

Industrialization of the Arab World

Success lies in cooperation and understanding goals, needs, and aspirations of Middle Easterners

BY DR. L.A.V. METZEMAEKERS*

Europe's relations with the Arab world have a long history. The Middle East was the cradle of three world religions. Jews, Christians and Moslims all over the world have their holy cities and places in this region, and although Islam is since the 7th century predominant, there have always been large Jewish and Christian communities.

Members of these communities used to participate in public life in their countries and contributed substantially to economic and cultural life of the Middle East.

History of our relations with the Arab world have not always been friendly. It is — for a large part — the history of warfare, of physical and spiritual clashes and of hatred and misconceptions about each others' real identity and image. Shortly after the Prophet's death in 632 the expansion of Islam started under the guidance of the four so-called "rightly guided" Chalifs.

From Medina and later from Damascus they overran big parts of the neighboring kingdoms and empires. The East-Roman empire of Byzantium and the Sassanid empire of the Persians were the victims. Later, in the period of the European Middle Ages, Christian kings and emperors tried to recapture Palestine, then under the Chalifs of Baghdad. The Europeans organized crusades but at the same time an important cultural exchange took place between Arab and European scholars, philosophers and theologians.

Between the great centers of civilization like Baghdad, Cairo, Alexandria, Cordoba on the one side and Paris, Venice, Florence, Cologne on the other there was an intense and lively exchange of knowledge. The Arabs were more developed and Western Europe was the receiving part of the exchange.

It was through translations from Arabic into Latin that the European medieval scholars became familiar with the cultural heritage of the old Greeks, like Aristotle, Plato and the so-called Neoplatonists. Human knowledge moved from East to West.

In the 13th century the famous Khalifate of Baghdad fell into decay and came under the influence of

*Presented before LES Benelux Conference, Brugge, Belgium.

Turkish Wezirs. They captured Byzantium and made the city the capital of the Ottoman Empire.

But also under Ottoman rule relations with Western Europe were intense, in particular with the Arab Mediterranean countries like Western Turkey, Syria, Lebanon, Palestine and Egypt, the so-called Near East.

"Golden Age"

To mention only one example, trade relations between Holland and the Levant in the 17th century (which we called our "golden age") were more profitable than our trade with the Far East and Southeast Asia. In the same period the Leyden University started lectures in Arabic. The Dutch businessman and consul in Istanbul, Mr. Levinus Warner, collected famous manuscripts in Arabic, Turkish and Persian for the Leyden University. His legacy is still one of the most interesting sources of study for Arabists all over the world.

In the 15th century parts of the Arab world came gradually under the supervision of European colonial powers, of France and Great Britain in particular. The First World War marked the end of the Ottoman Empire and the Arab world became part of Europe's colonial empire in spite of British pledges for independence to Emir Hussein of Mecca.

It was only the Arab peninsula that became independent under Abdul Aziz ibn Saud, the founder of the present Kingdom. He conquered the Hidjaz with the holy cities of Medina and Mecca in 1924 and took the title of King of the Hidjaz in 1926.

It was only after the Second World War that the Arab countries got political independence for the first time since the 14th century.

I remind you of these historical highlights to illustrate that Arab-European relations are not new. It is a history of conflicts, of wars and battles, but also of cultural and commercial exchange and mutual influencing. It is in our time that Arabs and Europeans are facing each other as free and independent people, of course with the notable and tragic exception of the Palestinian people. Only at the basis of freedom and independence Europe and the Arab world have to build up a new relationship.

On the Arab side a process has started of quick and intensive modernization, based on the huge revenues of their oil production. The Arab oil producing countries as well as all other OPEC members, although part of the so-called Third World, are wealthy as a consequence of the need of oil in the developed part of the world.

There is a mutual dependence. The West needs oil as its main energy source and the Arab world needs western technology for its modernization. The Arabs feel they are in a hurry because oil is only streaming for a limited period. They realize that they must prepare for the oil-less era in the not too far away future. This is their main development aim: to build up a social and economic structure which is viable and workable, also in a period that oil revenues will decline.

Important Role

In realizing their policy goal Western Europe can play an important role and is playing this role already, in particular since the first so-called oil crisis of 1973. Now, let me illustrate this policy goal which all the Arab oil producing countries have in common, by going into more details of one eminent example — that of Saudi Arabia.

Long before there was oil the Kingdom was vulnerable. But the vulnerability has increased many times by the discovery and production of oil in a volume unequalled elsewhere in the Middle East. The regime and people of the Kingdom would long have fallen victim to it had their first line of defense not been the inspiration of religion and commitment to a way of life and system of values. Without them, the ruling family would be shorn of its legitimacy.

The process of modernization is, therefore, both a responsibility and a challenge for the regime in Saudi Arabia as well as in all other oil exporting Arab countries. It involves nothing less than a structuring of the Kingdom's physical environment, a restructuring of its economic rational, and the preparation of its people to live in vastly altered circumstances. Such an experiment in social engineering means that people living in sprawling cities and in remote villages have to adapt to an improved quality of life and a broader range of opportunities without undergoing disorientation or communal shock.

Change must not be so abrupt nor so destabilizing as to be measureable on some political equivalent of the scale of Richter. Society, therefore, must be safely led through new and unfamiliar terrain, by holding fast to what has sustained it in the past and what sustains it still today. It is set out, once again, as the first goal of the third Saudi five-year plan (1980-1985): "To uphold the precepts of Islam and to apply and propagate the Shari'a (the Islamic law)".

The structuring, restructuring and preparation are implicit, and, in some cases explicit in the statistics of the third plan, approved in May last. Expenditures will be vast — \$235 billion (defense spending excluded) compared with the second plan's \$149 billion, although even that amount caused disbelief when it was first announced.

Transformation

Perhaps as much as 30% of the allocations will be committed in the plan's first fiscal year. This would signify a determined, all-out effort to complete the Kingdom's transformation from what seems to be an unending construction site to the more settled communities whose infrastructure is installed and function-

ing according to expectation. In the process it is envisaged that many work camps will be broken up and that the outflow of foreign workers — particularly manual and unskilled workers — will start to alter the balance from expatriate to Saudi workers.

An essential part of the process is, therefore, the development of human resources by diversifying education and emphasizing vocational and middle-management training. The propagation of a new work ethic is an aspect of modernization the social costs of which are high. Diversification is an essential feature in the third plan. It means diversification in agriculture, mining and non-oil-related industries, motivated by security considerations as well as by economic aspiration.

It is considered essential that uncontrolled migration to the towns be halted, if Saudi Arabia is not to become a few sprawling cities populated, at least in part, by people who are uprooted, unassimilated and alienated. The cities must not become gathering places of unrest and frustration with underpopulated, exposed hinterlands.

With the third plan's inception Saudi Arabia enters a crucial testing time. Judging from the 1975-1980 performance the targets are realizable. The absorptive capacity is great. Most observers agree that the second plan's performance was impressive, inflation cut to single figures, port congestion eliminated, and gross domestic product's growth averaging more than 10% a year despite the general flatness of the hydrocarbons sector.

Furthermore, the third plan presents trade opportunities to almost all Western and Far Eastern countries. Of all the published contracts in the Arab world with other countries in 1979, 42% were contracted with Saudi Arabia. Where will the big spending of the third plan be? The Ministry of Industry is getting 26% of the total with a budget of \$60 billion, excluding electricity, which gets an extra \$15.8 billion. The Saudi Basic Industries Corporation (SABIC), the main agency for the Petrochemical Industry, gets \$7.6 billion. This expresses some conceptual changes in emphasis from the second plan, which mainly concentrated on infrastructural development.

Stresses Diversification

The third plan puts more stress on diversifying the production base into industry and mining, with rural areas as a priority by stimulation of agricultural development. The planning ministry says spending on infrastructure will be 35% of the total instead of 50% in the second plan. By comparison, investment in production will be up from 25% to 37%. The third plan's other change is the emphasis on operations and maintenance of buildings completed under the second plan. And they will be further pushing of "Saudization." The focus here is to reduce the growth of expatriate manpower from 7 to 1.2% per year.

There is, as I see it, a twofold development taking place. One is a switch to bilateral oil deals between OPEC and EEC governments on oil deliveries at the expense of the deliveries to the international oil companies. And the other, parallel development is that of linking oil delivery deals with agreements or con-

tracts for establishment of refining and petrochemical plants in the oil-producing countries. This is known as "incentive oil".

Both developments are of vital importance for the future of Europe as well as of the Arab world. They imply real dangers for Europe's economic future. Let me comment briefly on both developments in order to conclude that there is urgent need for dialogue and negotiations between our two neighboring regions. As a sort of general principle, all developing countries — the Arab countries included — claim, I think rightly, that at least a substantial and a growing part of their raw materials is being processed in the country of origin. Whether we Europeans like it or not, this is certainly going to happen more and more in the coming decades. This puts the European economies before tremendous economic, social and political problems. It is the problems of restructuring large parts of our industries and indeed of the biggest part of our traditional international trade pattern.

Petrochemicals

I would like to illustrate this by elaborating a bit on one example — the petrochemical industry in the oil-producing Arab countries. "Middle Eastern competition is threatening the world's petrochemical industry," read a recent headline in the *Financial Times*. Until recently there were real doubts in Europe as elsewhere in the industrial world, on the future of a large petrochemical industry in the Arab world. The western international companies were very hesitant to step in investments in this industry. New industries are to include industrial gases, petrochemicals, glass, metallurgy, spare parts for motor vehicles and animal feed concentrates. All of these will require foreign expertise and manpower. It is therefore doubtful that a greater reduction of foreign manpower will be realizable.

Saudi Arabia will remain one of the world's biggest markets for water supply equipment. Some \$16 billion have been allocated for development of water resources, mainly by desalination processes. Saudi Arabia's new gas gathering program, which increases world national gas liquids production by 10%, is to come into operation ahead of schedule, following the early opening of the first of two fractionation plants. The first plant — at Juaymah on the Gulf — received its first supplies of gas in March 1980. The second plant, sited in the new industrial complex at Yanbu on the Red Sea, is scheduled to open in early 1982, completing a \$20 billion dollars construction program. This abundant gas will fuel the petrochemical industry.

Spectacular

It is in the petrochemical industry that the most spectacular investment plans are being realized. Saudi authorities are convinced that in the future a substantial part of its crude oil will have to be processed in the country itself. In a recent public statement, Saudi's Minister of Industry and Mining, Dr. Ghazi Algosaibi said, "We are not ready to stay forevermore producers of raw materials witnessing these materials leave our shores to come back to us, fabri-

cated with the highest prices".

To realize this development principle, the Saudi government and other Arab governments have found an interesting policy instrument for inducing foreign companies to provide the necessary technological know-how.

It is called "incentive oil". It needs clarification. The 1978-1979 depression in the petrochemical industry combined with the uncertainties in the political developments in the Middle East after the Shah's downfall, were deterring Western executives from pushing on with their joint-venture plans in the region. Why did these fears suddenly disappear? The first reason is that the huge oil and gas price increases underlined again the economic advantages of Arab productions. And the second — probably the most important reason — was the introduction of the so-called "incentive oil" system by the Saudi Arabian Government.

In February 1980, the Saudi Arabian Minister of Oil Affairs, Sheikh Ahmad Yamani stated quite explicitly that new crude oil entitlements would not be available to western customers unwilling to help build up the industrial strength of the Kingdom. Of the five major U.S. partners that he had in mind three are now in the bag and the remaining two will follow soon. These five partners include Royal Dutch Shell (U.S.A.), Mobil, Exxon (the three now committed), Dow Chemical, and a joint company owned by Celanese and Texas Eastern Transmission Company.

Shell's agreement came in July 1980. With SABIC (Saudi Arabia's Basic Industries Company) it will build a 650,000-ton-a-year ethylene plant at Jubail costing \$3 billion. SABIC (state-owned company) and PECTEN (Shell's Saudi Arabian subsidiary) say the complex will use ethane and methane gas which at present is flared. Production is planned to start in 1985.

Mobil reached an agreement in April 1980 for a similar deal to build a \$2 billion complex at Yanbu. Exxon signed its \$1.1 billion agreement for a Jubail polyethelene plant seven days later. Both have spent huge sums on development studies. Dow Chemical has been quoted recently as saying that the company's \$1.3 billion Jubail ethylene venture with SABIC will be signed shortly.

The Celanese-Texas Eastern group's commitment to a Jubail methanol venture also appears to be imminent. Mitsubishi's Gas and Chemical Corporation joined with SABIC to build the \$268 million methanol plant at Jubail. And it is Mitsubishi which will lead Japanese participation in the Saudi Petrochemical Development Corporation, a cornerstone of the Jubail concept.

Makes Headway

A further \$376 million worth of ammonia and urea production capacity is to be built under a joint venture with the Taiwan Fertilizer Company. Fertilizer production is an industry in which regional cooperation made headway in the 1970s through an organization called Gulfert, founded in 1976 to promote the exchange of ideas among Gulf producers. For the most part, however, the Middle Eastern countries had little success since 1973 in coordinating their various

schemes. The result is a strong domination of Saudi Arabia and a gradual disappearance of most of the plants in the petrochemical industry by the other Gulf States.

In 1973-1974 almost every OAPEC state had petrochemical plants. Four years ago, as many as 15 ethylene plants were being talked about — enough to produce 40% of the EEC's total productive capacity in 1976. The determination of Saudi Arabia to pursue its ambitions were dropped with a notable exception of Iraq, which is also building a considerable petrochemical capacity. Because of the war with Iran there will be delays of many years. Perhaps the meeting of Planning Ministers of eight Gulf States in Doha last May 21, may be considered as a breakthrough toward better regional cooperation. The ministers agreed to a five-point plan which will lead eventually to economic integration and to a long-heralded common market.

The first point is establishment of joint-industrial ventures and coordination of the industrial projects in the Arab Gulf States, with immediate attention to the petrochemical, aluminum, steel and cement industries. This involves sharing technology, setting up a common depot for spare parts and buying and selling raw materials collectively. The second step is establishment of a computer center in one of the seven states. Kuwait is reported to have agreed to make a study of the future computer technology in the area.

A third step concerns cooperation in promoting regional agricultural projects. A fourth point involves a common transport and communications network. Finally, the fifth point calls for participation of each member state in a five-year development plan. Iraq, also a Gulf State, did not participate in the meeting. The scale of the complexes which are now underway at Jubail and Yanbu and possible those planned by Iraq, should be quite alarming for the existing European petrochemical industry. Nobody can predict, however, how long the present economic recession in the West will last, but western petrochemical producers, especially the Europeans, could find themselves emerging from it to feel the full impact of keen competition from the Middle-East.

Debate

Whether cheap chemicals from the Middle East are going to hit Europe's outside markets in as little as five years is hard to predict. A heated debate on this prospect has already started. The debate also deals with the advantages and disadvantages of this production.

Until recently it was widely believed that the shortage of expertise in the Middle East, the lack of domestic markets, the difficulty of putting up high-technology plants in the deserts, the cost of transport to export markets and of operating plants efficiently, would all cancel out the advantages of cheap oil and gas feedstocks in the Gulf.

It was estimated that an ethylene cracker with a production capacity of 1,100 pounds per year would cost \$2.6 billion to build in Europe but \$4 billion in the Middle East. But the advantage of cheap feedstocks has always been considerable. Since 1974 petrochemical raw materials would have cost nearly eight

times more in Europe than in the Middle East. The Aramco gas gathering system will supply ethane at Jubail and Yanbu at around \$.56 per 1,000 cubic feet. That is about one fifth of the current world market price.

Conclusion

My conclusion from all this is that these developments, vitally affecting the EEC's industrial future in the petrochemical industry, have to be debated and discussed in an Euro-Arab dialogue. The present industrial policy commissioner in the European Commission, Mr. Davignon, some years ago suggested Euro-Arab negotiations to seek an overall agreement between the two regions on control of capacity to be built up. Such an agreement could make it unnecessary for the EEC to introduce or to increase considerably its import duties in order to protect its basic industries. A tariff war between our two regions should be avoided because it would be destructive for these industries in Europe as well as in the Arab world.

Of course, Europe should not and cannot prevent newcomers from entering the market. But by making deals on capacity control the Arab producers can be given a fair deal without hitting each other by deadly and ruinous competition.

On import duties in general, there is enough ground for mutual discussions. Saudi Arabia for example, has a 20% duty to protect its own industries, although the average duty on industrial commodities is about 2 to 3%. But an increasing number of goods are being listed under the 20% duty.

Now, for the second development I mentioned earlier — the switch to bilateral oil deals between OAPEC and EEC governments.

First, I will give some revealing figures from Saudi Arabia, the largest oil exporter. It is the state-owned company Petromin which is involved in these bilateral deals. Until June 1980 Petromin contracted crude oil deliveries with Belgium of 100,000 barrels per day, Denmark 20,000 barrels per day, France 240,000 barrels per day, Greece 50,000 barrels per day, Ireland 10,000 barrels per day, Italy 100,000 barrels per day, and West Germany 186,000 barrels per day. That is 705,000 barrels per day total. The United Kingdom and Holland did not contract oil deals, for obvious reasons.

Nevertheless, Saudi Arabia's exports to Holland valued 6 billion Saudi Rials in 1978, against exports from Holland to Saudi Arabia of 3 billion in the same year. The contractual bilateral oil deals are at the expense of the contractual oil deliveries to the big international oil companies, the Aramco partners included. It means that the Saudi government is changing its distribution system of crude oil away from the traditional deliveries to the oil companies on to deliveries on the basis of bilateral deals with governments or government-owned oil companies and to deliveries contracted with foreign companies, investing in Saudi Arabia and at the rate of the money they invest (the so-called incentive oil).

Now, for the final subject of discussion, the impact of oil policies on the oil importing countries of the Third World.

The relative ease with which the industrialized world could adapt to the changed situation on the oil market was due in large part to the fact, that it, too, could offer valuable goods and services to the OPEC countries. The plight of the developing countries is precisely that they have far less to offer with which to pay the bill; and in as much as they command such goods, as in the case of raw materials, market conditions do not favor them to the same extent as they did the producers of oil. There is little possibility for them to set up an effective and profitable cartel for other raw materials than oil.

The problem of the less-developed countries is well known to all who have followed the recent discussions at the United Nations Special Session on the third development decade. You are all familiar with the suggestions contained in the Brandt committee on the subject. I also realize that the Arab oil exporting countries are spending already huge amounts of money on development aid.

The Arab oil exporting countries together are spending a higher percentage of their GNP on development aid than the industrialized countries. For some of them, like Saudi Arabia, Kuwait, Qatar and the United Arab Emirates the percentage is around 5%.

The problem we have to face in relations to the Euro-Arab dialogue is the efficiency of this aid, from Europe as well as from the Arab countries. There could be much more cooperation and coordination of the aid activities of both regions.

A joint European-Arabian development institution directed toward a better coordination of the development aid and toward setting up tripartite development projects, would be a promising concept. Of course, this would result in additional claims upon industrialized Europe as well as upon the Arab oil-producing countries for aid and for the regulation of economic markets. But it would be a contribution to the realization of that new international economic order we talk so much about.

New Economic Order

Regarding a new international economic order, some think it suffices to demand changes in the relations of economic exchange. It is, however, unlikely that these or other single-issue concerns can achieve more than to identify each a top of an iceberg. Underneath hides the issue of international and intercultural communication worldwide. This has two main dimensions. One is the irreversible trend toward One World interaction and interdependence. The other is the national and ineradicable ethnocentrism in shaping the part any human collectively developed or developing will take in the emergent one world.

In dealing with economic interaction between the Arab world and Western Europe, organized in an economic community it is important for Europeans to realize from the start, that they manipulate a typical

European distinction, setting apart various aspects and activities of a socio-cultural unit, we call a state.

We are used to separate economic activities from political, social, cultural or religious activities and we lost the sense of unity all these activities of a human society are integrated in. We call it a pluriform society and we do have that ineradicable inclination to consider this as a model for all societies and as a yardstick to measure the rate of development of non-European societies. This is, so to speak, our European ethnocentrism.

The awareness of its socio-cultural identity, on the part of any human society, has a corollary in its inability and refusal to recognize any other socio-cultural entity as being on a par with itself. Manifest or attributed differences will be accounted for in a depreciating or derogatory manner. Non-Greeks were called "barbarians" and the word "Papua" means "man" with the implication that non-Papuans are inhuman or subhuman.

Something similar is taking place when Europeans divide the world into developed and developing — meaning underdeveloped — parts.

Looking at this division from a purely economic standpoint there may be some reality in it, but it is dangerous to manipulate this difference as an instrument to Europeanize or westernize the whole Third World.

Recent developments in Iran and Iraq warn us that the modernization of a human society by industrialization and transfer of technology at a huge scale, implies in fact the transformation of the whole society in all its aspects.

We in the West take part in this process by transferring technology, but western technology is not a separate item we can sell and drop in another society. It is accompanied by many other human activities, like education and training, to mention only two. But transfer of technology also implies that industrial centers will be created, which need markets, now supplied by European industries.

The new international economic order means in fact, that modern technological know-how is spreading over the Third World, creating capacity of industrial production and making available industrial products for exports, in the first place to the markets of the industrialized world.

Western Europe is one of these markets. We cannot protect our market by high tariffs or other protectionist measures. We have to face competition not by protectionism but by cooperation and by developing good relations with the Arab world in all fields of human activities.

This is not only a task for governments, politicians and diplomats. It is, I think, in the first place a task for all of us who are active in the Arab world and deal with the Arabs as an independent and free people with the same aspirations and ideals and with the same rights on wealth and human happiness to be reached in cooperation with others.