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Industrialisation of the Arab World

Since the unexpected solidarisation process of the oil producing countries has driven up the prices for oil to several times their previous level, the oil producers, and especially those in the Middle East, who are holding by far the largest reserves, have been swamped by a flood of foreign currency receipts. Their concern is increasingly with the question whether and how their in part only sparsely populated countries can absorb this influx of world power-cum-purchasing power at all. The hectic initiatives and frequent journeys by delegations in all directions suggest that they are still far from having clear ideas about how to solve these problems.

Of the alternatives which have been discussed for the use of these resources — (1) industrialisation of the Arab region, (2) establishment of Arab financial centres, and (3) development of energy substitutes for the post-petroleum era — the first one probably ranks foremost at present, and yet it is this alternative in particular which poses tremendous unsolved problems. The countries concerned would surely be well advised to ponder some fundamental conditions and prerequisites of success with all possible objectivity before they embark for an unforeseeable time on one particular road which may lead to misdirection of investments on a huge scale.

The first problem concerns the question to what extent a possible industrialisation should be based on a few highly specialised and highly productive industrial sectors or whether it would be better to aim from the outset at a widely diversified and self-supporting industrial structure.

If the first alternative is chosen, the obvious starting point would be the petrochemicals industry which would of course enjoy a considerable competitive advantage thanks to the availability of extensive raw material resources. Weighty arguments may, however, be put forward even against this seemingly very auspicious approach, for not only is it questionable whether a petrochemicals industry would be capable of creating enough jobs or supplying the necessary impulses for subsequent development over a wider field, but it would have to chart its production overwhelmingly for markets in which an advanced petrochemicals

industry has long been established as part and parcel of naturally evolved industrial aggregates. No solution is as yet in sight for the problems arising in this situation.

Experience to date shows on the other hand — and this is important for the second alternative — that industrialisation on a major regional scale is the more dependent on the absorption of the outputs in the region itself the greater a capacity it is intended to create. As a common economic area for all its inhabitants the Arab region would cater for over a hundred million people.

To judge from experience, the industrialisation of such a potential can only be realised on a broad industrial basis. The industries involved would probably have to arrange more than three-quarters of their production to suit their own region. Specialised industries could, at most, fulfil a temporary function as foreign currency earners or pilot industries. Naturally nobody could guarantee that they can keep an existing competitive advantage for any length of time.

Finally, experience also shows that closer interdependence between the industrial sectors, in production as well as in marketing, is a prerequisite of all industrialisation moves, and this interdependence must be the closer the higher a level of industrialisation has been reached. All industrialisation processes go therefore hand in hand with extensive agglomeration moves. This is the only way in which inevitable communication losses can be kept within bounds and the dynamism be engendered which gives an economic area the chance to hold its own in international competition.

It is characteristic of the Arab region, however, that a relatively small population is dispersed over long coastal stretches while suitable locations for such agglomerations are scanty. What kind of industrialisation is possible and promising success under such conditions and what political preconditions must be created for it requires very careful examination. There is probably no precedent to provide guidance for this concrete case.

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