Trade and Finance

By John T. Haldane

Safeway Settles Arab Boycott Charges

Safeway Stores, Inc. paid the US government $995,000 after being charged with violating American laws by complying with Arab boycott regulations concerning companies which do business with Israel. The fine is the largest ever collected under US anti-boycott laws, enacted in 1976 and 1977 in response to the Arab League's boycott begun in 1951. The case involved 449 alleged violations by Safeway operations in Kuwait and Saudi Arabia. The company denied any guilt in the case, saying it had decided to negotiate a settlement rather than face large legal fees in a drawn-out court battle.

US Oil Imports Up, Reserves Down

US oil production dropped in 1987 to its lowest level in 10 years, according to the American Petroleum Institute. The United States currently imports about 42 percent of its domestic oil needs, most of it from Arab producers in the Middle East, compared to 31 percent in 1985.

Meanwhile, reserves of US oil and gas are even lower than had been assumed, according to the US Geological Survey. The agency has reduced by 40 percent its estimates of the oil and gas still undiscovered in the United States. Uncovered crude oil deposits are put at approximately 33 billion barrels, enough to last only about 11 years at current use levels.

The president of the American Petroleum Institute warned late in 1987 that the United States could face another serious energy crisis within a few years unless action is taken to stimulate the depressed domestic oil sector.

GCC Economies Continue to Grow

The Gulf Cooperation Council (GCC) states, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, are increasing political and economic cooperation. After six years of deficits, current account surpluses are expected in 1989 for all of the GCC member states, along with a steady improvement in trade balances, according to the Wharton Econometric Forecasting Associates. This economic improvement is largely a result of an approximate seven percent increase in GCC oil revenues in 1987 over the previous year. This increase in revenues was achieved despite a drop in oil production from 8.2 million barrels per day to 6.6 million barrels per day.

Slow But Steady Growth in Morocco

Although the Moroccan economy grew by only one percent in 1987 due to bad harvests, it is expected to show steady improvement this year as economic adjustment programs initiated over the last five years take effect. Devaluations in 1984 and 1985 have helped increase exports by more than six percent, while imports increased by only a few percentage points. Foreign investment, primarily French, has also helped, as West European investors are attracted by Morocco's low labor costs and the tax-free status Moroccan exports enjoy when entering the EEC. The International Monetary Fund is projecting substantial improvement in the Moroccan economy, to the point where a current account surplus is likely this year.

Egypt Hard Hit by Decline in Nile Flow

Experts predict that unless Ethiopia's rainfall returns to normal this year, Egypt will face dangerous water shortages and a severe disruption of hydroelectric power flows. If the Blue Nile, which rises in the Ethiopian highlands, does not replenish Lake Nasser, power output could be slashed by as much as 55 percent. The drop in available water for Egyptian agriculture and desert reclamation programs would be a serious economic setback for Cairo. The problem is compounded by a sharp decline in the flow rate of the White Nile, which flows out of Lake Victoria in East Africa. According to a report submitted to the World Bank by a British engineering consulting firm, the level of Lake Nasser is expected to fall to its "dead" storage level, the point at which no more water can flow through the hydroelectric turbines, by the end of July.

EEC Rejects Three Treaties with Israel

The European Parliament refused on March 9 to ratify three trade and financial accords with Israel. The action was taken to protest harsh Israeli tactics to suppress the Palestinian uprising, as well as Israel's refusal to implement an agreement providing for Palestinian farmers to export their agricultural produce directly to Europe, rather than through Israeli middlemen. Two of the agreements would have given Israel easier access to EEC markets for Israeli agricultural exports such as citrus fruits and flowers. The third, a financial arrangement with the European Investment Bank, would have given Israel access to soft term loans totalling $75 million.

Non-OPEC Oil Producers Meet

Seven non-OPEC oil producers, Angola, China, Colombia, Egypt, Malaysia, Mexico, and Oman, met in March to discuss alternatives to avoid a repetition of the 1986 oil price collapse. Pressure has grown on both OPEC and non-OPEC oil producers to curb high production, which has caused the price of a barrel of oil to fall to between $12 and $14, considerably below OPEC's official benchmark price of $18. Non-OPEC production is currently running at about 500,000 barrels per day above 1987 levels of 25 million barrels per day. Present OPEC oil output is estimated at 17.5 million barrels per day.

China Gaining in Middle East Markets

The People's Republic of China has been steadily increasing its share of Arab markets. Beijing's largest markets are Egypt, Saudi Arabia, Kuwait, and the United Arab Emirates. Exports to Syria, Morocco, Tunisia, and North Yemen are growing. As a result, the Middle East is now China's fourth largest trading area, with Beijing focusing especially on Gulf Cooperation Council (GCC) member states. GCC states supplying China with financial assistance include Kuwait, which has provided China with $150 million in loans, and the UAE, which has invested $10 million in Chinese chemical and light industrial projects.

China's trade efforts come after years of participation in construction projects in various Arab nations. China has won contracts in Iraq, Egypt, Algeria, and Tunisia. In Iraq, Chinese companies have completed over $300 million worth of construction work, including the completion of three bridges over the Tigris. Thirteen new projects with Chinese participation are in progress there, worth an additional $500 million. An estimated 50,000 Chinese technicians and laborers are currently employed in the Middle East.

Uprising Hurts Israel's Economy

Israel's economy, already reeling from a 1987 trade deficit of $3.2 billion—an increase of 33 percent over 1986—faces further trials as the Palestinian uprising plays havoc with tourism, construction, and agriculture.

Israel received more than $2 billion from its tourism industry in 1987, and 1988 was to have been a record year. However, major hotels are reporting that about 40 to 50 percent of their bookings for this year have been canceled.

The construction and agricultural sectors are also suffering as Palestinian workers from the West Bank and Gaza Strip remain on strike. More than 100,000 Palestinians constitute the backbone of the Israeli construction and agricultural work force, with the construction industry obtaining more than half of its workers from the occupied territories. In the agricultural sector, the unrest is occurring at the height of Israel's fruit and vegetable harvesting and exporting season. Some 5,000 of Israel's 15,000 citrus workers are Palestinian.

John T. Haldane is a Middle East specialist who has served as a Foreign Service officer in Baghdad, Cairo, and Beirut, and as an international economist in the departments of Commerce and Treasury.

Vol. 7 (1)