Nationalism and the Middle East economy

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MR. ALBERT HOURANI has recently characterized the Western view of Middle Eastern nationalism as follows:

"On the one hand, there is a mass of irrational feelings variously described as 'xenophobia' or 'fanaticism'; and on the other there is an unjust social and political system, which concentrates wealth and power in a few hands while keeping the masses at the level of bare subsistence. When the despair of the possessing class . . . the rulers stir up the irrational feelings of the mob against the outside world in order to divert attention from themselves. Thus nationalist movements are not 'really' against the West. They are no more than an expression of inner malaise, and if only the malaise is cured, by social reform on a large scale, then the political tension will automatically be resolved."

One may examine this view historically, as do Mr. Hourani and Brigadier Longrigg, showing, on the one hand, how Western political and economic domination contributed, at least as much as internal poverty and social injustice, towards the growth of nationalism in the Middle East. The purpose of this paper is, however, to examine this view economically, i.e., to consider such questions as these: On the one hand, what have been the effects of the growth of nationalism on recent economic development in the Middle East? Have they, on balance, been adverse or favourable? On the other hand, what are the effects of current economic developments on the future of nationalism in the Middle East? Are they, on balance, retarding or accelerating factors? Finally, has this mutual interaction between nationalism and economic development been uniform or different in the various Middle Eastern countries? What are its implications for Arab nationalism and Economy?

In order to throw into clear relief the relative importance of the *internal, external and regional elements* which have operated in the process of mutual interaction between nationalism and economic development in the Middle East, the above questions will be discussed from three standpoints: In the first place, that of Middle Eastern countries which are relatively less wealthy and at the same time strategically less important (and thus are hardly subject to any significant foreign influence). In these countries, 'popular' nationalism, exerting a marked and effective pressure on their governments, has put the emphasis relatively more on the *internal* agricultural and industrial development, resulting in correspondingly more rapid economic growth, as exemplified by the recent experience of Egypt and Syria. Secondly, that of countries which are relatively more wealthy and strategically more important (that could now, therefore, be scarcely any more subject to foreign influence). In these countries 'official' nationalism, entering into political and economic alliance with the Western powers and their Oil companies, at the cost of suppressing the forces of popular nationalism, has diverted the energies of the latter relatively more into opposing the *external* domination of foreign powers and oil companies. The outcome has therefore been relatively less rapid economic growth, as shown by the cases of Iran and Iraq. The third standpoint is that of the economic relations between the Arab countries of these two groups and the more backward oil producing countries of the Persian Gulf and Saudi Arabia; and in this connection, the significance and conditions of *regional* economic co-operation in the Arab East will be briefly examined.

In this paper the term 'nationalism' is used to refer to the spontaneous and/or organised movements and policies of the Middle and working classes in the towns, and the peasantry in the countryside. It is true that all Middle Eastern countries have shared in the post-war upsurge of these popular national movements; and it is almost equally true that none of the Middle Eastern governments has become fully representative of their national movements. It seems, nevertheless, instructive tentatively to draw the line between those countries where popular nationalism has substantially influenced their governments, contributed towards internal economic growth, and worked for regional economic co-operation, e.g. Egypt and Syria; and those countries where official nationalism has suppressed the organisation of popular nationalism and limited their internal and regional development, in favour of political and economic alliance with the Western powers and their economic agencies, e.g. Iran and Iraq. "Nor must it be assumed that nationalism in the Middle East is a force opposed to Communism. On the contrary, at the present time it has paved the way for and occasionally collaborated with it."[2]

Nationalism and economic growth

In discussing the impact of nationalism on economic development, Professor Arthur Lewis has argued that, " Nationalism is a dangerous force, because it is so often based upon stirring the passions of envy and hatred in great mobs of people; but it is also sometimes a constructive force, and it is playing a part in effecting institutional changes favourable to economic growth."[3] The first argument which has been advanced to show the adverse effects of nationalism on economic development is that the former promotes instability and discontinuity, while commercial prosperity requires order and certainty. This argument is based on a limited time horizon; for although instability may be the *immediate* consequence of any national upsurge, such as a major revolt or a Coup, the latter may, in any but the very short run, lay the basis for an order more politically permanent and economically viable, so that the level of output is vastly increased, and social conditions • are significantly improved. Thus, while the military regime *initially* reduced agricultural production and trade in Egypt, only two years after its establishment, and when the implementation of the Land Reform Law was only reasonably under way, the volume of agricultural production rose by more than 20 per cent.

[1] *A. H. HOURANI, International Affairs, Volume XXI, January-April,* 1953, *pp.* 22-23.
[2] *W. Z. LAQUF.UR, The Middle East Journal, Volume 9, No.* 1, 1955, *p.* 21.
[3] *W. A. LEWIS, Theory of Economic Growth, p.* 153.

Of more importance is the second argument, that the growth of nationalism may hamper the flow of foreign private investment in countries where there is hardly any prospect of economic progress out of domestic saving and investment. Thus, the national movements may demand redistribution of investment-income in favour of their governments or industrialists, participation in the capital of foreign investors, restriction or prohibition of the export of profits, and even the nationalisation of the whole of the private companies with or without compensation. But despite the post-war upsurge of nationalism in the Middle East, and apart from arguments against exploitation by foreign private investment, the fact remains that the cumulative gross oil investment in this region rose from $1,000 million in 1945 to $1,900 million in 1951, and to approximately $2,200 million in 1954. It is, therefore, clear that the very low cost of oil production and the very high rate of oil profits seem to more than outweigh the greater risks involved in the rise of national movements in this area. In any case, the crux of the problem of the Middle East, so far from being shortage of capital, lies in the redistribution of political power in favour of these national movements, and the productive allocation of the existent and large supply of capital to the development of the human and natural resources of the region as a whole.

Some favourable effects

Turning to the favourable effects of the national upsurge on economic growth, we begin with the case of the relatively less wealthy and strategically less important countries, where popular nationalism has contributed towards agrarian reform and industrial expansion. The popular national movements in the Middle East have invariably stood for the redistribution of agricultural incomes and land ownership, not only on grounds of social justice, but also because of economic advantage. On the one hand, the decline in the landlord's income is more likely to reduce ostentatious consumption and hoarding, while the rise in the peasants' income is more likely to raise domestic industrial investment by widening the size of the market; on the other hand, the redistribution of land to landless peasants (or the abolition of the present share-cropping system) would be likely to increase productivity and incomes and so to enhance the growth of national industries. However, the extension of the national markets is a necessary but not sufficient condition for industrial expansion, for the increase might otherwise be absorbed by the dumping of imports. Hence, industrialisation would also require at least the temporary protection of the national infant industries. The growth of nationalism in Egypt, however indirectly, has resulted in agrarian reform, while its counterpart in Syria led mainly to industrial growth.

Dr. Doreen Warriner thus described the position of Egyptian agriculture before the rise of the military regime:

> "The Egyptian 'pashas' are cotton lords, big businessmen controlling large fortunes, who hold the entire country in their grip and are utterly opposed to any measure that would raise the level of cultivators. Many of the big estates are owned by large companies, and on these any human ties have completely disappeared. Although the government is in complete control of production, it will never use its powers to modify the power of the landlords. The government represents this small section of the population, and it is in their interests that cropping plans are laid down."[4]

Population pressure and this acute agrarian problem have necessarily influenced the national movement in Egypt so as to direct its internal edge mainly towards land reform. Thus, it was with the new regime that the Land Reform Law came into existence in September, 1952.

This Land Reform expropriates land properties in excess of 200 acres. The land is to be redistributed to landless cultivators or small farmers, against payment spread over 30 years. The Law also provides for the formation of multi-purpose co-operatives; prohibits the subdivision of properties below a specified minimum; regulates the relation between the landlords and tenants; and imposes a rent ceiling. It has been estimated that 500,000 acres, or 8 per cent of the total cultivated area, fell under the provision of the land reform law. By November 1954, a total of 335,000 acres had been requisitioned including 118,000 acres confiscated from the former royal family. At the same time, over 200,000 acres were redistributed to some 60,000 families, or an estimated number of 360,000 persons. In addition, the land reform law led large land owners to sell some 92,000 acres to small farmers. Further, a much larger number have benefited from the reduction in rents. Seventy co-operatives have been founded under the operation of the land reform law. "Landed property of 200 acres is," according to Professore Alfred Bonne, "still substantial property, and its owner can regard himself as a member of the gentry and a large landowner, particularly in a country where every inch of land is under irrigation and soil produces high crop per unit." On the other hand, "The number of tenants without land, or without sufficient land, is," he continues, "so large that only a small percentage of them can be provided with land titles from the land taken away from the large landowners."[5] Despite these limitations this land policy has contributed towards a significant rise in the volume of agricultural production, from about four million metric tons in 1950 to over five metric tons in 1954.

Syria and Persia

The Syrian national movement, facing a comparatively less agrarian problem, and being under hardly any population pressure, has directed its main attention towards industrial growth. The International Bank Mission reported that, "A characteristic feature of Syria's rapid economic growth is that it has been almost wholly due to private enterprise."[6] The Syrian national income, according to the Mission's calculations, rose from about £S. 1,250 million in 1949 to perhaps around £S. 1,600 in 1953—an increase of 28 per cent over the whole period, or about 5—6 per cent per annum. While the output of cotton and rayon yarn amounted to one thousand metric tons in pre-war years, about ten thousand metric tons were produced in 1953. This rate of industrial expansion or an even higher one applies to the production of cloth, soap, cement, cigarettes etc. The total paid up capital of manufacturing enterprises is in the neighbourhood of £S.80 million, employing about 100,000 workers.

In contrast with the contribution which the growth of nationalism has made towards *internal* agricultural and industrial development in Egypt and Syria stands the role

[4] *D. WARRINER, Land and Poverty in the Middle East, pp.* 48-49.

[5] *A. BONNE, State and Economics in the Middle East, p.* 400.

[6] *I.B.R.D., Economic Development of Syria, p.* 23.

played by the national movement in Iran and Iraq in altering their *external* economic relations. U.N. economic experts succinctly summarized the relation between the oil industries and the native economies thus:

"The terms of their concessions give the foreign companies a freedom of action which substantially insulates them from the economy of the Middle East countries. Output is determined by world rather than local conditions. Moreover, it is the companies which provide and own the means of transport, whether pipelines or tankers, to carry Middle East oil to its markets, and it is they who secure these, both in Western Europe and other parts of the world. The foreign exchange derived from these sales of oil accrues to the petroleum companies and is in large measure retained by them, Hence the impact of oil operation in the Middle East producing countries is mainly indirect and the benefits derived by them are limited.,,[7]

In these oil producing countries, the nationalist attitude towards Petroleum Companies is centred around two points: negatively, the national movements believe, rightly or wrongly, that they cannot seize political power from the hands of the existing semi-feudal Governments so long as the latter are supported by the all-too-powerful oil companies; and positively, even if they succeeded in controlling the government machinery, they would fail to develop their national economies and culture so long as the majority of income derived from, the capital owned by, and the administrative and economic policy of the most *basic* of all their economic resources—oil—remain at the mercy of a foreign cartel. "Patriotic Persians," as Mr. L. P. Ellwell-Sutton puts it,

"were well aware of the corruptness of their politicians and rulers. They knew that no real changes could come until these men were eliminated from high office. But first, they felt, the company had to go; if Persia's own politicians then attempted to exploit the oil industry for their personal benefit, that was a matter that could be dealt with in turn. At any rate, Persians could handle their own exploiters far more effectively than they could a foreign organisation heavily backed by a foreign power."[8]

Rise in oil revenues

Contrary to the expectations of many observers at the time of the Persian oil dispute, the upsurge of the economic power between them and the oil companies, far from ruining their economies, has secured a rise in their oil revenues from just over £50 million in 1949 to £200 million in 1954, while the Middle East oil production rose only twofold over the same period; an increase in the level of employment in the Middle East petroleum industry from 100,000 to 150,000 workers respectively; and the agreement by the oil companies to train local technicians and administrators to replace foreign employees and officials.

It is nevertheless true that *the basic outcome* of this recent nationalist upsurge, particularly in such less backward countries as Persia and Iraq, was of two-fold significance: on the one hand, the abandonment of the oil companies' policy of isolation in favour of integrating the oil industries into the local economies of the producing countries; and on the other, the partial incorporation of some popular national demands, such as the land distribution and irrigation schemes, into the economic compromise policy of the powerful tide of nationalism which might otherwise dispose of oil companies and local government alike.

"In an area so full of contradictions as the Middle East oil lands," *The Economist* argues,

"all that can be said with certainty is that a greater measure of public contentment and social tranquility can be achieved if governments and companies work out ways to mix their interests than if nationalists are given openings for driving a wedge between the two. The job of keeping their interests close-knit can be done by neither single-handed; the best of Middle East governments aim at easing the problems of the concessionaire and pressing for no more than is reasonable; similarly the best companies try to live within the community not a peculiar and isolated life but the normal life of the corporate_citizen."[9]

The people and the cartels

Will this combined policy of local governments and oil companies retard or accelerate the growth of popular nationalism in the Middle East? More specifically, will, for example, the joint policy of the Iraqi government and oil companies to develop the irrigation system and distribute public land succeed in quelling the Iraqi popular national movement once and for all? The cautious, but affirmative, answer to this question by *The Economist* is, in the last analysis, based on the assumption of the existence and/or the possibility of growth of community of interests between the foreign oil cartel and the people of Iraq. Some economists would argue that the interest of any private monopoly is contradictory to the interests of the people at large, both on the grounds of relative inefficiency in the use of scarce resources and in the application of new techniques of production, and those of inequality of income distribution. These theoretical questions apart, we turn to examine the view of oil operations on the middle class, the industrial workers, and the indirect impact, through the government development programme, on the landlords and peasantry of Iraq.

The oil companies' expenditure on local products and services has almost doubled between 1950 and 1954. This rise in demand must have resulted in some lucrative profits for the Iraqi companies producing bricks, cements, mineral water and beer, furniture, worked steel windows and the services of merchants and contractors; salaries of Iraqi high officials and engineers; and the provision of cheap fuel to local industry. The greater the increase in oil production, the higher will, on the face of it, be the rate of profits not only for the foreign oil companies, but also for their new allies, the Iraqi companies which provide the products or services required by the oil industry; and so, at least at this level, the interests of the foreign and national entrepreneurs are apparently in harmony.

But the validity of this static equilibrium argument depends on the accuracy of its two implicit assumptions. The first is that the *initial* distribution of resources and levels of profits are equal and equally accepted by the national industrialists and the foreign investors; otherwise the national industrialists who command relatively less important resources and enjoy relatively lower rate of profits, would find it in their interests to seek greater command over resources and demand larger share in the profits at the expense of the foreign investors. The second assumption is that, once the two partners start from an equilibrium position, *the growth* of their relative command over resources and relative profit-rates remains undisturbed by the vicissitudes of economic change over time; otherwise, even if the interests of the national industrialists and foreign investors are *initially the same*, but their *rates of economic growth are different*, then their interests must come into conflict in any but the very short run.

In fact, however, neither of these assumptions is tenable. For one thing, the Iraqi business community is generally

[7] *U.N.O., Review of Economic Conditions in the Middle East for* 1949, *p.* 25.

[8] *L. P. ELLWELL-SUTTON, Persian Oil, p.* 188.

[9] *"The Economist," Oil and Social Change in the Middle East July 2nd,* 1955, *p.* 15.

weaker, and relatively more competitive than the foreign oil monopoly. Iraqi Chambers of Commerce have recently demanded that foreign trade should be confined to national merchants; and some industrialists hint that they should be allowed to participate in the capital and profits of the oil industry. For another, as time goes on, the strength of the Iraqi industrial class may grow to such an extent that it will acquire technical competence and administrative experience sufficient to develop, control and distribute the whole of national production, so that the initial and apparent concord sows the seed of the apple of discord.

Oil and the workers

Of less force is the argument that the impact of the oil industry on the working class is relatively so favourable that the interests of the oil companies and workers are hardly in conflict. The comparison is usually made not with the wages, working conditions and the standard of life of oil workers in the more advanced countries, such as the American petroleum industry, but with lower incomes and more backward conditions of the local industries. The wages of oil workers are determined, not by their marginal or average productivity, but by the alternative wages they could command in an otherwise primitive economy. (Theoretically, of course, the marginal product need not diverge from the alternative or transfer price of labour, under the conditions of perfect competition.) Thus, although productivity in the Middle East "oil industry is much higher than its American counterpart, average level of wages is ten times lower. The harmony between the interests of the industrial workers and the foreign oil companies is derived more from the mirage of ivory towers than the realities of the Kirkuk oil strike of 1946, and the Basran oil strike of 1953, in a country where trade unions are still underground movements.

Finally, the great increase of the oil revenues accruing to the Iraqi government, from £3.2 million in 1949 to £67.5 million in 1954, may be used to improve the lot of the peasantry, and thus complete the harmony of interests between the oil companies and the Iraqi people. Without going to the details of the economic policy of the Iraqi Development Board, it may be pointed out that the assumed prospective rise in the standard of living of the peasantry requires an adequate increase in the supply of water, and a fundamental agrarian reform changing the existing land tenure system and the landlord-peasant relationship generally. If any of these conditions is not satisfied, then the most likely result of the expenditure of oil revenues in the face of such basic rigidities of supply, is an inflationary spiral which may yield an even more unequal distribution of income and wealth. Although the adoption of a free import policy may reduce inflationary pressures, it is even more likely to hinder the development of nascent industries.

The Development Programme of 1951-56 earmarks a third of its total expenditure for flood control and irrigation schemes. If the problem of water supply is being solved, can the same be said of the problems of land-tenure and settlement? "Among the major obstacles to agricultural development," according to U.N. economic experts, "has been the land-tenure system ... Thus 85,000 holders or 68 per cent of the total, owned about 8 per cent of the total area. At the other extreme, some 33,000 holders, with over 1,000 hectares, owned some 85 per cent of the area. *The majority of the agricultural population is landless*"[10] (italics added). On the other hand, by the end of 1954, only 10,200 farmers have been settled on government land over a period of five years. At this rate of land settlement, even if not allowing for population growth, the process of settling all landless peasants *may be* completed only at *the close of the present century.* "All that the poor man knows," *The Economist* aptly remarks, "is that the authorities have plenty of money and grandiose theoretical plans, but that, meanwhile, there is an ugly rise in the price of sugar.""

So far we have discussed the diverse forms of interaction between the growth of nationalism and economic development in the relatively advanced countries of the Middle East. It remains to point out very briefly the position of the less advanced countries of the Arabian Peninsula, particularly Bahrein, Kuwait, Qatar and Saudi Arabia, in its significance for the economic and political development of the Arab peoples at large.

The rapid growth of the oil industry in Saudi Arabia and the Persian Gulf countries has brought them vast money incomes, which they cannot productively invest within their territories; mainly for lack of alternative resources for development, but also for lack of political institutions necessary to press effectively for such investment programmes, and of the economic and financial institutions needed for carrying out this process. This position of surplus capital in the more backward oil producing countries of the Middle East has its complement in the capital-deficient countries of Egypt, Jordan, Syria and Lebanon etc. Looking ahead, the development of the Middle East, politically and economically, depends very largely on the mutual co-operation of various peoples in the region. While the political development of the national movements of these backward countries of the Peninsula could profit a great deal from the experience of their counterparts in the more advanced Arab countries, the latter could make use of the idle financial resources of the former. Indeed, "the sudden birth of a rebellious middle class in the hitherto feudal lands promises complications as great as those set up by the more gradual growth of the bourgeoisie in Iran and Iraq."[12]

Economic co-operation

This economic co-operation may initially take the form of measures to increase substantially the trade between the more advanced non-oil producing countries of the Middle East, e.g. Egypt, Syria, Lebanon etc. and the oil producing countries of the Persian Gulf and Saudi Arabia; and also a significant increase in investment by the capital surplus in the capital deficit countries.

At present, inter-Arab trade consists of two main flows: export of petroleum from the Persian Gulf area to Egypt, Jordan, Lebanon, Syria and the Sudan; and the border trade between the various Arab countries. But despite the facts that 41 per cent of Syria's exports for 1951-53 went to the other Arab countries, and the ratification by most Arab countries of the Trade and Payments Agreements, drastic expansion in inter-Arab Trade awaits the rise of surplus food and textile production in Egypt and Syria which will in turn require the investment of surplus oil revenues from Bahrein, Kuwait and Saudi Arabia; such a movement of capital depends on the nature and direction of the national movements which are now emerging.

[10] *U.N.O., Economic Development!: of the Middle East,* 1945-1954, *p.* 95.
[11] *"The Economist," op. cit., p.* 3.
[12] *"The Economist," p.* 15.