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AN ANALYSIS OF SOME SALIENT FEATURES OF ARAB TRADE IN
AGRICULTURAL COMMODITIES DURING THE 1971-75 PERIOD



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FOREWORD

During the recent past, the food imports of the Arab countries at large, and the ECWA countries in particular, have grown at very high rates. Both the quantities and unit values of the major imported food commodities increased sharply during the first half of the seventies. These developments which took place before and after the 1973 oil price increase, were not limited to the oil-exporting Arab countries only, but were also recorded in the non-oil exporting Arab countries.

This study, which was undertaken by Professor Syed Ahmad (who was a Consultant to the Division), analyses the salient features of Arab food trade during the 1971/73 - 1974/75 period. It also attempts to pinpoint some underlying factors contributing to the latest developments in food imports of the Region. Special attention is focused on the behaviour of unit values of major food commodities. Finally, the implications of the recent developments in food trade for the region's food security position are highlighted.

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INTRODUCTION^{1/}

The economic events near the end of 1973 provide a rare, almost unique, experience in the economic history of the world. This is almost a laboratory example of an economic change in which the unit value^{2/} of a major item of export (and in some cases of the nominal national income) in a number of countries was suddenly raised manyfold, with the expectation that it would remain at or near that level for a fairly long period. This phenomenon is distinct from the sudden rise in unit values which, from time to time, takes place in the internationally traded commodities, through periodic scarcities.

The impact of this phenomenon on Arab countries and on smaller groups among them, such as the countries belonging to ECWA, in relation to parallel developments in the trade of agricultural commodities will be studied from data of matrices of trade in agricultural commodities for the year 1971 to 1975.^{3/} This allows development of a perspective, even if a partial one due to the exclusive interest in agriculture, on the developments in trade of the Region (also referred to as the "Arab countries").

1/ This study is based on work undertaken by Professor Syed Ahmed, Consultant, McMaster University, Canada.

2/ The terms "unit values" and "prices" are interchangeably used in this paper.

3/ Trade Matrix, prepared by FAO, Rome for years 1971-73 and 1974-75 has been used for this analysis. It shall be called simply the "Matrix" in what follows. As most of the analyses in this paper and the conclusions derived from it are based on the information contained in the Matrix, and are confined to the period covered by it, they are extremely tentative. This should be borne in mind in assessing the general applicability of any of the conclusions.

Objective

The main objective of this paper is to provide a perspective on the mutual relationship between the increase in the price of oil and the developments in the agricultural trade of the countries of the Region. In the process, however, it was found illuminating to examine some basic, but striking, characteristics of the nature of the trade in agricultural commodities, and in particular the configuration of the unit values of agricultural imports of the Region. These characteristics will be studied from data averaged for the 1971-73 and 1974-75 periods.

Organization of the Study

The paper is organised as follows. Chapter I, which follows, examines the configuration of the unit values of four of the most important items of agricultural import of the Region. Chapter II deals with changes in the unit values of these commodities between 1971-73 and 1974-75. Chapter III deals, rather briefly, with the changes in the "quantities" and "values" of the commodities traded over the two periods. The oil exporting and non-oil exporting countries will be studied separately as well as together with the Arab League countries as a group, as well as for ECWA countries separately.^{1/} Chapter IV presents the summary of the findings, and makes some tentative recommendations.

^{1/} Oil exporting countries and non-oil exporting countries will be referred to as "oil countries" and "non-oil countries" in the rest of the text.

I. ANALYSIS OF THE UNIT VALUES OF MAJOR IMPORTS

A. Arab League Countries

Table 1 shows unit values of the four major agricultural imports of the Arab countries, namely: wheat and meslin, refined sugar, vegetable oil, and milled rice.^{1/} Unit values are given for each country which imports any significant amount of products, as well as for the oil and non-oil countries separately, for 1971-73 and 1974-75 periods. The last row of the Table gives information on the average world price of each item. However, the world price is not directly comparable to unit value, as it represents free market prices, which are defined differently. These world prices are therefore used sparingly in the following analysis.

Table 1 shows extreme variability of the unit prices among the countries for the supposedly standardised commodities. For example, taking 1971-73 figures, the highest average unit value for wheat in Bahrain was more than four times that paid by Kuwait. These are not isolated but only extreme examples of almost a continuum of unit values. Various countries have paid unit prices which are one and a half times, twice and even three times the unit price of wheat paid by Kuwait during the same period. For sugar, Bahrain paid almost twice the unit value paid by Lebanon. For vegetable oil, the highest unit value (for Kuwait) was more than three times the lowest unit value (for Iraq) and for rice, the highest was more than three and a half times the lowest (for Morocco and Mauritania respectively).

^{1/} According to the matrices, dairy products and eggs occupy the fourth place, but it is such a mixed item, that its "unit value" would make less sense than such concepts normally do. Hence, the fifth item, milled rice, is being treated as the fourth in importance among the "standardised" commodities. However, a brief appendix on dairy products has been added at the end of this paper.

Table 1. Unit values of major agricultural import items in the Arab countries, 1971-73 and 1974-75.
(Thousand US Dollars and percentages)

1	Wheat and Meslin				Refined Sugar			Vegetable Oils				Rice Milled		
	2	3	4	5	6	7	8	9	10	11	12	13		
	1971-73	1974-75	r	1971-73	1974-75	r	1971-73	1974-75	r	1971-73	1974-75	r		
Algeria	79	204	158	194	751	287	304	723	138	194	611	215		
Iraq	94	238	153	191	615	221	267	570	113	200	533	167		
Kuwait	55	230	318	212	557	163	857	1424	66	228	631	177		
Libya	115	255	122	226	717	217	781	1314	68	166	511	208		
Oman	--	--	--	--	--	--	--	--	--	--	--	--		
Qatar	152	196	29	215	924	330	700	1869	167	239	722	202		
Saudi Arabia	124	269	117	215	482	124	641	1123	75	266	539	103		
U.A. Emirates	--	--	--	--	--	--	--	--	--	--	--	--		
Oil countries	86	219	155	200	667	234	373	766	105	218	552	153		
Bahrain	215	216	0	299	562	88	516	1123	118	247	751	204		
Egypt	77	231	200	--	622	--	378	786	108	--	--	--		
Jordan	120	230	92	194	600	209	410	683	67	175	552	215		
Lebanon	71	156	120	153	509	233	529	714	35	179	480	168		
Mauritania	76	186	145	212	519	145	401	595	48	124	177	43		
Morocco	100	193	93	169	680	302	328	693	111	429	--	--		
Somalia	113	143	27	228	811	256	409	877	114	163	374	129		
Sudan	90	201	123	194	762	293	451	--	--	169	554	228		
Syria	80	191	139	160	683	327	308	484	57	185	505	173		
Tunisia	87	159	83	161	431	168	339	700	106	219	592	170		
Yemen Arab Republic	126	258	105	238	589	147	332	593	79	235	647	175		
Yemen PDR	--	--	--	--	--	--	--	--	--	--	--	--		
Non-oil countries	84	212	152	177	627	254	360	734	104	183	462	152		
ECWA oil countries	93	239	160	196	591	202	321	676	111	224	556	148		
ECWA non-oil countries	79	223	182	173	519	258	385	772	101	199	538	170		
ECWA total	81	226	179	186	605	225	377	738	96	216	551	155		
Total Arab countries	85	214	152	188	647	244	365	746	104	204	524	157		
World market prices	90	166	84	156	553	254	N.A.	N.A.	N.A.	192	402	109		

Sources: FAO Computer Printouts, Appendix table 1 and Appendix table 5.

1/ "r" refers to percentage change during the period under review.

Before proceeding to assess the significance of, or to analyse the possible causes of, these differences for the years 1971-73, we may note the ratios of the highest and lowest unit prices paid during the 1974-75 period. This ratio for wheat prices was less than double, for sugar more than double, for vegetable oil almost four times and for rice more than four times. At least two conclusions can be drawn from these numbers, which should be kept in mind in any further discussion. One, the extent of variability of unit values in 1971-73 was not due to the special nature of the period since the variability of a similar order can also be observed in 1974-75. Two, this variability has not been consistent in the sense that the relative positions of the countries regarding the price paid for any particular commodity have not remained unchanged over the period.

B. ECWA Countries

The picture changes very little when the analysis is confined only to ECWA countries. It so happens that for 1971-73, the Arab countries paying the highest and the lowest prices for the three most important commodities, viz, wheat and meslin, sugar and vegetable oil, were all members of ECWA. This was not the case for rice, however. The relative position for the 1974-75 period did not remain the same. However, there were still striking differences in the unit prices paid by various ECWA countries for the same goods, which were not very different in order of magnitude from the differences noted among the Arab countries as a group.

Thus, by any account the above is a story of remarkable variation in unit values, and can itself be the subject of a full fledged study. In this paper, only some of the broad plausible explanations of this phenomenon will be presented.

The effect of averaging prices of these commodities on world markets varied considerably over the 1971-73 period. Thus, the world prices of both wheat and sugar were in 1973 a little over twice the level of 1971; for rice the 1973 price was around two and a half times the 1971 price (see Appendix table 5). One may argue, even if with little conviction, that it is possible that the country which paid the lowest unit value bought all its requirements in 1971, the year of the lowest price, and the country which paid the highest price bought the bulk of its requirements in 1973, the year of the highest price. In that unlikely event, the unit value paid by any country, let us say for rice, could not be higher than two and a half times the lowest unit value paid, if the changes in the unit value paid by the countries followed the world prices (more on this later). The actual difference between the extremes was in fact three and a half times, as noted above. Thus, still some factor other than yearly^{1/} averaging would be needed to explain these differences.

Transport cost differences. One of the important reasons traditionally given for the differences in unit values of standardised commodities in different countries has been the differences in transport cost. However, this cannot provide an adequate explanation of the price differences noted above. In the case of wheat and rice, the highest and the lowest unit values were paid by close neighbours: by Bahrain and Kuwait respectively for wheat and by Morocco and Mauritania respectively for rice. In other cases, the distances are not long or difficult enough for the transport cost differences to justify the perceived differences in unit values.

Differences in the quality of the products. This reason for differences in unit values is, of course, more difficult to examine as the "quality" may be defined not only by the physical characteristics of the commodities, but also by the "services" which go with them. If it were

^{1/} It seems reasonable to take a year as a unit of time for discussing agricultural products.

possible to translate differences in quality into differences in unit values, one would, further, have to find out whether or even why certain countries bought "high" or "low" quality products. It seems unlikely, however, that the differences in the quality of these otherwise standardised products, particularly of wheat and sugar, would enable them to command such different prices that explain the entire phenomenon.

Over-invoicing etc. In countries with stringent exchange controls, the "payment" of higher prices for imports may simply be a means of converting local money into foreign currencies. However, this explanation for the differences does not apply when the unit price paid by Qatar for wheat in the years 1971-73 was almost three times that paid by Kuwait, and neither of them had any exchange control.

Food aid and discounting. Some of the calculated unit values in Table 1 may not represent "true" values because some countries receive the commodities either in the form of aid or at discounted prices. It seems unlikely, however, that this can explain any significant part of the differences. Wheat, for instance, is more likely to be the subject of this kind of non-market pricing than other commodities included in the study. The lowest price for wheat paid in 1971-73 period was by Kuwait, which did not get and didn't need such foreign aid. This conclusion is further supported, on a broader scale, by the fact that for most commodities the unit prices of the oil countries and the non-oil countries taken as separate groups are not very different, although most of the recipients of the subsidised commodities were only the non-oil countries. Although it is possible that some of the unit values in Table 1 may have been influenced by commodity aids and discount prices, there is no evidence that in the absence of these practices, the price variation would have been significantly reduced.

Imperfections of the market. To the extent the above reasons do not fully explain these differences, one may wish to probe into the structure of the market for these commodities. It has been customary

to assume that most of these commodities are more or less standardised products and, therefore, they are transacted in markets closely resembling perfect competition. Hence, their prices are supposedly determined by impersonal and efficient market forces. However, the unexplained differences in unit prices of these commodities in various countries casts doubt on this assumption. The nature of these market imperfections needs to be explored further; for example whether some sort of discriminating monopoly power exists in the system and what is the nature and basis of this power if it exists. One of the points to be borne in mind in these considerations will be persistence and yet the inconsistency of these variations.

If price differences can be attributed to monopoly power of some sort, then there may be further lessons in the story. If the price of these "necessities" can be controlled by a group of merchants, it can probably be more easily controlled by the exporting countries or even exporting intermediaries. If they take joint action at any time, the consequences could be serious for the region as a whole, or for any number of countries within it.

Finally, if the differences in the unit prices in various countries for these relatively standardised goods are attributed to the imperfections and monopolistic practices in these markets, then the likelihood of these practices being prevalent in the relatively nonstandardised markets of manufactured goods could possibly be even greater.

All these conclusions and comments, however, are predicated on the assumption that further enquiries will justify our hypothesis that some measure of market power is being exercised in respect to these commodities. This is a matter which is worth pursuing further, and the results of the analysis may have important practical consequences.

II. PRICE CHANGES BETWEEN 1971-73 PERIOD
AND THE 1974-75 PERIOD

A. Oil Exporting Arab Countries

The first question is whether the large change in the price of oil at the end of 1973 was accompanied by any significant changes in the level or pattern of unit values of agricultural imports of these countries.

Table 1 shows that the prices of all these items more than doubled for the Arab countries as a group as well as for the oil and non-oil countries separately; for both these groups of countries, the price for wheat and rice increased more than two and a half times, it more than tripled for sugar, and it more than doubled for vegetable oils.

The immediate consequences of the price increases for the oil-exporting countries and non-oil exporting countries need to be explored. Taking the oil countries as a group,^{1/} they raised the price of their main export item (oil), almost fourfold at the end of 1973. Measured in terms of the food item which increased least in price (vegetable oil) the real purchasing power of oil was raised not four times but less than two times. The purchasing power of oil almost did not increase at all when measured in terms of the food item which increased most in price (sugar). In terms of a basket of these commodities, the purchasing power of oil increased by no more than 50 per cent. Thus, the Laspeyre's price index of these four commodities for oil countries in 1974-75 was 274 taking 1971-73 as the base compared to the price index of oil which was approximately around 400, with the same base year.^{2/} The index of

1/ Non-oil countries are examined in the next section.

2/ The followings are unit prices per barrel for crude oil for Iraq and Kuwait over the period.

		1971	1972	1973	1974	1975
Iraq	\$	2.16	2.44	3.24	11.65	11.60
Kuwait	\$	2.09	2.36	2.14	11.48	11.39

(to be continued)

Table 2. Percentage changes in prices of major agricultural imports, selected groups of Arab countries, 1971-73 - 1974-75.

	Non-oil Arab countries	Oil Arab countries	Total Arab countries	Non-oil ECWA countries	Oil ECWA countries	Total ECWA countries	World ^{1/}
Wheat and meslin	152	155	152	182	160	179	85
Sugar	254	234	244	258	202	225	254
Vegetable oil	104	105	104	101	111	96	N.A.
Rice	152	153	157	170	148	155	135

Source: Table 1.

^{1/} "Free Market Price".

the terms of trade of oil and the commodities under study $[(400 \div 274) \times 100]$ was 146 in 1974-75, thus reflecting an increase of 46 per cent and not of 300 per cent, as one may have anticipated from a fourfold increase in the price of oil.

Of course, it is not possible to generalise from this to the purchasing power in terms of all imported goods, particularly as the prices of food items are believed to fluctuate more widely than those of manufactured goods.^{1/} But the fact that all the four items went up in unit values by at least 100 per cent, makes one suspect that this was not exclusively the result of fluctuation due to the usual production cycle, which normally affects different items differently, but was probably the result of a more pervasive cause. In that case the argument may apply more generally and not only to agricultural imports.

Thus, the price of all four import items increased, at a rate that it failed to match the increase in the price of oil by only a small margin. The next question is whether there is any direct or indirect evidence that the unit value increases in agricultural imports were in line with increases in the world price of these items, as shown in Appendix table 5. The evidence is available only for three of the four items. It consists of the comparisons of changes in the unit values with the changes in the world free market prices. As mentioned earlier, the comparison of the absolute level of unit values and of world free market prices may not be very meaningful, as they do not include the same cost items, but a comparison of changes in them is less open to this criticism.

(continued)

The (unweighted) average price was slightly below four times in 1974-75 period as compared to 1971-73 for Iraq and slightly above four times for Kuwait. Source: U.S. Monthly Bulletin of Statistics, September 1978.

^{1/} See J.D. Coppock, "International Economic Instability", McGraw 1962, however for the opposite view and evidence, at least in the past.

If the import prices for the Arab countries increased at a relatively faster rate after the price of oil was raised, one may tentatively suggest that this could be the result of "overcharging" by the suppliers who wanted to profit from this sudden higher income received by the buyers. However, Table 2 does not provide any simple answer to the question whether this may have happened. The percentage increase in the import price of sugar to Arab countries, particularly Arab oil exporting countries was, in fact, marginally lower than the percentage increase in the world price. The import price of rice increased at a faster rate for the Arab countries than for the rest of the world, but the difference was not very large. However, in the case of wheat, which is the largest single item of food import into the region, the picture is entirely different. In this case the rate of price increase for the Arab oil countries was 155 per cent as against 85 per cent for the world as a whole, and this difference is indeed significant. To a political, or even to a curious economist, an additional point to note may be that of the three items in Table 2, wheat is the only commodity for which Arab countries have been mostly dependent (85 per cent of their imports in the early seventies) on the western industrialised countries, (see Appendix table 3). This may lend support, even if marginally, to the views of those who consider the almost exclusive dependence on the western countries for such essential items a considerable threat to the food security of the Region.

B. Non-oil Exporting Arab Countries

While there were large differences in the prices paid by different countries for the same commodity, (see Table 1), there were remarkably little differences in the prices paid by the oil countries and the non-oil countries taken as separate groups as seen in Table 2. This result applies to the period before the major oil increase viz 1971-73, as well as to the period thereafter (1974-75). This is true even for wheat, for which the increase in import price to the Arab countries was significantly

higher than the increase in the world price. What we find is that the absolute level of the unit price of wheat, as well as the percentage change in this price, were not very different for the oil and non-oil countries.

This appears, in the first instance, to be a good example of the spill-over or neighbourhood effect. One could argue that due to geographical and other proximities between the oil and non-oil countries of the Arab League, the non-oil countries had to pay the same prices as the oil countries. However, a closer examination of Table 1 shows that countries which are close neighbours have not only been paying widely different prices for the "same" commodity, but that the percentage changes in their import prices have also been remarkably different. There seems no apparent reason why the neighbourhood, or the spill-over argument should not apply to the immediate neighbours, while it should apply to a vaguely defined neighbourhood between the oil and non-oil Arab countries taken as groups. Hence, there does not appear to be a simple explanation for the similarity in the behaviour of the unit prices of imported commodities between the non-oil exporting and oil exporting Arab countries.

Be as it may, the fact remains that the prices paid by the non-oil exporting countries for the four major commodities increased by almost the same ratio as those paid by the oil exporting countries. This, as may be recalled, ranged between 104 per cent and 254 per cent for non-oil countries for the 1971/73 - 1974/75 period. A Laspeyre index of prices for these items yields a price rise of 170 per cent for non-oil exporting Arab countries as the price index was 270 for 1974/75 (1971-73 = 100).^{1/}

In the preceding section the changes in the prices of agricultural imports were compared to the export price of oil -- the latter being by far the major item of export for the oil countries. There was little

^{1/} Based on Appendix table 1.

reason for examining the export price of the agricultural products of the oil exporting Arab countries at that stage. However, for the non-oil Arab countries the export of agricultural products is the most important source of exchange earnings and therefore cannot be ignored.

Table 3 ranks the major commodities exported in order of importance. It is clear from a comparison of Tables 2 and 3 that the unit values of the major imported agricultural commodities rose at a much faster rate than the unit values of the major agricultural items exported by the Arab countries.

The above observations can be presented more precisely in the form of index numbers (Laspeyre's) of unit values for the imported commodities. Taking 1971-73 as base, the index of import commodities for the non-oil Arab countries was 270 while that of the exported commodities was 157 in 1974-75. The terms of trade of the major items of agricultural exports to imports, therefore fell to 58 in 1974-75 (from 100 in 1971-73). Alternatively, the purchasing power of a unit of these exports for the main food imports fell to a value not much greater than one half.

Thus, at least in terms of the commodities examined, the non-oil countries were affected extremely adversely during this period, particularly when they had to face the same oil prices as everybody else. In terms of oil, the index of purchasing power of a unit of their agricultural exports fell to around 39, during the period. Of course, this does not present a complete picture for this would entail the examination of the unit values of other exports and imports as well. However, these facts do suggest that the overall terms of trade may also have turned against them, possibly quite drastically.

Table 3. Unit value of major agricultural exports of Arab countries, 1971/73 - 1974/75.

(US Dollars per metric ton, percentages)

Item	Non-oil Arab countries		Total Arab countries		Non-oil ECWA		Total ECWA					
	1971-73	1974-75	1971-73	1974-75	1971-73	1974-75	1971-73	1974-75				
Cotton raw	1 077	2 153	100	1 073	2 149	100	1 169	2 420	107	1 163	2 415	108
Vegetables	186	268	44	185	269	45	147	191	30	145	194	34
Citrus fruits	143	175	22	143	181	27	113	160	42	113	163	44
Olive oil	830	1 739	110	831	1 726	108	1 008	1 202	19	1 003	1 221	22

Source: Based on Appendix table 4.

1/ "r" refers to percentage change during the period under review.

C. Price Analysis for ECWA Countries

It can be seen from Tables 1 and 2 that neither the average level of import prices of the major imports nor the rates of change of these prices are significantly different between the Arab countries as a group and the ECWA countries. Therefore, the above arguments would have remained broadly unchanged had the import prices of the ECWA region been used instead of the Arab League import prices.

In the trade analysis of the Arab oil countries, the only information used from the Matrices relates to the prices of imported goods. The price index of the same import items was 265 for ECWA oil countries as compared to 274 for Arab oil countries as a group. However, if 265 instead of 274 is used as the index, the purchasing power of a barrel of oil in terms of the imported commodities for the Arab oil would have increased by 46 per cent for the Arab oil countries and by 51 per cent for ECWA oil countries. This difference is not significant when compared to an anticipated increase of around 300 per cent at the time of major increase in the price of oil.

The ECWA non-oil countries also appear to have done somewhat better than the Arab non-oil countries in general, as can be seen by comparing Table 2 with Table 3. Although the price index of their imports was higher than that of the Arab non-oil countries as a group (281 against 270), the price index of their exports was even more so (195 against 157). Hence, the purchasing power of the agricultural commodities exported in terms of those imported, was also higher (69 against 58) than for the non-oil Arab countries as a group. Similarly, the purchasing power of these imports in terms of oil fell to 49, as compared to 39 for the non-oil Arab countries. It is obvious, however, that they too were significantly worse off in terms of the issues presented, and their problem of foreign exchange was of the same magnitude as for the Arab non-oil countries taken as a group.

Some of these points will become more clear in the next and the last substantive chapters, in which the behaviour of the "quantities" and "values" of the major items of trade will be examined.

III. ANALYSIS OF THE QUANTITIES AND VALUES OF THE MAJOR
AGRICULTURAL TRADE ITEMS - ARAB COUNTRIES

It is clear from Table 4 that the rate of increase in almost all items was high both for the oil and non-oil exporting countries. The annual rates of growth ranged from approximately 9 per cent per year for rice to 19 per cent annually for vegetable oils. The only exception to the general pattern was the rice imports of the non-oil exporting countries which decreased at an annual rate of about 2 per cent during the period under study.

It is not easy to explain these unusual increases in the demand for import. A possible argument is that the domestic production may have declined for cyclical reasons, but this argument becomes suspect as this happened to all the four items simultaneously. Another explanation is that this sudden increase in demand was the result of the even more sudden increase in the purchasing power of the oil exporting countries. However, except for rice, the increase in demand from the non-oil exporting countries could also be considered unusual.^{1/}

Table 4 indicates that in most cases the percentage increase for the non-oil exporting countries was not much lower than for the oil exporting countries. Even the small differences in the increases for the two groups begin to lose significance, when one realises that during this period there was a considerable inflow of workers from the non-oil exporting countries into the oil exporting countries which, taken by itself, would have added to the normal growth of demand, and hence for imports.

^{1/} But more on this later.

Table 4. Average yearly quantities of the major agricultural items imported, selected Arab countries, 1971/73 - 1974/75.
(Thousand tons, percentage change)

Commodities Areas	Wheat and meslin		Sugar refined		Vegetable oil		Rice					
	1971-73	1974-75	1971-73	1974-75	1971-73	1974-75	1971-73	1974-75				
Arab oil countries	1 561	2 473	58	779	992	27	194	273	41	288	406	41
Arab non-oil	3 520	4 459	27	860	1 040	21	281	439	56	196	187	- 5
Total Arab	5 081	6 932	36	1 639	2 032	24	475	712	50	484	593	23
ECWA oil countries	579	731	26	441	502	14	97	119	23	248	361	46
ECWA non-oil	2 390	3 029	27	296	475	60	132	216	67	131	130	- 1
Total ECWA	2 969	3 759	27	737	977	32	229	334	46	380	491	29

Sources: Appendix tables 1 and 2.

1/ "r" refers to percentage change during the period under review.

Table 5, showing agricultural export volumes of the four major commodities, presents a more dramatic and clear picture. The export of all the four items declined for the non-oil exporting countries and the Arab countries as a group.^{1/}

Again, there is no simple explanation for this decline. Possibly, the slowing down of the economic activity around the world contributed to this, but the quantity of goods traded internationally for the world as a whole, in fact, increased during this period. Moreover, it is generally believed that a slack in demand for agricultural products, particularly in the less developed countries, affects quantities only marginally; the main impact is on prices. In view of this, the slack in the world economic activity during that period does not fully explain the reduction of exports from the Arab countries.

One way in which both the reduction in exports and the increase in imports may be explained, is by hypothesizing that after the increase in the price of oil considerable amounts of factors of production (mainly labour) moved from rural to urban areas within every country and from non-oil to oil Arab countries, which caused stagnation or even reduction of production for exports, and possibly for domestic consumption as well. The latter may have caused an increase in the demand for imports, particularly in areas where workers did not emigrate with their families, the consuming units they support. As mentioned earlier, this is no more than a hypothesis, which cannot be examined here in any detail.

^{1/} It is noted that the export volumes of the four major commodities are only of marginal importance in the oil-exporting countries. The evidence for the ECWA countries is less clear; the quantity of at least one item increased over the period, but again this was not sufficient to have any perceptible influence on the foreign exchange earnings, as is clear from Table 6.

Table 5. Average yearly quantities of the major agricultural items exported by Arab countries
1971/73 - 1974/75.
(Thousand tons, percentage change)

Commodities Areas	Cotton raw		Vegetables		Citrus fruits		Olive oil					
	1971-73	1974-75	1971-73	1974-75	1971-73	1974-75	1971-73	1974-75				
Non-oil Arab	697	447	-36	1 050	846	-19	994	976	-2	107	88	-18
Arab countries	701	446	-36	1 104	872	-21	1 134	1 069	-6	108	91	-16
Non-oil ECWA	452	321	-29	438	400	-9	361	454	26	1	1	0
ECWA	455	322	-29	463	411	-11	365	457	25	1	1	0

Source: Appendix table 4.

1/ "r" refers to percentage change during the period under review.

Whatever the reason for the high growth rate in imports and for the decline in exports, these combined with a much higher rate of increase in the unit prices of imports as compared to those of exports, produced an extremely adverse balance of trade situation. This, of course, has serious consequences for the non-oil exporting Arab countries, as shown in Table 6.

Table 6. Trade balance for four major agricultural commodities traded in the non-oil exporting Arab countries, 1971/73 - 1974/75.

(Thousand US Dollars)

	Non-oil Arab countries		Non-oil ECWA countries	
	1971-73	1974-75	1971-73	1974-75
Export earnings ^{a/}	1 176 845	1 508 419	635 247	926 307
Import bill ^{b/}	585 549	2 005 142	316 029	1 205 840
Trade balance	+ 591 296	- 496 723	+ 319 218	- 279 533

Source: Appendix tables 1, 2 and 3.

a/ Earnings from raw cotton, vegetables, citrus fruits and olive oil.

b/ Import bill of wheat, refined sugar, fixed vegetable oils and milled rice.

The last row of Table 6 makes all too clear the significance of all that has been said about the agricultural trade of the non-oil exporting Arab countries, as well as that of the non-oil exporting ECWA countries. In the years 1971-73, less than half the earnings from the four major agricultural export commodities were sufficient to buy the four major items of agricultural imports, thus leaving the remaining half for the imports of other goods and services. During the years 1974-75, the large surplus on this account had turned into a serious deficit, requiring one fourth of the same items of imports to be financed from other sources. It seems that it is probably only the remittances of the labourers working in the oil exporting countries, and the large sums of aid and loans granted by the oil exporting countries that have allowed the non-oil exporting countries of ECWA and other Arab countries, to meet their foreign exchange requirements and finance economic development programmes.

IV. SUMMARY AND RECOMMENDATIONS

1. An examination of the major agricultural imports of the Arab countries as well as of the ECWA countries reveals that the unit values of the same standardized commodities varied considerably, even among neighbouring countries. This was true for both periods studied in the paper, viz. 1971-73 and 1974-75. A more detailed study of the reasons for these differences may lead to useful information on, among other things, the nature and degree of monopoly power exercised in the world market for these commodities. A case can be made for having a joint system of collecting and disseminating information on prices and costs of transport, even before the above suggested study is completed.
2. The unit values of all major agricultural imports rose sharply, more than two and one-half times, during the 1971-73 and 1974-75 period.
3. The import unit values of the agricultural commodities studied kept pace with the world prices of these items, except for wheat. The import unit value of wheat to the Arab countries rose at a much faster rate than the world price of wheat. It is worth noting that among all these items, wheat alone was imported almost exclusively (85 per cent) from the western industrialised countries.
4. The index of the imported items under study stood at over two and one-half times in 1974-75, and the export price of oil rose four times at the end of 1973. Consequently, the purchasing power of a barrel of oil to the Arab countries between 1971/73 - 1974/75 rose (in terms of the four major agricultural imports) not by 300 per cent, as one may have imagined, but only by about 50 per cent.
5. The index of the unit values of the four major agricultural export items from the non-oil exporting Arab countries stood at 157 in 1974-75, (1971-73 = 100) as compared to 270 for the unit values of the four major import items. This meant that in 1974-75 a basket of the agricultural

export items from these countries could buy only a little over half of their major agricultural imports as compared to what it could buy in 1971-73. The case of non-oil exporting ECWA countries was only marginally different. The consequences of the above for the non-oil exporting countries, most of which depend, to a large extent, on agricultural exports for their foreign exchange requirements were very serious.

6. The quantities imported of all major commodities by both oil and non-oil exporting countries, increased at a very fast rate during the first half of the seventies. The quantities exported of all the major agricultural commodities declined for Arab countries as a group as well as for the non-oil countries, in some cases at a very fast rate.

7. The consequences of the relatively slower increase in unit values of Arab agricultural exports and a decline in the quantities exported combined with very fast increases in the unit values of Arab agricultural imports and substantial increases in the quantities imported, were drastic, particularly for the non-oil exporting countries. In 1971-73 there was a very substantial net surplus of foreign exchange, earned by the non-oil exporting Arab and ECWA countries from trade in the four major agricultural items. However, during the years 1974-75 the surplus turned into a considerable deficit; one quarter of the four major commodities imported by the non-oil exporting countries had to be bought by foreign exchange earned from other activities or borrowed.

8. The picture of the economies of the Arab countries or of the ECWA group emerging from the agricultural trade matrices for the Arab countries is not as bright as one may have been led to believe. On the one hand, the Arab oil exporting countries did improve their position after the 1973 price rise, but it appears that this might have been on a very much more modest scale than the popular view has it. On the other hand, the non-oil exporting countries appear to have been much worse off than they were before the rise in oil prices, at least as far as their foreign exchange earnings from the agricultural sector are concerned. The latter may have had seriously affected the development efforts of many of these countries.

9. Thus the oil exporting Arab countries cannot achieve their goal of raising the purchasing power of their oil to any significant degree without, in some way, linking its price to the price of their imports. This should obviously be the target of their oil pricing policy.

10. To the extent the factors of production, and more particularly labour, have moved from the non-oil to oil exporting countries, it would seem only fair, and also economically sensible, that the other major mobile factor, capital, is moved in the reverse direction. Thus either public and/or private investment should be made in agricultural sector of the non-oil exporting countries from the funds originating in the oil exporting countries. Such a policy will have the additional advantage of increasing the "Food Security" of the Region.^{1/}

11. A parallel situation to (10) may be found even within the oil exporting countries, in which substantial numbers of labourers have moved from the Agricultural to the non-Agricultural sector. This tendency may have the potential of inhibiting the growth or even destroying the existing basis of Agriculture in these countries.^{2/} Therefore, special measures including a considerable amount of appropriate investment in Agriculture of these countries may be necessary to remedy the situation.

^{1/} See for instance Food Security Aspects of Arab Trade in Agricultural Commodities ECWA 1977.

^{2/} See M. A. Katouzian "Oil versus Agriculture -- A Case Study of Dual Resource Depletion in Iran", Journal of Peasant Studies, April 1978, pp. 347-369.

APPENDIX ON DAIRY PRODUCTS

As mentioned in footnote (1) of chapter I, Dairy Products are fourth in importance among the items of food imported into the Arab countries. The only reason these were not included in the analysis is that the commodities comprising dairy products are too heterogenous for their simple total weight, or the price obtained by dividing total value by the total weight, to provide economically meaningful magnitudes.

If more detailed information were available, one could, of course, either obtain their quantity and price indices, or convert the items into milk equivalents. In the absence of such information, it was decided not to include them in the main part of the analysis.

However, the item is too important to be left out of the discussion altogether. In this Appendix we shall examine its price and quantity behaviour, by making a simple but drastic assumption that neither the relative quantities of the various commodities comprising it, nor their relative prices changed over the period. Once this assumption is made, one can treat the total quantities and prices of the dairy products as if the item consisted of only one commodity. The following table gives the quantities and prices of dairy products in periods 1971-73 and 1974-75.

When comparing the table below with Table 1 of the text, one finds that the price of dairy products has increased at a much slower rate than the prices of other major items of agricultural imports. In fact, the rate of growth of its price is closer to the average increase in the prices of the major items of export than of the imports. The immediate conclusion is that, had the price of dairy products been used instead of the price of rice in indices in the text, the picture presented there would have been somewhat less dark. However, as this item would still be only fourth in order of importance for the Arab countries as a group, the difference would be only marginal.

Table 7. Imports of dairy product, including eggs, Arab countries, 1971-73 and 1974-75.

Countries	Price (US\$/MT)			Quantity ('000 MT)		
	1971-73	1974-75	r ^{1/}	1971-73	1974-75	r ^{1/}
Oil - Arabs	643	1 054	64	161	226	40
Non-oil - Arabs	763	1 121	50	90	112	24
Total Arab	686	1 076	57	251	338	<u>35</u>
Oil - ECWA	720	1 237	72	72	97	35
Non-oil - ECWA	813	1 307	61	50	61	22
Total ECWA	758	1 264	67	122	158	<u>30</u>

Source: FAO Computer Printouts.

1/ "r" refers to percentage change.

The change in the quantity of dairy products, however, is very much in line with other items imported. Taking imports in all the Arab countries, the percentage change is somewhere near the average (compare with Table 4) of all these items.

If one takes the price and quantity changes together, and by themselves, one may tend to conclude that this is an item the import price of which has risen at a relatively slower rate and the quantity imported has not increased at a relatively faster rate, hence it deserves a lower priority in investment as compared to other items of imports. Such a conclusion would not only be based on insufficient information, but also on incomplete argument. Thus one may argue, for the opposite case, by using a generally accepted hypothesis that the income elasticity of demand for dairy products is higher than for the other items of imports considered in this paper. Then the fact that even at a relatively low price, the quantity imported has not increased at a higher rate than for other commodities could be explained by the fact that the domestic producers have produced larger quantities in response to demand, competing

successfully with the imported dairy products, and have thus helped in keeping both the price level and the quantity imported lower than they would have otherwise been. If this turns out to be the case, then one may argue that the factor endowments in these countries are favourable to dairy production and hence it should be given priority in investment, and not the reverse. Obviously, more detailed information and analysis would be needed to reach more definitive conclusions.

APPENDIX TABLES

Appendix table 1. Imports of agricultural commodities, 1971-73, Arab countries^{1/}
 (US Dollars and US Dollars per metric ton)

	Algeria	Iraq	Kuwait	Libya	Qatar	Saudi Arabia	Oil countries	Bahrain	Egypt	Jordan	Lebanon	Mauritania	
Wheat and meslin	000\$ MT \$/MT	69557 887261 79	36830 389948 96	5280 95464 55	10889 96735 115	1059 6974 152	10881 87067 124	134496 1561449 86	824 3838 215	123452 7602333 77	5627 46774 120	26232 369193 71	975 9065 76
Sugar refined	000\$ MT \$/MT	52875 264237 194	60098 315090 191	4951 23313 212	16726 73917 226	1160 5396 215	20398 97369 215	156208 779322 200	2185 7301 299	- - -	8524 44004 194	10660 69571 153	4497 18561 212
Fixed vegetable oils	000\$ MT \$/MT	23027 73818 304	22845 85586 267	2957 3452 857	18343 23485 781	224 320 700	5096 7638 641	72492 194299 373	330 639 516	42674 112880 378	3165 7722 410	3049 5760 529	866 2170 401
Dairy products and eggs	000\$ MT \$/MT	35135 57349 596	12867 21791 590	16310 21596 620	16445 31498 522	3410 5915 577	19495 23027 917	103662 161176 643	3044 4781 637	2646 2807 943	8507 9483 897	12831 14003 884	2060 3096 488
Rice milled	000\$ MT \$/MT	2277 11308 194	9745 48673 200	10467 45915 228	4685 28153 166	1931 8085 239	33591 145795 266	62696 287929 218	6795 27472 247	- - -	3832 21855 175	4266 23891 179	2365 21068 124

(to be continued)

Appendix table 1. (continued)

	Morocco	Somalia	Sudan	Syria	Tunisia	Yemen AR	Non-oil countries	Arabian Africa	Arabian Asia	Non-Arab League
Wheat and meslin	000\$	65679	17195	24364	24384	7298	296065	312167	118395	430562
	MT	655980	190508	295699	274224	72194	3520119	3714418	1367150	5081568
	\$/MT	100	90	80	87	126	84	-	-	85
Sugar refined	000\$	42096	36708	21461	16739	8493	152483	170761	137930	308691
	MT	249108	188771	126442	101468	49206	859677	901307	737692	1638998
	\$/MT	169	194	160	161	238	177	-	-	188
Fixed vegetable oils	000\$	30523	376	1102	16742	499	101182	134406	39267	173673
	MT	92939	834	3571	48215	1551	281025	359086	116239	475325
	\$/MT	328	451	308	339	332	360	-	-	365
Dairy products and eggs	000\$	12796	2174	13221	10885	884	68787	82330	90119	172449
	MT	21136	2344	16997	13103	1961	90101	131723	119555	251279
	\$/MT	605	927	754	809	776	763	-	-	686
Rice milled	000\$	3	1741	10119	600	1078	35819	16691	81824	98515
	MT	7	10277	51936	2654	6039	196057	104325	379661	483985
	\$/MT	429	169	185	219	235	183	-	-	204

Source: Based on FAO Computer Printouts (CPO).

1/ Oman, United Arab Emirates and People's Democratic Republic of Yemen are not included for lack of data.

Appendix table 2. Imports of agricultural commodities, 1974-75, Arab countries^{1/}

(US Dollars and US Dollars per metric ton)

	Algeria	Iraq	Kuwait	Libya	Qatar	Saudi Arabia	Oil countries	Bahrain	Egypt	Jordan	Lebanon	Mauritania
Wheat and meslin	000\$ MT \$/MT	308759 147632 204	13510 58793 230	58599 230010 255	2282 11658 196	10894 40450 269	541676 2473437 219	2349 10859 216	569713 2465767 231	8703 37677 230	46903 287208 156	2921 15686 186
Sugar refined	000\$ MT \$/MT	289891 385841 751	24788 44491 557	75105 104685 717	4780 5171 924	40360 83653 482	661590 992249 667	2757 4907 562	86443 138940 622	27624 46003 600	36750 72187 509	9500 18300 519
Fixed vegetable oils	000\$ MT \$/MT	90293 124808 723	6961 4888 1424	38258 29112 1314	1112 595 1869	15427 13734 1123	208831 272679 766	494 440 1123	155116 197627 786	3467 5074 683	3083 4315 714	1250 2100 595
Dairy products and eggs	000\$ MT \$/MT	87132 93879 928	29107 22559 1290	31285 35247 940	7222 5839 1237	39984 33659 1188	238156 225924 1054	5377 6963 772	15296 12739 1201	11418 9205 1240	20093 11003 1826	4485 5450 823
Rice milled	000\$ MT \$/MT	4026 6592 611	36482 57794 631	19663 38515 511	6411 8882 722	64626 119834 539	224277 406181 552	10184 13557 751	- - -	9593 17374 552	12000 25000 480	5500 31000 177

(to be continued)

Appendix table 2. (continued)

		Morocco	Somalia	Sudan	Syria	Tunisia	Yemen AR	Non-oil countries	Arabian Africa	Arabian Asia	Non-Arab League
Wheat and meslin	000 \$	205557	44	21503	24767	38593	25053	944106	7205687	280092	7485779
	MT	1064904	307	106749	129926	242455	97176	4458704	5638704	1293443	6932147
	\$/MT	193	143	201	131	159	258	212	214	217	214
Sugar refined	000 \$	186725	5180	99129	108905	59750	31422	652185	809721	504051	1313772
	MT	271481	6385	130021	159336	138569	53366	1039501	1194220	837526	2031746
	\$/MT	680	811	762	683	431	589	627	678	602	647
Fixed vegetable oils	000 \$	99324	3361	2	3400	52142	816	322455	439744	91537	531281
	MT	143262	3833	1	7027	74443	1375	439297	574984	136987	711971
	\$/MT	693	877	-	484	700	593	734	765	668	746
Dairy products and eggs	000 \$	23442	668	2504	23180	15144	4447	126054	179955	184249	364204
	MT	27750	824	1387	17329	15904	3888	112442	193178	145184	338361
	\$/MT	845	811	1805	1338	952	1148	1121	932	1269	1076
Rice milled	000 \$	-	7208	2357	34838	1256	3460	86396	40011	270659	310670
	MT	2	19258	4252	68999	2123	5351	186916	107741	491354	593095
	\$/MT	-	374	554	505	592	647	462	393	551	525

Source: FAO Computer Printouts, Agricultural Trade Matrices for the Arab Countries.

1/ Oman, United Arab Emirates and People's Democratic Republic of Yemen are not included for lack of data.

Appendix table 3. Major sources of agricultural imports of the Arab countries, 1971/73
(average)

(Thousand metric tons and millions of US Dollars)

Sources	Wheat and Meslin		Sugar refined		Vegetable oil		Rice	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
North America	2 435	209			134	47	96	25
Oceania Developed	1 310	96						
Western Europe	612	62	409	83	144	56		
Eastern Europe			314	48				
Latin America			679	126				
Developing Asia excluding Arab countries					92	25	202	41
Arab League							86	15
World	5 082	431	1 639	309	475	174	484	99

Source: FAO CPO, 1978, Agricultural Trade Matrices for the Arab Countries.

Appendix table 4-A. Quantity, value and unit values of the four major agricultural commodities exported by Arab countries, 1971-73 and 1974-75 averages.

(Millions of US Dollars, thousand metric tons and US Dollars per ton)

	Cotton raw		Vegetables		Citrus fruits		Olive oil	
	Non-oil	Total Arab	Non-oil	Total Arab	Non-oil	Total Arab	Non-oil	Total Arab
	1971	1974	1971	1974	1971	1974	1971	1974
	-73	-75	-73	-75	-73	-75	-73	-75
Quantity	697	445	701	446	1050	846	1104	872
					994	976	1134	1069
Value	751	957	752	958	196	227	204	235
					142	171	1626	193
Unit value	1077	2153	1073	2149	186	268	185	269
					143	175	143	181
					830	1739	831	1726

Source: FAO CPO, Agricultural Trade Matrices for the Arab Countries.

Appendix table 4-B. Quantity, value and unit values of the four major agricultural commodities exported by ECWA countries, 1971-73 and 1974-75 averages.

(Millions of US Dollars, thousand metric tons and US Dollars per ton)

	Cotton raw		Vegetables		Citrus fruits		Olive oil									
	Non-oil	Total ECWA	Non-oil	Total ECWA	Non-oil	Total ECWA	Non-oil	Total ECWA								
	1971	1974	1971	1974	1971	1974	1971	1974								
Quantity	452	321	455	322	438	400	463	412	362	454	365	457	1	1	1	1
Value	529	776	530	777	64	76	67	80	41	73	41	75	1	1	1	2
Unit value	1169	2420	1163	2415	147	191	145	194	113	160	113	163	1008	1202	1003	1221

Source: FAO CPO, Agricultural Trade Matrices for the Arab Countries.

Appendix table 5. World free market prices selected commodities, 1971-75.

(US Dollars per metric ton)

Year \ Commodity	Wheat	Sugar	Rice
1971	62	99	130
1972	70	160	150
1973	138	209	297
1974	181	655	542
1975	151	450	363

Source: Handbook of International Trade and Development Statistics, UNCTAD, Supplement 1977, New York, U.N., 1978.

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