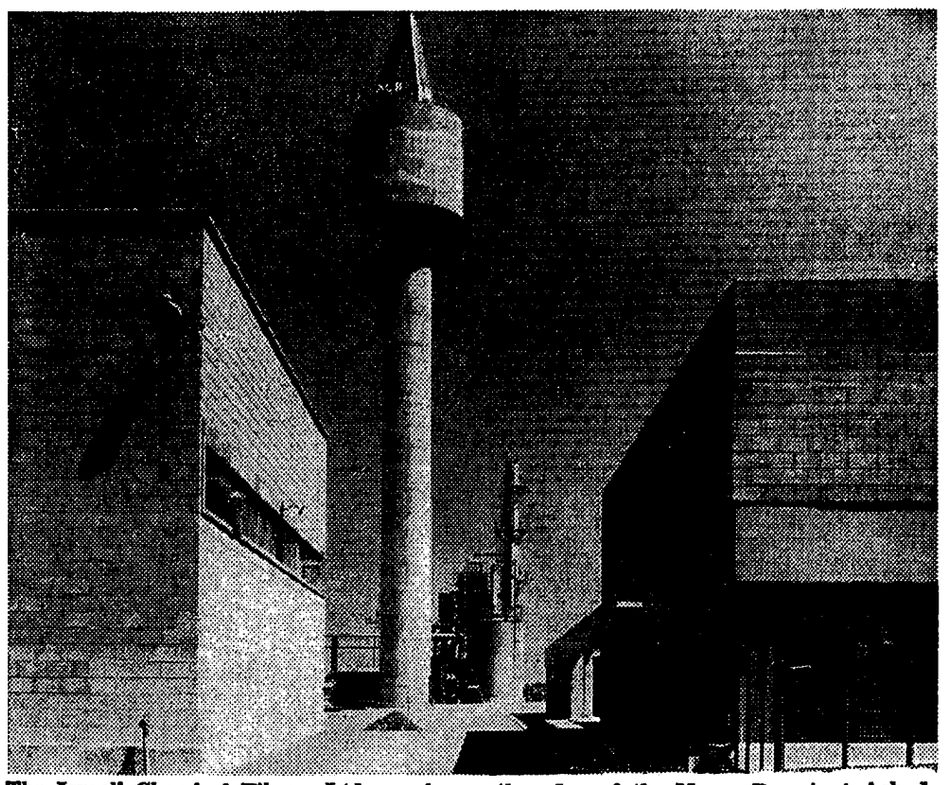
Wake of Mideast War Leaves Herculean Economic Problems for Combatants
By BRENDAN JONES
New York Times 1857-Current; Jun 11, 1967; ProQuest Historical Newspapers The New York Times (1851 - 2002)
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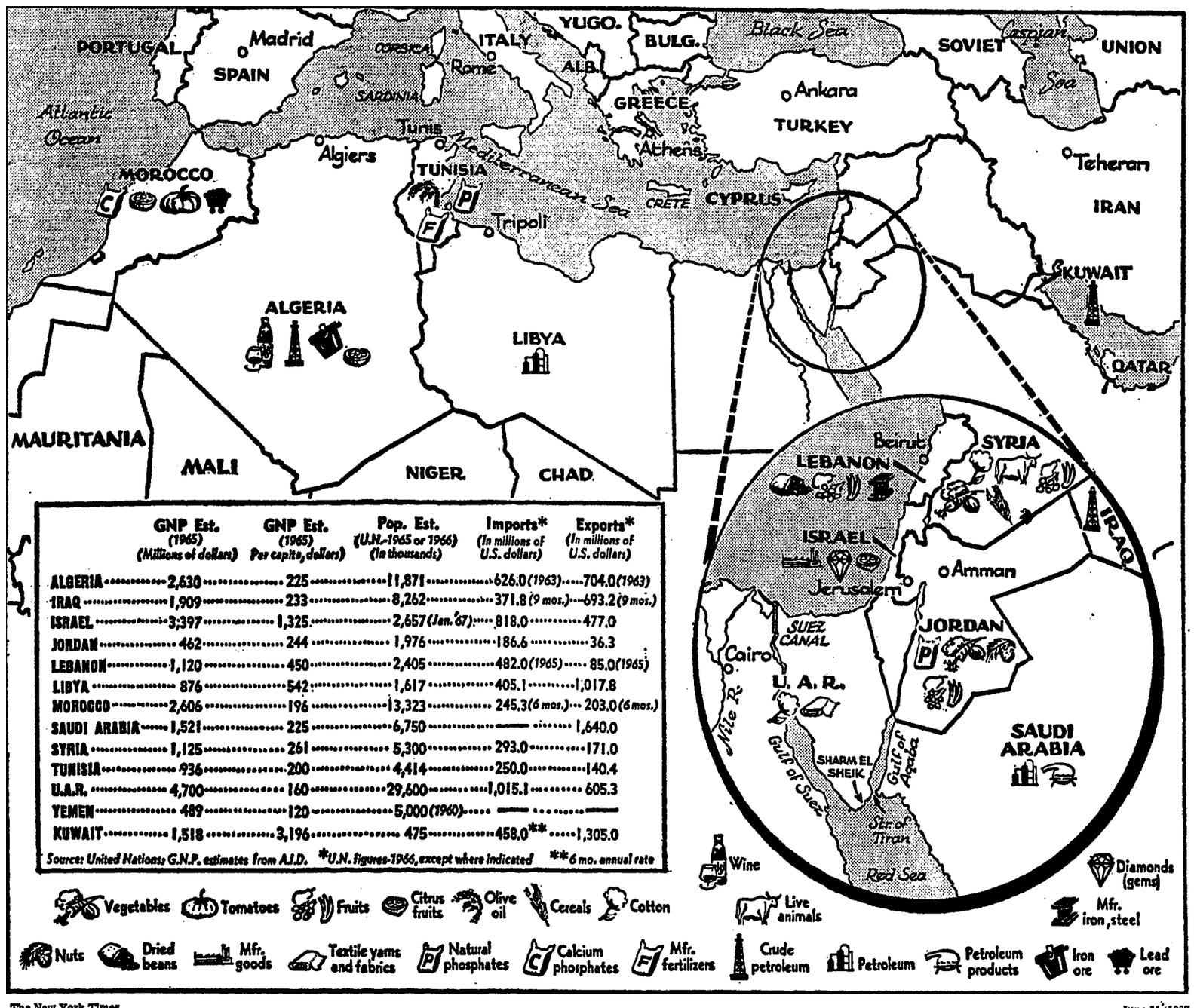
Wake of Mideast War Leaves Herculean Economic Problems for Combatants



The Israeli Chemical Fibres, Ltd., works on the edge of the Negev Desert at Ashod. The plant makes Acrilan, a product of the Chemstrand Company division of Monsanto.



Arabian American Oil Company exploration team in Saudi Arabia. Country, with other oil-producing Mideast nations, has imposed embargo on oil shipments to U.S. and Britain.



	GNP Est. (1965) (Millions of dollars)	GNP Est. (1965) Per capita, dollars)	Pop. Est. (U.N.-1965 or 1966) (In thousands)	Imports* (In millions of U.S. dollars)	Exports* (In millions of U.S. dollars)
ALGERIA	2,630	225	11,871	626.0 (1963)	704.0 (1963)
IRAQ	1,909	233	8,262	371.8 (9 mos.)	693.2 (9 mos.)
ISRAEL	3,397	1,325	2,657 (Jan. '67)	818.0	477.0
JORDAN	462	244	1,976	186.6	36.3
LEBANON	1,120	450	2,405	482.0 (1965)	85.0 (1965)
LIBYA	876	542	1,617	405.1	1,017.8
MOROCCO	2,606	196	13,323	245.3 (6 mos.)	203.0 (6 mos.)
SAUDI ARABIA	1,521	225	6,750	—	1,640.0
SYRIA	1,125	261	5,300	293.0	171.0
TUNISIA	936	200	4,414	250.0	140.4
U.A.R.	4,700	160	29,600	1,015.1	605.3
YEMEN	489	120	5,000 (1960)	—	—
KUWAIT	1,518	3,196	475	458.0**	1,305.0

Source: United Nations; G.N.P. estimates from A.I.D. *U.N. figures-1966, except where indicated **6 mo. annual rate

The New York Times June 11, 1967

The war in the Middle East may cause rearrangement of economic structures of the nations involved. U.S. aid to the region in 1965 was $1.5-billion.

By BRENDAN JONES

In the aftermath of the Israeli-Arab war, the immediate economic effects that were apparent throughout much of the world last week are likely to diminish fairly soon.

But for the countries directly involved — the United Arab Republic (Egypt), Israel, Jordan and Syria— the economic impact of the fighting will probably be prolonged and serious. Before the conflict the economic health of all these countries was poor or frail at best.

The Egyptian economy, particularly, appeared to be headed for the most serious crisis in the many that it has experienced in recent times. With $1-billion of long-term debts outstanding, Egypt had been exporting gold reserves—at least $35-million last year —in a wavering struggle to service $250-million of short-term debts.

Much of Egypt's 100-odd state-owned industries have been closed down or put on part-time operation because of a lack of foreign exchange to buy the imported materials on which they depend. With the notable exception of textiles plants using domestic materials, most have proved inefficient or too costly.

Israel's economy, although in much better condition, has been slowly and still uncertainly coming out of a recession.

The basic Israeli problems have been a rapid rise in costs that reduced the competitiveness of exports, and increasing unemployment that resulted from the subsequent efforts at belt-tightening.

For the first time since the nation was founded, Israel has not been able

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Combatants in Mideast Left With Vast Economic Problems

AREA WAS WEAK BEFORE CONFLICT

Egypt's Finances Were at a Critical Stage — Israel Only Slightly Stronger

Continued From Page 1

to provide work for all who needed it. The number of unemployed full-time workers was recently estimated at 15,000, with an additional number only partly employed.

Jordan, a country of limited resources and low economic vitality, had recently been making some progress with increasing tourism. But this business, as in the other belligerent countries, has been the first economic casualty of war.

Unless the Israelis decide to give back at least part of the Jordanian sector of Jerusalem they have captured, Jordan is in danger of losing one of her prime tourist attractions. In addition, the conflict has caused a suspension of negotiations for $100-million of financing for potash works development in the Jordanian Dead Sea area.

Syria has been under severe economic strain as a result of the nationalization of industries in 1965 and a serious drought last year. The country, normally a grain exporter, has experienced critical shortages that have necessitated large food imports, a good part of them from the United States.

Of the four countries, Israel has made the greatest economic progress. This achievement has tended to emphasize the comparative lag in development by her neighbors and added to their reasons for resenting Israel's existence. In 1965 figures, Israel's per capita share of total national production was $1,325, compared with $160 for Egypt, $244 for Jordan and $261 for Syria.

For countries outside the embattled Middle Eastern area the economic shock waves appear to have caused more anxiety than pain. The main causes of concern have been Egypt's closing of the Suez Canal, the disruptions and uncertainties affecting the oil industry and the breaking of diplomatic relations with the United States and Britain by Arab countries.

Earnings Are Meager

In addition, there has been at least a temporary halt in exports from the United States and other countries to the war area. The flight of money from Middle Eastern centers has also raised questions on prospects for future trade and business in the area.

Tolls from the Suez Canal, amounting to some $200-million a year, are at present about the only source of foreign exchange earnings for Egypt. In light of the shaky state of the Egyptian economy, any prolonged closing of the canal obviously will damage Egypt more than it will inconvenience foreign shippers.

The Cairo Government needs the canal earnings badly and, in any event, it may, for other reasons, no longer be in a position to decide whether the waterway remains closed.

Disruption or damage to oil operations, mainly in Arab countries supporting Egypt, appeared last week to be less than indicated earlier.

Some operations were halted or curtailed largely because of fears of violence from anti-American or anti-British demonstrations. But reports have indicated that such precautions have had a temporary and minimal effect on production.

Although Middle East fields produce more than a fourth of the world's oil supply, the industry has moved to readjust production or shipments in other areas to offset any check in the flow from Arab countries.

The ban on shipments to Britain and the United States by Saudi Arabia and Kuwait also did not seem to be causing great concern among oil companies here. Once oil had left these countries, it was suggested, it could easily be transshipped from other countries.

The effects of the break in diplomatic relations by Arab countries with the United States and Britain remained uncertain.

Trade Threatened

If they are complete to the closing of consulates without some alternative arrangements with other diplomatic missions to handle business formalities, the consequences could be serious.

Without the usual processing and approval of shipping documents by consulates, trade with the affected countries could be seriously hampered if not entirely stopped. Business and tourist travel also would be similarly restricted because of the lack of visas issued by consulates.

For the time being, at least, some of the political repercussions of the Middle East conflict seem likely to dampen investor and tourist interest in the area.

Fresh awareness of the risks in parts of the Middle East may prove a check to American investment. For the area as a whole, the latest figures, covering 1965, show total direct American investments of $1,590,000,000, almost entirely in the oil industry. This was a substantial increase over the 1964 level of $1,332,000,000 and represented a small but growing amount in manufacturing.

The American investment stake in the Middle East is large and, of course, vital for the companies involved and in terms of oil supply. But it is still only a little more than 2 per cent of the $50-billion of total United States private investment abroad.

Tourism has been a growing and lucrative business for the Middle East, particularly countries such as Egypt, Israel and Jordan. Each of these countries has been attracting upward of 700,000 to one million tourists a year, worth anywhere from $60-million to $100-million.

United States trade with the Middle East as a whole has been increasing substantially, with exports amounting at present to about $1.2-billion a year. These represent nearly 20 per cent of the area's total imports and make the United States the leading supplier.

Britain ranks second, accounting for about 13.5 per cent of total Middle East imports.

The chief items exported to the Middle East by the United States are grains and other foods, machinery and transport equipment.

Continuance of officially expressed illwill toward the United States and Britain by Middle East Arab countries and those of other areas could potentially bring a marked shift in their trading patterns.

However, with the United States and Britain presently the source of a third of Middle East imports, the shift could not take place easily or suddenly.

Exports Increased

The Middle East oil countries, for example, might find it difficult to obtain specialized petroleum equipment compatible with existing installations from non-Western sources.

They are also in need of technology and equipment for new expansion of natural gas and petrochemical fertilizer production at present being developed largely with Western supplies and technicians.

Middle East countries generally would find it difficult to replace American supplies of grain and other foods, much of it channeled through aid programs.

Soviet Russia and Japan, which has been increasing exports to the Middle East, could potentially become alternative sources of supply for both food and technical equipment and machinery.

But the processes of such a changeover would be prolonged as well as costly, and would require also the finding of new markets, for oil particularly.

In short, any radical or lasting changes in Middle Eastern trade and economic relations appear more of a theoretical than a real prospect.

By all indications, the breaks in diplomatic relations and the political condemnation of the United States and Britain would seem to be largely emotional, or designed for face-saving and propaganda effect.

They may blow over like a sandstorm, but also leave some changes in the landscape.

Economic recovery by the countries that have been engaged in the fighting, however, is likely to be more difficult than their eventual return to normal relations with the outside world.

The problems for Egypt, especially, promise to be extremely painful in terms of prestige as well as in the measures that will be necessary to repair an economy that has been further shattered by a disastrous war.

Prior to hostilities, the Cairo Government was in the process of negotiating vitally needed financial assistance by the International Monetary Fund. A loan, said to be as much as $50-million, was being discussed.

Such a credit has become practically indispensable for replenishing foreign-exchange reserves that have become all but exhausted.

Cairo authorities, however, had found conditions laid down by the International Monetary Fund difficult to accept. Cairo already owes the fund $105-million and is in arrears on repayment.

Conditions for the new credit required extensive economic reforms, a partial devaluation of the Egyptian pound and repayment of $26-million, the amount of arrears due on the present debt.

Among economic reforms stipulated by the fund were a greater allocation of resources to agricultural rather than industrial development, sharp cuts in government and military spending, and encouragement of more business competition.

Such reforms generally are in conflict with the Government's Socialist and political policies. But the main problem for Cairo is the threat of expulsion from the fund if present debt arrears are not paid.

This would be a drastic action that has occurred only twice before in the fund's history, and would be seriously damaging to Cairo's chances for obtaining credits in any of the fund's other 104 member countries.

It is problematical whether the Cairo Government can now complete its moves to obtain fund assistance without meeting still stiffer conditions.

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