CHAPTER 8

Conclusion

The peace accords between Egypt and Israel, (1978) Jordan & Israel (1994) the latest between Palestine (Proposed sovereign state of Palestine) & Israel (1994) have implied designs of regional integration and economic Union. It means the co-operative and interdependent trade relations between national economies in transition stage & complete unification of national economies of a group of nations. A common market is the culminating stage as it entails the free movement of factors of production and establishment of a free trade within a regional group of nations which leads to efficient resource allocation and maximum welfare effects because the “Union” is a miniature form of global free trade.

In the case of Jordan, Israel, Palestine and Egypt (And it is quite likely that Syria & Lebanon have inclined to joined the Regional group of the Middle East countries on a few conditions which are being sorted out) the group of the said six nations will immensely benefit because of lowest costs of transportation and removal of inter-country tariffs.

The elimination of tariffs by partner countries in the middle East economic Union will provide benefits to each Home Country as it can now sell at a higher price in partner country markets. This gain is bound to be larger since the tariffs imposed in inter-country transactions are very high. It will increase the gains obtained by reducing the relative scarcities of the factors of production. Egypt, Syria have immense land and natural resources. Small countries of the group Lebanon, Israel, Palestine & Jordan can depend
on the “Surplus Land Factor” of the larger countries. There is also enormous Manpower in Egypt, Syria & Jordan which can be utilised either by direct employment or by encouraging labour intensive ancillaries which would provide intermediate or assembled goods for High-Tech and sophisticated industries of Israel. Israel has “State-of-the-Art” Know-How and Technologies of suitable irrigation for desert lands, intensive and computerised agricultural and industrial production, as well as ultra modern banking and capital market institutions.

All the rest of the countries in the group can avail of the benefits of transfer of technology, collaborations and buying or borrowing the technical know-how from Israel. On the other hand, Israel has relative scarcities of water, minerals, oils, metals, construction material, petroleum & petroleum products therefore, Israel can bank upon supplies of them at cheaper transport costs and favourable tariffs rates from countries like Egypt and Syria, who cannot make use of the above mentioned surplus resources due to lacking of capital and sophisticated technology.

Jordan has vast land resources which are barren (Nearly more than 70 Percent of the total land resources). Palestine has surplus labour, Israel has capital & technology of converting deserts into productive farms, if they combine, they will bring miraculous results in diversified agriculture & horticulture & can “enter into world market as another group of Agricultural exporting countries” like the Latin America union. Egypt, Palestine & Jordan have highly educated labour force & it has already migrated to gulf countries, such as Europe, Australia, Canada & United States.
During the Gulf War, most of the migrated white collared labour has been sent back to their countries causing serious problems of massive unemployment. If the countries of the middle east establish peace, stability & order; a lot of foreign capital will start flowing into them because there are immense potentialities & prospective gains for the foreign investors for harnessing the unutilised natural resources. Israel has made tremendous progress due to the entry of foreign capital & know-how. The rest of the countries will also prosper by encouraging foreign direct investment which will not only raise the national income but also the full employment of its unutilised labour force.

The processed data of this research study reveals that the main causes of the ruin & the retarded growth of the countries of the Middle-East are

i) Continuous wars & conflicts, terrorist activities & civil wars within the country.

ii) Consequently the countries are forced to raise extra-ordinary huge, heavy & burdensome finances required for defence & military operations. They are also required to spend excessively on maintaining the law & order by averting sabotage, guerilla attacks & hijacking, bomb explosions, killing of innocent people, destruction of public & private properties. The study shows that by & large, prior to the recent peace accords all the selected countries used to spend more than 30 percent of its annual budget expenditure on “Defence” only.

This amounts to a colossal waste because defence expenditure adversely affects the productive allocation of scarce resources available In
the country. The group of Middle-East countries have also suffered due to huge public debts, bankruptcy on the front of external debts, deficit financing & hyperinflationary conditions. On an average each country has spent more than 20 percent of its annual expenditure on interest payment & debt servicing which again is a serious, negative & unproductive allocation of public exchequers. Defence & interest payments - these two heads nearly take a toll of nearly 50 percent of annual expenditure thus the countries are suffering from very low growth-rate.

On the front of balance of trade, each country suffers from adverse trade balance because of ever increasing & higher rate of rise in their annual imports than the rate of their exports earning during 1980-90. The countries of the groups used to earn very handsome receipts of foreign exchange by tourism; because of the attractive places of religions, cultural & recreational tourism like pyramids & the Nile in Egypt, the sacred city of Jerusalem, the most sacred place for the pilgrims of Judaism, Christianity and Islam, the Beirut city of Lebanon a counterpart of Geneva of Switzerland.

The city of Damascus which is famous due to its romantic presence in the Arabian literature, Petra ancient city of Greek & the Roman times near Amman in Jordan, Dead Sea a wonder of the world from Palestine (the lowest point on the earth) & the neighbouring city Jericho, Mediterranean beaches at Tel Aviv (Israel) Yafa Akko, & Beirut, Mt. Lebanon (Snowclad mountains of Lebanon) mineral hot springs in Syria etc. In post 70's & especially in the recent years of 80's & 90s the annual receipts of tourism of each country in the group, show a very moderate rise. Prior to 50's due to the Tourism Receipts the trade balances of the Middle-East countries used to balance or atleast they used to contributes sizeable earnings to cover up the marginal
deficit in the overall trade balance. If the peace resumes all the countries will start earning unprecedented quantities of precious foreign exchange & can improve their balance of payments position. The import of armaments, ammunition & war equipments, as well as, the huge welfare expenditure on the rehabilitation of refugees & others heads of the countries also have compelled them to raise external debts which have impaired their balance of payments position.

8.1 THE IDENTIFIED AREAS OF MUTUAL DEPENDENCE OF REGION.

Israel has the highest GDP in the group of 5 selected countries in the middle east. Egypt has almost matching GDP compared to that of Israel. Syria ranks third buts its GDP is barely 1/4th of the GDP of Israel and Egypt (US $10 Bn : US $ 40 Bn.). The three countries viz., Egypt, Israel and Syria have already signed the peace treaty in 1978. The key to regional peace is at present, held by Syria. Syria has been holding more than 26 percent of its annual expenditure on defence which has caused a serious setback to its economic growth. After the end of cold war and the defeat of Saddam Hussein in the Gulf War in 1991-92 Syria has started leaning towards the Western and European countries. A lot of pressure from within and from outside is being mounted and in the nearest future, Syria is likely to join the peace treaty and the regional economic co-operation, provided its prime condition of vacating Golan heights is accepted by Israel. Thus the plan of regional economic co-operation is going to materialise in a couple of years, at least prior to 2000 A.D
Both Egypt and Syria are large in size, resources and population and percentage shares of their agriculture to GDP and Agricultural Employment are highest (3-4 times higher than the rest of the group countries). Conversely, their secondary and tertiary sectors are relatively weak.

Therefore, the smaller countries can rely on the Agricultural surpluses and provisions from Egypt and Syria. By building secondary/tertiary sectors with the co-operation with Israel. Egypt and Syria can relieve their surpluses from agriculture and labour forces more productively. The share of financial sector in the GDP is the highest in the case of Israel, Jordan, and Lebanon. Egypt and Syria can develop their service sectors of economic activities, thus like Germany in EEC, it can provide appropriate leadership for the progress and prosperity of the regional group in the Middle-East countries.

Syria is facing serious inflation and Lebanon is suffering from hyperinflation due to the continued conflicts with Israel. The peace accords and regional co-operation will positively bring stable growth and economic recovery. Israel could raise its per capita income to a fabulous amount of US $13760. The rest of the countries in the group have only three or four digital per capita incomes.

Israel has also generated maximum employment to its enormously dense population. The economic development itself will cure the problems of low income and low rate of employment in the rest of the countries.

Jordan and Israel have surplus funds Syria & Egypt are investment-hungry and capital deficient countries. With regional cooperation,
there will be productive utilization of non-performing assets of the capital. Efficient countries Egypt, Israel, the rest of the countries have entered into traps of stagflation & debts traps; therefore their interest payments are very heavy. With peace. Each country of group will be able to set their domestic economies in order.

Egypt and Syria can produce, in monopolistic manner iron ore, petrol, natural gas & salt, whereas Jordan & Israel can produce phosphate, potash, bromine & sulphuric acid. There are many areas where cross-dependence & reciprocity of gains of mutual exchange are possible.

8.2 AREAS OF INTER DEPENDENCE IN CASE OF AGRI PRODUCTS

Egypt has monopoly of production of rice, potatoes, sugar & maize. The rest of the countries in the group cannot either produce them or in sufficient quantum. Egypt exports all these products to far off countries & earn a sizeable foreign exchange. It exports some of them to the neighbouring countries. (Who are actually importing food & other items) there will be positive advantages of transport, transit & most favoured treatment to tariffs & prices gained by the neighbourhood. Reciprocally, Egypt cannot produce grapes, oil, apples, brinjal, it can therefore gain by intra-regional trade & supplies from Syria, Jordan & Israel. Jordan suffers from shortages of rice, cotton lint, potatoes & onions which can be bought directly from Egypt & brought via Aqaba port on the Red sea. Reciprocally, the Olive oil soap of Jordan which is the hot favourite of Arab countries, can be bought by the neighbouring countries.
Israel has done miraculous progress in its desert & fodder production from its deserts. Syria & Egypt have very large cattlestocks, therefore they can either borrow the technique from Israel or buy fodder from the same. Although Israel has self sufficiency in food beverages & consumers products; it can embark on a programme of specialisation in its comparative gains and can buy agricultural products from the neighbour viz. Israel and Lebanon can produce best of alcoholic drinks whereas Jordan produces best Tobacco / Cigarette products of export quality. The rest of the nations can import them at confessional prices.

8.3 IDENTIFIED MANUFACTURED PRODUCTS OF CROSS-DEPENDENCE IN THE INTRA-REGIONAL TRADE.

Egypt has monopoly in the production of cement, fertilizers, refrigerators and automobile parts. The rest of the countries find the acute dearth of these products. Syria's Flour industry is the biggest in the region. In recent years Jordan has developed its Steel industry with the help of Egypt. Syria has a major lead in textile industry. Israel has exclusive monopoly in manufacture of Furniture, Polythene, Ammonium Sulphate, Tiles, Paper and Chlorine. Thus the rest of the countries can rely on the supplies of the specialised products produced by their co-operative neighbour.
8.4 COMPOSITION AND DIRECTION OF INTERNATIONAL TRADE OF THE SELECTED COUNTRIES.

Egypt, Jordan and Syria exports food and live stock to far off countries of the world. Jordan exports tobacco and cigarettes in the World market. Syria has a lead in export earnings of animal fat and oil. Jordan leads in chemicals. Egypt has top lead in the group of exports of manufactured goods to the World Market. Both Syria and Egypt have main exports of cotton, Textiles, fruits and vegetables. Thus, most of the members of the mid East group export primary, intermediate and finished goods and not capital goods. The terms of trade of them are obviously at disadvantageous position because of the elastic and erratic demand for these products and intensely keen competition from the other developing countries of the World.

The most common destinations of the Middle East exports are EEC, Other European Countries, US, Canada, neighbouring Arab countries and countries like Japan, China and India. The Major share of the export earnings of these countries belongs to the European union and the western countries. The pressures of the latter group of countries are obviously very effective, as far as, the Peace process in the region is concerned. It would also be advantageous for the western countries to negotiate the terms of trade and bulk purchases from the Mid east Countries Union.

As far as, the imports are concerned. Most of the countries in the region buy finished goods, capital goods and consumer goods from the EEC, Other European countries, US, UK, Canada, Japan. Except Israel, most of
them suffer from widening gaps between their huge import bills. Most of them, even Syria after cold war have a leaning towards the western countries for the imports of armaments, war equipments as well as capital goods.

Hitherto, Israel has been boycotted and treated as “Pariah” (Untouchable) by the neighbouring Arab Countries. The deep hatred and the age-old bias against Israeli’s has been the main lacking factor in the smooth, peaceful and cooperative trade relations of the countries in the region. On the other hand, Israel has got the most favoured nation treatment from all the western countries especially the USA. Thus Israel could expand its export earnings from them, as well as, could get tariff concessions in its imports from them. Israel could attract a very large number of foreign investors and could avail of the benefits of AIDS and SOFT LOANS from the World Capital market and International Institutions.

At present, due to the end of the cold war and increased leaning of the Arab countries towards the west, it is quite likely that the efforts to forge regional peace and economic co-operation will gain momentum and peace will materialise in its concrete form in the future. At the present juncture nobody from the Western GODFATHERS of Israel are in the mood to encourage Israel’s chauvinistic & extremist passions which would endanger the regional peace. The ball now is in the court of Israel and the international referees will not tolerate the breach of the rules of the game of regional co-operation.

If the peace in the region of the middle east countries prevails; it would be certainly convenient to the Western countries (who happen to be the major partners in the trade of the middle east countries) to think of a common &
uniform package of tariffs, terms and conditions of trade with the regional group, as a whole.

*The theory of the Second best, (a subset of globalization ) and the theory of economic integration have empirically proved the fact that it is the group of smaller countries which gain the most by both intra regional & international trade by strengthening their collective strength against the formidable foreign trade partners. The smaller countries can also gain the infinitely expanded markets belonging to the global market, as they find the chronic bottlenecks within the limited local markets.*

*The recent trends in growth of India's exports and imports trade with the selected countries in the Middle East countries also proves the very fact that India is required to import petroleum & mineral products almost with inelastic demand for her fertilizers & chemical industries, where as the former group is buying food, livestock, agricultural products like turmeric, spices etc. from India plus chemicals, medicines, engineering products. In fact, countries like Israel will benefit immensely from acquiring the vast consumer market of a population of about 1 billion people in India, either by re-exports of sophisticated capital & consumer goods manufactured in the west, in the capacity of an intermediary or by directly exporting its own competitive products in India market.*

*Between a trade of a small & very large country, a small country undoubtedly as a rule, gets relatively better & higher gains. The small countries of the Middle East by forming a group like ASEAN, Latin American union (precisely South Korea, Hongkong, Singapore, Philippines, Taiwan & Malaysia as a group & Brazil, Argentina, Chile, Peru etc. as another ) will positively accrue the gains of free trade and globalisation of their markets.*
The prescription to them has been already given by the world’s Best Economic Experts, it is upto the patients to accept it & respond to the treatment genuinely. There is still a big “IF” which is obstructing the formation of the regional peace & co-operation - in case it is removed the selected countries in the Region are bound to reap the harvest of fortune just like South Asian Tigers & Agricultural exporting nations of the South America.

Theoretically peace accord has per se tremendous potential for the regional prosperity. But in political manipulations, the point about prosperity with peace is often missed.

THE HISTORY OF MANKIND PROVES THAT MEN DO NOT LEARN BY THEIR OWN AND THEIR PREDECESSORS MISTAKES AND IT IS THE EMOTIVE ILLUSION (RATHER THAN RATIONAL DECISIONS) WHICH BRING DISASTERS INSTEAD OF PROSPERITY!