN THE MEDITERRANEAN

Will the Mediterranean in the near future become an area of political and economic integration and cooperation, or will it continue to be as it is now, the scene of conflicts between the East and the West, between the developed and the developing world and between exporters and importers of oil?

The answer obviously depends on a great number of variables. Among these MNE behavior should be included. MNE's, through their industrial strategy, (by "industrial strategy" I mean the complex of decisions which affect the location of productive facilities, the direction and volume of trade flows, the quantity and type of labour employed and its remuneration) encourage one or the other of the two possible solutions: cooperation or confrontation.

This introduction will help to make clear some of the definitions used. First of all, our definition of the Mediterranean area includes the following countries: Portugal, Spain, Greece, Turkey, Syria, Iraq, Kuwait, Saudi Arabia, the United Arab Emirates, Egypt, Libya, Tunisia, Algeria and Morocco.

Italy and France are excluded from the definition because they are members of the EEC; MNE behavior in these countries must therefore be seen in relation to their European not their Mediterranean strategy.

Likewise, Yugoslavia, Rumania and Bulgaria are excluded since they belong to the socialist block and this is by far the most important element affecting MNE attitude.

Israel is not considered since the boycott carried out by the Arab countries leaves it out of the economic context of the Mediterranean.

Thus defined, the Mediterranean can obviously be divided into two sub-areas: "Southern European Countries" (SEC's) including Portugal, Spain, Greece and Turkey: and "Mediterranean Arab Countries" (MAC's). These two sub-areas have almost nothing in common and the question of the attitude of the multinational firms presents itself in completely different terms.

The distinctive characteristic of SEC's is that they are the poor, unindustrialized periphery of central Europe. That presents a number of political and social problems which cannot easily be solved. Greece has already formally applied for full membership in the European Community; Spain has not yet put forward a formal application but for years her diplomacy has been directed toward this end. Many predict that similar requests by Portugal and Turkey will be formulated before long. The problem is: are multinational firms interested in investing in these countries?

The situation in MAC's is completely different. Here we have governments determined to industrialize. This determination is made credible in some cases by the financial means acquired following the increase in the price of oil. The attitude of these countries toward MNE's varies: but all, even if in different forms, ask for their collaboration. The problem is: are the multinationals interested in collaborating?

We can therefore say that the mne's Mediterranean strategy exists only as the simple sum of one strategy toward sec's and another toward mac's. Unfortunately, even these two sub-strategies are simple aggregates of as many different attitudes as there are countries in the areas under consideration.

These areas are, in fact, extremely fragmentary and diversified from the point of view of the multinational firm. That is particularly evident in relation to mac's. Only a few of the countries in the area have oil; others are completely lacking. Some have large populations, others, irrelevant ones. Some have governments which pursue a policy of state intervention in the economy, others are run by more or less feudal regimes. The amount of trade among them is slight: most foreign trade is with countries outside the area, mainly European ones. The attempts at economic integration carried out by the Arab League or by OAPEC (Organization of Arab Petroleum Exporting Countries) have produced modest results, though not irrelevant ones. From the point of view of the multinational firm, therefore, mac's are not an integrated homogeneous area.

The same applies to sec's. The economic structures of the four countries that make up the area are very different. Spain is a highly populated country with a fairly large industrial sector; Portugal is much smaller and more backward. Likewise, there is a noticeable difference in the degree of industrialization between Greece and Turkey. This difference is only partially compensated for by the larger population of the latter country.

One might therefore wonder: what is the sense of a study on mne Mediterranean strategy when one knows that it does not exist as such? The answer is that the single strategies concerning each country are not independent of each other, but are closely interrelated. That is even truer if we consider the operations of multinational corporations as a whole.

The existence of these interrelations makes it possible to single out different attitudes and discuss possible scenarios of future multinational presence in the area.

It is necessary to have well-defined time limits. The industrial strategies considered are those which will determine the productive structure and the trade flows in the next decade. Trying to see beyond 1985 would only lead to wild intellectual speculation. Limiting ourselves to a nearer horizon would take away much of the interest of the research since it is clear that within the next five years changes will necessarily be very limited and only some trends might emerge.

A time limit is necessary in order to define integration vs. confrontation. Within the next ten years will mac's be able to build up their own productive facilities in the manufacturing sector? If so, will they look to the EEC for a market outlet? Will the competition coming from these countries damage sec's? Will the latter be allowed to enter the EEC? Is it possible that some firms will install plants in sec's in order to export to the mac's? Whether a model of integration or a model of confrontation will prevail in the next ten years depends on the answers given to these questions.

By integration we mean a two-way increase in trade flows: and therefore the opening of the European markets to Arab exports and the installation of productive facilities in southern Europe as a function of both the Arab and the central European markets.

By confrontation we mean the continuation of the present situation, that is, of the tendency to concentrate the productive facilities of the manufacturing industry in central Europe and the prevalence of exchanges of manufactured goods against raw materials.

It is clear that the choice between integration and confrontation does not depend only on what multinational corporations do since they are not responsible for all investment decisions. It may well be that a climate of confrontation prevails even though mne's are willing to expand their operations to the Mediterranean; or that a process of integration will evolve instead, even though mne's maintain a conservative attitude. But in order to do without mne's, the Mediterranean countries would have to overcome formidable difficulties and a decade would not be enough. They are aware of this and therefore seek the cooperation of the multinationals, making a clear distinction between politics and business. We can therefore say that mne cooperation is a necessary though not a sufficient condition for the development of greater integration in the area.

Multinational cooperation is not equally necessary in all sectors and this is why we concentrate on the manufacturing industry and leave out petroleum and petrochemicals.

The logic of the petroleum and petrochemical industries is completely different from that of any other industry. The determining factor is the availability of oil. This is clearly reflected in the data on direct investments in the Mediterranean in the past: the petroleum sector is the only one which has developed in the area. Investment was, however, mainly limited to extraction: downstream activities were located in consuming countries. One may be sure that this is changing, and that a greater percentage of the crude oil extracted will be transformed into refined products and petrochemicals in the Mediterranean area. This however will not be enough for mac's. In fact, as is known, the impact of the oil and petrochemical industries on the rest of the economy is very slight — they tend to appear as modern enclaves in a substantially backward context. Therefore, on one side future mne behavior in downstream oil activities is easily predictable, on the other side, its impact in terms of the cooperation vs. confrontation dilemma is slight. It is mne behavior in manufacturing which makes a difference.

THE PAST EXPERIENCE

In the past direct investment in the manufacturing sector in the Mediterranean has been slight. The available data is extremely limited and this in itself is an indication of the scarse relevance of the phenomenon. What information we were able to gather is shown in tables IV/1 to IV/7.

Table IV/1 gives a measure of the importance of Mediterranean countries to non us-based mne's, based on the number of subsidiaries in these countries relative to total number of subsidiaries in the world. Admittedly, these are rough data, since no indication is given on the size of each subsidiary. This tends to exaggerate the importance of smaller subsidiaries: if anything, then, the attraction of Mediterranean countries is exaggerated by these data. It is all the more astonishing to see how little attraction on mne's Mediterranean countries have. Furthermore, most subsidiaries are concentrated in Spain (with the exception of the petroleum sector).

Table IV/2 shows equivalent data for us-based mne's. Once again, overall interest appears to be limited and heavily concentrated on Spain.

Table IV/1. Percentage Breakdown of Number of Manufacturing Subsidiaries of non-US Based Parent Sistems by Subsidiary's Country and Principal Industry Group (as of 1-1-1971)

	Portugal	Spain	Greece	Turkey	Iran	Mashrek	Maghreb	Mediterranean	World %	World Total number
Food and tobacco	0.7	1.8	0.1	0.3	0.0	0.0	0.0	2.9	100	685
Textiles and apparel	1.4	3.6	0.0	0.4	0.4	0.0	0.0	5.8	100	279
Wood, furniture and paper	0.5	1.0	0.0	0.0	0.5	0.0	1.0	3.0	100	210
Chemicals	1.4	4.8	0.6	1.2	0.3	0.5	0.5	9.3	100	1258
Petroleum	0.5	1.6	0.0	0.5	1.0	2.1	4.2	9.9	100	192
Rubber and tires	0.9	7.5	1.9	0.9	0.0	0.0	0.0	11.2	100	106
Primary metals	1.2	2.2	0.2	0.2	0.2	0.7	0.2	4.9	100	413
Fabr. metals + non el. machin.	0.7	2.1	0.3	0.3	0.5	0.5	1.0	5.4	100	605
Electric and electronic	0.5	3.6	1.3	0.6	0.8	0.5	1.5	8.8	100	787
Transportation equipment	2.0	5.7	0.0	1.6	0.8	0.8	0.4	11.3	100	246
Precision goods	0.0	2.6	0.0	0.0	0.0	0,0	0.0	2.6	100	78
Other	0.6	4.8	0.3	0.0	0.6	0.0	0.6	6.9	100	336

Source: Vaupel e Curham, *The World's Multinational Enterprises*, pp. 51-55.

according to their principal market (data available only for non us-based mne's). A Table IV/3 shows in detail the country of origin of non us-based mne's which have subsidiaries in the Mediterranean. It appears that interest in the area comes primarily from companies based in Italy and France; the presence of German and Belgian companies is also remarkable, although they appear to be relatively less involved in the area. Once again, a concentration on Spain is to be noticed.

Data in Table IV/4 divide subsidiaries subsidiary is classified as being mainly oriented to the local market if the latter accounts for more than 50% of its total sales; otherwise it is classified as being mainly export-oriented. As it is clearly shown, only a very few subsidiaries belong to the second category.

Data in Table IV/5 are different because mne involvement is measured by book value of investment rather than number of subsidiaries. Such data we found only for us-based mne's: once again the conclusion is that the Mediterranean did not attract large investment. Spain has attracted more than 50% of total investment in the Mediterranean. Some of the figures are strikingly low: to have 143 million US dollars invested in the whole of Africa except South Africa in manufacturing necessarily means that involvement is limited to warehousing, possibly some assembling (or bottling, canning, etc.) but no proper manufacturing.

The picture is different if seen from the host country point of view: mne's appear to be very important to the Mediterranean although the Mediterranean is not important to them.

Data in Table IV/6 give an indication of the Spanish situation: they show the importance of mne subsidiaries among the 500 largest Spanish industrial enterprises as measured by their share in sales, profits and employment. If the total group of 500 enterprises is considered, then mne subsidiaries account for 40% of sales, 36.9% of pre-tax profit and 35.4% of employment. In the case of individual sectors these rations became very big indeed (electrical materials, chemicals, vehicles).

What evidence we have shows that the relative weigh of mne subsidiaries is lesser although they fundamentally snubbed the area has little to do with mne behavior: it is a consequence of the low level of industrialization in both sec's and mac's. What we should try to understand is the reason why up until the end of 1973 the Mediterranean was seen by almost all multinational firms in the manufacturing sector as an area of little interest.

That is not at all surprising. Direct investment arises from an export flow. It comes about when the size of the national market has become large enough relative to minimum plant size. Along with the size of the local market, its accessibility, i.e., the level of transportation costs and of tariff and other entry barriers, is of equal importance. However, if the size of the local market is insufficient, entry barriers will not be enough to stimulate direct investment. The key variable therefore is

Table IV/2. Percentage Breakdown of Number of Manufacturing Subsidiaries of US Based Parent Sistems by Subsidiary's Country and Principal Industry Group (as of 1-1-1968)

—	Portugal	Spain	Greece	Turkey	Iran	Mashrek	Maghreb	Mediterranean	World %	World Total number
Food and tobacco	0.6	3.3	0.2	0.2	0.2	0.6	0.4	5.5	100	509
Textiles and apparel	1.0	2.0	0.0	0.0	0.0	0.0	0.0	3.0	100	102
Wood, furniture and paper	0.5	4.5	0.5	0.0	0.0	0.0	0.5	6.0	100	109
Chemicals	0.6	3.4	0.7	0.3	0.5	0.5	0.3	6.3	100	1093
Petroleum	0.0	2.9	0.5	0.5	1.9	4.9	0.5	11.2	100	206
Rubber and tires	2.7	2.7	0.0	1.8	1.8	0.9	1.8	11.7	100	113
Primary metals	0.0	0.9	1.8	0.9	0.0	0.9	0.9	5.4	100	112
Fabr. metals + non el. machin.	0.2	3.2	0.4	0.4	0.2	0.0	0.4	4.8	100	530
Electric and electronic	0.0	1.1	0.3	1.1	0.3	0.0	0.3	3.1	100	359
Transportation equipment	0.4	2.7	0.0	0.9	0.0	0.0	0.4	4.4	100	226
Precision goods	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100	74
Other	0.4	1.7	0.4	0.0	0.4	0.0	0.4	3.7	100	233

Source: Vaupel e Curham, *op. cit.*, pp. 59-63.

in other Mediterranean countries, with the possible exception of Portugal. As an example, available data on Turkey show that subsidiaries account for 2.9% of total sales in the consumer goods sector, 19.9% in the intermediate goods sector, 28.7% in the capital goods sector. These data, however, include all establishments employing 10 or more persons. (Table IV/7).

The fact that mne's already have an important role in Mediterranean economies

Table IV/3. Percentage Breakdown of Number of Manufacturing Subsidiaries of non-US Based Parent System by Subsidiary's Country and National Base of Subsidiary's Parent System

	Portugal	Spain	Greece	Turkey	Iran	Mashrek	Maghreb	Mediterranean	World %	World Total number
United Kindom	0.8	2.1	0.5	0.5	0.4	0.6	0.3	5.2	100	2269
Germany	1.3	5.7	1.5	2.1	1.1	0.8	0.6	13.1	100	792
France	2.5	9.3	0.6	0.9	0.9	1.6	7.5	23.3	100	429
Italy	1.7	14.0	0.9	1.7	0.0	1.8	4.1	24.2	100	133
Belgium + Luxemburg	2.4	5.3	0.9	0.0	0.6	0.6	1.4	11.2	100	276
Netherlands	0.4	2.0	0.4	0.4	0.9	0.0	1.7	5.8	100	479
Sweden	1.3	1.9	0.0	0.0	1.4	0.8	0.0	5.4	100	171
Switzerland	1.2	4.0	0.7	1.2	0.0	0.5	0.0	7.6	100	397
Japan	1.4	0.8	0.0	0.0	1.0	0.4	0.5	4.1	100	483
Canada	0.0	2.2	0.0	0.7	0.0	0.0	0.8	3.7	100	201
Other non-US	0.0	2.2	0.0	0.0	0.0	1.2	0.0	3.4	100	100

Source: Vaupel e Curham, *op. cit.*, pp. 107-111.

Table IV/4. Percentage Breakdown of Number of Manufacturing Subsidiaries by Subsidiary's Principal Market and Country (non-US as of 7-7-1971)

	Portugal	Spain	Greece	Turkey	Iran	Mashrek	Maghreb
Local country	90	97	90	100	94	72	69
Export markets	10	3.0	10	0	6.3	28	31
Total percent	100	100	100	100	100	100	100
Total number	39	134	20	25	16	18	13

Source: Vaupel e Curham, *op. cit.*, p. 378.

the size of the local market, which in its turn generally depends on the size of the population and on income per capita. The distribution of income and the amount and nature of public spending may influence the behavior of single firms but they are not likely to change the general picture.

Another important variable is the possibility of local competition arising. It other words, the multinational firm may hasten its decision to pass from exports to local production if it fears that a local firm might otherwise validly compete.

If the economic conditions for a flow of direct investment exist, political conditions, i.e., government attitude toward foreign investment, will be of decisive importance.

It is then easy to see why the Mediterranean does offer favorable conditions for mne expansion. The degree of regional integration is very slight — except for the EEC and, in the past, EFTA. It follows that in most cases multinational firms must take into consideration only the national market and in most countries of the Mediterranean this is very small, the only real exception being Spain.

Furthermore, most countries in the area had a not too favourable attitude toward the multinational corporations: Egypt until 1973, Turkey until 1970, Libya since 1969, Algeria since independence, Iraq since 1958 and Syria until 1974. Even in Morocco there is a program of "morocanisation"; its effectiveness is questionable but it nevertheless constitutes a disturbing element for mne's. Spain also maintained a negative attitude until the early '60s and even now the right wing of the Falange is suspicious of foreign capital. As for

Table IV/5. Book Value of Investment of US Corporations in Selected Countries at End 1973 (million US dollars)

	All industries	Manufacturing
Spain	1.017	563
Other Western Europe *	1.086	378
Other Africa **	2.830	143
Middle East ***	2.682	130
Subtotal	7.615	1.214
Canada	28.055	12.635
EEC	31.257	18.962
Latin American	18.452	6.460
All Areas	107.268	45.791
5/9 x 100	4,5	3,5

* Includes Austria, Cyprus, Finland, Gibraltar, Greece, Iceland, Malta, Portugal, Turkey and Yugoslavia.
** Includes United Arab Republic and all other countries in Africa except South Africa.
*** Bahrain, Iran, Israel, Jordan, Kuwait, Lebanon, Qatar, Saudi Arabia, South Yemen, Syria, Trucial States, Oman and Yemen.

Source: *Survey of Current Business*, August 1974.

Table IV/6. Indicators of Importance of MNE Subsidiaries among 500 Largest Industrial Enterprises in Spain in 1973 (Share of MNE Subsidiaries in Percent of Total for 500 Largest Industrial Enterprises)

Sector	Sales	Pre-Tax Profit	Employment
Food and drinks	35.6	41.5	31.6
Construction materials	43.1	36.9	54.3
Mechanical construction	42.4	57.3	44.1
Electrical material	63.7	72.5	59.0
Non-ferrous metals	22.3	33.0	29.0
Minerals	56.4	95.0	14.4
Paper and printing	14.1	15.1	13.1
Chemicals	74.1	75.5	73.1
Steel and metals	27.0	29.1	30.4
Textiles	6.6	21.6	7.0
Vehicles	81.8	80.8	82.1
Total	40.0	36.9	35.4

Source: C. Perrakis, *Market Structure and Economic Performance of Foreign Affiliates and Indigenous Spanish Enterprises*, mimeograph.

Table IV/7. Turkey Shares of Foreign Companies in the Manufacturing Sector in 1973 (million US dollars)

Sectors	1. Total Sales	2. Foreign sales	2/3 100
Consumer goods	3748	112	2.9
Intermediate goods	1388	277	19.9
Capital goods	1647	473	28.7
Total	6783	862	12.7

Source: Ministry of Trade (Turkey), *Foreign Investment Survey*, 1973.

Portugal, while Salazar was in power the government's economic policy was aimed at limiting not only foreign investment but the process of industrial development itself.

It is to be noted that Mediterranean markets have, for the most part, been fairly accessible. The Mediterranean is near the central European industrial pole and transport costs are not high. Many of the countries of the area have gained independence only in the postwar period and Algeria not until 1962. Portugal belongs to the EFTA while Greece, Turkey, Tunisia and Morocco are associated with the EEC and this prevents them from adopting highly protectvie tariff policies. Once again, only Spain has a more protected market.

Finally, the threat of competition from

a local producer is very slight. The only exceptions, besides Spain, are Greece and perhaps Turkey. But in all the other countries there is no private manufacturing sector in the making; that is, there are no small or medium - sized industrial establishments which could try to imitate the foreign product. The productive structure is highly polarized with small craft industries at the one end and large public or semi-public enterprises controlling key sectors at the other. In Spain too, public intervention in the economy is of capital importance (INI); however it is run according to private business criteria and has encouraged the formation of joint ventures with foreign companies. Thus multinational corporations have no incentive to start local production in order to defend their market share, and are discouraged by the absence of supporting activities.

Last but not least, one should discuss the possibility of direct investments centered on export-oriented production and attracted by an abundant supply of labour. This type of investment (corresponding to the last stage of Vernon's product life cycle) is a relatively recent phenomenon; its quantitative importance cannot be compared to that of investments in view of the local market. To date, mainly Mexico and certain countries of Southeast Asia have been affected.

There are only a very few instances of it in the Mediterranean. The most obvious explanation of this is that labor supply in Mediterranean countries is not all that large.

There is also little doubt that European firms are — or at least have been — less enterprising than US ones: the former continue to depend on imported labour and have not seriously considered, until very recently, the possibility of locating plant where manpower is more abundant and cheaper.

These are the reasons manufacturing mne's have not expanded operations to the Mediterranean. The question is: can we forecast a change?

Government attitude in most Mediterranean countries has changed: from a negative stand they have passed to asking for collaboration. In the case of mac's, the balance of power at the financial level has shifted owing to oil surpluses, while the international position of sec's could change if they joined the EEC. These changes cannot be ignored by mne's.

Mediterranean countries are a risky venture. They offer a completely new situation for mne's and assessment criteria used by the latter will have to be new as well.

The novelty of the situation we are discussing justifies the fact that extreme and opposing opinions are expressed regarding future mne behavior in the Mediterranean. My impression is that most firms are still not aware of the nature of the problem or have not developed a strategy yet. In many cases there is remarkable ignorance of the economic developments in the Mediterranean countries. Even more often, one notices an extremely cautious attitude: and since the Mediterranean is risky this usually leads to negative attitudes. On the contrary, firms already operating in the area or Mediterranean experts generally have a positive view of the area's potentialities.

MEDITERRANEAN GOVERNMENTS' ATTITUDES TOWARDS MULTINATIONAL CORPORATIONS

The attitude of Mediterranean governments toward mne's has undergone remarkable changes over the years. The evolution is more noticeable in mac's and we shall concentrate our attention on these. The attitude of sec's is less interesting. Greece and Turkey have no "multinational policy" as such, but an open door one; Portugal's attitude is still difficult to forecast: they obviously tried to avoid open conflict with mne's up to now. That leaves Spain, which is the most interesting because of the way in which public intervention in industry (INI) has operated to promote important joint ventures with foreign companies.

Among the Arab countries, Tunisia has been foremost in trying to attract foreign investments. In 1972 a law, aimed at promoting export-oriented industries was approved. Besides granting various forms of fiscal incentives, an *Agence de promotion des investissements* was instituted to provide assistance to potential investors. German firms pressed for the approval of this law and submitted a majority of the projects approved. In 1974 German investment accounted for 56.5% of the investments approved by the *Agence de* *promotion des investissements.* The approved investments amounted to about 163 million US dollars. These are concentrated in the textile and electrical machinery sectors. 9,342 jobs have been created in the export-oriented industries of which 5,630 in textiles. One could say this is the beginning of a "Mexican border". *Economist Intelligence Unit,* "Quarterly Review on Tunisia", n. 2, 1975.

The Tunisian government takes for granted that the country's internal market is not large enough to attract investment and follows an expert-led industrialization policy. Such a policy is shared by the Gulf states (Saudi Arabia, the United Arab Emirates, Kuwait). But while Tunisia offers cheap labor, few raw materials and very limited financing, the Gulf states offer raw materials in abundance and funds for financing large-scale projects.

Joint ventures are the Gulf countries' preferred formula (usually 51/49%, sometimes 60/40%, rarely 75/25%); the host country (either the government, a state enterprise or a local private citizen) usually has the controlling interest, but there are examples to the contrary.

It is not clear whether Gulf governments would allow foreign companies to invest in their countries with no local participation. In some sectors, those most directly connected with the extraction and processing of raw materials, this seems highly unlikely. In other sectors the problem has probably not yet arisen. It seems to me that there is a philosophy which sees joint ventures as the only solution allowing for rapid industrialization. A lot is asked of the foreign firms: advanced technology, management, and market outlets. A lot is also offered, especially in the way of financing, which is an extremely important factor for capital intensive projects.

One wonders to what extent preference for joint ventures is a tactical choice (this seems to be the most convenient solution for the moment) or a strategic one. If it is a tactical choice then the problem of its stability arises. It is not difficult to imagine how the governments' attitude might change in the future: if the projects prove profitable there will be a tendency to buy off the foreign partner; if, to the contrary, they prove unsuccessful the foreign partner will be blamed or will want to pull out. In this respect then we can say that the attitude of the Gulf states toward mne's is not all that clear.

Even Egypt's and Syria's strategy is partially based on exports. Both countries, in fact, are creating free trade zones (in Egypt along the Canal, in Syria on the Mediterranean) though it is not certain under what conditions mne's would be allowed to establish themselves there (whether only as joint ventures or also as subsidiaries completely controlled by the foreign firm). However, in the immediate future initiatives directed toward satisfying the needs of the internal market will probably be more relevant. In both countries, there has been a change in government policy which has opened up greater possibilities for private initiatives. Even though this change is more noticeable in Egypt, it is present in Syria as well.

A different case must be made for Algeria, whose general approach is most clearly inward looking. The Algerian government wants to closely control the industrialization process. Relations with firms are mainly based on turn-key or "product in hand" contract (in the second case the foreign firm supplies both a plant and the management necessary to begin production, until local management is available). At times the foreign company is required to hold some equity as a guarantee of its good faith in the contract. In a few instances the foreign firm is offered payments in the form of the project's output, i.e., there is a sort of term barter; which is the same thing as asking the foreign firm to take on the burden of selling part of the production.

DIFFERENT FORMS OF MULTINATIONAL INTERVENTION AND THEIR MEANING

In this section we shall discuss the meaning of possible government-mne arrangements in relation to the conflict-cooperation dilemma. The multinational corporation may supply plant on a turn-key or "product in hand" basis. In this case it does not worry about the profitability of the project: its role is merely that of supplier and its responsibilities are limited to the execution of the contract. Since the market for this sort of supply is extremely imperfect (very limited number of potential suppliers and buyers, which makes collusion among suppliers very likely) the suppliers often realize large profits. Moreover, a number of ties are established between seller and buyer which later on may prove to be even more profitable.

Most governments do not have the means to control the quality of what is being supplied to them, or indeed to check if the price tag is appropriate. This is why they generally prefer the sort of arrangement that will make the supplying firm feel responsible for success, which most often involves giving up some degree of control.

However, if a government is convinced that a given project is sound, and cannot find any firm willing to act as a partner, then it can go along, nevertheless, and buy the plant on a turn-key or product in haud basis. Companies must, therefore, carefully consider any partnership proposition: if the project is good, they do not have the power to stop it by refusing cooperation. It is clear that if governments could not buy plants on a turn key or product in hand basis, a far smaller number of joint ventures would be formed. In this sense, the fact that governments could go along acts as a threat and obliges mne's to consider the joint venture formula with benevolent eyes.

Joint ventures are preferred by most governments because in them mne's have something at stake. However, the guarantee deriving from mne equity participation is very slight. If mne participation is limited (let's say, less than twenty percent) then it is likely that the deal is profitable for it even if it ends in a conflict. Under such conditions a conflict would mean that the multinational would recoup more than 80% of the value of the contract and that would most probably still leave it with a profit margin.

If its equity participation increases, the cost of conflict will increase proportionally. Nevertheless, there are examples of multinational enterprises withdrawing from joint ventures, even at a high cost. The fact that the multinational corporation agrees to hold a relevant minority interest in the joint venture does not guarantee its continued collaboration.

From the standpoint of the purchasing government the best guarantee is when the multinational agrees to being paid with the products of the plant to be installed.

In this case, the mne has a clear interest in getting the plant to work fast and well. The government is assured of some market outlet abroad for a given period of time. The mne is not really concerned by any management decision the government might take in a later stage. The probability of conflict is obviously reduced.

My impression is that the nature of the cooperation problem is quite independent of equity distribution. The important point is whether the multinational corporation intends to integrate this project in its productive and distributive structure at the international level. If it does, we can speak of real cooperation. Otherwise, there will be potential elements of conflict.

Naturally not all projects involve many problems. It is clear that in the case of a small project geared to the local market the risks of conflict are slight. But if it is a large-scale project and a good part of the production will have to be exported, then the risks of conflict are great.

The probability of conflict depends not only on the project but also on the firm chosen as a partner. Franko (*Prospects for Industrial Joint Ventures*, OECD, Sept 1975) pointed out that most firms involved in joint ventures are "outsiders", i.e., firms that until that moment did not have an extensive productive and distributive structure for the product involved. It is clear that a firm that is starting out in a new sector can more easily adjust its structure to "make room" for the joint venture; the risk of conflict is therefore less.

Many of the observers interviewed maintain that looking at joint ventures recently started, one gets the impression that many multinational corporations are willing to cooperate. In reality, according to this point of view, multinationals decide to take part in Mediterranean projects in order to "leave their visiting cards", or to sell a plant and assure themselves the role of suppliers of parts, components, consultants, etc. for the future. These same observers are convinced that in the long run the Arab countries do not have the possibility of becoming industrialized: the present projects would therefore be *ballons d'essai* doomed to give deluding results.

THE PROBLEM OF THE LOCAL MARKET

Most people I interviewed expressed the opinion that the size of the local market is a major constraint for the success of industrialization projects. In this section we shall discuss how binding the constraint really is.

The governments of almost all the Arab countries have concentrated their attention on heavy industry projects. The fact that this policy is adopted at the same time by almost all the countries of the area increases the chances of overproduction.

The most colossal developments are expected in the iron and steel sector. Saudi Arabia has two steel projects: the first one is a 50/50 joint venture between the state-owned company Petromin and the Marcona group for the creation of a 5 million tons/year plant; the second is of smaller but still considerable dimensions (accord between Petromin and Broken Hill Proprietary Co., Australia). Iraq is planning at least one complex with a capacity of 1.6 million tons. In Egypt the steel works of Helwan will increase capacity from 0.3 to 1.6 million tons. Syria has an agreement for the formation of a joint venture with a German corporation. Algeria wants to increase production (presently about 200,000 tons) to two million tons a year by 1980.

In all, the productive capacity of steel in mac's should not exceed 20 million tons a year by 1985. Most of these could be absorbed within the area if large investments are made in construction and transport.

Otherwise it will be necessary to find some market outlets abroad. This would be a difficult task, as the steel sector is organized along national lines, often with dominant state intervention.

The problem of a market for aluminium is more serious. There are two big projects in this sector, one in Bahrein (in production) and another in Dubal. Aluminium, unlike steel, is a very internationalized sector. Both projects are geared for exports to MAC's and the rest of the world. At the international level there is presently excess capacity in aluminium smelting, which has led to closure of a number of plants in industrialized countries.

Cement is another primary industry which has received a lot of attention. There too, the market is linked with infrastructure and construction programs. As one of the people interviewed said, "before long these countries will have all the infrastructure one can think of". That is certainly true for the minor Gulf states — not for Iraq. Egypt or Syria, where a market problem for cement is not predictable yet.

My general impression is that the market size constraint is often being overestimated.

The idea that most Arab markets rate too small seems to be partly based on past data, namely; 1) the Arab countries that had large populations did not have oil; those that had oil did not have significant population (except possibly Iraq and Algeria); 2) the income from oil did not expand the consumer goods market because it was invested abroad without circulating internally.

This was in fact the situation until 1974. But since then there have been significant changes.

In the first place, the domestic use of oil income has increased greatly. In some cases the end is clearly to transfer this income from the state to the citizen. Libya has launched a gigantic program for the construction of low income housing, in which the houses are sold at prices 30-90% below cost depending on the buyer's income; the interest-free payments can be spread over a period of twenty years. Similar low-income housing projects have been launched in Iraq and Saudi Arabia. In Algeria a system of subsidies to keep down the cost of basic foods has been introduced.

Similar initiatives did not exist previously. It is difficult to deny that they will have immediate effects on internal aggregate demand.

On the other hand, even though it is true that most populated MAC's are not large oil producers, it is also true that the major oil producing countries are investing in them. It is quite true that there is always a danger of old political disputes re-surfacing; but in my opinion it is quite unlikely that this would lead to a substantial inversion of this tendency.

The most important point to be made is that even the problem of the size of the market and its dynamic in the next decade is linked with political variables, and in particular with the development of economic cooperation among the Arab countries. This cooperation must be both financial (investments by Arab countries in Arab countries) and commercial (liberalization and increase of trade).

The success of some industrial initiatives vitally depends on greater commercial integration. The automotive industry is the best example, as the one which most benefits from economies of scale and international specialization of production: average plant size is constantly increasing, a greater number of parts are standardized and can be used on different models, and there is a growing tendency to concentrate the production of a certain part in a single plant. In other words, the degree of integration and interdependence among different plants in different countries is increasing. At the same time, the automotive industry is central to the industrialization process both because of the amount of semi-skilled labor it absorbs and because of the importance of the activities it gives rise to. This leads many developing countries to install automotive industries even when their dimensions are not economic.

MAC's predictably want to increase their presence in the transportation industry. It is probable that they have learnt the lesson from the past and that they will not be stuck with plants of uneconomical dimensions. However, the local market of each of these countries is not large enough to support an integrated production process.

In some of these countries an auto sector already exists but it is usually limited to the assembly of "completely knocked down" parts. In Saudi Arabia General Motors has a joint venture in which it controls 60% of the capital and which should produce 7,800 buses and light trucks per year; Nissan has a joint venture in which it owns 40% of the equity, with an expected initial production of 22,000 light trucks a year. In Egypt Ford and British Leyland initiatives have been announced, but there are no details regarding the size and type of production. Peugeot is present in Syria. In Morocco and Tunisia there are limited assembly activities (Renault, Fiat). Algeria has considered and perhaps not yet abandoned an initiative capable of producing 100,000 vehicles a year.

It is almost impossible that MAC's will be able to attract the auto multinationals and develop significant automotive production, unless they agree on cooperation and regional division of labor, somehow along the lines of the Andean Pact model. In other words, these countries would have to unify markets, if a total production target, and divide this in different specialized productive units to be located in different countries. Since such a solution does not seem likely MAC's will probably not be able to make significant progress in the auto sector.

The problem of the local market therefore exists, even if it is commonly being exaggerated. Its impact depends very much on political variables; that is, principally on the criteria of public spending within the oil producing countries and the degree of financial and commercial cooperation among the countries of the region.

DIFFERENT MNE BEHAVIOR ACCORDING TO PRINCIPAL SECTOR OF ACTIVITY AND COUNTRY OF ORIGIN

We have until now underscored the fact that the Mediterranean is not a geographically homogeneous area and that fundamental differences exist from country to country. We must now specify that multinational enterprises are not homogeneous either. Some distinctions have already been introduced here and there; but it is necessary to present the matter in a more systematic way. This necessity was often underlined by the people interviewed in the course of this project.

A first distinction is to be made on the basis of the industrial sector to which the multinational belongs. From this point of view, four main groupings may be established:

1 - A first group might include those enterprises that operate in sectors which a) not necessarily require large production units; b) have a non-standardized product which must be adapted to local market conditions; and/or c) have a product whose transport costs weigh heavily on the selling price. For example, most food processing and pneumatic tire production industries do not require very large productive units: in almost all cases the local market is large enough to absorb the output of an efficient plant. Foods are an example of a product that must usually be adapted to the local market. Pneumatic tires are an example of a product where transport costs are too high in relation to the benefits of centralization. MNE's belonging to this group will examine the market situation

country, and will end up being present in most of them.

2 - A second group is that of firms operating in sectors with highly specialized products, produced in small series and with high technological content, and requiring skilled manpower. These firms have a marked preference for concentration, are prevalently located in central Europe, and are not likely to take into consideration a location such as the Mediterranean.

3 - There are then the corporations operating in sectors that produce goods that need limited adaptation to the local market, have large economies of scale in production, and require prevalently semiskilled labor. The major examples are the automotive and electrical household appliances sectors. It is more difficult to make predictions for this sort of enterprise because of market conditions which we discussed in the previous paragraph.

4 - Finally, there are those firms for which the key variable is the cost of labor (for example: textile processing, integrated circuits, consumer electronics). These are highly internationalized sectors, but there is no reason to expect a concentration in the Mediterranean area; on the contrary, it is probable that there will be a tendency to skip over the Mediterranean and concentrate in other areas (Southeast Asia, Comecon, Latin America). This does not mean, however, that this kind of investment might not be important for certain Mediterranean countries (Tunisia, Greece, Turkey, perhaps Egypt and Portugal).

Secondly, the behavior of the corporations varies according to the country of origin. Franko points out the fact that USA and Japanese companies are more active than European ones. The Americans are particularly active in the petroleum and petrochemical sectors, while their predominance in the strictly manufacturing sector is less evident. The Japanese firms are active in all sectors, but their interests are mainly concentrated in the Gulf area, and are less evident at the Mediterranean level.

In the case of British enterprises the colonial tradition seems to have significant influence. They have expanded mainly in the Commonwealth countries. Only recently some have attempted to establish themselves in the Community area, but not all have been successful. At the moment most British firms are going through a phase of reorganization, and are generally not very interested in getting involved in a new area. The few that are active in the Mediterranean area concentrate their attention on those countries with a prevalently British influence (the Gulf states, Egypt), while they are ill at ease in countries with a predominantly French influence (Maghreb).

The fact that these national distinctions are still important is indicative of a lack of political initiative. If adeguate incentive, information and support policies were equally furnished by all the European governments to the corporations interested in establishing themselves in the Mediterranean, national behavior differences would not exist. But this is not the case: certain governments have taken no initiative at all and initiative at the European level is inadequate. The Mediterranean situation is unique in that generally political interest follows economic interest, while here it must precede it. This reflects what we noted already at the beginning about the political nautre of the problem of Mediterranean economic integration.

One last distinction must be introduced. We have already mentioned Franko's observation according to which "outsiders", i.e., those firms that within a sector have a marginal position or are attempting to enter a new line of production, are more active. This observation may be extended to say that the weakest firms of each sector are the most willing to meet the government's requirements and to take risks. This is certainly the reason for the behavior of certain firms (for example British Leyland in Egypt).

This behavior is justified. In fact, to the extent that there is a limit, due to the dimensions of the market and the importance that relations between the corporation and the government assume, it will not always be equally possible to expand in the Mediterranean. In certain cases, those who do not commit themselves now will not easily be able to get involved in the future.

This risk of exclusion is obviously greater for the firms that have less to offer in terms of advanced technology, managerial capacity, commercial penetration. For these firms it is very important to acquire the advantage inherent in a long-term relationship with the governments.

THE EFFECTS OF RECESSION IN EUROPE

One of the key variables in determining multinational behavior in the Mediterranean is the economic situation in the industrial world and, in particular, in the EEC.

The fall of the Bretton Woods system and the crisis of economic relations among industrialized countries is the origin of the increase in the price of crude oil of 1973.

Insufficient international cooperation has led to a recession in all the European economies. There is now talk of an imminent recovery, but there are a number of uncertainties about the extent of it.

It is clear that this is of fundamental importance in determining MNE behavior. It is unlikely that MNE's would invest in the Mediterranean if they have substantial slack capacity next door.

If there were no recovery, SEC's would be the hardest hit. Especially if the process of trade liberalization with the EEC were accelerated, MNE's would find it to their advantage to utilize excess capacity in the Community by increasing exports.

On the contrary, if there were a recovery these countries could benefit from it, particularly if the recovery led to a quick increase in prices. In this case MNE's might decide to shift production to these "marginal" countries in order to avoid the price-wage spiral.

The matter is quite different for MAC's, which are experiencing an unprecedented boom.

If the recession in Europe continues, or if the recovery is very weak, the MNE's would be all the more attracted by Arab countries since this could improve their cash flow even in the short term.

At the same time, the problem of finding market outlets abroad would become more serious for MAC's since it is not likely that they will be allowed substantially greater access to European markets at a time when European industry is plagued by excess capacity.

Il MAC's cannot find market outlets in Europe, they will clearly try harder to reach regional integration among themselves. This will become vital for the smaller MAC's such as Tunisia or the UAE. If efforts to integrate Arab economies were successful, their industrialization process would develop on a sounder base. MNE involvement too might eventually be greater. So, after all, MAC's might gain out of continuing recession in Europe.

Interestingly enough, greater regional integration among Arab economies might accelerate the process of substitution of imports from Europe. Coupled to a relatively depressed demand for oil in the EEC, one might end up with a tendency to lower inter-Mediterranean trade.

Would this mean less "cooperation" and more "confrontation"? Not necessarily, since MNE's might be active in helping Arab countries substitute imports.

AN AFRICAN STRATEGY?

Arab countries might attempt to increase market outlets for themselves in the other African countries, as an alternative to European markets, by financing development projects in those countries. Though such a hypothesis may seem somewhat futuristic, some of the observers interviewed agree that the Arab countries have an "African strategy", though a latent one. This is shown by the creation of special institutions for financing development projects in Africa.

It should be remembered that not all Arab countries are Mediterranean. Significant investments are being made in non-Mediterranean Arab countries particularly in the Sudan. These investments are concentrated in agriculture, in mining and in infrastructures.

If we then widen the horizon from the Arab countries to the Muslim ones, or to those with important Muslim minorities, nearly the entire continent is included. After all, European domination in most of Africa lasted less than a century; the influence of the Arab world goes back much further.

That the Arab countries have a particular interest in Africa seems to me unquestionable. For example, Kuwait's purchase of an important minority share in the Lonrho is of particular significance.

An "African strategy" would have great potentials. Investment opportunities are particularly numerous in the agricultural sector, the development of which has always been limited by the lack of available capital, and which is today particularly important in the face of the world food problem.

Investments in transport infrastructures would greatly expand the effective market area and would themselves open up new market outlets for some of the expanding industries in MAC's (steel, cement).

Finally, an "African strategy" might be a diplomatic necessity for MAC's. A split in the front of the developing countries is developing between the oil-producing and the other countries. The latter, that at first unconditionally supported the formers' action, now have growing doubts, since the benefits from the greater flow of aid do not compensate for the damage provoked by the higher price of oil.

IGNORANCE AND POLITICAL ACTION

One notices that the Mediterranean situation is generally not well known. There is widespread ignorance which derives from the fact that, until recently, most of the corporations had no good reason for concerning themselves with the region.

In these conditions, as we pointed out earlier, it is up to the governments rather than the multinational corporations to take the initiative. We have already seen what the positions and the policies of the Mediterranean governments are; we must now ask ourselves what is and what could be the role of the EEC in the present conditions; the Community's attitude is a variable of the greatest importance in determining multinational behavior.

The Community's present attitude is hesitant and contradictory.

Requests for full membership are expected, sooner or later, from all SEC's. It is widely agreed that political motives exist which would prevent a refusal. One cannot say no to a Greece that wants to consolidate its re-found liberty, to a Spain that guaranteed fundamental democratic rights, to a Portugal in search of a defense against reactionary or adventuristic temptations. And if Greece is accepted, it would be difficult to exclude Turkey. On the other hand, the present members of the Community do not seem willing to accept the necessary economic policy. The most common prediction is that assent in principle will be followed by dilatory tactics.

As for MAC's, two initiatives are being developed, namely the "Mediterranean policy" and the "Euro-Arab dialogue". The latter is proceeding very slowly and with many political and economic difficulties. It is easy to predict that nothing practical will develop within the next few years. The Mediterranean policy has been recently carried into effect with the signing of three separate agreements with Tunisia, Algeria and Morocco. The principal shortcoming of these agreements is the fact that they are separate, and that they do not therefore provide for cooperation between areas, but between an area and a single country.

What could the Community do instead?

As far as SEC's are concerned, it should accept their membership as soon as possible (once the political conditions have been respected), and face the problem of disequilibriums not only between those countries and the present EEC members but also within the EEC itself.

The importance of the question is just this: the acceptance of the new south European members would oblige the Community to face the problems it already has, and that are becoming ever more serious.

I am convinced that if the Community does not face these problems, the centrifugal forces which are growing stronger and stronger will pull it apart. I maintain, therefore, that the entry of the new countries of southern Europe could help rather than hinder the process of integration.

Remarkable farsightedness would also be necessary in relations with MAC's.

The importance of regional economic integration among Arab countries has been stressed already. For this reason a Euro-Arab accord should be conceived in such a way as to favor, first of all, inter-Arab economic integration, and only subordinately Euro-Arab integration. Freer access to the European market should be conditioned to freer trade among the countries of the Arab League: for each product the EEC should not offer better conditions than the worst conditions offered by any of the countries of the League for the products coming from the other members of the organization. At the same time, no Arab League country should offer the EEC better conditions than the worst conditions offered to any of the other countries of the League. In this way it would always be easier for an Arab producer to export to another Arab country rather than to the EEC; and for each Arab importer, assuming equal quality and prices, it would always be more convenient to import from another Arab country rather than from the EEC.

Secondly, the accord should be conceived in such a way as to favor inter-African economic integration. We have already seen that there are important forces which might induce the Arab countries to promote a process of development involving the entire African continent. An expansion of the potential market cannot but favor a dynamic solution,opening development possibilities not only for the new Arab industries but also for the European ones.

CONCLUSIONS

We have attempted to analyze the main variables that will influence multinational behavior in the Mediterranean from now until 1985. It is now time to offer a forecast.

I think it is necessary to distinguish two main scenarios, according to whether there is an organic political initiative by the Community or not.

If such an initiative is lacking, it seems unlikely that the picture can change much. I think that there would not be a vigorous recovery in the Community, and that this would damage southern Europe. MAC's will see a good part of their industrialization projects frustrated, and this will make relations with the EEC more and more difficult. The "African strategy" will be developed, but timidly. Inter-Arab integration will be slowed down because of political difficulties. Only Egypt will register a very rapid rate of growth in the manufacturing sector. Iraq and Syria could become a second pole, but they would have to resolve their present contrasts. The same is true for Algeria, which is aiming at becoming the Ruhr of Maghreb at a time when Maghreb is a meaningless word. Maghreb may exist in ten years time, but that assumes the collapse of American influence. Saudi Arabia will be able to make progress, but it will not solve its crisis of identity. The EEC itself will be prey to continual crises, and this might help communist parties to come to share power in at least four countries.

Il there were a strong initiative from the EEC the picture would be substantially different. In fact, the conditions exist for massive MNE intervention, similar to those of the '60's in the EEC. That, provided a) that a determined policy of aggregation of southern Europe to the Community is launched and b) that a policy of economic integration among the Arab countries is begun.

Istituto affari internazionali

Pubblicazioni

Collana dello spettatore internazionale

(collana di volumi edita dal Mulino)

1975

38. **Regioni europee e scambio ineguale. Verso una politica regionale comunitaria?**
di M.V. Agostini - L. 3.000
37. **La partecipazione italiana alla politica agricola comunitaria**
di R. Galli e S. Torcasio - L. 5.000
36. **Mediterraneo: politica, economia, strategia: Sviluppo interno e attori esterni**
Volume II - L. 3.500
35. **Mediterraneo: politica, economia, strategia: Lo scenario e le crisi**
Volume I - L. 3.000

1974

34. **Europa Mediterraneo: quale cooperazione**
a cura di Adachiara Zevi - Pagine 157 - L. 2.500
33. **La proliferazione delle armi nucleari**
a cura di F. Calogero e G. L. Devoto - Pagine 188 - L.3.000
32. **I sí e i no della difesa europea**
a cura di F. Gusmaroli - Pagine 290 - L. 3.500
31. **Il difficile accordo. La cooperazione europea per la ricerca e la tecnologia**
a cura di C. Merlini e G. Panico - Pagine 204 - L. 2.500

1973

30. **Eserciti e distensione in Europa. Il negoziato est-ovest sulla riduzione delle forze**
a cura di F. Battistelli e F. Gusmaroli - Pagine 130 - L. 2.000
29. **Il potere sovranazionale privato. Le imprese multinazionali e l'integrazione europea**
di Bruno Colle e Gabriella Pent - Pagine 110 - L. 1.800
28. **Il grande ritardo. La cooperazione europea per lo spazio**
di Gian Luca Bertinetto - Pagine 186 - L. 2.500
27. **Europa potenza? Alla ricerca di una politica estera per la Comunità**
a cura di M. Kohnstamm e W. Hager - Pagine 250 - L. 3.000
26. **Partners rivali. Il futuro dei rapporti euroamericani**
di Karl Kaiser - Pagine 164
25. **La pace fredda. Speranze e realtà della sicurezza europea**
a cura di Vittorio Barbati - Pagine 144 - Esaurito

1972

24. **Le tensioni del mondo: rassegna strategica 1972**
dell'International Institute for Strategic Studies - Pagine 172 - L. 2.000
23. **Il grande arsenale. Le armi nucleari tattiche in Europa: cosa sono? a che servono?**
di Franco Celletti - Pagine 76 - L. 1.000
22. **L'Europa all'occasione del Vertice**
a cura di G. Bonvicini e C. Merlini - Pagine 108 - L. 1.000

21. **Riforme e sistema economico nell'Europa dell'Est**
scritti di A. Levi, W. Brus, J. Bognar, T. Kiss, J. Pinder, S.A. Rossi - Pagine 118 - L. 1.500

20. **La sovranità economica limitata. Programmazione italiana e vincoli comunitari**
di B. Colle e T. Gambini - Pagine 96 - L. 1.000

19. **Spagna memorandum**
di Enrique Tierno Galván - Pagine 100 - L. 1.000

18. **Le tensioni nel mondo: rassegna strategica 1971**
dell'International Institute for Strategic Studies - Pagine 158 - L. 1.500

1971

17. **Presente e imperfetto della Germania orientale**
di Barbara Spinelli - Pagine 102 - L. 1.000

16. **Cooperazione nel Mediterraneo occidentale**
di autori vari - Pagine 104 - L. 1.000

15. **Commercio attraverso l'Atlantico: dal Kennedy Round al neoprotezionismo**
di Gian Paolo Casadio - Pagine 302 - L. 2.800

14. **Una Zambia zambiana**
di Kenneth Kaunda - Pagine 81 - L. 500

13. **Aiuto fra paesi meno sviluppati**
di autori vari - Pagine 104 - L. 1.000

12. **Il petrolio e l'Europa: strategie di approvvigionamento**
di G. Pappalardo e R. Pezzoli - Pagine 105 - L. 1.000

11. **Le tensioni nel mondo: rassegna strategica 1970**
dell'International Institute for Strategic Studies - Pagine 140 - L. 1.500

1970

10. **Socialismo in Tanzania**
di J. Nyerere - Pagine 75 - L. 500

9. **Verso una moneta europea**
di Autori vari - Pagine 80 - L. 500

8. **Europa-America: materiali per un dibattito**
di R. Perissich e S. Silvestri - Pagine 80 - L. 500

7. **Conflitti e sviluppo nel Mediterraneo**
di Autori vari - Pagine 212 - L. 2.000

6. **Le tensioni nel mondo: rassegna strategica 1969**
dell'International Institute for Strategic Studies - Pagine 140 - L. 1.500

5. **Integrazione in Africa orientale**
a cura di Roberto Aliboni - Pagine 132 - L. 1.000

4. **Gli eurocrati tra realtà e mitologia**
a cura di Riccardo Perissich - Pagine 126 - L. 1.000

3. **L'Africa alla ricerca di se stessa**
di Ali Mazrui - Pagine 80 - L. 500

2. **La lancia e lo scudo: missili e antimissili**
di Franco Celletti - Pagine 140 - L. 1.000

1. **Finanziamento, infrastrutture e armamenti nella Nato**
a cura di Stefano Silvestri - Pagine 85 - L. 500

Papers
(in ottavo)

1. **Il rapporto Jackson: un'analisi critica**
di Mario Marcelletti - 1971 - Pagine 15 - L. 500
2. **I colloqui sulla limitazione delle armi strategiche**
di M. Cremasco - 1971 - Pagine 30 - L. 1.000
3. **Convegno sulla sicurezza europea**
Incontro tra l'Iai e l'Istituto di economia mondiale e relazioni internazionali di Mosca - a cura di P. Calzini - 1971 Pagine 14 - L. 500
4. **Da Bandung a Santiago. La ricerca di una nuova economia internazionale**
di G. A. Sasso - 1972 - Pagine 19 - L. 500
5. **Eurocrazia e presenza italiana**
di V. du Marteau - 1972 - Pagine 36 - L. 1.000
6. **Indice analitico dei trattati Cee ed allegati**
di L. Boscherini - 1972 - Pagine 56 - L. 1.000
7. **Europa e America Latina**
di R. Aliboni e M. Kaplan - 1973 - Pagine 31 - L. 1.000

Fuori collana
(volumi editi sotto gli auspici dell'Iai)

L'Italia nella politica internazionale: 1972-1973
Anno primo diretto da Massimo Bonanni - Pagine 626 - Edizioni di Comunità - L. 8.000

L'Italia nella politica internazionale: 1973-1974
Anno secondo - Pagine 744 - Edizioni di Comunità - L. 10.000

La politica estera della Repubblica italiana
a cura di M. Bonanni (3 voll. - Pagine 1070) - Edizioni di Comunità - Milano 1967 - L. 10.000

La sicurezza europea (Modelli di situazioni internazionali in Europa negli anni '70)
di S. Silvestri - Pagine 177 - Collana la specola contemporanea - Il Mulino - Bologna 1970 - L. 2.000

La rinascita del nazionalismo nei Balcani
di V. Meier - Introduzione di A. Spinelli - Pagine 188 - Collana la specola contemporanea - Il Mulino - Bologna 1970 - L. 2.500

La Germania fra Est e Ovest
di K. Kaiser - Introduzione di A. Spinelli - Collana la specola contemporanea - Il Mulino - Bologna 1969 - L. 2.000

L'Europa oltre il Mercato comune
di J. Pinder e R. Pryce - Il Mulino - Bologna 1970 - L. 2.500

Symposium on the International Regime of the Sea-Bed
a cura di J. Sztucki - Accademia nazionale dei Lincei - Roma 1970 - Pagine 767 - L. 12.000

La strategia sovietica: teoria e pratica
a cura di S. Silvestri - Collana orizzonte 2000 - Franco Angeli editore - Milano 1971 - Pagine 328 - L. 5.000

Fra l'orso e la tigre: dottrina, strategia e politica militare cinese
a cura di F. Celletti - Collana orizzonte 2000 - F. Angeli editore - Milano 1971 - Pagine 272 - L. 4.500

I quaderni
(collana di volumi edita dal Mulino)

1. **L'America nel Vietnam**
Atti dell'inchiesta della commissione senatoriale presieduta dal senatore Fulbright - 1966 - Pagine 195 - L. 1.000
2. **Introduzione alla strategia**
di A. Beaufre - 1966 - Pagine 100 - L. 1.000 - Esaurito
3. **La Nato nell'era della distensione**
Saggi di Benzoni, Calchi-Novati, Calogero La Malfa, Ceccarini - 1966 - Pagine 159 - L. 1.000
4. **Per l'Europa**
Atti del Comitato d'azione per gli Stati Uniti d'Europa. Prefazione di Jean Monnet - 1966 - Pagine 119 - L. 1.000
5. **Investimenti attraverso l'Atlantico**
di C. Layton - 1967 - Pagine 180 - L. 1.500
6. **L'Europa e il sud del mondo**
di G. Pennisi - 1967 - Pagine 376 - L. 4.000
7. **Una politica agricola per l'Europa**
di G. Casadio - 1967 - Pagine 267 - L. 3.000
8. **La diplomazia della violenza**
di T.S. Schelling - 1968 - Pagine 268 - L. 3.000
9. **Il Mediterraneo: economia, politica, strategia**
a cura di S. Silvestri - 1968 - Pagine 310 - L. 3.000
10. **La riforma monetaria e il prezzo dell'oro**
a cura di R. Hinshaw - 1968 - Pagine 174 - L. 2.000
11. **Europa e Africa: per una politica di cooperazione**
a cura di R. Aliboni - 1969 - Pagine 160 - L. 2.000
12. **Partnership per lo sviluppo: organizzazioni, istituti, agenzie**
a cura di R. Gardner e M. Millikan - 1970 - Pagine 310 - L. 4.000

Documentazioni
(in offset)

L'Italia e la cooperazione scientifica internazionale
(Atti della tavola rotonda Iai del maggio 1966) - Pagine 119 - L. 1.000

Le armi nucleari e la politica del disarmo
(Quattro lezioni di F. Calogero, A. Spinelli, F. Cavalletti, M. Pivetti) - Pagine 78 - L. 1.000

Ricerca e sviluppo in Europa
Documenti e discussioni - L. 3.000

La politica commerciale della Cee
(Atti della tavola rotonda Iai del 29 aprile 1967) - Pagine 154 - L. 1.000

La politica estera tra nazionalismo e sovranazionalità
(Resoconto sommario del convegno Iai dell'1 e 2 marzo 1968) - Pagine 80 - L. 500

La fusione delle Comunità europee
(Atti del convegno Iai del 9 e 10 febbraio 1968) - Pagine 230 - L. 2.000

Rapporto sullo stato della ricerca scientifica in Italia
(Ocse) - Pagine 190 - L. 1.000

L'Integrazione economica in Africa occidentale
(Atti della tavola rotonda Iai del 22 dicembre 1967) - Pagine 100 - L. 1.500

L'Università europea
Documenti e discussioni - Pagine 111 - L. 1.000

Evoluzione delle economie orientali e prospettive degli scambi est-ovest
(Atti del convegno Iai del 21 e 22 giugno 1968) - Pagine 188 - L. 5.000

Il trattato sulla non-proliferazione delle armi nucleari: problemi del negoziato di Ginevra
Documenti e discussioni - Pagine 189 - L. 1.500

La politica energetica della Cee
(Atti del convegno Iai del 25-26 ottobre 1968) - Pagine 124 - L. 2.000

Preferenze e i paesi in via di sviluppo
(Atti della tavola rotonda Iai del 10 settembre 1968) - Pagine 73 - L. 1.000

Effetti delle armi nucleari: rapporti di esperti al Segretario Generale dell'Onu
Documenti e discussioni - Pagine 124 - L. 1.500

Rassegna strategica 1968
(dell'Istituto di Studi strategici di Londra) - Pagine 130 - L. 1.000

Les assemblées européennes
a cura di Chiti-Batelli - 1970 - Pagine 68 - L. 1.000

Italo-Yugoslav Relations
(Atti del convegno Iai - Institute of International Politics and Economic del 29-30-31 maggio 1970) - Pagine 55 - L. 1.500

Periodici

Lo spettatore internazionale
Trimestrale in lingua inglese - Edizioni il Mulino - Bologna - Abbonamento L. 5.000

Collana dello spettatore internazionale
Cinque-sei volumi all'anno - Edizioni il Mulino - Bologna - Abbonamento L. 10.000

Iai informa
Mensile dedicato alle attività e alle pubblicazioni dell'Istituto - Invio gratuito su richiesta

L'Italia nella politica internazionale
Annuario. Edizioni di Comunità - Milano. Terzo volume (1974-75) - Pagine 635 - L. 12.000

PAPERS

This paper
is part of a series which the
Istituto Affari Internazionali
is publishing within
the framework of a research project
financed by the Ford Foundation,
dedicated to the
problems of the Mediterranean

Istituto affari internazionali,
00195 Roma, viale Mazzini 88,
Tel. 315.892