POST-WAR LEBANESE FOREIGN TRADE
AND
ECONOMIC DEVELOPMENT

By

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ABSTRACT

Problems of economic growth have been of a major concern on the part of underdeveloped areas. However, there exists no uniformity of approach as to the best means to be followed if the objective of development is to be attained. Obviously the process of economic progress may differ from country to country being subject to the various characteristics of the underdevloped economy facing the problems of growth as well as to the social and economic philosophies such an economy holds in esteem. On the other hand, a list of common economic problems confronting developing areas may be drawn up. Among these the problem of capital formation and acquisition have always attracted great attention. Capital is generally viewed as a basic element behind economic development.

As a developing country - that not long ago achieved political independence - Lebanon has to cope with the various problems of economic progress. Several indications point out, in this connection, to the significant role that the Lebanese foreign trade sector may assume. Recent studies have shown that the Lebanese commercial field generated a bigger proportion of the total national income than any other sector of the economy. Hence it is important to understand what are its major characteristics and what trends post-war commercial policies have taken.

On the whole post-war Lebanese international activities, particularly since 1948, have been conducted with a relatively small degree of government interferences and restrictions. An examination of the various features of the foreign trade sector would reveal several interesting points. Lebanon, for example, depends, to a large extent, on invisible receipts to cover the deficit in its balance of trade. / Further being in its early stages of industrialization, the Lebanese economy imports the bulk of the needed industrial goods from the Western countries that supply, in terms of proportional value, over half of the total Lebanese imports. In contrast the Arab countries seem to play a relatively important role in Lebanon's export activities absorbing around half of the total exports./

Although there has emerged in Lebanon, in the post-war years, a free foreign exchange and a relatively free foreign trade sectors, various other developments, in way of trade agreements and relations, seem to point out to certain apparent and different tendencies in Lebanese commercial policy. Bilateralism, on the one hand, and a drive for greater economic cooperation with the Arab countries, on the other, may be distinguished. Both tendencies will have their particular bearings on Lebanese foreign trade depending upon the means through which they are effected and the extent to which they are carried out. Further it may interesting to note that whereas prior to March, 1950 Syria and Lebanon constituted one customs area, since then the two countries have not been able to establish a definite pattern of trade and economic relationship binding their respective economies.

Undoubtedly if we are to analize the role that Lebanese foreign trade may assume with respect to economic growth, it is necessary to comprehend what are the various characteristics of the Lebanese commercial field. Thus the present dissertation has been divided into three parts. Part I pertains to an analysis of Lebanese foreign trade; Part II discusses post-war Lebanese trade relations and agreements. The third analizes certain aspects of the interrelations between international trade and economic development and attempts to evaluate the role of Lebanese foreign trade in the light of economic development having isolated the problem of capital formation and treated it as a basic obstacle to be overcome if progress is to take place.

A number of broad remarks have been arrived at. Some are general while others are specific in that they relate to particular aspect of post-war Lebanese trade. As an underlying theme, however, the idea of a balance between a generally free and restricted foreign trade has been stressed. That is where as the various characteristics of the Lebanese economy favour, on the whole, the case for a free multilateral commercial policy, certain deviations from the above principle may, with the existence of particular conditions prove to be beneficial with respect to economic progress.

INTRODUCTION

It may be appropriate to stress, in the opening sentences of the introduction, the two-fold objectives of the present dissertation namely:

1. A descriptive analysis of post-war Lebanese foreign trade.

2. An evaluation of particular aspects of the above analysis in the light of economic progress. To achieve both purposes, the analysis carried out in the coming eight chapters has been divided into three parts. The first exposes the various characteristics of Lebanese foreign trade; the second pertains to the various trade agreements and relations between Lebanon and other areas; the third provides, on the one hand, a theoretical discussion of the interrelations between economic development and foreign trade, in general, and on the other, attempts to evaluate post-war Lebanese international economic activity in the light of economic growth, in particular.

Part I and II may be taken as serving both objectives while Part III may be linked simply to the second. It is important to note, however, that in a more specific sense the two objectives boil down to one. That is, to be able to discuss the means through which the Lebanese foreign trade sector may serve the purposes of development, it is necessary to provide a descriptive analysis of this sector's characteristics and trends that would constitute a basis upon which to construct a model for those various means. As such the dissertation embodies one theme or one objective. On the other hand while proceeding with an ultimate objective in mind - i.e. the interconnections between Lebanese foreign trade and economic development - in certain respects a more detailed descriptive analysis of foreign trade characteristics and agreements has been provided, than, judging by the above objective alone, would have been required. Nevertheless in so far as a descriptive analysis of Lebanese foreign trade constitutes a minor objective in itself, such additions may be viewed as appropriate - thus the emergence of two interlapping themes.

It has often been remarked that Lebanon has been and will always be primarily a commercial country. The smallness of the internal market, the lack of abundant basic minerals necessary for heavy industrialization, and its geographic characteristics have been advanced as main factors underlying the above notion. Undoubtedly foreign trade has played a significant role in the Lebanese economy. Recent studies about the income generated in each of the different economic sectors of the country reveal that foreign trade has contributed the largest proportion of the total.

On the other hand Lebanon, until very recently, has been under foreign domination for over four hundred years during which period harldy an appreciable progress took place in the social and economic fields of the country. Hence although the Lebanese commercial sector will always be of significant importance, it is likely that, as development takes place, its relative importance will decline while that of agriculture and industry will rise. Similar to other countries, that not long ago achieved political independence, Lebanon is bent on raising the standard of living of its citizens through an over-all social and economic development. As a consequence many obstacles will have to be overcome - need for capital, population growth, absence of necessary technical skill, low productivity functions etc.... If we are to isolate the problem of capital formation and acquisition and treat it as a basic element behind economic growth, as in fact has been done, how would and to what extent can the different economic sectors of the country contribute towards the solution of such a problem? Obviously the magnitude of the relative contribution is conditioned by the role assumed by each one of them. It is believed, in this connection, that Lebanese foreign trade will be of major importance in raising the income level and thus in the achievement of a wider possibility for capital formation and acquisition. As a significant sector in the economy heavy reliance may have to be placed on the Lebanese commercial field with respect to economic progress. Hence it is important to understand what its major characteristics are as well as the main trends that post-war Lebanese foreign trade policies and relations have assumed.

More specifically Part I has been divided into three chapters. The first sets forth the emergence of a "free market" in Lebanon which, on the whole, may be taken as having characterized Lebanese post-war commercial policy. The second (Chapter II) pertains to an analysis of the foreign trade sector in an attempt to reveal what are the more important of its features. The third (Chapter III) has been devoted to the role played by foreign trade in the Lebanese economy and consequently the importance it assumes. Further a summary of Part I has been presented revealing the main points touched upon.

Part II, which analizes Lebanese trade relations and agreements with other areas, has also been divided into three chapter. The first (Chapter IV) deals with the post-war economic relations between Syria and Lebanon. The second (Chapter V) has been confined to trade relations and agreements between Lebanon and other members of the Arab League, while the third (Chapter VI) traces the relations between Lebanon and the U.S. and Western Europe, Eastern Europe and others respectively. The reasons for the above classification have been given in Chapter II of Part I. A summary of Part II has been presented showing the various post-war trends in Lebanese trade agreements and policies; together with the summary of Part I, it provides a background for the discussion which follows in Chapter VIII (Part III).

Part III has been divided into two chapters. The first

(Chapter VII) pertains to a general treatment of the interrelations between international trade and economic development. The second (Chapter VIII) attempts to weld the descriptive analysis presented in the first two parts with that of the previous chapter in an effort to draw attention to particular aspects of the potentialities offered by Lebanese foreign trade with respect to economic progress.

PART I

POST-WAR LEBANESE FOREIGN TRADE

CHAPTER I

POST-WAR EMERGENCE OF A "FREE MARKET" IN LEBANON

I. INTRODUCTION

Theoretically the concept of a perfectly "free market" implies that decisions relating to economic activities are taken by solely private interests. The absolute free play of market forces comes to determine prices, production, employment and other aspects of economic life. In practice, however, such a concept does not fit the actual realities of the world. Thus when countries are looked at as single economic units, the elements of freedom in their internal or local markets are not measured in an absolute but a relative sense. Rarely, if ever, do we find a perfectly "free market" as defined above; it is only that private economic decisions are arrived at in one country under conditions of a lesser or a greater degree of interferences and restrictions relative to those arrived at in other countries.

If the world were to be viewed as an economic entity (inspite of existing political divisions), the pre-requisites for a "free market" would seem to be even less satisfied. Free international trade implying the non-existence of tariffs, quotas, exchange control, or any other kind of interference has probably never been practiced. There again the elements of freedom may be measured in a relative sense; certain countries practice this freedom to a greater extent than others.[1]

Hence the coming discussion of the post-war emergence of a "free market" in Lebanon does not imply the gradual and complete absence of government interference with respect to international trade activities. Tariffs exist and certain specific commodities are still subject to the system of prior licensing.[2] Nevertheless, the Lebanese foreign trade sector and to a greater extent the foreign exchange market have come to be relatively free when compared with those of other countries. Not only few commodities are subject to prior licensing and exchange control is practically non-existent but, as shall be exposed in section IV below, even tariffs have not been seriously used as a tool of commercial policy. They have been mainly regarded as a source of revenue.

The adoption of a relatively free trade policy, on the part of the Lebanese authorities, has important bearings on the foreign trade sector of the country. To what extent the various characteristics of the Lebanese economy, and in particular the commercial field, establish a case for free multilateral trade

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1 Lebanon, at present, with its free foreign exchange and relatively free foreign trade sectors, would be a good example when contrasted with its neighbouring countries.

2 To that should be added the bilateral trade agreements recently concluded between Lebanon and other countries, specifying what may be imported and exported. (These agreements will be discussed in Chapter VI below)

will be revealed later. It is to be noted, however, that the official relaxation of exchange control in 1948 was, in certain ways, a recognition of an actual situation that had come to exist. In other words, alongside theoretically strict exchange regulations during the 1944-48 period, there existed a black market which played an ever increasing role in Lebanese international activities until finally it received official recognition and was, thus, transformed into a "free market". The post-war Lebanese exchange control may be considered as a legacy of the war that gradually came to an end when the factors neccesitating its presence ceased to exist.

Although the emergence of a relatively free trade policy has been divided into two periods, 1944-48 and 1948-52, such a classification complies more with legal than actual developments. That is the development of a "free market" in Lebanon should, more or less, be considered as a continuous process all through the post-war years simply receiving official recognition in the year 1948.

II. THE 1944-48 PERIOD

A. Nature of Exchange Control

As a legacy of the war[1] Lebanese exchange control during the period under consideration was characterized, on the whole

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1 An "Office des Changes", where all exchange operations were supposed to be centralized, was established by the French authoririties on June 19, 1940. Its operation was entrusted to the "Banque de Syrie et du Liban" - a French institution that has the role privilege of note issue in Lebanon.

with:

1. The prohibition of outward capital remittances without a special permission (The Sterling and Franc areas, however, received special privileges in this connection.)

2. The centralization of foreign exchange proceeds

3. The setting of official rates of exchange

4. The existence of French influence - mainly pertaining to administrative aspects.

Two autonomous bodies - the "Control des changes" and the "Office des Changes" - constituted the mechanism through which exchange regulations were effected.[1] The various

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1 The "Controle des Changes", declared as an autonomous body, was made up of a committee consisting of the representative of the "Controle des Changes du Bloc Franc" as president & two representatives of the Syrian and Lebanese governments respectively as members. The texts of regulations of the "Controle des Changes" in Syria and Lebanon were to be elaborated by the above mentioned committee in harmony with the general disposition of the "Controle des Changes du Bloc Franc" taking into account the legitimate interests of Syrian and Lebanese trade. The committee was to appoint a General Inspector (French) and two other inspectors (Syrian and Lebanese) to assist it in insuring that the regulations of the "Controle des Changes" were respected by the "Office des Changes" and by the residents of Syria and Lebanon.

The "Office des Changes" was defined as an autonomous Syro-Lebanese public service charged with the application of the regulations promolgated by the "Controle des Changes". Further it had to fix the buying and selling prices of foreing exchange upon the instructions of the "Commissaires" of the two Governments (appointed by the Ministries of Finance) after consultation with the "Controle des Changes". (See legislative decree K/11, and legislative decree K/12, May 5, 1944).

regulations drawn up during the period under consideration may be divided into three sections:[1]

1. Those pertaining to the import and export of capital[2]

2. Those pertaining to capital found inside and outside Syria and Lebanon (owned by Syrian and Lebanese residents)

3. Those pertaining to the import and export of goods.

Whereas there is no point in exposing the many legal requirements imposed by the above regulations, it should be noted that they aimed at the complete control of exchange and capital transactions on the part of the responsible authorities. Excluding the Sterling and Franc areas no capital outflow was allowed without a special permission from the "Office des Changes" while the repatriation of all foreign exchange earned by Syrian and Lebanese residents after December 3, 1939 was made obligatory. This exchange had to be surrendered to the "Office des Changes" that paid for it in Syro-Lebanese currency at official rates.[3]

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1 Refer to decree No. L/2025, October 11, 1944.

2 By capital was meant: banknotes, cheques, bills of exchange, securities, demand and time deposits, real estate, movable and immovable property.

3 The export of capital through the transfer of sterling and francs to the Sterling and Franc areas respectively was allowed provided it was used within those two areas.

Further Syrian and Lebanese residents were not allowed to sell, give up, transfer or deposit as a guarantee outside the two countries the capital they owned without a special permission from the "Office des Changes". Capital owned by residents in the Sterling and Franc areas could be freely retained in its place of origin. To retain it in other areas again the permission of the "Office des Changes" was needed.[1]

Finally all exports and imports of goods were subjected to the system of prior licencing. Exporters had to pledge before they were granted permits to surrender to the "Office des Changes" all their foreign exchange proceeds. On the other hand importers in need of foreign exchange could secure it from authorized banks after having acquired the necessary permits from the "Office des Changes".[2] The latter authorized the payment of foreign exchange in fulfilment of either of the following purposes:

1. Financing of imports

2. Settlement of debts incurred prior to September 3, 1939

3. Remitting it to the applicant's own family

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1 Capital earned prior to December 3, 1939 was exempted from such regulations.

2 Sterling and francs could be secured from authorized banks without special permits. In fact importers that owned sterling and franc balances in the Sterling and Franc areas prior to December 3, 1939 and after February 8, 1944 respectively could use them to finance imports. In all other cases the use of balances outside Syria and Lebanon to finance imports was subject to the approval of the "Office des Changes".

The movement towards a gradual relaxation of exchange and trade control started with the publication of a law on January 17, 1946 which abolished the necessity of import permits from the "Office des Changes" with respect to certain classes of goods.[1] Moreover a list was drawn of those commodities which could be freely imported from Middle Eastern countries; otherwise permits were necessary.[2] Legal developments favouring the emergence of a "free market" in Lebanon (reviewed in section three below) continued until in 1952, the "Office des Changes", although not annulled, ceased to function, and official exchange rates became meaningless.

Fundamentally the continued existence of a Lebanese exchange control in the immediate post-war years may be looked upon as a transitional step from war to peace time conditions that eventually witnessed the appearance of a free foreign exchange and relatively free foreign trade sectors. Several factors may have been responsible for the above developments. Among the important ones, however, was the growing role of the black market to which a word shall now be devoted.

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1 Imports excluded from such an exemption were:

a) Those financed with foreign exchange obtained from the "Office des Changes"

b) Those that competed with local production

c) Those that were subjected to the system of "supervised distribution" on the part of the Lebanese authorities.

2 On the other hand dollar resources of the "Office des Changes" were not to be given up to importers unless they were

B. Role of the Black Market

The coexistence of exchange control and the black market is, in many respects, a natural phenomenon. Artificial interferences in the free play of market forces often leads to a certain degree of unsatisfaction on the part of particular groups. This would induce resort to illegal methods to satisfy the requirements of the above groups especially when such an act, if succesfully carried out, results in sizable profits.[1] Obviously the magnitude of the black market would vary inversely with the effective enforcement of exchange regulations.

In the case of the Lebanese exchange control there seems to have existed, in spite of theoretically strict regulations, a wide room for black market operations. It's

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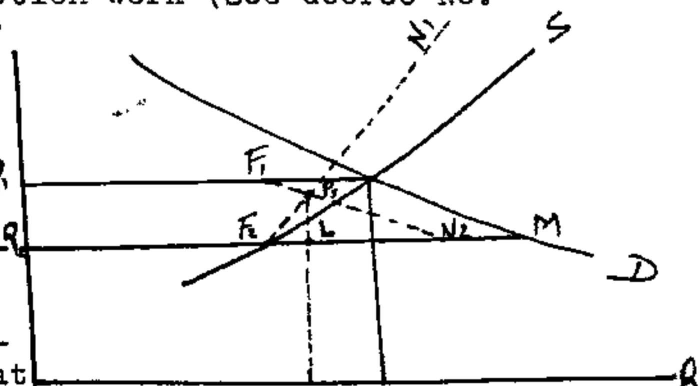
to import:

a) Industrial implements including raw materials needed by local industries

b) Agricultural implements

c) Material needed for construction work (See decree No. 4053, July 5, 1947)



1 The adjacent figure is an illustration of this point. S and D are supply and demand curves in a free market and P_1 is the ruling price. Assume that the Government forced the price to go down to P_2 (legal price). While P_2M would constitute effective demand only P_2F_2 would be supplied, That is F_2M would be unsatisfied demand. As a result black market comes into existence.
F_2N_1 is black market supply curve, lying to the left of the normal supply curve.
F_1N_2 is black market demand curve.
P_3 is ruling price in black market.
F_2L is output bought in black market.

magnitute could be judged from the fact that in 1946 the value of imports as recorded by customs statistics was about L.L.S. 267 millions while foreign exchange granted by the "Office des Changes" was only L.L.S. 138 millions.[1] In fact it is estimated that during 1944-46 around 40-50 per cent of Syro-Lebanese imports, in terms of value, were financed by foreign exchange obtained from the black market. In the following two years the percentage rose to around 65 per cent. This was partially due to the depletion of foreign exchange resources held by the "Office des Changes".[2] With the official recognition of the "free market" in 1948 the bulk of imports come to be financed without recourse to official sources. Thus, in fact, the emergence of a relatively free market in Lebanon was a continuous process that did not originate in 1948 but during and directly after the war.

A number of sources contributed towards the inflow of foreign exchange into the black market. Included were emigrant remittances and foreign currencies earned through transit, re-export and export trade. Having entered the country illegally, they were delivered to unauthorized brokers, at black market rates,who in turn supplied importers

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1 Information secured privately.

2 It should be remembered that these same years witnessed the gradual loss of Palestine which constituted the most important Lebanese export market.

inneed of foreign exchange which could not be secured through the "Office des Changes". Apparently the latter must have lacked the resources to satisfy equitably the demand of all importers. In a country where foreign trade plays a significant role the inability on the part of the exchange control authorities to satisfy the requirements of import and export activities would be expected to lead to a greater reliance on the black market. Such an inability seems to have been officially recognized even before 1948 with the consequent relaxation of exchange and trade controls.

III. THE 1948-1954 PERIOD

On the legal side the period presently considered was characterized with two chief developments:

1. The dwindling of French influence on Lebanese monetary affairs.

2. The gradual relaxation of foreign exchange and trade controls.

Complete supervision of exchange control now rested in the hands of the Lebanese authorities while new regulations[1] pertaining to the import and export of capital and foreign exchange were issued.[2]. These were effected through

1 Decree No. K/13051, September 7, 1948 and decree No. K/13530, November 4, 1948.

2 Decree No. K/13052, November 5, 1948

the means of the newly created "General Supervisory Body"[1] made up of a directory for supervision, a foreign exchange office and an exchange equilization fund. The official recognition extended to the free market could be seen in the various new regulations that had to be complied with:

1. Official rates were applied to official transactions only.

2. Free market rates applied to all imports and exports transacted in soft currencies.

3. Whereas 10 per cent of the imported foreign exchange (hard currencies) had to be surrendered, on the part of exporters, to the "Office des Changes" at official rates, the balance could be sold at the free current rate.[2]

4. Concessionaire companies, however, had to surrender 80 per cent of the foreign exchange they imported to the "Office des Changes" at the official rate.

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1 The "Directory for Supervision" prepared all regulations concerning the export and import of capital and other operations in foreign exchange. In addition it chose authorized banks and prepared a list of the foreign exchange that could be dealt with, determining their selling and buying prices in terms of Lebanese currency. The "Office des Changes", whose managements was again entrusted to the BSL, executed these regulations.

2 French francs were exempted from the 10 per cent requirement.

5. Although legally exporters dealing with hard currency areas had to import the full value of their exports in terms of foreign exchange, in practice they were allowed to retain a variable proportion of their proceeds which they sold at premium prices.

6. The selling and buying of any kind of bank notes were made completely free.

Alongside the above developments a further liberalization of trade took place. Starting with June, 1948 the import of goods with few exceptions, not financed with foreign exchange obtained from the "Office des Changes" was no more subject to the system of prior licensing.[1] Again, excepting few commodities, exports become free from all restrictions. Further during 1952 concessionaire companies and exporters were no more required to give up 80 and 10 per cent respectively of the foreign exchange they imported.[2] In fact exporters were allowed to retain abroad the full value of their exports in terms of foreign exchange.[3] Finally with complete freedom extended to the import and export of Lebanese currency,[4]

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1 Decree No. 5882, June 8, 1948 (Recently the Government annulled the regulation necessitating import licences. Few commodities, however, were excluded)

2 Decree No. 6669, March 21, 1949. (Where as relatively few imports were made subject to prior licencing to lessen the severity of foreign competition, the treatment of certain exports likewise was adopted to prevent a rise in the prices of certain local raw material and foodstuffs which previously had been exported on a large scale)

3 Decree No. 7393, December 26, 1952 and decree No. 8300, May 17, 1952.

4 Decree No. 7217, January 8, 1952 andannex 4 of decree No. K/2025, October 11, 1944.

there had emerged in Lebanon a free foreign exchange and a relatively free foreign trade sectors.

The causes leading to such a situation may be found in the inability of the Government to enforce efficiently exchange regulations, depletion of exchange resources held by the "Office des Changes", group pressure exerted by private interests etc.... The relaxation of exchange control was not, in other words, the product of a pre-conceived economic policy but, to a large extent, a recognition of an actual situation that had come to exist. What should be noted, however, is that as a consequence of the above attitude a greater stimulus has been given to such activities as transit, re-export, exchange and triangular operations that helped cover the relatively big deficit in Lebanon's balance of trade. Their importance will be revealed, in more detail, when analyzing (in Chapter II) the various characteristics of post-war Lebanese foreign trade.

IV. POST-WAR TARIFF POLICY

An evaluation of the Lebanese tariff policy may be carried out in the light of two factors: the economic development of the country and the bearings it has on the "free" play of market forces which characterize, more or less, the foreign exchange and foreign trade sectors of the Lebanese economy. While the two factors are not disconnected in that the rate and process of economic development is affected differently by the height of the tariff wall, (i.e. whether it does interfere effectively or only slightly in the foreign trade of the country); nevertheless, the present discussion of tariff policy shall be examined primarily with regard to the already discussed post-war emergence of a free market in Lebanon. The analysis of the relationships existing between the Lebanese tariff structure and economic development is taken up in Part III.

The criteria with which to judge the bearing of Lebanese tariff policy on foreign trade are the following: (1) purposes behind the tariff and (2) the structure of the tariff schedule. Again those two points are not to be taken separately, because of their close interdependence. Obviously if the existing Lebanese tariffs are solely for revenue purposes, then the structure of the tariff schedules would assume different characteristics or features from those assumed had they been for solely protective purposes.[1] The case of the present Lebanese tariff

1 From a theoretical point of view there are two reasons for imposing tariffs: to provide a source of revenue for the government and to protect local production against foreign competition. The factors that lead to such an act may differ widely. In the case of a duty for revenue purposes, it is a special kind of taxation. As such it would be a wise policy to impose it on articles of general consumption not produced at home, the local demand for which is generally

schedule would be revealed as we proceed in our explanation.

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inelastic. If the taxed imports are locally produced, then it is advantageous to impose a tax equivalent to the duty upon the home production. This would avoid any discrimination between similar home and foreign produced goods. (See G. Haberler, The Theory of International Trade, 'London, William Hodge and Company Ltd.' 1936, p. 239) On the other hand, the forces that give rise to protective tariffs are various. They may be due to group pressure, the result of retaliation or a tool for bargaining, irrespective of any possible economic consequences. They may have been enacted with the conviction that the economic development of the country in question necessitates such measures. Here we are confronted with the many arguments put forward by the advocates (among economists) of protectionism and free trade. Agreements on theoretical grounds have often been reached -- the theoretical argument for infant industry, for example, is valid in the eyes of protectionists as well as free traders. Disagreements have arisen as to its practical application. (See for example, Ibid, p. 281, R. Nurkse, Problem of Capital Formation in Underdeveloped Countries, (Oxford, Basil Blackwell, 1953) p. 104; F. Tawssig Some Aspects of the Tariff Question, (Cambridge, Harvard University Press, 1929) p. 19-20.) No doubt that the validity or disvalidity of applied economic theories concerning the tariff problem has its ihfluence on the rate of economic progress of the countries in question -- especially if they are still economically underdeveloped. (As already stated, however, such a discussion is included in Part III).

Another theoretical distinction between revenue and protection tariffs may be looked upon through their probable economic consequences. A purely protective tariff shifts production away from export industries to the protected industries as well as those industries towards which the directed demand turns. "A purely revenue duty without any discrimination or directly protective object finally leads to a shifting of factors of production away from the export industries towards those branches of production, for example, armaments or administrative services upon which the Government receipts are spent, and those branches in which, owing to the general changes in demand, demand changes". (G. Haberler, op.cit., p. 237) Again such consequences have a direct bearing on the evaluation of the tariff question in connection with economic development, and as suhh of not interest to us at present. Our problem is the existing relationships between the freedom of Lebanese post-war foreign trade and the Governments's tariff policy. To what extent is the latter interfering in the free play of market forces and shaping the pattern of foreign trade? The answer clearly lies in an analysis of the purposes behind Lebanese tariff wall and the structure

Prior to 1950, Syria and Lebanon formed one customs area. According to an agreement signed in October, 1943 between the two Governments the customs regulations and management were entrusted to a Syro-Lebanese Supreme Council of Common Interests. The decisions taken by this Council were to be submitted to the two Governments for approval.[1] Goods between the two countries circulated freely while no distinction was drawn between Syrian and Lebanese imports and exports.[2] Customs revenue was to be divided among the two countries in the proportion of 40 per cent to each, the remaining 20 per cent to be decided upon for each year separately.[3] Such a state of affairs broke down in 1950 when the customs union ceased to exist,[4] and consequently each country managed its customs independently. The Lebanese Government replaced the "Supreme Council of Common Interests" by a "Supreme Customs Council" attached to the Ministry of Finance, entrusting it with the same functions

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1 See Syrian Legislative decree, No.8, March 12, 1944 and Lebanese Legislative decree No. K/1, March 16, 1944.

2 In fact prior to 1950, foreign trade statistics made no distinction between Lebanese imports and exports on the one hand, and Syrian imports and exports on the other.

3 Later on the proportions established were: Syria 56 per cent, Lebanon 44 per cent.

4 The factors leading to such a result will be discussed in detail in Chapter IV.

previously assumed by the annulled Council.[1] The above mentioned important phase in Syro-Lebanese economic relationships did not have an appreciable influence on the tariff policy of Lebanon in that no marked differences exist between present Lebanese Tariff Policy and the one that was followed prior to the dissolution of the customs union. Hence in our discussion about the post-war Lebanese tariff, there is no further need to separate between the two periods.

Present day Lebanese custom regulations are based on the provisions of arrete No. LR/137, June 15, 1935 which brought the Ottoman and previous French mandatory customs regulations. Although as time passed, the above law has been subjected to a number of modifications, nevertheless, its basic structure has not been changed.[2]

The tariff schedule is based on the League of Nations' nomenclature[3], with duties divided into three categories:

1. Maximum duty which applies to goods imported from non-member countries of the U.N. and usually equal to

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1 See Legislative decree No. 2, March 13, 1950. Moreover, the Government retained the prvilege of issuing decrees pertaining to the determination of tariff duties until June 31, 1951, see Law, March, 1950 and Law, October 1950.

2 Counseil Superieur des Interets Communes, Direction Generale des Douanes.

3 See Arrete No. LR/189, September 8, 1936.

twice the ordinary tariff.

2. Ordinary duty which applies to goods imported from member countries of the U.N. and other non-member countries benefiting from such a privilege.

3. Preferential duty which applies to goods imported from countries that have signed special customs agreements with Lebanon. (The only countries benefiting, at present, from such a treatment are members of the Arab League)

Duties are only imposed on imports, exports and transit duties having been annulled since 1934 and 1935 respectively,[1] while reexports enjoy a refunding of duty since 1950.[2] Before World War II, the tariffs levied on imported goods, were primarily for revenue purposes.[3] Although the post-war tariff had no special trends, yet some of its general features could be differentiated. An examination of the 1952 tariff schedule[4] would reveal certain aspects of local industry encouragement in way of protective tariffs on

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1 See arrete No. LR/106, May, 1934, and arrete No. LR/90, Apbil 24, 1935.

2 The Legislative decree No. 4, April 8, 1950 allowed the refunding of duty on reexports provided:

a) The reexported commodity was not similar to any local industrial production unless the reexporters could absolutely prove that it originated from a foreign country.

b) It was kept in its own initial state.

c) It was reexported by the same person or body that has imported it.

3 Customs revenue made up about 40 per cent of the total receipts of the Government.

4 Conseil Supérieur des Douanes, <u>Tableau des Droits Inscrits au tariff des Douanes</u>, Beyrouth, 1952.

the one hand, and a relative reduction of duties on raw materials needed by these industries on the other hand. To a large extent, however, there exists a uniform ordinary duty of 25 per cent applicable to those goods which neither compete severely with local production nor constitute raw material needed by local industries. As a summation of the outstanding features of the ordinary tariff[1], the following may be stated:

1. The value of duties, which on the whole are based on an ad valorem basis, range between 1 per cent and 50 per cent. Relatively few specific duties are used and this in connection with fruits, vegetables, textiles, cotton, needle work, and vehicles.

2. Imported goods that compete severely with local production are usually subjected to a duty above 25 per cent, while needed raw materials are either exempt or receive a duty lower than 25 per cent. All other goods are subject to a 25 per cent levy.

3. Syria, Irak and Jordan in particular benefit from a large number of exemptions especially in connection with the products of the animal and plant kingdom as well as mineral products. Exemptions extended to other countries in addition to the above mentioned three apply on raw rubber

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1 Maximum tariff is insignificant.

and cork, certain pharmaceutical and chemical products, certain kinds of wool and coal, books, natural silk, machinery with exception of electric implements fertilizers, glass work, art collections. It should be noted, however, that in the case of the other commodities Syria, Iraq and Palestine receive, on the whole, preferential treatment.[1]

4. As an illustration of those goods which are subject to a relatively higher duty (40 per cent - 50 per cent) we have vegetables, fruits, products of food processing industries, textiles made of natural silk, shoes, machinery for making matches, etc... On the other hand such imports as animals and their products, threads, raw iron, steel and lead, certain machinery etc... are subject, on the whole, to an import levy of 11 per cent. (Specific kinds of wood are subject to a 15 per cent duty).

5. Out of nine hundred and ninety one (991) items included in the tariff schedule about three hundred and eighty six (386) items are subject to a 25 per cent duty. And out of the remaining six hundred and five (605) items, approximately one hundred and four (104) have one or more of their sub-items bearing a 25 per cent duty. Furthermore, another one hundred and nineteen (119) items are exempt from duty while and additional ninety eight (98) items have one

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1 Since 1953, however, preferential treatment has been accorded to other members of the Arab League.

or more of their sub-items exempted from duty. In other words not more than 23 per cent of the total number of items included in the schedule are completely subject to either a relatively lower or higher duty than 25 per cent.

The post-war Lebanese tariff policy does not differ substantially from the pre-war policy, in that tariffs have not been issued, in both periods, as an effective tool of commercial policies.[1] While certain aspects of protectionism are found in the post-war tariff schedule which most probably have been the result of group pressure rather than a conceived economic policy on the part of the Government, on the whole, Lebanese tariffs have been imposed primarily for revenue purposes. It is estimated that tariffs contribute around 40 per cent of the Government's total receipts. Moreover, most of the goods that compete with local industrial production are being imported (i.e. none of the duties levied on the goods is to the extent of being prohibitive). In fact, in spite of the above mentioned protectionist measures, undertaken by the Government, local industrial production still suffers from a keen foreign competition - a phenomenon that may be attributed to either one of two causes:

1. Whatever protective duties exist are not high enough to ensure a relatively effective protection.

2. Cost structure of Lebanese industrial firms, relatively

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1 For a detailed discussion of pre-war Lebanese tariff (up to 1932) see N. Burns, The Tariff of Syria, 1919-1932 (Beirut, American Press, 1933).

to the cost structure of similar foreign firms renders local production subject to highly unadvantageous terms. It may be argued that the inefficiency of Lebanese local industrial production is due to the fact that Lebanese industry is still in its infancy. However, irrespective of the reasons advanced, that is, whether the blame should rest on the ineffective height of the protective tariff wall imposed or on a general inefficiency of Lebanese firms (which itself may be due to various factors), it still holds true that the tariff policy of Lebanon, rightly or wrongly has never paid a great attention to the industrial and economic development of the country. The revenue aspects of the tariff schedule are not only revealed by the low proportion of goods not bearing a 25 per cent duty, the non-existence of prohibitive duties and the large proportional contribution to the Treasury, but by the fact that many commodities not produced locally (music instruments, watches, etc.) are taxed as well. Furthermore, the protective duties, imposed are not as high as they may first appear. It should not be forgotten that duties are calculated on the basis of the official rates of exchange which is lower (by almost one third) than the market rates. As already stated, those illustrations that could be advanced as a proof of protectionist measures have been mainly due to group pressure i.e. private interests. Whether or not tariffs could play an important role in the economic development of the country is a problem that has beentaken up later.

There are four apparent aspects of the Lebanese tariff:

1. Revenue aspect which is the most important.

2. Certain aspects of industrial and agricultural protectionism.

3. Relatively lower duties and exemptions on certain raw materials and other goods needed by the country.

4. Preferential treatment applied to imports from Syria Irak and Jordan,(and, since 1953, from other members of the Arab League).

Apparently, the Government's policy has been, generally speaking, to strengthen trade relations, as far as the tariff is concerned with neighbouring countries on the one hand and to minimize interferenceswith the freedom of foreign trade on the other hand. The tariff was never used as a tool to achieve an already planned economic policy, nor was ever utilized for the purposes of economic development, but mainly imposed for revenue purposes.[1] Viewed as such it is quite clear that the Lebanese tariff has not, on the whole, been constructed to interfere seriously with the free play of market forces. Obviously the previous discussion about the

1 It should not be understood that tariffs are being advocated as essential to economic development. The validity of such a theory is dependent upon the particular economies under examination.

emergence of a free market in Lebanon has been conducted on the basis that Lebanese tariffs are no hindrance, or at least, have not been erected to act as an obstacle in the face of a developing "free" foreign trade. Further it serves as a background to the analysis carried out in the coming two Chapters relating to the characteristics of Lebanese foreign trade and the role it plays in the economy of the country.

CHAPTER II

ANALYSIS OF POST-WAR LEBANESE FOREIGN TRADE

I. INTRODUCTION

Two approaches have been adopted in the present analysis of post-war Lebanese foreign trade. The first classifies exports, imports, and re-exports according to four currency areas, while the second reveals the volume and composition of trade with respect to:

1. Syria
2. Other members of the Arab League
3. Western Europe and the U.S.
4. Eastern Europe
5. Others

The two classifications, it is believed, are needed in order to arrive at a better understanding of Lebanese foreign trade as well as some of its probable trends. The main reason behind the first is that the bulk of post-war imports into Lebanon, with the exception of Syria, were paid for in one of the following principal currencies: U.S. dollar, sterling, and French franc, depending upon the currency area from which they originated.[1] It is essential to know, particularly in connection with balance of payments problems, the need of the Lebanese economy for each of these major currencies and the relative importance they assume in connection with the principal Lebanese imports and exports. The demand for each one of them could be correlated to the supply available through the export of merchandise and invisible receipts. The second approach has as a primary purpose the exposition of the relative importance of foreign markets with respect to Lebanese foreign trade and hence their probable bearings on the economic development of the country. The choice pertaining to the classification that has been adopted, in this connection, rests on several factors. Syria has been treated independently because of the special economic relationships that have always connected it to Lebanon. Prior to March, 1950 the two countries constituted one single customs area which undoubtedly fostered trade relationships between them to the utmost extent.[2] With the cessation of the customs union no final pattern of trade relationship has yet been established. Still trade between the two countries plays

1 That is all payments from the franc and sterling areas were paid for in francs and sterling respectively, while the bulk of imports from other areas were paid for in dollar and thus, for purposes of analysis, were considered as the dollar area.

2 Unfortunately no statistics are available to denote the magnitude of trade between the two states prior to 1950.

a very important role and as such has its own appreciable effects on the present and future status of Lebanese foreign trade.

On the other hand a close economic and political cooperation among members of the Arab League may be taken as a very likely development that would exert its own effects on Lebanon's economic development (particularly if such a cooperation is manifested in the complete removal of restrictions on the free movement of capital and goods). In fact steps have already been taken in this direction with expected important bearing on the foreign trade of the above countries. To be able to find the importance of these bearings on Lebanese foreign trade it is necessary to understand what the present situation is and what role is assumed by present-day Lebanese trade channels with the rest of the Arab states.[1]

The Eastern bloc was treated separately because of its particular political set-up on the one hand and the special pattern of trade relationships that connect it with Lebanon on the other hand. The now relatively unimportant foreign trade with Eastern Europe not only seems to be developing but is being conducted on a bilateral trade agreement basis, constituting a new phase in the trade relationships of Lebanon.

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1 Henceforth the terms Arab states, Arab countries and members of the Arab League shall be used synonymously unless otherwise indicated.

Western Europe and the U.S. - i.e. the more industrialized countries of the world - make up the main import markets of Lebanese trade. No particular trade relations - as yet - connect them with Lebanon. However, in view of their major importance not only in merchandise trade but as a source of invisible receipts, they have been treated independently.

A brief analysis in accordance with the two approaches, it is believed, would serve as an appropriate basis for our later discussion of the links that connect Lebanese foreign trade to the economic development of the country.[1]

Unfortunately the few years (1951-1953) for which relatively dependable data is available make it very hard to establish definite trends in terms of foreign trade statistics.[2]

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1 The discussions of each classification have been conducted on such a basis as not to interlap.

2 Three problems exist in connection with official statistics pertaining to Lebanese foreign trade:

a) The available date starts only with the second quarter of 1950 - the year when the customs union between Syria and Lebanon broke down. Prior to that statistics published by the "Supreme Council of Common Interests" made no distinction between Lebanese and Syrian exports, imports, re-exports and transit trade.

b) Available statistics published by the Government after March 1950 suffer from a number of defects among which are the following:

i) Imports are calculated on the basis of the official rate of exchange while actually they have been paid for in foreign exchange obtained from the free market whose quotations differ markedly from official rates.

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ii) Under-valuation in the case of export and imports is not taken into account.

iii) Estimated value of trade done through smuggling is left out.

c) No data concerning invisible receipts is published. Clearly such defects conceal, to an extent, the actual position of Lebanese foreign trade and make it hard to draw any definite conclusions. Recently, however, the Economic Research Institute at the A.U.B. published its study about the Lebanese balance of payments for the years 1951 and 1952 (See E. Fei and P. Klat and Staff of Economic Research Institute in cooperation with the Statistical Service of the Lebanese Ministry of National Economy, Balance of Payments of Lebanon, 1951 and 1952 (Beirut: Dar-al-Kitab, September 1954). Balance of payments for 1953 is presently under study. Official statistics used were subjected to adjustment for coverage and revaluation bringing them closer to reality. Balance of trade figures, for example, have been revalued on the basis of free market rates. Furthermore, the Institute carried out its own supplementary surveys to determine the magnitude of certain invisible receipts. The figures for 1951, 1952 and 1953 used in the present chapter are mainly taken from or based upon the above mentioned study. Thus no further indication shall be maintained with respect to the sources of the tables that have been presented in the present chapter.

II. ANALYSIS ACCORDING TO FIRST CLASSIFICATION (CURRENCY AREAS)

A. Imports and Exports[1]

Reference to Table I below indicates the important role assumed by the dollar area in Lebanese foreign trade particularly in connection with imports. Considering the averages for the three years 1951, 1952, and 1953, it is seen that around 50 per cent of total Lebanese imports, in terms of value, originated in the dollar area while 22 per cent, 11 per cent, and 17 per cent originated in the sterling, franc and Syrian areas, respectively.

TABLE I

LEBANESE IMPORTS AND EXPORTS BY CURRENCY AREAS
1951-1953
(In L.L.1000)

Areas	IMPORTS (CIF)			EXPORTS (FOB)		
	1951	1952	1953	1951	1952	1953
Syria	61,085	63,567	86,421	21,871	16,372	13,733
Franc Area	53,038	42,750	45,835	4,042	4,229	10,532
Sterling Area (a)	104,432	90,245	78,962	26,793	30,936	34,886
Others (Dollar Area)(b)	190,439	246,690	202,665	36,896	25,991	25,199
Total	409,994	443,252	413,883	89,592	77,528	86,350

a) Chief among the dollar area countries are: USA, Germany, Italy, Turkey, etc.

b) Chief among the sterling area countries are: UK. and Commonwealth, India, Egypt, Iraq, Iran, Jordan, Kuweit, Bahrain, etc.

1 Imports and exports cover merchandise trade recorded as well as

On the export side, sterling area ranked first having absorbed an average of around 37 per cent of total Lebanese exports, in terms of value, followed closely by the dollar area with an average of 34 per cent; Syria and franc area absorbed averages amounting to roughly 21 per cent and 8 per cent respectively. Two obvious features of Lebanon's balance of trade are the existence of a relatively big deficit which has to be covered through invisible earnings (and possibly capital inflow) and the major need for dollars.

Table II reveals the items that constituted the main Lebanese imports and exports for the years 1951 and 1952.[1] Vegetable products, textiles and products of, animals and products of, machinery, spare parts, and electrical appliances; mineral products, chemical and pharmaceutical products; food products, beverages and tobacco, transportation equipment, and common metals made up around 84 per cent of total imports, in terms of value, for the year 1951 and 81 per cent for the year 1952. The correlation that existed between the above mentioned imports and the source of origin was as follows:

"Unrecorded Transactions" - smuggling and genuine trade operations not declared at the customs frontier. Imports by UNRWA and foreign Concessionary Companies that import their goods free of duty and do not constitute a drain on the country's foreign exchange resources have been excluded. Undervaluation by importers and exporters has been taken into account. Gold exports and imports appear independently. (Refer to E. Fei, P. Klat et al. <u>op.cit.</u>, pp. 8-9).

1 These also constitute the main Lebanese imports and exports for the year 1953. See Republic Libanaise, Ministre de l'Economie Nationale, <u>Bulletin Statistique Trimestriel</u>, Quatrieme Trimestre, 1953, p. 4.

Syria was the main supplier of animals and their products, having supplied 72 per cent and 70 per cent of the totals for the years 1951 and 1952 respectively.

In 1951 vegetal products were imported in relatively large quantities from all areas, dollar and sterling areas, however, supplying around 76 per cent of the total. In 1952 imports from dollar area alone amounted to about 58 per cent, sterling area 11 per cent and Syria 28 per cent.

Again all four areas constituted important suppliers of textiles and its products.

Machinery, spare parts and electrical appliances were mainly supplied by the dollar area in both years - 59 per cent and 71 per cent respectively. The rest was imported from the sterling and franc areas in roughly equal values.

With the exception of Syria, all areas were important suppliers of chemicals and pharmaceutical products; 56 per cent of the total for both years, however, was imported from the dollar area.

Food products, beverages, and tobacco were mainly imported from the sterling and dollar areas, both supplying 86 per cent of the total for the two years, the rest being supplied by the franc area and Syria in the proportion of approximately 1:6:1 respectively.

In the case of mineral products the sterling area supplied around 72 per cent of the total in 1951, the rest being imported mainly from the dollar area. In 1952 they were imported from both areas in roughly equal values.

Common metals were imported from all areas in relatively large amounts excepting Syria. Whereas in 1951 the sterling area alone supplied around 62 per cent of the total, in 1952 imports from the dollar area made up about 66 per cent of the total.

TABLE II

LEBANESE IMPORTS AND EXPORTS BY COMMODITY
1951 and 1952
(In L.L.1000)

Sections	Imports		Exports	
	1951	1952	1951	1952
Animals and products of	38,734	31,828	1,123	1,447
Vegetable products	84,356	106,784	19,074	25,047
Fats, oils, wax and products of	4,020	4,690	2,012	3,364
Food products, beverages and tobacco	20,491	21,666	2,852	3,591
Mineral products	31,489	26,563	4,111	2,093
Chemical and pharmaceutical products	22,483	22,583	3,291	1,831
Leather, hide, fur and products of	6,379	7,742	4,357	2,970
Rubber products	7,050	4,291	430	233
Wood, cork and products of	12,774	12,526	898	1,138
Paper products	12,422	9,803	1,872	1,354
Textiles and products of	80,277	67,282	35,404	20,416
Shoes, hats and articles of fashion	2,037	1,534	450	730
Ceramics, glassware, etc..	8,415	8,881	752	1,012
Jewellery	1,008	2,080	85	78
Common metals	14,920	32,772	6,267	6,997
Machinery, spare parts, electrical appliances	34,471	42,556	5,827	3,851
Transportation equipment	19,584	21,062	507	950
Scientific and Musical Instruments, watches	5,376	5,783	127	187
Arms and Ammunitions	914	798	10	19
Other merchandise	2,592	2,604	137	202
Artistic works and collections	202	211	6	18
Total (Plus L.L.9,213,000 worth of imported oil in 1952)	409,994	443,252	89,592	77,528

Most important Lebanese exports for the years 1951, 1952 and 1953[1] were: Textile products, vegetal products, common metals, machinery, spare parts and electrical appliances, leather hide, fur and mineral products constituting in 1951 and 1952 around 83 per cent and 79 per cent of the total respectively, in terms of value. In fact textiles and vegetal products alone made up 60 per cent and 58 per cent of the total exports for the two years respectively. The correlation that existed between exports and currency areas was as follows:

Textile products were mainly exported to the dollar area, absorbing in 1951 around 73 per cent of the total. In 1953, the sterling and dollar areas formed the two important markets together absorbing 82 per cent of the total. The rest was imported from Syria and the franc area in roughly equal values.

The most important market in 1951 for vegetal products was the sterling area having imported 56 per cent of the total, while each of Syria and the dollar area absorbed roughly twice that absorbed by franc area. In 1952, 70 per cent of the total was sent to Syria and the sterling area; the rest was absorbed by the dollar and franc areas in the ratio of approximately 2:5:1 respectively.

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1 Republique Libanaise, Ministere de l'Economie Nationale, Bulletin Statistique Trimestriel, Quatrieme Trimestre, 1953, p. 5.

Whereas in 1951 around 80 per cent of the common metals were exported to Syria and dollar area, in 1952 73 per cent was exported to the dollar area alone, while the rest was absorbed by Syria and the sterling area in the proportion of 2:1.

Machinery, spare parts, and electrical appliances were mainly sent to Syria in 1951 having absorbed around 82 per cent of the total. In 1952 it imported 48 per cent while the rest imported by sterling and dollar areas in roughly equal values.

Leather, hide and products of, were exported to all four areas with no important discrepancies in proportional values.

The bulk of mineral products was exported to Syria - 76 per cent of the total - in 1951, the rest having been sent to the sterling and dollar areas in the proportion of approximately 7:1 respectively. In 1952 Syria absorbed 54 per cent of the total, the rest having been exported to the sterling and dollar areas in roughly equal values.

Before attempting to arrive at any conclusions, with respect to the above exposition, it should be remembered that the term sterling area covers such neighbouring countries as Iraq, Egypt, Jordan, Kuweit, while the dollar area is defined to include U.S.A., Turkey, Eastern Europe, Germany, Italy, etc. The franc area denotes as far as trade relations are concerned, mainly France and her Empire. Thus understood the major importance of the dollar area in Lebanese foreign trade is no more surprising,[1] nor is the relatively great demand for the dollar whose free market rate has always stood at a premium over other currencies.[2] Such an importance is clearly manifested in the Lebanese foreign exchange market where most transactions in foreign currencies are in fact determined on the basis of the cross rates with the dollar prevailing in the major western free markets.[3]

The composition of Lebanese exports and imports clearly indicate that Lebanon is still in its early stages of industrialization.[4] With the exception of manufactured textiles, most Lebanese exports are vegetal and primary products. Furthermore, textiles in the form of finished goods are mostly exported to underdeveloped areas where competition is more effective than elsewhere.

Another interesting feature of Lebanese merchandise trade (considering the years 1951, 1952, 1953) is that two classes of goods assume a relatively great importance in exports as well as imports namely: vegetal products and textiles. This may be explained along the following lines: The export and imports items included under "vegetal

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1 Refer to Table I.

2 As previously stated, in 1948 the Government officially acknowledged the free market and in 1952 the "Office des Changes" ceased functioning rendering official rates meaningless.

3 From an unpublished article by Raymond A. Baro, dated February 4, 1954 and entitled "The Beirut Foreign Exchange Market" (at the American Embassy in Beirut), p. 3.

4 Industrial products are mainly imported from the U.S. and Western Europe while products of the animal and plant kingdoms are imported from neighbouring countries.

products" pertain, on the whole, to different commodities. Thus Lebanon, for instance, imports, to a large extent, cereals and vegetables while it exports fruits all of which are designated as being "vegetal products".

Lebanese textile industry, on the other hand, is, at present, considered as one of the three major industries in the country, the other two being food processing and non-metallic (cement). "These three industries (considering the years 1948, 1949, and 1950) include around half the number of industrial establishments and represent a little less than two third of the industrial sector in the number of persons employed, capital invested, the value of output and income at factory cost".[1] In 1950 the textile industry alone generated around 14 per cent of the national income at factor cost arising in the manufacturing industries.[2] The fact that textiles constitute an important section of exports and imports may be attributed to the following three reasons:

1. Foreign competition is too keen to leave all of the local market to local production. This pertains mainly to finished goods.

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1 A. Badre and A. Nasr, National Income of Lebanon, Income Arising in the Industrial Sector, Monograph No. 3, Beirut, May, 1953, p. 25.

2 Ibid., p. 18.

2. A large part of the textiles imported differ in quality from those produced at home.

3. While the bulk of imports are finished or semi-finished goods, a major portion of exports is raw materials.[1]

As a consequence most of the textiles exported in form of finished goods find a market in underdeveloped areas while those imported are mainly from Western countries - around 78 per cent and 88 per cent of total for the years 1951 and 1952 respectively.

A third feature of Lebanese merchandise trade is its close contacts with Syria that, as one individual country, supplied around 15, 14 and 21 per cent of Lebanese total imports for the years 1951, 1952 and 1953 respectively, and absorbed about 25, 22, and 16 per cent of total Lebanese exports for the same years respectively. It has already been mentioned that prior to 1950, Syria and Lebanon constituted one customs union which established a very close economic relationship between the two countries. Geographically they are adjacent with relatively short distances between their commercial centers. Further with the exception of a short period (from March, 1950 to February 1952) the goods of both countries were subjected, after the dissolution of the union, to a preferential treatment while Syrian and Lebanese citizens, have, on the whole, enjoyed

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1 See Gibb, Economic Development of Lebanon (1948), p. 164 and Direction Generale des Douanes, Statistique Du Commerce Exterieur, Annees 1952 and 1953.

the privilege of free entry to and fro. The Lebanese market has always been a major outlet to Syrian products and conversely - hence the important interdependence of the two countries in matters of foreign trade.

A fourth feature is the relatively unimportant export market of the franc area which absorbed only 4 per cent and 6 per cent of total Lebanese exports in 1951 and 1952 respectively. The deficit in the balance of trade with the franc area, with respect to the proportion of imports to exports, was the biggest.[1]

These, in brief, are the main characteristics of post-war Lebanese exports & imports when viewed in the light of the classification under consideration. Along with the coming exposition of the relative importance of the various Lebanese export and import markets and the role played by other titles of Lebanon's balance of payments, they provide an appropriate basis for the discussion, in Part III, of the interconnection between Lebanese foreign trade and economic development.

Although government regulations prohibit the exportation of gold, the latter is smuggled out of the country as Table III indicates. (Exports licences granted in 1951 constitute an exceptional case).

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1 The deficit in the total balance of trade (i.e. for all areas) was L.L.311.5 millions in 1951 as compared with L.L.332.1 millions in 1952. (See E. Fei, P. Klat, et al, op.cit., p. 4).

TABLE III

LEBANESE EXPORTS OF GOLD COINS
1951 and 1952
(In L.L.1000)

Country	Year		
	1951	1952	1953
Saudi Arabia	5000	-	-
Holland	3000	-	-
	8000		
Correction for undervaluation	1200	-	-
Estimated smuggling	6000	25000	-
Total	15200	25000	

Gold imports, on the other hand, are free from any restrictions. If Government purchases are excluded, Table IV below shows that L.L.14.2 millions worth of gold was imported in 1951, L.L.36.5 millions in 1952 and L.L.37.6 millions in 1953 a large part of which went into private hoards. Gold purchases, on the part of the Government, were used as a backing of the currency. Such a policy has been followed since 1949 to the extent that the proportion of gold in the note cover was increased from 25.3 per cent on December 31, 1949, to 35.89 per cent on December 31, 1950, to 44.72 per cent on December 31, 1951, to 54.59 per cent on December 31, 1952, to 61.8 per cent on December 31, 1953, and to 90.3 per cent on December 31, 1954.[1] As shall be shortly

1 Banque de Syrie et du Liban, Exercises, 1941-1953 and Republique Libanaise, Ministere de l'Economie Nationale, Bulletin Statistique Trimestriel, Quatrieme Trimestre, 1954.

TABLE IV

LEBANESE IMPORTS OF NON-MONETARY GOLD
(BY CURRENCY AREAS)
1951-1953
(In L.L.1000)

Area	Year								
	1951			1952			1953		
	Ignots	Coins	Total	Ig.	Coins	Total	Ignots	Coins	Total
Franc Area	6753	-	6753	6722	3424	10146	5352	-	5352
Sterling Area	2378	552	2900	7388	2063	9451	11110	4695	15805
Others (Dollar Area)	27221	710	27931	24302	7786	32088	24454	7258	31712
Smuggling			+ 560			+ 222			-
Government Purchases			-23900			- 15400			-15178
Grand Total			14244			36507			37691

explained a large percentage of Lebanese transit trade is connected with gold.

B. Re-exports

There are two types of re-exports - those that receive a refunding of duty and those that are termed ordinary. The latter pertain to goods which have been re-exported directly from the customs warehouses,[1] while the former are goods that are registered as imports and then re-exported.[2] According to Government

1 They are included in transit trade figures.

2 They are included in export trade figures.

regulations they are entitled to a refunding of duty provided:[1]

1. They are in no way similar to local industrial production unless it was proved they originated in a foreign country.

2. They are kept in their initial state.

3. They are re-exported by whoever had previously imported them.

As indicated in Table V below the magnitude of ordinary re-exports was greater than that of re-exports with re-imbursement of duty with Syria (in both cases) leading in 1951, falling to third place in 1952 and rising to second place in 1953. Franc area was of least importance (with the exception of 1953). Actually there is no point in distinguishing between the two types of re-exports except for balance of payments purposes. When the grand total is taken, it is found that it equalled around 12, 35, and 16 per cent of the value of total exports for the years 1951, 1952, and 1953 respectively. If the value of exports proper (i.e. ordinary re-exports being deducted) is contrasted with the value of total re-exports, the percentage of the latter as a proportion of the former would rise to around 13.4, 54 and 22 per cent respectively. The appreciable increase of ordinary re-exports in 1952 (by around L.L.13.4 millions) was counter-balanced by a L.L.12 millions decrease in exports.

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1 Legislative Decree No. LR/106, April 8, 1950.

TABLE V

LEBANESE RE-EXPORTS
(BY CURRENCY AREAS)
1951-1953
(In L.L.1000)

Area	Ordinary Re-exports			Re-exports with Re-Imb. of Duty		
	1951	1952	1953	1951	1952	1953
Syria	3340	4174	3843	613	1040	361
Franc Area	447	5398	342	21	68	35
Sterling Area	1915	6026	1914	1047	3199	1100
Others (Dollar Area)	2595	6237	4473	517	1196	2684
Total	8427	21835	9572	2198	5503	4240

The above figures show that the importance of Lebanese re-export trade, which is mainly destined to neighbouring countries, is not slight.[1] A more vivid digression would be presented when discussing re-exports in connection with the second classification.

III. ANALYSIS ACCORDING TO SECOND CLASSIFICATION

A. Exports and Imports

Table VI clearly shows the heavy dependence of Lebanon on the more advanced industrial countries of Western Europe and the U.S.A. that supplied over half of its total imports for the years

1 Cf. S.B. Himadeh (ed.), Economic Organization of Syria, (Beirut American Press, 1936) Chapter on "Foreign Trade" by N. Burns and A.D. Edwards, p. 245.

under consideration.[1] Imports from the Arab countries - members of the League - amounted to a little less than one quarter of the total for the years 1951 and 1952 and about 29 per cent in 1953, Syria being the major supplier followed by Iraq. Imports from Eastern Europe were relatively unimportant - 4, 4, and 3 per cent of the total respectively.

TABLE VI

LEBANESE IMPORTS AND EXPORTS
(REGIONAL BREAKDOWN)
1951-1953
(In L.L.1000)

Region	Imports (CIF)			Exports (FOB)		
	1951	1952	1953	1951	1952	1953
Syria	60700	63005	86421	22629	17664	13733
Other members of the Arab League	41736[a]	35148[b]	36046[c]	20138[d]	23552[e]	26784[f]
Eastern Europe	15938	18766	13874	3477	3871	2563
U.S. and Western Europe	242888[g]	253393[h]	228145[i]	35738[j]	21857[k]	25284[l]
Others	64259	72369	52397	9809	16087	17986
Total	425521	442681	413883	91791	83031	86350

a) Iraq (29115), Egypt (6331), Jordan (3550), and Saudi Arabia(2740).
b) Iraq (21898), Saudi Arabia (5564), Jordan (4777) and Egypt (2909).
c) Iraq (16346), Jordan (8022), Saudi Arabia (7635) and Egypt (4043).
d) Egypt (9479), Jordan (4285), Saudi Arabia (3443), Iraq (2932).
e) Saudi Arabia (9401), Egypt (6712), Jordan (4072), Iraq (3367).
f) Jordan (6400), Saudi Arabia (9928), Egypt (5971), Iraq (4485).
g) U.S. (77217), France (52269), U.K. (44965), Italy (174211), Germany (13982), Western Europe (47029).

1 55, 57 and 55 per cent of the total respectively.

On the other hand, for export markets Lebanon depends to a large extent on the Arab countries that absorbed around half of the total for the years 1951, 1952[1] and 1953.[2] Syria stands out as the principal individual export market with its share of 24, 21 and 16 per cent of total exports for the same years.[3] Western Europe and U.S. absorbed approximately 39, 26, and 29 per cent of the total respectively.[4] Again exports to Eastern Europe, in terms of value, were relatively unimportant.[5]

The composition of traded goods between Lebanon and the Western countries bears out the characteristics of international trade connecting the underdeveloped areas with the more advanced countries. Whereas industrial implements and manufactured goods make up the bulk of Lebanon's imports from the West, its exports to Western countries are primarily raw material, primary products and fruits.[6] Trade composition with the rest of the Arab countries

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h) U.S. (79481), U.K. (46044), France (38851), Italy (20712), Germany (15515), Western Europe (52790).
i) U.S. (67656), France (43862), U.K. (37426), Germany (23070), Italy (16784), Western Europe (39347).
j) U.S. (22753), U.K. (2729), France (3436), Germany (255), Italy (4532), Western Europe (2033).
k) U.S. (6973), U.K. (4328), France (3742), Germany (446), Italy (3384), Western Europe (3024).
l) U.S. (4881), U.K. (4332), France (9772), Italy (2333), Germany (392), Western Europe (3574).

1 24, 57, and 55 per cent of the total respectively.

2 45, 50 and 46 per cent of the total respectively.

3 Refer to footnote on page

4 For the shares of each of the principal Western countries refer to footnote on page

5 Amounted to around 3, 4 and 3 per cent respectively.

6 Direction Generale des Douanes, loc.cit.

differs. It reflects, more or less, the general features of international trade conducted between mainly agricultural economies. A large proportion of the goods traded were products of the plant and animal kingdom, raw material, and other primary products.[1] Manufactured goods are exchanged as well, but to a much lesser extent. Lebanon, for example, exports to Saudi Arabia shoes, pharmaceutical products, lighting equipment, etc... while it imports mainly petroleum.[2] Machinery, spare parts, electrical appliances, are sent to Syria. Furthermore, many of the re-exports to the Arab world are industrial products imported from the West. But these goods still play a minor role in Lebanon's merchandise trade with respect to the Arab countries. Eastern Europe[3] supplies Lebanon mainly with machines, other industrial products and paper, importing fruits in exchange.[4] Such characteristics of trade composition are only to be expected since neither Lebanon nor the other Arab countries have yet attained a level of economic development which would enable them to assume the role of the more advanced areas in matters of international trade.

A deeper analysis of Lebanese merchandise trade in accordance with the present classification would reveal further characteristics. The deficit in the balance of trade with the

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1 Ibid.

2 Ibid.

3 Mainly Czekoslovakia.

4 Direction Generale des Douanes, loc.cit.

Arab states - members of the League - is relatively of a lesser magnitude than that in connection with the Western countries. Within the former bloc Lebanon's balance of trade showed a surplus in the case of Egypt, Saudi Arabia and a marked deficit in the case of Iraq and Syria. The balance of trade with Jordan showed a surplus in 1951, a slight deficit in 1952 increasing in 1953.[1] With almost all other countries Lebanon incurred a deficit most markedly in connection with the U.S., U.K., France and Western Germany.[2] It was stated previously that such a deficit was made up for through invisible earnings and receipts.

As for non-monetary gold, the bulk, as Table VII reveals, was imported from the West - U.S., U.K., France, Netherlands, and Switzerland. (A brief discussion of gold import has already been included under the first classification).

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1 Refer to footnote on page 50.

2 Ibid.

TABLE VII

LEBANESE IMPORTS OF NON-MONETARY GOLD
(REGIONAL BREAKDOWN)
1951-1953
(In L.L.1000)

Area	1951 Ignots	1951 Coins	1951 Total	1952 Ig.	1952 Coins	1952 Total	1953 Ignots	1953 Coins	1953 Total
Syria	4	679	683	-	892	892	271	3020	3291
Other members of Arab League	-	-	-	-	-	-	-	-	-
Eastern Europe	35149	314	35463[a]	36948	11839	48787	3243	6562	38675[b]
Others	1199	239	1438	1464	542	2006	10899	4	10903
Total	36352	1232	37584	38412	13273	51685	43283	9586	52869
Smuggling			+ 500			+ 222			-
Government			-23900			-15400			-15178
Grand Total			14244			36507			37691

B. Re-exports

It is apparent from Table VIII below that the major portion of re-exports was directed towards the Arab countries - 65, 59 and 54 per cent of the total for the years 1951, 1952 and 1953 respectively. The geographic position of Lebanon would partly explain such a phenomenon. Goods are bought on the part of Lebanese from the more industrialized countries of the West and then re-exported

a) U.S. (20726), U.K. (1711), Netherlands (5272), Switzerland (920), France (6753), Belgium (81).
b) U.S. (10749), U.K. (9586), Switzerland (2850), Netherlands (14138), France (2328), Belgium (405).

to neighbouring underdeveloped areas. Western Europe and U.S. absorbed a little over one quarter of the total while re-exports to Eastern Europe were almost negligible. Among the Arab countries Syria's share was relatively the biggest.

TABLE VIII

LEBANESE TOTAL RE-EXPORTS[1]
(REGIONAL BREAKDOWN)
1951-1953
(In L.L.1000)

	1951	1952	1953
Syria	4053	5214	4204
Other members of Arab League	2925	10157	3350
Eastern Europe	50	20	92
Western Europe and U.S.	1811	8242	3439
Others	1786	3705	2727
Total	10625	27338	13812

1 Ordinary and refunded.

C. Transit

TABLE IX

TRANSIT[1] IN GOLD, MERCHANDISE, AND OIL
ACROSS LEBANESE TERRITORY
1951 and 1952
(In L.L. millions)

	1951	1952
Gold	762.3	485.6
Merchandise	542.5	707.5
Total	1304.8	1193.1
Crude Oil	459.1	471.2
Grand Total	1763.9	1664.3

Table IX indicates the magnitude of transit trade that crossed Lebanese territory during 1951 and 1952. Relatively it is of a big importance far exceeding the combined value of exports, imports and re-exports for the same two years. Other than the royalties paid by oil companies to the Lebanese Government,[2] profits accruing from merchandise and gold transit amounted to around L.L. 113.1 millions in 1951 and L.L. 95.4 millions in 1952,[3] which is greater than the value of exports for each of the two years. Oil comes from Iraq and Saudi Arabia and is shipped mainly to Western Europe and U.S. Gold followed, on the whole, an opposite movement as indicated by Table X.

1 Ordinary re-exports and goods entering the free zone are included.

2 L.L. 1.2 millions in 1951 and L.L. 7.3 millions in 1952.

3 E. Fei, P. Klat et al. op.cit., p. 43.

TABLE X[1]

TRANSIT IN GOLD
(REGIONAL BREAKDOWN)
1951 and 1952
(In L.L. millions)

Region of Origin or Destination	A. Into Lebanon		B. Out of Lebanon	
	1951	1952	1951	1952
Members of Arab League	1.7[a]	0.6[b]	60.0	101.3
Western Europe and U.S.	657.4	468.7	25.1[c]	1.0
Others	103.2	16.3	677.2	383.3
Total	762.3	485.6	762.3	485.6

Around 86 per cent and 96 per cent of the total gold transit for the year 1951 and 1952 respectively originated in the West. A large proportion was destined to the Arab states but the bulk was shipped to other countries in the far East. Again the bulk of the merchandise originated in Western Europe and U.S. while Syria and the other members of the Arab League constituted the chief areas of destination.[2]

a) Egypt and Saudi Arabia only.
b) Syria only.
c) Holland and Switzerland only.

1 Approximate figures.

2 See Bulletin Statistique for the years 1951, 1952 and 1953. Official figures for Syria were L.L.197.8 millions in 1951 and 1952 and L.L.165.6 millions in 1953. For other members of the Arab League figures were: L.L.96.4 millions in 1951, L.L.122.1 millions in 1952 and L.L.110.4 millions in 1953.

The geographic position of Lebanon with its well-equipped sea and air ports renders transit trade of a major importance. Beirut, is an important sea outlet for the whole Arab East. Its free zone and other port facilities and free foreign exchange and trade sectors have proved to be a big attraction to foreign business men and firms, helping to make out of Lebanese foreign trade the most important sector - in terms of national income - of the Lebanese economy.[1]

IV. POSITION OF THE OTHER ITEMS IN THE LEBANESE BALANCE OF PAYMENTS

The relatively wide discrepancy between the value of Lebanese visible exports and imports indicates the major dependence of the Lebanese economy upon invisible receipts to cover the existing deficit in the balance of trade. Unfortunately the available data concerning the above problem is not complete nor in certain instances very accurate. However, such a handicap in the evaluation of the other titles in the Lebanese balance of payments is not very serious for our present purposes. The latter relate not to the exactness of the figures but broadly and briefly to the nature of the more important sources that have been responsible for the emergence of a small surplus in Lebanon's international accounts for the years 1951, 1952 and 1953 respectively.[2]

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1 Refer to Chapter III below.

2 Refer to E. Fei, P. Klat et al., passim (Data used in the present section has been obtained from this publication as well as from private informed sources).

An examination of the more important components of the Lebanese balance of payments, on the credit side (other than merchandise and transit trade) would reveal the unstable basis on which some of them are founded, being dependent, more or less, upon existing exchange regulations in other countries. The following classification of the sources of receipts upon which Lebanon depended to cover the deficit in the balance of trade would render the above point clearer:

1. Emigrant remittances and capital inflow: They were estimated to have had a yearly value ranging between L.L.70 millions and L.L.150 millions.

2. Foreign travel: Expenditures by tourists and summer resorters were estimated at around L.L.30 millions in 1951, L.L.40 - L.L.50 millions in 1952, reaching up to L.L.68 millions in 1953.[1]

3. Expenditures by foreign bodies in Lebanon (U.N., IPC., Tapline, cultural institutions, diplomatic missions): These various bodies spent an estimated amount of L.L.63.2 millions in 1951 and L.L.70.8 millions in 1952.

4. Investment income: This pertains to income earned by Lebanese residents through the holding of large portfolios of foreign securities, interest on private balances held abroad

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1 According to figures supplied by the Lebanese Commissariat of Tourism in Beirut the number of tourists (including summer resorters) in 1951, 1952, and 1953 were 127246, 216333, and 285073 respectively. The number of summer resorters (most of whom came from neighboring Arab countries) for the same years were 24000, 21237, and 19245 respectively.

mainly in France and U.S., and earnings of Lebanese business abroad especially in Syria and other Arab countries. These were estimated to be around L.L.15.6 and L.L.11.8 millions in 1951 and 1952 respectively.

5. Exchange and triangular operations: It has been estimated that profits acruing to Lebanese residents through foreign exchange operations, made for or on behalf of foreign operators, amounted to around L.L.10.5 and L.L.11.5 millions in 1951 and 1952 respectively. On the other hand triangular operations, i.e. operations where goods are bought or sold by Lebanese residents without entering either the port of Beirut or the free zone, seem to have assumed, in 1951 and 1952, a relatively big magnitude, dropping in the following two years. Estimates by informed sources as to the value of these operations ranged from 20 to 300per cent of the value of transaction made through the free zone in 1951 and 1952.[1] The drop in 1953 and 1954 was mainly due to the decreased difference between free market and official rates of many currencies.

As long as the Lebanese economy is greatly dependent upon invisible receipts, the case for a free commercial policy is obvious. However, as already stated, irrespective of the trade policies adopted by the Lebanese authorities, certain of the items listed above, such as emigrant remittances, exchange and triangular operations, may not be relied upon as potential

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1 In any case these are likely to diminish in the future.

sources of income. A relaxation of foreign exchange controls in other countries may deprive Lebanon of the benefits presently acruing to it from exchange and triangular operations. On the other hand a close control of exchange abroad may raise greater obstacles in the face of a continuous flow of emigrant remittances and investment income. In other words care must be taken not to over estimate the significance of the above as stable sources of invisible receipts.

The various characteristics of post-war Lebanese foreign trade, that have been up till now revealed, establish a strong case for the adoption of a free multilateral trade policy on the part of the Lebanon. Although this is fundamentally true, the coming analysis in Part II and particularly Part III suggest the desirability of certain deviations from the principle of free trade in the interest of the country's economic progress. That is, with the existence of particular conditions - discussed in Part III - it may be desirable to strike a balance between a generally free and restricted Lebanese foreign trade. The implication of such an approach will be analized later.

CHAPTER III

ROLE OF POST-WAR FOREIGN TRADE IN THE LEBANESE ECONOMY

A number of factors attribute to Lebanese foreign trade a major importance in the Lebanese economy. These may be divided into two broad categories: those arising from the geographical position of the country and those attributable to the general level of economic development, and to the economic policy of the Government. Viewed geographically, Lebanon occupies a central position in the Middle East[1] with well-equipped sea and airports; its climatic characteristics and beautiful scenery have also always attracted many summer and winter resorters from neighbouring Arab countries. Beirut has come to assume a leading importance in the foreign trade of the Arab East.[2] This however, is not only due to its geographic position and its being easily accessible by land, sea, and air, but to the Government's policy of establishing a free foreign exchange market, and lessening to a great extent restrictions on Lebanese foreign trade as well. On the other hand, Lebanon is economically underdeveloped with its industrial sector playinga re-

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1 It is bounded by the Mediterranean Sea from the West, by Palestine from the South, and By Syria from East and North.

2 Especially since the creation of the state of "Israel" in 1948 that has been boycotted economically and politically by neighbouring Arab countries.

latively less important role than each of the agricultural and trade sectors. As J. Adler puts it when discussing external economies as an important factor in economic development, "there are in most under-developed areas at least two sectors of the economy in which external economies have been developed. These sectors usually are the export industries and commerce, particularly that engaged in import trade. In these sectors external economies of the industry exist in the form of transportation and processing facilities and in a steady supply of skilled and semi-skilled managerial and supervisory personnel. They are supplemented by the external economies of the fourth type i.e. those provided by the international organization of world trade. It is for these reasons that private investment in under-developed countries tends to perpetuate itself in the traditional lines of export and commerce, and the development of agricultural and manufacturing industries for the internal market is lagging".[1] Not only local but foreign private capital also is attracted by the foreign trade sector and primary industries dealing with raw material,[2] a large part of which is exported to the more advanced industrialized countries. No doubt that in under-developed areas agriculture and trade are two sectors that

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1 John H. Adler, "The Fiscal and Monetary Implementation of Development Programs", American Economic Review, Vol.XLII, May, 1952, p. 591.

2 Refer to R. Nurkse, Problems of Capital Formation in Under-developed Countries (Oxford: Basil Blackwell, 1953), pp. 24-31.

assume the major importance in the economy. While in most underdeveloped countries agriculture is the more important of the two (in terms of national income), in Lebanon it is the other way round. The reasons lying behind such a phenomenon have already been briefly mentioned. As we go along in our present discussion, they will become more apparent.

One of the accepted ways of measuring the economic importance of any given sector is the amount of national income it generates as a proportion of the total. Adopting such an approach it is found that for the years 1948, 1949 and 1950, the Lebanese trade sector (internal and foreign) generated 260.6, 278.6 and 299.3 million Lebanese pounds respectively constituting around 26, 27 and 30 per cent of total national income respectively.[1] This was more than the income generated by any of the other sectors for each of the above mentioned years[2]-

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1 See A. Badre and Economic Research Institute Staff, National Income of Lebanon, 1948, 1949 and 1950, Income Arising in the Trade Sector, Monograph No. 8. Unfortunately, no dependable data is available for other years. The trade sector includes export, import, transit, entrepot, industrial and agricultural trade.

2 National Income arising in the different sectors was as follows (Data obtained from the Economic Research Institute, A.U.B., Beirut):

	1948	1949	1950
Agricultural Sector	169,000	176,000	208,000
Industrial Sector	133.710	135,548	137,341
Trade Sector	260,600	278,600	299,300
Transportation Sector	39,605	41,317	44,363
Construction Sector	35,000	35,000	43,000
Financial Sector	ca 50,000	ca 50,000	ca 50,000
Services Sector	91,361	93,111	100,465

the agricultural and industrial sectors' shares averages for the three years under consideration having been L.L.184.4 and L.L.135.5 million respectively. In fact income arising in foreign trade alone accounted for a bigger share than each of the two latter sectors, amounting to around L.L.171.5 million, L.L.189.6 million and L.L.200.3 million in 1948, 1949, and 1950 respectively, or an average of L.L.187.1 million for the three years under consideration.[1] This shows clearly the role assumed by foreign trade in the Lebanese economy. As would be expected there are wide discrepancies between per capita incomes in each of the sectors compared, the lowest being that of agriculture which supports around 50 per cent of the population.

The following Table compares the proportional national income arising in the trade sector of different countries.[2]

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1 Within the foreign trade sector, income originating from imports was relatively the biggest - 71, 61 and 61 per cent of the total foreign trade income for the years 1948, 1949, and 1950 respectively. Transit trade accounted for around 21, 29, and 29 per cent of the total for the same years, the rest being generated by entrepot and exports.

2 A. Badre and Economic Research Institute Staff, *op.cit.*

TABLE XI [1]

PERCENTAGE OF INCOME ARISING IN THE TRADE SECTOR OF VARIOUS COUNTRIES

Country	Year	Percentage of Total National Income Arising in the Trade Sector
Lebanon	1948	26.0
U.S.A.	1948	19.8
France	1948	13.9
Denmark	1948	13.9
Finland	1948	12.7
Netherlands	1948	14.5
Greece	1948	11.2
Pau	1947	20.7
Norway	1948	14.1

Source: A. Badre and Economic Research Institute Staff, Income Arising in the Trade Sector, Monograph No.8.

1 The following are additional figures denoting percentages of income originating from Commerce which in this case covers wholesale and retail distribution, finance and insurance:

Country	Year	Percentage of Income Originating in Commerce
Egypt	1945	10.2
Mexico	1948	24.1
China	1946	13.5
Turkey	1949	18.2
Italy	1948	12.8

(See U.N., National Income and Its Distribution in Under-developed countries, N.Y., 1951, p. 4).

Among the countries listed above, the proportion of national income arising in the foreign trade sector to the total national income is largest in the case of Lebanon. It has already been stated that a variety of factors have contributed towards such a phenomenon among which was the economic policy of the Government. The latter's policy of establishing a free foreign exchange market in Lebanon, the extension of the free zone, and the facilities extended to re-exports and transit tradehas made out of Beirut an important commercial center. Such a policy has helped to stimulate transit trade,[1] attract foreign capital, and establish Beirut as a major center for foreign exchange transactions.[2] The previous exposition (in Chapter II) of invisible receipts and transit trade bears out, in this connection, the importance of Lebanese international activities.

Again a study of banking activity in Lebanon (briefly noted in this connection) would reveal the importance assumed by foreign trade when compared to other sectors of the economy.

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1 Income from transit alone accounted for around 21 per cent in 1948 and 29 per cent in 1949 and 1950 of the total income originating from the trade sector. (See A. Badre and Economic Research Institute Staff, op.cit.) The value of transit trade crossing Lebanese territory was L.L. 1763.9 million in 1951 and L.L.1664.3 milli-on in 1952 as compared with L.L.182 million at official rates for both Syria and Lebanon in 1947.

2 A considerable income is supposed to be earned by Lebanon through triangular trade operations, stimulated by the existence of a free market in Lebanon on the one hand and exchange restrictions in other countries on the other hand. Unfortunately no statistics are available to denote its magnitude.

Most of the foreign as well as local banks extend the bulk of their credit facilities to importers, exporters and brokers engaged in the commercial field that seems to provide incentives - in way of external economies, safe profit margins, liquidity, etc., which induce banks and other suppliers of capital to move in. In contrast the non-existence of long and medium term credit - mainly needed by industry and agriculture - is a partial sign that the latter are not sufficiently developed to attract funds and hence cannot, at present, rely to any large extent on the possible use of the private banks' credit facilities or the participation of foreign capital.

The attraction of banking business to foreign and local funds is indicated by the steady increase, since 1946, in the number of foreign and local banks operating in Beirut.[1] Political stability of the country may be considered as one reason leading to the above phenomenon; other more important causes, however, are the emergence of a free market and the traditional role played by foreign trade in Lebanon. In fact the increase in banking activity, that is mainly confined to the foreign trade sector (and the parallel increase in commercial activity), is shown by the following data:[2] Total

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1 In 1946 the total number of banks in Beirut was made up of eight foreign and six local banks, increasing in 1953 to twelve foreign and fifteen local banks.

2 Republique Libanaise, Ministere de l'Economie Nationale, <u>Bulletin Statistique Trimestriel</u>, Quatrieme Trimestre, 1953.

deposits increased from L.L.209,684,000 on December 31, 1946 to L.L.343,420,000 on December 31, 1953. During the same period the value of total advances and discounted bills increased from L.L.67,385,000 to L.L.227,259,000.

To sum up the several factors that have been taken to bear out the relative importance of Lebanese foreign trade with respect to the other sectors of the economy are the following:

1. At present the foreign trade sector generates the largest portion of the national income.

2. The bulk of bank credit is extended to commercial enterprises.

3. A large part of foreign private capital operating in Lebanon is invested in banking business which is, more or less, confined to the commercial field.

However, the future economic development of the country will probably attribute to foreign trade a relatively less conspicuous role while agriculture and industry will come to assume a greater importance not only in terms of income but of private capital invested as well. On the other hand because of the geographic position of the country and the accumulated experience of the Lebanese in matters relating to trade, the commercial sector will always be of significant importance to the Lebanese economy. The expected development in other fields will furthermore - within the framwork of a free enterprise system - act as a stimulant to foreign trade activity. Nevertheless, as the process of economic development in agriculture and industry goes along, providing increasing attractions in way of economies, profits, lower costs, etc., it would be expected - if we are to judge by the example of developed areas - that these two fields will gradually come to play relatively more important roles. Which of the two will take the lead is a problem that lies outside the scope of the present discussion.

SUMMARY OF PART I

The analysis carried out in Part I reveals the main characteristics of post-war Lebanese foreign trade which, at present, plays a very important role in the economy of the country. The latter phenomenon, exposed in Chapter III, seem to indicate that the commercial field may contribute appreciably to the economic development of the country having, on the one hand, generated the largest portion of national income for the years 1948, 1949, and 1951 and having been, on the other hand, a major attraction to the inflow of foreign private capital.

The importance attributed to the post-war foreign trade sector is partially due to the emergence of a relatively "free market" in Lebanon, reviewed in Chapter I. The more or less free commercial policy adopted by the Lebanese authorities stimulated exchange and triangular operations and re-export trade all of which helped produce a surplus in the Lebanese balance of payments for the years 1951 and 1952.

More specifically among the additional characteristics of Lebanese foreign trade are the following:

1. It reflects the early industrialization of the country which depends heavily on the Western countries for the import of a large variety of needed manufactured and other goods. Lebanese exports, on the other hand, are mainly

primary products, vegetables and textiles.

2. There exists a relatively big deficit in the balance of trade which has to be covered through invisible earnings and capital inflow. Further most Lebanese imports and exports were transacted in the dollar, sterling, and French franc and thus the major need for them. On the other hand, whereas the United States and Western Europe supplied over one half of total Lebanese exports for the period 1951-1953, in terms of value, members of the Arab League supplied a little over one quarter, Eastern Europe 3 - 4 per cent, the rest being supplied by other regions. Around half of total Lebanese exports were absorbed by the Arab countries, during the period under consideration, a little over one quarter by the United States and Western Europe, 3 per cent by Eastern Europe, and the rest by other regions. The deficit in the Lebanese balance of trade was relatively the biggest with the Western countries.

3. Transit and re-export trade paly an appreciable role in foreign trade activity.

4. Although certain aspects of industrial and agricultural protectionism may be found, the tariff policy has been mainly viewed in the light of revenue purposes.

The various characteristics outlined above serve as a partial background to the analysis pertaining to Lebanese foreign trade and economic development taken up in Part III.

To complete the necessary background, Part II has been devoted to a discussion of Lebanon's post-war trade relations and agreements. To such a discussion we shall now turn.

PART II

POST-WAR LEBANESE TRADE RELATIONS AND AGREEMENTS

CHAPTER IV

POST-WAR TRADE RELATIONS AND AGREEMENTS BETWEEN SYRIA AND LEBANON

I. INTRODUCTION

It is quite obvious that any discussion of trade relations between Syria and Lebanon may be conducted on a scientific basis only since March 1950, when the customs unions that bound the two countries ceased to exist. During the French mandate (1919-1943) they constituted one economic unit whose economic policies were formulated with the approval of the High Commissioner. As such the continued existence of a customs union after the withdrawal of the French authorities may be considered as a legacy of the mandate system. It is not the purpose of the present discussion to reveal whether such a union had or had not been beneficial from the economic point of view. Neither is it proposed to evaluate its future desirability as one possible pattern governing trade relations between the two countries. Our main interest lies in a brief analysis of the causes leading to separation and its economic effects on trade between the two states.

II. CAUSES LEADING TO THE DISSOLUTION OF THE CUSTOMS UNION

The independence of Syria and Lebanon, proclaimed in the year 1943, made the two countries face, as a consequence, a number of problems relating to the common management of various aspects of the economic and administrative fields that had been taken care of previously by the High Commissioner. An agreement between the two Governments was reached, on October 1943, whereby pending questions were either settled or ways were laid down for their future settlement.[1] Among other things it was agreed

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1 See Lebanese Republic - Documents and Texts Relating to the Economic and Financial Relations Between Syria and Lebanon, October 1, 1943-March 14, 1950, pp. 7-9 (in Arabic).

Among the provisions of the October 1, 1943 agreement were the following:

a) Common interests between Syria and Lebanon including all "interests" previously managed by the French High Commissioner were to be divided into two parts:

i) The first part included those "interests" whose common management was to be continued such as the customs, regie, supervision of "concessionnaries" etc.

ii) The second part included "interests" whose management was to be taken up independently by each of the two governments such as "patent rights", public works, post-office, security forces, etc.

b) A "Supreme Council of Common Interests", made up of three representatives on behalf of each country, was to be entrusted with the management and supervision of the "common interests".

c) Syria and Lebanon were recognized as constituting one customs area within which boundaries goods were to be freely exchanged with no restriction imposed whatsoever.

d) The proportion of the revenues from the customs received by each country was to be 40 per cent, the remaining 20 per cent to be agreed upon afterwards. (Later on the proportions agreed upon were: Syria 56 per cent, Lebanon 44 per cent).

upon that Syria and Lebanon would continue to be one customs area, within which boundaries goods are to circulate freely without being subject to any duty. On this basis the two countries would manage all problems concerning the customs union commonly through a "Supreme Council of Common Interests". The non-existence of statistics denoting the magnitude of trade between the two countries for the years 1943-1949 makes any comparison with the volume of trade conducted after the customs separation impossible. It could only be assumed that the above mentioned agreement encouraged trade and the exchange of goods to the utmost extent.[1]

In spite of the various problems that arose during the 1943-1949 period and the many sessions held between the Syrian and Lebanese Governments for their settlement, culminating in

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1 According to Muhammed Said al-Zaim in an article written in the Economic Bulletin of the Damascus Chamber of Commerce (third and fourth trimesters, 1950) titled "Common Interests between Syria and Lebanon", prior to March, 1950 Syria exported yearly to Lebanon agricultural produce valued at around sixty-four (64) million pounds and industrial products worth six (6) million pounds. It imported from Lebanon, on the other hand, agricultural produce valued at around sixteen (16) million pounds and industrial products worth around thirty-four (34) million pounds. The deficit in the Lebanese balance of trade with Syria was made up through invisible receipts.

the agreement reached on July 8, 1949,[1] trade relations between the two countries were fundamentally governed in accordance with the October 1, 1943 agreement.[2] However, there seems to have existed strong underlying forces working towards economic separation. The conditions necessary for an effective customs union became weaker as years passed by. As is stated by a U.N. publication: "For a customs union to exist it is necessary to allow free movement of goods within the union. For a customs union to be a reality, it is necessary to allow free movement of persons. For a customs union to be stable it is necessary to maintain free exchangeability of currency and stable exchange rates within the union. When there is a free movement of goods and persons in any area, diverse economic policies concerned with maintaining economic activity cannot be pursued. To assume uniformity of policy some political mechanism is required. The greater the interference of the state in the

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1 The main provisions of the agreement were the following:

a) The reduction of duties on foreign raw materials needed by industry.

b) The increase of duties on imported industrial products to protect local industry.

c) The adoption of a unified schedule for internal fees.

d) Arrangements for abolishing the existing differences between the Syrian and Lebanese pound.

2 See Lebanese Republic, loc.cit. and Syrian Republic, Ministry of Foreign Affairs, Documents and Texts Relating to Economic Relations Between Syria and Lebanon (Syrian Republic Press, March, 1950) (In Arabic).

economic life, the greater must be the political integration within a customs union".[1] The above requirements were partially lacking in the case of the Syro-Lebanese Customs union that could not stand undermining factors manifested in conflicting economic interests, differences in the tariff schedules, division of customs revenue, differences in the system of indirect taxation, exchange stability, etc.[2].. and thus was, as a consequence, terminated on March 14, 1950, when finally the economic rupture took place. In fact the various memorandums exchanged between the two countries a short time before the customs dissolution was declared -- in which each party tried to blame the other as the one responsible for the uneasy situation that had come to exist by not adhering primarily to the provisions contained in the July 8, 1949 agreement -- were only manifestations of the underlying causes mentioned above.[3] There is one obvious point, however, concerning the economic rupture. Whereas Syria pressed towards such an end, Lebanon adopted the defensive side

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1 U.N. Customs Unions (Lake Success, 1947), p. 74.

2 See Ibid, pp. 1-2 and A. Badre, "Economic Relations Between Syria and Lebanon", Al-Jarida paper, Beirut, No. 52, March 18, 1953.

3 Refer to the Economic Bulletin of the Damascus Chamber of Commerce (first trimester, 1950), pp. 40-86. (In Arabic).

aiming at prolonging the union as much as was possible.[1]

When viewed more specifically three sets of reasons may be distinguished as having been responsible for the dissolution:

1. The divergence in the economic policies of the two countries.

2. The wish of the Syrians to catch up with the Lebanese in matters of foreign trade and to protect their local industry against Lebanese competition.

3. The personal element.

We have already seen in Chapter One how a free market has emerged in Lebanon, post-war Lebanese economic policy striving towards an ever increasing freedom in the foreign exchange and trade sectors. The role of foreign trade in the Lebanese economy has been viewed by the responsible authorities as a major one. Whereas there exists in Lebanon, at present, a free foreign exchange market and relatively few restrictions on imports and exports, in Syria a protectionist policy has been adopted. Regulations issued by the Government after 1950 have

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1 The second Syrian memorandum forwarded to the Lebanese Government on March 7, 1950, contained an ultimatum to the effect that in case Lebanon refused to enter negotiations, concerning a complete economic unity between the two countries based on a unified tariff schedule and monetary regulations, a unified economic policy in matters of exports and imports and a unified schedule for certain taxes, Syria would be forced to dissolve the union. The reply of the Lebanese Government contained in a memorandum dated March 10, 1950 revealed some of the losses that were borne by Lebanon in order to keep the customs union going, but refused the conditions laid down by the Syrian Government as the only basis for the proposed negotiations relating to customs union and economic unity. As a consequence Syria declared on March 13, 1950 the termination of the union.

subjected imports to the system of prior licencing; the Ministry of National Economy was given the right to prohibit the export of any commodity if necessary.[1] Furthermore, restrictions were imposed on foreign transactions while an "Exchange Board" was established which set official rates of exchange for the principal Western currencies. The roots of these two divergent economic policies were already existing prior to 1950 contributing heavily towards the termination of the customs union. Starting with 1946, conflicts arising due to the different points of view adopted by each of the two governments in matters of commercial and economic policies became apparent. "Syria strove to restrict imports to a minimum to protect its agricultural and industrial production.... Lebanon, on the other hand, as a traditional trade center and entrepot, could not accept the Syrian conditions without giving up its fundamental economic character".[2] Irrespective of the principal factors underlying each of the two divergent economic policies, their continued existence was bound to terminate the customs union

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1 See <u>Economic Bulletin of the Aleppo Chamber of Commerce</u> (1952), pp. 266-268. (In Arabic).

2. Alfred Michaelis, "The Middle East Economy in 1950", <u>The Middle East Journal</u>, 1951, p. 233.

sooner or later.[1]

The second cause was stressed by the Syrian Government as an important factor entailing a revision of trade and economic relations between the two countries.[2] The Lebanese were actually in control of the union's foreign trade activity; Beirut was (and still is) the major sea outlet for both Syria and Lebanon, inspite of the steps taken by the Syrian Government to channel Syrian trade through the Latakia port. Such a situation lead to unsatisfaction on the part of the Syrians who strove to free themselves, as much as was possible, from the influence of the

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1 Refer to B.S.L., Exercises, 1950 and 1951; "The Third Syrian Explanatory Memorandum", Economic Bulletin of the Damascus Chamber of Commerce (first trimester, 1950) pp. 69-80; M.S. Zaim, "Economic Relations Between Syria and Lebanon", Economic Bulletin of the Damascus Chamber of Commerce (third and fourth trimester, 1950), p. 101; A. Badre, "Customs Union, Bilateral Agreements, and Arab Treaty", al-Jarida paper, Beirut, No. 55, March 21, 1953. (All in Arabic).

2 Among the reasons advanced by Syria for its dissolution of the customs union were the following:

a) Lebanon flooded Syria with unneeded luxuries.

b) Syrian industry was facing severe foreign competition due to the importation, on the part of the Lebanese, of similar goods.

c) The control of Syrian foreign trade by the Lebanese.

d) The unwillingness of Lebanon to take steps leading to the abolishment of the existing discrepancy between the value of the Lebanese and Syrian pounds - Lebanese pound was sold at a premium. (See Economic Bulletin of the Damascus Chamber of Commerce (first trimester, 1950), pp. 40-41, and Economic Bulletin of the Aleppo Chamber of Commerce, 1950, pp. 364-366). (Both in Arabic).

Lebanese merchants. The competition offered by certain of the Lebanese industries was another factor the Syrians took into consideration.

It is hard to establish any definite proofs as to the validity of the third reason. However, it is well known that those in power at the time the customs union was terminated did not attempt to solve pending problems on a friendly basis. To this should be added the influence of private interests both in Syria and Lebanon that profited from the dissolution. How significant the personal element, as a cause, had been is difficult to estimate. Probably it was minor.

These in brief, it is believed, were the main causes lying behind the termination of the customs union. The economic effects of such an act on trade relations between the two countries will now be taken up.

III. EFFECTS OF THE CUSTOMS UNION DISSOLUTION ON TRADE BETWEEN SYRIA AND LEBANON

It has already been stated that the lack of data revealing the volume of trade conducted between Syria and Lebanon prior to March 14, 1950 makes any comparison with the post-dissolution period impossible. Therefore our analysis shall be restricted to the few developments occurring during the period 1950-1954, taken into consideration the fact that no final pattern of trade relations has yet been established between the two countries.[1]

The immediate steps taken after the termination of the union was the subjugation of goods traded between Syria and Lebanon to the tariff schedule applied in each of the two countries. It was agreed that the exchange of goods and commodities would be subject to existing regulations relating to foreign trade.[2] Such a step benefited Syria since many of the agricultural products exported to Lebanon were either exempted or received a low duty whereas Lebanese agricultural and industrial exports had to face a relatively higher tariff wall.[3] This state of affairs lasted until February 2, 1952 when a new agreement was signed by the two governments which in turn was replaced by a third agreement reached on March 5, 1953.[4] They were fundamentally similar.[5]

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1 The March, 1953 agreement was intended only as a temporary solution.

2 An industrial product was considered as non-foreign (i.e. either Lebanese or Syrian depending upon its original) when local raw material and labour used in its production constituted not less than 50% of its value.

3 See M.S. Zaim, op.cit.

4 See Bulletin of the Damascus Chamber of Commerce (first trimester, 1952 and 1953) (In Arabic).

5 Among the differences that existed between the two agreements were the following:

a) The March agreement took into consideration transit facilities whereas the February agreement did not.

b) The March agreement covers a larger number of agricultural and industrial items especially in connection with industrial goods subjected to a preferential treatment.

Among the main provisions they contained were the following:

1. A large variety of agricultural produce was exempted from duty, export, and import licences. The two governments agreed to issue a unified tariff schedule, pertaining to the above mentioned agricultural products, applicable to similar foreign imports.

2. Certain industrial products were exempted from duty while others received a preferential treatment. Again it was agreed to publish a unified tariff schedule applicable to those foreign industrial goods similar to local Lebanese and Syrian products exempted from duty.

3. Other problems pertaining to financial debts and their settlement were agreed upon.

Table XII below shows the volume of visible trade conducted between Syria and Lebanon for the years 1950, 1951, 1952, 1953, and 1954.[1]

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1 Official figures have been used in the present as well as in the coming two chapters.

TABLE XII

LEBANESE EXPORTS TO AND IMPORTS FROM SYRIA
1950-1954
(In L.L.1000)

Year	Exports	Imports
1950		
1st Trimster	----	----
2nd Trimester	5,090	7,399
3rd Trimester	7,285	16,612
4th Trimester	7,671	17,602
Total	20,046	41,613
1951		
1st Trimester	8,648	13,228
2nd Trimester	5,313	18,002
3rd Trimester	3,799	12,355
4th Trimester	4,247	15,371
Total	22,007	58,956
1952		
1st Trimester	4,088	9,020
2nd Trimester	4,586	14,188
3rd Trimester	3,080	17,172
4th Trimester	4,829	23,462
Total	16,583	63,842
1953		
1st Trimester	3,436	12,942
2nd Trimester	3,551	19,299
3rd Trimester	2,855	28,409
4th Trimester	3,890	31,063
Total	13,732	91,713
1954		
1st Trimester	3,979	18,019
2nd Trimester	3,221	23,077
3rd Trimester	3,103	33,460
4th Trimester	4,640	34,156
Total	14,943	108,712

Source: Republique Libanaise, Ministere de l'Economie Nationale,
Bulletin Statistique Trimestriel, Vol. I-V

It can be seen that whereas Syria's exports to Lebanon increased from around L.L. 59 millions in 1951 to 108.7 millions in 1954, Lebanon's exports to Syria during the same period have decreased from around L.L. 22 millions to L.L. 14.9 millions. In other words visible trade developments after the termination of the customs union seem to have been more favourable to Syria.[1] It is also apparent that the February 1952 and March 1953 agreements have not resulted in an appreciable effect on visible trade between the two countries. Although Lebanese influence on Syrian foreign trade has been lessened,[2] the geographic position of Beirut and the free commercial policy adopted by the Lebanese Government have proved to be a great help to Lebanese business men in establishing close trade relations not only with Syria but with the rest of the Arab countries as well.

Foreign trade statistics published after the union separation reveal the big importance assumed by Syro-Lebanese visible trade. Thus Lebanese imports from Syria made up around 15, 14, 21 and 22 per cent of the total for the years 1951, 1952, 1953 and 1954 respectively, while exports to Syria for the same three

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1 Lebanese industry suffered at first from the rupture of economic relations with Syria but soon recovered grounds. (See Annual Economic Report on Lebanon, 1950 and 1951, prepared by the American Embassy, Beirut, Lebanon).

2 On March 3, 1952 the Syrian Government published legislative decree No. 151 which brought foreign commercial activity of the country under closer Syrian control and management (See Economic Bulletin of the Aleppo Chamber of Commerce (1951) pp. 297-298 (In Arabic).

years constituted around 24, 21, 16 and 14 per cent respectively.[1] Syrian imports from Lebanon, on the other hand, were about 10 per cent of the total in 1951 as against 11 per cent for 1952. Exports to Lebanon, for the same two years, made up around 21 per cent of the total.[2] Probably prior to the economic rupture the above percentages stood higher. Nevertheless, they clearly show the relatively heavy interdependence existing between the Syrian and Lebanese markets. Table XV indicates that trade between the two countries has been of significant importance with and without the existence of any binding specific commercial agreements. Considering their geographic position and the relatively short distances connecting their commercial centers, such a phenomenon would only be expected. On the other hand, it should be remembered that Lebanon's partial loss of the Syrian export market after the economic rupture has been more than compensated by the increased exports to other Arab countries and the establishment of new markets in Eastern Europe through bilateral agreements. Although it is maintained by some that

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1 Refer to Chapter II, p.50.

2 See Syrian Republic, Ministry of National Economy, Summary of Foreign Trade, 1952-1953 and Economic Bulletin of the Damascus Chamber of Commerce (third trimester, 1952) pp. 118-119 and (second trimester, 1953) pp. 274-277 (In Arabic). In 1951 Lebanon occupied first place as far as Syrian exports, in terms of value were concerned, and fourth place in case of imports. In 1952 it occupied second place in case of exports and third place in case of imports.

the customs dissolution has benefited Lebanon economically, by pointing out to the increased prosperity of the country since 1950, it is difficult to justify such a conclusion. The prerequisites for the relative prosperity of an economy are various, some leading to a greater degree of progress than others. Without holding the view that the continued existence of a revised customs union with Syria would have produced better results, it could only be noted that the closer the appropriate economic cooperation between countries, the greater the benefit for all concerned.

CHAPTER V

POST-WAR TRADE RELATIONS AND AGREEMENTS BETWEEN LEBANON AND OTHER MEMBERS OF THE ARAB LEAGUE

I. INTRODUCTION

Trade relations between Lebanon and the other Arab countries have undergone several changes, post-war developments giving rise to a new phase of economic relationship connecting members of the Arab League. The reasons lying behind the different characteristics assumed by present-day inter-Arab trade patterns when contrasted with those of the pre-war period are obvious. The post-war era has witnessed the acquisition by a number of Arab states the status of full independence, with the consequent birth of the Arab League. Although the first step towards a wider economic cooperation on the part of the League members have only been taken recently, the new conditions that came to exist in the Middle East after the war were bound to influence greatly the political, social and economic set-up of the Arab countries. Admittedly, the latter are still in the early stages of an expected wide and appropriate economic and political integration. However, considering the many factors that are working towards such an end, future economic ties between the Arab states will not only be much closer but will also exert an appreciable influence on the economic development of region. Before analyzing the nature of present-day trade relations between Lebanon and the other members of the League a word shall be devoted to the pre-war period (1933-1939).

The existence of the already referred to Syro-Lebanese customs union during the French mandate necessitates the reference to Syria and Lebanon up to 1950 as one unit with respect to trade relation with other countries. As such the comparisons between the pre-1950 period and the post-war years (1950-1954) may only be taken as very rough approximations to reality.

The Arab countries that had trade relations with Syria and Lebanon before World War II were Palestine, Jordan, Egypt, Iraq and Saudi Arabia. Trade agreements that existed between them were subject to the approval of the French High Commissioner in the case of Syria and Lebanon and the British Authorities in the case of Iraq, Palestine and Jordan.[1] Although the economic relations that bound these countries were viewed in the light of the interests of foreign controlling elements, certain of the trade agreements concluded (such as those between Syria and Lebanon on the one hand and Palestine on the other) did facilitate trade between the contracting parties. Most important among the Syro-Lebanese-Palestinian agreements was the one published on May 18, 1929 whereby local indsutrial

1 No trade agreements were concluded with Saudi Arabia.

and agricultural produce were exempted from duty. This was later on replaced by a new agreement signed on November 28, 1939 apparently due to pressure exerted by Jewish elements.[1] A similar agreement was signed with Jordan in 1923 which remained into effect until 1952. However the value of trade conducted with Palestine was of much greater significance than that with Jordan. The former, with its agricultural and industrial sectors relatively more developed, constituted a larger market for Syro-Lebanese exports. The agreements signed with Egypt (June 1928, March 1930 and 1934) and Iraq (December 1925 - pertaining to transit facilities) were not of any real value. Preferential treatment was not accorded to any of the contracting parties. Syro-Lebanese trade with Saudi Arabia was quite insignificant as Table XIII below shows:

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1 See M.S. Al-Za'im, "Position of the Arab Economy and the Customs Barriers Between Arab Countries", The Chamber of Commerce and Industry Journal, Beirut, December 1951, p. 38. (In Arabic).

TABLE XIII

PRE-WAR SYRO-LEBANESE IMPORTS AND EXPORTS

WITH SOME ARAB COUNTRIES

1933 - 1938

(IN LLS 1,000)

Year	Country										Total for all countries	
	Egypt		Iraq		Palestine		Jordan		Saudi Arabia			
	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.
1933	1402	326	736	583	900	2977	37	300	43	36	25584	7454
1934	712	385	861	469	825	3107	43	347	9	43	29617	8195
1935	962	758	1521	353	1122	5343	70	435	31	41	29789	11735
1936	924	895	999	371	1256	6036	136	715	31	76	28839	16479
1937	1189	916	1155	778	3567	8082	663	737	11	200	53599	25714
1938	1908	1659	2351	964	4329	8073	231	1230	29	256	70811	29278
1935-38 a)	2.7%	5%	3.2%	2.9%	5.6%	33%	0.6%	3.6%	0.06%	0.6%	100%	100%

Source: H.C.F. Inspection Generale de Douanes, Statistique du Commerce Exterieur des Etats du Levant Sous Mandat Francais, 1938.

Palestine stood out as the principal export market for Syro-Lebanese products having absorbed a yearly average for the period 1935-38 of 33 per cent of the total, the share of other Arab states amounting to around 12 per cent. On the other hand, Syro-Lebanese imports from the Arab countries for the same period did not exceed 13 per cent of the total, Palestine's

a) Annual average for 1935-38 as a per cent of the annual average total.

share being 5.6 per cent. The position of the Syro-Lebanese balance of trade during the years 1933-38 was unfavourable with respect to Iraq and Egypt and favourable in the case of Palestine, Jordan, and Saudi Arabia. But while the gap in the balance of trade with Iraq became smaller at the end of the period considered that with Egypt grew wider.[1]

Undoubtedly the pre-war trade agreements with Palestine in addition to its geographic position and relatively developed agricultural and industrial fields have been the major factors responsible for the important role it played (among all other Arab countries) with respect to Syro-Lebanese trade. On the other hand, whereas the relative backwardness and poverty of Jordan and Saudi Arabia have acted as obstacles in the face of a flourishing trade activity, Syro-Lebanese trade with Iraq and Egypt was mainly hampered by inadequate trade relations.[2]

II. The 1945-1949 Period

Table XIV below traces developments in the post-war years (1945-1949) of the Syro-Lebanese balance of trade in connection with members of the Arab League.[3] It should be noted that no trade agreements were concluded with any of the Arab countries during the period under consideration.

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1 For a discussion of pre-war trade relations between Syria and Lebanon on the one hand and other Arab countries on the other, see Syrian Republic, Ministry of National Economy, Report on Syria's Foreign Trade and Industry (1946). (In Arabic)

2 The underlying reasons behind such a phenomenon were various but of no interest to us in the present discussion.

3 The Arab League came into existence in 1945. Because Syrian Lebanese trade with Yemen was insignificant it has not been included.

TABLE XIV

SYRO-LEBANESE IMPORTS AND EXPORTS

WITH MEMBERS OF THE ARAB LEAGUE

1945-1949

(IN LLS 1,000)

	Country										Total for all Countries	
	Egypt		Iraq		Palestine		Jordan		Saudi Arabia			
Year	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.
1946	7097	5458	21563	12215	8337	17598	5272	3947	580	707	271984	85560
1947	6646	4018	13603	17719	8519	30013	204	4166	140	1503	368614	83640
1948	10392	3002	17397	32103	5443	2490	1431	17139	2917	2944	483460	78502
1949	6784	3388	26813	22353	1228	8069	1626	21066	12757	5787	516188	111104
1945-49	2.6%	5.2%	5.6%	22.2%	2.2%	17%	0.8%	11.8%	0.9%	3.2%	100%	100%

Source: Conseil Superieur des Interets Communs, Service d'Etudes Economiques et de Statistique, Recueil de Statistiques de la Syrie et du Liban, 1945, 1946, 1947; et Conseil Superieur de Interets Communs, Statistiques du Commerce Exterieur de L'Unite Douaniere Libano-Syrienne, Annee 1949.

Several changes may be distinguished.

1. The over-all decrease in the proportion of Syro-Lebanese imports from the League members including Palestine (from 39.8 per cent of the total, in terms of value, in 1945 to 9.2 per cent in 1949). This is not surprising, since the immediate post-war years - 1945, 1946 and 1947 - were characterized with the great damage that befell Western European

a) Annual average for 1945-49 as a per cent of total annual average.

production power and the strict trade and exchange control, partially diverting Syro-Lebanese demand to the neighbouring Arab states. As the Western countries gradually regained their productive capacity and exchange restrictions were lessened, the proportion of Syro-Lebanese imports from the Arab world decreased.

2. The proportion of over-all Syro-Lebanese exports to the members of the League showed no particulation tendencies, increasing from 51.2 per cent of the total in 1945 to 70 per cent in 1948 and dropping to 55 per cent in 1949.

3. The decrease in the relative importance of Palestine both as an export and import market until trade with it ceased completely as a result of the Arab-Israeli war. (In the 1935-38 period Palestine absorbed a yearly average of 33 per cent of the total Syro-Lebanese exports as compared with 24 per cent in 1945 and 3 per cent in 1948). Furthermore, Palestine's balance of trade with Syria and Lebanon was favourable all through the five years under consideration.[1]

4. The appreciable increase, in terms of value, in Syro-Lebanese exports to Iraq, Jordan, and Saudi Arabia

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1 The 1939 trade agreement between Syria and Lebanon on the one hand and Palestine on the other hand may have partially contributed towards such a change. It decreased greatly the number of agricultural and industrial items to be exempted from duty. Relatively few goods received a preferential treatment, while those products that competed severely with Jewish industries were subjected to ordinary tariffs. (See Ibid., pp. 10-11, and M.A. Al-Zaim, op.cit., p. 38).

(In 1935-38 Iraq absorbed a yearly average of 2.9 per cent of the total as compared with 11.6 per cent in 1945, 40 per cent in 1948 and 20 per cent in 1949; Jordan's average share was 3.6 per cent in 1935-38 increasing to 19 per cent in 1949; exports to Saudi Arabia amounted to around an average of 0.6 per cent in 1935-38, 0.5 per cent in 1945 and 5 per cent in 1949).

5. The proportional decrease in Syro-Lebanese imports from Iraq and Egypt. (From 7.9 per cent in 1945 to 1.3 per cent in 1949 in case of Egypt and 16.4 per cent to 5 per cent in case of Iraq. However, Lebanon's balance of trade with the two countries - excepting 1948 - still proved to be unfavourable. For the 1935-38 period Iraq's yearly average of imports from Syria and Lebanon was 3.2 per cent of the total as compared with 2.7 per cent for Egypt).

6. Whereas during the period 1935-38 the yearly averages of total Syro-Lebanese imports and exports from and to the Arab countries were 12 per cent and 45 per cent respectively, during the 1945-49 period the yearly averages were 12 per cent for imports and 59.4 per cent for exports. This shows an appreciable increase in the proportional value of Syro-Lebanese exports to the League members during the years 1945-49, imports keeping at the same level.

The above listed developments characterized a period which may be termed as "Transitional" from war to peace conditions as well as a realization of a greater economic independence on the part of Syria and Lebanon. To that should be added the underlying forces which worked towards the termination of the Syro-Lebanese customs union. We have studied in Chapter I the emergence of a relatively "free market" in Lebanon and the dwindling of French influence most of which occurred during the period under consideration. The causes leading to the dissolution of the customs union have also been reviewed. The existence of such conditions - which produced what may be termed an unstable basis for foreign trade relations - partially explain the fact that no definite steps were taken in way of trade agreements, during the years 1945-1949 as far as Syro-Lebanese foreign trade with other countries is concerned.

III. The 1950-1954 PERIOD

A. Nature of Post-war Lebanese Trade Agreements With Members of the League

With the termination of the Union and the consequent independence achieved by each of the Syrian and Lebanese governments in matters relating to economic problems, two new tendencies became apparent in the Lebanese commercial policy.

1. The independent drive for a greater economic cooperation with other Arab countries either directly or through the mechanism of the Arab League.

2. The conclusion of bilateral trade agreements mainly

with Eastern Europe.

The question of interest to us, at present, pertains to the nature of trade agreements concluded between Lebanon and other Arab countries. What characteristics do they assume? The answer lies in two parts: a brief study of the trade agreements signed independently by Lebanon during the years 1951 and 1952 with each of Iraq, Egypt and Jordan,[1] and a study of the Arab treaty concerning trade, transit and current payments agreed upon by all members of the Arab League in 1953.

Trade agreements between Lebanon and Iraq, Egypt and Jordan were signed on February 20, 1951, September 2, 1951, and August 27, 1952 respectively. They are not very uniform in their approach to foreign trade relations between the contracting parties. Whereas the agreement with Egypt draws up a list of Egyptian and Lebanese goods that may be imported and exported and specifies that the MFN clause shall be applied with respect to customs fees, transit, re-exports of foreign goods, and internal fees with no preferential treatment accorded to any of the contracting parties, the agreement with Iraq, in addition to the MFN clause stipulates that all kinds of goods may be traded in, with very few Iraqi and Lebanese products receiving exemptions from custom

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1 No independent trade agreements were concluded between Lebanon and Saudi Arabia.

duties.[1] Furthermore, the agreement with Jordan exempts all local agricultural and animal produce (with few exceptions) from customs duties and divides local industrial goods into three parts:

1. Those exempted from import and export licences.

2. Those that shall receive a preferential treatment equal to one third the ordinary tariff.

3. Those that shall be subject to ordinary tariffs and licences.

Moreover it was agreed upon that transit facilities would be extended, transit fees annulled, and Lebanese capital allowed to enter Jordan to participate in development projects.

Obviously the agreement with Jordan is much more comprehensive and liberal than the ones with Iraq and Egypt. But whereas the former does not indicate the ways in which payments arising from trade shall be settled, the two latter contain specific provisions for such a settlement. The agreement with Iraq stipulates that BSL will open a "non-resident Lebanese account" in Iraqi dinars in one of the Iraqi authorized banks.[2] Visible and invisible receipts earned by Lebanese through exports to Iraq will be credited while earnings due to Iraqi through exports to Lebanon will be

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1 Thirteen Lebanese items are exempted such as potatoes, beans, bananas, apples, cherries, books and magazines, silk threads, etc. Iraqi items exempted are sixteen in number among which are the following: dates, rice, books, magazines, cotton blankets, etc.

2 An authorized bank in Lebanon acceptable to the Iraqi government will open a similar account.

debited in the above mentioned account.[1] The agreement with Egypt, on the other hand, stipulates that the settlement of payments arising in accordance with and as a result of the agreement provisions will comply with existing Egyptian regulations pertaining to foreign exchange. The Ahly Bank (national bank) in Egypt will open a "non-resident Lebanese account" in the name of one of the Lebanese authorized banks. Earnings of Lebanese exporters and payments by Lebanese importers to and from Egypt will be credited and debited respectively.

These three agreements may be termed bilateral only in the sense that they have been concluded between pairs of countries. They are similar, in a way, to the agreements between Britain or Sweden, on the one hand, and Eastern Europe, on the other whereby "the Western European governments have merely agreed in advance to issue export permits for a list of specified materials without guaranteeing procurement of goods in question or the prices at which they will be bought".[2] In fact the main pre-requisites for bilateralism are missing. There are four methods of bilateral trading:[3] private compensation, exchange clearing, payments agreements

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1 In case the Lebanese account showed a balance of over one thousand dinar (every six months) the Iraqi government will permit BSL to transfer the surplus amount (i.e. the one over one thousand) into sterling.

2 C.P. Kindleberger, International Economics (Home Wood, Richard D., Irwin Inc., 1953), p. 319.

3 P.T. Elsworth, The International Economy (N.Y., The Macmillan Company, 1950), pp. 632-636.

and bulk purchase program. Obviously the first and fourth methods do not apply to Lebanon's agreements with the three members of the Arab League. Although the second and third imply the matching of claims and debts arising from trade,[1] the payments agreement operates on a wider scale and has been historically used to ensure the liquidation of financial claims of a creditor country,[2] without disturbing the normal procedure, as the clearing agreement does, of settling international accounts in foreign exchange through the ordinary banking channels.[3] In the words of Ellis "A trading arrangement is bilateral when it involves an effort to achieve a predetermined quantitative ratio of the exports of country A to country B to the exports of country B to country A. Since the underlying price and exchange rate relationship are rarely such as actually to achieve the contemplated ratio, the definition must run in terms of the approximate goal."[4] Adopting such a definition of bilateralism it is clear that the trade agreements under consideration may not be termed bilateral. Moreover the forces that have in fact given rise to them are not similar to those that stimulated the appearance, in the 1930's, of bilateralism in Europe. The latter pheno-

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1 Kindleberger, op.cit., p. 251.

2 Elsworth, op.cit., p. 635.

3 L.W. Towle, International Trade and Commercial Policy N.Y. and London, Harper and Brothers Publishers, 1948), p. 497.

4 H.S. Ellis, "Bilateralism and the Future International Trade", Readings in the Theory of International Trade (London, George Allen and Unwin, Ltd. 1950), p. 416.

menon was due to three main overlapping factors:

1. The desire of creditor countries to liquidate their financial claims with debtor countries. The accumulation of blocked balances was, in turn, due to restrictions imposed by exchange control.

2. The wish of the Germans to establish close ties, through bilateral trading methods, between the German economy on the one hand and the Balkan economies on the other.

3. The existence of factors of disequilibrium which plagued the maintenance and establishment of a free system of international trade and exchange such as the distortion of international monetary reserves, world dollar shortage, the long-run shift in the relative prices of finished goods and primary products which resulted in a steady worsening of the terms of trade of countries dependent upon the export of agricultural and raw commodities.[1]

In the immediate post-war years the continued existence of payments difficulties in Western Europe, the incovertibility of paper currencies, and exchange control, resulted in a great number (over two hundred) of payments agreements between European countries[2] which in 1950 were replaced by the European payments Union (EPU) functioning on a multilateral basis.

1 See C.P. Kindleberger, "International Monetary Stabilization", S.E. Harris,(ed), Post-war Economic Problems (N.Y., and London, MacGraw-Hill Book Company, Inc., 1943), pp. 375-376.

2 See W. Diebold, Jr., Trade and Payments in Western Europe (N.Y., Harper and Brothers, 1952), p. 19.

The circumstances outlined above which gave rise to bilateral trading methods were absent, at least they were not markedly apparent, with respect to economic conditions that prevailed in the Arab World in 1951 and 1952. As such the emergence of bilateralism as one pattern of trade relations governing inter-Arab trade was not likely to appear. The trade agreements that have been concluded between pairs of Arab states are not fundamentally bilateral as defined previously, but simply pertain to the encouragement of trade and the extension of preferential treatment.

The Arab Economic treaty drawn up by members of the Arab League on September 7, 1953 is the first step towards economic cooperation among the contracting parties,[1] and has been divided into two parts:

1. The first deals with trade and transit.

2. The second pertains to payments arising from current transactions and the transfer of capital.

Among the provisions of the first part were the following:

a) A large variety of agricultural and animal produce, originating in any one of the contracting parties, was exempted from customs duties.

b) A large number of industrial items produced

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1 It was signed by Lebanon, Syria, Jordan, and Egypt on September 7, 1953, by Saudi Arabia on September 13, 1953, by Yemen on December 8, 1953 and by Iraq in January 1955. It was put into effect starting with December 12, 1953. The time duration of the treaty is one year automatically renewable unless one of the contracting parties asks - two months before its expiration, at least - for a modification or expresses its wish to withdraw.

in any one of the contracting parties was to receive a preferential treatment equal to one fourth of the ordinary tariff on similar foreign products.

c) The contracting parties would facilitate transit trade in accordance with existing regulations.

d) The provisions of the treaty would not annull (or contradict) other privileges secured through trade agreements between pairs of Arab countries.

The second part contained provisions to the effect that the contracting parties would facilitate the transfer of payments arising from current transactions (visible and invisible) subject to existing foreign exchange, import and export regulations. In case these regulations imposed restrictions upon such a transfer, the debtor party would allow the use of the blocked balances by residents of the creditor country to pay for imports, to transfer part or all of the account to residents of the other contracting parties,[1] and to use their balance to pay for goods bought in the debtor country for purpose of exportation to other countries. A free transfer of capital was allowed only if it were to participate in development projects.[2] Furthermore its withdrawal to the country of origin would always

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1 This does not mean that the balances have been unblocked in favour of the new owner, but simply a transfer of titles in the accounts of the bank in the debtor country.

2 Governments of the country witnessing an inflow of Arab capital to participate in development projects will have to guarantee that it is being used for such purposes.

be permitted.

Obviously the above treaty has as a primary purpose the encouragement of visible trade between members of the Arab League, through the exemption of Arab agricultural and animal produce from custom duties and the extension of preferential treatment to Arab industrial products. The facilities it extends to the free movement of Arab capital are limited while the transfer of payments arising from inter-Arab current transactions have been subjected to existing foreign exchange regulations. Hence the real significance of the latter provision is dependent upon the degree and nature of exchange control existing in each of the Arab states. Apparently the payments problems have not been viewed seriously particularly when contrasted with the mechanism of the EPU - essentially a device for the multilateral settlement of accounts. The conditions that have made possible the existence of a payments union in Western Europe are still partially lacking in the Arab World. Certain pre-requisites may have to be satisfied - such as the increase in the proportion of inter-Arab trade with respect to total Arab foreign trade, the provisions of an Arab working capital, the achievement of an independent currency status in connection with certain Arab countries etc. before an Arab payments union functioning on a multilateral basis may be established. In fact the second part of the Arab treaty pertaining to current payments is not a payments agreement as understood in connection with the EPU or the Sterling Area. The most that can be said about it is that it embodies the promises of the Arab states to facilitate, subject to existing regulations, inter-Arab payments arising from current transactions. However, the advantages of the Treaty should not only be looked upon as simply the extention of preferential treatment and a limited freeing of capital transfer between the contracting parties but as an emphasis on the principle that economic cooperation among members of the Arab League - viewed as a bloc - founded on a multilateral basis would constitute a step forward towards an increased benefit for all and a stimulant to the economic development of the region.

B. Effects of Trade Agreements on Lebanese Foreign Trade with other Members of the Arab League

An analysis of the Arab trade agreements' effects on post-war Lebanese foreign trade cannot be conlusive because of the following two limitations:

1. The non-existence of separate data for Lebanese foreign trade prior to March, 1950.

2. The shortness of the period following the conclusion of the post-war trade agreements.

It could only be assumed that the preferential treatment agreed upon by members of the League has stimulated Lebanese visible foreign trade with the Arab countries. In fact such definite proportional increase in Lebanese exports (in terms of value) to Egypt and Saudi Arabia, as Table XV below reveals, may have been mainly the result of other factors such as changes in relative prices, consumer's tastes and other economic and commercial developments inside and outside the Arab world. However, due to the difficulty of isolating these factors we shall only attempt to trace changes in the proportional value of Lebanese trade with each of the other League members on the one hand and the League as a unit on the other, disregarding the underlying causes.

TABLE XV

LEBANESE IMPORTS AND EXPORTS WITH MEMBERS OF THE ARAB LEAGUE (EXCLUDING SYRIA) 1950-1954

(IN L.L. 1,000)

Year	Country									
	Egypt		Iraq		Jordan		S. Arabia		Total for all Countries	
	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.
1951	4603	9422	23700	2607	1946	3640	2240	8081	320112	97655
1952	2310	7082	17741	2732	2890	3181	2472	7284	347049	77430
1953	2986	5964	15149	4480	5182	6068	8547	10847	361680	87710
1954	5124	8757	17726	4584	9971	5481	6641	11924	485124	105884
1951-54 a)	0.9%	8.4%	4.2%	3.9%	1.3%	4.9%	1.4%	10%	100%	100%

Source: Republique Libanaise, Ministere de L'Economie Nationale, Bulletin Statistique Trimestriel, Vols. II-V.

a) Annual average for 1951-54 as a per cent of the annual average total.

From the above table it is seen that the yearly average of the over-all Lebanese imports from members of the Arab League (excluding Syria) was around 8 per cent of the total. The yearly average of Syro-Lebanese imports from the Arab countries (including Palestine) for each of the two periods 1935-38 and 1945-49 was 12 per cent of the total yearly average. If it is assumed that prior to 1950 half of the total Syro-Lebanese imports were due to Lebanon alone,[1] then a comparison between the two averages indicates that Lebanese imports from the Arab states (excluding Syria), during 1951-54, have somewhat decreased.

On the other hand, the yearly average of Syro-Lebanese exports, in terms of proportional value, to the Arab countries (excluding Syria) was 45 per cent of the total for 1935-38 and 59.4 per cent for 1945-49, as compared with a yearly average of 27.2 per cent for Lebanese exports in 1951-54. Again if it is assumed that, prior to 1950, around one third to one half of total Syro-Lebanese exports were due to Lebanon,[2] then the three export averages seem to indicate that Lebanese exports to the Arab countries under consideration have assumed a falling trend.

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1 This assumption is based on the fact that the total Syro-Lebanese customs revenue was divided between the two states in the proportion of 56 per cent (for Syria) and 44 per cent (for Lebanon).

2 This is based on what is generally believed to be the case.

The apparent decrease in total trade activity between Lebanon and members of the Arab League (excluding Syria), during 1951-54, may be attributable mainly to the loss of Palestine that constituted the most export market for Lebanese products. In fact, were Palestine excluded, a comparison between the 1935-38 and 1951-54 periods would tend to show that Lebanese trade with the Arab countries has assumed bigger dimensions in the latter period.

When each of the League members is taken individually, the importance of the inter-Arab market (excluding Syria) with respect to Lebanese foreign trade becomes apparent. Whereas on the import side Iraq occupied first place followed by Saudi Arabia, Jordan and Egypt, on the export side Saudi Arabia ranked first followed by Egypt, Jordan, and Iraq in that order.

The factors underlying the post-war foreign trade relations between Lebanon and the Arab states are various. However, to initiate an era of close cooperation among members of the League, the pre-requisites of economic and political independence are necessary both of which have been attained to a large extent, in the post-war years, on the part of the Arab countries presently considered. The magnitude of inter-Arab trade is expected to grow in the coming years particularly when the factors that lay emphasis on a closer economic co-operation among the League members are taken into consideration. Such a problem will be taken up in Part III.

CHAPTER VI

POST-WAR TRADE RELATIONS AND AGREEMENTS BETWEEN LEBANON AND NON-ARAB COUNTRIES

I. INTRODUCTION

Post-war trade agreements between Lebanon and non-Arab countries were negotiated after the economic rupture with Syria took place. The reasons behind such a phenomenon have been briefly touched upon in the previous chapter and may be summarized in the following words: Lebanon became free to pursue its own chosen commercial policy only since 1950. Before World War II economic policies of the country were in the hands of the French High Commissioner, and the development of Lebanese foreign trade through trade agreements with other non-Arab countries was not likely to take place. The post-war years (1945-1949), on the other hand, were characterized with underlying forces that undermined the existence of a definite and stable pattern of Lebanese commercial policy. Thus the emergence of particular trade agreements with other countries was not to be expected until the above obstacles had been, at least, partially removed.[1] The

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1 The financial and trade agreement signed with France in 1948, (upon which we shall shortly briefly dwell) was intended as a solution of Franco-Lebanese economic problems arising as a consequence of the independence achieved by Lebanon, and particularly concerned with Lebanese-owned franc balances that had accumulated during the war.

transitional nature of the 1945-49 period gave way, after the customs union with Syria was terminated, to a more definite economic policy on the part of the Lebanese authorities, most vividly seen in the development of a free foreign exchange and foreign trade sectors. Alongside with these developments, however, there emerged certain aspects of bilateralism that governed trade relations between Lebanon and Eastern Europe. Although bilateral trading methods are still of relatively small importance with respect to Lebanese foreign trade it would be useful to analyze their main characteristics and the factors underlying their appearance. Furthermore, it is interesting to note that, in spite of the major role played by Western countries in Lebanese trade,[1] no commercial agreements, at present, bind any of them (except Western Germany) with Lebanon.

Our coming discussion shall be restricted to a descriptive analysis of post-war trade agreements, touching lightly upon the importance of Lebanese visible trade with the Western nations, the Eastern bloc and other countries. To be able to indicate the probable effects of the above mentioned agreements on Lebanese foreign trade, a brief consideration of the relative importance of non-Arab markets in the pre-war years 1935-38 would be appropriate.

Syro-Lebanese trade figures published in the pre-war

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1 For the years 1951-54 they supplied around 53 per cent of Lebanon's imports and absorbed around 29 per cent of its exports (in terms of value).

period bear out the importance that was assumed by France in connection with exports and imports of both countries. During 1935-38 it ranked first, supplying an average of 13.4 per cent of total Syro-Lebanese imports (in terms of value) and absorbing an average of 16 per cent of the latter countries' total exports. It was followed, on the import side, by the United States, Great Britain, Roumania, Germany, Italy and Belgium in that order, and on the export side by the United States, Italy, Great Britain, Germany, Turkey, and Belgium. On the whole, whereas the United States and Western Europe supplied an average of 50 per cent of total Syro-Lebanese imports absorbing an average of 43 per cent of their exports, the share of Eastern Europe was 10 per cent[1] for imports and 1.27 per cent for exports, all other countries (excluding members of the Arab League) supplying 24.7 per cent of total imports and absorbing 7.5 per cent of total exports. Comparisons with the 1945-49 period show that the proportion of Syro-Lebanese imports (in terms of value) from the United States and Western Europe and others slightly decreased while dropping appreciably with respect to Eastern Europe. Exports, on the other hand, proportionally decreased with the United States, Western Europe and Eastern Europe, but slightly increased with other countries. A further comparison with the figures for Lebanese trade in 1951-54 would seem to indicate that Lebanese imports from the

1 Roumanian market was the most important among Eastern European markets absorbing 6 per cent of total Syro-Lebanese exports.

United States and Western Europe (in terms of proportional value) have actually slightly increased, while keeping below the pre-war level in the case of Eastern Europe and others. On the export side, gains have been scored in connection with Eastern Europe and others. Lebanese exports to the United States and Western Europe seem to have increased with respect to the 1945-49 period but kept below the pre-war level. (See Tables XV and XVI below).

II. POST-WAR AGREEMENTS

A. The 1945-49 Period

1. The 1948 Franco-Lebanese Agreement[1]

The conclusion of the 1948 monetary agreement on January 2, 1948 between France and Lebanon was intended as a solution (over a period of ten years) to three pending problems:

a) The position of the Lebanese-owned franc balances that had accumulated during World War II and were blocked by the French authorities.[2]

b) Regulation of trade and capital transfer between Lebanon, on the one hand, and the French Union on the other.

c) The settlement of claims and debts arising from

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1 For a text of the Agreement - in Arabic - see Lebanese Republic, Ministry of Justice, Collection of Laws, Vol. X, Beirut.

2 They accumulated as a result of borrowings from the BSL on the part of the French. The said bank advanced Syro-Lebanese currency to the French authorities against French government bonds or Franc exchange.

the transfer to the Lebanese government of French properties (military and public utilities) in Lebanon.

The agreement was not drawn up to set a particular pattern of trade relations between the two countries but primarily to provide a time-table for the liquidation of French control over certain aspects of Lebanese finance and trade. Thus with its conclusion the Lebanese authorities could now exercise a greater discretion in the foreign trade policy which, as already noted, was characterized, on the whole, with the emergence of a relatively free market.

There is no need to expose the various provisions contained in the agreement. It can only be noted that the Lebanese-owned franc assets were to be divided into three accounts, carried in the books of the BSL, each serving particular purposes. Account No. 1, for example, was to be credited, on the one hand, with the francs constituting the note cover and debited, on the other, with sums owned by the Lebanese government in favour of the French government; account No. 2, which carried the difference between the Lebanese assets in francs held by the BSL and the amount carried in account No. 1, was to be debited with purchases of equipment and commodities originating in and shipped from the French Union and with purchases of certain European currencies jointly agreed upon by the contracting parties; account No. 3 was to be credited with payments for French imports originating in Lebanon and capital transfers from the French Union to Lebanon and debited with payments for

Lebanese imports originating in and shipped from the French Union (not settled by debiting account No. 2) and with capital transfers from Lebanon to the French Union.

The provisions relating to trade and transfer of capital specified that exports and imports between the contracting parties would be subject to existing regulations. No transactions could be made between the two countries in a currency other than the French franc or the Lebanese pound unless it had been permitted by the exchange authorities of the two countries. Capital transfers arising from current transactions were to be freely effected by either party provided they were settled through authorized intermediaries and connected with imports and exports made in conformity with the general regulations and procedures in force in each country. However, whereas transfers from Lebanon to the French Union, other than those mentioned above, were to be permitted without any restriction as to their nature and amounts, similar transfers from the French Union to Lebanon were to be allowed, within limits, in connection with the following purposes only: family allowances, school tuitions, investment income and repatriation of assets belonging to Lebanese emigrants liquidating their concerns and estates in the French Union and establishing themselves permanently in their country.

In practice it is hard to determine how effective the above agreement has been in stimulating Franco-Lebanese trade. However, the following data tend to confirm the fact that Lebanese imports from France have appreciably increased in the years following its conclusion.

During 1945-47 imports from France amounted to a yearly average of around 5.9 per cent of the yearly average total as compared with 10.3 per cent for 1948-54.[1] The above proportions indicate that Lebanese imports have almost doubled, in terms of value. Although such an increase may not be attributable mainly to the effects of the 1948 agreement, the latter, no doubt, must have influenced the magnitude of Lebanese foreign trade with respect to France. Admittedly other factors may have contributed towards such an end (the franc devaluation on January 25, 1948, the expansion in French production, etc.). Nevertheless, if it is assumed that the Lebanese were interested in liquidating their franc balances, as provided for in the agreement, the latter has obviously acted as one incentive for the increase of Lebanese imports from France.[2] Theoretically, at least, the provisions of the agreement made the desire to liquidate the blocked balances, dependent, to a great extent, upon an increase in the volume of Lebanese imports from the French union.[3]

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1 Assuming that prior to 1950 Lebanese imports made up around half of the total Syro-Lebanese imports.

2 Following the sterling devaluation in 1949 account No. 1 suffered a loss of around six billion francs.

3 During the period under consideration, two other minor agreements were signed by Lebanon on July 8, 1948 and October 1948 with Liberia and Greece respectively. The former stipulated that no gratuitous privileges or advantage whatever in matters of commerce shall be allowed to any foreign nation which shall

2. Visible Trade

Table XVI below indicates developments during the period 1945-49 in Syro-Lebanese visible trade with respect to the United States and Western Europe, Eastern Europe and other countries (excluding members of the Arab League).

TABLE XVI

SYRO-LEBANESE IMPORTS AND EXPORTS WITH THE UNITED STATES AND WESTERN EUROPE, EASTERN EUROPE AND OTHERS (EXCLUDING MEMBERS OF THE ARAB LEAGUE) 1945-1949

(In LLS 1000)

Year	Bloc						Total	
	U.S. & W. Europe		E.Europe		Others		For all Countries	
1945	39,856	11,955	1,715	22	36,769	9312	130,624	43,842
1946	132,179	26,588	477	117	96,477	8,658	271,984	85,560
1947	244,401	19,859	7,311	161	83,790	5,384	368,614	83,640
1948	307,552	16,859	11,282	605	126,044	3,356	483,460	78,502
1949	354,863	35,852	9,724	776	101,270	11,265	576,188	111,104
1945-49 a)	48%	27%	1.3%	0.42%	21%	9.4%	100%	100%

Source: Conseil Superieur des Interets Communs, Recueil des Statistiques de la Syrie et du Liban, 1945, 1946, 1947 and Conseil Superieur des Interets Communs, Statistiques du Commerce Exterieur de l'Unite Douaniere Libano-Syrienne, Annee 1949.

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not be extended immediately to the other contracting party. The latter extended the MFN clause to ship rents and port facilities, its time duration being five years automatically renewable unless six months prior to its expiration, one of the contracting parties asked for its termination. (See Republique Libanaise, Receuil des Traites et Conventions Bilaterales).

a) Annual average for 1945-49 as a per cent of the average

The important role played by the United States and Western Europe is clear; they supplied an average of 48 per cent of total Syro-Lebanese imports (in terms of value) for the period under consideration and absorbed an average of 27 per cent of total exports. Comparison with the pre-war figures reveals, as stated in the introduction a slight import decrease but an appreciable export decrease in terms of proportional value, with respect to the above countries. On the import side the United States ranked first followed by Great Britain and France. In the case of exports France, on the whole, ranked first followed by the United States and Great Britain.[1]

Imports from Eastern Europe made up an average of 1.56 per cent of the total compared with an average of 0.42 per cent for exports. When compared with the pre-war figures it is seen that both exports and imports suffered losses in terms of proportional value. Furthermore, Roumania was replaced by Czekoslovakia as the most important East European market.

All other countries (excluding members of the Arab League) supplied an average of 21 per cent of total imports

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1 Figures for the three countries (in thousands of Syrian Lebanese pounds) were as follows:

	Imports				Exports			
	1946	1947	1948	1949	1946	1947	1948	1949
United States	48609	97176	91434	118969	14978	5719	3415	3759
France	17715	40140	55939	70823	16890	5089	9112	6417
United Kingdom	47947	65600	94856	108117	2265	1209	1429	9694

and absorbed an average of 9.4 per cent of total exports. Reference to pre-war figures shows a decrease in the proportional value of imports and an increase in the proportional value of exports.

The above outlined changes in the Syro-Lebanese exports and imports were, as would be expected, the product of post-war economic and political changes. The imposition of exchange and trade restrictions in the European countries, alongside the apparent tendency on the part of the Arab states to widen their economic cooperation (now that independence has been achieved) resulted in a shift of Syro-Lebanese exports (in terms of proportional value) from Europe to the neighbouring Arab countries and other underdeveloped areas. On the other hand, the relatively slight decrease in the proportional value of imports from the Western countries (in spite of the war effects) reflects mainly Lebanon's dependence upon the more advanced areas for many industrial and other products.

B. The 1951-1954 Period

1. Appearance of Bilateral Trade Agreements

A definition of a bilateral trade agreement has already been included in the previous chapter when an attempt was made to show that the agreements concluded between Lebanon on the one hand, and other Arab countries on the other, did not satisfy the requirements of the general definition. Furthermore, it was also briefly noted that the factors that gave rise to bilateralism in Europe in the 1930's were absent in the case of post-war Lebanese and Arab economic problems.

Although trade agreements signed by Lebanon with Eastern Europe in 1952- and 1954 (which are the focus of our present discussion) fit the definition adopted, the factors that underlied their emergence were of a different nature than those that existed in Europe in the 1930's. Apparently if Lebanon had desired to establish well defined trade relations with the state-controlled European economies hoping, among other things, to provide export markets for its citrus fruits, such a result could only be achieved through bilateral trading methods.

During the period under consideration bilateral trade agreements were concluded with Czekoslovakia, U.S.S.R., and Eastern Germany on July 12, 1952, April 30, 1954, and December 14, 1954 respectively.[1] Fundamentally, they were all similar, bearing the following characteristics:

a) Two lists were drawn up specifying what products originating in the contracting parties may be exchanged.

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1 Actually the first bilateral trade agreement signed by Lebanon was the one concluded with Italy on May 27, 1950 whereby it was agreed upon that the contracting parties would exchange goods valued at $2,250,000. A list of sixteen Lebanese export items was drawn up with specific total values assigned to each of the items. Likewise a list of Italian export items was drawn up with specific total values assigned to each of the items. All payments were to be effected in dollars, time duration of the agreement being one year. (See Republique Libanaise, *op.cit.*).

For a text of the Lebano-Soviet agreement (in Arabic) see *l'Economie Libanaise et Arabe*, No. 28, October, 1954. For a text of the Lebano-German agreement (in Arabic) see *l'Economie Libanaise et Arabe*, No. 23, March, 1954. (Text of the Lebano-Czekoslovakian agreement was obtained from the Ministry of National Economy, Beirut).

Lebanese export items included fruits, oil, raw cotton, cotton textiles and hides, while Eastern European export items covered machinery, electrical appliances, tractors, chemical implements, music instruments, vehicles, fertilizers, etc.

b) The MFN clause was accorded with respect to fees and customs regulations pertaining to export, imports, and transit. (Special privileges extended by Lebanon to Arab countries were excluded).

c) Payments arising from the exchange of goods were to be settled in accordance with a clearing system. However, whereas settlements with Czekoslovakia and the U.S.S.R. were to be effected in the national currencies of the contracting parties, that with East Germany was to be effected in dollars.[1] Authorized banks in each of the contracting parties were to open a non-interest bearing account in each other's respective names, to be credited or debited as the case may be.[2]

d) The agreement with Czekoslovakia specified that

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1 The rate of exchange between the Lebanese pound and the Korone was set at L.L.1 = Kr. 15.6. The rate of exchange between the pound and the rouble would be determined on the basis of the ratio of the fine gold content in each of the two currencies on the one hand, and the average price of the dollar sight draft (the day the payment to be effected) at the closing hour of the Beirut Bourse, on the other hand. (Lebanese pound = 0.405, 512 grs. of fine gold, rouble = 0.222,48 grs. and dollar = 0.888671 grs.)

2 Lebanese importers would pay the authorized bank in Lebanon and exporters receive payment from it. The same would apply to Czekoslovakian Soviet Russian, and Eastern German importers and exporters with respect to the authorized banks in their respective countries.

every six months the accounts would be examined to determine whether they have balanced or not. In case they have not, the debtor country would try to liquidate the deficit through exports to the creditor country within the following six months. If at the end of the period a balance still remained ways for its liquidation would be agreed upon. The agreement with the U.S.S.R. stipulated that the balance due to any of the contracting parties may not exceed 1,200,000 roubles or its equivalent in Lebanese pounds. If it exceeded this sum, representatives of the contracting parties would meet to discuss the possible ways for liquidating the surplus. Lastly, the agreement with East Germany permitted the account opened by the Lebanese authorized bank in the name of the East German authorized bank to run a deficit or a surplus not exceeding 100,000 dollars.

e) The value of goods to be exchanged between Lebanon and Czekoslovakia, U.S.S.R. and East Germany was set at a maximum of five million Lebanese pounds, ten million Lebanese pounds and one million dollars respectively.[1]

The time duration of each of the three agreements was limited to one year automatically renewable unless one of the parties, three months before its expiration, expressed

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1 In addition Czekoslovakia agreed to import during the first year of the agreement 5000 tons of Lebanese lemons, while the U.S.S.R. and East Germany agreed to devote 60 per cent of the total value of their imports to lemons, apples and bananas.

In 1954 the agreement with Czekoslovakia was modified to cover a larger number of trade items and raise the maximum value of exchange to eight million Lebanese pounds.

its wish to modify or terminate it.[1]

It is obvious that if the above agreements were fully enforced the proportional value of Lebanese visible trade with Eastern Europe would be raised significantly. Figures for the 1951-54 period indicate that Lebanese exports to the Eastern European markets constituted an average of 2.2 per cent of the total (in terms of value). For the same period total Lebanese exports averaged around L.L.92,155,000 per year. Assuming that in the following few years Lebanese exports will maintain this average but undergo a change in composition with respect to countries of destination, and that Lebanon will export to the three Eastern countries the maximum, then exports to Eastern Europe (in terms of proportional value) will be raised roughly to over 19 per cent of the total. (Employing the same assumptions, imports in terms of proportional value would increase to over five per cent of the total). In reality, however, the agreements with the U.S.S.R. and East Germany have, up till now, been hardly put into effect. In 1954 Lebanese exports to each of the two latter countries were valued at L.L.126,000 and L.L.459,000 respectively compared with L.L.4.8

1 The Lebano-German agreement stipulated that whatever balance exists at the time of its expiration would be liquidated in the following six months, through normal trade channels. In case this was not possible, representatives of both parties would discuss the problem of liquidation. The Lebano-Soviet agreement specified that in case at the time the agreement expired, the party experiencing a debit was not able to liquidate it through exports during the following six months, it would have to be covered by "free exchange" converted into roubles or pounds as the case may be.

million worth of goods exported to Czekoslovakia. In other words the bilateral trade agreements concluded provided no guarantees pertaining to a minimum value of goods to be exchanged. Trade with Eastern Europe is still subject to the discretion of Lebanese private business firms.[1] With the exchange rate fixed, Lebanese importers and exporters, taken into account relative price structures in and outside Eastern Europe, would be solely directed by the profit motive. Hence whether, in fact, visible trade with the Eastern Bloc (in terms of proportional value) willincrease or not is still dependent upon existing price structures in the different foreign markets. It has been pointed out that among the advantages of the bilateral agreements under consideration, with respect to the Lebanese economy, is the fact that after the total and partial losses of the Palestinian and Syrian markets respectively, they have come to establish a guaranteed market for important Lebanese exports, namely fruits, provided, of course, Lebanon imported goods from the Eastern countries in roughly equal values. Moreover, imports from the Eastern bloc would mainly be industrial implements needed for purposes of economic development. On the other hand, fears have been expressed concerning the growth of bilateralism as a governing pattern of Lebanese foreign trade, especially if

1 Assuming that the initiative in trade expansion is not taken up by the East European countries.

minima levels, in terms of value, were set for the exchange of goods. Theoretically, many arguments have been put forward against and in favour of bilateralism. The validity of the cons and pros of bilateral trading methods is subject to the particular assumptions employed in the concrete cases under examination. In so far as the case we intend to study is limited to the interdependence between Lebanese foreign trade and economic development, such a problem has been left to Part III.

2. Other Trade Agreements

Out of the three other trade agreements signed by Lebanon during 1951-54 two were concluded with Western Germany on November 16, 1951 and June 13, 1954 respectively and one with Yougoslavia on July 28, 1953.[1] The latter was similar in certain respects to the ones with the Arab states, and contained the following main provisions:

a) Two lists were drawn up specifying Lebanese and Yougoslavian goods that may be traded between the two countries. (Yougoslavian export items included products of the animal kingdom, canned fish, cereals, fruits, liquors, ordinary minerals, pharmaceutical products, plastics, agricultural implements, etc. while Lebanese export items included fruits,

1 The time duration of the 1951 and 1953 agreements was limited to one year automatically renewable unless one of the contracting parties, at least three months prior to their expiration, wished to modify or terminate it. (For a text - in Arabic - see l'Economie Libanaise et Arabe, Nos. 6 and 7, April and June, 1952 and No. 26, June, 1954).

tobacco, textile products, iron ore, cement and its products, products made of ordinary metals and hides.

b) The MFN clause was accorded in connection with customs regulations and fees pertaining to export, import, transit trade and maritime. (On the other hand it did not cover privileges extended to neighbouring countries, secured through a customs union, or extended by Lebanon to Arab countries).

c) Settlement of payments, in any of the currencies agreed upon by exporters and importers, would be effected through authorized banks in accordance with existing regulations.[1]

The agreement signed with Germany in 1951 subjected the exchange of commodities between the two countries to existing regulations. However, whereas Lebanese imports from West Germany were unlimited, German agricultural and industrial imports from Lebanon were confined to a small variety of items and limited in terms of total value.[2] Settlement of payments was to be effected in dollars through two authorized banks - one in West Germany and the other in

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1 In addition the Yougoslavian Government took it upon itself to instruct Yougoslavian trading firms to import from Lebanon goods valued at sixty per cent of total Yougoslavian exports to Lebanon.

2 Lebanese agricultural products exported to West Germany were limited to a total value of $2,100,000; industrial goods had a limit of $1,180,000; while the total value of other various commodities could not exceed $22,000.

Lebanon, each opening an account in favour of the other party. Furthermore, the MFN clause covered customs fees, import and export licences, services extended to ships, and the establishment of foreign commercial concerns; again it was withheld with respect to privileges accorded to neighbouring countries or secured through a customs union and those extended by Lebanon to Arab countries.

On the other hand, the main purposes of the July 13, 1954 agreement was to facilitate the entrance of German capital into Lebanon to participate in the development of agricultural, industrial and other projects.[1] In addition, Lebanese exports to Germany were subjected to lesser restrictions having been divided into two parts:

1. Those that may be exported without any specific limitations as to quantity or value.

2. Those that would be subject to existing German import regulations.

The settlement of payments was no more confined to dollars only as the previous agreement stipulated but could be effected in any currency jointly agreed upon by those concerned.[2]

In spite of the limitations imposed, when the strict

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1 Duration of the agreement was limited to four years during which time the West German government would permit a maximum of sixty million Deutsch marks to be invested in the Lebanese economy.

2 For purposes of calculating customs duties on imports paid for in marks, the value of the latter, in terms of Lebanese pounds, was to be determined by the ratio of the fine gold content in each of the two currencies.

trade control existing in both Yougoslavia and West Germany is taken into account, it becomes clear that the provisions embodied in the agreements have been made to stimulate export and import activities between the contracting parties.

Figures show that the proportional value of Lebanese imports from West Germany have increased from 2.5 per cent of the total in 1951 to around 5 per cent in 1954; exports, during the same period, having increased from 0.2 per cent of the total to 2.3 per cent.[1] On the other hand imports from Yougoslavia during the period under consideration increased slightly (from 0.1 to 0.3 per cent) while exports, in terms of value, were very insignificant. Probably, among other factors, the two agreements have been responsible for the stimulation of visible trade noted above.

3. Visible Trade

Available foreign trade figures for the 1951-54 period reveal, more or less, the actual position of Lebanese trade with respect to European and other countries. As stated previously, however, comparisons with published data prior to 1950 may only be considered as a very rough approximation to reality. Table XVII below shows the relative importance of each of the blocs presently considered in connection with Lebanese visible trade.

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1 In absolute figures imports have increased from L.L.8.1 million in 1951 to around L.L.24 million in 1954, export increasing from L.L 253 thousand to L.L.2429 thousand.

TABLE XVII

LEBANESE IMPORTS AND EXPORTS WITH THE UNITED STATES AND WESTERN EUROPE, EASTERN EUROPE, AND OTHERS (EXCLUDING MEMBERS OF THE ARAB LEAGUE) 1951-1954

(In L.L.S. 1000)

Year	Bloc						Total for all Countries	
	U.S. & W.Europe		E. Europe		Others			
	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.
1951	172408	37837	6760	2718	49774	10872	320772	97655
1952	188114	19459	7779	1907	59842	18798	347049	77430
1953	181800	24490	5626	2079	50438	19688	361680	87710
1954	282183	27796	9056	2367	43698	29825	485124	105884
1951-54 a)	53%	29%	1.9%	2.8%	13.5%	21.2%	100%	100%

Source: Republique Libanaise, Ministere de l'Economie Nationale, Bulletin Statistique Trimestriel, Vol. II-V.

The United States and Western Europe supplied an average of 53 per cent of total imports (in terms of value) and absorbed an average of 29 per cent of total exports. On the import side the United States ranked first followed in order of importance (considering the averages for the whole period) by the United Kingdom, France, Germany, Italy, Belgium and Holland, etc., while on the export side, the United States

a) Annual average for 1951-54 as a proportion of the annual average total.

ranked first followed by France, United Kingdom, Italy, Belgium, Holland and West Germany, etc.[1] When compared with the average figures for 1935-38 and 1946-49 periods, it becomes apparent that the Lebanese imports from the West, in terms of proportional value, have acquired a roughly constant level.[2] Exports, on the other hand, have increased with respect to the immediate post-war years but seem to have either attained the pre-war level or kept somewhat below.

In the case of the Eastern bloc import averages for the two post-war periods reveals a slight increase. When compared with the pre-war period, however, a drop is clearly indicated. Exports to Eastern Europe, on the other hand, seem to have increased with respect to both the pre-war and first post-war periods.

Lastly a reference to the figures for other countries - viewed as a bloc - shows that whereas imports, in terms of proportional value, have decreased all through, exports have in fact assumed an opposite trend.

In the coming years the above relationships connecting Lebanese trade with the Western, Eastern and other

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1 Figures for the United States, France and United Kingdom in thousand Lebanese pounds were as follows:

	Imports				Exports			
	1951	1952	1953	1954	1951	1952	1953	1954
United States	56995	54827	51939	71765	22742	6907	4605	6267
France	38278	33837	32749	38915	3141	3666	9785	4447
United Kingdom	30845	38333	34466	87100	2584	4279	4346	4220

2. Assuming that half of the imports prior to 1950 were from to Lebanon alone.

countries will probably be subject to several alterations. The process of economic and social development in Lebanon will not only alter the composition of traded goods and commodities but create a shift in the relative importance of the foreign markets. Obviously it would be difficult to predict the exact changes to be expected. However, the problem we are confronted with does not relate to the solution of the above difficulty but simply to certain aspects of the inter-connections between Lebanese foreign trade and economic development which we shall shortly touch upon.

SUMMARY OF PART II

Part II has been devoted to a descriptive analysis of Lebanon's trade relations and agreements with other countries revealing certain trends in Lebanese commercial policy.

1. Fundamentally, the adoption of a relatively free trade policy on the part of the Lebanese authorities, previously exposed, is further stressed in the review of Syro-Lebanese economic relationships presented in chapter four. The above policy was taken to be a major issue leading to the dissolution of the customs union between Syria and Lebanon and clearly indicating Lebanon's stand with respect to economic policies. Thus if a closer economic integration is to be advocated between the two countries, Lebanon may not be induced to take such a step at a great sacrifice of its liberal trade policy in favor of strict protectionism which characterizes, more or less, the Syrian commercial policy. Whether economic union with Syria is beneficial or not depends upon the mechanism through which it is to be effected. On the other hand, because of the close interdependence between the Syrian and Lebanese markets, a wider economic cooperation between the two states - achieved independently or through the means of the Arab League - may be taken as an important objective to be attained.

Further the brief discussion of the Franco-Lebanese agreement concluded in 1948 draws attention to the gradual liquidation of French control over Lebanese exchange activities - an act which has made possible the pursuit of a relatively free commercial policy.

2. The drive on the part of Lebanon to strengthen its economic ties with members of the Arab League manifested itself in the bilateral and multilateral treaties recently concluded between the two parties. The Arab economic treaty was considered as a first step towards a closer economic cooperation among the Arab countries probably leading, in the future, to a regional integration of the Arab east. The economic benefits of integration in general and with respect to the Lebanese economy in particular will be analyzed in the coming two chapters.

Other treaties concluded between Lebanon and the Arab states (with the exception of Jordan) are not very effective in stimulating trade activity between the contracting parties. In the absence of a preferential treatment capital transfers and exchange of goods are still subject to existing regulations. Probably emphasis on the principle of cooperation is more likely to assume a multilateral character - effected through the mechanism of the League - than a bilateral one.

3. The appearance of limited bilateralism. This pertains to the economic relations between Lebanon and Eastern Europe. The benefits, if any, that may possible accrue from limited bilateral methods will be taken up in Part III. Lebanon's agreements with Yougoslavia and Western Germany simply facilitate trade between the two parties. That with Germany, in addition,

permits, within certain limits, the inflow of German capital into Lebanon. The real significance of this point will be discussed later.

4. Although an attempt was made to trace developments in the relative importance of Lebanon's exports and import markets (with respect to the four blocs that were considered), the results that were obtained are, as previously stated, very rough approximations to reality. They cannot be taken as an appropriate basis to indicate post-war trends in terms of statistical data. Their inclusion was mainly to provide a very rough comparison relating to Lebanon's dependence upon foreign markets in the pre-war and post-war years and to explain some of the possible reasons lying behind certain apparent trends. The actual relative importance of the different Lebanese export and import markets may be based on the statistical data available for the years 1951-1954.

The above points, in addition to those already referred to in the summary of Part I, will receive a big emphasis in the discussion of the inter-connections between post-war Lebanese foreign trade and economic development. It may be advisable to repeat at this stage of the analysis that although very few definite and clear cut conclusions will be arrived in Part III, a fundamental thesis underlying the coming analysis is the idea of a balance between a generally free and restricted trade. Whereas the characteristics of post-war Lebanese trade favour, on the whole, the case for a free multilateral trade, particular deviations from the above principle may be desirable, with the existence of certain conditions, in the interests of economic growth. To such a problem we shall now turn.

PART III

POST-WAR LEBANESE FOREIGN TRADE AND ECONOMIC DEVELOPMENT

CHAPTER VII

INTERNATIONAL TRADE AND ECONOMIC DEVELOPMENT

I. INTRODUCTION

The first two parts of the dissertation have been devoted to a descriptive analysis of Lebanon foreign trade, providing a background to any possible discussion of the inter-connections between the Lebanese foreign trade sector and economic development. We shall attempt in Part III to reveal what those inter-connections are by dividing it into two chapters: The first (i.e. the present) sets forth the theoretical inter-relations existing between international trade and economic growth, having made th latter dependent, for purposes of simplification, mainly on capital formation and acquisition. However, in sub-section C (of section III), which pertains to an analysis of desirable commercial policies, two particular cases have been chosen that are most closely related to the post-war pattern of Lebanese foreign trade, namely:

1. The protection of infant industries, and
2. Bilateral Trading methods.

In section IV a brief discussion of regional integration has been presented, having had in mind the first steps of economic cooperation achieved by members of the Arab League.

With the present chapter's exposition as a basis of analysis, it has been attempted in the coming chapter (i.e. Chapter VIII) to relate the discussion of the first two parts with that of the present one. To achieve such a purpose Chapter VIII has been divided into four main sections:

1. Post-war Lebanese economy and foreign trade.

2. Brief review of the characteristics and trends of post-war Lebanese foreign trade.

3. Lebanese foreign trade and the possibilities for raising the income level and capital acquisition.

4. Integration among members of the Arab League.

It could only be noted, in this connection that the welding of parts I and II with the first Chapter of Part III suffers from a number of limitations. Nevertheless it is hoped that it does reveal certain aspects of the inter-connections between post-war Lebanese foreign trade and economic progress.

II. CONCEPT OF ECONOMIC DEVELOPMENT

Probably there exists no uniformity of opinion as to the various characteristics of economic underdevelopment. However it is more or less agreed that the process of economic growth manifests itself in an increase in real national income. To initiate such a process a number of obstacles - low productivity functions, unfavourable conditions in foreign trade, population growth, scarcity of capital, etc. - have to be overcome.[1]

1 See J. Viner, International Trade and Economic Development (Oxford. Clarendon Press. 1953). pp. 102-120.

For purposes of simplification the problem of capital formation and acquisition shall be isolated and treated as the main factor leading to economic growth. Furthermore it shall also be assumed that the latter phenomenon is always accompanied by a certain amount of "industrialization" even in countries which are primarily agricultural. Justification for the above two assumptions may be found in the economic development of the developed and developing areas of the world.

J. Viner has defined an underdeveloped country as one "which has good potential prospects for using more capital or more labour or more available natural resources, or all of these, to support its present population on a higher level of living, or if its per capita income level is already high, to support a larger population on a not lower level of living."[1] If underdeveloped countries with low per capita income were to exploit the above mentioned prospects, the question arises: What effects would this have on the structure of their economies? The decline in the relative importance assumed by the agricultural sector in contrast with the rising role played by secondary and tertiary industries provides a well known answer.[2] But such a problem lies outside the scope of our present analysis which shall be mainly restricted to the services that the foreign trade sector

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1 Ibid., p.98.

2 See Colin Clark, The Conditions of Economic Progress (London, Macmillan and Co. Ltd., 1951).

may render, through its help in capital formation and acquisition, in the over-all development of underdeveloped countries, touching lightly upon the effects of economic growth on the pattern of foreign trade.

III. ECONOMIC DEVELOPMENT, FOREIGN TRADE, AND CAPITAL FORMATION AND ACQUISITION

A. Economic Development and Pattern of Foreign Trade

A subsistence economy with little contact with the outside world faces no problem of international activities; the insignificant volume of foreign trade it practices is based on an equality between merchandise exports and imports. As economic progress takes place, through the application of capital, export industries are stimulated, exports consisting mostly of raw materials, which are exchanged for manufactures products. With rising incomes imports become more diversified ranging all the way from capital imports to complex consumers' goods. Gradually products of local industries replace similar imported goods. This pertains mainly to the production of matches, salt, clothes, shoes - industries which most easily respond to the law of comparative advantage or disatvantage. Actually economic development leads to a greater volume of exports as well as imports on the part of developing countries due to a greater specialization in the various lines of production alongside a rising level of real income that tend to widen trade channels. Such changes are reflected both in the balance of trade as well as the balance of current payments. It is, however, the latter which, on the whole, may reveal broad characteristics parallel to the process of economic development. The following classification has been suggested as a probable correlation between the current account and economic progress:[1]

Stage	Balance of Indebtedness	Balance of Payments On Current Account
1	Young debtor	Passive
2	Adult debtor	Balanced
3	Old debtor	Active
4	Young creditor	Active
5	Adult creditor	Balanced
6	Old creditor	Passive

In other words an underdeveloped country starts by being a debtor borrowing from abroad with its current account running a deficit. Later on, it is able to repay loans advanced to it, having achieved an active account while the opposite takes place with respect to the creditor nations, reaching a stage of stagnation & capital consumption. As long as developing areas witness an excess of investment opportunities in relation to the domestic capital formation available, an import surplus will be a normal consequence. At a later stage when exports exceed imports domestic savings must outrun opportunities for investment within.[2]

This is a broad outline of probable changes in the balance of payments of developing countries covering a very long period of time. The point to be stressed, however, is the apparent need

1 It is taken from C.P. Kindleberger, International Economics (Homewood, Richard D. Irwin, Inc., 1953), p. 368.

2 Ibid., p. 370.

of underdeveloped countries for capital inflow in order to further stimulate the process of economic growth. The low level of productivity in the markets of the underdeveloped areas, and as a consequence the low level of income with no margin left over for saving and hence for investment, is an obstacle which has to be overcome if any development is to be initiated, especially when the need for a synchronized application of capital to a wide range of different industries to achieve what Prof. Nurkse calls a balanced growth, is considered.[1] We shall deal with this problem at a later stage of the present analysis.

More specifically economic development accompanied with industrialization will have the following effects on trade:[2]

1. The demand for manufactures articles particularly industrial machinery will increase. This will tend to stimulate export industries (of raw material and primary goods) in order to pay for the increase in imports.

2. Countries that face a short supply of foreign exchange will tend to shift from the importation of manufactured articles to foodstuffs and industrial raw material.

3. As industrialization proceeds imports of manifactures as well as of consumers' goods will increase due to

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1 See R. Nurkse, "Some International Aspects of the Problem of Economic Development", American Economic Review, May, 1952, Vol. XLII.

2 See A.J. Brown, Industrialization and Trade (London, Oxford University Press, 1943), pp. 46-47 and League of Nations, Industrialization and Foreign Trade (1945), pp. 77-78.

increased income and specialization. At the same time exports of manufactured articles will expand, with a tendency towards greater specialization.

The fear that as certain countries develop and industrialize international trade becomes of lesser importance is not justified. In the absence of deterring factors increased specialization and income will stimulate the exchange of industrial and other goods reflecting the principle that "with industrial progress of a country its capacity to import industrial goods increases."[1]

In fact statistical data tend to confirm this conclusion, showing that economic development leads to a widening of trade with the rest of the world. Staley has put it in the following manner: "It is a common error to suppose that economic development which increases the ability of a country to carry on modern industrial processes must ordinarily lead to a decrease in its imports of manufactures goods. By and large, just the opposite has been true in the past. Of course, the new and more diversified production of the developing country does replace some goods formerly imported. But rising incomes make it possible to buy other kinds of goods abroad that the people of the developing country have not been able to enjoy before. Also, imports of equipment and repairs of industrial plants and uti-

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1 See C. Bresciani - Turroni, Economic Policy For the Thinking Man (London, William Hodge & Company, Ltd., 1950), p.201.

lities are likely to increase while the development of a new type of international specialization by stages of manufacture is likely to show itself in rising imports of partly finished 'semi-manufactures'".[1] Obviously, the pattern of trade of the different countries is affected differently. What has been outlined applies only in a broad sense.

B. Economic Development and Advantages of Foreign Trade

There is a wide disparity between the process and nature of economic growth in a closed and open economy, the latter having its disposal greater opportunities for development. Probably it would be almost impossible for most countries to progress with complete isolation from the rest of the world. Once the pre-requisites for economic development are brought out to the surface, it becomes apparent how much cooperation among countries, in way of trade, would facilitate and help initiate it. The existence of capital equipment - whose relative scarcity in underdeveloped areas is apparent when contrasted with the more advanced countries - has been taken to be the backbone of any possible development. To be able to acquire capital, the community needs, in the aggregate, to save. The proportion of income generated which could be saved is dependent upon the level of income - the higher it is, the bigger the proportion. Once savings have been given rise to, they need to be channelled into the appropriate

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1 See E. Staley, World Economic Development (London, P.S. King and Starples, Ltd., 1944), p.

investment projects - an act which in a free enterprise economy is carried out by entrepreneurs. The bigger the volume of investment the higher the income of the community and hence the higher the level of saving, etc. Without going into the complexities of the problem it is obvious that the relatively low level of income in underdeveloped areas could hardly be dependent upon to stimulate a process of economic development on a wide scale. (Naturally, other factors, as important, ought to be taken into consideratio when development projects are being laid down. But we shall, as already mentioned, try to isolate and deal only with the problem of capital formation and acquisition). It is well known that underdeveloped countries rely for the bulk of their manufactured articles on the more advanced areas, having been able to enjoy such an advantage only through the mechanism of international trade. The exchange of primary and agricultural products against manifactured and other complex consumers' goods reflects the principle of comparative advantage on the one hand and the level of economic and social development on the other. If an underdeveloped agricultural economy were to isolate itself, what would it do with its surplus produce? How would it acquire all those goods it needs for purposes of development ? One advantage, then, of international trade for underdeveloped economics is that it enables them to complement an otherwise incomplete industrial or agricultural sector & permits their citizens to have a wider choice of consumers' and durable goods. It follows directly that only through international trade does the financing of needed capital equipment become possible. Capital imports (assuming a constant level of income) would, of course, demand a decrease in the level of present consumption. They entail a change in the composition of the underdeveloped country's pattern of imports and investment for purposes of development which could only be attempted through the means of foreign trade. In a sense the basic advantage of international trade reveals itself in the ability of most underdeveloped areas to acquire needed equipment that, otherwise, they would either have to forego or incur great costs to produce which even if possible in the long run, would raise a number of grave difficulties. On the other hand why should the benefits arising from specialization induced by international trade and technical advance achieved by the more developed areas be disregarded?

We have been up till now tacitly assuming that inspite of the relatively low level of income in underdeveloped economies it is possible to save through a decreased level of consumption in order to finance investment in capital goods (imported). The question that now arises is: Does international trade help in stimulating and raising the level of saving? That is, given the local economic and social conditions, would trade help to raise the income level? The answer has already been provided by the classicists who saw in division of labour a better method for raising income and the standard of living. The theory of comparative advantage also demands specialization among nations in accordance with relative factor endowment. This tends to equalize factor prices, resulting in a more efficient distribution of resources - one of the important pre-requisites to an increase in living standards.[1] Hence in so far as international trade increases income, it increases the ability to save, i.e., the ability to invest & acquire capital for purposes of development.

A third advantage is that it permits the international borrowing and inflow of foreign capital, both of which would speed up capital formation, make for a longer range for development projects, reduce inflation and balance of payments pressure.[2] The problem of foreign capital shall be dealt with in section D.

The foregoing, it is believed, are the three main advantages of foreign trade with respect to the economic growth of underdeveloped areas - advantages that embody a great stimulus to progress.

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1 See J.N. Froomkin, "The Migration of Capital, People and Technology", Williamson, ed., Economic Development: Principles and Patterns (N.Y., Prentice-Hall, Inc., 1954), p. 279.

2 Cf.H.W. Singer, "Development Projects as Part of National Development Programs", Formulation and Economic Appraisal OF Development Projects (U.N., 1950), pp. 102-106.

C. Economic Development and Commercial Policy

The effects of any commercial policy adopted by a country are subject to prevailing economic conditions. In underdeveloped areas these are usually characterized with (1) a small capital investment per capita (2) inelasticities of demand and supply due mainly to the immobility and inflexibility of the factors of production (3) underemployment of resources especially labour.[1] As a consequence, a number of problems face governments that are laying plans for development projects - to mention only few: capital formation, inflation, employment, balance of payments' adjustments etc. To be able to arrive at an understanding of the role played by certain aspects of commercial policy in helping to form and acquire local capital, it shall be assumed, for the present, that no foreign borrowing takes place and that as a country develops the above mentioned difficulties become less acute.

Three types of policy shall be considered: proctectionism, trade bilateralism, and regional integration. The latter shall be dealt with briefly under a separate section. Before proceeding in our analysis, however, there are two particular sets of problems which would be convenient to consider immediately: the so-called "demonstration effect"[2] and the terms of trade.

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1 See J.N. Froomkin, op.cit., p. 285.

2 For a discussion of the "demonstration effect" see R. Nurkse, Problems of Capital Formation in Underdeveloped Countries (Oxford, Basil Blackwell, 1953), pp. 67-70.

"Demonstration effect" is based on the imitation of the rich by the poor. Just as within a country many of the low income groups try to live in a similar manner as those earning a higher income, so among countries, with the spread of transportation facilities, television, radio and cinema, etc., different peoples are coming to possess a wider knowledge about the standard of living outside their own borders. Poorer nations are tempted to follow in the footsteps of the richer ones, which, in itself, may raise an obstacle in the face of capital formation. In so far as the latter is dependent upon the level of saving, the "demonstration effect" tends, given a certain amount of income, to cut it down. That is consumption would be increased at the expense of saving, deterring the possibilities for capital acquisition. Thus, looked at from this point of view, "a higher income and consumption level in an advanced country can do harm in that it tends to reduce the domestic means of capital formation in the underdeveloped countries; it puts extra pressure on countries with a relatively low income to spend a higher proportion of it."[1] On the other hand the advantages accruing to underdeveloped areas from the higher income level in developed countries much more than out-weighs any disadvantages.

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1 Ibid., p. 68.

In other words developed areas are potential buyers, potential capital lenders, suppliers of needed industrial products and technical training etc... all of which are basic stimulants to economic progress in less developed countries. What is to be noted, however, is that the possibility of the "demonstration effect" constitutes one argument for the limitation of luxury imports (what may be considered as luxury in the eyes of the importing country) either through tariff walls or import quotas.

On the other hand, it has often been pointed out that a favourable development in the underdeveloped country's terms of trade may be utilized to finance capital imports. This, of course, pre-supposes that "historically" the terms of trade have not necessarily moved or are moving against underdeveloped areas in favour of the more industrialized ones.[1] Let us assume that with a rise in the export prices of an underdeveloped country a large amount of additional foreign exchange proceeds becomes available as a consequence. This will probably lead to a higher level of spending on home and produced goods. If home supply, as would be expected, is inelastic, higher prices may result accentuating the tendency for imports - which need not be capital equipment - to rise and turning the terms of trade against the underdeveloped area. Hence, a favourable change in the terms of trade cannot be relied upon as a source

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1 J. Viner, op.cit.

of capital acquisition unless first the Government resorted to public finance techniques in order to channel the additional foreign exchange carried into development projects and second the favourable change was persistent for a long period of time.

1. Infant Protection

Although the term protectionism covers usually tariffs, quotas, prohibitions and other devices each of which may have its own particular effects on prices and income distribution of the protected economy, no distinction shall be made with respect to any one of them. The analysis shall be carried out in a broad sense geared towards one objective namely: could the protection of infant industries - mainly through the establishment of tariff walls - contribute to economic development in way of raising the level of income in the underdeveloped countries? If it is assumed that such a protection leads to a bigger volume of employment and national income than otherwise, then clearly such a step would benefit the developing country. A higher level of income means a wider possibility for a bigger volume of saving and consequently a greater possibility for capital formation and acquisition.[1]

Many underdeveloped countries favouring protectionism have viewed it as a source of revenue but equally important, if not more so, as a means to encourage infant industries,

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1 Tariffs, have been used for various purposes (other than revenue) by different countries. Arguments for protectionism to protect wage level and standard of living, to keep money at home, to equalize costs of production, to improve the terms of trade, to bargain and retaliate, to encourage decreasing-cost industries and discourage increasing-cost

to increase employment, and generally to develop the productive powers of the country. It is interesting to note that economists agree on the theoretical validity of the infant industry approach provided the tariff is intended for a temporary period and the protected industries prove suitable to the productive facilities of the country so that eventually they would be able to stand foreign competition.[1] Let us assume, in this connection, that tariffs have been imposed to protect those industries which, it is believed, are suitable to the productive capacities of the developing area. An immediate disadvantage of such an act may show itself in a rise in the price of the protected goods, constituting a loss to the consumers. On the other hand, protection would lead to a stimulation of

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industries, to establish industries essential to national defense, etc. - a number of which relate mainly to the so-called interests of the more advanced countries - have often been used by advocates of protectionism. Free traders have, in turn, either put forward counter arguments or exposed the fallacies of the arguments advanced by protectionists. (See, for example, L.W. Towle, International Trade and Commercial Policy (N.Y., Harper and Brothers Publishers, 1947), pp. 271-332.)

1 See, for example, F.W. Taussig, Some Aspects of the Tariff Question (Cambridge, Harvard University Press, 1929), pp. 18-30; P.T. Ellsworth, The International Economy (N.Y.: The Macmillan Company, 1950), pp. 363-402; and Kindleberger, op.cit., pp. 181-206.

production and investment and consequently a decrease in involuntary unemployment which may be taken to be usually existing in underdeveloped areas. Whether or not employment in the export industries will suffer as a consequence is a problem that cannot be predicted. It all depends upon what goods (local and foreign) the increased income is being spent. There are three cases to be considered:

1. Assuming that the newly generated income, in addition to that part of the national income previously spent on replaced imports, was totally spent on the goods of the export industries, then employment and total income would obviously have increased. This, moreover, would probably more than compensate for the temporary loss due to higher prices.

2. If the new income were saved, net gain in employment and income would depend upon how adversely the export industries had been hit. However, such an act of saving may be paralleled (due to encouragement) by the Government, for example) by the importation of new machinery from the same countries whose imports have been replaced by the protected industries, constituting a productive investment and a gain to the country.

3. Usually the newly generated income would be partly saved and partly spent on domestic and other imported goods. Again the result would probably be a net gain in income and employment particularly if inducements by the Government were exercised in the proper manner. That is if both savings and income spent on imports were directed towards the objective of capital acquisition.

It is obvious, from the foregoing, that a proper utilization of tariffs for purposes of development - in that they lead to a net gain in employment and income - is closely associated with the existence of two necessary assumptions: First, export industries are not adversely affected to any appreciable extent. This is possible to visualize if the decrease in the import of the protected commodities were partially offset by increased purchases of capital goods from abroad.[1] Second, the loss due to a rise in the prices of the protected goods is confined to a short-run period so that, in fact, it is more than compensated by increased employment and income.[2]

A basic problem of underdeveloped areas has been taken to be that of capital formation and acquisition. The low productivity and income prevailing is a great obstacle to the accumulation of savings and the possibilities of investment in capital goods industries. If the underdeveloped areas possess the necessary facilities for certain aspects of industrialization, protection of infant industries, with the existence of the above assumptions, help towards solving the problem of capital acquisition. The net increase in employment and income generated by the protected industries would provide a higher level of saving - the essence of any possible investment.

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1 More specifically from those same countries that formerly supplied the now protected goods.

2 In other words, increased efficiency on the part of the protected industries will lead to lower prices.

On different grounds a restriction of luxury imports may be advocated. A reference to the "demonstration effect" has already been made. Furthermore, the demand for luxuries is, on the whole, elastic, a rise in their prices leading to a relatively substantial reduction in the amounts spent on them. A large part of this unspent income would most probably be saved, constituting another source for the financing of capital goods. Again we are entering the realm of public finance, but as Prof. R. Nurkse has said, "it is only with a complementary domestic policy of voluntary or cumpulsory saving, in which public finance must probably play a vital part, that luxury import restriction can make a fully effective net contribution to the supply of capital in the form of imported equipment."[1]

Historically tariffs have not only been used for protective but revenue purposes as well. Present-day developed areas still use them as a weapon to achieve a variety of objectives. As such their existence may hamper the realization, on the part of the world, of the full advantages of free specialization in accordance with factor endowments. However, in so far as underdeveloped areas have lagged behind in their economic progress due to many non-economic factors and specialization among nations has been, to an extent, a

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1 R. Nurkse, op.cit., p. 116.

matter of historical accident,[1] a case for protective tariffs may be established as long as they help in speeding economic and industrial development. Nevertheless, for those countries that depend to a large degree on their foreign trade sector, great care must be taken in the enactment of tariff walls, for the advantages accruing from a free foreign exchange and trade sectors would, on the whole, more than outweigh any advantages secured through a generally strict protectionist policy.

2. Trade Bilateralism

A definition of bilateralism has already been given bearing the main characteristic that the value of exports and imports between the two contracting parties would have a predetermined quantitative ratio usually tending to unity. Such an arrangement may or may not include invisible items and may or may not have a maxima or minima limits for the exchange of goods. Irrespective of the particular clauses embodied in any one single bilateral agreement, its unavoidable restrictiveness in matters relating to trade activity is obvious. This could be clearly contrasted with the case for a free multilateral trade which rests at bottom on the efficiency of the price system - an efficiency secured through an unhampered specialization among nations in accordance with factor endowments. On theoretical grounds the case for free trade is very strong

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1 T. De Scitovszky, "A Reconsideration of the Theory of Tariffs", Readings in the Theory of International Trade (London, George Allen And Unwin Ltd., 1950) p. 386.

particularly when the implicit disadvantages of bilateralism are exposed. These may be summarized as follows:

a) "Reduction (for the traders concerned) in the volume of profitability of foreign trade over what would be realized for them collectively with free multilateral trade. This follows from the fact that exporters in each country are no longer free to sell in the best market but must sell to those countries which buy enough from the home country to give the exporters an opportunity of receiving payments."[1]

b) Reduction in the volume of trade may follow if practical considerations require omission of certain items from the clearing process.

c) Resort to artificial exchange rates will be necessary to achieve a balance in trade.

d) In a general manner it tends to reduce the efficiencies secured through unhampered free trade.

On the other hand, advocates of bilateralism - mainly the exchange clearing system - have put forward a number of arguments which may be summarized in the words of Paul Enzig as follows:[2]

a) "It enables financially weak debtor countries to buy from each other and from financially strong countries."

b) "It tends to reduce obstacles to foreign (such as exchange restrictions, quotas, prohibitive tariffs and import embargoes".

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1 H.S. Ellis, "Bilateralism and the Future of International Trade", Readings in the Theory of International Trade, (London, George Allen And Unwin Ltd., 1950), p. 417.

2 P. Enzig, Exchange Control (London, Macmillan and Co., Ltd.,

c) "It facilitates the payment of old external debts in the form of exports to the creditor countries".

d) "It tends to increase foreign trade by balancing imports and exports between the two countries in an upward direction".

e) "Above all, it creates a more conciliatory spirit between Governments in their international commercial relations", etc.

Other than the fact that the arguments against bilateralism seem to establish a stronger case than those for it, the latter suffer from a number of shortcomings which we shall not go into. It shall be held that, on the whole, free multilateral trade produces the most efficient result. On the other hand there are several important qualifications to take into account. The above listed cons and pros of bilateral trading methods mainly view or evaluate bilateralism in so far as it is an alternative system to multilateralism. However, a country that conducts its foreign trade on a multilateral basis may find it suitable - with the existence of particular conditions - to divert a small fraction of its trade towards bilateral channels. That, in present world conditions, certain aspects of bilateralism may favour economic development does not seem to be an unrealistic probality. International trade activities have been and still are far from what the logic of the free multilateral trade principle dictates. Two points in this connection are worth stressing: First, the case for free multilateral trade is essentially a static one, tastes and technology being taken as unchanged. When dynamic factors leading to economic growth are taken into account - changes in demand, new inventions, new technology, changing terms of trade, cyclical risks, etc. - it is seen that specialization in accordance with the static principle of free trade not only becomes liable to alteration to suit new conditions so that maximum efficiency is maintained but certain intervention with the price mechanism may be necessary.[1] Furthermore, if it is accepted that present day international specialization has come to be, to a large extent, the result not of factor endowment but historical accidents and military and political subordination, then, obviously, it does not yield maximum welfare and income to the world as a whole. Viewed as such interferences on the part of underdeveloped countries in the free play of international market forces may, if appropriately carried out, be beneficial to economic growth.

Underdeveloped countries are in need of capital which could be secured through foreign exchange earnings in the foreign trade sector. This is why it has often been noted that special stress should be given to the development of such industries whose produce can be expected to be marketed outside.[2]

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1 Kindleberger, op.cit., pp. 275-276

2 See, for example, K. Mandlebaum, The Industrialization of Backward Areas (Oxford, Basil Blackwell, 1947), pp. 9-10, and B.A. Rahmer, "Note on 'the Industrialization of Backward Areas'", Economic Journal, LVI (1946), pp. 659.

But because of the relatively small influence underdeveloped areas have on the magnitude of world trade, the chance of stimulating their exports through increased imports from their large trading partners does not seem very likely. Consequently, the appearance on their part of a tendency favouring the conclusion of bilateral trading arrangements is not surprising.[1] Furthermore, bilateral methods have, at times, played a significant role in a world witnessing the existence of exchange controls, import quotas, tariffs, discrimination, etc. One vivid example are the various bilateral trade agreements that were concluded in postwar Europe, making possible an exchange of goods that would not otherwise have taken place.[2]

It should not be understood from the preceding that bilateralism is being advocated as a better alternative to a free multilateral trade system. Whether or not bilateral trading methods are to be advocated depends upon the particular case under examination.[3] In a world where specialization in

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1 See H.C. Wallich "Underdeveloped Countries and the International Monetary Mechanism", <u>Money, Trade & Economic Growth</u> (N.Y., The Macmillan Company, 1951), p. 20.

2 See W. Diebold, Jr., <u>Trade and Payments in Western Europe</u> (N.Y., Harper and Brothers, 1952), p. 19.

3 For example, an expansion of trade relations with state controlled economies would most probably have to be conducted on a bilateral basis.

accordance with factor endowments partially exists, and thus its full benefits are only partly acquired by the countries of the world, alongside the specific conditions of underdeveloped areas and their relative unimportance in world trade, the latter may be able through the conclusion of particular trade agreements - to obtain needed capital equipment - contribute favourably towards economic progress. The loss that is to be incurred because of the restrictive nature of bilateralism may be more than compensated by the gain obtained if capital becomes available at suitable terms.

The foregoing analysis has been carried out with the assumption that development projects have been formulated so that an intended change in the composition of foreign trade in favour of capital imports becomes possible at the hands of private importers. Whereas the contribution of infant industry protection to economic development is manifested in a rise of real income, that of bilateral agreements is directly confined to a stimulation of exports and an intended change in the composition of imports in favour of capital acquisition (implying either a temporary cut in the consumption level of the community concerned or keeping it the same while diverting any increase in saving that may take place towards capital imports), but indirectly it clearly contributes towards the raising of income level.

Obviously a change in the composition of imports in favour of capital goods may be induced without resort to bilateral methods. True, but ignoring for the moment the benefits of free trade, bilateral agreements guarantee a market for marketable exports of the underdeveloped country which are the major source of its foreign exchange.

On the other hand, such an approach should be adopted only if a clear gain for purposes of development is possible, and, then, only on a limited scale in so far as its advantages outweigh its disadvantages. If carried too far it might prove to be more detrimental than beneficial. As long as practice differs from theory, justification for a little deviation from the principle of a free multilateral trade in the interests of economic development could be desirable. In an over-all picture, however, there is no better alternative - particularly for small underdeveloped countries depending heavily upon foreign trade - for a free trade system inspite of any rigidities it may embody.

D. Economic Development and Foreign Capital

The analysis in the previous sub-section explored the possibilities of capital acquisition through the foreign trade sector without direct resort to borrowing or an inflow of foreign capital. Accessibility to foreign funds, however, has been taken to be one of the three main advantages accruing to underdeveloped areas from international trade.

Two points, in this connection, need to be settled. First, assuming that foreign capital is available, what type (i.e. private or government) should be mainly resorted to for purposes of development projects? Second, assuming that the first question has been settled, to what extent should underdeveloped countries rely on foreign capital? The answer to the first question depends upon the advantages and disadvantages of private capital inflow and governmental loans respectively. The advantages are clear and may be considered as common to both sources. In brief,

1. They help the developing country to maintain either the same or a rising level of consumption without foregoing the possibilities of increased savings & investments. This, in other words, helps to ease the difficulties that have to be faced in the process of economic development.

2. They inevitably add to the capital stock of the country.

3. They increase directly or indirectly the level of income and hence the level of savings.

Thus the comparison between the two types of foreign funds resolves itself into an exposition of the difficulties each promulgates with respect to the economies of the underdeveloped areas. Considering foreign private investments it is seen that in the past they have tended to shy away from industries working for the domestic market. The greater part of the funds has been invested in oil properties, public utilities, banks, plantations, and other extractive industries.[1] This may be contrasted with the pattern of foreign investment in developed areas where the larger part of the funds seems to be invested in industries working for the local market. The following table is a good indication of such tendencies:

Table XVIII

Percentage Distribution of U.S. Direct Investment in 1948

	Underdeveloped Countries	Developed Countries
Extractive Industries	59	23
Manufacturing and Distribution	22	59
Public Utilities	16	7
Miscellaneous	3	11
	100	100

Source: R. Nurkse, Problem of Capital Formation in Underdeveloped Countries (Oxford, Basil Blackwell, 1953), p. 84.

Two sets of reasons lie behind the above pattern with respect to underdeveloped countries:

1. The low productivity and low income level of local consumers does not furnish an attraction for foreign capital. The demand in the local market which is ultimately depended upon

1 See League of Nations, loc.cit., pp. 66-67; Froomkin, op.cit., p. 291; Nurkse, op.cit., p. 24.

the level of productivity is not very effective in inducing foreign investors to produce for local consumption.

2. In so far as the orientation of foreign investment is partly determined by the transfer capacity (transfer of debt service payments abroad), export industries and public utilities - activities that stimulate exports of the developing country - will be favoured by private foreign investors.

Without denying that the type of investment under consideration may be beneficial one way or another, nevertheless it constitutes a difficulty if underdeveloped countries are interested in a different kind of investment pattern for purposes of economic development. Governments cannot coerce private investors to invest in specific lines of production. As long as extractive industries are the main attraction, this is where foreign private funds will flow. Although strings may be attached to Government lending, still the borrowing country would have a greater freedom in speeding up desired development projects. On the other hand, in the case of private investment, taken in the aggregate, there is no need for the principal to be repaid. That is, foreign investors, considered as a group, regard their investment, whether domestic or foreign, more or less as permanent. Thus the service of debt is limited to interest and dividends only. When the lender is Government not only payment of interest but repayment of principal will be required.[1]

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1 This would also apply to international institutions such as the International Bank for Reconstruction and Development.

Furthermore, Government lending may not be free of political considerations which an underdeveloped country will have to face.

The above exposition of the difficulties attached to private capital inflow and government lending fade out when compared to the numerous advantages secured as a consequence. If both sources are available to the same extent, it shall be assumed that such a problem of choice will be dealt with differently by the different Governments in the light of economic and other interests.

Turning to the second question, the principal factors which determine to what extent a country can finance its development projects, and hence to what extent foreign aid is needed, are:

1. Per-capita national product. The larger the output per head, the more can be used for investment.

2. Distributional pattern of income. The more unequal it is, the bigger the possible volume of saving.

3. "Collective attitudes with respect to the relation between income and consumption on the one hand and between the level of consumption (or income) and the supply of labor (and efficiency of labor) on the other. These attitudes are deeply rooted in tradition, customary living standards, national character, climate, labor movement, etc."[1]

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1 G. Haberler, "Some Economic Problems of the European Recovery Program", American Economic Review, Vol. XXXVIII, September 1948, pp. 497-99.

4. Pattern of economic policy followed by the Government.

Obviously the relative amounts needed by the various developing areas depend upon the extent of the development projects to be executed per unit of time, while the share of local funds is conditioned by the contribution that may be attributed to the above four factors. It has been noted, however, that basically local capital should bear the major burden of development programs. When the assumption embodied in the first question (i.e., availability of foreign capital) is relaxed, stress on domestic sources becomes more vivid. Adding to the present-day reluctance of private capital to go abroad (due to political and economic risks) the spread of national planninhg, the growth of national debt and thus the feeling of poverty on the part of Governments, the unhappy experience of Government lending, and the small number of potential lenders in contrast to the great number of potential borrowers, then as J. Viner said it becomes "unrealistic for underdeveloped countries to place major reliance on foreign investment in their territories as an aid to their economic development."[1] Even when such practical considerations are disregarded, there still exists the necessity of avoiding the creation of an excessive foreign exchange burden in servicing foreign debt and

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1 J. Viner, op.cit., p.

the danger that a relatively large portion of outside investment may lead to the foreign domination of the country's economy.[1] Therefore, it shall be assumed that once all these problems have been taken into account, Governments of underdeveloped areas will come to possess a clearer picture as to what degree development projects may be financed with the help of foreign aid.

If once again availability of foreign capital is presumed, a third question arises: What direction should investment financed by foreign capital assume? There are two consequences resulting from the act of financing development projects with foreign funds. First, real income in the borrowing country rises and second, there arises the problem of debt service and eventual repayment. Our concern, naturally, lies in connection with the second one, which makes it evident that certain of the export industries are to be stimulated in order to earn net foreign exchange wither through increased exports or a replacement of former imports. On the other hand, funds may be required to be invested in lines of production that either do not produce net foreign exchange (i.e., net export surplus amounting to zero) or in fact affect the balance of payments adversely (Polak gives the example of expenditure on slum clearance with the Government operates at a loss without covering the loss out of taxation or forced saving[2]). Whereas investment

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1 See Ellsworth, <u>op.cit.</u>, pp. 813-814.

2 See J.J. Polak "Balance of Payments Problems Reconstructing with the help of Foreign Loans", <u>Readings in the Theory of International Trade</u>, (London, George Allen And Unwin Ltd., 1950)

in the first type of operations affects the balance of payments of the developing countries favourably, the second affects it neither way while the third type affects it adversely. Clearly, then, whether the net export surplus will be sufficient to pay service costs depends to a great extent on the distributional pattern of the foreign financed investments. Furthermore, when the multiplier effects are introduced, it is seen that the lower the marginal propensities to consume and import are, the less difficulties will face the developing country. However, because of the generally low productivity and income in underdeveloped areas, the above two propensities are likely to be large implying that as income increases due to increased investment, balance of payments difficulties will increase substantially. This constitutes another limitaion to extensive foreign borrowing for purposes of economic development.

In a brief and general treatment of the problem of capital borrowing it is hard to give definite answers to each of the three questions that have been posed that, to a large extent, depend upon the particular country under examination. Thus we shall only be satisfied with the above general evaluation of the various aspects of such a problem.

IV. ECONOMIC DEVELOPMENT & REGIONAL INTEGRATION

Regional integration is taken to mean one pattern or another of a close economic cooperation among several countries of a region based on multilateralism. The fundamental characteristics of this cooperation is assumed to be manifested in the abolishment of all or most restrictions on current transactions and factor movements originating in member countries. The formation of a customs union whereby all or most restrictions are removed on trade transactions and movements of capital and labour from one part to another may be taken as a suitable example. Such a kind of integration necessitates:

1. The adoption of similar commercial, monetary and fiscal policies.

2. The establishment of a unified tariff schedule applicable to non-union goods.

3. The establishment of a multilateral payments agreement to ensure the convertibility of the union's different currencies.[1]

The above pre-requisites are essential in order to provide for the working of the price-mechanism unhampered by non-economic factors. That is, the objective of the region's economic development would be carried out, more or less, in accordance with the principle of free multilateral trade.

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1 J.E. Meade has pointed out in his Problems of Economic Union (Chicago, The University of Chicago Press, 1953) that in the case of an economic union whereby a mechanism similar to EPU has been instituted such a measure woule be appropriate only if a permanent disequilibrium between members states did not arise. Otherwise the adjustment of the payments' problems ought to be solved through a system of freely floating exchange rated supported by a union equilization account. (See pp. 30-35.)

The specific advantages of regional integration accruing to the economies of the underdeveloped areas with respect to economic progress may be summarized in the following points:

1. Industrialization (which has been assumed to accompany the process of economic development) cannot be carried out on too small a scale; it requires a market of a certain size varying according to the nature of the products, the technique employed and other factors.[1] The larger the market the wider the possibility of enjoying the advantages of mass production. Moreover it should be noted that usually underdeveloped countries enact protective tariffs which may (but not necessarily so) restrict the export of manufactures products. The formation of a large integrated market offsets, to a certain extent, any unfavorable effects produced by tariffs and other import restrictions.

2. Free movement of local capital within a larger integrated market is desirable in the interests of economic efficiency.

3. It has been indicated that foreign private capital is invested, to a large extent, in extractive industries working for export purposes. The low productivity prevailing in underdeveloped areas was considered as one reason responsible for such a

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1 See League of Nations, loc.cit., p. 40.

phenomenon. Assuming that the interests of economic development demand the investment of a large part of the available funds in lines of production connected mainly with local consumption, an integration of various markets would contribute towards overcoming the obstacle of low productivity and thus induce foreign funds to be invested in industries depending upon local consumption. In a general manner the integrated market would furnish a greater attraction to the inflow of foreign private capital.

4. The indirect contribution to the problem of capital formation and acquisition is seen through the rise in the level of income as a consequence of the above listed advantages of regional integration.

If we are, however, to introduce practical considerations into the problem of economic integration, there would appear a variety of problems which need to be faced and solved - problems which, in practice, are not easy to solve jointly by politically independent countries. How easy, for example, is it to coordinate commercial, monetary and fiscal policies of different states? The probable existence of vested private interests and different economic and social philosophies among the various nations of one region complicates the solution of the problem. Further considerations of political nature have been raised by R. Mikesell who stated that "progress toward economic integration should be possible provided (1) there are no serious political differences among the countries to be integrated and the majority of the peoples of the member states have accpeted the principles of a high degree of economic integration so long as their vital national interests are adequately protected; (2) the governments have agreed upon a program of joint military and economic defense, etc."[1] Clearly the benefits of integrated markets depend upon an appropriate solution of the above difficulties. On the other hand, the fact that a general free trade among the nations of the world is equivalent to an all round customs union raises the question: what then is the advantage of regionalism over free trade in general?[2] It is these same practical considerations introduced above which makes it justifiable to drive for regional integration whose problems are easier to contemplate than those arising from a world wide integration. This probably provides a partial explanation why several examples of regional integration may be pointed out while a world wide free multilateral trade has never been in existence.

Obviously the problems, process, and pattern of regional integration differ from one region to another. Thus in the preceding analysis it has been attempted to be as general as possible with regard to the case for integrated markets.

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1 R.F. Mikesell, "Economic Integration of Sovereign States: Some Fundamental Problems", Money, Trade, and Economic Growth (N.Y., The Macmillan Company, 1951), p. 81.

2 See G. Haberler, "The Political Economy of Regional or Continental Blocs", S. Harris (ed.), Postwar Economic Problems (N.Y., and London, McGraw-Hill Book Company, Inc., 1943), p. 334.

CHAPTER VIII

LEBANESE FOREIGN TRADE AND ECONOMIC DEVELOPMENT

I. INTRODUCTION

The present discussion which exposes the inter-connections between Lebanese foreign trade and economic development is based, as stated in the previous chapter, on the first two descriptive parts of the dissertation and the first chapter of Part III. The attempt to weld the above descriptive and theoretical analysis in order to draw up certain remarks with respect to the role of the Lebanese foreign trade sector in the economic progress of the country, draws attention only to a few particular aspects of such a problem - aspects which, it is believed, are closely related to the present day pattern of Lebanon's international trade activities. Moreover, it should be always noted that any remarks or conclusions that may be arrived at reflect potential or possible contributions to economic growth. That is, the exploitation of the possibilities offered by the foreign trade sector for purposes of development may require the help of public finance techniques as well as certain other forms of Government intervention. Although we shall not touch upon this aspect of the problem, it should be remembered that, within certain limits, Government intervention will be necessary if the objective pertaining to the services rendered by Lebanese foreign trade in connection with economic growth is to be fulfilled.

II. POST-WAR LEBANESE ECONOMY AND FOREIGN TRADE

The important role assumed by the foreign trade sector in the Lebanese economy[1] bears out several implications. Foremost its contribution to the national income of the country, relative to other sectors, is the greatest and thus the possibilities of its direct contribution to the level of saving - essence of capital formation and acquisition - are also relatively the widest. Reference to Chapter III (Part I) also shows that, in addition to banking activity, foreign trade is at present the major attraction to the inflow of foreign funds whose broad advantages to economic development have been reviewed.[2] Hence reliance on the foreign trade sector for purposes of growth are based upon first, its relatively large contribution to national income and second, its being a major incentive to the inflow of foreign funds, both of which are the chief sources for capital formation and acquisition.

The above advantages attributable to the foreign trade sector may be viewed as part of the three fundamental advantages of international trade discussed previously, namely:[3]

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1 Refer to Part I, Chapter III.

2 Refer to Part III, Chapter VII, pp. 160-161.

3 Refer to Part III, Chapter VII, pp. 142-145.

1. Financing of needed capital equipment,

2. Raising of the income and savings level, and

3. Making possible the inflow of foreign capital.

Although these would always be relied upon to achieve economic progress it should be noted that the contribution of international trade is conditioned by various factors. In the post-war era that of Lebanon has been determined by:

1. The economic and social development of the Lebanese economy.

2. The commercial policy of the Lebanese Government based, more or less, on the principle of free trade.

3. The geographic position of the country.

These three factors have, as already remarked attributed to Lebanese foreign trade a relatively very important but still potential role in the economic progress of the country. As development takes place the above role may become relatively less significant. The point to be emphasized is that when economic and commercial policies, that may favour the future development of industry and agriculture, are being formulated, it should be always recognized that, at present, it is the Lebanese foreign trade sector which constitutes the relatively major potential source for capital formation and acquisition. Hence when exploiting the possibilities offered by international trade, care must be taken not to undermine them through unfavourable economic measures. In other words, if deviation from the principle of free trade is considered as desirable in the interests of economic growth, the potentialities, in way of capital formation, offered by present day pattern of Lebanese foreign trade should be always kept in mind. The significance of such a stress becomes more vivid when the other items of the Lebanese balance of payments are considered. Invisible receipts, due to triangular and exchange operations, transit, and inflow of capital which, in fact, helped produce a small surplus in the years 1951, 1952 and 1953, have been to a large extent stimulated by the free exchange and relatively free trade policy followed by the Government.

III. BRIEF REVIEW OF THE CHARACTERISTICS AND TRENDS OF POST-WAR LEBANESE FOREIGN TRADE

The main characteristics of post-war Lebanese foreign trade may be summarized in the following points:

1. It reflects the early industrialization of the country which is still dependent, to a great extent, on its trade and agriculture sectors. The bulk of Lebanese exports (for the years 1951, 1952 and 1953) were made up of textiles (mostly semi finished), vegetables and primary products while manufactured products were largely imported from the U.S. and Western Europe. It is interesting to note, in this connection, that although Lebanon is a developing country, its balance of payments for the years 1951, 1952 and 1953, which may be expected

to have shown a deficit, actually incurred a small surplus. In the absence of dependable data for other years it is hard to predict what the position of the Lebanese balance of payments has been, on the whole, in the post-war period.

2. Most Lebanese imports and exports were transacted in the main Western currencies (i.e. dollars, sterling, and French franc). Available data for the years 1951, 1952 and 1953 pertaining to the balance of trade reveals that, at present, the dollar ranks first with respect to the needs of the Lebanese economy followed by sterling, Syrian pound, and French franc in that order. Around half of the imports, in terms of value, for the period under consideration were paid for in dollars, a quarter in sterling, one seventh in Syrian pounds, and one tenth in French francs. On the other hand, the dollar area absorbed an average of 35 per cent of total Lebanese exports (in terms of value), the sterling area 37 per cent, Syria 21 per cent and the franc area 7 per cent. The deficit in the balance of trade was relatively the biggest with the franc area with an average proportion (of exports to imports) of about 1:7.8; with the dollar area, Syria, and the sterling area the same proportion was around 1:7, 1:4 and 1:3 respectively. To close the gap in the above deficit the Lebanese economy had to depend upon invisible receipts and capital inflow.[1] The former were mainly based on:

1 Refer to Part I, Chapter II, pp. 58-61.

a) Profits from transit.

b) Investment income earned by Lebanese abroad.

c) Expenditure by foreign bodies in Lebanon.

d) Exchange and triangular operations.

A number of these receipts - investment income earned abroad, exchange and triangular operations - however may be subject to sudden unfavourable developments in other countries. As shall be shortly noted it is the post-war emergence of a relatively "free market" in Lebanon that has stimulated triangular and exchange activities.

Furthermore, with respect to the financing of needed capital equipment, for purposes of development, heavy reliance may have to be placed on dollar earnings. These, in fact, have been used in 1951, 1952 and 1953 to pay for the bulk of imported machinery, spare parts and electrical appliances. Pharmaceutical and chemical products have also been financed, to a large extent, as well by dollar receipts.

The above exposition, however, should be taken as a very rough exposition of the relative need for the main Western currencies. Such a heavy reliance on the dollar and sterling could be taken as an expected but temporary post-war development. Certain Lebanese imports have been financed with other currencies, and it is likely that in the near future the relative need for the three principal Western currencies will drop.

3. A striking feature of post-war Lebanese merchandise

trade as to sources of origin and destination is the role assumed by Western counntries with respect to imports and that assumed by members of the Arab League in connection with exports. For the years 1951, 1952, and 1953 over 50 per cent of toal Lebanese imports, in terms of value, originated in the U.S. and Western Europe, a little over 25 per cent came from the Arab countries; Eastern Europe supplied 3-4 per cent while the rest originated in other regions. On the export side members of the League absorbed around 50 per cent of the total Lebanese exports, the U.S. and Western Europe's share being a little over 25 per cent while that of Eastern Europe and other regions amounting to about 3 and 20 per cent respectively.

Whereas industrial implements and manufactured goods made up the bulk of Lebanese imports from the West and Eastern Europe its exports to both regions were primarily raw materials primary products and fruits. Furthermore, the deficit in the balance of trade with members of the Arab League was relatively of a lesser magnitude than that with the Western countries. Within the former bloc Lebanon's balance of trade showed a suplus in the case of Egypt and Saudi Arabia and a marked deficit in the case of Iraq and Syria. The balance of trade with Jordan showed a surplus in 1951 and a slight deficit in 1952 increasing in 1953. With almost all other countries Lebanon incurred a deficit most markedly in connection with the U.S., U.K., France and Western Germany. As was noted before such a deficit was covered by invisible earnings and capital inflow.

4. The importance of the re-export trade carried out by the Lebanese may be indicated by the following data.[1] For the years 1951, 1952, and 1953 the total value of re-exports amounted to around 13.4, 54 and 22 per cent of the value of exports respectively. The major portion was directed towards the Arab countries while the U.S. and Western Europe absorbed a little over 25 per cent. Among the Arab countries Syria's share was relatively the largest.

Again transit has assumed in the post-war years a significant role in Lebanese commercial activity. Available data shows that for the years 1951 and 1952 profits accruing from merchandise and gold transit amounted to L.L.113.1 millions and L.L.95.4 millions respectively, exceeding the value of exports for each of the two years. Excluding oil the value of gold transit for the two years under consideration averaged around half of the total value of transit. The bulk of such gold (an average of 91 per cent) originated in the West and was destined partly to the Arab states but primarily to countries in Far East Asia. Most of the merchandise in transit also originated in the U.S. and Western Europe while Syria and other members of the Arab League constituted the chief areas of destination.

These, in brief, are the major characteristics of post-war

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1 Refer to Part I, Chapter II, pp. 47-49 and pp. 54-55.

Lebanese foreign trade. The stimulus which the relatively free trade and exchange policy followed by the Government has given to activities essentially based on the existence the above policy has big advantages to the economy of the country. On the other hand when the implications and principles of economic development are taken into account, they may demand economic measures leading to greater intervention or supervision on the part of the Government in matters of foreign trade. The latter policy - desirable in so far as its advantages outweigh its disadvantages - may be necessary if, for example, certain aspects of bilateralism or regional integration are to be resorted to. This point, now briefly noted, will receive greater emphasis later.

The discussion of the post-war trends in the Lebanese foreign trade may be viewed in the light of changes in the magnitude of trade activity with respect to the various regions that have been considered as well as in the broad aspects of the commercial policy followed by the Government. Again we shall try to summarize these trenus in several points:

1. The emergence of a free foreign exchange and a relatively free trade sector in Lebanon. The steps leading to the above result have already been reviewed in Chapter I of Part I. However, there seems to be few implications that ought to be considered in this connection. First, the establishment of a relatively "free market" reflects, on the whole, the

"attitude" of the successive Lebanese governments in matters relating to economic policies[1] that could be fully manifested only after certain deterring factors were overcome. Chief among the latter were the customs union with Syria and French influence. The various forces that finally led to the dissolution of the union with Syria exposed the different points of view adopted by each of the two countries.[2] It was stressed that among the principal conflicts which could not be reconciled between the two parties was the growing divergence in their post-war economic and commercial policies. Whereas Syria strove to restrict imports to protect its agricultural and industrial production, Lebanon liberalized restrictions on exchange and trade activities. The development of Syro-Lebanese trade and economic relations is a vivid indication of the fact that if the principle of a close multilateral co-operation with neighboring countries is viewed as desirable in the interests of economic progress, Lebanon may have (but necessarily so) to impose closer restriction on its foreign trade activities.

On the other hand, as Lebanon achieved greater independence in its monetary and commercial affairs the more pronounced became the tendency for a relaxation of restrictions on

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1 Obviously such an attitude may have been the result of group pressure but this lies outside the scope of our discussion.

2 Refer to Part II, Chapter IV, p. 79.

foreign trade and exchange. The French gave up their control over the Lebanese exchange control gradually until finally in 1948 an agreement was concluded between France and Lebanon to settle pending monetary and foreign trade questions.[1] Although the above agreement favoured more or less French interests, the Lebanese authorities could now exercise a greater discretion in their foreign trade policy which, as already noted, was characterized, on the whole, with the emergence of a free market.

2. The conclusion of bilateral trade agreement with Eastern Europe and other trade agreements with various Arab and non-Arab countries. It was indicated that the appearance of such a trend could be related to:[2]

a) The independence achieved by Lebanon in its commercial policy after March, 1950.

b) The wish of the Lebanese Government to establish export market after the total loss of Palestine and the partial loss of Syria. As for the trade agreements with Eastern Europe they have been termed bilateral because they satisfied the requirement of the general definition of bilateralism namely the establishment of a pre-determined quantitative ratio between the value of exports and imports of the contracting

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1 Refer to Part II, Chapter VI, pp. 113-116.

2 Refer to Part II, Chapter V, p. 97.

parties usually tending to unity.[1] However, because of the absence of minima levels of exchange, trade with Eastern Europe would still be partially subject to the discretion of private firms and thus whether Lebanese trade with the Eastern Bloc will expand or not is still dependent upon existing price structures in the different market.[2] If the bilateral trading methods with Eastern Europe prove to be beneficial in that the value of Lebanon exports is expanded as a consequence, the Government may have to take measures, in the form of public finance techniques, to divert part of the increase in the accumulated incomes and savings towards the financing of needed capital equipment and investment goods. Even if savings, in the aggregate, do not increase, the Government ought to encourage the import of implements essential to economic development through an intended change in the composition pattern of imports.

Trade agreements concluded with Arab countries simply pertain to the encouragement of trade activity through the extension of preferential treatment to the contracting parties. Although the agreements with Yogoslavia and West Germany did not accord any preferential treatment, their provisions were made to facilitate export and imports among the concerned

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1 Refer to Part II, Chapter VI, pp. 119-125.

2 Obviously if Eastern European trading firms took the initiative in expanding their imports from Lebanon, the latter would be obliged to expand its imports from Eastern Europe as a consequence within the limits of the maxima levels set.

parties. None of the agreements, however, goes beyond the implicit encouragement of foreign trade subject to existing exchange and trade regulations.

3. The specific drive on the part of Lebanon to widen its trade channels with the rest of the Arab countries could be taken as a third apparent trend in post-war Lebanese foreign trade. This has been manifested in the emergence of the Arab Economic Treaty on September 7, 1953 that may be considered as a first step towards free multilateral trade among Arab States. Essentially it pertained to the encouragement of trade through its exemption of Arab agricultural products from duty and subjecting the exchange of industrial goods to a preferential treatment. The facilities it extended to the free movement of Arab capital were very limited while the transfers of payments arising from inter-Arab current transactions were subjected to existing foreign exchange regulations. A wider economic co-operation among members of the Arab League would not only be expected but desirable as well. Again here Lebanon may have to strike a balance between the benefits accruing from a relatively general free trade on the one hand and regional integration on the other.

4. Considering the tariff policy of Lebanon it would be difficult to point out particular trends. The analysis in Chapter I (Part I) revealed certain broad aspects of the Lebanese tariff schedule, namely:

a) The revenue aspect - most significant - was manifested in the relatively small proportion of goods (less than 23 per cent of the total) not bearing a 25 per cent duty, the non-existence of prohibitive duties, the large contribution to the treasury (around 40 per cent of total revenue), and the taxation of many commodities not produced locally.

b) Certain aspects of industrial and agricultural protectionism manifested themselves on the one hand by the subjugation of the import of such goods as vegetables, fruits, products of food processing industries, textiles made of natural silk, shoes, machinery for making matches, etc., all of which are produced locally, to a relatively high duty ranging between 40 and 50 per cent and on the other hand by the exemption or the lowering of duty on needed raw materials. However, as was noted, while imports were paid for on the basis of free market rates, duties were calculated on the basis of official rates of exchange (lower by almost one-third to one half than the market rate) which, in fact, tended to lessen the effects of protectionism.[1]

c) Preferential treatment was accorded to all members of the Arab League since 1953 while prior to that only Syria, Iraq and Jordan enjoyed such a privilege.

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1 This point is discussed in more detail on pp.192-193 below.

It has been indicated that among the important conclusions with respect to Lebanese tariff policy was its primary emphasis on the revenue aspect. Tariffs have not been regarded, on the part of the responsible authorities, as an effective tool of commercial policy.[1]

5. In terms of data pertaining to merchandise trade comparisons between the post-war and pre-war years, as previously explained, could only be taken as rough approximations to reality.[2] This point has been stressed all through since prior to March, 1950 no distinction was made with respect to Lebanese and Syrian exports and imports. Thus whatever trends may be revealed in Lebanese foreign trade since 1935 are only probable indications of the actual situation and as such shall not be used as a basis for judgment.

As far as trade with Syria is concerned, it is possible to indicate its value only since 1951 arriving at the following results. Lebanese imports during the period 1951-1954 have increased in terms of proportional value (from 15 per cent of

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1 Recently a law was passed, but still not put into effect, whereby imports from countries that do not conclude trade agreements with Lebanon during the following six months will be subject to a maximum duty.

2 Figures used in this connection are based on official date and had to be resorted to in order to be able to compare the pre-war and post-war periods.

the total to 22 per cent) while exports decreased (from 21 per cent of the total to 14 per cent). It has been remarked previously[1] that visible trade developments after the termination of the customs union seem to have been more favourable to Syria while the trade agreements concluded between the two countries in February, 1952 and March, 1953 have not resulted in an appreciable effect on the volume of Syro-Lebanese trade.

Lebanese imports from the other members of the Arab League, in terms of proportional value, seem to have decreased when the import averages for the 1935-1938 and 1945-1949 periods on the one hand are compared with the import average for 1951-1954. Considering the export averages for the periods 1935-1938 and 1945-1949, Lebanese exports to the Arab countries seem to have increased in the latter period but fell to below the pre-war level in 1951-1954.

The loss of the Palestinian market has been taken to be the major cause leading to the above phenomenon. In fact had Palestine been excluded, visible trade between Lebanon and other members of the League, in terms of proportional value, would have shown a rising trend all through the three periods under consideration. The various economic agreements that have been recently concluded between the Arab states will further stimulate inter-Arab trade.

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1 Refer to Part II, Chapter IV, pp.86-88.

The U.S. and Western Europe supplied a slightly bigger share of Lebanese imports, in terms of proportional value, in 1951-1954 than in the two previous periods, the difference between the latter not being significant. They seem, on the other hand, to have absorbed a lesser share of Lebanese exports in the immediate post-war years than in 1935-1938.

When the value of Lebanese imports from Eastern Europe in the post-war years are compared with the pre-war period a heavy drop is indicated, the average for 1951-1954 being greater than that for 1946-1949. Again Lebanese exports, in terms of proportional value, to Eastern Europe seem to have dropped in 1946-1949 when compared to the pre-war period, but acquired an upward trend in 1951-1954 exceeding that in 1935-1938. The apparent increase in Lebanese foreign trade activity with the state-controlled European economies in 1951-1954 may be partially attributed to the bilateral trade agreements that have been concluded between the two parties.

All during the three periods under consideration Lebanese imports from other countries, in terms of proportional value, do not seem to have decreased while exports acquired a rising trend.

The inability to draw definite conclusions from the above trends is unfortunate. The independence achieved by Lebanon, during the post-war years, in its monetary and foreign trade activities probably affected the direction of Lebanese visible trade with respect to the various foreign markets. We shall, as a consequence, have to be satisfied with what is revealed, in this connection, by the relatively dependable data for the few years 1951-1953.

IV. LEBANESE FOREIGN TRADE AND POSSIBILITIES FOR RAISING THE INCOME LEVEL AND CAPITAL ACQUISITION

Although the analysis carried out in the previous chapter, pertaining to certain aspects of the inter-connections between international trade and economic development, has taken into account the post-war pattern of Lebanese foreign trade, still it suffers from the unavoidable shortcomings of a general treatment. Lebanon, for example, is not a typical underdeveloped country with vast unexploited natural resources depending, to a large extent, upon its agricultural sector. As such the impact of economic growth on the pattern of Lebanese foreign trade may not strictly comply with the description presented previously.[1] With the present existing state of knowledge and techniques, the emergence of heavy industry as one aspect of Lebanon's industrial and economic development is not very likely. The export of manufactured goods, on the part of the Lebanese, may be always limited by presently available natural resources and hence Lebanon's heavy dependence on the import of industrial goods may always exist. On the other

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1 Refer to Part III, Chapter VII, pp. 138-142.

hand, possibilities for the establishment of a light industry seem to be there and have already been partially exploited with the consequent birth of several factories and industrial firms. Thus as progress takes place its impact on Lebanese foreign trade will be manifested in a partial change in the composition of exports and imports tending to reflect, more or less, the status of a more developed and industrialized country.

Again the absence of Lebanese balance of payments data stands in the way of indicating whether Lebanon's current account has, on the whole, assumed a passive or an active role. The two years 1951 and 1952, for which data is available have witnessed a relatively small surplus. Although this may not be accepted as an indication of Lebanon's possible creditor position, in general conformity with what has been stated previously,[1] the particular position of the Lebanese trade sector - in contrast with other underdeveloped areas - makes it hard to indicate probable characteristics in the country's current account parallel to economic progress. That is, whereas in many developing countries, a deficit in their current account is a probable consequence of development, such a phenomenon may not applyt to Lebanon's current account due to the particular characteristics of its economy. If in general the balance of current payments does, in fact, reveal broad characteristics

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1 Ibid.

parallel to the process of economic development,[1] Lebanon's balance of payments may not be taken as a typical example. Actually it would not be surprising if developments in the Lebanese balance of current payments proved to be an exception to the general rule. It shall be conceded, however, that irrespective of any particular characteristics attributable to the position of the Lebanese balance of current payments, Lebanon, as a developing country, does witness an excess of investment opportunities in relation to domestic capital formation.

If we are to contrast the particular features of post-war Lebanese foreign trade with the implications embodied in the principle of economic development - having based it on an increase in the income level and hence a greater possibility for capital formation and acquisition - the immediate conclusion that arises is the necessity to strike an appropriate and desirable balance between the benefits accruing from a generally free trade and those secured through certain aspects of intervention, on the one hand, and regional integration, on the other. That is, at the present stage of development of the Lebanese economy with its heavy dependence upon imports from the more industrialized areas of the world and reliance on invisible receipts and capital inflow to make up for the

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1 Refer to Part III, Chapter VII, pp. 138-140.

relatively big deficit in the balance of trade, a commercial policy favouring free foreign exchange and trade sectors would seem to be desirable. However, a partial loss of the advantages attributable to a general free trade may be more than outweighed, in the interests of progress, by gains secured from measures taken to limit such a freedom.

Three ways have been considered through which the foreign trade sector may serve the purposes of economic growth namely:

1. Being the means through which to finance the import of needed capital equipment.

2. Contributing towards raising the income and savings level.

3. Acting as the means to capital inflow.

To what extent is the post-war pattern of Lebanese foreign trade fulfilling the above three contributions? Lebanon, as has already been revealed, is still in the early stages of industrialization - assuming, of course, the possibilities for certain aspects of industrialization. The enactment of tariff walls to protect those industries that may be considered as suitable to the productive capacities of the country would probably lead to a net gain in employment and income.[1] In this connection present-day Lebanese tariff schedule could stand improvement. It is not denied that certain aspects of protectionism are found manifesting themselves in the relatively

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1 Refer to Part III, Chapter VII, pp.149-154.

high duties ranging between 40 and 50 per cent on the products of food processing industries, textiles, shoes, etc....(considered among the more important industries of the country). These duties, however, are calculated on the basis of official rates of exchange while imports are paid for according to free market rates. In other words, if it is accepted that the former rates equal about one half the latter rates, then, in fact, the real height of the tariff wall protecting infant industries does not exceed 20 - 25 per cent. With the present existence of involuntary unemployment and the operation of a large portion of Lebanese factories at a level below normal capacity, a greater emphasis on infant protectionism may prove desirable in the interests of economic growth. It is not aimed at, here, to reveal what existing industries ought to receive a more effective protection, but only to point out that Lebanese tariffs, which have been mainly viewed in the light of revenue purposes, could be utilized to serve partially the economic and industrial development of the country. The assumptions employed in this connection are the existence of industries suitable to the productive capacities of the country and the non emergence of relatively strong unfavourable effects with respect to export activities. Further a greater restriction in the import of luxury items, receiving, at present, ordinary duties ranging from 25 to 30 per cent or effective duties ranging from 12.5 to 15 per cent, may be advocated. Luxury restriction - desirable because of the so-called "demonstration effect" and inelasticities in the demand for luxury items - has been taken to constitute another possible source of savings.[1]

We have seen previously that in present world conditions certain aspects of limited bilateralism could be beneficial to economic development, particularly if the import of capital equipment received the necessary attention. Among the prerequisites for such a phenomenon the formulation of development projects and other government inducements were considered as necessary.[2] It is, of course, assumed here that the underdeveloped country under consideration is in need of capital goods. Emplying the above assumption with respect to the Lebanese economy, the bilateral trade agreement concluded between Lebanon and Eastern Europe could be utilized to serve the interests of Lebanese economic growth. In fact, after the total and partial losses of the Palestinian and Syrian markets respectively, they have come to open new export markets for Lebanese products. Nevertheless, it was noted that with the absence of minima levels, the increase in trade activity, within the limits of the maxima levels, between the contracting parties was still subject to existing price structures in the different markets. Thus to benefit from the above agreements two new additional assumptions are necessary:

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1 Refer to Part III, Chapter VII, pp. 147-148.

2 <u>Ibid</u>.

1. The existence of suitable prices for capital equipment.

2. The wish, on the part of the Lebanese, to import capital equipment. If these assumptions are realized an expansion in the volume of Lebanese capital imports from Eastern European countries would be automatically financed by increased Lebanese exports to these same countries. However, the expansion of Lebanese trade through bilateral channels should be limited as, in fact, it is now at present, because of the fundamental characteristics of the Lebanese economy and foreign trade. The relatively big gap in the balance of trade cannot be done away with through bilateralism except, perhaps, at the expense of a huge decrease in the volume of Lebanese foreign trade - an act whose great detrimental effects are obvious. Furthermore, whereas it is possible to conclude bilateral trade agreements with state controlled economies, it may not be possible to arrive at the same result with respect to free enterprise economies. The fact that the bulk of Lebanon's foreign trade activity is connected with the latter type of economies in addition to its heavy dependence upon invisible receipts to make up for the deficit in the balance of trade, requires the restriction of bilateral methods.

Among the main characteristics of post-war Lebanese foreign trade is the need for dollars and sterling to finance roughly three-quarters of Lebanese imports, in terms of value, although not more than half of the total is imported from the

U.S. and Western Europe. The existing deficit in the Lebanese balance of trade with the dollar and sterling areas - 1:7.5 and 1:3 respectively - has been covered through invisible earnings and capital inflow. These two currencies, upon which Lebanon has depended to import the bulk of its machinery, spare parts, electrical appliances, pharmaceutical and chemical products, and other manufactured goods necessary for economic progress, have been available to a large extent due to the free trade and exchange policy followed by the responsible authorities. As long as dollars and sterling are badly needed for development purposes stress should be given to the encouragement of export industries (if existing) which may be potential earners of the above currencies on the one hand and the expansion in the volume of invisible earnings (transit, re-export, triangular and exchange operations) and capital inflow on the other. The latter which have figured appreciably in Lebanese international activities are stimulated by the existence of a relatively free multilateral trade.[1]

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1 On the other hand in so far as some of these activities - which helped produce a surplus in Lebanon's balance of payments - may always be subject to suddent unfavourable developments abroad, care must be taken not to over estimate their significance. Lebanese triangular and exchange operations may, with a greater relaxation of exchange control in other countries, become relatively very unimportant. Further the inflow of emigrant remittances into Lebanon will in the future probably decline and as such may not be relied upon as a stable source of income.

To sum the idea of a balance between free and restricted Lebanese foreign trade mentioned earlier rests upon several factors. Fundamentally the case for a free multilateral Lebanese trade seems to be the most valid. However, deviation from the above principle may be, with the existence of specific conditions, desirable in the interest of economic development. Such a deviation is manifested in:

1. Infant protectionism (this would probably prove beneficial to the Lebanese economy that is still in its early stages of industrialization).

2. Restricted bilateral methods (these may prove helpful particularly if capital import becomes available at suitable prices). To the above two, a third factor should be added namely:

3. Regional integration among members of the Arab League. Although a wider integration of Arab markets would lead to a greater amount of freedom with respect to inter-Arab foreign trade, it may require, on the part of Lebanon, further restrictions on Lebanese foreign trade with non-Arab countries. Obviously regional integration would be desirable if it is believed that the advantages accruing to Lebanon as a consequence would more than outweigh losses that may prove to be incurred due to a further restriction of trade. Before taking up the case for integration a word shall be devoted to the question of capital inflow.

The advantages of foreign capital inflow to economic development were summarized as follows:[1]

1. It helps the developing country to maintain either the same or a rising level of consumption without foregoing the possibilities of increased savings. This, in other words, helps to ease the difficulties that have to be faced in the process of economic progress.

2. It inevitably adds to the capital stock of the country.

3. It increases directly or indirectly the level of income and hence the level of savings.

As long as Lebanon's per capita income is relatively low (roughly 250 dollars), when compared with that of the more advanced areas, commercial and economic policies favouring the inflow of foreign capital (particularly if induced to participate in development projects) would stimulate the economic development of the country. In so far as the broad aspects of private and governmental capital inflow with respect to economic growth have already been analized there is no need to repeat what has been said. Two points, however, ought to be raised in this connection:

1. To what extent is foreign capital participating in the development of the country?

2. What steps has Lebanon adopted, in way of trade agreements, to encourage the inflow of foreign capital?

Unfortunately the lack of data and banking statistics

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1 Refer to Part III, Chapter VII, pp.160-161.

obscures the actual position with respect to the first question. It is generally known, however, that among the various sectors of the Lebanese economy banking and public utilities have been the major attraction to foreign funds[1] while industry and agriculture have depended almost exclusively on local capital provided by the entrepreneurs themselves. Banks in Lebanon (local and foreign) not only extend the bulk of their credit to finance commercial transactions,[2] but still refrain from advancing any long-term credit that may be necessary to industrial and agricultural expansion. It can only be noted that in the event of a possible foreign capital inflow (excluding hot capital) measures should be taken to divert it by proper inducements, in way of public finance techniques, into those lines of production which, it is believed, are presently essential to economic development.

On the other hand, efforts on the part of Lebanon to induce the inflow of foreign capital pertain mainly to the realm of public finance such as, for instance, the complete exemption of foreign firms operating in the country from income taxes provided they employed a certain minimum amount of capital and labour. In the foreign trade sector some of the above efforts may be seen in the agreement concluded with Western Germany on

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1 Recently real estate has also attracted foreign capital.

2 Refer to Part I, Chapter III, pp. 67-69.

July 13, 1954 whereby the German authorities permitted a maximum of sixty millions Deutch marks to be invested in Lebanese industrial and agricultural fields. However, whether German entrepreneurs will, in fact, invest their money in the Lebanese economy depends primarily on the existence of investment opportunities. If these are lacking, there is no guarantee that German capital will participate in the economic development of the country. The only advantage of the above agreement lies in the fact that in case the Germans wanted to invest their money in the Lebanese economy (due, for example, to the existence of investment opportunities or inducements by the Lebanese Government), the German authorities will not raise obstacles in the face of such a capital movement. In other words the significance of agreements similar to the above one is not dependent primarily upon the removal of restriction on capital movements but on existing economic, social, and political conditions in the underdeveloped areas. It is factors like political stability, possibility of converting currencies, access to earnings, the possible withdrawal of capital, the existence of adequate facilities and utilities for transportation, communication and power, prospects of fairly substantial earnings, tax exemptions etc. that would induce an inflow capital and hence the type of measures that ought to be stressed.[1] As already remarked the most that trade agreements between free-enterprise economies

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1 Refer to S.K.C. Kopper, "Attracting U.S. Investment Capital in the Middle East", H.P. Hall (ed.) Middle East Resources: Problems and Prospects (Washington, D.C., The Middle East Institute, 1954).

can do is simply to permit a free but limited movement of capital between the contracting parties which otherwise may not have been allowed.

V. TOWARDS A WIDER INTEGRATION AMONG MEMBERS OF THE ARAB LEAGUE

The problem of regional integration among members of the Arab League may be viewed from two different angles:

1. The poltical and social factors working towards such an end.

2. The economic factors which call forth a wider economic cooperation among Arab countries.

The first set of reasons shall be disregarded because it lies outside the scope of our discussion. It shall only be assumed that post-war developments in the Middle East have given rise to political and social forces tending to bring about a closer economic unity between Lebanon and other Arab countries.

Again the second set of reasons may be evaluated in different ways. First, there exists the various advantages of regional integration taken to be:[1]

1. Better prospects for industrialization.
2. Greater economic efficiency.
3. Greater stimulus to the inflow of foreign capital.
4. Greater contribution to the raising of the income level,

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1 Refer to Part III, Chapter VII, pp.167-171.

and thus to the problem of capital formation and acquisition, as a consequence of the above listed advantages.

Second, there seem to exist in the Middle East the necessary factors for industrialization and development in general such as raw materials, power, labor and capital.[1] Not only are these sources hardly exploited for purposes of development but existing economic barriers among the countries of the region act as obstacles to their appropriate exploitation. This pertains particularly to oil revenue which if more evenly distributed among Middle Eastern countries may constitute a real impetus to the economic growth of the region.[2]

Third, the Arab world is an important export and import market to Lebanese foreign trade. Available data shows that around half of the total Lebanese exports, in term of value, are absorbed by members of the Arab League while a little over one quarter of total Lebanese imports is supplied by them. Again the major portion of Lebanese re-export trade is directed to neighbouring Arab countries. If the present Arab economic

1 See D.D. Cray, "Middle East Geography: A Look at the Area's Resources", H.P. Hall (ed.), Middle East Resources: Problems and Prospects (Washington, D.C., Middle East Institute, 1954), pp. 16-17.

2 Cf. J. Baster, "Development of Investment Capital Within the Middle East", Ibid., p. 95.

treaty is carried out effectively a further expansion in Lebano-Arab trade will be stimulated.[1]

The above three sets of reasons lay emphasis on the tendency towards a fuller economic cooperation, in the interests of economic progress, between Lebanon and other members of the Arab League even though Lebanon may have, as a consequence, to give up certain aspects of its relatively free trade policy with respect to non-Arab countries. Obviously the desirability of such a tendency in post-war Lebanese commercial policy is dependent upon the assumption that the advantages accruing from integration would more than outweigh any disadvantages that may arise as a result of a greater restriction of foreign trade which the case for Arab integrated markets may require.[2]

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1 Such an expansion may have several important results. With a less keen competition offered by products of the Arab countries, that, in fact, enjoy at present a greater degree of protection than Lebanese products do, the over-all Lebano-Arab balance of trade may develop in favour of the Lebanese economy. Further when Lebanon's geographic characteristics (position, scenery, summer resorts, etc...) as well as the banking and commercial facilities it is able to supply, are taken into account, a wider cooperation among the Arab states - whereby a free movement of persons and capital is allowed - is likely to expand Lebanese invisible receipts.

2 It should be further noted, in this connection, that integration among the Arab countries may not necessarily require a closer restriction on Lebanese foreign trade. Other Arab states may find it appropriate to take steps leading to greater relaxation of exchange and trade control. The more pronounced the latter tendency, in case of integration, the greater the benefits secured by the Lebanese economy.

The customs union issue between Syria and Lebanon is a perfect example of the difficulties that may have to be faced, in case of integration, by the different Arab economies. It clearly indicates that if the benefits of integration are too great to be discarded which, in fact, they seem to be, the concerned countries may have to introduce changes in their commercial which otherwise they would not have attempted.

In practice whereas the Syro-Lebanese customs union issue is still unsettled,[1] tendencies for a wider customs union embracing all members of the Arab League seem to have appeared. The Arab economic treaty could be considered as a first manifestation of such a tendency. Although the treaty does not, at present, go beyond the encouragement of visible trade among the Arab countries through the preferential treatment accorded to the contracting parties,[2] it lays emphasis on the principle that economic integration between members of the League - viewed as a bloc - founded on a multilateral basis would constitute a step forward towards an increased benefit for all and a stimulant to the economic development of the region. It is not denied that a number of economic and political factors stand in the way of integration. However, if it is believed that a gradual build up of the above tendency is in the interest of Lebanese foreign trade

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1 Refer to Part II, Chapter IV, p. 79-82.

2 Refer to Part II, Chapter V, pp. 103-106.

and economic progress, then all forms of post-war economic co-operation between Lebanon and the League members, in way of trade agreements, are a welcome sign of an appropriate commercial policy.

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