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TOWARDS A (REGIONAL ECONOMIC ORGANIZATION
IN THE ARAB WORLD)

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REGIONAL ARAB ECONOMY

ABSTRACT

Many factors, historic, natural and economic, have lead to the rise of special relations among Arab countries, and created a common urge among them for the achievement of some unity which will be expressed in all aspects of life. These countries generally belong to the Arab-Islamic civilization, and therefore they possess a common culture, a common language, and very similar institutions. This essential unity has been enforced by the presence of a common administration during the Ottoman period, which, with the exception of Egypt had lasted until the first world war. This administration, despite its backwardness, provided a freedom of movement for goods and payments, and a common system of law, taxation, and economic organizations. Settlements after the first world war broke this unity, but the rise of Arab nationalism retained the urge for its reconstruction. The victorious powers which imposed their rules under the cover of Mandates, also, retained some of its features, the most important of which being the free trade between Syria, Lebanon, Transjordan and Palestine and the customs union of Syria and Lebanon.

Natural factors, too, contributed towards the support of the essential unity of the region. The

fertile crescent, and to a lesser extent the Nile Valley, have been the historic outlets for the pressure of population in the Arabian desert, and the two great river systems, the Tigris-Euphrates on the East, and the Nile on the West, were the stabilising factor in an economy which depended on uncertain rainfall. The presence of rivers flowing in more than one country, the Nile, the Euphrates, the Orontes and the Jordan, and the recent construction of oil pipe-lines across many territories have increased the inter-dependence of these countries. Though economically alike, the Arab region presents a great deal of variety within this general likeness. Agriculture presents a picture of specialization. Some countries are unproductive, but owing to their large oil revenues, are capable of providing appreciable markets for the productive countries.

The new trend for industrialization, brought about by national awareness, and the desire to create a safe degree of self sufficiency has created a need for bigger markets, and for greater capital. A regional market might enable rising industries to specialize and reap the advantages of large scale production in lower costs, whereas an attempt at pooling the region's financial resources might pave the way for a quicker pace of development and industrialization.

This general picture, deduced by the logic of

natural and economic factors is to some extent supported by the pattern of trade among countries of the region. The countries which preserved free trade among themselves, Lebanon, Syria, Transjordan and Palestine, in the inter-war period, had reaped considerable benefits from that trade. Trade among them formed an appreciable part of their foreign trade. Lesser were the trade dealings of the free trade areas with Iraq, Egypt or the Arabian Peninsular (which was an insignificant market then). During the war, trade exchange increased and expanded to include Iraq and Egypt. But after the war, the pre-war pattern was re-established. The war experience presents an interesting model for studying possibilities of regional trade, for the region was cut off from other markets, and in addition possessed in the Middle East Supply Centre a higher economic body for the allocation of goods and raw materials and the encouragement of trade exchange. The experiment disclosed the possibility of an appreciable exchange in agricultural products and raw materials, but the re-establishment of the pre-war pattern after 1945, was an expression of deficiency in manufactured articles, and heavy machinery and equipment, due to the relative under-development of industry and the complete lack of heavy industry. The development of industry and the attempt to establish heavy industry in Egypt, may eventually

enable a greater exchange of commodities, by creating a greater variety of production, and a higher degree of self sufficiency.

Notwithstanding the immediateness of the war experience, and the declared desire to co-ordinate all aspects of Arab life - symbolized in the Arab League and its Charter, nothing was achieved until 1953, in the way of multilateral organization of Arab economy. All issues which theoretically touch on preferential regional arrangements were raised whether by the Economic and Financial Committee of the Arab League (1945) or by one or other of Arab leaders or governments. Monetary arrangements, trade arrangements and other aspects of economic life were subjects of proposed schemes, which were not even seriously discussed by the Arab League. In 1951, however, a recognition in principle of the need for preferential arrangements was resolved by the Arab League Council.

In the meantime several bilateral agreements were concluded among Arab states. These agreements can be classified roughly into three kinds.

1. Agreements among the former free trade area, replacing a customs union and a free trade arrangement. These, though falling short of free trade, allow for a high degree of preference. There is freedom from monetary restrictions, and varying shades of preferential treatment

in matters of customs duties. There is, however, a tight restriction on transit trade.

2. Agreements between each one of the countries of the former free trade area - Jordan, Syria, and Lebanon - on the one hand and Iraq on the other. These agreements are generally much more restricted. With the exception of the agreement between Jordan and Iraq, the other two agreements do not provide for freedom from licensing or monetary restrictions. The scope and rate of preference in customs tariffs are extremely limited.

3. Other trade agreements which provide for no preference, apart from (most favoured nation treatment). These include the trade agreements between Egypt on the one hand, and everyone of the following countries: Syria, Lebanon, Jordan, and Saudi Arabia. These do not grant any privileges in customs tariffs, licences or monetary procedures.

4. Other agreements for regulating certain specific aspects of economic life. These include an agreement for a six million dollar loan which Saudi Arabia granted to Syria, another for tourism between Lebanon and Egypt, and a third for the utilization of Yarmuk waters by Syria and Jordan.

The attempt for a multi-lateral arrangement on a regional basis was revived in 1951 by the Conference of Arab Chambers of Commerce, Industry and Agriculture. In

its first three successive conferences it defined the principles and immediate objectives of this arrangement, and tried to induce Arab governments to adopt them. These principles were the following: insuring the free movement, residence, and right of ownership to every Arab citizen in every Arab country; insuring the freedom of movement for capital and payments, by establishing a sort of payments union; lowering customs tariffs and insuring freedom of movement of goods, from all restrictions; pooling financial surpluses through an Arab Development Bank; the organization of land, sea and air communications for the purpose of encouraging exchange of goods amongst Arab countries; and the creation of institutions for the effective supervision of economic collaboration.

These points were the basis of discussion for the Conference of Arab Ministers of Finance and Economy which was held in Beirut in May 1955. This conference stands as the first serious attempt at the definition of the meaning and extent of Arab economic collaboration. It succeeded in preparing two agreements which were signed in Cairo in September 1953, and later ratified by Egypt, Lebanon, Jordan, Saudi Arabia, Syria and Iraq. It did not provide for freedom from licensing but gave inter-Arab trade a preference in licences. It abolished all customs tariffs on natural, agricultural and animal products, and gave a 25 per cent reduction on the normal customs tariffs to a long list of manufactured products which were listed in a special appendix.

This appendix of industrial products was criticised as being both limited in scope and allowing only a small preference, which, failing an agreement on a minimum tariff vis-a-vis other countries, might in some cases be quite insignificant. In October 1954 the Arab states signed an amendment to the trade agreement whose main features were the extension of the 25 per cent preferential schedule, and the creation of a new schedule which gave some of the commodities of the original industrial schedule a 50 per cent reduction on the normal tariff. These commodities, however, have little industrial processing and are nearer to the class of agricultural products.

The second agreement was for the transfer of payments and capital. An undertaking was made for certain preferential treatment to inter-Arab payments. Capital transfers were allowed subject to the condition of investment in the receiving country, and to the freedom of return even after the termination of the agreement. The value of the agreement for the time being is confined to Egypt's participation in it, for Syria, Lebanon, and Saudi Arabia, in fact practise no restriction on capital movements, while Jordan and Iraq practise only limited restrictions. From a long-term outlook it has another benefit, in giving assurance of the possibility of capital return even after its termination, for this covers many of the dangers of possible change of

regulations in the none restrictive countries.

Other schemes were discussed: the formation of an inter-Arab Development Bank, of an Arab Marine Company, and of an Arab Company for the exploitation of the Dead Sea minerals. None of these schemes has materialized so far.

An Arab Economic Council of Ministers of Finance and Economy has now been established, and holds periodic meetings. The Arab League is increasing its qualified personnel to provide the necessary secretariat for the work of this council.

Despite doubts raised by some writers about the benefits of regional free-trade arrangements, it seems that such arrangements have real benefits and can be of great value in the case of the Arab countries. The fact that oil has made it possible for some unproductive countries to be rich in purchasing power opens a vast possibility for trade, and for pooling financial resources. Recent trade figures, however, do not show any significant rise in the trade of oil countries with other Arab countries. This is due to the deficiency in communications, and therefore the improvement of communications should be considered as being of no lesser value than the preferential trade agreements. Such schemes as a building of an Arab highway, connecting Arab ports on the Mediterranean with those on the Persian Gulf, and the re-operation of the Hijaz railway

line, and the forming of an Arab Marine Company, and others of a similar nature must form an integral part of any scheme of Arab regional economy.

Equally essential are the needs for a uniform tariff policy, a payments union, a freedom of movement of private capital and labour, and a rational system of industrial development, together with effective institutions for the embodiment of these principles.

The question whether an Arab Economic Union is also desirable on political grounds falls outside the scope of the present study. Such a Union has economic advantages and as such is highly commendable.

The movement for an Arab Economic Union must be understood and evaluated as an expression of Arab nationalism, and also as an expression of the modern trend for regional economic organization. Viewed from these angles this movement seems to have strong foundations and closer developments should be expected.

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CHAPTER I

BASES OF ECONOMIC COLLABORATION AMONG ARAB STATES

The Arab world has, since the dissolution of the Ottoman Empire following World War I, been living in the shadow of two opposing tendencies; a tendency for disintegration and splitting up, at first started by the victorious powers in their division of the whole region to spheres of influence and mandated territories, and later re-enforced either by local sentiment, or by vested interest, or by both; and a tendency for unity which struggled to retain the features of the old unity, and later to build up a new kind of unity which would be a compromise of fact and aspiration.

The two tendencies had not succeeded one another in time, but had both operated simultaneously, and still do. Their overlap is a part explanation of the many contradictory measures which one sees all through Arab life, and which are as noticable in the economic sphere as they are in other spheres.

The following chapters try to draw a picture of this curious situation; and to analyse the force and weight of each of the two tendencies, in the economic

sphere, its historic and actual grounds, and try to forecast its prospects in moulding the future of the region.

1. Historic

The basic unity of the Arab World, established since the early days of Islamic power, had been retained by the Ottoman Empire. In the economic sphere this unity was expressed by the free movement of goods, capital and persons throughout the Ottoman Empire, which until 1882 had included practically all of the Asiatic parts of the Arab world plus Egypt, and after that date and until 1917 included only the former parts i.e. the present states of Lebanon, Syria, Iraq, Saudi Arabia, Jordan and Yemen. The maintenance of one single system of taxation, one monetary system and one single administration also helped to preserve that unity.

But this comprehensive framework of unity provided by the Ottoman Empire, forms only a part of the whole picture. The lack of good and modern systems of communications has often made this unity ineffective; the lack of modern mechanised and specialised industries has prevented the rise of that interdependence which forms the backbone of modern economic units. Instead, within the general framework of political unity, the economic effort was rather provincial, and based more on self sufficiency and local markets; it

was a medieval economy of handicrafts exchanging their products for the surpluses of the neighbouring rural population, and not an economy of machines trying to reach far off markets.

And even this general framework itself, could at best, provide only a barren and fruitless unity. The old economic system had been decaying under the impact of the dynamism of modern western capitalism, and yet, inside the Ottoman Empire itself, the conditions for the rise of a local capitalistic industry were not created. Administration was hopelessly inefficient, and taxes were never imposed with a thought of their effect on national production. Foreign capitulations prevented the protection which was so essential for the rise of a new industry; the lack of education delayed the rise of a body of technicians who would be capable of building up a new type of economy; and the poverty of the over-taxed population prevented the accumulation of savings for modernized investments. However, it must be stated in justice, that the state was not alone responsible for the economic backwardness. Popular beliefs in fatalism, and an exaggerated sense of traditionalism, together with the religious prohibition on banking and interest, all contributed to the prolonged economic stagnation during the Ottoman period.

The fact that the downfall of the empire was succeeded

by the rise of capitalism with its accompaniment of an active middle class that clamoured for, and eventually obtained protection, and many of the conditions necessary for the rise and growth of industry, made people quite oblivious of the value of the previous unity under the empire. The introduction of this new dynamic element together with the elements of discord planted by the Western powers, had so transformed the economic outlook that the old unity provided by the Ottoman Empire almost ceased to be the pattern that the rising classes wanted to re-introduce. The delay in the search for the economic unity must, therefore, be partly attributed to the rise of a capitalism, which, in the flush of its local achievements, had not yet had enough time to think of a new pattern for unity. On the other hand the recent movement for closer economic collaboration among Arab states might be indication that industries in them have now, generally passed the stage of the need for extreme local protection, and started to look for wider markets.

2. Political

The last years of the Ottoman Empire saw the rise of a new force - Arab nationalism. At first, the objective of this movement was the attainment of autonomy within the Empire, but later it claimed full independence and complete

severance from the Empire. In the hope of winning this independence, the Arabs fought on the side of the Allies during World War I, relying on promises given by Britain on behalf of the Allies in 1915, for independence within Asiatic Arab territories. In 1916, the Allies signed another secret arrangement among themselves for the division of the Arab countries to spheres of influence. The part of the agreement affecting Arab countries was negotiated by Sir Mark Sykes on behalf of Great Britain and George Picot on behalf of France, and hence, that particular part of it came to be known as the "Sykes-Picot Agreement".⁽¹⁾ This agreement formed the basis of the division of the Arab countries into French and British Mandated territories. In 1917 the British Government promised the Jews a national home in Palestine.

Although the French and British Mandates are now a matter of the past, yet the frontiers they established, have been more or less preserved. Moreover, the Jews have established a state on part of the British Mandated territory of Palestine. Both facts, the frontiers within the Arab region, and the new challenge of hostile Israel are of major importance in the economic situation which we shall

(1) The Middle East, A Political and Economic Survey,
The Royle Institute of International Affairs, First
Edition, 1950, p. 25.

discuss.

The division of the Arab countries into British and French spheres of influence brought with it a break in the old economic unity established by Ottoman rule. Instead of one customs area, there now arose several customs areas: one for Syria and Lebanon, another for Palestine, a third for Transjordan, a fourth for Iraq, and a fifth for the newly established Kingdom of Saudi Arabia. Each of these areas had a currency of its own. Syria and Lebanon were given new currencies tied up with the French franc, and had to suffer severely in consequence. Palestine and Transjordan ultimately received a currency based on the British sterling pound, and Iraq too was given another such currency. Saudi Arabia established a currency of its own (the Saudi riyal). The object of these monetary arrangements was primarily the fostering of trade relations between the Mandatory States and the Mandated Territory on the one hand, and the facilitation of the entry of capital from the former to the latter on the other hand. In granting concessions, the Mandatories naturally had first priority, and some of the concessionary companies established in these countries, like the Iraq Petroleum Company in Iraq, and the Banque de Syrie et du Liban in Syria and Lebanon constitute a vested interest which tends to retain as much as possible of the old picture. Many of the international forces which after World War I had

succeeded in splitting up the Arab countries into many states, are, for various reasons which fall outside the scope of the present study, still supporting the existing divisions.

Nevertheless, some features of the old unity were preserved mainly in the form of more or less free trade within the area as we shall see later.

This political division was at first resented and disclaimed as being unnatural, and running against the interests of the region. Thus although little remained of the old unity, yet the bastion of unity remained in public sentiment and aspiration which had been based on Arab nationalism, the most swaying force in the region since the fall of the Ottoman Empire. Arab nationalism, had from the start claimed a vague Arab unity. It had never specifically stated whether this unity is to take the form of political union, federation, confederation, or whether it was going to be something short of that. Yet the word unity had a great, almost mystic appeal to the public, and it was considered as the second objective of the Arab national movement next only to the achievement of independence.

↙ This national sentiment for unity must certainly be considered as one of the major forces behind the movement for closer economic ties among the Arab States. These states, when they had been unable to achieve unified action in fields

which seemed more vital, have recently started the exploration of the economic field, partly for the relief of the public pressure for practical expressions of unity, and partly in realisation of the actual economic benefits of such collaboration. The same mixture of sentiment and benefit seems to be the driving force behind the movement of the Arab Chambers of Commerce for Arab economic collaboration.

On the other hand, the Zionist threat, which had become clear in Palestine itself almost since the British occupation, came to be better understood by the Arab states. World War II was one of the reasons, for when it cut the region from its normal sources of supply, and forced complete reliance on the regions own resources, the potential of Zionist built industry became so obvious, that it alarmed governments no less than local industries. In 1945, at the inception of the Arab League, the Arab states decided to take joint action in boycotting zionist products. This action was generally perfected in the following years, as we shall see later. But at the same time, it was gradually realised that the economic threat arising from Zionism can only be thwarted by the kind of positive action that would ensure for the Arab countries an economic system which was at least equally industrial and equally dynamic. The awareness of this danger reinforced the national sentiment for

unity, and came to be another factor working towards its achievement.)

One must lastly mention, as still another factor that gives the movement for unity some support, the movements noticeable in many parts of the world for closer economic collaboration, in response to common dangers or common benefits e.g. Benelux Customs Union, European Coal and Steel Administration etc.)

3. Natural and Economic

Natural: This historically established trend for unity, and this popular sentiment in its support, however strong, might in the end be incapable of achieving it, unless the unity has a basis in material fact i.e. unless it can be proved to have economic advantages. This leads us to a discussion of the interaction between natural conditions on the one hand and the historic-politico-social trend for unity.

Among the natural facts which tend to unity is the special relation between the Arabian desert and the surrounding fertile crescent, and which had often extended to include the whole of North Africa. In fact this natural relation has been a major factor in the very making of the Arab World itself. Its basis is the poverty of the desert in natural resources, and the precariousness of nomadic

desert life in a desert in which rain is as scanty as it is irregular. The surplus of population over resources, resulting from draughts, have historically continually forced the nomads of the desert into the adjoining, and comparatively more stable, agricultural land: the Tigris-Euphrates Valley and the Syrian Plains. Normally this process took the form of daily settlement of nomads and their conversion to peasant life. When the pressure had been great, the flow took the form of violent waves which left a more lasting mark and often reached beyond the fertile crescent. The first or normal form of this process still goes on, although the discovery of oil in the desert has temporarily changed its course in the opposite direction. But its force will certainly be strongly felt when oil loses its present value, by exhaustion or replacement. Likewise, even now, population movements are noticeable everywhere in Arab countries: from Lebanon and Jordan eastwards and southwards to Iraq and Saudi Arabia, and from certain depressed areas in Iraq southwards to Kuwait and Saudi Arabia. Sudan also might prove to be an important population outlet for Egypt.

But the natural link is not to be seen only through migration from the desert to settled land or from one country to another, but is further to be seen in the relations between parts of the settled land itself. The twin rivers which

constitute economic life of Iraq do not go through Iraq alone. The Euphrates runs a long distance of its course in Syria before it enters Iraq, and it is utilised there too. The effective exploitation of this river can only be achieved through the cooperation of these two states. Likewise the Orontes flows in Lebanon and Syria, the Jordan in Lebanon, Syria and Jordan, and above all the Nile in Sudan and Egypt. Rivers flowing in more than one country, create, especially when they are vital, interdependence which calls for some sort of unified action.

Moreover, the very existence of rivers, which are relatively more stable than rain in feeding agricultural life with water, especially under modern methods of river control, will tend to make of the river countries points of attraction, towards which the less stable rain economies will be moved. The fact that, except for short periods, Egypt and Iraq had historically (and especially in Arab history) formed the two central points around which the course of events in other countries has inevitably resolved, is but a historic expression of this interdependence. Unless modern industry succeeds in changing the whole outlook of the region's economy, this will remain as another point contributing towards interdependence.

The recent discovery of oil, which called for the construction of pipelines, and terminals common between more than one country, have added a new force for unity

and interdependence.

Economic: Aside from natural conditions certain economic developments of our own time definitely call for closer economic collaboration among Arab states.

Chief among these is the need for industrialization. This need arises from many factors, in some cases as in Egypt and in Lebanon the increase of population and the insufficiency of agricultural resources are giving a strong impetus for industrialization. The need for a rise in the standards of living is another contributing factor, for industrial labour is earning many times as much as agricultural labour. The realisation that political independence and power are related to economic and particularly industrial power form a third impetus for industrialisation, especially since the Arab world entered in its deadly struggle with Israel. Lastly the scarcity of commodities during the period of World War II had disclosed the need for a certain degree of self sufficiency in times of emergency.

But, industry, having outgrown infancy, soon realises that it can only grow if there exists for it a wide market. The law of diminishing costs gives chances for large scale and specialised industries, and industries which fall far short of the optimum size ultimately find themselves either precariously existing under the cover of absurd protection or swept away. Thus logically enough, the need for a strong and competitive industry calls for larger markets, and no

Arab state, alone and by itself, can ever hope to provide that market.

It is also noticeable, that some countries whose revenue from oil has increased, such as Saudi Arabia and the Persian Gulf Protectorates, and have thus acquired a huge purchasing power, cannot build up either an industry or an agriculture of their own, for lack of natural resources. They can thus offer markets which scarcely need to be protected.

Another requirement of industrialization is capital: capital that builds up the facilities of the country, like roads and schools, etc. and capital that builds up the industrial concerns themselves. Now it happens that those same countries (Saudi Arabia and the Persian Gulf Protectorates) have got a surplus of capital, with a limited chance of spending, and it appears that they may be able to provide the much needed capital for economic and industrial growth to the benefit of all concerned. The lending countries would ensure a steady income for themselves, and the borrowing countries would ensure the development of their resources and the consequent increase of production and chances of employment.

Methods whereby local Arab markets may be changed into one regional market, and whereby capital resources might be pooled, will be discussed at greater length later in this study.

One last point needs here to be mentioned, namely the argument often brought up, that Arab countries are not likely to achieve close economic collaboration, or to benefit from it, because they present similar economies, and not complimentary ones. Everywhere, so runs the argument, one finds the same pattern of agricultural predominance, with a repetition of almost identical consumption industries: those connected with building or weaving or depending on agricultural raw materials. Such economies, it is said, are more likely to be competitive, and in any case have little to offer in way of trade dealings. If all countries produce similar products there is a lesser chance of trade exchange. In fact the main features of the foreign trade of every one of these countries consist of the exchange of agricultural and raw materials for machines and finished products which are manufactured by industrially more advanced countries.

In answer it may be first re-emphasized that, as we have already noted there are in the Arab world countries which are productive and countries which are not productive, but are at the same time rich in purchasing power. This presents a vast opportunity of trade.

But it is also noticeable that within the range of agricultural production there is specialisation, that again offers chances for exchange of products. Egypt is specialised in cotton, and can export to cotton mills in other countries

the finer kinds of Egyptian long-fibre cotton, but is at the same time in need of cereals and fruits, which it can import from Lebanon, Syria and Iraq. Jordan has, in the Jordan Valley an area with a sub-tropical climate and thus can provide all countries with out of season crops, and might even develop some tropical crops. Lebanon is an exporter of fruits - like apples and citrus, which can be grown at an advantage in its soil and climate. Iraq is an exporter of dates and cereals, Syria an exporter of cereals, fruits and vegetables etc.

Although industry does not yet present a similar picture, yet the tendency in that direction is observable even now. Egypt is slowly building up a heavy industry.⁽¹⁾ In a matter of a few years time it will have an operating steel mill, a number of armament factories and some factories for machines and tools. This may be a start in industrial specialisation which will increase the regions self sufficiency and interdependence.

(1) The Economy of Lebanon in the Arab World, No. 22, Third Year, February 1954.

CHAPTER II

THE EXTENT OF ACTUAL ECONOMIC RELATIONS AMONG ARAB STATES

1. Arab Trade Relations Between the Two World Wars.

The Arab countries, were dismembered, after the First World War, on the basis of an agreement concluded in 1916 by Great Britain, France and Russia - generally known as the Sykes-Picot Agreement, and a later supplement to this agreement which was agreed upon between Mr. Lloyd George of Britain, and Mr. Clemenceau of France in December 1918. (1)

The victorious powers of the First World War, however, seem to have realised that, in spite of the political division, the vital economic relations of the region, which had been conducted on the basis of an ancient unity, cannot be totally ignored. Thus the Peace Treaty between Turkey and the Allies, which was signed in Lausanne (July 1923), provided in Article 7, that countries which formerly were members of the Ottoman Empire, have the right to conclude special trade agreements, without being called upon to confer the benefits of such agreements on other countries (notwithstanding the principle of equal treatment to all members of the League of Nations, or any most favoured nation clauses which might

(1) The Middle East: A Political and Economic Survey, published by the Royal Institute of International Affairs, 2nd Ed., 1954, pp. 25-26.

be put in trade agreements in which they were a party).

Accordingly arrangements and agreements were provided for the facilitation of trade between these countries.

The most important of these was the Customs Union and the close economic cooperation between Syria and Lebanon. Under the French Mandate, a separate economic administration covering the two countries, for the administration of certain aspects of joint economic interests was set up. This was the Conseil Supérieur des Interets Communs which was responsible for customs administration, for control of concessionary companies and some other functions. Moreover, the currencies of Syria and Lebanon were interchangeable with a common backing and a common bank of issue.⁽¹⁾

Important also was the free trade arrangement between Syria and Lebanon on the one hand, and Palestine on the other, provided by the trade agreement of 18th May, 1929. This agreement allowed the entry of all local products, free of customs duties, whether they are made of local or foreign raw materials. Re-export was also allowed, with the provision that the re-exported goods would be allowed entry without the payment of customs duties when these duties were equal in both countries; or, if the receiving country had a higher import duty than the re-exporting country, then only the difference between the two duties would be claimed. The

(1) Ibid., p. 405.

two governments would make periodic settlements for such transactions. Transit trade was also to be facilitated on as wide a scale as possible. The growing Jewish industry in Palestine, however, considered this agreement unfavourable, and demanded protection from Syrian and Lebanese products.

Eventually it succeeded, for in October 1939, a new agreement was concluded whereby the system of free trade was abolished and replaced by a system of preferential treatment, which maintained free trade on certain articles, granted a tariff reduction on others, and subjected the rest to the normal tariff duty. This latter agreement, therefore, stands as the first serious blow to free trade in the area.⁽¹⁾

A similar free trade agreement was concluded between Syria and Lebanon on the one hand and Trans-Jordan on the other, in 1923. It also provided for the free entry of local products, regardless of the proportion of foreign raw materials in them, and for the facilitation of re-export and transit trade.⁽²⁾

Likewise free trade and transit existed between Palestine and Trans-Jordan. Until October 1932 there were no customs barriers between those two countries, and the government of Palestine used to pay specified amounts from

(1) "The Economic Setup of the Arab World and Trade Barriers between the Arab countries", Mohammad Said Zaim, Chamber of Commerce and Industry Review, Beirut, No. 5, December 1951.

(2) Ibid., p. 39.

the customs revenues to the Trans-Jordanian government, being the share of this latter government from customs duties on foreign goods re-exported from Palestine to Trans-Jordan. It was only in 1932 that the Trans-Jordan government started to collect duties on goods coming in transit, via Palestine.(1)

These four countries had thus, until the Second World War, formed a free trade area. This induced a considerable movement of trade among them, and acted as an impetus for the growth and specialisation of industry. The industries of Syria and Lebanon, found in Palestine a valuable market, which was of great help for them in their earlier stages of growth.

Trade benefitted greatly of this arrangement. Thus the exports of Syria-Lebanon to Palestine formed in 1935-38 an average of 33.1 per cent of the total exports, of these two countries, while their imports from Palestine formed 5.6 per cent of their total imports.

The imports of Palestine from Syria-Lebanon, averaged during the years 1934-1937, 13.25 per cent of the total value of Palestine's imports while its exports to them averaged for the same period 10.4 percent⁽²⁾ of total exports.

Syria and Lebanon exported to Trans-Jordan for the period 1934-1936 on the average 9.6 per cent of their total

(1) The Middle East, op. cit., p. 410.

(2) Said Himadeh, The Economic Organization of Palestine, American University of Beirut, 1939, p. 559.

exports.(1) In 1937 Trans-Jordan's imports from Syria-Lebanon formed 14.9 per cent of its total imports, and its exports to them 20.9 per cent of its total exports. Trans-Jordan exports to Palestine during that same year formed 79.1 per cent of its total exports, which means that between them these three countries received all the exports of Trans-Jordan. Trans-Jordan's imports from Palestine formed 5.7 per cent of its total imports.(2)

A looser trade relation existed between the free trade area of Syria-Lebanon, Palestine and Trans-Jordan, on the one hand, and Iraq on the other. Iraq did not form a part of this free trade area, and this may have been a reason for the relatively smaller amount of trade with it. No trade agreement existed between Iraq and Syria-Lebanon or Trans-Jordan. A preferential trade agreement with Palestine, however, was signed in 1937 in the interest of Iraqi exports, No tariff reductions or exemptions, however, were granted to Palestinian exports in return.(3)

For the period 1935-1938, Syria-Lebanon exported to Iraq on the average 3.3 per cent of their total exports and imported from it only 3 per cent of their total imports,(4)

(1) Mohammad Zaim, op.cit., p. 45.

(2) The Middle East, op.cit., p. 431.

(3) Said Himadeh, The Economic Organization of Iraq, American University of Beirut, 1938, pp. 419-420.

(4) The Middle East, op.cit., p. 410.

while, in 1938, Palestine exported almost nothing to Iraq and imported from it 1.5 per cent of its total imports.⁽¹⁾ In the same year 1.8 per cent of Iraq's imports came from Syria-Lebanon and only 0.2 per cent from Palestine and Jordan. Only 6.6 per cent of Iraq's exports went to Syria-Lebanon and 4.9 per cent to Palestine and Trans-Jordan.⁽²⁾

An even looser trade relation existed between the free trade area above mentioned and Egypt.

Between Palestine and Egypt, trade received a serious set-back as a result of the subjection of Palestinian products in 1931 to high tariff duties. In 1936, however, a trade agreement was concluded, which gave Palestinian products some preference in customs tariffs.⁽³⁾ Between Syria, Lebanon and Egypt, a trade agreement was concluded in 1928 and another in 1930, which gave some facilities for the trade between these countries.⁽⁴⁾

In 1938 Palestine imported from Egypt 3.6 per cent of its total imports, and exported to it 2 per cent of its total exports. During the period 1935-1938, Syria-Lebanon imported from Egypt 2.7 per cent of their total imports and exported to it 5.1 per cent of their total exports, while in 1937, 6 per cent of the imports of Trans-Jordan came from Egypt.⁽⁵⁾ For Egypt its percentage of trade with these countries was negligible.

(1) Ibid., p. 431.

(2) Ibid., p. 226.

(3) Said Himadeh, The Economic Organization of Iraq, p. 564.

(4) Mohammad Zaim, op.cit., p. 4.

(5) The Middle East, op.cit., pp. 320, 410, 431.

Egypt concluded in 1937 a trade agreement with Iraq, which gave a limited preferential treatment to some articles. In 1938 Egypt's exports to Iraq formed only 0.2 per cent of its total exports, while its imports from Iraq formed 0.4 per cent of its total imports. For Iraq, exports to Egypt, and imports from Egypt formed 1.5 per cent of total exports and imports in 1938.(1)

2. World War II - (a) Middle East Supply Centre.

In 1941 the British Government appointed Mr. Oliver Lyttleton, a member of the War Cabinet, as a minister resident in Cairo. Apart from presiding over the Middle East War Council, the main job of the new minister was to concert measures necessary for the prosecution of war other than military operations. The most important problem to be faced was the economic problem. How was the area to be supplied with its necessities without over taxing the limited and much needed shipping space available for the war effort. All efforts had to be made to make the area as self sufficient as possible. Furthermore, local possibilities for satisfying army needs in the area had to be fully explored. Thus the Middle East Supply Centre was established by the British Government in 1941, and made into a Joint Anglo-American Agency in 1942. Its immediate purpose was to satisfy a war need, but as a consequence it proved to have an important influence on the economic coordination and development of the area.

(1) Ibid., pp. 188, 286.

In seeing to the saving of shipping space and assuring the local populations of the necessities of life, the Centre encouraged increased food production, gave aid to industries, and planned the allocation of scarce materials. Cooperation between the various Middle East Countries was initiated. Production had to be increased and each area was to produce what it was best fit for. With the control of shipping space the Centre was able to impose economic specialization and coordination. Raw materials, chemicals, and machinery were allocated where they could yield most, irrespective of national frontiers. However, the M.E.S.C. did not touch some very important problems of economic cooperation such as financial legislation or tariffs. The reasons for such omissions were obvious. The first was that as a foreign body it had no authority to interfere in such matters that fell exclusively within the domain of national sovereignty; and the second was that it was disinterested in any activity beyond what was essential for the war effort.

Like everything foreign and imposed the M.E.S.C., which was Anglo-American in administration and personnel, was unpopular, and with the termination of hostilities it came to an end. But the work it accomplished, particularly in the field of economic coordination, remained as an evidence of what benefits could be obtained from economic specialisation and close collaboration.

Ever since the end of the War responsible Arab states-

men and economists have been thinking of adopting such methods within the general framework of the Arab League.

(b) Increase of trade during the War.

World War II created a condition which is worthy of analysis, in that on the one hand it cut Arab countries from foreign sources of supply and restricted supplies to a large extent to those available in the region, and on the other hand it saw the establishment of the Middle East Supply Centre already discussed, for the allocation of resources and supplies, local and foreign, on a regional basis.

The experiment was of too short a duration to enable a definitive judgement. Yet some of its features deserve notice. The first of these is that Iraq's trade with the neighbouring Arab countries considerably increased. Thus Iraq's imports from Syria-Lebanon rose from 1.8 per cent of its total imports in 1938 to 8.2 per cent in 1945 and its imports from Palestine and Trans-Jordan rose for the same years from 0.2 per cent to 4.4 per cent. Iraq's exports to these countries also rose considerably. Thus while in 1938 only 6.6 per cent of its total exports went to Syria-Lebanon this percentage rose to 12.2 per cent in 1945 and for Palestine and Trans-Jordan it rose from 4.9 to 14.9 per cent. Iraq's exports to Egypt rose from 1.5 to 5.1 per cent. Thus in 1945 a considerable amount of Iraq's foreign trade was with Arab countries (17.7 per cent of imports and 37.6 per cent of exports).⁽¹⁾

(1) The Middle East, op.cit., p. 266.

The corresponding figures in the trade of these countries, were the following: for Palestine imports from Iraq rose from 1.5 in 1938 to 14.8 per cent in 1946,⁽¹⁾ and for Syria-Lebanon imports rose from 3.3 per cent in 1938 to 16.4 per cent in 1945 and exports from 3 to 11.6 per cent.⁽²⁾

The second feature was the increase of Egypt's trade with the other Arab countries. Thus while in 1938 Egypt's imports from Middle Eastern countries amounted only to 7 per cent of total imports in 1943 they rose to 43 per cent, while exports for the same period rose from 7 to 22 per cent - a peak which has never been repeated before or after.⁽³⁾ Thus Iraq's exports to Egypt, as already noted rose from 1.5 to 5.1 per cent of its total exports; Palestine's exports to Egypt rose from 2 per cent in 1938 to 19.9 per cent⁽⁴⁾ in 1946, and those of Syria-Lebanon rose from 5.1 to 11.9 per cent. Syria-Lebanon's imports from Egypt also rose from 2.7 to 8 per cent of their total imports.⁽⁵⁾

At the same time, the area of Lebanon-Syria, Trans-Jordan and Palestine, though no longer a free trade area since 1939, maintained a high volume of trade. Thus the imports of Syria and Lebanon from Palestine rose from 5.6% in 1938 to 12 per cent in 1945. Exports, however, declined from 33.1 to 24.2 per cent in 1945, but rose again to 35.9

(1) Ibid.

(2) Ibid., p. 320.

(3) Charles Issawi, Egypt at Mid-Century, Oxford University Press, 1954, p. 201.

(4) The Middle East, op.cit., p. 320.

(5) Ibid., p. 410.

per cent in 1947.⁽¹⁾ Trans-Jordan also maintained about the same standard of trade with the neighbouring Arab countries, with 100 per cent of its exports going to them.

3. Recent trade relations among the Arab countries.

Immediately after the war there occurred a decline in the proportion of inter-trade among Arab states, owing to the opening of new markets, and the severely felt need for foreign goods and machinery. Slowly, trade, however, resumed its pre-war pattern with some changes.

Syria and Lebanon which severed their pre-war customs union in March 1950 continued to handle a big volume of trade between them, and the close trade relations of each one of them with other Arab countries was maintained. In the meantime, Palestine which had been a main outlet for their exports was liquidated, but the enlarged state of Jordan, which included that part of Palestine which remained in Arab hands, remained as an important customer to both countries. Consequently, the former free trade area continued to handle a considerable volume of trade. This was possible because of Geographic proximity on the one hand, and because the trade agreements which these countries concluded accorded a considerable range of preferential treatment, as we shall see in a subsequent chapter.

Syria:- In 1951, Syria sent to the different Arab countries, 36 per cent of its total exports (the value of

(1) Ibid.

Syrian exports to Arab countries amounted to L.S.110 million out of a total value of exports which amounted to L.S.304 million). Lebanon was naturally the best customer and alone it received 19 per cent of Syrian exports (L.L.59 million). Jordan received 4 per cent of Syria's exports (L.S. 12 million). Iraq became an important market for Syrian exports, for in 1951 Syria sent 7 per cent of its exports to it (L.S.20 million). Syrian exports to Saudi Arabia, though still small, showed a trend to increase and it amounted to 2.8 per cent of Syrian exports (L.S.8.5 million). Trade with Egypt was smaller in percentage only 2.3 per cent of Syrian exports (L.S.7 million).⁽¹⁾

In 1952 the same picture is repeated with a slightly higher volume and proportion. The percentage of exports to Arab countries increased to 39 per cent; and their value increased L.S.123 million out of a total of L.S.313 million. Lebanon received 22 per cent (L.S.70 million) Jordan and Iraq 5.5 per cent each (L.S.17 million); and Saudi Arabia 3.3 per cent (L.S.10 million), exports to Egypt declined to just over 1 per cent; (L.S.4.5 million).⁽²⁾

Thus outside the former free trade area, Syria seemed to be on the way of establishing new connections with the oil countries - Iraq and Saudi Arabia. However, trade with Kuwait remained negligible.

Imports from Arab countries, however, occupied a

(1) Syrian Ministry of Finance, The Syrian Economy, Syrian Republic Press, 1953, p. 150.

(2) Ibid.

lesser proportion of total Syrian imports. In 1951 they amounted to 20 per cent (L.S.55 million out of a total of L.S.277 million) and in 1952, while the volume of these imports increased to L.S.60 million, their proportion went down to 18 per cent. Lebanon contributed the highest share - 12 per cent in 1951 and 11 per cent in 1952, followed by Iraq with 1.5 per cent and 2.6 per cent respectively, while Jordan contributed 1.5 per cent in both years.(1)

Lebanon:- In 1951 Lebanon sent to Arab countries Syria, Egypt, Saudi Arabia, Jordan and Iraq 47 per cent of its exports (LL.47 million of a total of LL.97 million); in 1952, 48 per cent, (LL.37 million of a total of LL.77 million);(2) and in 1953, 37 per cent (LL.32 million of a total of LL.87 million). Of the 1953 exports 15 per cent went to Syria, 11 per cent to Saudi Arabia, 7 per cent to Jordan, 5.7 per cent to Egypt and 4.6 per cent to Iraq.(3)

On the side of imports Lebanon received in 1951 29 per cent of its total imports from the above Arab countries, (LL.91 million out of a total of LL320); in 1951 it received from the 26 per cent of its total imports (LL.91 million out of a total of LL.347 million);(4) and in 1953 it received 34 per cent (LL.123 million of a total of LL.361 million). In this latter year it received 25 per cent of its

(1) Ibid.

(2) Abdul-Rahman Sahmarani's article in The Economy of Lebanon in the Arab World, Nos. 15 and 16, 1953, p. 118.

(3) Bulletin Statistique Trimestriel, Vol.IV, No.4, p. 22.

(4) Sahmarani, op.cit., p. 118.

total imports from Syria, 4 per cent from Iraq, 2.2 per cent from Saudi Arabia and 1.4 per cent from Jordan. (1)

Jordan:- Jordan exported to Syria and Lebanon in 1951 95 per cent of its total exports (JD.954,000, of a total of JD.1 million). In 1952 it sent to Syria 48 per cent (JD.567,000) and to Lebanon 41 per cent (JD.495,000); Saudi Arabia and Iraq almost completely account for the remainder of exports. (2) In 1951 Jordan received from Syria and Lebanon 12 per cent of imports from their national products, and 15 per cent in the form of re-exports. In 1952 it received from Syrian national products 11 per cent of total imports and from Syrian re-exports 2 per cent. From Lebanese national products it received 4 per cent and from Lebanese re-exports 13 per cent. Iraq supplied Jordan with 11 per cent of its imports in 1951 but with only 4.2 per cent in 1952. (3) Thus the total imports of national products from Arab countries amounted to over 23 per cent in 1951 and about 20 per cent in 1952.

Iraq:- In 1951, 1952 and 1953 Iraq exported to Lebanon 8.29 per cent; 5.42 per cent and 3.36 per cent respectively of its total exports. To Syria it exported 1.89, per cent, 3.79 per cent and 5.03 per cent; to Jordan 5.30 per cent, 2.67 per cent and 2.15 per cent and to Egypt an average of 2.80 per cent. Kuwait became in 1953 an important market to Iraq and received

(1) Bulletin Statistique Trimestriel, op.cit., p. 22.

(2) Ali Dajani, Economic Change in the Hashemite Jordanian Kingdom, Amman Chamber of Commerce, 1953, p. 27.

(3) Ibid., p. 29.

in that year 7.73 per cent of Iraq's total exports. To all Arab countries Iraq sent in 1953 over one quarter of its exports, equivalent in value to about ID.2.3 million (excluding oil). Iraq imported a lesser proportion from Arab countries. In 1953 its imports from Syria amounted to 1.72 per cent and from Lebanon only 0.48 per cent, of its total imports. Its importation from Arab countries amounted to less than 2.5 per cent of its total imports, equivalent in value to about ID.1.8 million.(1)

Egypt:- Egyptian trade with Arab countries still forms a negligible percentage of its foreign trade. In 1951 it sent to all Middle Eastern countries 5 per cent of its total exports and received from them 8 per cent of its total imports.(2)

(1) Government of Iraq, Statistical Abstract, 1953, Baghdad, 1953, pp. 136-170.

(2) Charles Issawi, op.cit., p. 201.

CHAPTER III

THE ARAB LEAGUE AND ECONOMIC COLLABORATION 1945-1951

1. The Covenant of the Arab League

The Arab states signed in March 1945 the Covenant of the League of Arab states, after prolonged preliminary talks and conferences. The league was supposedly an expression of the forces of unity inside the Arab World, but, as subsequent events had shown, it only implied a limited triumph of these forces. The same old struggle between unity and division was now brought inside the League, and the same story of dissention and compromise continued. The Arab League, merely provided a machinery which brings Arab states together, in regular periods, to discuss their common problems, and to try to achieve, within the framework of the sovereignty of each, and in as much as conditions of everyone of them permitted, the greatest possible unity of action.

The crucial article in defining the objectives of the Arab League in all spheres, including the economic, is Article II. According to this article, the object is "to strengthen the ties between the participant states, to coordinate their political programmes in such a way as to effect real collaboration between them, to preserve their independence and sovereignty, and to consider in general the affairs and interests of the Arab countries.

Likewise, a further object shall be the close collaboration of the participant states, in accordance with the regime and conditions prevailing in each (individual) state, in the following matters:-

1) Economic and financial affairs, comprising trade reciprocity, tariffs, currency, agricultural and industrial matters; 2) communications, comprising railways, roads, aviation, navigation, posts and telegraphs; 3) cultural affairs; 4) matters relating to nationality, passports and visas, execution of judgements and extradition of criminals; 5) matters relating to social questions; 6) matters relating to public health."

However, the above article defined collaboration only in general terms, and the detailed extent and method of that collaboration was left for future definition. Article IV of the Covenant provided that "for each subject specified in Article II, a special committee shall be formed in which the states participant in the League shall be represented. These committees shall be responsible for formulating the bases, extent and form of collaboration, in the shape of draft-agreements, which should be submitted to the council for consideration, prior to their presentation to the member states.

2. The Economic and Financial Committee of the Arab League.

In accordance with Article IV above quoted, a committee was formed at the inception of the Arab League under the name of the "Economic and Financial Committee", presumably for the

purpose of formulating the bases, extent and form of economic and financial collaboration, by preparing one or more draft agreements for that matter. Indeed this was the wording of the terms of reference under which the committee was directed to work.

The committee was convened in Cairo in July 1945, worked for a whole month, and submitted its final report on August 14th 1945. This report represents the state of mind in Arab states regarding economic matters at the time it was written.(1)

The committee divided its subject matter into three parts: 1) Agricultural matters; 2) Industrial and Commercial matters and 3) matters relating to the land problem of Palestinian Arabs. A special sub-committee was formed for everyone of these parts.(2)

(a) Agricultural Matters.(3)

The Committee recommended the collection of information on agricultural life of the Arab countries according to a detailed questionnaire (which included such things as cultivated and cultivable land, irrigated and irrigable land, numbers of landowners, sizes of land holdings, numbers of farmers and agricultural labourers, lands planted with trees, forest land, government estates, crops, animals, dairy products, agricultural machines, agricultural exports and imports,

(1) Arab League, Report of the Economic and Financial Committee, 1950, p. 1.

(2) Ibid., p. 2.

(3) Ibid., p. 7.

institutions dealing with agricultural matters (public and private agricultural schools, etc.).

Co-ordination of research on all aspects of agricultural life was recommended and emphasized. Agricultural education, the spread of cooperatives and their subsequent organisation in one union which includes all cooperatives in Arab countries were also recommended.

The committee also suggested the study of agricultural and land legislation. It also emphasized the role of the peasant in public life.

Finally a brief draft agreement for the organization of Arab collaboration in agricultural matters was prepared. This draft agreement consisted of the following four articles:

- 1) the establishment of a special office in the Secretariat of the Arab League to be called "Office of Agricultural Matters".
- 2) This office is to be entrusted with the execution of such resolutions of the Economic and Financial Committee as relate to agricultural matters, or the resolutions of the Agricultural Committee if this latter committee is formed.
- 3) The Committee and Office are entrusted with the collection, classification and publication of statistics on agricultural development and rural prosperity; the study of all agricultural reforms in the world and submission of proposals concerning such reforms which can be applied in Arab countries; the study of ways of coordination in agricultural education, cooperatives, and agricultural supervision, and similar matters, in Arab countries; the proposi-

tion of schemes of reform which might be adopted by governments, individually or collectively, and the coordination of their agricultural schemes and policies; and the enforcement of Arab League resolutions on agriculture.

4) The Committee is empowered also to: study agricultural development which in its widest sense includes theories and practices in the raising of animals, in forestry, fisheries and agricultural industries; study the means for spreading prosperity and welfare in villages, and raising the standards of living of the rural population.

This draft agreement, however, was never signed, and consequently the Agricultural Office suggested in it has never been set up, inspite of the real need for it.

(b) Commercial and Industrial matters.

The commercial, industrial and financial matters were summarized under the following fifteen points:⁽¹⁾

1. The need to facilitate the exchange of surpluses of agricultural and industrial products among Arab League states, and the need to cooperate for the sake of obtaining raw materials from foreign markets. 2. The need to improve and coordinate means of communications, as well as sea, land and air transport, in accordance with agreements to be signed by the League states. 3. The exchange of information, and commercial and economic statistics, and the pooling of all publications relating to them in the Arab League Secretariat.

(1) Ibid., p. 20.

4. The exchange of commercial representation and commercial missions. 5. The organisation of exhibitions for industrial and agricultural products and the joint participation in international exhibitions. 6. The facilitation of tourism, 7. The coordination of customs policy. 8. The coordination and simplification of customs regulations. 9. The exchange of missions for study and business purposes. 10. The establishment of industrial, commercial and financial institutions common to the League States and their citizens. 11. The establishment of common chambers for industry and agriculture. 12. The coordination of scientific and technical studies and exchange of information of scientific nature. 13. The raising of the standard of commercial and industrial education. 14. The coordination of legislation, in matters relating to commerce, industry and finance, especially by adopting unified systems of weights and measures. 15. The coordination of the bases of currency and facilitation of currency dealings among Arab countries.

On point 1) relating to the exchange of agricultural and industrial surpluses, the committee requested information on such surpluses in every country, on the need for them in other countries, on the obstacles hindering their exchange, and the extent of the governments readiness to reduce transport costs and similar costs. The exchange of such surpluses would then be effected either through government deals, or through the ordinary channels of trade.⁽¹⁾

(1) Ibid., p. 21.

On point 2) relating to communications, information was requested on the existing means of communications and the costs of transport.(1)

On point 3) relating to the exchange of information, the committee requested statistical information, on a number of things including agricultural and animal production, exports of agricultural products, foreign trade, the main items of imports, and the value and quantity of such items in the imports of every country. Information was further requested on industry, on government budgets, on the standards of measurements, and on the procedural obstacles which merchants meet in their trade dealing with Arab countries. Governments were requested to send copies of their tariff schedules, customs legislation, statistical publications, and trade agreements. An interesting proposal was the establishment of a technical administration in the Arab League Secretariat for statistics and documents.(2)

The Arab States were advised to exchange commercial attache's, to arrange periodic exhibitions and to encourage travel of Arab citizens in Arab countries.(3)

On point 7) relating to the coordination of Customs Policy, which is a crucial point for the effective facilitation of trade, the committee simply suggested that "every Arab government be asked the following questions: 1) does

(1) Ibid., p. 21.

(2) Ibid.

(3) Ibid., p. 22.

agricultural or industrial production depend, in every respective country, on special tariff protection? 2) Is there any harm in abolishing or reducing customs tariffs in the exchange of goods among Arab League countries?(1)

On point 10) relating to the establishment of common industrial, commercial and financial institutions, the committee again recommended the study of the needs of every state for important industrial, commercial and financial projects, and advised governments to appeal to private institutions to start studying the means of their execution.(2)

The committee further advised the invitation of businessmen to annual conferences with the object of encouraging private deals amongst them, and the forming of common chambers of commerce and industry.(3)

Information was further requested on institutions of scientific research, and technical (including commercial) education, and on laws regulating commerce, finance, and industry.(4)

On point 15) relating to the coordination of the bases of currency and facilitation of currency dealings among Arab countries, the committee remarked that the monetary question was "very complicated", and that no working arrangement can be devised except on the basis of a full

(1) Ibid., p. 23.

(2) Ibid.

(3) Ibid., p. 24.

(4) Ibid., pp. 23-26.

knowledge of the "true legal position of every monetary system" in Arab countries. "It would be then possible to consider whether it is feasible to devise a unified currency for the Arab countries, or to stabilise the existing currencies on a unified basis, or to leave the monetary position where it is and devise a method which would facilitate the transfer of money". Consequently, the committee requested complete information about the monetary systems of the different countries, and promised to meet again when this information was ready.⁽¹⁾

Thus behind the cover of the lack of basic information the Economic and Financial Committee of the Arab League evaded all the basic issues. Maybe there was a genuine lack of information; but more important still, the member countries lacked the vision for a unified regional economy. Their infant industries, where they existed, though they had reaped enormous profits during the war, were not confident yet. They preferred a market which, though small and limited, seemed to them secure, to a larger market which, though wider, was nevertheless, more risky. That was not only because of the lack of a sufficiently wide vision, but also because that wider market, was, at the time, not wide enough, i.e. not sufficiently valuable to give the necessary incentive for such a risk. The huge increase in oil revenue which established such markets as those of Saudi Arabia and Kuwait, and

(1) Ibid., pp. 26-27.

immeasurably expanded that of Iraq and the strides in the growth of industrial production in Egypt, Syria and Lebanon, had not yet ripened by the time the financial and economic committee of the Arab League was convened. And it is in the light of these developments, that the events occurred which slowly turned the attention to close economic collaboration.

Among the interesting parts of the committees recommendations was that dealing with Agricultural coordination. Here at last an attempt was made at a draft agreement for "establishment of a special office in the Secretariat of the Arab League for Agricultural matters". This office would be responsible for the execution of the general recommendations of the Economic and Financial Committee on Agriculture, and for proposing schemes "for reform to be enforced either by individual governments or collectively by all Arab governments, and coordination of the agricultural schemes and policies of these governments".

(c) The Land Company.

The only practical legacy of the committee, was its recommendations motivated by political rather than economic reasons, for the formation of a mortgage company which would extend loans to Arab farmers in Palestine, with the object of combatting the alienation of Arab lands to Jews. The company was organised with a capital of LE.1 million, and the Arab governments guaranteed for its shares a minimum profit of 5 per cent and for that purpose, put in a reserve of

LE.250,000. The company had scarcely been formed when the Arab front in Palestine collapsed, and it only lately commenced operations in the remaining part of Palestine. Though formed only on a small scale, and for a limited objective this company has a value as an experiment in common institutions advocated by the committee.

With the above exception, nothing was done about the recommendations of the Economic and Financial Committee of the Arab League. The committee's recommendations, though obviously preliminary by nature and form (as can be seen from the large number of questions and questionnaires drawn by the committee) seems to have been regarded as rather final. No attempts were subsequently made either at collecting the information requested, or analysing available information. This seems to imply that in the judgement of the committee, and also of the Arab League states, the time had not been ripe yet for a serious attempt at drafting agreements for Arab economic collaboration. The beginnings in this latter direction were to be made eight years later. Having submitted its reports, the Economic and Financial Committee was not called for another meeting until the end of 1952. The Economic department of the Arab League stated in its report in 1950 that "the Economic and Financial Committee has not met since 1945. In 1952, the same department reported to the Secretary General of the Arab League "that the above committee had met only once in 1945 because its members did not possess enough time in order to propose draft agreements

and study them in detail." (1)

3. The Period 1945-1950.

Attempts within the Arab League to increase economic collaboration among the Arab states during the period 1945-1950 are described in a "report on the activities of the Economic Section of the Arab League during the years 1945-1950" which was prepared by that section.

(a) The Monetary Issue.

This report disclosed; that following the first report of the Economic and Financial Committee (which raised the question of possible collaboration in monetary matters, but postponed its study it found it very complicated, and found that all basic information was lacking,) the issue was raised again by a bold plan of Khaled el-Azm, a former prime minister of Syria. This plan was submitted to the Secretary General of the Arab League on 2nd April, 1946, on the occasion of one of the meetings of the Arab League Council. (2) The plan was described merely as "a study on the issue of currency and the unification of Exchange Offices in Arab countries". There was no request for its presentation to the Arab League Council for discussion and decision. Hope was expressed, however, that it would receive interest, and would be considered as a preliminary step to the discussion of similar matters in the Arab League. The plan, was,

(1) Memorandum presented to General Secretary concerning Conference of the Arab Chambers of Commerce.

(2) Unification of Currency, Documents of the Arab League.

therefore, the expression of a personal opinion. Its importance was derived from the position of its author as an ex-prime minister of Syria and a prominent leader of Syrian political and economic life.

The plan seems to have been envisaged as only a part of a wider movement for a kind of Arab economic unity. The author stated in its introduction that "the economic interests of Arab countries cannot be achieved in a suitable manner unless a strong tie of complete economic unity in financial and economic matters has been established."

The plan was divided into two parts.

Part One: Internal monetary system.

Part Two: Earnings of foreign exchange.

Part One: Internal monetary System:- El-Azm remarked that Arab countries possess different monetary systems, whereas, only thirty years ago they all had one unified currency (with the exception of Egypt). The re-unification of "these monetary systems would increase trade among Arab countries, and raise their economic prestige."

For the purpose of this unification the following proposals were put forward:- 1) Substitution of one single Arab currency for all currencies which are now in circulation in Arab countries. The unit of the new currency would be called "dinar". This currency should become official legal tender in all Arab countries. 2) This dinar would stand on par with the English sterling pound, initially. Its value would later be modified according to circumstances. 3) Arab

countries would be considered as one monetary area, and there would be freedom in the movement of money among them. 4) There would be one central institution for the issue of currency. This institution would be set up by a special law, and would include representatives of all participating countries. It would have a central office in one of the Arab capitals and branch offices, directly responsible to the central office in all other capitals. 5) The quantity of money which would initially be given to the member countries was to be equivalent to the quantity of money in circulation in the respective countries on the ratification of the agreement for unification. This quantity would be increased according to need and on the handing of the required cover for it to the Foreign Exchange Office.

Part two:- Foreign Exchange:- All the foreign exchange holdings or earnings of the Arab countries were also to be pooled in one central office which would replace all existing exchange offices in the Arab countries. This office would then allocate such foreign exchange according to need, and in the light of the policy annually laid down by "the Supreme Economic Council of the League of Arab States". This Council was only casually mentioned as "indispensable for the consideration of these matters and their effects on Arab countries, and for laying down economic rules and principles in the interest and mutual benefit of all concerned."

The Central Exchange Office would be in the same

capital chosen for the "Central Office of Currency Issue", and would be run by a Council composed of the representatives of the different Arab States.

The advantages of such arrangements should be obvious. Some Arab countries complain from the surpluses they have in certain foreign exchanges, and the deficiencies in others. For example "Syria and Lebanon possess considerable quantities of French francs, while Egypt, Iraq, Palestine and Trans-Jordan possess considerable quantities of sterling pounds. At the same time, Saudi Arabia can earn dollars out of its oil royalties. When all these holdings of foreign exchange are pooled every state can then get all the foreign currency it wants."

It seems that, no action was taken on this monetary plan of Khaled El-Azm, except, possibly, its circulation among some, or all of the Arab League states. For we find in the report of the Economic Section of the Arab League, reference to observations made by the Egyptian Ministry of Finance on that plan.(1)

"This plan" observed the Egyptian Ministry of Finance, "undoubtedly has in view the long-term objective of forming one economic unity out of all the Arab countries, but the existing economic conditions in everyone of these countries makes its execution impracticable. For money is nothing more than an instrument of exchange, and its pur-

(1) Ibid.

chasing power rises or falls in accordance with the economic, financial, and monetary policies followed in every country. And since the Arab countries form at the present moment, separate political units, which follow independent economic policies, it is impossible to make the proposed currency obligatory legal tender in all Arab countries."

Instead of this plan, the Egyptian Ministry of Finance proposed an alternative plan, in which the different Arab currencies would have a common basis (i.e. their value would be fixed in terms of one common measure of gold as, for example, 8.5 grams of gold of a purity of 0.875 for the value of the pound).

While the observations of the Egyptian Ministry of Finance on currency unification seem to be precise and clear, its observations on the foreign exchange pool is confused and completely lacking in vision.

The Egyptian Ministry observed the following:

- 1) Arab countries were not (in 1946) suffering from surpluses of certain currencies e.g. francs or sterling pounds, but from the deficiency of the supply of goods in Britain and U.S.A. Dollars which Saudi Arabia might be able to earn were considered to be negligible.
- 2) U.S.A. Government was presumed to be opposed to such pools.
- 3) Free convertibility of all currencies will be achieved by 1952, in accordance with the Bretton-Woods Agreement. After that date it might be possible to re-consider this part of El-Azm's plan.

Thus the Egyptian Ministry of Finance minimized the foreign exchange earnings of some Arab countries (e.g. Saudi Arabia), failed to see that others might easily find themselves short of foreign exchange, and failed to appreciate the influence which such an office might have in diverting trade to products of the Arab countries themselves, and the possibility of utilising it for providing some badly needed foreign exchange for developmental purposes.

The monetary issue, however, was officially brought before the notice of the Arab League when the Iraqi government submitted to the Arab League on 12th February, 1948, a proposal calling for the formation of a Committee of experts for the study of the possibility of the unification of currencies in Arab League states. The Arab League Council decided on 22nd February, 1948, to refer the question to the Arab Governments, with a request to these Governments to notify the Arab League Secretariat of their attitude and to furnish it with the necessary information (i.e., the same information which was requested by the Economic and Financial Committee in 1945).⁽¹⁾ This time, apparently three Arab Governments, namely those of Lebanon, Jordan and Egypt supplied the requested information. A committee of experts was convened under the chairmanship of Tewfiq Suweidi (also chairman of the Economic and Financial Committee), and the result was a new proposal for monetary collaboration among Arab states.⁽²⁾ This proposal envisaged the formation

(1) Ibid.

(2) Ibid.

of a monetary union. All existing Arab currencies would be replaced by a new currency which would be fixed at a uniform rate in relation to gold in all countries. There would not be a central institution for the issue of currency, but each state would be responsible for the issue and regulation of its own currency. All such currencies, however, would be considered as compulsory legal tender in all Arab countries, and every country would undertake to provide the necessary legislation. A "Supreme Council for the control and coordination of Arab currencies would be formed." This Council would be responsible for the "supervision and suitable coordination," for "ensuring that all monies issued have been so issued after the provision of their equivalent in real values," for "receiving information on the volume of issued money and publishing such information," for choosing the proper ratios of paper to metallic money in circulation," and lastly for "providing assistance to Arab League states whenever necessary."

The regulation of foreign exchange was to be left for another agreement.

The above scheme and the previous one of Khaled el-Azm were subsequently submitted to Mr. Paul van Zeeland of Belgium for his consideration.⁽¹⁾ He expressed the opinion that whereas the idea of replacing several currencies by one strong regional currency was sound and useful, neither scheme was adequate for the achievement of that idea.

On El-Azm's scheme of complete monetary unification

(1) Ibid.

he observed that a unified central bank for all Arab countries could not effectively operate unless precise and extensive agreements had been reached for unity of action in economic and financial policy (including fiscal policy) and in credit policy. This implies that the factors for such a unified policy are in existence, whereas in fact they are not. Such a theme, would, therefore, involve a centralisation which cannot be long sustained.

On the second scheme, Van Zeeland observed that every central bank was given freedom to follow an independent policy. But such a system could not last unless economic conditions in all Arab states remained in the same relative degree of prosperity or depression, which was absurd. The undertaking to accept the different currencies at their par value will only result in the accumulation of relatively weak currencies by the central banks of countries where local currencies are relatively strong.

The solution he offered consisted in devising an arrangement similar (though not necessarily identical) to that of the Federal Reserve System of U.S.A., whereby there would be several Federal Reserve Banks, which were free to follow, within certain limits, set by a superior body, an independent credit policy.

The Secretariat General of the Arab League circulated on 1st June, 1949, the two monetary schemes together with Van Zeeland's observation, to all member states, for

the submission of their opinions. No answers were received.

To sum up one must ask - why was this issue raised at all? A monetary arrangement is never made in isolation from other economic matters, but as an integral part of a wider economic arrangement. Thus to cite one example, the sterling bloc has meaning only within the system of Imperial Preference and Great Britain's foreign trade. It is made possible by an existing fact, namely the economic interdependence of the British Commonwealth, in the sense that Great Britain is an important importer of foodstuffs and raw materials produced by the Commonwealth countries and an important exporter of machines and manufactured goods to these countries. A unified monetary arrangement could be justified only by the structure and volume of trade between the Arab countries. It is true that a monetary system can, to some extent, divert and encourage trade among the countries of which that system is formed, but it is not the ultimate determinant of it. Trade is ultimately determined by the existence of a wide range of comparative advantages, which would allow specialization and exchange of surplus. If such advantages do in fact exist, then the first prerequisite for their development into specialized types of production, is the creation of a system of free trade, or rather comparatively free trade. Such a system is not incompatible with differences in monetary systems. What is needed for the effective application of a free

trade area is not the unification of the currency system, or equalisation of the value of currencies, but rather the abolishing of all restrictions, within the participating area, on the movement of payments. If as a result of such a system of free trade, the regional trade increases to a considerable extent, it is only then that the creation of a closer monetary arrangement might be useful. A start in the monetary issue, seems thus to be a start at the wrong end of the ladder. The reason why the issue has been raised at all seems to be the accident of an interest in it on the part of one or two statesmen.

The idea of one pool for exchange holdings, however, seems to be much more useful. It should not, in theory, be bound up with monetary unification. Such a pool might be created even with the present multi-currency conditions. It is true that the foreign exchange earnings of the different Arab countries are varied, and yet, perhaps, the need of foreign trade in each may not coincide exactly to its holdings of foreign exchange. If these holdings can be pooled together, then, maybe, a suitable exchange of surpluses can be effected to the advantage of all concerned.

It is strange that this part of El-Azm's plan received little interest.

(b) The Issue of Freedom of Trade.

The issue of the regulation among Arab countries was officially brought before the Arab League by a memorandum dated 10th March, 1947, which the Lebanese government submitted, together with a request to include on the agenda of the sixth session of the Arab League Council the "free exchange of agricultural and industrial products among Arab League states."⁽¹⁾ This memorandum contained a "draft agreement" which the Lebanese government considered to be necessary for the re-organisation of economic relations among the Arab states on a regional bases. This draft agreement was entitled "A draft agreement for the increase of trade among Arab League States by the unification of customs and monetary policy, and by the facilitation of communications, and the exchange of commodities." It is curious, however, that the draft agreement in fact did not conform to this long title. It only provided for the establishment of free exchange of local products (agricultural or industrial) but mentioned nothing about the other aspect of customs policy, namely the adoption of a coordinated tariff policy towards other countries. It provided nothing at all about monetary policy or communications. These other issues, however, were mentioned, in the introduction to the draft agreement, as being necessary

(1) Ibid.

for the development of economic relations among the Arab League states; and it seems that the Lebanese Government meant to raise them later, and to confine itself for the moment to one issue, namely that of the freedom of trade. The Lebanese Government later proposed a more complete and exhaustive draft agreement.

By way of justifying free trade, the Lebanese memorandum showed that until the first world war, such freedom existed for all Arab countries, except Egypt, by reason of their being part of the Ottoman Empire, and that even after the fall of that Empire, a customs union between Syria and Lebanon was formed. and free trade between them on the one hand and Palestine (until 1939) and Trans-Jordan was established.

"The Arab League should at least be able to establish free trade among Arab countries for their mutual benefit. Such free trade has many advantages, the most important of which being: 1) It induces regional specialisation, and in this way increases the national income of everyone of the Arab League states. 2) It enables large scale production by extending the markets."

Nevertheless, the memorandum showed awareness of the difficulties involved in the way of an outright establishment of free trade, for in its introduction it offered an alternative to a completely free trade, namely a preferential arrangement similar to the 1939 agreement between Syria, Lebanon and Palestine.

The crucial principles of this draft agreement are to be found in Articles I and II.

Article I (the exchange of local products) provided for "the exemption of import duties on all products and commodities which (a) were completely produced in the lands of one of the League states, (b) were completely manufactured in the lands of one of the Arab League states of local raw materials and no part of their manufacturing took place in foreign countries, (c) were completely manufactured in one of the Arab League states of foreign raw materials and (d) were manufactured in one of the Arab League states of raw materials which are partly local and partly foreign.

Article II (the exchange of foreign products on which customs duties were already levied in one of the Arab League states) provided that "if customs duties were levied on a foreign product in one of the member states and then that product was to be re-exported to another member state within twelve months, the following rules would apply: (a) if the import duties on the product are similar, in the country of final destination, to the import duties in the original importing country, then the product would be exempted from such duties, (b) if import duties on the product are higher, in the country of final destination, than they are in the original importing country, then the difference would be levied in the country of final destination, (c) if the import duties on the product are

lower, in the country of final destination, than they are in the original importing country, then the difference would be refunded, by the customs authorities of the original importing country.

The above mentioned draft agreement was considered by the Arab League Council in its sixth session. On 27th March, 1947, this Council referred it to the Economic and Financial committee, and instructed this latter committee to prepare a draft agreement for the consideration of the following session. This committee failed to meet for the discussion of the above subjects. The Secretariat of the Arab League, however, invited a committee of experts which prepared another draft agreement, similar to that of the Lebanese Government, with only two differences: in the case of goods manufactured from foreign raw materials, such goods were to enter free of duty only if the cost of manufacturing accounted to at least 25 per cent of the total value of the commodity; and in the case of re-exported goods, they would enjoy the privileges suggested by the Lebanese draft for only six months of their original importation.⁽¹⁾

On 26th October, 1949, (more than two years later) the Arab League Secretariat sent both draft agreements to the Arab governments for an expression of their opinions, prior to submitting them to the Economic and Financial Committee. No answers were received.

(1) Ibid.

Thus by the end of 1950, the issue of free trade among Arab states was as stagnant as the issue of monetary organisation.

4. The Mutual Defence Pact.

Following the Palestine disaster, the Arab states became convinced that the Covenant of the Arab League was not by itself a satisfactory instrument for mutual collaboration, and consequently, a "Pact for Mutual Defence and Economic Collaboration" among the Arab League states was signed on 13th April, 1950, by Egypt, Lebanon, Saudi Arabia, Syria and the Yemen, and later in 1951 and 1952 by Iraq and Jordan respectively. The necessary ratification, however, was only completed on the 23rd August, 1952.⁽¹⁾

The two articles defining economic collaboration (Articles 7 and 8) were proposed by the Lebanese Government. Article 7 re-asserted the principles of economic collaboration: "in pursuance of the objectives of this pact and its aims of spreading security and prosperity in the Arab countries, and raising their standard of living, the contracting states will cooperate in the development of the economies of these countries, the exploitation of their natural resources, the facilitation of exchange of their national products, agricultural and industrial, and in general the organisation and coordination of their economic activities, and the conclusion of special agree-

(1) The Middle East, Second Edition, op.cit., p. 40.

ments, whenever required, for the achievement of these objectives." While Article 8, provided for the setting up of the necessary machinery for organising this collaboration: "There will be formed a Council of the Ministers responsible for economic matters in the contracting states, or their representatives, if necessary, to propose to the governments of these states what measures should be taken for the achievement of the objectives enumerated in the previous article.

The mentioned Council might request the help of the Economic and Financial Committee referred to in Article IV of the Covenant of the Arab League".

This re-assertion, however, was not destined to be fruitful before 1953, when the Arab ministers met for the purpose of drafting treaties in May of that year.

5. The Lebanese "Model Agreement (1953)"⁽¹⁾

The Lebanese Government, which was the most interested Arab government in economic collaboration, tried in 1952 another method for pushing the cause of economic collaboration among the Arab states. Instead of submitting a new scheme for the consideration of the Arab League, the Lebanese Government seized the occasion of the official visit of the Lebanese President to Iraq in March, 1952, to present to the Iraq government a proposal for concluding a model economic agreement between the two countries. One

Journal of
 (1)/The Lebanese Economy in the Arab World, Nos. 19 and 20,
 Third Year, pp. 22-26.

article of the agreement provided that "Any state which is a member of the Arab League has a right to join this agreement."

On the occasion of the Lebanese President's visit to Cairo a month later the same proposals were submitted to the Egyptian authorities. The Egyptians received the idea enthusiastically and it was there and then that the representatives of the two Governments discussed the matter with the Secretary General of the Arab League, and it was agreed that the Arab League should invite all Arab Ministers of Finance and Economy to meet in Beirut and prepare draft agreements to further Arab economic collaboration.

The proposed Lebanese draft agreement provided that agricultural and animal products of the two countries were to move "free of customs and all other duties, including internal duties, export and import duties, and free from licence restrictions."

The same principle applies to manufactured goods 50 per cent of the cost of which goes to local (Lebanese or Iraqi) raw materials and labour.

Manufactured articles in which the cost of local labour and raw materials is less than 50 per cent, but not less than 25 per cent receive a tariff reduction equivalent to 50 per cent of the customs tariff.

Some manufactured goods (listed in a schedule to be agreed upon) which would otherwise be granted freedom

from customs tariffs were to be accorded only a preferential treatment of a 50 per cent reduction of the normal tariff, but only for a limited period of six months, and as a transitional arrangement. After this transitional period, however, they would be allowed to move freely of all customs tariffs.

Re-export of goods in customs warehouses was also to be free, and no restrictions were to be imposed on foreign goods brought from the internal market of one country and re-exported to the other. Transit trade was to be allowed free passage and to be subjected to no duties except those "which represent a reasonable payment for services rendered."

In addition, each party "undertakes to grant freedom of work, employment, trading (both internally and externally), working in agriculture, industry and the professions on the basis of complete equality with its own citizens."

Each party would also grant nationals of the other country similar treatment to its own nationals in matters relating to the owning of movable and immovable properties and the right to possess and bequeath such property. Freedom of movement from one country to the other, was to be granted to nationals of both parties. Private capital to be allowed full freedom of movement, and it was not to be subjected to any tax or restriction of any kind.

This proposed agreement fell only a little short of creating a full free trade area, for it had no provision for the free movement of payments (only the free movement of capital was provided for) and therefore the only instrument of restriction which could be used to obstruct the complete freedom of movement of commodities was possible monetary regulations. (Lebanon does not exercise any control on the free movement of payments; this omission was made specifically to conform with Iraqi regulations.) It fell far short of an economic union in that it did not provide for a unified customs policy towards foreign goods, or a rationalisation of industries, or a coordination of economic (fiscal, monetary, financial etc.) legislation, or coordination of economic, or pooling of surplus capital. Nevertheless, it was the most ambitious official plan for economic cooperation among Arab states. It involved an admission that freedom of trade was not by itself sufficient for a close economic collaboration. It had to be supplemented by freedom of the movement of factors of production: labour and capital. It also showed a realisation of the fact that freedom of trade cannot be achieved by a statement of principle, or by abolishing customs barriers. There are other barriers (licences and quotas) which ought to be abolished too. It treated many of the subjects which were evaded in the two agreements which were later to be signed by the Arab states. In this respect it was more exhaustive and complete than either

of them.

This proposal never materialised. Its importance lies in that it was just another measure which finally paved the way to an appreciation of the desirability of economic collaboration among Arab states.

6. Recognition of the principle of preferential treatment.

While all attempts at providing a positive agreement had failed, the Lebanese government succeeded in securing from the Arab League Council an admission that, Arab trade relations should be conducted on a preferential basis. One obstacle to such a preferential treatment seemed to arise from the "most favoured nation" clauses embodied in trade agreements between Arab states and other non-Arab states, and which seemed to give these latter states the benefit of any preferential treatment that the Arab states might establish among themselves. The Lebanese government, therefore, submitted in February, 1951, a memorandum requesting a resolution from the Arab League Council to exclude Arab states from the operation of the most favoured nation clause with other countries. In May of that year the Arab League Council adopted the following resolution: "the Arab League Council recommends to states, members of the League to establish their economic relations on a preferential basis, and to work for the amendment of their existing trade agreements with foreign

states in the light of this preference. This is to be done by providing that privileges given to Arab League states are not subject to the "most favoured nation clause" which might be inserted in trade agreements with foreign countries, unless there were justifying reasons."

The importance of the above resolutions lies in its being the first explicit statement of the desirability of preferential treatment among Arab states.

CHAPTER IV.

BI-LATERAL AGREEMENTS AMONG ARAB STATES 1950 - 1954

While attempts for a multi-lateral trade arrangement among Arab states failed to make a headway, a number of bilateral agreements were concluded among Arab states, mainly after 1950. These agreements can be generally classified as follows:

1. Agreements which, though allowing for considerable preferential treatment, have been concluded in replacement of older free-trade arrangements. These are the following:

✓ a. The Agreements between Syria and Lebanon, the latest of which being that of 5th March, 1953, in replacement of the pre-1950 Customs Union.

b. The Agreement between Syria and Jordan which replaced the free trade agreement of 1953.

✓ c. The Agreement between Lebanon and Jordan which again replaced the same trade agreement between the two countries (the 1923 agreement was naturally on behalf of both Syria and Lebanon, for they had a customs union then.)

2. New Agreements which grant a limited scope of preferential treatment. These are the following:

✓ a. Trade agreement between Lebanon and Iraq

b. Trade agreement between Syria and Iraq
(unratified)

c. Trade agreement between Jordan and Iraq

In other words these are the agreements which connect the former free trade area with Iraq, since as we have already seen Iraq has more intimate trade relations with this area.

3. Bilateral trade agreements which are merely based on the principle of "the most favoured nation clause" and which consequently allow for no preference. These are between countries whose former trade relations were insigni

The agreements concerned are the following:

- a. The Syrian-Saudi Arabia trade agreement
- b. The Syrian-Egyptian trade agreement
- c. The Lebanese-Egyptian trade agreement
- d. The Jordanian-Egyptian trade agreement
- e. The Saudi Arabian-Egyptian trade agreement

4. Another class of agreements which will be discussed in this chapter are those agreements of an economic nature which organize aspects other than trade. These agreements are the following:

- a. The Agreement of the Saudi Arabian loan to Syria.
- b. The Agreement for tourism between Lebanon and Egypt.
- c. The Agreement between Jordan and Syria for the utilisation of Yarmuk waters.

1. Preferential agreements:

a. The Agreements between Syria and Lebanon.

I do not propose here to discuss the development of economic relations between Syria and Lebanon and to go into their causes, effects and prospects, for that is entirely a different subject. I propose to limit my discussion of these relations only to the extent to which they form a part of the patterns and trends of Middle East economic relations.

In the first place, every trade agreement between the two countries since March, 1950, has been described as temporary, the declared intention being the conclusion of a more complete agreements, of not the restoration of the customs union, or even the establishment of a full economic union. The first of these temporary agreements was signed on 25th December, 1950, and simply allowed for the exchange of local commodities "within the need of each country for consumption", but subjected all such exchange to the normal customs tariffs, laws and regulations. This put trade relations between the two countries on the same level with those which prevail with the most distant countries.

The Second Agreement was signed on 4th February, 1952. This agreement provided for the exchange of agricultural and animal products, free of customs duties and export and import licenses (unless there are exceptional circumstances which justify licensing), and for the imposi-

tion of a minimum tariff on such products (with the exception of Jordanian products).

Industrial products were divided into three kinds:

- (1) Products exchangeable free of customs duties (Schedule 2) and on these a minimum tariff on foreign imports is also laid down. These products include canned vegetables and fruits, glassware products, stone mills, vinegar, ceramics, ropes, mats, carpets, wooden mosaics, copper and bronze metal works, asphalt and asphalt tile, men's stockings, sugar products, broken stone, clay products, fire tiles, aluminium products and cement pipes.
- (2) Products exchangeable on a reduced tariff equivalent to two thirds of the normal tariff (Schedule 3). These include starch, flour products, women's stockings, beer, chocolates, biscuits, wine, cement and natural tiles, iron metal works, sacks, natural silkyarns, glucose, furniture, cardboard, cement, soap, mirrors and tanned hides.
- (3) Other industrial products in which local raw materials and labor costs form no less than 50% of the value are exchangeable subject to the normal tariff.⁽¹⁾

The third agreement was signed on 5th March, 1953, varied from the above agreement in that the schedule for industrial articles exchanged free of customs duties was slightly amended (Schedule 2). Schedule (3) was considerably enlarged and made subject to a tariff which is equivalent

(1) Lebanese official Gazette - Special Supplement - dated March 1st, 1952. , p. 144 - 159.

to 50% of the normal tariff while products which were allowed to be exchanged subject only to a general definition were enumerated in a separate schedule (Schedule 4.) A general provision for the facilitation of transit was drawn. ⁽¹⁾

The alternatives now being discussed are either a full economic unity between the two countries which will re-establish the old customs union and in addition and uniformity in economic and financial legislation and institutions to carry out such legislation and a fixed rate of exchange between the currencies of the two countries, or else another trade agreement, which will probably be even more restrictive than that of the 5th March, 1953.

b. The Agreement between Syria and Jordan.

This agreement provided for the exchange free of customs duties of animal and agricultural products (except fish, wheat and wheat products, barley, lentils and chick peas), but restriction through licensing was not prohibited. Syrian industrial products in Schedule (I) will be free from customs duties and import licenses, and the same treatment would be accorded in Syria to Jordanian products enumerated in Schedule (4). Syrian products of Schedule (2) are subject, in Jordan, to two thirds of the normal tariff but free from licensing. The same applies to Jordanian products of Schedule (5) in their entry to Syria.

(1) The Economy of Lebanon in the Arab World, (Magazine) Nos. 13 and 14, 3rd year, p. 20-43.

In relation to all the above schedules no proportion of local raw materials and labour costs in the value of the finished products is required. Other Syrian products must be granted the tariff reduction of one third if they contain a proportion of at least 50% of local raw materials and labour. But Jordanian products not mentioned in Schedules (4 and 5) are not to receive this privilege unless they were added to one or another of the two schedules within one month of the signing of the agreement. (1)

Regulations for transit provided that all transit goods should be transported by the railway, but transit by vehicles is allowed in the case of goods sent from Syria to a third party across Syria - other than wheat and phosphates, - Syrian imports via Jordan, agricultural products of Lebanese origin transported to Jordan, some limited Jordanian imports via Lebanese ports (rice and agricultural products) heavy machinery, fuel, Jordanian goods passing in transit via Syrian ports, commodities for the use of the refugees, vehicles imported and passing across Syria by self-propulsion exports of each country to the other, goods sent by Jordan to Lebanon, when the railway proves unable to handle such freight.

c. The Agreement between Lebanon and Jordan signed 27th August, 1952.

Again here animal and agricultural products are

(1) Previous Syrian Economy, 104-89.

allowed to enter free from customs duties and licenses (with the exception of fresh and conserved fish, wheat and its products, barley, lentils and chick peas). Again there are two sets of schedules for industrial products: one for Lebanese products which are exchangeable free from custom duties and licenses (3) another for those free only from licenses but subject to one third of the normal tariff (4) (articles not mentioned in the schedule of reduced tariff also obtain the privileges of reduction and freedom from licensing if labour and local raw materials account for at least 50% of their value), and a third for those subject to licenses and the normal tariff. Schedules (6) and (7) relate to Jordanian products freely exchangeable, or subject to tariff reductions respectively.

X A limited number of Articles Schedule (1) can, under certain conditions be subjected to prior licensing.

Most favoured nation treatment is to be accorded in matters of trade exchange, import and export licenses, importation and exportation from free zones and customs procedures in matters of transit, importation and exportation. In matters of transit again transportation is to be effected by the railway with some exceptions - similar to those above mentioned in the Syrian-Jordanian agreement.

It is to be noted that the two agreements of Jordan with Syria and Lebanon, are more restrictive than that of Syria and Lebanon. There are no unified schedules

for identical treatment in both countries, but each country obtained for some of its products a special kind of preference which is not given in its territory for similar products of the other country. The Schedules, in addition to being thus more numerous, are narrower in scope. Undue transit restrictions are laid down.

In all these agreements, no restrictions are laid down on payments or capital movements, which if added to the absence of restriction through licensing (as a general rule) allows for a good scope of exchange of commodities and services.

2. Agreements which grant a more limited scope of preference.

a. The Agreement between Lebanon and Iraq, signed (20th February, 1950).

Here unlike the Agreements previously discussed, there is no freedom from licensing, but an undertaking to facilitate trade exchange by granting import and export licenses to all commodities within prevailing rules and regulations.

There are two Schedules, (1) relates to Lebanese goods which are subject to no customs duties or enjoy a preferential tariff in Iraq. Potatoes, beans, bannanas, apples, loquats, cherries, pears, fruit juices "non-alcoholic and unsweetened" cardboard, books, magazines, and natural silk yarns, are exempted from all Iraqi

customs tariffs; olives not in tightly sealed containers) are granted a preferential tariff of 40 Fils per kilo instead of the normal tariff of 54 Fils per kilo. Schedule (II) contains the Iraqi free and preferred commodities. Free are live animals, lentils, dates, rice, sesame, date molasses, raw hides, raw wool and hair, books, woolen yarn and woolen blankets. Pure hair thread is subject to a tariff of 20% instead of the normal tariff of 25% of its value.

A payments appendix forms a part of the agreement. The Iraqi government permits the Banque de Syrie et du Liban, to keep a Lebanese non-resident account in the National Bank of Iraq or in commercial banks which are permitted to deal with foreign exchange. Other Lebanese banks can keep such accounts with the above commercial banks on the suggestion of the Lebanese Government and the agreement of Iraqi monetary authorities. Payments for imports and services from Lebanon are credited to any Lebanese non-resident account, and in the same way Iraq exports and services are debited to any such Lebanese account. One Lebanese non-resident account can be transferred to another. If the non-resident account of the Banque de Syrie et du Liban exceeds ID. 100,000, the excess can be transferred to sterling pounds periodically, every six months.

- b. The Trade Agreement between Syria and Iraq (unratified).

Again this closely follows the principles of the Iraqi-Lebanese Agreement. Schedules are also narrow in scope and slightly different. There is also a payments appendix differing from that in the Lebanese-Iraqi agreement only in that it provides for periodic settlement every month and for payment in sterling of amounts exceeding ID. 50,000.

c. The Agreement between Iraq and Jordan (signed 30th September, 1953).⁽¹⁾

This agreement gives a reasonable scope of preference. Commodities in the two schedules of the agreement are free from customs duties and as a general rule also from licenses. All agricultural and animal products are included on both sides. The same above mentioned treatment is also granted to Iraqi and Jordanian manufacturers appearing on two separate lists.

3. "Most favoured Nation" Agreements.

a. The Syrian Saudi Agreement (signed 29th January, 1950.) The two parties undertake to encourage trade exchange within prevailing regulations and to grant each other the "most favoured nation" treatment. As an exception to this rule each country reserves its right to grant preferential treatment to adjacent countries.

b. The Syrian-Egyptian Agreement.

Two lists of commodities, one of Syrian origin and the other of Egyptian origin are permitted to be exchanged "within the possibilities of each country for

(1) Commercial Magazine , Baghdad , Vol. 7 -10, Year 16, (1953), p. 52 - 59

export;" Re-export of such commodities is not allowed. Most favoured nation treatment is to be accorded. As an exception to this rule each country reserves its right to grant preferential treatment to adjacent countries. Payments are to be settled in "accordance with rules and regulations for control of foreign exchange which are applicable in each country." Since Egypt practices monetary restriction, the lack of a special provision for monetary restriction, the lack of a special provision for monetary transfers has been an obstacle in the way of any major development in the trade relations between the two countries.⁽¹⁾

c. The Lebanese Egyptian Trade Agreement⁽²⁾
(signed 2nd September, 1951).

This agreement follows the main principles laid down in the agreement between Syria and Egypt. There are, however, some important differences. The first relates to the exceptions of the application of the "most favoured nations clause." In addition to each country reserving its right to give preferential treatment to adjacent countries, Lebanon reserves its right to accord such preferential treatment to Jordan. The second relates to the principle of re-export. Article V of the agreement states that re-export of exchanged commodities is not to be allowed without the prior agreement of the two contrac-

(1) Previous Syrian Economy - p. 127-136

(2) Economic Development in Egypt - Abstract and Statistics - The Egyptian Chamber of Commerce of the Governorate of Alexandria, 1951.

ting parties. In a Secret Protocol attached to the agreement, Egypt grants Lebanon the right to re-export Egyptian products with the exception of cotton, table salt, films and petroleum products. In addition this agreement provides for the settlement of payments by opening in the National Bank of Egypt a Lebanese non-resident account.

d. The Jordanian Egyptian Trade Agreement.

This is almost identical with the Syrian-Egyptian Trade agreement, only the schedules are different. (1)

e. The Saudi-Egyptian trade agreement.

This again follows the same previous agreements. It only has a more elaborate appendix for the settlement of payments, due to the fact that the pilgrimage traffic involves a great deal of currency transfers. An account is opened in the National Bank of Egypt in the name of the Saudi government. The balance outstanding at the end of the agreement will be transferred to the Saudi account in sterling at the rate of exchange prevailing on the date of the transfer. (2)

4. Other Economic agreements.

a. The Saudi Loan to Syria.

The agreement for this loan was signed on 29th January, 1950, the motive of the Saudi government in granting the loan being mainly political (to obstruct a

(1) Previous Economic Development in Jordan, p. 38-42

(2) Previous Economic Development in Egypt, p. 57-59

possible union of Syria and Iraq.) The loan was interest free and for the total amount of U.S.\$6 millions, of which \$2 millions are to be paid within four weeks of the signing of the agreement, another \$2 million within 4 months and another \$2 million within seven months. Settlement is to be effected in four equal installments of \$1.5 million each. The first installment is to be paid during 1955 and the last during 1958. Settlement is to be effected in Syrian products and manufactures which the Saudi government or its nationals will buy, and particularly such products which are mentioned in a special list. Prices of such goods are to be on the level of prices prevailing in world markets, and the Saudi government has the right to export such goods to any country. (1)

b. The Agreement for tourism between Lebanon and Egypt (signed 186h June, 1953).

Due to the difficulties Egypt was encountering in its balance of payments in 1953, the Egyptian Government banned its nationals from travelling abroad (special permission was granted for business purposes and for medical treatment.) As a gesture of friendship, and for political reasons, the Egyptian authorities agreed, on the occasion of the Lebanese President's State visit to Egypt in the spring of 1953, to allow Egyptian Nationals

(1) Al Abhath , year 3, Vol 1 - p. 121-123.

to spend their summer holidays in Lebanon. The French, Italians and Swiss who ranked, then, amongst the best customers of Egyptian cotton protested about this preferential treatment accorded to Lebanon. As a result a payments agreement was signed between Egypt and Lebanon which provided for the opening of a special account in the National Bank of Egypt, to be known as the "Lebanese Account for Tourism". According to this agreement, money spent by Egyptian tourists is to be credited to Lebanon in this special "Lebanese Tourist Account" and is supposed to be drawn upon only by Lebanese tourists to Egypt provided that every individual Lebanese tourist receives no more than LE. 500 per month. Lebanon guarantees that Egyptian travellers will receive from the Banque de Syrie et du Liban the equivalent of their transfers at the rate of LL. 850 for every LE.1 .

Attached to this agreement, however, there is a "Secret Protocol" according to which the Egyptian Government undertakes to transfer the balance (up to LE. 400,000), accruing to Lebanon in this special account for Tourism, to the current Lebanese commercial account.

Once the Agreement was signed, the Egyptian Government offered to make similar arrangements (with the exception of the Secret Protocol) with France, Switzerland, and Italy. These countries could not accept the proposed formula because of the small number of their nationals visiting Egypt.

c. The Agreement between Syria and Jordan for the utilisation of the Yarmuk Waters (signed 4th June, 1953).

The agreement provides for the building of a dam on the Yarmuk, at Maqarin, on Syrian territory, and two hydro-electric plants, one at the dam site and the other at Adasiya in Jordan, together with all the necessary canals. Power generated at the dam site will be distributed in the proportion of 75% to Syria and 25% to Jordan. The dams should provisionally have a storage capacity of 300 million cubic meters. Syria and Jordan can both utilise water for irrigation in the parts of their territories which fall after the same site. Jordan will be responsible for 95% of the costs of the scheme and Syria for 5%.

This is the only Arab Agreement for the regulation of water resources. Whether the scheme agreed upon will be actually executed or not depends on whether the United Nations Relief and Work Agency for Palestine Refugees (U.N.R.W.A.) will execute its share in the agreement which it signed with the Jordanian government, and in which it undertook to provide U.S. \$40 million of the costs of the scheme.

(1) Syrian Official Gazette, No. 52, dated, September 12, 1953

CHAPTER V.

MOVEMENT OF THE ARAB CHAMBERS OF COMMERCE INDUSTRY, AND AGRICULTURE, AND THE REVIVAL OF INTEREST IN MULTI-LATERAL ECONOMIC CO*OPERATION.

1. The Movement.

When the first conference of Arab Chambers of Commerce, Industry and Agriculture, met in Alexandria in May, 1951, the movement for Arab economic cooperation was in a dormant stage. Early attempts to shape and organize this cooperation through the Arab League, had failed. Equally futile was the pact of Mutual Defence and Economic Cooperation, which by then, was not even ratified, and was still hanging in the balance.

The main protagonist of this conference seems to have been Abdul-Rahman Sahmarani, President of the Beirut Chamber of Commerce and Industry. It was he who, towards the end of 1950, invited a small group of powerful merchants and industrialists from Syria, Iraq and Egypt, to form a preparatory committee for the first conference. He was eventually chosen chairman of that committee, and later, chairman of the Permanent Office of the Union of Arab Chambers of Commerce, Industry and Agriculture. But, in the preparatory committee, and in the conferences that were held later, prominent Arab leaders in the business field participated, and many of these were former ministers

in the economic field, or were subsequently invited to assume ministerial responsibilities. Of the business men of Syria, we meet the names of Zaim, Sayem Ad-Dahr and Shorbaji of Aleppo, Siyoufi and Diyab of Damascus. In Iraq men like Shabibi, Uzri and Shabander took part, while the most important business men of Jordan - Budair, Shashaa and others, participated in one or another of the subsequent conferences. In Egypt men like Hussein Fahmi, Ali Ameen Yahya and Abdul Majeed Rimali, joined the work of the conference.

The aims and methods of the conference, seem to have been clearly formulated in the minds of some of its members right from the beginning. The speech which Sahmarani delivered in the first conference, ⁽¹⁾ foretold all the activities of the conference for the first four years of its existence. "This conference", he said "is an attempt to define an economic goal in Arab life, and to set-up a permanent machinery to work for this goal in full cooperation with all concerned. The goal is strengthening economic ties among Arab countries and working for the increase of the wealth of these countries.... and thereby building real foundations for political independence and economic unity Real cooperation between Arab countries will start when they are tied up by economic interests. Political unity has often come as a result of economic

(1) Revue de la Chambre de Commerce et d'industrie de Beyrouth, Numero 2, lere Annee, p. 35-37.

unity..... In the world today there is a tendency for customs unions, even where political unions are not sought.... The purpose behind these unions is two-fold: on the one hand to derive the economic advantages which they offer, and on the other, to be a lasting basis for concerted action against the common communist dangers.

The duty to work for this goal is inescapable. The Arab World today is threatened by many dangers, the most obvious of which is aggressive zionism.... The Zionists have further established an economic machinery which is trying to expand itself on the Arab World.... This danger cannot be met by individual action.

The conference aims to work in full cooperation with these (Arab) governments, and to set up a machinery which will be in constant touch with Arab governments and the Arab League, in order to keep them informed of the wishes and opinions of Arab business men and industrialists". Thus the aims, plans and motives of the leading personalities in the conference seem to have been the following:

- a. Aim - Arab economic unity.
- b. Motive - Material benefits derived; meeting the common danger of zionist and economic expansion, laying down the foundation for a concrete and lasting Arab unity.
- c. Method - Working with the support of local chambers in full collaboration with the Arab League and Arab governments, with the object of influencing these governments for positive economic action.

d. Organisation - Setting up of a Permanent Union of Arab Chambers, and a permanent office for this union.

The first conference avoided the definition of the meaning of the Arab economic unity which it wanted. This definition was evolved slowly in the three later conferences which were held successively in Beirut (December, 1951) Damascus (May, 1955) and Baghdad (October 1954).

The only point on which the first conference was emphatic was the one related to organisation, and even here, only a statement of principle was asserted. The resolution on this point ran as follows: ⁽¹⁾

"It has been unanimously held that all chambers of commerce, industry, and agriculture in every single Arab country are advised to start the establishment of local unions of such chambers in their respective countries in the **greatest** possible speed, and that a general union of these local unions be formed under a special covenant. In order to speed up the formation of this general union, it has been resolved that if some of the Arab countries are late in the formation of their local unions, they will have to be represented in the general union in the manner decided upon by the chambers of their respective countries."

The union referred to in the above resolution was not set up, however, except after the Beirut conference,

(1) Ibid., p. 38.

when its constitution was laid down and approved.

This constitution contained a more elaborate and specific definition of the aims of the movement. These aims were the following. ⁽¹⁾

a. Strengthening economic ties among Arab states, by advocating the reduction and lifting of customs barriers, the facilitation of monetary transfers and the movement of persons, the improvement and expansion of transport facilities, and in general by removing all obstacles in the way of the exchange of goods and services among Arab countries, and by adopting all positive measures for increasing this exchange of trade.

b. Working for the increase and improvement of Arab production, and increasing its variety, in the field of animal, agricultural, and industrial production, for the rationalisation of this production, and for the specialisation of different countries in the lines for which they are best suited. This is to be achieved by the unification of customs tariffs and the facilitation of the movement of capital among Arab countries, for the collective exploitation of their resources.

c. Protecting Arab economy from the dangers to which it is exposed, and especially those arising from Zionist Israel.

(1) Conference of the Chambers of Commerce, Industry and Agriculture of the Arab Countries, Minutes of Meetings for the second session, Beirut, 1951, p. 53.

d. Organising the marketing of Arab products and publicity for these products, internally and externally, and working collectively for opening markets for Arab products, and for collective bargaining in trade and in all economic relations with foreign countries.

e. Working collectively for the combatting of pests and diseases which attach animals and agricultural crops, and for the prevention of hashish cultivation, and also working for the development of business ethics.

f. Exchange of technical information in agricultural, industrial and other fields, encouragement of scientific, economic and technical research, and working for the increase of national income, for full employment, and raising the standard of living, and for the attainment of social justice.

The constitution also asserted the principle of collaboration with the Arab League and Arab Governments. Furthermore a Union of Arab Chambers as well as a permanent Secretariat was established.

The conference started by facing the two major obstacles for trade expansion, namely customs barriers and settlement of payments.

On the question of customs it advocated the principle of preferential treatment. Agricultural products should be allowed free entry, while industrial products should be given such treatment only if local raw materials and labour form 50% of their local costs. Arab governments were

asked to establish collective protection for Arab products by imposing unified customs duties.

On the question of payments the Arab governments were simply asked to devise a working arrangement for the speedy and automatic transfer of such payments.

After the third conference of Damascus (May, 1953) a more elaborate statement of the measures necessary for the achievement of the economic collaboration, among Arab states was made. Immediately following that conference, a memorandum was submitted to the Conference of Arab ministers of Finance and Economy which represented the opinion of the Arab Chambers on the subject.

"The conference of Arab Chambers of Commerce, Industry and Agriculture" stated the memorandum believes that the Arab economic collaboration rests on six principles.⁽¹⁾

1. Insuring the free movement, residence, and the right for ownership to every Arab citizen in every Arab country, in order to insure the maximum utilisation of the labour force available in Arab countries.

2. Insuring the freedom of movement for capital and payments..... If the proposals of monetary unification should prove to be impracticable, a payments union similar to the European Payments Union may perhaps be established as a first step towards a closer arrangement.

3. Abolition and reduction of all barriers obstructing trade and transit, by granting all Arab agricultural

(1) L'economie Libanaise et Arabe, Numero, 5 & 16, Mai-Juin, 1953

and animal products the right to enter free from customs duties, and by establishing a preferential system for Arab industrial products, which would give them under all circumstances, a special reduction from the normal tariff.

4. Establishment of an Arab financial institution, which would pool funds for Arab development.

5. The organisation of land, sea and air communications.

6. The establishment of the Arab Economic Council which had been provided for in the Pact for Mutual Defence and Economic cooperation, and giving that council the power to supervise Arab economic collaboration. This council should have sections for industry, commerce, agriculture, finance, tourism, communications, publicity, economic research, and all other aspects of economic collaboration."

The other side of the conference of Arab chambers represents an attempt to give shape to the desired economic collaboration, by making private enterprise interested in activities which involve either collective action or which have as their field the entire Arab World. Thus financial institutions, like Misr Bank, the Arab Bank, the Rafidain Bank, and the Cairo Bank, were appealed to, to widen the scope of their activities in the Arab countries. Many of them had even discovered the advantage of such activities before the conference commenced its work. Private trade dealings were discussed and organised in the course of the

many conferences. It was felt that actual private interests gave a greater weight to the movement.

2. The influence of the movement of Arab Chambers of Commerce on Arab governments.

The value of the movement of Arab Chambers of Commerce, Industry and Agriculture does not lie in its being just another expression of the vague desire for economic collaboration, but rather in its ability to influence the Arab governments and the Arab League to take up that whole question in greater seriousness, and with a higher sense of urgency.

Observers from Arab governments and the Arab League were invited to attend the different sessions of the conference. Thus the resolutions of the conferences were put before all Arab governments directly. They were sent to the ministries concerned for study and possible action, and in some cases inter-ministerial committees were formed to study them and report on them. The Arab chambers were active in every capital to see that the resolutions of the conference were given due consideration. ⁽¹⁾

⁽²⁾
In March 1952 the Permanent Office of the Conference of Arab Chambers sent a note to the Secretary General of the Arab League for presentation to the League Council.

(1) Previous Minutes of Conference of Arab Chambers etc. for the 2nd session, p. 33-35

(2) L'economie Libanaise et Arabe Numero, April-June 1952, pp. 37-38.

The note summed up the problem by stating "it is the opinion of the Conference of Arab Chambers of Commerce, Industry and Agriculture that the economic side of Arab collaboration has not received from the Arab League Council, the consideration which it rightly deserves. The objectives which this conference worked to achieve are obstructed by the lack of legislation and the lack of governmental cooperation and facilitation. The desire for better acquaintance among businessmen is hampered by the difficulty of obtaining visas. The desire for establishing collective enterprises is hampered by the difficulty of the movement of capital and payments. The desire for increasing trade is hampered by high protection. The desire for creating special relations between Arab countries is hampered by the most favoured nation clause adopted in trade agreements between Arab and foreign countries. Unless these and similar barriers are removed, all talk about economic collaboration will be meaningless."

The note ended in making the following proposal "All Arab governments should be invited for a meeting which would be attended by all ministers dealing with economic matters, and also representatives of Arab Chambers in an advisory capacity, for formulating agreements of collaboration in all economic and financial matters. These agreements will then be referred to Arab governments for ratification. Arab Governments should also be called upon to

establish the Economic Board stipulated for in the Mutual Defence Pact, as soon as this Pact comes into operation, and this board should start functioning as a permanent machinery for the supervision of economic collaboration."

This memorandum was sent at a time when the Arab League had in principle decided to convene an economic conference, whose purpose was vague, and it was not even known who were the countries to be invited. The first reference to such a conference occurs in the resolutions of the Arab League Council in its fourteenth session (Damascus, May, 1951). The resolution refers to an "economic and oriental conference" which was vaguely connected with a "Middle East Economic Council". A special committee was entrusted with the task of "defining the states and countries which will be invited to take part in it, and who will invite them and what will be the purpose of the conference, and its relation to conferences convened by the United Nations.

The Lebanese Government found it necessary to attempt at a more precise and useful definition of this conference, and so it submitted to the Political Committee of the Arab League a note dated 2.9.1952. This note stated that "the Arab states feel that their close collaboration can only be achieved through the collective organisation and coordination of their economies.... The urgent conditions which face the world today (the Korean crisis) has made it necessary to convene an economic conference, and a special committee of the Arab League was requested to provide the preliminary work (reference here is to the resolution of

the 14th session above quoted). One of the main reasons which lead to the proposal of this conference is the fact that countries of the East possess close economic ties which must be coordinated and organised in the interest of all these countries, especially since the Great powers are imposing a strict rationing of their products and are planning their economies in a way which would influence economic conditions of the Middle East... Since the treaty of Mutual Defence is still unratified... it is suggested, therefore, in the name of the Lebanese Government that the Political Committee recommends the convening of a meeting which will be attended by ministers of economy in Arab governments, at an early date, for the exchange in economic matters relating to their countries as a prelude for the coordination of economic collaboration." The idea here, though clearer than the former one, in that at least the participating countries were defined, and the general object was somehow related to the Covenant of the Arab League and the Mutual Defence Pact, there was still a general vagueness about the whole concept. The motive behind both the resolution of the Arab League for an economic conference, and the note of the Lebanese Government seem to have been derived more from the fear of scarcity in commodities arising from the Korean crisis, than from a desire to start an elaborate and long term definition of Arab economic collaboration. This explains the reference, even in the Lebanese note to other Middle Eastern countries. The idea was still vaguely connected with something like the Middle East Supply Centre,

which might possibly include the whole of the Middle East.

Consequently the resolution which was subsequently taken by the Arab League Council in October 3rd, 1951, on the basis of the above note, was equally hazy. The Lebanese government, which was the author of the proposal was entrusted to invite Arab ministers for a meeting to be held in Beirut, and to prepare the agenda of that meeting. ⁽¹⁾ The whole idea was however still nebulous, for resolution 15 of the 15th session of the Arab League Council (October 1951): which dealt with the whole question ran as follows:

"In connection with the proposal for an oriental Economic Conference, the League Council has decided to entrust the committee of ministers of Economy in the Arab states which will shortly meet in Beirut, to work for the coordination of effort, and the conciliation of topics which will be raised in each of the two conferences referred to (the Oriental Economic Conference and the Committee of Ministers of Economy in the Arab States) on condition that it also takes into consideration the coordination of the work of these two conferences with the Islamic conference which will be shortly held in Damascus." ⁽²⁾

The Lebanese government, however, had not invited for that conference or prepared an agenda for the points needing discussion, when the above mentioned memorandum of the Conference of Arab Chambers was received. ⁽³⁾ It was

(1) Previous Memorandum to the Secretary General commenting on the memorandum by the Conference of the Arab Chambers , Decision No. 15 of the said session.

(2) Ibid.

(3) Ibid.

ultimately the Arab League Secretariat, and not the Lebanese government which called for the Conference of Arab Finance Ministers. In the meantime the Conference of Arab Chambers was working hard on the Arab League Secretariat to clear the confusion, be defining the countries, the purpose, and the scope of the conference. When the agenda ultimately emerged, it contained all the points on which the Arab chambers demanded a resolution. The former resolutions merely enabled the Secretariat General of the Arab League to invite for an economic conference. The substance and meaning of that conference, however, were mainly provided, by the Arab Chambers of Commerce, Industry and Agriculture. The mere study of the note of invitation which the Arab League Secretariat sent stands as a conclusive confirmation.

The note, after referring to all the previous resolutions on the subject of convening an economic conference, concluded by the following:

"Since the conference of Ministers of Finance in the Arab League has not yet met; and since far reaching results are expected from this conference; the Secretariat General of the Arab League invites your government to take part in the Economic Conference which will be held in Cairo in the first week of December, 1952.

Proposed Agenda.

1. Study of the possibility of reducing trade restrictions. This includes the reduction of customs tariffs and the simplification of procedure for products of

participating countries, and contracting trade and payments agreement and the exchange of trade representation.

2. Exchange of technical assistance among participating countries, and preference of local technicians.

3. The encouragement of the formation of common financial and economic institutions which aim at improved exploitation of resources, and increase of production and exchange of commodities and services including tourism.

4. Collection and publication of periodic economic social statistics in everyone of the participating countries on a common basis, and in accordance with international usage and standards.

5. The formation of a regional payments union for the organisation and facilitation of payments among states of the region.

6. The formation of a permanent body for economic and financial matters of the countries of the region.

However, the above agenda which was prepared in September, 1951, was later revised, undoubtedly in the shadow of the wider range of subjects discussed by the first two conferences of the Arab Chambers, and scheduled for the third. All three conferences took place before the Conference of Arab Ministers of Economy had been convened. The conference of Arab ministers which was scheduled for December, 1952, did not meet until 25th May, 1953.

CHAPTER VI.

THE START IN REGIONAL ECONOMIC COOPERATION.

1. The conference of Ministers of Finance and Economy, and the multilateral agreements for trade and payments.

When the Conference of Arab Ministers of Finance and Economy met in Beirut, the objects of its meeting had become clear. It was no longer thought of as a coordinating or organising committee for other possible conferences, nor for any of the vague and contradictory purposes mentioned in the letter of invitation, nor even for a mere exchange of points of view as suggested in the earlier Lebanese note of September 1951. The purpose as stated in the resolutions of that conference was "coordinating Arab economy, in accordance with Article II of the Covenant of the Arab League, which called for close cooperation among members in economic and financial matters, and in accordance with the desire to organise economic relations among Arab states in a manner that provides for cooperation in all economic fields, in the widest possible scope."

The conference had on its agenda eleven points, of varying degrees of importance and urgency. Some of them were in the sphere of the long term organisation of Arab economic cooperation while others dealt with immediate questions.

(1)
These points were the following.

(1) L'Economie Libanaise et Arabe Nos. 15 & 16 , 3rd year ,
May-June 1953, p. 9

1. Facilitation of the exchange of agricultural, animal and industrial products on a preferential basis.
2. Transit trade.
3. Freedom of Transfer of capital and freedom of movement of citizens of member states.
4. Formation of a collective financial institution for financing Arab projects.
5. Formation of an Arab Marine Company.
6. Formation of a regional economic centre for the Middle East.
7. Coordination of economic policy among members as a preliminary step for unifying the Arab economic system (memorandum of the Syrian Government to the Arab League Council in its 16th session).
8. Formation of international pools for certain articles (memorandum of the Saudi Government).
9. Exploitation of Dead Sea minerals.
10. The Lebanese proposal concerning the marketing of German goods obtained by Israel under its reparations agreement with Germany.
11. Proposal put forward by the Syrian, Lebanese and Jordanian delegations concerning the purchases of U.N.R.W.A. in Arab countries.

a. Principles.

The principles behind Arab economic collaboration were set out by the Committee of Trade Exchange and Transit, in its final report which received the approval of the conference. "In connection with the exchange of national products, agricultural and industrial, the committee studied this subject in the light of the general principles of economic collaboration among Arab states which are contained

in the Covenant of the Arab League and in the Mutual Defence Pact, with the ultimate object of reaching an economic position in these states which will insure that it will become one single economic unit composed of supplementary parts and cooperating in finding ways for an increase in industrial and agricultural production, on the basis of specialization, large scale production and vidision of labour. This will be achieved by establishing the maximum freedom in the exchange of goods which are produced by these countries, and by encouraging this exchange in a way which will make it possible for every country to import the commodities which it needs from the surplus of such commodities in other countries, whenever such surplus exists, and whenever it is possible to effect such an exchange."

The committee took the draft agreement proposed by the Arab League (complete free trade) as a basis for its discussions. It found that this agreement drew the long-term objectives for the facilitation of **trade**, and that these objectives ought to be applied in stages, its work was therefore concentrated on devising the first of these stages.⁽¹⁾

Here we have a first class statement of an objective of regional economy, in which ultimately goods would be exchanged free of all customs duties, and in which a wider market would bring about cost economy resulting from

(1) Ibid. , p. 92

specialization and would enable the production of a wider range and variety of goods and services. This objective, however, cannot be achieved immediately, and in one stroke, but it would be achieved in stages. The first of these stages is the establishment of a regional system of preferential treatment, which was laid down in principle by the Conference and later embodied in two agreements: The Arab Trade and Transit Agreement and the Arab Capitals and Payments Agreement.

b. Trade Exchange.

This system of preference in so far as trade was concerned to rest on four principles. ⁽¹⁾ i. Entry free of import duties for all natural, animal and agricultural products. ii. Preference for certain industrial products. iii. Preference in export and import licenses. iv. The multi-lateral and the bi-lateral treaties.

i. This principle was adopted, after the Arab states were convinced that there did exist a kind of specialization in these products, and that where such specialization did not exist, there were still differences in the periods in which the different products become available for marketing owing to the variation of climate. However, products which are subject to a government monopoly were excluded from the above privilege. The reason for this is obvious, because such products e.g. tobacco, are often

(1) Ibid. p. 9 (Resolution No. 1)

considered as an important item of government revenue.

In one respect, the schedule of freely exchanged commodities went further than any of the preferential bilateral agreements among Arab countries, in that it included natural commodities (Chapter 1) including such things as salt (in which Yemen and Saudi Arabia are extremely rich), marble (which is abundant in Jordan) sulphur (which exists in huge quantities in Iraq). But many of these products, are usually subject to no duties or to low duties, for being raw materials for industries, or for building purposes.

The main defect of the free schedule, however, lay in that it considered the slightest processing as ground for exclusion from duty privileges. Thus meat, fish, vegetables and fruits imported in cans or glass or clay containers, which are hermetically sealed were excluded (chapters 2,3,7 and 8 of schedule). Coffee should be unroasted in order to be awarded free entry (chapter 9) . Excluded also are primitively processed products like cheese of all kinds, butter and semne, apricot, molasses, (kamar el-din*, flour, starch, vegetables oils, flour products like macaroni and biscuits, and even things like kishk, in addition to all canned or hermetically sealed products.

Commenting on the above facts the permanent office of the Arab chambers, remarked in a note sent to the Arab Governments and the Arab League on 9th July, 1953, that this would impose a heavy limitation on the exchange of this class of products, "for it is a known fact that many of the Arab countries are far from one another, and it is diffi-

cult to transport many of these products in a fresh state, and therefore no benefit from their exchange can be obtained, unless it is allowed to exchange them in a canned form."⁽¹⁾

2. Preference accorded to industrial products.

The Conference of the ministers of Finance and Economy did not draw a schedule for industrial products which are to be accorded preferential treatment, but left it for a committee of experts, which met in Bhamdoun, Lebanon, and finished its work on 27th August, 1953⁽²⁾ Eventually both this schedule and the original schedule prepared by the Conference of Ministers for natural, agricultural and animal products became the schedules I and II of the Arab Trade Agreement.

Whereas the first schedule was exhaustive, in so far as natural and fresh unprocessed products were concerned the second schedule was not exhaustive at all. It included only 37 classes of articles. The first nine of these (with the exception of sugar) are the very same primitively processed articles which should rather have been included in schedule I. The rest included such things as cement, carbon dioxide, oxygen gas, sulfuric acid, glycerine, prepared drugs and pharmaceutical products, developed cinema films, varnish, oil paints, soap, matches, calcium,

(1) The Economy of Lebanon and The Arab World Magazine, Nos. 17 and 18, 1953, p. 56.

(2) Ibid. 20-23, 1954, p. 23 (foreign numbering)

nitrate, calcium super phosphate, tanned hides, all sorts of leather products, cardboards weighing more than 300 grams per square meter, all sorts of textiles, all sorts of woollen yarn, woollen carpets, wool textiles woven of Arab wool, cotton yarn, embroideries, ribbons, feet rugs, cotton textiles of a weight of 110 grams and upwards per square meter, cotton textiles mixed with other materials, knitwear, clothes and covers; other sewed things if prepared from Arabic textiles, shoes, marbles and granite works, cement and eternite works, glass and glass products, cups, dishes and toilet basins, electric bulbs, stoves, shell works, brushes and multi-coloured threads for weaving and decorations.

A committee of Lebanese and Egyptian industrialists which studied this schedule during the visit to Lebanon of the Egyptian trade mission to the Arab countries in December 1953, pointed out several commodities which should be removed from schedule II to schedule I, and also suggested the inclusion of new commodities in schedule II. These included woollen textiles, whatever the origin of their threads, coloured cement, porcelain and tiles, plastic products, shaving razors, painted iron sheets, flax, textiles, refrigerators, elevators, copper water taps, arak, wine, vinegar and certain vegetable oils. There is no doubt that other countries might find many of their products not included in that inexhaustive schedule and might wish to see them included in it.

(1)

(1) Ibid. , No. 22, Feb., 1952, p. 14 (clauses 1-5).

Aside from the inexhaustiveness of the schedule, the committee of experts adopted only one kind of preference, a reduction of 25% of the normal tariff, whereas the conference of Arab Ministers had decided on a preferential treatment "by according a reduction at a rate ranging between 20% and 50% below the normal tariff, and in certain cases by granting free entry."

The rigid limitation of complete freedom of exchange to natural, agricultural and animal products, is certainly not compatible with the idea of a regional economy. It is understandable to start by a preferential treatment for industrial products, yet this treatment does not mean, and should not mean the exclusion of all industrial products from the free treatment. The conference of Arab ministers was correct in accepting the principle of freedom for certain industrial products and a rate of preference higher than 50% (even though as an exception), and the committee of experts should have explored the possibility of preparing a schedule of products, benefitting from full freedom, or from a high rate of preference. The mixed committee of Egyptian and Lebanese industrialists, referred to above, suggested a formula for the rate of preference to industrial products. Commodities with little processing should be awarded full freedom, while those manufactured from Arab raw materials (100% of) should be given a 75% preference. Those which contain only 50% of local raw materials and labour might be given the 25% preference

(1)
accorded.

The Conference of Arab Chambers, in its commentary note referred to even found the definition of Arab industrial products as those which local raw materials and labour form 50% of the total value, an undue limitation. "It is one of the well-known facts" it stated in its memorandum already quoted", that there is a big market for raw materials in the world, from which even the most industrially advanced nations draw many of their raw materials, and it is in fact necessary for the Arab countries to draw on this market if they seek notable industrialisation.

Another criticism directed against the principle of industrial preference as laid down by the Conference of Arab Ministers, and the Arab trade agreement, was that it failed to provide for a common protection. For what is the use of a tariff reduction if the original tariff was itself low, The margin of preference would then be so small that it can hardly help in encouraging inter Arab trade. Moreover; if some countries have high tariffs on articles included in the preferential list, and others have low tariffs on the same articles, this means that the low tariff countries are deriving a greater advantage, for they enter a protected market and obtain a considerable preference, while high tariff countries enter an un-protected market and get small preference. Both points were noted by the

(1) Ibid. , p. 15, (Clause 7)

Lebanese-Egyptian Committee of Industrialists, and the solution it proposed was that Arab governments adopt a unified customs tariff on the basis of adopting the highest tariff prevailing in any of these countries. (1)

Lastly, the long term operation of such an agreement would certainly call for a rationalisation of Arab industries on the basis of specialisation and elimination of un-necessary duplication and competition. This is one of the main problems which have been faced by countries desirous of establishing a customs union or a free trade area, and it is one which will have to be faced if the present trend in Arab economic collaboration is meant to continue. Fortunately enough, the Arab countries are still in the early stages of industrialisation, and it is not too late to devise an arrangement for the supervision of this industrial development with the above purpose in view. A proposal on this point had been already submitted by the Syrian Government as we have seen. The penetrating report of the Committee of Lebanese and Egyptian industrialists also dealt with this point and recommended the "preparation of an agreement and the establishment of a general Arab machinery for coordinating industrial development." (2)

iii. Preference in Export and Import Licenses.

The principle of preference in import and export licenses, adopted by the Conference of Arab Ministers was also embodied in the Arab Trade agreement. This of course

(1) Ibid. , p. 15 (Clause 8).

(2) Ibid. , p. 15 (Clause 8).

is necessary , and the value of this provision depends on the spirit in which it is applied. It would have been better, perhaps, to make freedom from licenses a principle, and subjection to licenses an exception, which can be resorted to in some well-defined cases. The Committee of Lebanese and Egyptian Industrialists was equivocal in its comment on this part of the agreement. "The committee recommends that in cases where the importation of a commodity listed in the schedule is subject to an import license, such license should be granted in all cases."⁽¹⁾

iv. The Multi-lateral treaty and the bi-lateral treaties.

The fourth principle laid down by the conference of ministers and the Arab Trade Agreement was that the benefits conferred by reason of this multi-lateral agreement were not "to prejudice advantages awarded or to be awarded in existing or future bilateral agreements among Arab states."⁽²⁾

This provision does not merely allow the higher degree of preference obtainable, say in the Syrian-Lebanese Trade Agreement of March 1953, but also leaves the door open for the revision of bilateral agreements with the object of establishing a higher degree of preference. The preferential schedule in a multi-lateral agreement will probably exclude every commodity which anyone of the signatory states will want to exclude, whereas two states may

(1) Ibid. , p. 15 , (Clause 6)

(2) Ibid. , p. 13

find that there are industries in everyone which do not compete with the industries of the other, and whereas these industries cannot enjoy the multi-lateral preference, they may be accorded a bilateral preference between these two states. In other words with the multi-lateral preference schedule as a basis, every two states can draw up new lists of preferred articles. A country, which has no industries to protect might be able to give a greater preferential treatment in bilateral agreements. Even too relatively industrialised countries like Lebanon and Egypt might be able to draw additional preference lists of their own. Thus the committee of Lebanese and Egyptian industrialists recommended that, its remarks on trade exchange between Egypt and Lebanon be "embodied in a bilateral agreement, so that this agreement supplements the Arab multi-lateral agreement and removes those defects in it which might restrict trade exchange between Egypt and Lebanon.

c. Transit.

Although transit trade is organised by an international Conventions, transit trade among Arab states did not follow the rules laid down by that convention, because these states were not parties to it. Agreements, however, for the regulation of transit trade were concluded in the period before World War II. An agreement between Syria and Lebanon, on the one hand, and Palestine on the other, for transit trade was signed in August, 1920, while the more elaborate trade agreement of May, 1929, also provided for the regulation of transit trade. Under this latter agreement goods might be considered as passing in transit, under certain conditions,

even if they had not been originally declared as being in transit. Transit trade was organised between Syria-Lebanon and Trans-Jordan by an agreement signed in 1923 and between them and Iraq in an agreement signed in January 1925. Between Palestine and Iraq transit was regulated by an agreement signed in 1937. A special agreement also regulated transit trade between Palestine and Trns-Jordan. (1)

These agreements gave considerable freedom for transit trade, and were a factor in the encouragement of the movement of commodities across political frontiers. When the system which they had provided broke down, some states started to treat transit trade in the manner which gave them the greatest advantage, regardless of the interests of the area, or international usage.

The obstacles to transit trade mainly arose from Syria. The Syrian authorities did not allow any imported goods to pass on Syrian territory, en route to a third country except by railway, whenever, it was possible to use the railway for that purpose. The reason for this seems to have been the desire of the Syrian government to increase railway traffic, either for the sake of the revenue which it obtained (in the case of the Hejaz railway), or in order to reduce the losses of the Railway Company, (D.H.P.) which it had to cover by reason of the concession of the company itself. The country which suffered most from this

(1) Article by Muhamad Sa'id Azza'im, The Previous Chamber of Commerce of Beirut Magazine , p. 38-41.

limitation was Jordan, because after the Palestinian war, Beirut became the main port through which Jordanian imports passed. The monopoly imposed in the interest of the railway meant that Jordan had to pay double the motor rate for the transport of its goods across Syria, in addition to the inconvenience and delay involved. The difference between the two rates (railway and motor transport) seemed to be an unfair tax which Syria imposed on the Jordanian consumers, notwithstanding that it also imposed a transit duty on the passage of commodities.

Local products of Lebanon, Jordan and Iraq however, were allowed to pass over Syrian territory in motor transport. Here again Syrian authorities imposed restrictions on the crossing of international frontiers that favoured Syrian trucks to the detriment of Lebanese and Jordanian trucks.

The conference of Arab Ministers laid down a principle for transit trade, which was later embodied in the Arab Trade Agreement, and which should be taken to modify both Syrian practices. The principle is the following: "Contracting parties undertaken to facilitate transit trade across their countries by all means of transport, in accordance with customs and other regulations enforced in the country through whose territory transit trade passes.

All transport is to be considered transit transport across the territory of one of the contracting

parties, which is transport of goods and personal chattels of whatever origin whether or not they are transhipped from one means of transport to another, and whether or not there had been any change in their transport, if the transport forms a complete transport that starts and ends outside the territory of that country." (Resolution II (i)) .

However it was felt that a more definitive agreement between the parties most directly concerned with transit difficulties - Lebanon, Jordan, Syria and to a lesser extent Iraq - was needed. Thus the conference recommended to **these** countries "that their representatives should hold a common meeting at the earliest possible time, for making an agreement which regulates questions of transit among them in a way that assures the interests of all concerned." (Resolution II (ii)).

This meeting was subsequently held in Bhamdoun, Lebanon, but failed to achieve any results, for Syria also had its own complaints: the rates of Beirut harbour were excessively high, and constituted an unfair tax on Syrian commodities passing through Beirut. Jordan felt the same about the harbour rates, and hoping to get the double advantage of lower harbour rates and free transit, it supported Syria in requesting that the revision of the Beirut harbour rates be a pre-condition for further talks on transit organisation.

The only benefit so far which came as a result of the transit clause of the resolutions of Arab ministers

was that Saudi Arabia allowed transit trade across its territory to Kuwait, whereas for one year prior to the conference it had forbidden all such trade for fear of smuggling.

(1)

d. Transfer of Capital and Payments.

i. Transfer of Capital:- The question of the transfer of payments and capital was made the subject of another multi-lateral agreement among the Arab states (also signed in Cairo on 7th September, 1953) . It should be remembered that at the time of the signing of this agreement three Arab states, namely Lebanon, Syria and Saudi Arabia, imposed no restrictions whatever on capital movements to or from any country, and they still hold the principle of the free movement of capital. Jordan and Iraq had imposed some controls but again these controls did not have the effect of restricting capital transfers. It was only Egypt which had imposed strict restrictions on the movement of capital, and therefore the practical meaning of this part of the agreement was limited to the participation of Egypt, and even here, except for the temporary flight of capital from Egypt, due to political reasons, Egypt rather expected an inflow of Arab capital rather than an outflow of Egyptian capital. Yet the agreement had value in two ways: (1) by subjecting the movements of capital to a multi-lateral agreement, rather than to the accident of the internal regulations of the

(1) L'Economie Libaïse , op.cit., No. 19-20, pp. 21-22

countries concerned (which often change without warning), it gave capital protection against such possible and unpredictable changes. Thus capital movements would be allowed regardless of any local regulations, so long as the agreement was in force. (ii) it gave capital the additional protection that, even in the case of the annulment of the agreement, all capital which had moved under its provisions was capable of withdrawing to its original country.

If, however, the intention behind the agreement was really to encourage capital movements among Arab states, then the agreement was defective, and is not sufficient for the attainment of this purpose; Capital will not move merely because it is permitted to move, or because it is given some assurances. The conditions favourable for its movement must be created, and the agreement in its present form does not provide for such conditions. Some Arab countries limit by law the proportion of foreign capital in local projects and Arab capital is considered foreign capital in every Arab country. This is contrary to the whole logic of the agreement which is based on the principle of preference.⁽¹⁾

This was indicated in the memorandum of the Conference of Arab Chambers, already quoted, which further put forth a double claim; that the proportion prescribed by law for foreign to local capital should not be applicable

(1) Ibid., p. 57

to the Arab capital, or should at least be modified in the case of Arab capital so as to give it preference, and also that all Arab citizens be given "nationals right" in matters of real estate ownership, ownership of moveable property, and similar rights, and that their enterprises receive all the facilities and privileges of nationals' enterprises.

The existence of countries which imposed no restriction on capital movements, presented a difficulty. For it was feared by countries who practised control of such movements (mainly Egypt of course) that capital going to such unrestricting countries might eventually leave them to other foreign countries. This might facilitate the flight of capital in accordance with the multi-lateral agreement should "guarantee that it will be used for the purpose declared". (Article II - Paragraph I of the Agreement).

ii. Transfer of payments:- Here again, the benefits derivable from this clause have value in so far as they are granted by countries which practice restrictions on the transfer of payments (mainly Egypt). The contracting countries undertook to grant such payments "the highest possible degree of preference". If, however, the exporting country demands payment in one or more foreign currencies, and the importing country finds itself unable to make payment in such foreign currency, then at least it undertakes to allow the use of the creditor account of the exporter in payment for articles

which he might wish to import to the creditor country in which he resides, or to transfer it in whole or in part to residents of any of the other contracting parties, or to use it in payment for any export article which the debtor country allows to be exported to any country, and to allow the exportation of such articles or articles to any of the contracting countries or to any other country. However if the debtor country demands that the price of such export articles be settled in part or in whole, in a certain specified foreign currency, then the holder of the creditor account has the right "to pay in that foreign currency only a part of the value, in accordance with the most favourable rate which the debtor country requests under similar circumstances, and the rest of the price is to be settled from the account of the creditor country."

The curious thing about this part of the agreement, however, is that, while it provided in theory for some sort of preference it did not describe how payments would be affected at all. Thus countries which had trade dealings with Egypt - the country practising restriction and therefore the one on whom the burden of showing preferential treatment falls - found that unless they had entered into a bilateral payments agreement with Egypt, the multi-lateral Arab payments agreement was of no avail in effecting payments from Egypt. Syria was the country which had to face this difficulty, and therefore when the Egyptian trade

mission visited Syria, the Syrian traders emphasised the need for a sort of payments agreement between the two countries.

Aside from the lack of providing a machinery for effecting payments, the agreement is so flexible that it might defeat its own purpose. To make it precise and effective, it should have provided (1) for automatic payment, at least within a certain quota for credit extended or debit accepted in an arrangement similar to that of the European Payments Union, and (2) a method whereby settlements are made or demanded, above the limit of the quota allowed as for example to request payment in gold or some accepted foreign currency - again in a way similar to that practised in the European Payments Union. Thus it seems that without a machinery for effecting settlement, and without allowance for automatic settlement, at least within a certain range, the agreement is well-nigh meaningless.

e. Other Resolutions of the Conference of Arab Ministers of Finance and Economy.

The Conference also studied proposals for the establishment of the following projects:- (i) it was agreed that Arab countries were in great need for the formation of a financial institution for Arab development. The project was referred to the Arab League Secretariat for further study. (ii) A common Arab Marine Company - here the Conference found that a previous resolution had already been taken by the Arab League Council (in its 18th session) for the formation of an Arab Marine Company. The Iraqi

government proposed a company with a capital of EP: 6 million, EP. 3 million of which would be subscribed to by Arab governments and the rest by private enterprise. This proposal was referred to the Arab League Secretariat for drafting the basic charter for the Arab Marine Company.

(iii) Exploitation of the Dead Sea Minerals - this again was referred to the Arab League Secretariat for further study and for drafting a charter for a company which will undertake the actual exploitation of these minerals.

Of these three resolutions, the one concerning the formation of an Arab financial institution deserves special emphasis, not only because it is prior to the others, not only in the sense that should it exist it would be the proper instrument for their study, and for their financing at least in part, but also because whereas common projects would at best mean a better exploitation of regional domestic capital, such a financial institution might attract capital from outside the region, or might keep in the country part of the profits of capital investment by foreign companies in the region (e.g.) Petroleum Company). In this sense it involves an addition to the capital resources of the region, which might be of considerable value.

The importance of the three resolutions lies in that they indicate a trend - still on a theoretical level - for the better pooling of the capital resources of the region, and establishing common projects for the area as a whole.

(iv) The Free Movement of Persons - One of the requests repeatedly made was that persons (labour) should be allowed to move, reside and work freely, because this was the best way for the best utilisation of labour. Labour would move to where its marginal returns and marginal productivity were highest. The conference simply showed awareness of the fact, but took no resolutions on it. It simply recommended to Arab governments to establish such freedom (Resolution XII). (v) A Middle East Regional Institution:- This was the only theme that remained of the earlier resolutions and confused thinking on the purpose of the conference. The conference resolved in principle "that it agreed on forming such an institution". (Resolution X).

2. Communications and Tourism.

Although the above represent the most important economic questions which had been discussed and decided by the League of Arab States. There are other matters, however, which deserve to be mentioned.

A committee for the study of inter-Arab Communications met in 1953 and presented an elaborate report for the improvement of these communications, and the construction of new roads and railways. Its recommendations, however, remain as mere wishes in view of the tremendous costs which will be involved. The only recommendation which received practical consideration was the one concerning the repair of the Hejaz railway. The restoration of this line has since become the subject of an agreement between Saudi Arabia and

Jordan and Syria. A recommendation for the formation of an inter-Arab Postal Union was also adopted by the Arab States.

In 1954 a conference was held in Egypt for coordinating measures designed for the attraction of tourists. The conference recommended a series of measures and decided on the formation of a Tourism Union. (1)

3. The Arab Economic Council, the Economic Committee of the Arab League, and the amendment of the two multi-lateral agreements.

Since 1953, the Economic and Financial Committee of the Arab League has held many periodic meetings. It is now named "the committee of the experts" and it meets to prepare the agenda and submit opinions to the Economic Council, which is formed, in accordance with the Arab Security Pact, of Ministers of Economy in Arab countries. In fact/^{it}is a continuation of the Conference of Ministers of Finance and Economy, and it has had to deal with the whole range of subjects, which had been formerly treated by that conference.

The two multilateral agreements were subjected to further studies by the expert committee and the Economic Council. These studies had to compromise between the desire expressed by some Arab States for a wider scope and rate of preference - even for complete freedom of trade if possible, and the fears still entertained by others, on account of the

(1) Al Abhath, Vol. 7, No. 3, September, 1954, pp. 339-334

lesser development of their industries or on account of the importance of customs as a source of public revenue.

Nevertheless two agreements, introducing amendments on the former two multilateral agreements have been signed, and now await ratification. These amendments do not introduce any major changes, but are more in the nature of rectification of error.

In so far as the trade agreement is concerned, a few natural products were added to schedule (A) (freely exchangeable). A larger number of articles was added to schedule which accords a higher percentage of preference - 50% . Some of the articles which were formerly included in schedule (B) were not transferred to schedule (C) and a few others were added.

In respect of the payments agreement, the words "or other countries" were deleted from Article I (B) which read as follows;- "b. the right to transfer all or part of their creditor account to residents of any of the other contracting parties or other countries." The term "construction projects in Article II (a) was amended to read "economic development" projects.

The other points covered by the Ministers of Finance and Economy have not yet taken final shape.

CHAPTER VII.

THE PRINCIPLES OF ECONOMIC UNION.

The movement for Arab economic collaboration can be studied from many angles. It can be considered from the historical angle: what has it attempted and what has it achieved? or it can be considered from the analytical angle: to what extent is it useful from the economic point of view? or emphasis can be shifted from its economic aspects to its political aspects. Is it really conducive to a closer unity of life and action among Arab States? Or it might be even studied as an example for an attempt by an organised group of vested interest, for achieving its objectives - the vested interest group being in this case the Arab Chambers of Commerce, Industry and Agriculture and the question which arises here is : to what extent can this group maintain a cohesive and continuous pressure? to what extent will the minor interests of certain local groups, undermine the general interest of the rising middle class of industrialists. Lastly the movement might even be considered as being another expression of the prevailing in many parts of the world for regional organisation of many aspects of life, political, economic and social. Here one might enquire about the fundamental value of such movements, and about the kind of problems they face, about the solutions they devise for these problems, and the institutions which they create for the embodiment of the objectives and for their effective achievement.

Although the previous discussion tried to limit itself to that which is primarily economic, yet an attempt was made to keep sight of all the other aspects and implications, as much as possible. Accordingly in the course of the discussion, most of the above questions have been treated either directly or by implication. Nevertheless it is not out of place to recapitulate, and to attempt at bringing the previous discussion to a unified whole.

1. The Issue of Regional Economy.

The first question which might be raised here is whether the whole trend of regional economic preference is desirable. This kind of Arrangement - especially in the shape of the customs union, which is its most logical and perfect embodiment - has a double function, as both Professors Viner and Meade have shown, for it "may improve the economic use of the world's resources in so far as it creates trade, by enabling one member of the union to undercut the uneconomic industries of another member, whereas it may worsen the use of the world's resources in so far as it diverts trade, by inducing one member of the union to purchase the products of uneconomic industries in another preferentially favoured member rather than the products of the more economic industries of outsiders."⁽¹⁾

The function of regional preferential arrangements in stimulating the better exploitation of a region's economy is now widely recognized and accepted.

(1) J.E. Meade, Problems of Economic Union, George Allen and Unwin Ltd. 1953 p. 8.

Thus the Havana Charter, which was supposed to lay down internationally recognised rules for international trade provided for an international recognition of preferential treatments in the shape of permanent arrangements of customs unions and free trade areas, and temporary arrangements for regional development.

The importance of regional arrangements for the purpose of development has been further recognised by the group of experts which reported to the United Nations on "Measures for the Economic Development of the Under-Developed countries". These experts expressed the opinion that "some under-developed countries are so small that their internal market is not large enough to support large scale industries. The best solution may be to cooperate with other countries in the same region. This does not necessarily involve political federation, though sometimes such federation is also desirable on other grounds. The creation of a customs union is a less radical possibility. Still less radical is the creation of a free trade area; and failing even this, it is possible to make preferential and tariff arrangements for promoting economic development. There are many small countries whose prospects of economic development will remain small until they enter into close economic relations with their neighbours¹.

Recently, this view has been challenged by "To speak of

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1. "Measures for the Economic Development of Under-Developed Countries," Report by a group of experts appointed by the Secretary General of the United Nations. U. N. Publications, No. 1951 II B.2. p. 23.

territorial extent of the market as the main determinant of its size" writes Nurkse "seems to me a case of misplaced emphasis.⁽¹⁾ The trouble, in the opinion of Nurkse does not arise from the smallness of the country, but from the low purchasing power of its inhabitants. Some small countries like Switzerland or Sweden have domestic markets which are sufficient to induce private investment of all kinds, while some other big countries, like China, have not developed large scale industries in spite of the vastness of their territories because their markets notwithstanding large geographic extension, are still small. Yet, even Nurkse does not disclaim the effort of the removal of market barriers. Such a step would "remove the artificial transport cost which customs duties represent. But reductions in any cost of production, not only in that of transport, have that effect. Any increase in economic efficiency and not only in the efficiency of transportation increases the size of the market in the way already indicated.⁽²⁾

But whatever the true value of the territorial size of the market, it cannot be denied that a regional market is larger in extent than a local market, for it enables a certain industry often established to supply a commodity which is at present being imported - to take a share in the total consumption of that commodity, not only in its local market, but equally in the other markets in which it possesses a preferential

(1) R. Nurkse, Problems of Capital Formation in Under-developed Countries, Croford University Press, N.Y., 1953, p.19

(2) Ibid. , p. 19

arrangement succeeds in "diverting" the importation of the participating countries - then to that extent it has succeeded in creating a larger market. The essence of regional arrangement is in the volume of replacement or diversion it achieves. In nature, therefore, it is more akin to protective arrangements, but on a larger scale.

Nevertheless Nurkse is probably right in showing that, regional market arrangements, like protection, are by themselves not sufficient to induce either development or the necessary expansion for trade. Something else is needed - namely development on a wide front, or balanced growth as Nurkse calls it, yet the effort of such arrangement as a facilitating factor should not be denied.

Yet, even if the remarks of Nurkse were true, they are not applicable to the Arab markets. Arab markets at this moment are not deficient in purchasing power, and they are importing on quite a considerable scale. In 1952 the value of the total imports of Egypt, Syria, Lebanon, Jordan and Iraq amounted to more than £ 350 million.

With recent oil developments the regional Arab market has come to show certain new features, which would make the remarks of Nurkse little applicable even if they were true. The most notable feature is that, notwithstanding under-development in other sectors of the economy, the oil industry, developed by foreign initiative and capital, has vastly increased the purchasing power of the region. In

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1952, for example oil royalties received by governments of Arab countries were as follows in million U.S. dollars: Saudi Arabia 170, Kuwait 139, Bahrain 6, Qatar 9 and Iraq 110. ⁽¹⁾ These sums have considerably increased since then, and they are expected to mount for some time to come. All this is aside from the increase in purchasing power resulting from the expenditures of oil companies and from the minor transport royalties they pay to Lebanon, Syria and Jordan.

Since all the oil countries, except Iraq, are not food producing or industrialised, it might be reasonably expected that part of their increasing purchasing power would go to foodstuffs and industrial commodities produced in the other countries. Yet the picture of inter-regional trade has shown us that oil countries import little from other countries. Iraq receives less than 3% of its total imports from them, while trade with Saudi-Arabia and Qatar is still negligible. This fact is partly due to the deficiency of communications. No direct route connects Syria, Lebanon, Jordan with the Persian Gulf, or with Western Saudi Arabia. Two schemes are now under discussion. The first is for an international highway which connects Arab ports on the Mediterranean with those on the Persian Gulf, (Moore's project) thus enabling a quick and cheap movement of local products as well as transit products. The advantages claimed for this road are 1. it enables Arab East Mediterranean

(1) The Middle East , 2nd Ed. Op.cit. , p. 71

countries to sell on a bigger scale to oil countries on the Persian Gulf. 2. It enables countries on both ends to industrialise, each by having an outlet on the opposite end and by having a wider market. 3. It enables countries on both ends to earn some benefits from transit trade. The second is the reorganisation of the Damascus - Medina-Hejaz railway. Since Medina itself is about to be connected with Jeddah and Mecca by a highway, this line would furnish easy connection between Hejaz and the countries to the north.

Concerning sea routes, a proposal is now being discussed for an Arab Maritime company to facilitate the transport of local goods to Arab ports.

It is too early to give a judgement on these projects or on their possible effects. But the above should be sufficient to show the intimate connection between the development of regional communications and the rise of the regional market. Reduction of customs tariffs is only a reduction in the artificial cost of transportation, as Nurkse justly remarks. The other side of this cost - namely the natural cost of transportation must also be reduced.

2. Pooling of financial resources.

Oil extraction in the Middle East opens up another vast possibility for economic collaboration, namely the possibility of pooling financial surpluses for the common good of the whole region. In May, 1953, a proposal was put forward by Professor S.B. Himadeh, for such a bank, and he later prepared a draft charter, which was submitted to the

Arab League, and was studied by the Arab Economic Council and the Economic and Financial Committee of the Arab League. Objections from some Arab states prevented the acceptance of this charter, and a sub-committee was found to discuss the matter, on the spot, with Arab Governments.

The project is not yet well understood in many Arab countries. Some of the states which have oil surpluses, being without knowledge or experience in banking, are afraid that the project might be no more than a method for obtaining part of their oil revenue, without return.

Others do not believe that they can have surpluses, Iraq for example has a huge investment programme, while Saudi Arabia suffers from a considerable and chronic deficit resulting from conspicuous consumption. The countries which have the surplus - Kuwait and to a lesser extent Qatar - are not independent and are therefore unable to take a decision in the matter.

None have sufficiently understood the pooling capacity of such a bank-pooling not only of surpluses of governments, but also of parts of the profits of oil companies and other international sources. In this respect the greater part of the share capital of the bank - possibly 80% of it - will be no more than a guarantee which will enable the bank to pool financial resources from all directions.

Should the scheme for such a bank materialise, it will be more conducive to the building up of a solid regional economy, than any other measure.

3. A Payments Union.

A preferential arrangement though useful in diverting trade and expanding the market is not sufficient by itself. Aside from the need to free trade from licensing as well as from customs barriers, and to adopt a uniform customs policy vis-a-vis other countries, a kind of monetary arrangement is necessary, in order to make possible the immediate transfer of payments for exchanged commodities. This would not have been an important problem if the countries of the world had succeeded in achieving free convertability, as was originally anticipated in the Bretton-Woods agreement. The countries participating in that agreement, had, at the time of signing it, placed their hopes in the achievement of free convertability, within a short period of time, through the International Monetary Fund, and had therefore avoided the suggestion of alternatives which would allow a more limited convertability, in the case of failure to achieve the grand World -Wide convertability. Nevertheless, as experience showed that complete convertability was not yet in hand, the European countries devised E.P.U. - the European Payments Union - to deal with their problem of payments.

Mr. Van De Kieft, Netherlands Minister of Finance, in his capacity as Chairman of the Board of Governors of the International Bank of Reconstruction and Developments, declared in the meeting of that board in September, 1954, that

it was to be regretted that "the Articles of Agreement (of the International Monetary Fund) do not refer to the role of regional arrangements in the achievement of a multi-lateral system of payments... for the experience of the European Payments Union has ... clearly shown that such an approach to multi-lateralism was to play a helpful role in conditioning member countries for the rigours of convertibility.⁽¹⁾

It is time for the Arab countries to think of trying a multi-lateral payments arrangement of this nature. There is no need to go to the drastic attempt at unifying currency.

4. Freedom for movement of capital.

A freedom of the movement of private capital and labour is equally necessary for the establishment of a regional economy.

In the case of capital it is not enough to make provisions for such "movement in agreements". It is also necessary to provide the conditions which will make capital transfer possible.

5. A rational plan of industrial growth that avoids duplication and encourages supplementary industries is equally necessary.

6. The Political and the Economic.

Is an economic union among Arab states desirable only for the sake of the economic benefits it confers, or

(1) International Bank for Reconstruction and Development Summary Proceedings. Ninth annual meeting of the Board of Governors, p. 4

also as a step towards a closer political union which would ultimately take the shape of a federation or a confederation of Arab states.

Much effort is usually spent to answer this kind of question. Some people try to prove that economic unions e.g. the Zollverein, have paved the way for political unions, while others believe that economic unions are incapable by themselves to pave the way for political movements.

In my opinion the whole question is irrelevant. For while it is true that many of those who believe in an Arab economic union think primarily in terms of its political benefits and meaning, yet it cannot be denied that it has benefits by itself - aside from all political considerations. Regional economic arrangements - customs unions, payments unions, unions of basic industries - are rising everywhere. They form a new outlook on both economic as well as political problems. Their rise is not an accident, but an answer to new needs which our times have created. They will probably become a permanent feature of the structure of world society. The movement for an Arab economic union must be understood and evaluated from two angles: as an expression of Arab Nationalism and also as an expression of the modern trend for regional organisation. Viewed from these angles one will expect closer developments for the achievement of such an economic union.

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* تطبع المجلة بقسمين عربي وفرنجي وذكرها بالاسم العربي يشير الى قسمها العربي
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