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Hallwood, Paul and Sinclair, Stuart

University of Connecticut

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OPEC and the Non-oil Developing Countries in the 1970s

Paul Hallwood
University of Connecticut

&

Stuart W. Sinclair
London

This paper assesses the nature of the economic relationships which evolved between members of the Organization of Petroleum Exporting Countries and the non-oil less developed countries in the several years following the oil shocks of 1973 and 1974. Since these relationships can be appraised only against the background of the world economic system and its institutions at that time, attention is first focused on those issues. It is argued that no simple or easily interpreted economic relationship existed between these economic groups of developing countries; all are tied up in the matrix of the wider world economic system.

Journal of Economic Literature Classification: F5

Key words: non-oil developing countries, oil shock, OPEC, terms of trade.

Introduction

This paper attempts to assess the nature of the economic relationships which evolved between the Members of OPEC and the non-oil less developed countries (LDCs) during the 1970s. Since these relationships can be properly appraised, however, only against the background of the world economic system and its institutions, attention is first focussed on these issues. It is argued that no simple or easily interpreted economic relationship exists between the different groups of developing countries: instead, all are tied up in the matrix of the wider world economic system.

Specifically, while higher oil prices must be considered a factor in the development of economic relationships between OPEC and the non-oil LDCs, a more balanced judgement will reveal that this has been merely one factor. Higher rates of inflation and slower economic growth in industrialized countries, coupled with the breakdown of the international monetary order of the 1950s and 1960s, were also important factors. Nor does it appear that higher oil prices were the root cause of these latter developments. For inflationary conditions in the world economy were developing well before 1973, the first year of considerably higher oil prices, and the international monetary system was already being shaken prior to that time. Moreover, depressed economic conditions in the industrialized countries are seen here primarily as the result of orthodox responses to inflationary conditions – conditions which have proved intractable because of the creation of resilient inflationary expectations in many developed countries.

We attempt, briefly, to distinguish between the importance of both the background and the more direct factors which impinged upon the economic relationships which emerged between two groups of developing countries – the Members of OPEC and the non-oil LDCs. Section I opens with a brief discussion of these world economic conditions during the 1970s. This is necessary since the relationship between OPEC and non-oil LDCs clearly stood to be shaped by their common experience. The second section then appraises the extent to which developing countries' growth rates were more unstable during the 1970s than in the 1960s.

Section III discusses the development of trading relationships between the Members of OPEC and non-oil LDCs and establishes that OPEC Members' imports from these countries have grown rapidly and consequently made a significant contribution to the overall export performance of several non-oil LDCs. Finally, in Section IV, the growth and importance of remittances by workers from several non-oil LDCs working in certain OPEC Member Countries is examined. A section of conclusions follows.

I. Economic Adjustments in the 1970s

A growing degree of integration with the world economy coupled with, for many states, persistent dependence upon a narrow range of exported commodities has for a long time rendered the economies of non-oil LDCs vulnerable to external shocks. Changes in economic circumstances such as import costs, terms of trade fluctuations and the rate of growth of foreign demand tend to impinge upon economic activity and thus upon the framing of government economic policy in these countries. Seen in this context, the adjustments in energy prices during the 1970s can be understood as being far from the only external shock which these countries experienced in the last decade. In fact, there have been many external adjustments associated with the gradual disintegration and reformation of the post-war economic order.

One watershed in this process can be conveniently dated to August 1971, with the closure of the "gold window" by the United States. This ended the convertibility of the dollar into gold and effectively brought to a close the so-called Bretton Woods international monetary system, set up immediately after the Second World War. Generally increasing and more internationally disparate inflation rates – the experience of the 1970s – have been closely associated with this ending of the fixed exchange rate system.

This second characteristic of post-war economic experience in fact clearly predated the 1970s. Statistics show that inflation in many industrialized countries was clearly on an upward trend as much as a decade before 1973, the year to which many commentators still point as the beginning of the world inflationary cycle. The harmonized recovery in the business cycle of nearly all OECD countries during 1972–73, which in turn contributed to inflation in that period, was itself related to the massive outflows of "international high powered money" (dollar reserves) from the United States during the Vietnam War, as well as to the reallocation of existing US liquid liabilities from private to central bank portfolios. And even though the take-off in OECD industrial production in 1971 was from a low level, shortages and consequently price rises soon appeared, especially in primary commodities, owing to the speed of the recovery and because of the diminishing elasticity of supply response of many raw materials. Moreover, infla-

tionary expectations came eventually to adjust to higher inflation rates and subsequently did not readily adjust downwards. Seen against this background, the eventual imposition of deflationary policies in most industrialized countries for much of the 1970s can to a large extent be regarded as an effort to calm the inflationary excesses of the early part of the decade.

The rise in unemployment witnessed in all OECD countries during the 1970s quite clearly also predated the adjustment of energy prices in 1973. As a recent review of employment trends has pointed out, "to the sharp-eyed observer the picture began to disintegrate from the late 1960s onwards . . . (and) . . . aggregate unemployment levels began to give concern".¹ The fall in the rate of employment growth in manufacturing was particularly marked: from an annual average growth rate of 1.4 per cent during 1963–70, it rose by only 0.6 per cent during 1970–73 in OECD countries. This came to be closely connected to a further non-monetary factor which has had a serious effect on the conditions facing developing countries in the 1970s, namely the growth of trade barriers of various types.

During the 1950s and 1960s it was practical to expect a mixture of market incentives and marginal government intervention in OECD states to underpin liberalization of trade in previously protected goods. A high overall level of employment meant that even the type of people typically affected by trade with developing countries in processed and manufactured items (the skilled, the old, etc.) could expect to find new jobs after tolerably brief spells of unemployment. Indeed, a review of post-1945 trade justifiably began with the observation that "the history of the international economic system . . . is largely a story of structural change".²

Yet what made structural adjustment harder to achieve and the consequences of free international trade harder to accept in the eyes of OECD countries' politicians in the 1970s was largely the reversal of the circumstances of the 1960s. High unemployment, with particularly stubborn pockets among the young, the aged, the unskilled and sometimes among ethnic minorities, became marked. Given the lengthier spells of unemployment these people were now likely to confront, the pressure on politicians and policymakers to postpone structural adjustment exercises became overwhelming. As the Annual Report of the World

1. *International Labour Organization, "Employment, Trade and North-South Co-operation" (ILO, Geneva, 1981), p. 26.*
2. *W. Diebold, "Adapting Economies to Structural Change: The International Aspect", International Affairs, October 1978, pp. 573–588. Quote is from p. 573.*

Bank noted in 1978, "developing countries are becoming increasingly concerned about the ability of policymakers in the industrialized world to withstand pressure for the imposition of new quantitative restrictions".

Throughout the 1970s, therefore, many signs appeared of a desire to curtail the trend towards liberalization of trade that had characterized the 1950s and 1960s. Consequently, a wide range of policy instruments was brought into use by those who sought to constrain LDC suppliers' access to developed country markets. Frequent resort was made to Article XIX of the General Agreement on Tariffs and Trade (GATT), the so-called "safeguards" clause, which permits unilateral import quotas to be imposed by a country if it can show that a sector of its economy is suffering unduly from rapid import growth. In practice this relaxation of the multilateral Most Favoured Nation principle of GATT allowed imports to be impeded without the need for any guarantee to be given to the aggrieved suppliers about the resumption of unhampered trade. Moreover, consumers in the country applying the safeguards clause receive no guarantee that the industries they are being required to support (through higher prices) will be forced into rationalization.

During the lifetime of the Tokyo Round of GATT negotiations, voluntary export restraints (VERs) were imposed on footwear, televisions and many other manufactured items. Also, the Multi-Fibre Arrangement was renegotiated, this time allowing still smaller growth of imports of textiles into the EEC in many sub-sectors.

Thus higher inflation, slower economic growth and some restrictions on imports into industrialized countries as outlined above all came to constitute "external shocks" for the non-oil LDCs. Slower economic growth in the industrialized countries meant that export markets grew less quickly than before.

Several attempts have recently been made to quantify the relative weights of such external shocks on the developing countries. One such study concentrates on 12 newly industrializing LDCs in the 1974-78 period.¹ In this study terms of trade indices were constructed for the 12 countries, showing export prices and the prices of imported fuel and non-fuel commodities separately. These indices were then applied to the values of actual and projected fuel and non-fuel trade to yield estimates of the terms of trade losses (or gains) attributable to the various interna-

1. B. Balassa, "The Newly-Industrializing Developing Countries After the Oil Crisis", *Weltwirtschaftliches Archiv*, Band 117, Heft 1, 1981, pp. 142-194.

tional price movements during the 1970s. Export volume effects of stagnating foreign markets were also calculated.

Significant among the findings was that the 12 newly industrializing countries as a group suffered from all of the three possible sources of external shock during the 1974–78 period. Worse terms of trade with exporters of manufactures were experienced; worse terms of trade with the oil exporters were found; and below-trend export volume growth was also observed. Table 1 shows the approximate relative orders of magnitude of these losses. According to these calculations, the deterioration in the terms of trade of the newly industrializing countries (NICs) with fuel exporters cost the former, in aggregate, about \$7.8 billion per annum during 1974–78 (in 1971–73 constant prices). Similarly, the cost of poorer terms of trade with manufactured goods exporters cost NICs about \$1.5 billion per annum; and export volume losses amounted to a further \$3.6 billion per annum.

It can be seen, then, that many adverse conditions affected the world economy for much of the 1970s. In developed economies, unemployment and inflation tended to be higher and the commitment to liberalized trade more hesitant. In developing economies, similar conditions were experienced, particularly insofar as slower growth in developed economies led to slower import demand. Uncertainties over world monetary arrangements affected both types of country. Despite this unprepossessing background, however, many developing countries were to a surprising extent able to circumvent such difficulties. The following sections show various aspects of their behaviour, with the contrast between non-oil and oil exporting developing countries drawn out empirically. Section II goes on now to assess the volatility of economic growth rates in the 1970s.

II. Economic Growth Among Developing Countries

In common with the experience of virtually all major groupings, the oil importing developing countries witnessed a decline in their annual average growth rates in the 1970s. During the 1967–72 period, these countries' growth rates had averaged 6.1 per cent – higher than in any of the four years after 1973. The deterioration was not very substantial, however, for in 1975, the year of most severe economic depression in industrialized countries in this period, the non-oil LDCs still achieved a 4.1 per cent growth rate, rising to 4.9 per cent in 1977.¹

Given the more depressed condition of the world economy during the 1970s compared with earlier post-war decades, it would not be surprising to discover

TABLE 1

Terms of Trade and Export Volume Gains or Losses (—)
 Annual Average Rates, 1974–78
 and Sources of Terms of Trade Changes
 (\$ million)

	Source of Terms of Trade and Export Volume Changes		
	<i>in trade with predominantly manufactures exporting countries</i>		<i>in trade with predominantly fuel exporting countries</i>
	Terms of Trade Effect	Export Volume Losses	Terms of Trade Effect
Argentina	270	– 33	– 331
Brazil	734	– 523	– 3,107
Colombia	215	– 136	16
Mexico	– 854	– 257	407
Chile	– 428	– 76	– 252
India	146	– 429	– 1,200
South Korea	– 9	– 451	– 1,309
Singapore	– 374	– 284	– 350
Taiwan	538	– 522	– 901
Yugoslavia	– 1,259	– 646	– 750
Others	– 471	– 235	– 652
Total	– 1,493	– 3,592	– 7,767

Source: Abstracted from B. Balassa, "The Newly-Industrializing Developing Countries After the Oil Crisis", *Weltwirtschaftliches Archiv*, Band 117, Heft 1, 1981, Appendix Table 1.

that economic instability among the non-oil LDCs had increased somewhat. While there is in fact some statistical evidence for this, it is hard to justify the view that in the years following the adjustment in energy prices, there was any significant and sustained increase in instability.

The log-linear growth rates¹ of GDP (or GNP, if data allowed) for a sample of 24 LDCs² over the period 1967–78 were calculated. The annual percentage deviations from trend were also measured, and the results of this deviation analysis are summarized in Table 2. The prime objective in mind in selecting and manipulating the data in this instance was to assess the extent to which circumstances after 1973 were associated with greater volatility in the LDCs' growth experience. At this stage no attempt was made to establish lines of causality; rather, two time periods (1967–73 and 1974–78) were merely compared.

Five results stand out. First, more LDCs experienced their greatest deviations from trend before 1973 than afterwards. While the greater time-span covered in the earlier period can be expected to account for some of this difference, it is significant that there was no clear bunching of major deviations after 1973. Second, the year in which the largest number of negative deviations took place was also prior to 1973: it was 1967.

The results do, however, show that 1977 was the year with the largest number of peak negative deviations – a result more in accord with the popular image of the 1973 oil price rises having had an effect upon the non-oil LDCs. Moreover, of the 24 LDCs in the sample, 15 had their worst slump after 1973, while only nine experienced this prior to 1973.

The fourth point is that only two LDCs (El Salvador and the Philippines) experienced no negative deviations from their trend growth rate after 1974; but then it should also be pointed out that no LDCs were free of negative deviations during 1967–73.

Finally, only five LDCs out of the sample of 24 accounted between them for all of the largest deviations from trend. Persistently Zaire, Argentina, the Dominican Republic, Chile and Jamaica recorded the greatest negative movements away from

1. *That is, constant growth rate trend.*
2. *Argentina, Brazil, Burma, Chile, Colombia, Costa Rica, Dominican Republic, Egypt, El Salvador, Ghana, Guatemala, India, Jamaica, Pakistan, the Philippines, Singapore, Sri Lanka, South Korea, Taiwan, Tanzania, Thailand, Turkey, Zaire and Zambia.*

TABLE 2

Summary of Log-linear GDP Growth Rate Deviations
Sample of 24 LDCs, 1967-78
(per cent)

Terms	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
No. of negative deviations in year	18	16	15	8	6	8	5	6	14	15 ¹	15 ²	5 ³
No. of countries having maximum negative deviation in year	4	1	0	1	0	3	0	2	4	1	5	3
No. of countries having maximum deviation in year	2	0	1	3	1	3	3	4	2	1	2	2
Biggest per cent deviation in year	-7.63	-9.41	-7.15	6.11	7.45	12.1	9.13	10.64	-7.67	-7.79	-11.8	-8.24
Mean absolute deviation of year	2.78	2.38	1.66	2.22	2.41	3.37	2.95	3.13	1.67	2.23	2.99	2.81
Standard deviation of year	2.43	2.26	1.70	1.80	2.24	2.28	3.28	2.75	1.73	2.12	3.49	2.83
Coefficient of variation of year	0.872	0.949	1.025	0.809	0.931	0.854	1.108	0.881	1.038	0.948	1.164	1.004

1. 23 country sample.
2. 20 country sample.
3. 11 country sample.

Source: Paul Hallwood and Stuart Sinclair, "Oil, Debt and Development: OPEC in the Third World" (Allen & Unwin, London, 1981).

trend. No other LDC ever recorded the biggest deviations (either positive or negative) in any year.

Another significant point which emerges from this data is that the standard deviations of the sample for each year further indicate little or no dispersion of experience after 1973. Indeed, 1975 (with a standard deviation value of 1.73) was the second lowest recorded over the 12-year period. The standard deviations, when charted, trace a volatile pattern with lows in 1969 and 1975 and peaks in 1973 and 1977. The average standard deviation of 1973–77 was 2.58 – not much higher than in 1967–73. No obvious reason for the slightly cyclical pattern of the standard deviations appears to exist. It may be, however, that to the extent that LDCs' own growth experience is linked to developed countries' growth, the dispersion of a representative sample of LDCs' GDP or GNP about their growth trends should be less when economic activity in industrialized countries is slow. By contrast, when growth in such countries is rapid, one might expect a widening of growth rates between those LDCs most intensively engaged in supplying developed states with imports, reflecting in turn LDCs' varying success in overcoming supply bottlenecks.

Summing up the results of these tests suggests that, contrary to popular impression, the oil importing developing countries did not suffer particularly from unstable growth patterns in the period following the rise in oil prices. To a certain extent this was due to some countries' ability to export more aggressively to new markets which opened up after the early 1970s. Section III now analyzes this.

III. Exports to OPEC¹ from the Non-Oil LDCs

It was suggested earlier that slower growth of demand for imports in developed countries constituted one type of external difficulty for non-oil LDCs during the 1970s. The extent of this difficulty very quickly came to be mitigated for a number of non-oil LDCs, however, by rapidly growing markets in many OPEC Member Countries. The present section discusses this comparatively under-researched issue.

During the 1970s these two groups of countries became increasingly important

1. *For reasons of statistical availability, figures for OPEC's 13 Members, less Ecuador and Gabon, plus Oman (not an OPEC Member), have been adopted in this section. This is the configuration used in the IMF Direction of Trade 1980 Yearbook, from which much of the data referred to in this section is drawn.*

trade partners. First, some statistics illustrate the overall magnitude of this trade. From a value of \$3.3 billion in 1973, exports from non-oil LDCs to oil exporting countries reached \$15.2 billion by 1979, in current dollar terms. This growth, which was of the order of 464 per cent, outpaced the growth of the non-oil countries' exports to the rest of the world for most of the 1972-79 period, as Table 3 shows. For their part, the oil exporting countries as defined here increased their exports to the non-oil LDCs from \$7.8 billion in 1973 to \$46 billion by 1979. Again this component of their exports grew faster than did their exports to the rest of the world, except during 1977-78.

TABLE 3

Annual Growth Rates of OPEC and Non-Oil LDC Foreign Trade
(per cent)

	OPEC Exports to:			Non-Oil LDCs' Exports to:		
	World	Non-Oil LDCs	OPEC	World	Non-Oil LDCs	OPEC
1969-71/ 1972-74	51.5	53.9	58.7	25.1	24.7	40.9
1972-74/ 1975-76	29.9	34.7	44.3	18.1	19.0	37.4
1975-76/1977	13.3	16.5	25.1	17.5	15.4	30.1
1977/1978	- 3.9	- 4.9	21.4	13.3	19.4	10.9
1978/1979	42.7	44.6	52.9	26.2	31.1	16.7

Source: Calculated from IMF, "Direction of Trade", various issues.

Despite this fast growth in exports, the non-oil LDCs' share of the oil exporting countries' total import market remained approximately unchanged over the 1973-79 period. It averaged 15 per cent during the period, with no clear trend discernible. The share of non-oil LDCs' imports in world imports from the oil exporting nations was similarly almost unchanged, at an average 23 per cent. Table 4 summarizes these trends. As one would expect, not all OPEC Members participated strongly in the growth of this trade. As Table 5 shows, some Members tended to take disproportionately large shares within the total - Indonesia and Saudi Arabia are obvious examples. Saudi imports from non-oil LDCs rose from \$586 million in 1973 to \$3.6 billion in 1979.

An interesting comparison with the growth of this trade is provided by figures showing trade between OPEC Members themselves. Calculations drawn from IMF data show that, for OPEC Members in aggregate, this trade network remained a

TABLE 4

Trade Between Oil Exporting Countries¹ and Non-Oil LDCs, 1973-1979
(current \$ million values)

Year	Oil Exporting Countries' total imports	Of which:		Non-Oil LDCs' total imports	Of which:		Non-Oil LDCs' total exports	Of which:	
		Non-Oil LDCs	imports from		imports from	imports from		%	% going to OPEC
1973	19,996	3,282	101,441	7,847	83,916	8	4		
1974	32,461	5,274	164,187	24,272	120,158	15	4		
1975	51,348	7,179	173,193	23,519	118,365	14	6		
1976	63,473	9,007	180,223	30,127	140,759	17	6		
1977	85,470	12,248	207,493	33,024	166,252	16	7		
1978	100,491	12,653	248,073	33,356	191,023	13	7		
1979	103,825	15,235	317,952	46,348	244,431	15	6		

1. Again the statistics are for OPEC's 13 Members, less Ecuador and Gabon, plus non-member Oman — the configuration adopted by the IMF in the 1980 Direction of Trade Yearbook.

Source: Calculated from IMF, "Direction of Trade", 1980 Yearbook.

TABLE 5

OPEC Members' Shares of Total OPEC Imports
from Non-Oil Less Developed Countries
1973 and 1979

Member Country	1973		1979	
	%	\$ million	%	\$ million
Algeria	7	215	3	525
Ecuador	5	259	2	334
Gabon	0	5	0	64
Indonesia	23	772	13	1,922
Islamic Republic of Iran	10	344	8	1,162
Iraq	6	213	9	1,351
Kuwait	7	232	7	1,138
Socialist Peoples Libyan Arab Jamahiriya	10	314	5	827
Nigeria	4	144	10	1,528
Qatar	1	32	1	120
Saudi Arabia	18	586	24	3,633
United Arab Emirates	4	134	9	1,411
Venezuela	8	251	8	1,221
Total	100	3,301	100	15,236

Source: Calculated from IMF, "Direction of Trade", 1980 Yearbook.

fraction of their trade with non-oil LDCs during the 1970s. OPEC Members' imports from each other grew from \$254 million in 1973 to \$1,512 million in 1979. These figures are equivalent to 7.6 per cent and 9.9 per cent of the value of OPEC Members' imports from non-oil LDCs in 1973 and 1979, respectively.

As one would also expect, of course, not all developing countries shared in this strong growth in imports by OPEC Members. Indeed 13 non-oil LDCs (eight of them among the 12 comprising Balassa's group of NICs) between them accounted for 90 per cent of the overall increase in non-oil LDC exports to OPEC during the period 1972-78. Table 6 shows these 13 most important countries along with their share, by 1978, of this trade with OPEC. Notable among the countries which most rapidly increased their exports to OPEC were South Korea (with a 7,558 per cent increase) and Taiwan (with 2,710 per cent). Even the most modest performance among these countries, that of Mexico, yielded a 220 per cent export growth.

Two interesting observations follow from these figures. First, it is noteworthy that of 12 of these non-oil LDCs, no less than eight were able to increase their export/import ratio with the OPEC group during the 1973–78 period. A ninth country, Brazil, was able to keep its ratio approximately stable.

The second interesting observation raised by the data shown in Table 6 concerns the extent to which these 13 countries became successful trade partners with OPEC as a result of the commodity composition of their exports. Full resolution of this question would require far more comprehensive data than is to hand, but it may well be significant that these 13 are important presences in Third World manufacturing. For OPEC imports are increasingly concentrated in manufactured goods.¹ From 1973, when manufactures accounted for 51 per cent of total OPEC imports, this category fell to 44 per cent in 1975, but increased gradually to reach 57 per cent by 1978. In the same year, 1978, food items accounted for 28 per cent of all OPEC imports, fuels for 8.6 per cent and ores and metals for 6.2 per cent.

During the short period 1976–78, for which full data is available, growth rates for each commodity category in non-oil LDCs' exports to OPEC have been calculated (see Table 7). The fastest growing portion of this trade, although from a very small base, was fuels. The value of non-oil LDCs' exports to OPEC in this category grew at an annual average rate of 36.8 per cent during this period. This was followed by the manufactured goods category which grew at an annual rate of 33.2 per cent.

Drawing conclusions based on this type of data is difficult. Some of the data covers too short a period for trends to be definitely established, while in some developing countries there are the inevitable problems of data sometimes being unreliable. Nevertheless, it is fairly clear that non-oil LDCs in aggregate were able to capture a rising amount of export business in OPEC Member Countries during the 1970s. Their market share hovered throughout the period at around 16 per cent. OPEC Members also came to account for an increasingly important share of the non-oil LDCs' total exports, with a four per cent share in 1973–74 rising to 6.5 per cent over 1975–79. The value of these exports rose almost threefold during this period. The fact that manufactured goods were among the fastest growing components of OPEC imports over the period meant that the more successful non-oil LDC exporters were the more industrially sophisticated.

1. *Defined here as SITC (Standard International Trade Classification) 5 to 8 less 67 and 68.*

TABLE 6

Thirteen Major LDC Trade Partners with OPEC Members
Value of Exports to OPEC
(\$ million)

	1972	1973	1974	1975	1976	1977	1978	% of total (1978)	% increase 1972-78
South Korea	19	37	146	215	388	749	1,436	15	7,558
India	146	100	379	701	1,065	1,391	1,498	14	1,026
Taiwan	42	79	208	320	440	763	1,138	11	2,710
Brazil	53	230	461	667	582	874	938	9	1,770
Hong Kong	127	291	307	346	463	622	897	8	706
Singapore	132	202	358	494	795	926	903	8	684
China	165	270	515	552	661	823	865	7	524
Bahrain	31	62	106	113	244	368	482	5	1,555
Thailand	49	100	236	144	322	469	515	5	1,051
Pakistan	72	169	230	201	285	378	432	4	600
Argentina	24	82	181	202	198	378	258	2	1,075
Colombia	17	17	40	96	120	159	175	2	1,029
Mexico	56	45	49	76	79	121	123	1	220

Source: UNCTAD, "Trade Among Developing Countries" (TD/B/C 7/21), September 1978. Countries selected were those with growth of exports to OPEC exceeding 500 per cent, plus Mexico.

TABLE 7

Growth Rates of Exports to OPEC by Commodity Grouping, 1976-1978
(per cent per annum)

Category	From Non-Oil LDCs	From World
All Items	24.7	21.6
All Food Items	16.6	23.9
Agricultural Raw Materials	7.7	13.8
Ores and Metals	13.9	18.1
Fuels	36.8	31.3
Manufactured Goods	33.2	20.3

Source: UNCTAD, "International Yearbook of Trade and Development Statistics", 1979 issue.

IV. Workers from Non-Oil LDCs in OPEC Countries

In addition to the rapid growth of visible trade as evidenced above, the growth of remittance incomes earned in OPEC Member States for certain developing countries has also been very rapid. Unfortunately, the nature of the data bringing this to light is uneven and there is probably substantial under-recording of true earnings due to some remittances being transferred through illegal or informal channels. Table 8 attempts to show the rise in such earnings between 1973 and 1980 for those countries whose citizens are among those most heavily involved in temporary migration to Middle Eastern OPEC Countries to work on development projects. As can be seen, the rise in earnings has been considerable, with the total recorded by the IMF for the countries listed here growing from at least \$1.3 billion in 1974 to \$5.4 billion in 1977. Some of these earnings also originated outside OPEC Member Countries; but it is quite clear that the latter are important sources for the countries listed in the table.

It has been estimated that there were over 1.5 million migrant workers from non-oil LDCs working in the Arab OPEC Countries in 1975.¹ Annual data of this kind does not appear to have been collected on a regular basis but there are strong indications that the number of such workers has been growing rapidly in recent years. By 1980, there were as many as one million Pakistani workers employed in the Middle East²; 100,000 workers from South Korea³; and 84,000 from Turkey⁴, as well as those from the many other non-oil LDC sources listed in Table 8.

A great deal of the labour migration from the non-oil LDCs is directly associated with consultancy, construction and engineering contracts won by firms from these countries in the Middle East. This market grew very rapidly, with the Economist Intelligence Unit estimating that construction and building contracts in the United Arab Emirates, the Islamic Republic of Iran, Iraq, Kuwait, the Socialist Peoples Libyan Arab Jamahiriya and Saudi Arabia doubled in value between 1973 and 1975 to \$4.2 billion.⁵ Some of the more industrially advanced

1. J.S. Birks and C.A. Sinclair, "International Labour Migration in the Arab Middle East", *Third World Quarterly*, Vol. 1, No. 2, April 1979, pp. 87-99.
2. *Middle East Economic Digest*, May 16, 1980.
3. *ibid.*, May 2, 1981.
4. *ibid.*, February 6, 1981.
5. *Economist Intelligence Unit*, "Construction in the Middle East", *Special Report*, 1979.

TABLE 8

Remittance Earnings and Other Private Unrequired Transfers (net)
 In Selected Non-Oil LDCs
 1973-1980
 (current \$ million)

Country	1973	1974	1975	1976	1977	1978	1979	1980
Afghanistan	n.a.	n.a.	n.a.	n.a.	200	n.a.	n.a.	n.a.
Bangladesh ¹	n.a.	18	43	53	75	n.a.	n.a.	n.a.
Egypt	87	189	340	615	1,025	n.a.	n.a.	n.a.
India	235	297	535	713	1,000	n.a.	n.a.	n.a.
Jordan	45	75	167	411	425	466	508	n.a.
Korea	154	154	158	195	172	433	401	407
Pakistan ¹	151	230	353	590	1,110	1,419	1,579	n.a.
Philippines	n.a.	104	128	112	130	193	229	288
Sri Lanka	n.a.	n.a.	3	7	12	22	48	n.a.
Yemen Arab Republic	129	156	307	796	1,000	910	937	n.a.
Yemen: People's Democratic Republic	33	41	56	115	179	225	312	n.a.

1. Fiscal year ending July 1.

n.a. = not available.

Source: Andreas S. Gerakis and S. Thayaniythy, "Wave of Middle East Migration Raises Questions of Policy in Many Countries", IMF Survey, September 4, 1978; IMF, "International Financial Statistics", various issues.

Note: Data distinguishing transfers of remittances from other forms of net unrequired private transfers is not available in international statistical manuals. In this table and Table 9, IMF category 77 a e d has therefore been adopted as a proxy for remittances. For a full explanation, see IMF Balance of Payments Manual, 1978 edition.

non-oil LDCs were best placed initially to bid competitively for such work. In 1978, the best year for Middle East contracts among South Korean firms, some \$9 billion-worth of contracts were obtained.¹

The presence of non-oil LDC firms in the Middle East is in fact quite striking. In 1980, for example, non-oil LDC companies won 25 of the 88 largest contracts (that is, 28 per cent) awarded by Middle Eastern countries – overwhelmingly OPEC Member Countries – to non-OPEC member suppliers.² Taking a smaller group of the largest 50 contracts distributed that year (all of them over \$70 million in value), no fewer than 20 (40 per cent) were won by non-oil LDC companies. Among these firms, those from South Korea predominated. In the first half of 1981, for example, about 90 South Korean firms were carrying out contracts in the Middle East, 70 of them in Saudi Arabia³; and South Korean firms alone took 12 of the 88 largest contracts already mentioned. But South Korean firms were by no means the only presence from the non-oil LDCs: firms from Taiwan, the Philippines, Turkey, India, Egypt and Syria also won substantial contracts in the OPEC area.

For several of the oil importing trade partners involved, these remittance earnings are clearly an important contribution to their overall balance of payments positions. Remittances of earnings help to reduce the foreign exchange constraint on economic growth as the foreign exchange can be directed by the home government into the purchase of foreign capital goods. On the other hand, the relationship may be more indirect. Imports of wage goods (including food) may increase, allowing more workers to find employment as wage good prices and industry's wage bill come down. Table 9 attempts to give an indication of the size of this contribution for those countries with such data recorded by the IMF. The table suggests that Pakistan, the Yemen Arab Republic and the People's Democratic Republic of Yemen are the countries most assisted by such inflows. In the case of the Yemen Arab Republic, well over half the value of visible and invisible imports was covered by remittance inflows in the 1974–79 period.

By 1976, labour remittances into Morocco had reached 43 per cent of the value of total exports of goods from that country.⁴ Similarly, the proportion for

1. *Saudi Newsletter*, June 18, 1979.
2. *Details of the largest contracts were collected and published in Middle East Economic Digest, Special Report, March 1981.*
3. *ibid.*, January 23, 1981.
4. A.G. Chandavarkar, "Use of Migrants' Remittances in Labour-Exporting Countries", *Finance and Development*, June 1980, pp. 36–39, Table 2.

TABLE 9

Migrant Remittances and Other Private Unrequired Transfers (net)
as a Proportion of Imports of Goods and Services
(per cent)

Country	1973	1974	1975	1976	1977	1978	1979	1980
Bangladesh	n.a.	2.0	4.0	6.0	n.a.	n.a.	n.a.	n.a.
Jordan	11.0	13.0	18.0	31.0	25.0	23.0	18.0	n.a.
South Korea	3.0	2.0	2.0	2.0	1.3	2.3	1.7	1.4
Pakistan	11.0	7.3	9.8	15.5	27.8	34.8	29.3	n.a.
Philippines	n.a.	3.1	3.7	3.8	2.8	3.1	2.8	2.8
Sri Lanka	n.a.	n.a.	0.3	1.0	1.3	2.0	3.0	n.a.
Yemen Arab Republic	n.a.	56.0	88.0	117.0	107.0	76.0	54.5	n.a.
Yemen: People's Dem. Republic	19.0	20.0	28.0	39.0	45.0	58.0	64.0	n.a.

n.a. = not available.

Source: Calculated from IMF, "International Financial Statistics", various issues. Imports defined as merchandise imports f.o.b. plus other goods, services and income, and debits - all in current US dollar terms. See Note to Table 8 above for explanation of remittance data.

Tunisia was 17 per cent and for Turkey 50 per cent. Pakistani workers in the Middle East are estimated to have sent home about \$1.6 billion in the year up to June 1980. Moreover, there is evidence showing that foreign workers usually remit high proportions of their earnings, mainly due to a marked lack of integration of the foreign workforce with the local economies. Most South Korean workers remit some 85 per cent of their earnings, and Turkish workers even more.¹

Conclusions

The preceding sections have documented the growing economic relationships between OPEC Member Countries and oil importing developing nations. Several

1. *Middle East Economic Digest*, May 2, 1981 and February 6, 1981.

aspects of this relationship – notably the growing volume of trade in visibles and the growth in remittances – have been substantially augmented during the last ten years or so. At the same time, the nature and extent of the relationship have necessarily been shaped by the global economic changes that have involved the industrialized countries as well. It was therefore necessary to preface the discussion with a review of the forces in play in the world economy as the 1970s began.

There seems little reason to believe that the close relationship that has evolved between OPEC Members and non-oil developing countries will atrophy or stagnate in the 1980s. The two groups have become close trade partners and the expansion of demand in OPEC Members has allowed firms in non-oil LDCs to expand and diversify their sales outlets. The aid relationship – most intensive between OPEC Member Countries' various institutions and those non-oil LDCs least able to export goods or services to OPEC Members – has clearly also become significant, although it has not been investigated here since it is already comparatively well documented.