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TRADE AGREEMENTS
IN LEBANON
AN ANALYTICAL STUDY

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PREFACE

Following the rupture of the customs union with Syria in March 1950, Lebanon concluded a number of trade and trade - and - payments agreements both with Arab and other foreign countries. The forms taken by those agreements vary considerably, though the reason for their introduction is basically the same, namely, the desire of the Lebanese authorities to expand Lebanon's merchandise exports and to reduce its balance of trade deficit.

The conclusion of bilateral agreements, especially of the usual postwar trade - and - payments agreement and trade quota agreement types, has given rise to much controversy. On the one hand, associations of industrialists and agriculturists as well as some economists consider the bilateralization of a large part of Lebanese foreign trade as an essential condition for the expansion of merchandise exports and hence for the development of Lebanese agriculture and industry. On the other hand, advocates of a free trade policy tend to exaggerate the disruptive effects of bilateral agreements which are believed to result in the imposition of trade and payments controls and consequently in the development of an unfavorable balance of payments position.

The reason for this, they point out, is mainly the fact that Lebanon is a country which relies to a great extent on earnings from such sources as capital inflows, remittances, foreign travel, and exchange and triangular operations, all of which are dependent on the maintenance of a free trade and payments policy on the part of Lebanon.

In the present study attempt is made to examine the reasons for the introduction of bilateral agreements into Lebanese foreign trade and the forms they take, their effects on Lebanese foreign trade, and finally the various implications of a large scale bilateralization of that trade. As an introduction a part dealing with the rise and spread of bilateralism after the 1930's, as well as with its advantages and disadvantages, is added. The study is thus divided into five chapters:a) an introductory chapter which deals with the rise and current usage of bilateral trade and trade - and - payments agreements as well as with their uses and weakenesses;

b) a second chapter which gives a brief survey of Lebanon's foreign trade and its balance of payments and of the reasons for the introduction of trade and trade - and - payments agreements after 1951;

c) a third chapter which describes and classifies existing agreements;

d) a fourth which surveys and evaluates the effects of those agreements; and

e) a fifth which attempts to determine what commercial policy is apt to be best suited for Lebanon.

The author is particularly indebted to Dr. Albert Badre under whose supervision the study was prepared and whose valuable remarks made its preparation possible. He also wishes to express his gratitude to Mr. Naim Amyouni and Mr. Mustafa Nusouli, who have been kind enough to provide him with a considerable amount of the information he needed; as well as to all other persons who have aided him in the preparation of the study. However, the views expressed are strictly the author's. He is therefore solely responsible for them, as well as for any shortcomings or inaccuracies that the study may contain.

A B S T R A C T

A considerable part of present day international trade is carried out under trade or trade -and - payments agreements which attempt in one way or another to achieve bilateral balance in trade between the contracting parties. The factors that contributed to the rise of bilateral trading methods in the 1930's and to their spread after the Second World War were mainly the imposition of trade and payments restrictions by a large number of countries and the inconvertibility of most currencies, both of which were due to balance of payments difficulties. Bilateral trading methods were actually a way through which countries with inconvertible currencies could trade with each other, and in some cases with free trade countries, without having to make payments in convertible exchange.

Lebanon, which is a relatively free trade and payments country with no serious payments problems, has concluded a number of trade, trade - and - payments, and trade and economic cooperation agreements both with Arab and non - Arab foreign countries. Some of these agreements, namely, those with Eastern European countries, attempt to balance trade bilaterally, chiefly by providing for the settlement of payments arising from current trade between

the contracting parties through clearing accounts set up for that purpose. The agreements with Arab countries, on the other hand, which include four bilateral agreements with Egypt, Iraq, Jordan, and Syria, and a multilateral treaty among the members of the Arab League, extend preferential treatment in respect of customs duties and import and export licensing to a variety of agricultural and industrial products originating in the contracting parties. The other agreements either draw up a list of Lebanese products with corresponding values or quantities for which the other party agrees to issue import quotas and licenses, i.e., the agreements with France and Italy; or simply provide for indicative lists of Lebanese and the other party's products, i.e., the agreements with Yougoslavia, West Germany, and China.

The main reason for the conclusion of these agreements was, and still is, the desire of the Lebanese authorities to expand Lebanese merchandise exports and to reduce the large deficit in the country's balance of trade. The degree to which the agreements already concluded have contributed to the attainment of those two objectives is very difficult to determine. Many of the agreements have not yet gone into effect, while the others have been in operation for a very short period of time.

However, certain rough approximations could be arrived at on the basis of developments, where any, in the volume and/or composition of trade with parties to trade or trade - and - payments agreements, and of changes in the import policies of those countries in relation to Lebanese exports. Thus, it was pointed out that the trade - and - payments agreements with Czekoslovakia and the USSR, both of which are socialist states where foreign trade is conducted under a state monopoly, have led to some increases in the volume of Lebanese exports to those countries, especially of citrous fruits. Also, the trade - quota agreement with France was found to have had some effect in stimulating Lebanese exports by contributing to the reduction of certain trade barriers imposed by the French authorities on importation from Lebanon.

As regards the other agreements with non Arab countries, they were divided into two major groups, viz., those that are too recent to have produced any effects, i.e., the agreements with Poland, Rumania, China, and Italy; and those which do not seem to have been properly enforced. The effectiveness of the bilateral agreements with Arab countries, on the other hand, was doubted on the grounds that trade with Saudi Arabia which do not have a bilateral trade agreement with Lebanon increased more than with any other Arab country. The reason for the relative ineffectiveness of those agreements was attributed to the fact that they did not provide for a sufficient liberalization of inter - Arab trade relations.

Hence Lebanese trade agreements do not seem to have been particularly effective in stimulating the country's merchandise exports. On the other hand, a large scale bilateralization of Lebanese foreign trade is considered as unadvisable, since Lebanon is a country which depends to a large extent on service items and capital inflows, as credit items in its balance of payments.

However, a limited degree of bilateralism in trade with Eastern Europe, and the conclusion of trade quota agreements with countries which maintain quantitive trade restrictions, were advocated. But, as such a policy was believed to give only limited results, the achievement of a greater degree of Arab Economic cooperation, i.e. an Arab free trade area or a customs union, and the devising of measures that would improve the quality of Lebanese products and reduce their cost of production were stressed as two major instruments of Lebanese commercial policy.

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER I

BILATERAL TRADE AND PAYMENTS AGREEMENTS IN WORLD TRADE

A. HISTORY AND DEVELOPMENT

The Appearance of Bilateralism as a Method of Conducting Foreign Trade

Bilateralism, i.e., "the theory that what one nation buys from another is somehow dependent upon what that nation sells to the other", has come to be a well-established concept of present day international trade.[1] A great deal of the world's trade is currently carried out under bilateral trade and payments arrangements which range from direct barter agreements on the one extreme to treaties providing simply that the two contracting parties will do their best to achieve a balanced trade between themselves.[2] The introduction of these forms of bilateralism in the early 1930's and their rapid spread, especially after the second world war, constituted the most fundamental change in the world's system of trade and payments.[3]

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1. R.C. Snyder, "Commercial Policy as Reflected in Treaties from 1931 to 1939", American Economic Review, XXX (1940), 797.

2. In between these two extremes there is a whole range of clearing and payments agreements, bulk purchase agreements etc.

3. Raymond Mikesell, Foreign Exchange in the Post-war World (New York: The Twentieth Century Fund, 1954), 5.

Prior to the First World War, goods moved freely between the various countries of the world. The traders of one country bought freely from those of another and sold to those of a third; deficits with one or more countries were covered by surpluses with others, and hence no effort was made to achieve balance between any pair of states.[1] "Goods and services and loans and investments moved around a circle until accounts were canceled out".[2] The functioning of this system of free multilateral trade was made possible by the fact that almost all currencies were tied to gold and were convertible into one another at a more or less fixed rate. Countries, the world over, were willing to buy and sell gold at a fixed price, thus preventing the exchange rates between their respective currencies from fluctuating by more than the cost of shipping gold from one country to the other.[3] The resulting stability of the exchange rates provided a strong stimulus to international trade and investment, and as a result enabled countries to make considerable use of international specialization.

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1. Clair Wilcox, A Charter For World Trade (New York: The Macmillan Company, 1949), 4.

2. Ibid.

3. Thus the exchange rate between any two currencies could only fluctuate between the gold export and the gold import points. The gold import point was a little lower than the export point for it included a certain charge for the interest lost in shipping the gold in addition to the cost of transport.

The working of the system was further facilitated by the fact that most of the world's trade was financed in sterling and was cleared through the London financial market. The importance of Great Britain as a trading nation and its dominance of the seas, the freedom of British trade, and the intricate organization of the London money market all contributed to making sterling an international currency, and this provided international trade with a stable and "dependable supply of international payments media."[1] Moreover, Great Britain, the world's greatest creditor then, was prepared to invest a large part of its surplus abroad, thus enabling many other countries to cover their current account deficits through capital imports. Furthermore, the London money market was very sensitive to balance of payments changes. A loss of gold due to an adverse balance usually led the Bank of England to adopt a tight money policy and to raise the rediscount rate, which tended to attract short term funds into London. An influx of gold on the other hand usually led to lower interest rates and consequently to an outflow of short-term investible funds. In other countries too, domestic monetary policy was closely tied up with the balance of payments situation. An inflow of gold into a certain country automatically led to an expansion of credit, which on the whole resulted in higher domestic prices and money incomes, and hence in more imports and less exports; an outflow

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1. Mikesell, op.cit., 4.

of gold resulted, as a rule, in the opposite chain of events, namely, a contraction of credit, lower prices and money incomes and hence greater exports and less imports.[1] Thus disequilibria in the balance of payments were met through adjustments of internal prices and incomes leaving the exchange rate stable, while temporary deficits were settled through gold payments.

As long as this system was in operation payments problems did not arise on any large scale. "Domestic monetary stringency and foreign exchange stringency were one and the same phenomenon".[2] Thus if the exports of a country declined there could and usually did arise a money shortage but not a foreign exchange shortage as such. As foreign exchange problems did not arise, government interference in foreign trade tended to be very limited. Commercial policy was confined to tariff policy, which was meant either for raising revenue or for the protection of certain domestic industries. Trade agreements were largely limited to treaties of commerce and navigation whose object was, for the most part, the reduction of tariffs and the assurance of non-discrimination through the application of the most-favored nations clause; and which as such can be looked upon essentially as devices for expanding trade.

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1. The working of the system is greatly simplified here. This, however, is believed to be enough for purposes of this chapter which aims mainly at reviewing the changes in the world's payment system which gave rise to bilateral methods of conducting trade.

2. Mikesell, op.cit., 4.

The functioning of this system of free multilateral trade was suspended during the First World War. As soon as the war started, belligerent countries, one after the other, suspended the privilege of conversion into gold, and as the hostilities went on, most of the neutrals followed suit.[1] The immediate cause for the suspension of convertibility was the preservation of the gold reserves which were needed in order to pay for essential imports. This, however, was not the only reason. The financing of the war necessitated the continuous expansion of bank credit, taxes and loans from the public being insufficient for this purpose. The expansion of credit resulted in a sharp rise in prices; in fact, it was the rise in prices that compelled the public to restrict consumption and thus set free resources for the government.[2] But, the rise in prices could not have been effected were the gold standard to be maintained, for then the resulting drain on gold reserves due to the rise in prices would have led to the restriction of credit. Hence most countries went off the gold standard and instituted trade and exchange controls. Import quotas, licensing of both imports and exports, exchange controls, etc. were introduced on a large scale. International trade as well as the other phases of economic life were subordinated to

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1. England did not suspend this privilege officially; however, the inconvertibility of the sterling pound into gold was made impossible for all practical purposes.

2. Geoffrey Crowther, An Outline of Money (rev. ed.; London: Thomas Nelson and sons Ltd., 1950), 308.

political and strategic considerations, and became therefore subject to strict governmental control. But, the various measures of control introduced during the war were looked upon as temporary devices to be abandoned as soon as the war was over. Thus in 1925, Great Britain reinstituted the international gold standard and by 1928, when France legally went back to gold, almost all of the trading countries of the world had restored the international gold standard.[1] The postwar gold standard, however, did not function as it was expected and hence had to be abandoned shortly after its adoption.[2] The reasons for this are manifold; consequently, only a brief and simplified account of them will be given in this chapter.

The war had caused basic changes in the structure and pattern of world trade. Inflation persisted to varying degrees in most countries of the world. In Germany, Austria and most of the other central European states the hyper-inflation of the immediate postwar years greatly impaired productive capacities. A surge of economic nationalism which was enhanced by the war resulted in the raising of tariffs and similar trade controls

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1. By the middle of 1929 the only countries that were off the gold standard were Spain, Mexico, and China.

2. Great Britain went back to gold in April 1925, and left it in September 1931. The United States went off gold in 1933, and France - the last country to suspend convertibility into gold - in 1936.

almost everywhere. The prewar pattern of international trade which was based on the supremacy of Great Britain and under which the bulk of world trade was financed in sterling gave way to a decentralized system in which the dollar became a second key currency and where New York emerged as a rival financial center to London. Moreover, Germany, Austria, and the other defeated countries were required to pay large sums in reparations. These countries possessed meagre reserves in gold and international currencies and consequently could only pay their debts by achieving a considerable export surplus. The expansion of exports depended primarily on the building up of productive capacities and on the availability of export markets. To build up their productive and hence export capacities, these countries required large quantities of fixed and working capital. A part of this capital was provided by the inflow of foreign investible funds both short-term and long-term. Germany received in addition a loan from the United States in order to be able to pay its war debts, at least in part. This movement of short-term funds was very sensitive to non-economic factors such as political instability which in its turn contributed to the instability of the world's trade and payments position. In addition to all these factors, and to a considerable extent as a result of them, most of the countries that had restored the gold standard did not allow the automatic expansion of credit as gold moved into the country and its contraction as gold moved out. On the whole, nations in the period following the first world war were more concerned with domestic goals such as price stability and full employment than they were with exchange stability, and hence were reluctant to tie up their domestic monetary and credit policies to changes in their balances of payments. Independent states tended to follow independent trade and domestic credit policies which did not reflect balance of payments positions. Thus certain countries continued to lose gold while others, e.g. the United States were receiving it in every increasing amounts.[1] This chronic tendency on the part of some countries, to lose gold was further aggravated by the fact that some of them, e.g. Great Britain, maintained over-valued parties for their currencies. Moreover, certain price and cost rigidities, such as those created by trade union action and differentiation of products, made the restoration of balance of payments equilibrium through an adjustment of internal prices and incomes exceedingly difficult.

The final blow to the gold standard was dealt by the advent of the Great Depression in 1929, which started in the United states and spread to the other parts of the world.[2] As a result of the falling level of incomes in the United States,

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1. It must be pointed out in this respect that there are some economists e.g. Hawtrey, who believe that the United States did expand credit as she received gold in the 1920's.

2. Opinions differ a great deal on this subject. Some economists claim that the Depression was caused, to a considerable extent by the gold standard. Whether this hypothesis is justified or not will not be dealt with here.

imports of that country declined sharply, thus decreasing the liquidity of countries which depended heavily on its market for exports. Primary producing countries suffered in addition from the worsening of their terms of trade as a result of the falling of the world prices of raw materials, and most of them experienced serious balance of payments difficulties.[1] European export industries had to keep up with the loss of the American market and the increasing competition of American goods, while domestic industries faced an ever decreasing internal demand, due to the decrease in purchasing power brought about by the Depression. The result was that many enterprises had to go out of business. Early in 1931, a major Austrian Bank - the Credit Anstalt - had to close down and stop payment chiefly because many of the industries it was helping had gone bankrupt as a result of the Depression. The failure of this bank started a rush on all Austrian banks, and this led the Austrian government to stop all payments and to declare a transfer moratorium.[2] In Germany, political developments during 1930, mainly the successes achieved by the National Socialists (Nazis) and the Communists in the 1930 elections, resulted in a decrease of international financial confidence concerning Germany,

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1. The case of the Latin American countries is particularly relevant in this respect. Many of these countries suffered great losses in the terms and volume of their trade and so were led to establish exchange control and to adopt bilateral trading methods.

2. These developments are dealt with very briefly in this discussion and hence may be somewhat oversimplified.

with the result that short-term debts began to be withdrawn at an increasing rate. The tendency of capital to flow out of the country was aggravated by the closing down of the Credit Anstalt. The willingness of the German banks to convert credits into cash on demand did not stop the rush on them; consequently, most of them had to look to the Reichsbank for help. As a result of this, the Reichsbank's reserves were almost depleted and hence action had to be taken to stop the drain on reserves. Thus in June 1931, "bank holidays were declared; the Reich undertook guarantees of depositories claims; the stock exchange was closed; and finally by a series of decrees between July 15th and August 1st, exchange control was introduced."[1] The blocking of balances in Germany started an outflow of gold from London, for a considerable part of Germany's short-term debts were secured in the London money market which received gold from all over the world. The outflow of gold from Great Britain was of such dimensions as to threaten the reserves of the Bank of England. Consequently, the British monetary authorities decided to suspend the gold standard in September 1931, i.e., after six years and five months of its introduction in April 1925. The Scandinavian countries, Greece, Portugal, South Africa, and Japan followed soon after. Australia, New Zealand, and most Latin American countries had already

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1. H.S. Ellis, Exchange Control in Central Europe (Cambridge: Harvard University Press, 1941), 166.

abandoned the gold standard. Most of the central European countries, though they retained their parities, subjected all exchange transactions to rigid controls. In April 1933, the United States also suspended the convertibility of the dollar into gold. Only France and a few other countries, e.g. Belgium, remained on gold, and this until 1936.

Germany and the central European states maintained their parities mainly by the use of exchange controls.[1] The reasons for this were chiefly the fear of inflation after these countries' bitter experiences with hyper inflation in the early 1920's and the desire not to increase the burden of foreign debts. Moreover, it was feared that devaluation might aggravate the tendency towards capital flights. The retention of the gold parity did not represent any substantial over-valuation at the time exchange control was introduced, i.e., in 1931. But as the German Government embarked on an expansive public expenditure program in 1933, chiefly in connection with armament, domestic prices started to rise while world market prices of similar products were declining. The Mark tended thus to become progressively overvalued.[2] As a result, German exports became more expensive to foreigners and hence could not compete favorably with other goods in foreign markets, while imports into Germany were encouraged. Thus the surplus in the balance of trade which

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1. Exchange controls were originally introduced as a means of preventing capital flights.

2. This interpretation does not imply an acceptance of all the implications of the purchasing power parity theory of exchange rates.

was realized in the previous years disappeared, and Germany experienced a further loss in its international liquidity. This state of affairs led the German Government to widen the scope of its exchange and trade controls and to resort to multiple currency practices which amounted to a de facto devaluation of the Mark for certain purposes.[1] Other countries responded by raising their tariffs and increasing their quantitative restrictions thus leading to an increase of trade and exchange controls.

These restrictions acted as an inducement for governments to enter upon agreements with one another for reciprocal concessions.[2] Thus the blocking of interest payments on Swiss loans to Germany, for example, led the Swiss Government to require all citizens who had payments to make to Germany to make those payments to the Swiss National Bank. The Swiss Government then refused to forward these payments to Germany unless the Germans resumed their interest payments to Switzerland. The result was the conclusion of an agreement between the two governments providing for the offsetting of accounts, which is the essence of the clearing system. At the same time, the inconvertibility[3] of the currencies of exchange control countries

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1. Similar developments took place in a number of the other exchange control countries.

2. W.B. Reddaway, "Governmental Intervention and Interference in Foreign Trade" Banking and Foreign Trade (London: Europa Publications Ltd., 1952), 85.

3. Inconvertibility is used here to mean the inability to convert a certain currency into others except with official permission.

and their inability to pay for their imports in international currencies, i.e., currencies which are acceptable by most trading countries of the world, led those countries to try and circumvent the international payments mechanism by arrangements with other nations whereby transactions are financed without the use of international currencies.[1] Thus the bulk of the trade between exchange control countries came to be carried out under bilateral arrangements such as barter deals, clearing agreements, etc.[2] Free exchange countries, which needed to maintain export markets in the exchange control countries found themselves obliged to accept payment in inconvertible currencies. The result was the accumulation by these countries of inconvertible balances which could not be used to finance purchases from other states, and which creditor nations were therefore anxious to liquidate. Consequently, free exchange countries also started concluding bilateral arrangements, usually of the type known as payments agreements, with exchange control countries, with the result that even a part of the trade between free and exchange control countries came to be carried out on a bilateral basis.[3]

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1. Mikesell, op.cit., 5.
2. Each of these arrangements will be defined later.
3. The reasons for the use of bilateral methods will become clearer as each of the various types of bilateral methods is discussed separately.

Germany and the Balkan states were the countries that used bilateral agreements most extensively, all of them being exchange control countries with serious payments difficulties. Germany, however, used bilateral methods, especially exchange clearing, as a weapon of aggressive economic policy as well. The Germans had already started on the building up of a war economy. For this end, large quantities of imports were needed; moreover, a more or less self-sufficient economic unit had to be created in central Europe if an efficient war economy was to be set up. As a means of attaining these ends, bilateral arrangements were particularly effective.[1] Thus a complete network of such agreements, which included most of the Balkan states, was devised by the Germans.

One of the first clearing agreements was signed in the spring of 1932 between Hungary and Germany with the avowed purpose of releasing German frozen debts in Hungary.[2] Trade outside the clearing system was not allowed. This was

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1. Under such agreements imports could be obtained without the use of foreign exchange. Moreover, by buying more and more from its partners, Germany succeeded in raising the price level in these nations, at least in regard to exports, and so made those partners dependent for sales on her. Furthermore, as the credit obtained by those countries could not be used elsewhere, creditor countries had to buy more from Germany in order to liquidate their credits.

2. The first clearing agreement was concluded between Switzerland and Hungary on November 14, 1931.

followed in the same year, 1931, by clearing agreements between Germany and other exchange control countries such as Bulgaria, Esthonia, Greece, Yougoslavia, and Rumania. Agreements of a slightly different character were also signed between exchange control and free exchange countries, e.g., between Germany and Great Britain and between Great Britain and Argentina. Before going into this subject in greater detail, however, it seems appropriate to give a brief description of each of the different types of inter-war bilateral arrangements.[1]

Types of Interwar Bilateral Arrangements. One of the earliest forms of bilateral arrangements is a kind of barter usually referred to as private compensation. This form of trade was first resorted to by private traders, mainly in Germany, who wanted to facilitate their sales in exchange control countries. Thus a German firm which was anxious to sell to Hungary, for example, would arrange with a Hungarian firm for the exchange of a certain quantity of local goods against a specified amount of imports, foreign exchange being used only as a unit of account. This required the German

1. A bilateral agreement is here defined as an agreement which "involves an attempt at achieving a predetermined ratio between the exports of country A to country B and the exports of country B to country A". Refer to H.S. Ellis, "Bilateralism and the Future of International Trade," Readings in the Theory of International Trade (London: George Allen and Unwin Ltd., 1953), 416.

firm to combine the functions of exporting and importing, and so special agencies grew up for the purpose. Such arrangements, however, were only permitted by the exchange control authorities when the goods exported were considered as "additional", i.e., goods which would not have been exported otherwise, and when the imports obtained were judged to be necessary for the German economy. Similar arrangements, as well as other direct barter agreements, were also concluded between governments; these agreements provided as a rule for a piecemeal equation of each amount of exports from one country by an equal value in exports from the other, with the result that one sided balances could not pile up nor could capital be transferred as a loan or as debt payment.

As a result of the inconveniences of the compensation system, exchange clearings were more frequently used. "In its simplest form the exchange clearing procedure contemplates that payments made by importers of each of a pair of countries for goods supplied by the other shall be applied to meet the claims of exporters for goods sold to the other country in the order in which their claims mature."[1] Thus under a clearing system importers in each of the two partner countries are required to pay local currency to a state managed account from which local

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1. P.T. Ellsworth, The International Economy (New York: The Macmillan Company, 1952), 633.

exporters receive payment as funds become available and in the order in which their claims mature.[1] If exports from one country exceed imports to it, exporters would have to wait to get paid until additional funds are made available through more imports, and this would discourage exports and encourage imports. In certain cases the central bank may advance credit to the clearing account in order to enable it to pay to exporters; if this is done, the excess payments to exporters may result in an increase in the cash reserves of banks and hence in an expansion of credit.[2] In the debtor country the import surplus would lead to the accumulation of unused balances which is likely to be deflationary unless accompanied by credit expansion.[3] This type of agreement was very common between exchange control countries in the 1930's and was used most extensively by Germany.

Another type of bilateral arrangements introduced in the 1930's is the payments agreement. Such agreements were concluded as a rule between a free exchange and an exchange control country with the avowed purpose of liquidating the

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1. Clearing agreements, as a rule, either defined the exchange rate between the currencies of the two contracting parties, or established a method for its calculation.

2. Charles Kindelbergen, <u>International Economics</u> (Homewood: Richard D. Irwin Inc., 1953), 249.

3. <u>Ibid.</u>

financial claims of the creditor country, in this case the free exchange country as well. Under such an agreement the exchange control country would "undertake to regulate the payments made to its partner along certain specified lines."[1] Thus in accordance with the Anglo-German payments agreement of November 1934, Germany earmarked 55% of its export proceeds to the United Kingdom to pay for imports from that country, and undertook to use the remaining 45% to liquidate outstanding commercial debts to British subjects at a specified rate and to service certain British loans to Germany.[2] The agreement did not provide for any special clearing accounts, the partner countries being left free to use ordinary foreign exchange channels. This characteristic of the interwar payments agreements,[3] together with the fact that controls were confined to the exchange control country made this type of arrangement particularly popular with free exchange countries.[4]

Clearing and payments agreements, as appears from this discussion, were essentially concerned with the method of financing trade. The conditions affecting the movement of goods and services, such as quotas, licensing, tariffs, etc.,

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1. Ellsworth, <u>op.cit.</u>, 635.

2. <u>Ibid.</u>

3. These should be differentiated from the postwar payments agreements which are nearer to clearing agreements than to such arrangements.

4. Ellsworth, <u>op.cit.</u>, 635.

were either covered by these agreements or provided for under separate arrangements, such as quota agreements, and other forms of commercial treaties. Such treaties frequently supplemented clearing and payments agreements, but were also concluded between countries not joined by payments or clearing arrangements. Some of them, especially those signed between free exchange countries, provided for the application of the most-favored nation's clause and did not involve any effort at balancing trade between the contracting countries. Developments in the 1930's, however, tended to reduce the proportion of such agreements while agreements providing for bilateral balancing through quotas, licensing, or even direct barter, increased steadily and were even used by some free-exchange countries.[1] But despite this, international trade in the 1930's remained essentially multilateral.[2] Most of the major trading countries, e.g., Great Britain, France, and the United States, maintained free exchange systems, and their currencies, though no more convertible into gold at a fixed rate, remained freely convertible into one another at the going market rate.[3]

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1. Out of 500 agreements studied in 1939 about 47% only provided for the application of the most favored nation's clause.

2. Mikesell, <u>op.cit.</u>, 2.

3. Even these countries, however, made use of bilateral trade and payments agreements. Thus by 1939 Great Britain was partner to nine such agreements, Switzerland to twelve, Belgium to thirteen, the Netherlands to seven, and France to twelve.

However, the rate of exchange between the major currencies fluctuated to such an extent that both international trade and international investment were greatly reduced. This state of affairs led the three major free exchange countries, viz., the United Kingdom, the United States, and France, to conclude in 1936 the so called Tripartite Agreement which had as its major purpose the elimination, or at least the reduction, of seasonal and speculative fluctuations in the exchange rate, as well as fluctuations due to capital flights, and this without the use of exchange controls. The United Kingdom had already established an Exchange Equalization Fund in 1932 in order to achieve this same purpose, namely, the elimination of speculative, seasonal, and capital flight fluctuations in the exchange rates. Changes due to basic balance of payments disturbances were not countereffected by the stabilization Fund.[1]

This policy of trying to maintain relative exchange stability through intervention in the market while allowing countries to follow independent monetary and credit policies represented a new experiment, in international trade policy. The system did only function for a short period, however. As a result of the breaking out of the Second World War in 1939,

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1. Opinions differ on whether these considerations were actually the main forces affecting the policy of the Fund or whether this policy was decided on a day-to-day basis and largely with reference to the dollar. (See the article by Lowell Pumphrey entitled "the Exchange Equalization Account of Great Britain 1932-39: Exchange Operations" in the <u>American Economic Review</u>, XXXII (1942) pp. 803-816.

exchange and trade controls of the most rigid type were established almost everywhere. International trade as well as all the other phases of life were subordinated to strategic and political considerations and as such were made subject to strict government control. A number of trade agreements were signed between the allied states, e.g. between Great Britain and France in 1939, while the Germans tried to make Berlin a world-clearing center. However, these agreements, were essentially a product of the war and would not be dealt with here.[1]

<u>Postwar Payments Problems and the Use of Bilateral Trading Methods</u>. As the war came to an end there was a great demand for goods the world over. Large quantities of all kinds of goods were needed either for consumption or for reconstruction purposes. The productive capacities of most European countries were greatly impaired, while inflation prevailed almost everywhere. Reconstruction required large amounts of resources which in many instances had to be imported from other countries. "Almost every European country - as well as most non-European countries other than the United States - faced a twofold foreign exchange

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1. Before the war was over, economists especially in Great Britain and the United States started thinking about the postwar trade and payments system, and a number of plans were prepared. The product of all these studies and later on negotiations was the establishment of the International Monetary Fund and the International Bank for Reconstruction and Development.

problem; first it was unable to earn enough by exporting to pay for the imports it judged necessary; and second, it often could not use the money earned by exporting to one country for purchases in another country".[1] The most needed supplies were obtainable only from the United States and a few other countries. Dollars and other "hard" currencies were needed for the purchase of these supplies.[2] Those scarce currencies could not be obtained through exports to the United States and other nations for most countries of the world, and specially European countries, had a very small surplus to export. At the same time, almost all nations tried as much as possible to sell what exports they could afford against hard currencies and to obtain their imports without the payment of such currencies. In addition most of the currencies of the world were inconvertible, i.e., "they could not be exchanged for other currencies except with official permission and for limited purposes",[3] with the result that a country could not finance a deficit with another by having a surplus with a third. International trade lacked an adequate and stable means of payments, which is a basic requirement of both domestic and international trade, and hence lagged behind production. A better method of financing had

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1. William Diebold, Trade and Payments in Western Europe (New York: The Harper Brothers, 1952), 15.

2. By hard currencies is meant the dollar, Swiss franc, and few other currencies the supply of which fell short of demand.

3. Diebold, op.cit., 16.

therefore to be found if international trade was to be expanded. Such a method could not be devised by countries acting individually, and so resort was made to bilateral payments and trade agreements.

The first postwar bilateral payments agreement was signed between the United Kingdom and Belgium in October 1944 and was followed by a great number of similar arrangements.[1] Countries entered upon such agreements mainly for one of two reasons: either that they were short of dollars and gold and were unwilling to buy from non-dollar countries with convertible currencies, or that they had plenty of dollars but sought to maintain markets for their goods in non-dollar countries.[2] The result was that most of the non-dollar trade came to be carried out in accordance with agreements between the governments of the trading countries covering either the means of financing or the commodities and services that may be traded or both. Thus by the early part of 1955, there were about 400 payments agreements and similar arrangements in force, over 200 of which were between pairs of European states.[3] Of these more than 90 were among members of the European Payments Union and therefore mainly of an accounting character.[4]

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1. By 1947, there were about 200 trade and payments agreements between European countries alone.

2. R. Mikesell, op. cit., 35.

3. Internationally Monetary Fund, Bilateralism and Convertibility, SM/55/31, (Washington, D.C., May 2, 1955), p. 1 (Typescript).

4. Ibid.

The types of arrangements most commonly used at present are bilateral payments agreements and bilateral trade agreements.[1] In certain cases "these are accompanied by investment agreements which closely affect their operation".[2] Another type of agreement which is especially common in East-West trade is global compensation which is essentially a barter arrangement. Another type which has lost much of its popularity since the early postwar years is that of bulk purchase. These forms of agreements are not mutually exclusive. To the contrary, payments and trade agreements are more or less complementary and usually go side by side.

"Certain countries have developed standard types of agreements to which they try to adhere as closely as possible".[3] On the whole, however, bilateral agreements are ad hoc arrangements which are designed in order to meet temporary influences and hence are of a great variety. This makes their classification extremely difficult and complicated. Nevertheless, certain general features are common to certain broad categories of agreements and hence can be used as basis of classification.

Postwar "bilateral payments agreements typically set up a system of accounts through which the bulk of the current payments between two countries, including their currency areas,

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1. Each of these would be defined later. As may be noticed, the terms payments and trade agreements are used here to denote specific forms of agreements. Postwar payments agreements, however, should be differentiated from the interwar payments agreements.

2. International Monetary Fund, <u>op.cit.</u>, 2.

3. <u>Ibid.</u>

must be passed."[1] The agreement accounts may be expressed in the currency of one of the partner countries, the currencies of both partner countries, or in a third currency as a unit of account.[2] Settlement through the agreement accounts must be carried out in the currency agreed upon. The agreements usually provide also for the granting of credit in the form of "swing provisions", under which "each partner country allows the other to dispose of a certain amount in the former's local currency over and above the latter's net holdings of that currency at any particular moment."[3] If the holdings of the creditor country exceed the credit margin allowed under the swing provisions, the creditor country, under most agreements, can require the settlement of the excess in gold, dollars, or any other internationally accepted currency. Under certain agreements no such settlements in gold or dollars are required; negotiations between the partner countries concerning means of settling the deficit may be substituted for that. A typical payments agreement would in addition define the exchange rate between the

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1. Ibid., 3. The more flexible type of arrangement - which is less common than the type described above - provides for the invoicing of exports and drawing drafts in either currency according to normal trade practice. In the centralized type, trade is financed solely through accounts held by the central banks. (R. Mikesell, op.cit., 88).

2. See footnote 1.

3. International Monetary Fund, op.cit., 3. Some agreements do not provide for swing arrangements but simply specify regular settlement dates (Mikesell, op.cit., 82).

currencies of the two countries and specify the current transactions in respect of which payments are to be made through the agreement accounts.[1] These transactions are usually included in annexed lists which may cover all trade between the two countries, or they may allow some trade to be carried out outside the agreement.[2]

Bilateral payments agreements are usually accompanied by bilateral trade agreements which are, for the most part, designed to achieve balance in the trade between the two partner countries, the avoidance of a continuing deficit in the current trade between the two partners to a bilateral payments agreement being an essential condition for the successful functioning of that agreement. Trade agreements designed for this purpose may take various forms, some of them being simply exchange of notes in which each government agrees to encourage trade in certain categories of goods.[3] On the whole, however, "they consist of lists of commodities and corresponding quantities or values for which the two governments agree to issue the appropriate import and export licences necessary for the exchange".[4] In addition, they may contain provisions relating

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1. Ibid.

2. Where payments agreements are separate from commercial agreements, the payments agreement is usually drawn in such a way as to permit the financing of all merchandise trade together with interest payments, tourist expenditures, emigrant remittances, etc. Private capital movements are usually excluded.

3. Mikesell, op.cit., 94.

4. Ibid.

to tourism, shipping, and other services. But, licences may be issued for other goods as well, and where trade is conducted by private traders, there is no assurance that it will take place along the lines specified in the agreement.[1]

Bilateral trade agreements are not all concluded between countries joined by payments agreements;[2] some are not accompanied by such agreements, in which case trade may be financed either through convertible or inconvertible currencies.

Bulk purchase agreements are another type of trade agreements which have been much used in the early postwar years, especially by Great Britain. On the whole, these agreements are concluded between governments or government controlled agencies with the purpose of assuring markets, adequate sources of supply, or stability of prices. The most common form of agreement usually "specifies quantities and prices of commodities to be purchased over a period of one or more years".[3] Thus an agreement between Great Britain for example and some agricultural

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1. This is especially true where ~~the~~ government control of international trade is lax.

2. Bilateral is used all through this chapter in the sense of agreements aiming at achieving a certain quantitative ratio between the exports of each country to the other.

3. Mikesell, op.cit., 84.

country may specify the purchase by Britain of certain amounts of the other country's produce, or may even contract for its whole exportable surplus, and this in exchange for certain kinds of British manufactured goods. "When for more than one year, these contracts provide for annual price reviews or price variations within stipulated limits".[1] Long-term agreements, i.e., for three to fifteen years, are usually accompanied by plans for the expansion of production in the agricultural country through the help of capital from the other contracting country.

Another type of trade agreements which is frequently used in East-West trade is the global compensation agreement. Such agreements are similar to the usual type of trade quota agreements, but the commodity lists are usually more detailed and more exactly balanced.[2] Balancing is achieved by strict governmental control and a high degree of administrative discretion, while payments are usually made through special accounts provided for in a payments agreement.[3] Some countries are also partners to direct barter arrangements which usually provide for the exchange of a certain quantity of some good for a corresponding quantity of another without the need for foreign exchange payments.

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1. Ellsworth, op. cit., 636.
2. International Monetary Fund, op.cit., 3.
3. Ibid.

In addition to these "bilateral forms of trade agreements, i.e. agreements which aim at achieving a predetermined quantitative ratio between the exports of each of the partner countries to the other,[1] some countries still maintain and conclude treaties establishing broad principles of commercial relations such as the granting of national and most favoured nation's (mfn) treatment. Of these the most common are treaties of friendship, commerce, and navigation, and agreements providing for the reduction of tariffs.

The forms of trade and payments agreements reviewed above have been very widely used in the postwar years. European countries, in particular, have made considerable use of them especially before the establishment of the European Payments Union (EPU). Since then, however, the EPU has become an important part of the postwar payments mechanism,[2] and bilateral payments agreements between member countries of the Organization for European Economic Cooperation (OEEC) underwent certain basic changes which tended to transform their character.[3] Hence it seems necessary to give a brief account of the nature and purposes of the EPU.

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1. Ellis, "Bilateralism and the Future of International Trade" <u>op.cit.</u>, 416.

2. Mikesell, <u>op.cit.</u>, 100.

3. All of these countries are members of the EPU.

The European Payments Union (EPU). Attempts at the establishment of some form of a European clearing union go back to the beginning of the European Recovery Program in 1947. The need to free intra-European trade from existing restrictions and to devise a more adequate means of financing trade between European countries than was provided by bilateral payments agreements was then recognized as a major step towards speeding up European recovery. Under payments agreements, a country that exported more to a partner than she imported from him could not use the surplus to finance purchases from third countries. Moreover, certain countries tended to exceed continuously the credits allowed to them under "swing" arrangements, with the result that they were compelled, in most cases, to pay gold and convertible currencies to their agreement partners; the result was the restriction of imports from the creditor countries, and consequently, the introduction of new obstacles to international trade, which was the aim of the payments agreements to avoid. In order to meet this situation a more flexible means of financing current trade between European countries was needed. Several attempts were made beginning in 1947 to liberalize, as much as possible, trade between European countries and to establish a regional multilateral system of payments.[1] After three years of experimenta-

1. For a detailed description of these arrangements and of the negotiations that led to the establishment of the EPU see W. Diebold, op.cit., pp. 20-90.

tion and negotiations, the EPU agreement was signed in Paris on September 19, 1950.

Under the terms of the agreement each member country's surpluses or deficits with every other member country were to be set off against one another leaving the country with a single net surplus or deficit with the EPU.[1] Thus every member was required to report its monthly position with every other member to the Bank of International Settlements (BIS), which acts as the agent of the Union. The Bank was then to set off these balances against each other leaving the country with a single net position vis-a-vis the unioh as a whole. The EPU was therefore essentially a device for the multilateral settlement of accounts between OEEC countries. Its existence did not alter the way in which trade was carried out among the traders of the member countries. Both exporters and importers remained subject to the exchange and trade regulations of their respective countries; payments between them continued to be made through private banks, or in accordance with payments agreements where such agreements existed. The resulting balances, however, instead of being settled between governments, as is the case under bilateral agreements, were to be settled between each member country and the EPU. A quota equal to 15% of the country's trade and

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1. Diebold, <u>op.cit.</u>, 92.

payments with all the members of the group in 1949 was assigned to each member country. If a country's debt did not exceed 20% of its quota, she automatically received credit from the EPU for the full amount of the deficit; similarly countries to whom were due payments equal to 20% of their quota or less, were required to grant credit to the EPU. If the 20% limit was passed, debtor countries were required to settle part of their debts in gold or dollars, the rest being covered by credits. The proportion which is to be settled in gold was specified in the agreement. However, once a country's quota was exhausted, all of its debts became payable in gold.[1]

Hence the EPU was basically an attempt at multilateralizing trade between OEEC countries; intra-European trade was to be freed from quantitative restrictions as much as possible, and payments carried out on a regional multilateral basis. This was believed to facilitate the recovery of European countries and to hasten the world's movement towards convertibility. Whether the EPU succeeded in achieving these two ends is a matter on which opinions differ a great deal; and which falls beyond the scope of this study. An attempt would be made, however, to investigate some of the effects of the EPU on the structure and spread of bilateral payments agreements.

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1. This is a very brief outline of the major features of the agreement. Many details such as initial payment, repayment of debts, etc. are left out. For a fuller description of the agreement see Diebold, <u>op. cit.</u>, pp.92-112.

Of the 400 payments and trade agreements existing at the end of 1954 about 200 were among European countries, and of these over 90 were among members of the EPU.[1] Between Europe and the Middle and Far East there were about 50 agreements and between Europe and Latin America around 100.[2] Thus most EPU countries are still partners to a considerable number of bilateral arrangements either with other member of the group, or with outside countries. Payments agreements between themselves are mainly of an accounting character, however, swing arrangements being replaced by EPU quota arrangements, and each country's position calculated vis-a-vis the group as a whole. In their relations with non-OEEC European countries, Latin American countries, some dollar countries, and some non-dollar countries with whom they clear their accounts through the EPU, most EPU countries still make considerable use of bilateral trade and payments agreements of the usual type. Thus in the first half of 1955 Great Britain concluded a number of such agreements, with Argentina and others. Of the non-OEEC European countries those that use bilateral arrangements most are Spain, Finland and Yougoslavia.[3] In Latin America all the

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1. International Monetary Fund, <u>op.cit.</u>, 1.

2. <u>Ibid.</u>

3. The case of Switzerland may be of particular interest to Lebanon since most of its bilateral agreements are entered upon in order to open up new export markets or to expand already existing ones, and not because of balance of payments difficulties.

non-dollar countries still make extensive use of bilateral trade and payments agreements which are used in most cases either to obtain needed imports without the use of convertible currencies or to insure markets for exports. Some of the dollar countries too show an increasing tendency towards concluding bilateral agreements chiefly in order to overcome the effects of discrimination in inconvertible countries and hence to recapture or expand markets in Europe.[1] Only Venezuela has no agreements, while Bolivia, Ecudor, and Peru have very few agreements. Of the Middle Eastern countries Egypt, Iran, and Israel still rely to a considerable extent on bilateral trade and payments agreements while certain other countries such as Syria and Lebanon are tending more and more towards the conclusion of similar agreements.

Hence, a significant measure of bilateralism still prevails in the commercial policies of many countries.[2] However, the improvement in the world's payments position since the end of the war, the increase in production and trade, the relative relaxation of controls in a number of countries, and the establishment of the EPU have tended to increase the elements of multilateralism in world trade. As a result "leading trading countries with inconvertible currencies are tending

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1. Johann De Looper, "Recent Latin American Experience with Bilateral Trade and Payments Agreements," Staff Papers, IV, (Sept. 1954), 88.

2. It must be pointed out in this respect, however, that the degree of bilateralism practised by a country is not necessarily reflected by the number of its bilateral agreements (International Monetary Fund, op.cit., 1).

to multilateralize their main bilateral payments relationships by resort to commodity markets and other forms of transit trade, by the acceptance of third currencies such as transferrable sterling, and by permission to effect transfers to and from certain payments agreement partners through the accounts established under payments agreements with other countries."[1] Moreover, current bilateral agreements are on the whole, less pronounced in their attempts to foster bilateral balancing of mutual payments than were those of the immediate postwar period. At the same time there is a noticeable tendency for some countries to reduce the number of payments agreements concluded between their central banks and those of other countries while protecting their export markets in the previous partner by the maintainance of trade agreements.[2] An example is the termination of the West German payments agreements with Colombia, Finland, and Spain. There seem also to be a tendency on the part of some governments to refrain from the use of bilateral arrangements where commercial banks are prepared to conduct these arrangements".[3] Examples may be found in the payments agreements between West Germany and Bolivia, between the Netherlands and Iran, between Israel and Switzerland, etc.

On the other hand, as was mentioned before, a number of countries with inconvertible currencies and exchange control

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1. International Monetary Fund, op.cit., 5.

2. Ibid.

3. Ibid., 6.

such as Japan, Greece, Egypt, Ceylon, Israel, Turkey, etc. continue to negotiate trade and payments agreements with countries that are not already joined to them by such arrangements. Certain countries with convertible currencies as well, such as Cuba, Colombia, and the Phillippines, show an increasing interest in bilateral arrangements mainly as a result of their desire to expand markets for their exports. Lebanon which is a free exchange country with almost no trade and exchange controls also shows a similar interest; which will be examined in detail in the following chapters of this study.

B. THE EFFECTS OF BILATERALISM ON INTERNATIONAL TRADE

On purely theoretical grounds bilateralism is subject to many limitations which tend to make it an unsatisfactory method of conducting trade. However, there are certain conditions under which bilateralism may be the only possible method of conducting trade, and as such may be justified even by some of the ardent free traders. In between these two extremes there are a number of circumstances under which the use of bilateral methods is subject to much controversy. It is the purpose of this section to review very briefly the limitations, both theoretical and practical, of bilateral methods and to point out to the conditions under which those methods are most likely to be useful.

Bilateral trading arrangements are usually citicized on the grounds that they lead to a reduction in both the quantum and the profitability of trade. Bilateral trade, it is maintained, is not determined by price differentials but rather by national and political considerations. Exporters are not allowed to sell in the best markets nor importers to buy in the cheapest, and consequently are compelled to conclude disadvantageous transactions. The result is the diversion of trade into artificial channels, which diversion is likely to lead to a limitation of the economies of international specialization and a reduction in the profitability of trade.[1] "Moreover, the ratio of the exports of each of the contracting parties to the other, adopted in a clearing and payments agreement, is usually arbitrary, and by consequence the volume and direction of trade and capital movements is more or less alien to the ordinary process of maximization".[2] In addition, by preventing changes in the pattern of trade, bilateral methods may obstruct the evolving of more profitable patterns of trade, such as when cheaper sources of supplies become available or new and better markets are opened up for some of the products traded on a bilateral basis.[3] Also, such methods may provide protection for certain uneconomic industries, either by restricting imports or by providing export markets for their products at the expense of

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1. Clair Wilcox, <u>op.cit.</u>, 18.

2. Ellis "Bilateralism and the Future of International Trade," <u>op.cit.</u>, 419.

3. Due to changed conditions one of the two contracting parties may come to find it more profitable to incur a deficit with the other party, which deficit will be financed by a surplus with a third country, than to maintain a balanced trade with that party.

obtaining some imports at prices which are above the world level, and as such may result in the continuance of certain uneconomic patterns of production within the countries concerned. Furthermore, conventionally bilateral methods tend to curtail trade or to check its expansion as most services outside the tourist trade are usually excluded from clearing and similar arrangements due to the difficulty of obtaining physical eividence of them, which is necessary to prevent the "padding" of the clearing with fictitious items.[1] This difficulty of obtaining physical evidence of most service items may thus result in confining international trade between the contracting parties to visible imports and exports, with the possible exception of travel, hence leading to a limitation of the volume of trade carried out between the contracting parties.

These are the main criticisms that are often levied on bilateralism. Much of them is theoretically justified. On the other hand, under conditions of inconvertible currencies and serious balance of payments difficulties, when a country becomes unable to finance a deficit with another by having a surplus with a third because of the lack of adequate payments media, or when a country is badly in need of opening up markets for its exports, bilateralism may become an instrument of expanding trade and "a device by which pairs of countries are enabled to relax

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1. Ellis, op.cit., 419.

somewhat their import and export restrictions without creating serious drains on their reserves."[1] Thus bilateral agreements in the postwar years provided a means for financing trade between non-dollar countries without the use of gold or dollars which were urgently needed for imports from hard currency areas, and this enabled those countries to relax their import and export restrictions and consequently to expand trade among themselves. In addition, bilateral agreements enabled certain countries to obtain imports that they needed for reconstruction purposes and which they could not have acquired otherwise. Moreover, certain countries, especially raw materials producing countries, were enabled to maintain more or less stable markets for their exports thus avoiding disturbing adjustments in their internal economic structures.[2] In the way they actually functioned, as well, bilateral trade and payments agreements have not been as restrictive as might have been expected on purely theoretical grounds.[3] Bilateral agreements have not completely destroyed multilateral trade among groups of countries which are parties to them. Many countries often surpassed the

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1. Harry Brainard, International Economics and Public Policy (New York: Henry Holt and Company, 1954), 473.

2. The conditions that gave rise to bilateralism and those under which bilateral trade may be most useful are dealt with briefly, because most of them have already been discussed in the preceding chapter.

3. This however, does not impair the soundness of the arguments against bilateralism as such.

credit margins allowed to them under the bilateral arrangements thus having to pay out gold or dollars.[1] Moreover, the bilateral agreements concluded by such countries as the United Kingdom, France, and Belgium applied not only to those countries but to their currency areas as well which tended to widen the trading area considerably.[2] In addition the fact that many bilateral arrangements permitted the financing of entrepot trade, and that some even allowed the financing of re-export trade, permitted countries to sell to their agreement partners goods which they have bought in third countries, thus introducing some more multilateral elements into the bilateral payments network.[3]

In view of all this, and considering the postwar financial conditions in Europe and elsewhere,[4] postwar bilateral arrangements seem to have been, to a considerable extent, instruments of facilitating trade rather than restrictive devices.[5] This, however, can be largely attributed to the fact that multilateral trade was not possible under those conditions and that bilateralism was the alternative to no-trade or to very little trade rather than to free multilateral trade. Hence it can still be argued that as an alternative

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1. Dollar settlements between European governments in 1948 amounted to $ 437 millions.

2. Mikesell, <u>op.cit.</u>, 38.

3. <u>Ibid.</u>, 39.

4. See Section A above.

5. Mikesell, <u>op.cit.</u>, 39.

to free multilateral trade bilateralism is a restrictive device and that its use can be only justified under special circumstances[1] characterized by balance of payments difficulties, the inconvertibility of the currencies of most trading countries, the prevalence of trade and payments control, the lack of an adequate means for financing international trade, etc., which conditions make the carrying out of trade on a free multilateral basis exceedingly difficult.[2]

Countries that use bilateral trading methods differ in the extent to which they resort to such practices. Thus while some states may subject trade with the outside world to strict controls and conduct the bulk of their international trade through barter and clearing arrangements, others may maintain a relatively free system of trade and payments but choose to divert a small part of their trade towards bilateral channels. The reasons, these countries may find it appropriate to enter upon bilateral arrangements arise for the most part from their desire to safeguard or expand markets for their exports. Desire to maintain trade relations with the USSR and other Eastern European countries may be another reason.

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1. Certain non-economic factors such as strategic considerations, the preservation of a certain pattern of production for social or political reasons, the protection of certain classes of society such as the peasantry for example, may be reasons for some countries to engage in bilateral trading.

2. A limited degree of bilateralism may be also justified if it leads to the opening up of markets for the exports of the country practising it.

The implementation of bilateral payments and trade agreements may raise a number of problems for these countries. Bilateral arrangements necessarily involve a certain degree of government regulation of foreign trade, in the form of licensing commitments or engagements to finance all or a large part of trade through clearing accounts, or other provisions. A country with no licensing system may find it rather difficult to implement effectively trade agreements providing for the balancing of trade between the partner countries, this being usually achieved through the granting of import and export licences. In addition, countries with no exchange controls can provide little guarantees that all or even the bulk of their trade with the other parties to bilateral agreements will be actually financed through the clearing accounts provided for in the usual type of payments agreements, for the governments of these countries exercise no control over the balances held by non-residents. Transactions in goods and services not covered by the agreements may be financed outside the accounts, i.e. through the free market in the free exchange country, with the result that over-all balance between the two parties may not be achieved. Moreover, countries with no controls can offer few concessions to the other contracting parties, trade with them being free of restrictions. Thus Switzerland's system of exchange control, for example, was especially devised for the purpose of implementing bilateral payments agreements, payments with non-agreement partners being free of controls. Bilateral agreements are therefore likely to function more effectively in the case of countries with exchange and trade controls; and it is actually as a result of such restrictions that bilateralism sprang up. The implementation of bilateral arrangements in a free trade country would be dealt with in greater detail in the coming chapters while discussing the functioning of bilateral agreements in Lebanon which is a country with a relatively free system of trade and payments, but which is making increasing use of bilateral agreements.

CHAPTER II

THE STRUCTURE OF LEBANESE FOREIGN TRADE AND THE INTRODUCTION OF BILATERAL AGREEMENTS

A. The Major Characteristics of Lebanese Foreign Trade

1. <u>Introduction</u>. Lebanon is one of a few countries of the world today which maintain very little trade restrictions and practically no exchange controls.[1] Import and export licences, with the exception of a few commodities, quotas and all other forms of quantitative trade restrictions, as well as all kinds of direct exchange controls are absent. Payments in foreign exchange, whether on current or capital account, can be made freely without any discrimination between transactions or currency areas, and importation is almost completely free. Administrative direction of foreign trade is thus restricted to a minimum, and trade is left largely to private initiative. Inspite of this, however, there has been since 1951, and particularly in the recent few months, a marked tendency towards

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1. The free foreign exchange market was recognized in the fall of 1948. However, exporters receiving payments in foreign exchange, with the exception of few minor currencies, had to surrender 10% of their proceeds at the official rate of exchange, and concessionnaires were required to sell at the official rate to the Office des Changes 80% of the foreign exchange they imported. In 1952, both of these requirements were abolished and the importation and exportation of Lebanese currency became completely free. Also the importation and exportation of most commodities was made free, subject to tariffs, in June 1948. Only a limited number of items remained subject to prior licensing, and even for these, licences were granted freely.

the conclusion of bilateral trade, and in some cases also payments, agreements with a number of Arab and non-Arab foreign countries.[1] As was pointed out in the preceding chapter, such agreements are usually necessitated by payments and trade difficulties which result in exchange controls and inconvertible currencies.[2] Lebanon with its relatively free trade and exchange system and its relative lack of payments problems[3] presents, therefore, a particularly interesting case for study in this respect. However, before embarking on an examination of the reasons for the introduction of bilateral trading methods into Lebanese foreign trade policy, an attempt will be made at reviewing the major characteristics of Lebanon's foreign trade and its balance of payments.

2. The Importance of Foreign Trade. Most probably the major distinguishing feature of Lebanese foreign trade is its relatively large contribution to national income. According to the national income study

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1. Trade relations with the Arab countries will be dealt with separately in most of this study.

2. By inconvertible currencies is meant those currencies which cannot be converted into other currencies except with official permission. It does not refer to convertibility in the legal sense adopted by the International Monetary Fund.

3. This point will be taken up at a later stage of the present chapter.

prepared by Dr. Albert Badre and the staff of the Economic Research Institute, out of a national income in 1950 of LL. 1026.4 millions, about LLL 333 millions arose in the trade and financial sector, which includes both domestic and foreign trade, and of this over LL 190 millions were due to foreign trade alone.[1] The income arising in 1950 in the various sectors of the economy was distributed as follows:

SECTOR	AMOUNT IN LL 1000	PERCENT OF TOTAL INCOME
Agriculture	206,500	20.1
Industry	137,400	13.4
Transportation	36,000	3.5
Construction	41,700	4.1
Trade and Finance	332,900	32.4
Services	100,500	9.8
Government	71,800	7.0
Real Estate	96,000	9.4
Adjustment for Rest of the World	3,600	0.3

Thus, whereas about 32.4% of the national income in 1950 arose in the trade and financial sector, only 20% originated in agriculture and 13% in industry. The percentages of national income arising in the trade sectors of a number of foreign countries are given in the following table.

1. Information secured from the Economic Research Institute, at the American University of Beirut (A.U.B.).

TABLE 1.

THE PERCENTAGE OF NATIONAL INCOME ARISING IN THE TRADE SECTORS OF A NUMBER OF COUNTRIES

COUNTRY [1]	YEAR	PERCENTAGE
Lebanon	1948	26.0
U.S.A.	1948	19.8
France	1948	13.9
Denmark	1948	13.9
Finland	1948	12.7
Netherlands	1948	14.7
Greece	1948	11.2
Peru	1947	20.7
Norway	1948	14.1

Source: S. Makdisi, "Postwar Lebanese Foreign Trade and Economic Development" (M.A. Thesis presented to the Economics Department at the American University of Beirut), p. 66.

Of all the countries listed in the table above, Lebanon has the largest percentage of income arising in the trade sector, which contributes a larger proportion of national income than either agriculture or industry. In fact the amount of income arising in foreign trade alone, over LL 190 millions, was greater in 1950 than that originating in any of the other sectors, excluding agriculture.[2]

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1. Not including finance.

2. The relatively great importance of foreign trade in Lebanon, assuming the amount of national income generated by a given sector to be an adequate measure of its economic importance, may be attributed to a number of factors, chief among which are the geographical

Of the income generated by foreign trade imports alone accounted for over 60% in 1950, transit for 28% and exports and entrepot for the rest, which fact may be taken as an indication of the importance of imports to the Lebanese economy. In order to get a more complete picture of the structure of Lebanese foreign trade, however, a survey of the balance of trade, and of the composition and the direction of imports and exports seem to be necessary. Once this is done, a brief discussion of the other items that enter into the balance of payments of the country will be undertaken.

3. Imports and Exports. Foreign trade statistics in Lebanon are only available since the second quarter of 1950. Prior to March of that year, Lebanon and Syria formed one customs union, and no distinction was made between Lebanese and Syrian imports, exports, reexports, or transit; hence in discussing the balance of trade of Lebanon and its composition, only the period since 1951 will be considered. But even for that period foreign trade statistics suffer from a number of defects, chief among which, from the point of view of this discussion, is the undervaluation of imports due to the fact that their value is recorded in the customs' registers on the basis of official rates of exchange while the foreign exchange used in their purchase is actually

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position of Lebanon and its free trade and foreign exchange policy. The various implications of this policy will be taken up at a later stage while discussing the commercial policy that would be best suited for Lebanon.

bought at free market rates.[1] In the discussion that follows, adjusted import statistics will be used.

Reference to table II below, which gives the merchandise trade figures for the period 1951-54, will immediately reveal the relatively small proportion of merchandise exports to merchandise imports. As indicated by the table, the ratio of average visible exports to average imports for the period 1951-54, was about 20% only, which ratio reflects the magnitude of the merchandise trade deficit.

TABLE 2.

LEBANESE MERCHANDISE TRADE
1951-1954
(in LL millions)

YEAR	IMPORTS[2]	EXPORTS[3]	MERCHANDISE TRADE BALANCE[4]	RATIO OF IMPORTS TO EXPORTS
1951	425.5	91.8	-337.7	21.5
1952	442.7	83.0	-359.7	18.7
1953	413.9	88.7	-325.2	21.4
1954	517.5	95.0	-422.5	18.4

Source: E. Fei and P.J. Klat, The Balance of Payments of Lebanon 1951 and 1952 (Beirut: Dar-el-Kitab, 1954), pp. 60 and 62. For 1953, balance of payments of 1953 prepared by the Economic Research Institute at the American University of Beirut, but not published. For 1954 customs statistics converted at free market rates.

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1. As the discrepancy between the free market rate and the official rate of exchange is not the same for all currencies, a readjustment of the value of imports would require the grouping of those imports according to the currencies in which they are paid for, and then, the multiplication of the value of each category by the conversion factor appropriate to it. The conversion factors used in this study are obtained by dividing the yearly or the quarterly average market rate of exchange for each currency by the official rate for it.
2. Customs import statistics are calculated at free market rates after deducting gold imports.
3. Export statistics include reexports on which there has been a refunding of duty. Gold exports are excluded.
4. According to the Economic Research Institute at the

The merchandise trade balance as shown by the above table has increased from LL 333.7 millions in 1951 to about LL 422.5 millions in 1954.[1] The relatively lower level of debit items in 1953 is most probably due to the overpiling wrong of stocks in the preceding two years as a result of the Korean war. During the rest of the period, though the number of years covered makes it difficult to establish with certainty any discernable trends in the debit and credit items, the ratio of merchandise exports to merchandise imports seems to have been more or less stable.

The persistence of a large trade deficit and the low proportion of merchandise exports to imports are hence two major characteristics of Lebanese foreign trade, which characteristics have considerably affected commercial policy, especially in regard to the conclusion of bilateral trade and payments agreements.[2] It must be pointed out in this respect,

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American University of Beirut the average trade deficit for the period 1951-1954 was actually lower than the deficit shown in this table by about 22%. The reason for this are mainly two, viz., (a) the undervaluation of customs export statistics due to the exclusion of merchandise smuggling and to the fact that Lebanese exporters usually undervalue their exports in the customs declarations they make, and (b) the fact that when imports are properly adjusted for coverage and valuation they come up to about 9% lower than the amounts cited in table II for the period 1951-1953. (Refer to Table IX p. 68)

1. See footnone 4 on p. 49.

2. The reasons for the introduction and development of these agreements will be dealt with in some detail in Section B of this chapter.

however, that though bilateral agreements in Lebanon may have been to a considerable extent motivated by the persistence of a large trade deficit, they have not been in any way due to payments difficulties such as would lead a country to try and minimize settlements in free foreign exchange. The reason for this is principally that the trade deficit has been more than covered by earnings from other sources, thus resulting in a favorable balance of payments. The sources of these earnings as well as the major characteristics of the balance of payments will be discussed after a brief survey of the composition and the direction of merchandise imports and exports is made.[1]

The major sources of Lebanese imports are Syria, the United States, France, and the United Kingdom. Less important sources are the other members of the Arab League, West Germany, Italy, Belgium, Holland and Czechoslovakia. This can be seen from table III below which gives a breakdown of imports by major countries of origin.

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1. This would include a brief discussion of re-exports, and transit.

TABLE 13.

LEBANESE IMPORTS BY MAJOR COUNTRIES OF ORIGIN 1951-54[1]

(in LL 1000 at free market rates)

COUNTRY	1951	1952	1953	1954
Egypt	6331	2909	4043	7276
Iraq	29115	21898	16356	24516
Saudi Arabia	2740	5564	7635	9118
Syria	60700	63005	86421	97840
Jordan	3550	4777	8022	14258
Turkey	11424	6641	3441	3754
France	52269	38851	43862	50409
W. Germany	13987	15515	23070	34938
Italy	17421	28717	26784	24332
United Kingdom	44965	46044	37426	43104
Other Western Europe	47029	52790	39347	76256
Eastern Europe[2]	15938	18766	13874	17417
U.S.A.	77217	79481	67656	70936
Others[3]	42835	66090	45956	43338
	425521	442681	413883	517492

<u>Source</u>: For 1951 and 1952 Fei and Klat, <u>op.cit.</u>, 62. For 1953 Balance of Payments of Lebanon 1953, prepared by the Economic Research Institute, A.U.B. (unpublished). For 1954 customs import figures adjusted on the basis of yearly conversion factors.

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1. For a description of the way these statistics are prepared refer to appendix D to this chapter.

2. Eastern European countries include Czechoslovakia, the USSR, East Germany, Poland, Rumania, Bulgaria and Yugoslavia. Imports from some of these countries, most of which have trade and payments agreements with Lebanon, were as follows for the period 1951-1954:

	1951	1952	1953	1954
Czechoslovakia	7896	7737	4709	6786
U.S.S.R.	263	130	94	184
Rumania	2157	4320	2375	3895
Poland	809	794	983	1790

3. Includes among others imports from the rest of the franc area, the rest of the sterling area including Kuwait and Bahrain, and imports from Far Eastern countries.

Thus during the period under consideration imports from Arab League countries, viz., Syria, Iraq, Egypt, Jordan, and Saudi Arabia amounted to an average of about 26% of total imports in terms of value while the United States and Western European countries supplied an average of about 58% of the total. Imports from Eastern European countries accounted only for about 3% of ~~the~~ total imports. The importance of Syria both as a source of imports and a market for Lebanese exports is mainly due to the close economic relationships between the Lebanese and Syrian economies, which formed one customs area prior to March 1950. The important role assumed by the United States and the countries of Western Europe, i.e., the more industrialised countries of the world, may be partly accounted for by the composition of Lebanese imports which include a large proportion of manufactured articles, machines, and other durable goods, as illustrated by Appendix A to this chapter.[1]

On the export side too, Lebanon conducts most of its trade with Syria and the other neighboring Arab countries, the United States, and countries of Western Europe, mainly the United Kingdom and France. Thus during the period 1951-1954

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1. The neighboring Arab countries supply Lebanon mainly with agricultural and animal products which constituted together about 30% of total Lebanese imports during the period 1951-1954. The bulk of industrial imports on the other hand come from the United States, the United Kingdom, France, West Germany, Italy and other Western European countries.

the Arab countries alone absorbed around 50% of total exports in terms of value[1], while exports to the United States and Western Europe amounted to over 30% of the total. Exports to Eastern Europe constituted a small part of the total having averaged only about 3% during the period under consideration.[2]

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1. Among the Arab countries Syria ranked first with about 19% of total exports, followed by Egypt, Saudi Arabia, Jordan, and Iraq.

2. Czechoslovakia ranked first among Eastern European countries, followed by Rumania, the USSR and East Germany. In 1955 exports to the USSR increased appreciably, and total exports to Eastern European countries went up from 3% to about 5% of total exports in terms of value.

TABLE 4.

LEBANESE EXPORTS, FOB, BY MAJOR COUNTRIES 1951-1954

(in LL 1000)

COUNTRY	1951	1952	1953	1954
Egypt	9479	6712	5964	8757
Iraq	2932	3367	4480	4489
Saudi Arabia	3443	9401	10887	9861
Syria	22629	17664	13732	14853
Jordan	4285	4072	6387	5987
Turkey	533	721	380	282
France	3436	3742	9785	4447
Germany	255	446	392	2428
Italy	4532	3384	2632	2636
United Kingdom	2792	4328	4346	4218
Other Western Europe	2033	3024	3004	7417
Eastern Europe	3477	3871	2079	2369
United States	22753	6933	4605	6267
Others [1]	9277	15366[2]	18904[3]	17958
Total	91791[4]	83031[4]	87710[5]	91969[6]

Source: For 1951 and 1952, E. Fei and P. Klat, op.cit., 60. For 1953 and 1954 customs statistics published in, Lebanese Republic, Ministry of National Economy, Bulletin Statistique Trimestriel, IV & V, 1953, 4th quarter, p. 22, and 1954, 4th quarter, p. 22.

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1. Includes among others Kuwait, Bahrain, the rest of the sterling area, the rest of the franc area, countries of the Far East, etc.

2. Of which LL 7,293,000 were exports to the rest of the sterling area, and LL 2,494,000 to Kuwait and Bahrain.

3. Of which LL 6,043,000 were exports to Kuwait and Bahrain, & about LL 7,655,000 to the sterling area.

4. Includes reexports with reimbursement of duty.

5. Does not include reexports with reimbursement of duty which amounted to about LL 1,092,000 at official rates of exchange.

6. Does not include reexports with reimbursement of duty which amounted to LL 3,154,000 at official rates.

Of the countries linked to Lebanon with trade and/or payments agreements the Arab countries viz. Syria, Egypt, Iraq and Jordan ranked first, followed by France, Italy, Czechoslovakia, West Germany, and the USSR. In 1955 the USSR ranked before West Germany. Exports to the other bilateral agreement partners, i.e., East Germany, Yougoslavia, Rumania, China and Poland were relatively insignificant, as shown by Table V below.[1]

1. Countries having treaties of commerce and navigation or a modus vivendi with Lebanon, are not included in this table; these countries include Greece, Turkey, Brazil and Argentina.

TABLE 5.

EXPORTS TO BILATERAL[1] TRADE AND PAYMENTS AGREEMENTS

COUNTRIES 1951-1955

Arab Countries	Kind and Date of Agreement	Exports (in L.L. 1000)				
		1951	1952	1953	1954	1955
Egypt	Trade agreement with a payments clause, Sept. 1951	9422	7082	5964	8757	6696
Iraq	Trade agreement with a payments clause, Feb. 1951	2607	2732	4480	4489	6700
Jordan	Purely trade agreement, Aug. 1952	4111	3602	6068	5987	6491
Syria	Agreement extending preferential treatment to certain products, Feb., 1953	22007	16583	13732	14853	13370
Non-Arab Countries						
Czechoslovakia	Trade and payments agreement July 1952	1035	1773	2057	1621	3330
Yougoslavia	Trade agreement - July 1953	-	400	-	2	740
W. Germany	Trade ~~and payments~~ agreement & agreement on economic coop. Nov. 1951 and July 1953	253	433	392	2428	2307
East Germany	Trade and payments agreement Dec. 1953 amended Nov. 1955	-	-	-	29	-
U.S.S.R.	Trade and payments agreement April 1954	-	-	-	9	3101
France	Trade and economic cooperation agreement, May 1955	3414	3666	9785	4447	5868
Italy	Trade and economic cooperation Nov. 1955	4387	3361	2632	2636	3168
China	Trade agreement - Dec. 1955	-	-	-	-	-
Poland	Trade and payments agreement Jan. 1956	-	-	-	-	6
Roumania	Trade and payments agreement Jan. 1956	1683	134	22	709	33

Source: Export statistics are taken from the Lebanese Republic, Bulletin Statistique Trimestriel, 1954, 4th quarter p.22, 1953, 4th quarter, p.53, 1952, 4th quarter p.59, 1951, 4th quarter, p.69; and Le Commerce du Levant, No. 165, (Wed. Feb.29, 1956), p.5.

Note: The discrepancy between some of the figures cited in this table and those in Table V is due to the fact that whereas the latter include reexports with a refunding of duty, the former do not.

(1) The term bilateral does not necessarily refer here to agreements which involve an attempt at achieving a certain predetermined ratio between the exports of each of the two contracting countries to the other.

The composition of Lebanese exports is given in Table VI. below, which table uses the customs classification of imports and exports into commodity groups.

TABLE 6.

LEBANESE EXPORTS 1951-54 BY COMMODITY GROUP

COMMODITY GROUP	1951	1952	1953	1954
I Animal & Products of	1123	1447	2022	3562
II Vegetable Products	19074	25047	33350	47390
III Fats, Oil, Wax & Products of	2012	3364	3963	1668
IV Food, Beverages & Tobacco	2852	3591	3400	3802
V Mineral Products	4111	2093	2888	3158
VI Chemical & Pharmaceutical Products	3291	1831	2224	1516
VII Leather, Hide, Fur & Products of	4351	2970	3377	3919
VIII Rubber Products	430	233	291	237
IX Wood, Cork & Products of	898	1138	1190	1750
X Paper Products	1872	1354	1640	1517
XI Textile Products	35404	20416	18889	9370
XII Shoes, Hats, & Articles of Fashion	450	730	581	566
XIII Ceramics, Glassware, etc.	752	1012	1865	1707
XIV Jewelry	85	78	738[1]	2523
XV Common Metals	6267	6997	5197	4770
XVI Machinery, spare parts, Electrical Appliances	5827	3851	3845	3029
XVII Transportation Equipment	507	950	1767	1041
XVIII Scientific and Musical Instruments	127	187	223	126
XIX Arms and Ammunitions	10	19	3	12
XX Other Merchandise	137	202	202	263
XXI Artistic works and collections	6	18	54	43
	89592[2]	77528[2]	87710	91969

Source: Fei and Klat, op.cit., 63 for 1951 & 1952. For 1953 and 1954 Lebanese Republic, Bulletin Statistique Trimestriel, 1953, 4th quarter, p. 6-11, & 1954, 4th quarter, p. 6-11.

Note: Exports of vegetable products consist mainly of fresh vegetables, fruits, e.g. citrous fruits, apples, bananas, etc., and cereals. Exports of textiles on the other hand are chiefly made up of wool, artificial silk textiles, cotton, and textiles manufactures mostly of the cheap type.

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1. Includes exported banknotes which amounted to LL 611,000.

2. Do not include reexports with a reimbursement of duty as do the totals for 1951 and 1952 cited in Table V on page 55.

According to the above table, textiles and vegetable products are the major Lebanese exports, having constituted an average of about 58% of total exports in terms of value during the period 1951-1954.[1] Other major exports are common metals, machinery, spare parts and electrical appliances, leather, hides, and furs, and mineral products, which items made up together around 19% of total exports during the same period.

The major markets for each of the above commodity groups were the following:

> Vegetable products - Egypt, Iraq, Jordan and Kuwait, followed by Syria, Western European countries mainly West Germany, the United Kingdom, France, Italy etc., the United States, and Eastern European countries, mainly Czechoslovakia and the USSR.
>
> Common metals - Syria, certain countries of Western Europe and the other Arab countries.
>
> Machinery and spare parts - mainly Syria, and to a lesser extent the other Arab countries.
>
> Mineral products - Syria which absorbed the bulk of these products during the period 1951-1954, and to a lesser extent the other Arab countries, and some countries of Western Europe.

The import and export statistics listed above reveal a number of characteristics of Lebanese foreign trade in addition to those already mentioned, namely, the existence of a large trade deficit and the dependence on the neighboring

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1. Vegetable products include mainly citrous fruits, apples, lentils, and fresh vegetables, while textiles are made up mainly of such items as semi-finished textiles, raw cotton and wool, and cheap textile manufactures of the types exported to underdeveloped countries.

Arab countries, the United States, and Western European countries, particularly the United Kingdom and France, both as a source of imports and as market for exports.[1] Thus, the composition of exports and imports for example indicate the relatively low degree of industrialization of the country, a large part of Lebanese imports being made up of manufactured products and machinery, while the bulk of exports consists of vegetable products and semi-finished or cheap textiles.[2] The composition of exports provides in addition an indication of the importance assumed by textiles and vegetable products, mainly fruits, which made up together for the period 1951-1954 about 58% of total Lebanese exports. Another feature of Lebanese merchandise trade revealed by the above statistics is the importance of Arab export markets, and the relatively large trade deficit incurred with the United States, the United Kingdom and France. The importance of Arab markets and especially of Syria is most probably due to the close economic, political, geographical and sociological relations between these countries and Lebanon as well as the extension of preferential treatment under commercial agreements to a number of agricultural and industrial products of some Arab League member countries.[3]

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1. Italy, Belgium and West Germany are also important trade partners.

2. S. Makdisi, op.cit., 42.

3. The trade deficit with the Arab countries was considerably smaller than that with either the United States or Western Europe. In fact, merchandise trade with Egypt and Saudi Arabia showed a surplus over the period examined.

4. Export and Import of Gold. In addition to its other merchandise imports, Lebanon imports every year certain quantities of gold, mainly from the United States, the United Kingdom, France, Holland, and Switzerland. Some of these imports have been done by the government and were added to the currency cover. Thus the proportion of gold in the note cover increased from 25.3% on December 31, 1949 to 90.3% on December 31, 1954.[1]

TABLE 7.

LEBANESE IMPORTS OF NON-MONETARY GOLD BY COUNTRY 1951-1953 [2]
(in LL 1000)

COUNTRY	1951	1952	1953
Syria	683	892	3291
Other members of the Arab League	-	-	-
United States	20726	13382	10749
United Kingdom	1711	8680	9586
France	6753	10146	2328
Holland	5272	10965	14138
Switzerland	920	4721	2850
Belgium	81	-	405
Others	1438	2006	10903
Total	37584[3]	51587[3]	52869[3]

Source: Fei and Klat, op.cit., pp. 68-69 for 1951 and 1952; and Makdisi, op.cit., 54 for 1953.

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1. Banque de Syrie et du Liban, Exercises, 1941-1953, and Lebanese Republic, Bulletin Statistique Trimestriel, 4th quarter, 1954, p. 48.

2. Gold imports for 1954 were as follows: (computed from: Lebanese Republic, Bulletin Statistique Trimestriel, 1954, 4th quarter, p. 22):

Syria	81
Saudi Arabia	578
United States	34041
United Kingdom	82411
France	4869
Holland	1478
Switzerland	8381
Belgium	-
Others	3381
Total	135200

3. As gold imports are duty free, importers

Gold exports on the other hand go mainly to Saudi Arabia, Kuwait and certain other Middle Eastern countries such as Iran, Turkey and Greece; a smaller part goes to certain Western European countries, e.g., Holland, Belgium, Italy, and Switzerland as well as to Japan and others. The total value of gold exports in 1954 was, according to the customs statistics about LL 13,613,000 distributed as follows:[1]

COUNTRY	VALUE IN LL 1000	COUNTRY	VALUE
Saudi Arabia	2,063	Cyprus	78
Italy	232	Syria	90
The United Kingdom	2	Switzerland	285
Greece	826	Iran	307
Iraq	95	Japan	180
Belgium	90	Others (including Kuwait)	8,643
Turkey	722		
		TOTAL	13,613

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declarations are not checked by the customs officials; hence the value of gold imports registered at the customs does not always correspond to their actual market value. For the years 1951, 1952 and 1953 a reassessment of the value of gold imports has been made; the reassessment consisted of multiplying the quantity of gold imported by the market price for gold. For 1954 no such reassessment has been done (See Fei and Klat, op.cit., p. 18).

1. Lebanese Republic, Bulletin Statistique Trimestriel, 1954, 4th quarter, p. 22.

Reexports[1]

TABLE 8.

LEBANESE TOTAL REEXPORTS BY COUNTRY 1951-1954
(in LL 1000)

COUNTRY	1951	1952	1953	1954
Arab Countries				
Syria	3128	5270	4227	4655
Saudi Arabia	351	1729	1071	1543
Iraq	664	2754	906	520
Jordan	101	357	73	177
Egypt				
Other Middle Eastern Countries and India				
Cyprus	63	41	50	86
Greece	11	14	14	13
Iran	101	107	82	56
Turkey	606	390	366	39
India	-	11	-	437
U.S. & Western Europe				
U.S.	94	149	1275	328
France	327	3717	365	676
West Germany	2	318	86	271
Holland	2	200	12	192
Italy	494	559	119	190
Switzerland	890	24	8	95
United Kingdom	175	463	865	610
Others	-	24	194	30
Eastern Europe				
Poland	25	12	-	92
Czechoslovakia	5	-	82	30
USSR	-	-	1	-
Other Countries	304	2048	1891	2707
TOTAL	8201[2]	19491[3]	12207[4]	13935[5]

Source: Lebanese Republic, Bulletin Statistique Trimestriel, 4th quarter 1951, p. 72, 4th quarter 1952, p. 62, 4th quarter 1953, p. 23 and 4th quarter 1954, p. 23.

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1. Reexports in Lebanon are of two kinds, those that receive a refunding of duty and which are recorded as imports when they first enter the country, and those which are directly exported from the customs warehouses. The first are calculated on the basis of free market rates.

2. Of which LL1,626,000 were reexports with a refunding of duty
3. " " LL3,856,000 " " " " " " "
4. " " LL1,092,000 " " " " " " "
5. " " LL3,154,000 " " " " " " "

Reexports in Lebanon are of two kinds, those that receive a refunding of duty, and those which are reexported directly from the customs warehouses. The former are recorded as imports when they first enter the country, while the latter are included in transit figures. Reexports are entitled to a reimbursement of duty, according to existing regulations, if they fulfil the following conditions, viz;

(a) if they are not similar to goods of local origin unless it could be proved that they originated in a foreign country;

(b) if they do not undergo any change within the country;

(c) if they are reexported by the same person who has previously imported them. Thus imported goods which are not reexported by the same person who originally imported them are not considered as reexports, but are included with export statistics[1]

As indicated by the table, the value of reexports was equal to about 9% of the total value of exports in 1951, 23% in 1952, 14% in 1953 and 15% in 1954. The bulk of these reexports went to the neighboring Arab countries, mainly Syria which absorbed together an average of about 60 percent of total reexports during the period 1951-1954. The United States and the countries of Western Europe received an average of about 23% of the total during that same period, while the share of Eastern European countries was insignificant. This relative importance of the neighboring Arab states as countries of destination for Lebanese reexports may be partly accounted for by

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1. Exports of agricultural products originating in the neighboring Arab countries, which are imported into Lebanon free of duty, are equally included with exports.

Lebanon's geographical position and its traditional role as intermediary between those countries and countries of Europe and the Western Hemisphere. As a matter of fact, Lebanese traders have in the past and still do import goods from the more industrialized countries of the world for the purpose of reexporting them to neighboring Arab countries. The profits made on such transactions constitute an important source of foreign exchange for the country, as will be pointed out later.

6. <u>Transit</u>. Another important source of foreign exchange in Lebanon, which is mainly due to the geographical position of the country and its free foreign exchange market and well equipped free zone is transit trade. According to available statistics, the value of gold, merchandise, and oil transit for the period 1951-54 exceeded by far the value of imports, exports, and reexports taken together,[1] having amounted to 1910 millions in 1951, 1725 millions in 1952, 1605 millions in 1953, and 1510 millions in 1954.[2] Earnings from transit amounted to LL 62 millions in 1951, LL 42.2 millions in 1952, and LL 21 millions in 1953[3], which amounts reflect a decreasing

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1. See S. Makdisi, <u>op.cit.</u>, 36.

2. Lebanese Republic, <u>Bulletin Statistique Trimestriel</u>, 1954, 4th quarter, p. 1. The transit figures mentioned above are adjusted on the basis of the free market rate for the dollar.

3. Balance of payments figures prepared by the Economic Research Institute, American University of Beirut (not published).

trend. The reasons for this decrease are believed to be mainly the large fall in the amount of gold transits after 1951,[1] and the fact that a part of Syrian, and more recently also Jordanian imports which used to be imported through the Port of Beirut are now imported directly through Latakia or Akaba. Also a considerable amount of Syrian agricultural products which used to be exported via Beirut are now exported directly. Despite these developments, however, transit is still a major source of foreign exchange to the country which depends primarily on service items and capital inflows to cover the big deficit in its balance of trade.

7. <u>The Balance of Payments</u>. Inspite of the large yearly deficit in its trade balance, Lebanon has achieved an increasing surplus in its balance of payments over the past four years.[2] The items that covered the deficit were mainly the following:

(a) earnings from transit and entrepot trade and profits realized on exchange and certain triangular operations, which amounted together to an average of about LL 84.45 millions during the period 1951-1954;

(b) investment income, i.e., earnings by Lebanese residents from their holdings of foreign securities, interest on private balances held abroad, and profits of Lebanese businesses abroad, whose net value was estimated on the average at LL 12.85 millions during that same period.

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1. The value of gold transit across the Lebanese territory decreased from LL 762.3 millions in 1951 to LL 485.6 millions in 1952.

2. Balance of payments statistics prepared by the Economic Research Institute at the American University of Beirut. (unpublished)

(c) foreign travel which came up to about LL 20.3 millions in 1951, LL. 24.5 millions in 1952, LL. 28.1 millions in 1953, and LL. 62.2 millions in 1954;

(d) expenditures by foreign governments and bodies which amounted to an average of about LL 82.8 millions over those four years;

(e) emigrant remittances which were estimated at around LL 70.5 millions during that period; and

(f) short-term capital movements which equalled, net, LL. 14.7 millions in 1951, LL. 43.7 millions in 1952, LL. 48.6 millions in 1953, and LL. 63 millions in 1954.

TABLE 9.

LEBANON'S BALANCE OF PAYMENTS - 1951-1954

(in L.L. millions)

	1951		1952		1953		1954	
A. Goods & Services	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
Merchandise Trade (1)	134.9	385.3	122.1	401.0	134.4	373.7	172.1	522.2
Non-Monetary Gold	15.2	14.3	25.0	36.5	3.6	39.8	23.6	43.9
Foreign Travel	35.0	14.7	47.6	23.1	58.4	29.3	92.3	30.1
Transportation & Insurance	16.3	9.2	21.2	8.5	23.6	18.7	27.2	19.3
Investment Income	15.6	11.8	16.2	9.2	27.8	9.7	32.4	9.9
Govt. not included elsewhere	79.5	2.8	72.2	6.6	59.0	6.7	65.1	6.7
Transit	62.0	-	42.2	-	21.0	-	97.7	-
Other	35.7	-	36.0	-	43.2	-	-	-
TOTAL (A)	384.2	445.1	382.5	484.9	370.1	477.9	510.4	632.1
B. Private Donations and Capital Movements								
Emigrant Remittances and Transfers	58.4	4.0	71.7	2.7	79.5	3.3	85.5	3.2
Government	0.5	-	2.5	-	4.3	-	18.2	-
Charitable & Cultural Institutions	10.2	-	13.5	-	10.7	-	15.2	-
Capital Movements (Net)	14.7	-	43.7	-	48.6	-	63.0	-
TOTAL (B)	83.8	4.0	131.4	2.7	143.1	3.3	181.9	3.2
C. Total (A & B)	488.0	449.1	513.9	487.6	514.1	481.2	692.3	635.3
D. Surplus (Credit-Debit)	18.9	--	26.3	--	32.9	--	57.0	--
E. Compensating Financing								
Monetary gold	-	23.9	-	15.4	-	13.1	-	60.1
Foreign exchange assets	0.9	--	-	10.4	-	20.8	2.0	--
Bank liabilities to non-residents	4.1	--	-	0.5	1.0	-	1.1	--
TOTAL (E)	5.0	23.0	-	26.3	1.0	33.9	3.1	60.1

Source: Balance of Payments of Lebanon 1951-54, prepared by the Economic Research Institute, A.U.B. (not published).

(1) The merchandise trade figures cited in this table are different from the import and export statistics cited in other tables mainly because of different adjustments for valuation and coverage. In the case of imports the discrepancy arises most probably from a difference in the conversion factors used as well as in the items included, while the difference in export statistics is mainly due to the fact that the figures used in this table include smuggling and are revalued to take care of the deliberate undervaluation of exports which Lebanese exporters are believed to resort to in their customs declarations. The reason for this undervaluation is believed to be the fact that foreign importers usually ask Lebanese exporters to underestimate the value of their exports at the customs in order to reduce the tariff burden of those importers.

The sum of the above items, as indicated by the table more than covered the amount of the trade deficit which amounted to LL 260.4 millions in 1951, LL 278.9 millions in 1952, LL. 237.3 millions in 1953, and LL. 350.1 millions in 1954, thus resulting in a balance of payments surplus of LL 18.9 millions in 1951, LL. 26.3 millions in 1952, LL. 32.9 millions in 1953, and LL. 57 millions in 1954.[1] The resulting surplus was mainly reflected in changes in the volume of monetary gold and foreign exchange assets, and bank liabilities to non-residents which increased together by 18.9 millions in 1951, LL. 26.3 millions in 1952, LL. 32.9 millions in 1953, and LL. 57 millions in 1954.

It is apparent from the above figures that Lebanon does not experience any serious payments difficulties at the present time, its balance of payments being increasingly favorable. A more thorough examination of the major credit items in that balance would reveal, however, certain characteristics which may be of interest from the point of view of commercial policy in general and of bilateral agreements in particular. As shown by Table IX above the major credit items in the balance of payments consisted of earnings from such services as transit and entrepot trade and exchange and triangular operations, emigrant remittances,

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1. On goods and services account, that is, excluding emigrant remittances capital movements, and donations, there was a deficit of LL 60.9 millions in 1951, LL. 102.4 millions in 1952, LL. 106.9 millions in 1953, and LL. 121.7 millions in 1954.

proceeds of foreign travel, donations, and short-term capital movements. Taken by itself this fact establishes a strong case for the maintenance of a free trade and exchange policy, the earnings from transit, entrepot, and exchange and triangular operations as well as the outflow of foreign capital being dependent to a large extent on the pursuance of such a policy. A liberal trade and exchange policy on the part of the Lebanese authorities, however, though essential for the continuance of these earnings, cannot insure that their flow would not cease or decrease considerably as a result of developments outside Lebanon which developments are beyond the control of the Lebanese authorities. This heavy dependance on items that cannot be sufficiently controlled through domestic policies[1] makes for some sort of instability in the Lebanese balance of payments, and may be considered therefore as a major weakness of that balance. In addition to this, the bulk of the capital inflow into Lebanon, the value of which exceeded the amount of the balance of payments surplus in 1952, 1953, and 1954, is of the kind which may be termed "transit capital", i.e. capital which is deposited on current account in Beirut banks and which awaits opportunities for its investment abroad.[2] Such capital movements

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1. Such items include remittances and donations, foreign travel, capital movements, and exchange and triangular operations.

2. A smaller part of the inflowing capital is of the type known as hot capital, i.e., capital seeking temporary refuge in Beirut. A considerable part of the capital which is invested in Lebanon goes into real estate.

are usually subject to reversals and hence cannot be relied upon as a stable source of foreign exchange. Moreover, a tightening, abroad, of the controls on the transfer of capital may lead to a reduction in the capital inflow into Lebanon, as well as of emigrant remittances and donations, thus reducing appreciably the amount of foreign exchange earned by the country. Similarly, the development of a crisis abroad may result in a reduction in the earnings from foreign travel, remittances, and donations, while exchange operations depend to a considerable extent on the exchange policies of other countries.

On the other hand, certain earnings which are usually regarded as unstable such as those from foreign travel and emigrant remittances have shown a marked tendency to increase, and there seems to be no reason to believe that they will decrease in the near future. Furthermore, the fact that the global volume of the service items in the balance of payments did not decrease appreciably over the past four years, inspite of the fall in the earnings from exchange operations and transit, is itself an indication of the flexibility of the Lebanese balance of payments. The growing importance of Beirut as a center for entrepot trade and the closer economic cooperation between members of the Arab League may have been at least partly responsible for making up that loss. At the same time, the volume of merchandise exports seems to be increasing, especially as attempts are made at opening up new markets for Lebanese agricultural and industrial products.[1]

Lebanon's payment position seems hence to be sufficiently strong, at the present time, not to warrant resort to bilateral trading methods for the usual purpose of avoiding payments in convertible exchange. The fact that the Lebanese Government has found it necessary to interfere in the foreign exchange market in the fall of 1953 in order to prevent the Lebanese pound from appreciating above LL 3.20 to the US dollar, as well as the constant increase in monetary gold are indications of this relative lack of payments problems. The introduction of bilateral agreements into Lebanese commercial policy must have been therefore, due to reasons other than payments difficulties, which reasons it is the purpose of the coming section to look into.

B. <u>The Introduction of Bilateral Agreements into Lebanese Commercial Policy</u>

Postwar trade and payments agreements[2] between Lebanon and other countries, including the neighbouring Arab States, except Syria, were negotiated after the rupture of the Lebano-

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1. At the same time imports seem to be increasing at a faster rate.

2. The expression trade agreement is used to denote agreements covering the conditions affecting the movement of goods between two or more countries, e.g. quotas, tariffs, etc. but not the method of payment. Payments agreements on the other hand refer to agreements which deal with the means of financing trade between the contracting parties (Refer to Mikesell, op.cit., pp. 82 & 86.)

Syrian customs union in March 1950.[1] Prior to 1943, Lebanon and Syria, which formed one customs area, were under French Mandate and as such had to abide by the Mandate Charter. According to Article 11 of the charter, the mandated territories were not allowed to discriminate in any way between goods originating in, or destined to, any of the members of the League of Nations. In other words, the Lebano-Syrian Customs Union had to grant the most favored nation's clause to all members of the League of Nations without receiving reciprocal treatment. Trade agreements providing for preferential treatment could be concluded, however, with neighbouring countries. As a result of this, the only trade agreements that were entered upon prior to World War II were either with neighbouring countries or with non-members of the League of Nations.

Of the agreements negotiated with neighbouring countries the only one that had an appreciable effect on Lebano-Syrian trade was that with Palestine, which was signed on August 20, 1922 and repealed in 1938.[2] On November 30, 1939, a new but less liberal agreement was concluded. According to the provisions of the August 1922 agreement, all local agricultural and industrial products including those that used imported raw materials were exempted from customs duties. As a result, trade was considerably facilitated between the

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1. Syria is dealt with separately because of the fact that she formed one customs area with Lebanon prior to March 1950.

2. An agreement regulating transit and reexport trade between the two contracting parties was concluded on May 18, 1929.

Syro-Lebanese customs union and Palestine which constituted the major export market for Lebanese and Syrian products. In 1938, however, the 1922 agreement was repealed by the Palestinian authorities mainly as a result of pressure exerted by Jewish interests, and a new agreement was signed on November 1939. Under the new arrangement, while agricultural products were still exempt, industrial products were divided into two categories, those that were subject to normal customs duties, e.g., beverages, denatured alcohol, tobacco, and matches, and those that benefited from a one third reduction on customs tariffs, and which included most other articles.[1]

A similar agreement was signed on May 10, 1923 with Transjordan, but was not as effective as the one with Palestine. An agreement was signed with Iraq on January 31, 1925 regulating transit trade. Also two other agreements, providing for most favored nation's treatment were signed, one with Saudi Arabia on February 24, 1926, and another with Egypt on November 1, 1928.[2] This latter agreement was repealed by the Lebano-Syrian customs union in 1933, and a new agreement was signed on October 11, 1934.

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1. The tariff reduction granted was a percent reduction which did not specify the base to which that reduction was to be applied. Most of the customs duties in Palestine were specific.

2. The latter agreement excluded privileges accorded to neighbouring countries.

In addition to these arrangements with neighbouring Arab countries, agreements providing for most favored nation's treatment were signed with Turkey on July 26, 1926,[1] with Brazil on January 19, 1932, with Japan on July 29, 1936 and with Germany on February 2, 1937. On July 27, 1939 a new agreement was concluded with Japan, under which Japan committed itself to import from Lebanon and Syria an amount equal to 20% of its exports to them. This agreement, as well as that with Germany,[2] according to which the German authorities agreed to grant foreign exchange for imports from Lebanon and Syria up to 45% of the value of German exports to those two countries, may be considered as the first attempt at introducing some measure of bilateralism into Lebanese foreign trade relations, bilateralism being defined as "the theory that what one nation buys from another is somehow dependent upon what that nation sells to the other."[3] However, most of these agreements[4] came to an end with the breaking out of the war in September 1939, and as such are only of historical significance at the present time.

By the end of the war both Syria and Lebanon had achieved political independence.[5] Yet, the Customs Union

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1. This agreement was repealed in June 1936.
2. The agreement was signed in February 1927.
3. Snyder, op.cit., 797.
4. The agreement with Palestine remained in force up to 1948.
5. The Mandate was officially ended in 1943.

between the two countries was maintained, and a Council of Common Interests was set up and entrusted with the management and supervision of the "common interests" such as the customs, the regie, and concessionaries.[1] Moreover, the two countries maintained the same exchange control system up to 1948. Hence similar trade and exchange regulations existed in the two countries in addition to the free movement of goods and persons between their respective territories. As time went on, however, the two governments tended to embark on divergent economic policies, especially in regard to international trade, thus making it more and more difficult to maintain the customs union.[2] The period 1943 - March 1950 was as such, more or less, a transitory period during which Lebanon did not have a definite commercial policy and where no bilateral trade or payments agreements were concluded. A particularly important development during that period was the appearance of the State of Israel in 1948, and the loss by Syria and Lebanon of the Palestine export market, which formed the major market for their products prior to that date.

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1. The Council of Common Interests was made up of three representative from each country.

2. The existence of a Customs Union between two or more countries requires among other things the free movement of goods and persons between them, the maintenance of a relatively fixed parity between their respective currencies, and as a result the pursuance of coinciding economic policies. In the case of the Syro-Lebanese Customs Union, in addition to the divergence in economic policy, the desire of the Syrians to protect their industries against Lebanese competition as well as certain political developments may have hastened the rupture of that union.

The rupture of the customs union, by the Syrian authorities in March 1950 and the measures accompanying it[1] resulted in certain unfavourable effects on some Lebanese industries which were organized to meet the joint demand of the two markets. But on the other hand, it enabled the Lebanese authorities to follow independent commercial policies which were motivated to a large extent by the need to find new markets for Lebanese products in order to make up for the almost complete loss of the Palestinian market and the partial loss of the Syrian market.[2] Thus the Lebanese Government embarked since 1950 upon a policy of increased cooperation with the other Arab countries mainly through the conclusion of bilateral[3] trade, or trade and payments agreements, and of multilateral arrangements extending preferential treatment such as the Arab Economic Treaty negotiated by members

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1. The Syrian authorities prohibited imports from Lebanon and required the bringing in of imports from the United States and Western Europe through the Lattakia port. They also prevented Syrian nationals from coming into Lebanon except under very special circumstances.

2. The partial loss of the Syrian market was compensated for by increased exports to the other Arab countries, mainly Egypt and Saudi Arabia, and the opening up of new markets in Asia and Eastern Europe.

3. The term bilateral is used here in the sense of between two countries, and not as already defined in this paper.

of the Arab League in September 1953.[1] In addition, a number of trade, and in some cases also payments, agreements were concluded with some non-Arab countries, mainly in an attempt to find or expand markets for Lebanese industrial and agricultural products. The search for markets was, and still is, itself largely motivated by a desire to reduce the big deficit in the balance of trade and to help sell the export surplus of certain industrial and agricultural products, especially citrous fruits, and applies.[2] The introduction of bilateral trade and payments agreements into Lebanese foreign trade relations was, therefore, due to commercial rather than to payments difficulties, Lebanon being a free exchange country with no serious payments problems.[3] But despite its relative lack of payments difficulties, Lebanon, as was mentioned before,

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1. The present policy of the Lebanese Government seems to tend towards an insistance on as great a degree liberalization in Arab trade relations as possible. Thus in the agreement negotiated with Egypt in February 1956, preferential treatment was extended to a number of agricultural and industrial products not covered by the Arab Economic Treaty.

2. The present production of applies is estimated at about 35,000 tons per year; and it is believed that in five or six years annual production will attain 100,000 tons. The production of citrous fruits on the other hand is expected to attain 200,000 tons in about four to five years.

3. For a discussion of payments difficulties that give rise to bilateral trading see Chapter I of the study.

has a large trade deficit, and its merchandise exports are hampered by high selling prices, inferior quality, lack of standardization, poor advertising, and import quantitative restrictions imposed by other countries. At the same time Lebanese production of fruits is constantly increasing, while many industries are operated at less, sometimes much less, than full capacity. As a partial solution for these problems, Lebanese industrialists and agriculturists have advocated, and still do, the conclusion of trade agreements which provide for the bilateral balancing of trade between the contracting parties. In response to this demand, and as a part of a commercial policy aiming at expanding merchandise exports, the Lebanese authorities have tended, especially in the last few months, to enter upon more and more trade, agreements of the type providing for the issuance by one or both parties of export and import licences up to specified value or volume limits for listed commodities and where necessary also upon payments agreements of the usual postwar type,[1] i.e., agreements providing for clearing accounts, swing credit margins, etc. Thus 'quota' trade agreements[2] were signed with France and Italy in May 1955 and November 1955 respectively, and trade

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1. The Development Board recommended the conclusion of payments agreements with countries where the state conducts foreign trade.

2. For a description of trade quota agreements, see Chapter One, . .

and payments agreements were concluded with Poland and Rumania in January 1956. Other trade agreements are being negotiated at present with a number of Far Eastern countries including Indonesia and Japan. The conclusion of these agreements must not be interpreted, however, as involving an attempt at a large scale bilateralization of Lebanese foreign trade which remains essentially free and multilateral. As a matter of fact only a small part of Lebanese foreign trade is conducted on a bilateral basis and the functioning of existing agreements does not seem to have resulted in any strict bilateralism, as will be discussed later.

As regards form, both trade and payments agreements do not conform to any standard pattern, but are decided on an ad hoc basis. As a result, certain minor differences may exist between agreements of the same type, i.e., payments agreements, trade agreements, etc., and will be shown in the coming chapter. On the whole, however, it seems that the Lebanese authorities prefer to confine themselves to trade agreements, usually of the 'quota' type referred to above, or of the type containing indicative export and import lists, and do not resort to payments agreements except where difficulties are expected to arise if the method of payment is not regulated.[1]

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1. In other words, payments agreements are only concluded with countries maintaining strict exchange controls and which insist on the conclusion of such agreements.

Where resorted to, payments agreements are mostly of the usual postwar type providing for the clearing of payments, a swing margin, etc... The reason for this tendency to avoid concluding payments agreements is probably the fact that Lebanon is a free exchange country and as such finds it difficult to enforce similar arrangements. The various kinds of agreements existing at the present time and the differences that may obtain between them as well as between agreements of the same type will be dealt with in the coming chapter which purports to classify existing agreements and to examine their functioning and their degree of enforcement.

APPENDIX A

LEBANESE IMPORTS BY COMMODITY GROUP 1951 & 1952

(in LL. 1000)

	COMMODITY	YEAR 1951	YEAR 1952
I	Animals and Products of	38734	31828
II	Vegetable Products	84356	106786
III	Fats, Oils, Wax and Products of	4020	4690
IV	Food Products, Beverages, & Tobacco	20491	21666
V	Mineral Products	31489	26563
VI	Chemical and Pharmaceutical Products	22483	22583
VII	Leather, Hide, Fur, & Products of	6379	7742
VIII	Rubber Products	7050	4291
IX	Wood, Cork and Products of	12774	12526
X	Paper Products	12422	9803
XI	Textiles and Products of	80277	67282
XII	Shoes, Hats, and Articles of Fashion	2037	1534
XIII	Ceramics, Glassware, etc.	8415	8881
XIV	Jewelry	1008	2080
XV	Common metals	14920	32772
XVI	Machinery, Spare Parts, Electrical Appliances	34471	42556
XVII	Transportation Equipment	19584	21062
XVIII	Scientific and Musical Instruments, Watches	5376	5783
XIX	Arms and Amunitions	914	798
XX	Other Merchandise	2592	2604
XXI	Artistic Works and Collections	202	221
		409994 [1]	434039 [1]

Source: E. Fei and P. Klat, op.cit., p. 63.

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1. The discrepancy between these figures and those in Table II on page 49 is due to the fact that whereas the latter has been calculated on the basis of a quarterly conversion factor, the former has been computed on the basis of a yearly conversion factor.

APPENDIX B

LEBANESE IMPORTS BY COMMODITY GROUP

1951-1954

(at official rates in LL. 1000)

	COMMODITY GROUP	1951	1952	1953	1954
I	Animals and Products of	34266	28457	39040	40512
II	Vegetable Products	56198	77723	77539	89373
III	Fats, Oils, Wax, and Products of	2561	2912	3072	2598
IV	Foodstuff, Beverages, Tobacco	13351	14204	13210	16064
V	Mineral Products	20340	25638	27408	31408
VI	Chemical and Pharmaceutical Products	14438	14810	16236	19491
VII	Leather, Hides, Furs, and Products of	4094	5092	3999	5640
VIII	Rubber Products	4315	2850	3918	4360
IX	Wood, Cork, and Products of	7884	7775	7363	9276
X	Paper Products	7833	5831	5117	7593
XI	Textiles and Products of	56959	46094	44122	57668
XII	Shoes, Hats, and Articles of Fashion	1254	964	650	680
XIII	Ceramics, Glassware, etc.	5177	5585	4642	6116
XIV	Jewelry and Gold	23217[1]	39461[1]	47110	106993
XV	Common metals	22731	21283	25755	28150
XVI	Machinery, Spare parts, and Electrical Appliances	21419	26286	22133	30156
XVII	Transportation equipment	11924	13022	15076	20755
XVIII	Scientific and Musical Instruments	2898	3570	3433	4582
XIX	Arms and amunitions	564	501	349	620
XX	Other Merchandise	1591	1624	1987	2257
XXI	Artistic works and collections	7758	3367	119	99
	TOTAL	320772	347049	361680	484402

Source: Lebanese Republic, Bulletin Statistique Trimestriel, 4th quarter 1951, 1952, 1953 and 1954.

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1. The difference between this figure and the corresponding one in Appendix A is due to the fact that the latter does not include imports of gold and of banknotes whereas the former does. Moreover, the figure cited in this table is calculated on the basis of official rates of exchange while that in Appendix A is computed on the basis of free market rates.

APPENDIX C

LEBANESE IMPORTS AND EXPORTS BY COUNTRY
1955
(at official rates in LL 1000)

COUNTRY	IMPORTS		EXPORTS	
	QUANTITY	VALUE	QUANTITY	VALUE
Spain	955	2140	-	-
USSR	6607	1664	6388	3101
Sweden	9191	6632	604	124
East Germany	1160	704	-	-
West Germany	36970	34032	48845	2307
Iran	260	830	46	761
Italy	25052	19848	9472	3168
United Kingdom	28954	81773	20243	5113
Belgium	36347	14657	7796	3724
Poland	1096	478	15	6
Turkey	5621	2184	149	223
Czechoslovakia	8992	5371	10555	3330
Rumania	16614	3683	84	33
Switzerland	814	12786	177	1027
Syria	157306	86712	89974	13370
Jordan	18132	4498	19440	5744
India	2894	2418	243	123
Holland	16603	8843	4559	1057
United States	136291	70612	2700	12008
Iraq	273564	23211	29175	6700
France	96287	52478	11675	5868
Palestine	613	296	1609	747
Cyprus	14952	896	3096	1602
Egypt	32298	7374	23815	6696
Japan	1261	2090	275	57
Greece	2924	901	3834	1489
Yougoslavia	9570	3113	5327	740
Other	157174	55039	51160	29138
TOTAL[1]	1210474	529226 [2]	368188	120599 [3]

Source: Commerce du Levant, No. 165 (Wednesday, February 29th, 1956), p. 5.

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1. Includes gold imports and exports.

2. Using the conversion factor appropriate to each category the total would come up to about LL 715,922,000 at free market rates, including gold imports.

3. Does not include reexports with a reimbursement of duty.

APPENDIX D

LEBANESE FOREIGN TRADE STATISTICS

Customs foreign trade statistics are prepared mainly for the purpose of computing customs duties, and are based on the customs declarations of importers and exporters. They include the merchandise which passes accross the Lebanese frontiers with the exception of the following items:[1]

1. Goods not constituting exchanges between Lebanon and a foreign country, such as sea food caught off coastal waters, salvaged goods, goods confiscated or abandoned, and sold by the Customs.
2. Travellers' baggage, immigrants' and emigrants' belongings, and other such items not possessing the characteristics of commodity trade.
3. Minor imports and exports of nominal value, especially those sent by post such as merchandise samples, gifts, and goods valued under LL 500, books, etc.
4. Special governmental purchases, including imports of military equipment.
5. Goods imported by foreign embassies and missions and by the United Nations Relief and Works Agency (UNRWA).
6. Imports of specified concessionnaires.

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1. Fei and Klat, <u>op.cit.</u>, 7.

"Imports are recorded under the appropriate commodity sections and country headings; the entries are based on the declaration of the importer on the invoice presented when the goods are withdrawn from the warehouses."[1] Also, as import duties are calculated on the basis of official rates of exchange, the value of imports is converted into Lebanese pounds on the basis of these rates, while the foreign currencies used in their purchase are actually brought at free market rates, which practice results in an undervaluation of imports. Moreover, imports statistics include gold imports, which are usually recorded at fictitious values as they are duty free, and imports of banknotes. They also include goods which are later re-exported but which have paid a duty upon entering the country. Goods imported into the free zone or into the customs warehouses and goods smuggled into the country are not included.

Export statistics on the other hand include exports of Lebanese goods as well as those of agricultural products from neighbouring Arab countries, which are exempted from import duties. They also include exports of gold. They do not include reexports with a reimbursement of duty or exports from the free zone or the customs warehouses, the latter

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1. Ibid. Imports are recorded at their CIF value.

two items being included with transit trade. Goods smuggled out of the country are equally excluded. In addition as there are no export duties in Lebanon, Lebanese exporters usually undervalue their exports in the declaration they make at the Customs, and this at the request of the foreign importers who may be anxious to reduce their tariff burden. This practice, together with the exclusion of smuggling results in an appreciable undervaluation of exports.

Reexports are divided into two categories, those that have been recorded with imports and which receive a reimbursement of duty upon their reexportation, and those which are imported into the customs warehouses from where they are reexported. Exports from the free zone are not included being considered as transit transactions. Exports of agricultural products originating in the Arab countries and imported into Lebanon free of import duties are included with exports and not with reexports. Furthermore, triangular transactions taking place outside the Lebanese territories and involving Lebanese residents are not included with reexports. Thus it becomes apparent that customs foreign trade statistics in Lebanon give a very rough picture of the international transactions of the country, as they are mainly prepared for a fiscal purpose and not for the purpose of reflecting the real value of the country's international transactions during a specified period of time.

CHAPTER III

LEBANON'S MAJOR TRADE AND PAYMENTS AGREEMENTS

A. Introduction

Lebanon has at the present time about twenty trade, trade and economic cooperation, and trade and payments agreements of various types, both with Arab countries including Syria, Egypt, Iraq, and Jordan, and non-Arab foreign countries, including Turkey, Greece, Brazil, Argentina, West Germany, Italy, France, Yougoslavia, Czechoslovakia, East Germany, the USSR, Poland, Rumania, and China. The forms taken by these agreements differ a great deal some of them being "treaties of friendship, commerce, and navigation" providing simply for most favored nation's treatment, such as those with Greece, Brazil, and Argentina,[1] while some others are "trade quota" agreements stipulating the granting of import and export licences by each, or one, of the contracting parties for listed commodities up to specified value or volume limits. Others are trade and payments agreements providing, in addition to the issuing of import and export licences for certain listed commodities, for the settlement of payments through clearing accounts and

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1. These agreements were very common prior to the rise of bilateralism in the 1930's.

for swing credit margins.[1] Some others still are trade agreements containing indicative lists of exports or of exports and imports without providing for any commitments in relation to specific commodity or service transactions, e.g., the agreement with Turkey.[2] Moreover, certain trade agreements, namely, those with Italy, France, and West Germany, are accompanied by treaties of economic cooperation which provide for technical and economic assistance to Lebanon by the industrially more developed party; the forms in which this assistance is to be given are mainly the sale of equipment on a credit basis, the carrying out of developmental projects by Italian, French or German firms, the establishment of industrial and agricultural enterprises in Lebanon with the participation of capital from those countries, and the furnishing of technical assistance to Lebanese private and public enterprises. Certain other agreements, i.e., those with Syria, Jordan, Iraq, and the one recently negotiated with Egypt, extend preferential treatment to a number of agricultural and industrial products

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1. This type of agreements is very common between countries with inconvertible currencies.

2. All the trade agreements signed by Lebanon provide for the application of the most favored nation's clause in regard to customs duties and formalities.

originating in the contracting parties.[1] In addition, Lebanon is a signatory of the Arab Economic Treaty negotiated by members of the Arab League in September 1953, which treaty accords preferential treatment to a wide variety of agricultural and industrial products originating in the member countries.

In the present chapter, an attempt will be made at classifying existing agreements in a way that will reveal the basic differences and similarities between them and which will be helpful in discussing their effects on Lebanese foreign trade. For this purpose three methods of classification are suggested. 1) The first method purports to group agreements into two major groups, (a) those that cover the conditions affecting trade in goods and services between the contracting parties such as tariffs, licences, quotas, etc., without specifying the method of payment; and (b) those that in addition to (a) above establish a general method for settling payments arising from current trade between the contracting parties. 2) The second suggested classification is a regional one and proposes to divide existing agreements into those with Arab countries, those with Eastern European countries, and those with other states including countries in

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1. The preferential treatment extended and the number of items profiting from such treatment differ with the different agreements concerned.

Western Europe, Latin America, and the non-Arab Middle East. This classification is likely to be particularly useful in view of the differences that exist between agreements with each of the above groups. The third classification is on the basis of whether there is an attempt at achieving a predetermined quantitative ratio between the exports of each of the contracting countries to the other or not.[1] In the discussion that follows all three classifications will be used in one way or another, as they are believed to be useful in the analysis of different problems.

B. Trade Agreements and Payments Agreements

Using the first classification, Lebanese agreements may be divided into two broad categories, (a) purely trade agreements, i.e., "those which cover the general conditions affecting trade in goods and services, except the method of financing";[2] and (b) trade and payments agreements, i.e., those which "provide a general method of financing current trade between the two countries",[3] in addition to covering the other conditions affecting trade in goods and services such as quotas, licences, customs duties and formalities,

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1. Ellis, "Bilateralism and the Future of International Trade" op.cit., 416.

2. Mikesell, op.cit., 81.

3. Ibid., 86.

etc.[1] Exception will be made, however, for the agreements with Egypt and Iraq and for the Arab Economic Treaty of 1953 which will be discussed under purely trade agreements, though they contain provisions relating to the settlement of payments between the contracting parties. The reason for this exception is mainly the fact that in their actual functioning the agreements with Iraq and Egypt do not involve any marked departure from ordinary payments channels, the clearing of accounts provided for under both agreements being not actually enforced. Also the Arab Economic Treaty of 1953 simply provides for the extension of certain facilities regarding the settlement of payments and does not set up a general method for financing inter-Arab trade.

1. Purely Trade Agreements. Purely trade agreements take a number of different forms and hence must be subdivided into more specific groups. The major types used by Lebanon are treaties of friendship, commerce, and navigation, bilateral and multilateral agreements for the reduction of tariffs and other trade barriers, agreements containing indicative lists of imports and/or exports, and trade quota agreements.[2]

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1. In some cases the provisions relating to the settlement of payments are not included in the trade agreement itself, but form a separate payments agreement. However, as all such agreements are accompanied by trade agreements which are negotiated and signed together with them, the two will be considered together and referred to as trade and payments agreements.

2. This classification is based on Mikesell, op.cit., 82-83.

a. <u>Treaties of Friendship, Commerce, and Navigation:</u> Treaties of this type are concluded with Greece, October 1948; Brazil, March 1954; and Argentina, April 1955,[1] and deal with such matters as tariffs, customs formalities, the rights of consular representatives, copy-rights, the treatment of business representatives, and foreign shipping. The agreement with Argentina provides in addition for the treatment of capital belonging to one party and invested in the other on an equal basis with local capital. All of the agreements provide for most favored nation's treatment in regard to customs duties and formalities, internal taxes and fees, entrepot and transit fees, and foreign shipping, exception being made for the privileges granted to members of the Arab League, adjacent states, and partners to a customs union. They also express the will of the contracting governments to encourage trade between their respective territories, but do not include any commitments relating to specific commodity or service transactions.[2]

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1. The agreement with Argentina is officially referred to as a treaty of commerce and economic cooperation and not as a treaty of friendship, commerce, and navigation. However, as its main provisions are basically similar to the latter type of treaties, it is classified as a treaty of friendship, commerce, and navigation.

2. In addition to the above treaties a modus vivendi according most favored nation's treatment in relation to navigation and customs duties and formalities is concluded with Turkey, April 1953. This modus vivendi is

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b. <u>Agreements Providing for the Reduction of Tariffs</u>. Bilateral agreements for the reduction of tariffs and other trade restrictions are signed with Syria, Jordan, and Iraq.[1] A similar arrangement was recently negotiated with Egypt but is not yet ratified.[2] In addition, Lebanon is a signatory of the Arab Economic Treaty of 1953 which is a multilateral agreement providing for preferential treatment in respect to customs duties, import and export licensing, and the settlement of current payments. These agreements form part of the Lebanese Government's policy for increased economic cooperation with other Arab countries and hence will be dealt with in some detail, each agreement being considered separately.

(1) <u>Syria</u>. The agreement with Syria signed on March 5, 1953, was initially intended as a temporary arrangement until a more definite pattern of trade relations between the two countries, which recently formed a customs union, could be

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accompanied by a trade agreement which draws up a list of Lebanese products that can be exported to Turkey, subject to existing regulations in that country, and which will therefore be dealt with under agreements containing indicative lists of exports and/or imports.

1. The dates on which these agreements were signed are as follows: with Syria, March 5, 1953, with Jordan, August 27, 1952, and with Iraq, February 20, 1951.

2. Negotiations have taken place during the latter part of January, 1956.

established.[1] However, as the negotiations for such an arrangement have not yet given any results, the 1953 agreement had to be renewed three times already. Under the said agreement a considerable number of agricultural products is exempted from import duties and export and import licences, while industrial products are divided into three categories, viz. (a) those which are totally exempted from customs duties, e.g. conserved fruits and vegetables, glass products, natural silk threads, electric bulbs, etc.;[2] (b) those that benefit from a 50% reduction on ordinary tariffs, including among other items, chocolate, biscuits, alcoholic beverages, cement, glucose, leather and tanned hides, natural silk textiles, etc.[3]; and (c) those which are subject to ordinary customs duties, such as, beer, alcohol, paints, woolen textiles not included in the two other categories, aluminium utensils, etc.[4] In addition, a unified tariff schedule is issued by the two governments pertaining to the agricultural and industrial products which receive preferential treatment in respect of customs duties. The agreement provides also for the encouragement of transit

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1. The March 1953 agreement actually replaced a similar arrangement which was signed on February 2, 1952.

2. This category includes about 25 groups of commodities.

3. This category includes about 40 different products.

4. This category includes about 35 items.

trade between the two countries and the formation of a mixed committee that will look after the execution of the agreement.[1]

(2) Jordan. The agreement with Jordan signed on August 27, 1952, provides for the exemption of agricultural and animal products from customs duties and accords preferential treatment to a number of industrial products originating in the two contracting parties. Industrial products of Lebanese or Jordanian origin are divided into three categories, each receiving a different treatment in regard to customs duties and import and export licences. Thus the first category is granted a one third reduction on customs duties, while the second is only exempted from import and export licences, and the third remains subject to ordinary duty and licence requirements. Other provisions of the agreement relate to the abolishment of transit fees and the authorization of Lebanese capital to enter Jordan in order to participate in development projects.

(3) Iraq. The agreement with Iraq, concluded on February 19, 1951, is not a purely trade agreement as it contains an annex relating to the settlement of payments

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1. The two governments reached an agreement also concerning the settlement of certain financial debts that Syria owed to Lebanon.

between the two contracting parties.[1] However, as the agreement provides for certain reductions on ordinary customs duties and as the provisions of its payments annex are not actually enforced, it seems appropriate to include it in this section. The main trade provisions of the agreement are two, (a) the application of the most favored nation's clause in respect to customs duties, export and import licences, and transit fees and regulations; and (b) the abolishment or the reduction of customs duties on a limited number of agricultural and industrial products originating in the two contracting parties. The Lebanese products exempted from duty include potatoes, beans, bananas, apples, cherries, fruit juice, cardboard, books, magazines, ordinary silk textiles, and silk threads, while the Iraqi products so exempted cover living animals, lentils, dates, rice, woolen blankets, woolen threads, etc. As apparent from the above, this agreement is not as liberal as the ones

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1. According to this annex the Iraqi Government is to permit the Banque de Syrie et du Liban, as well as any other Lebanese bank suggested by the Lebanese Government and accepted by the Iraqi foreign trade authorities to keep, each, a non-resident Lebanese account in Iraqi Dinars with one of the Iraqi authorized banks. Visible and invisible receipts earned by Lebanese through exports to Iraq are to be credited in one of these accounts while earnings by Iraqis through exports to Lebanon are to be debited. In case the account held by the BSL shows a balance exceeding ID 100,000, the Iraqi Government is to allow the BSL to convert the surplus amount into sterling.

with Jordan and Syria. As a result the Lebanese authorities are considering at the present time the possibility of its replacement by a more liberal agreement as has been already done with Egypt.

(4) Egypt. The newly negotiated agreement with Egypt has not been officially ratified yet; however, as it has been already signed with first letters, it may be considered as concluded for all practical purposes.[1] Moreover, as the said agreement is the most recently negotiated one, it may serve as an indication of the kind of agreements the Lebanese authorities are likely to conclude with other Arab countries, e.g. Iraq, in the near future. The proposed agreement is divided into two parts, one dealing with trade in goods and services, and another covering the method of payment. According to the first part, agricultural and animal products of Lebanese and Egyptian origin are to be exempted from all customs duties, while industrial products are divided into three schedules, one totally exempted from customs tariffs, another receiving a 50% reduction on customs duties, and a third benefiting from a 25% reduction on such duties.[2] In

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1. The Lebanese delegation which participated in the negotiations for this agreement was headed by the Minister of National Economy and included among its members the Director General of that ministry.

2. The three schedules cover together the great majority of industrial goods which are likely to be exchanged between the two countries.

addition automobiles, bicycles, and tractors built up in assembly plants situated in either one of the two parties are to be entitled to a 20 percent reduction on ordinary import tariffs, upon their importation into the other party. Furthermore, in one of the letters exchanged between the two delegations, the Egyptian authorities undertake to grant import licences for Lebanese products without any quantitative restrictions.[1]

(5) The Arab Economic Treaty. The Arab Economic Treaty negotiated by members of the Arab League on September 7, 1953, may be considered as an important step towards a greater degree of economic cooperation between those countries, its main purpose being the encouragement of visible trade between them through the extension of preferential treatment to goods imported from partner countries, as well as the facilitation of capital transfers between them. Its main provisions are divided into two major parts, one dealing with trade and transit and one relating to the settlement of current payments and the transfer of capital. Among the principal stipulations of the first part are the following:

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1. The part dealing with the method of payment provides that all payments shall take place in Egyptian pounds and guarantees to Egyptian tourists and "estiveurs" coming to Lebanon the minimum rate of LE1 = LL 8.5.

(a) a wide variety of agricultural and animal products originating in any one of the contracting parties are exempted from import duties;

(b) a large number of industrial items[1] are granted a 25% reduction on customs duties;

(c) preferential treatment is accorded in relation to import and export licences;

(d) the contracting parties undertake to facilitate transit trade between their respective territories subject to existing regulations[2].

The second part of the agreement relates mainly to the settlement of payments arising from current transactions and the transfer of capital and as such will not be dealt with in this section which is restricted to purely trade agreements.

c. <u>Agreements Containing Indicative Lists of Imports and/or Exports</u>. Agreements providing for indicative lists of exports or of exports and imports are concluded with a number of countries including Turkey, Yougoslavia, West Germany, and China. These agreements, though basically similar in that they all provide for indicative lists of items the import and export of which are to be permitted or encouraged by the contracting parties, take different forms and hence must be dealt with individually.

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1. Industrial goods entitled to a reduction of duty must be produced in one of the contracting parties, i.e., the value of the raw materials and labor of that country's origin in them must not fall short of 50% of their value.

2. A new list was later added specifying a number of industrial products which were to receive a 50% reduction on import duties.

See p. 72 footnote (2)

(1) Turkey. The commercial treaty with Turkey, signed on April 2nd , 1955 (53) and accompanied by a Modus Vivendi providing for most favored nation's treatment in respect of navigation and customs duties and formalities, provides simply for the authorization by the two governments of the importation and the exportation of goods originating in their respective territories, and for the settlement of payments in accordance with existing regulations. It also draws up a list of Lebanese products the importation of which is permitted under Turkish foreign trade regulations.[1] As the above agreement subjects trade and payments to existing regulations and does not contain any specific commitments as to import and export licensing, the only significance it may have seems to be as an advertising device. The listing of Lebanese products that can be imported into Turkey may serve in itself to indicate to Turkish importers the possibility of importation from Lebanon, especially if those importers were not aware of such a possibility before. Whether the Turkish importers will actually try to import from Lebanon or not, however, will depend among other things on the relative prices and qualities of Lebanese products.

(2) Yougoslavia. The agreement with Yougoslavia signed on July 28, 1953, subjects trade between the two countries to

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1. Among the items listed are hides, wood, paper bags, cotton threads, certain cotton textiles, cement, aluminium, river boats, etc.

existing export and import regulations, and draws up two lists of Lebanese and Yougoslavian products the exchange of which is to be encouraged by the two governments.[1] The lists drawn up are only indicative and do not involve any specific commitments on the part of the contracting parties.[2] Among the other provisions of the agreement the main ones relate to the application of the most favored nation's clause in relation to export, import, reexport, and transit,[3] and the settlement of current payments through authorized banks in accordance with existing regulations. Thus the above

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1. Lebanese export products include fruits and vegetables, alcoholic beverages, biscuits, guts, tobacco, pharmaceutical products, textiles, iron ore, cement and products of, electrical appliances, hides, etc. Yougoslavian export items on the other hand include, among others, products of the animal kingdom, canned fish, cereals, fruits, liquors, ordinary minerals, chemical products, explosives, plastics, agricultural implements, construction materials, wood, transportation equipment, leather and products of, tobacco, etc.

2. Trade may equally take place in articles not mentioned in the two lists.

3. Exception is made, as in all other agreements providing for most favored nation's treatment, for the privileges extended to Arab countries, to adjacent states, or to partners in a customs union.

agreement seems to be on the whole similar to the one with Turkey especially as both do not contain any commitments regarding specific transactions. However, whereas the latter does not involve any attempt at establishing a certain ratio between the exports of each country to the other, the former includes a somewhat timid attempt at achieving such a ratio, as the Yougoslavian Government undertakes under it to instruct Yougoslavian trading firms to import from Lebanon goods amounting to 60% of the value of total Yougoslavian exports to Lebanon.[1]

(3) <u>West Germany</u>. The agreement signed with West Germany on June 12, 1954, replaced a somewhat similar agreement which was concluded in 1951.[2] Under the present trade agreement Lebanese export products to Germany are specified in an annexed list and divided into two categories, one which can be imported into Germany without limitation as to value or quantity, and another which remains subject to existing regulations.[3] Other major provisions of the agree-

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1. This engagement is included in one of the letters exchanged.

2. The main provisions of the said agreement were the following: (a) The exchange of goods between the two countries was subjected to existing regulations; (b) German imports from Lebanon were restricted to a small number of items and were limited to a total value $3,280,000; (c) The most favored nation's clause was accorded in respect to customs duties and import and export licensing; (d) payments had to be effected in dollars.

3. The importation of German goods into Lebanon remains free of all restrictions.

ment relate to the encouragement of transit trade and the application of the most favored nation's clause in regard to import duties, export and import licences, services extended to foreign ships, and the establishment of foreign concerns.[1] Payments arising from current trade are to be effected in US dollars or any other currency in accordance with existing regulations.[2] In addition to the above, the agreement provides for the setting up of a Lebano-German mixed committee which is to meet in February of each year in order to examine the trade statistics of the previous year and to formulate any specific measures, pertaining to the exchange of goods, which may be necessitated by the development of the balance of payments during that year. Whether this provision involves any attempt at a bilateral balancing of trade is not apparent as the measures to be taken are made conditional on the development of the balance of payments between the two countries and not the balance of trade. In

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1. Exception is made for the privileges granted to Arab countries, to adjacent states, and to partners in a customs union.

2. The exchange rate between the Lebanese Pound and the Mark, to be used in calculating customs duties in Lebanon, is determined on the basis of the gold content of each of the two currencies. Similar provisions are included in all the treaties concluded with members of the International Monetary Fund, or with countries which fix the value of their currencies in terms of gold, e.g., the USSR. Where the partner country does not fix the value of its currency in gold, a rate is specified in the agreement.

practice, trade between the two countries has been, up to the present, far from balanced.[1]

(4) <u>China</u>. The agreement with China, signed on December 31, 1955, stipulates that the two governments will take all the necessary measures for insuring the equilibrium of the balance of trade between them, and draws up two lists of Lebanese and Chinese products for which the two governments undertake to grant import and export licences.[2] The agreement does not establish, however, a maximum or a minimum value for the goods to be exchanged between the two countries and does not specify what measures to take in case trade between them is not balanced. Of its other provisions the main ones are the following:

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1. In 1955 Lebanese imports from West Germany amounted to about LL 49,687,000 (LL 34,032,000 at official rates), while Lebanese exports did not exceed LL 2,307,000. The above commercial treaty is accompanied by an economic cooperation agreement which will be dealt with later.

2. Trade in goods not included on the lists may also take place. Lebanese export items to China are seven in number and include mainly industrial products, in view of the transportation difficulties involved. They cover refined sugar, tobacco leaves, cotton seed oil, olive oil, jute bags, and cotton threads. Chinese export products on the other hand, are 18 in number and include communication materials, construction materials, chemical and pharmaceutical products, cotton thread and textiles, cotton clothes, silk and products of, tea, certain kinds of seeds, minerals, animal products, pottery, carpets, lace, etc.

(a) the most favored nation's clause is applied in respect to customs duties and formalities and import and export licences. Privileges granted by Lebanon to other Arab countries or by both parties to neighboring states are excluded;

(b) the two governments undertake to facilitate trade between their respective territories and to allow the reexportation of goods imported from third countries. The Lebanese authorities are to guarantee in addition the utilization of the Beirut free zone by Chinese commercial organizations;

(c) commercial representation is to be established by each party in the other party's territories;

(d) payments are to take place in transferable sterling or any other acceptable currency, and must be effected through authorized banks.

d. Trade Quota Agreements. Trade quota agreements usually provide for two lists of commodities with corresponding quantities or values for which the partner countries agree to issue export and import licences.[1] Of the purely trade agreements signed by Lebanon only those with France and Italy, concluded in May 1955 and November 1955 respectively, conform to this definition, but with one important difference, namely, that they provide for one list of commodities only, which list specifies certain Lebanese products with corresponding values or quantities for which the other party agrees to issue import licences. Lebanese export items to Italy include among others, vegetables, 150 tons; dried grapes, 400

1. Mikesell, op.cit., 82.

tons; bananas, 1000 tons; olive oil, 1500 tons; cotton seed oil, 1000 tons; natural silk, 25,000 kgs; raw hides, 200 tons; tanned hides 250 tons; iron ore, 1000 tons; raw wool 300 tons; onions; cereals; tobacco etc. Lebanese export items to France are more numerous and the corresponding quantities or values are on the whole greater than those for Italy. For the year 1955, they included such items as oranges, 6,000 tons; lemons, 4,000 tons; onions, 1,500 tons; lentils, 60 million francs; dried fruits 100 million francs; apples 1,500 tons; cotton seed oil 2,000 tons; silk cocoons, 300 tons; "noyaux de fruit", 100 million francs, etc. In addition to the drawing up of these lists both agreements provide for most favored nation's treatment in regard to customs duties and formalities, import and export regulations, and navigation, exception being made for the privileges granted by Lebanon to members, of the Arab League, or by France and Italy to members of the EPU and the North Atlantic Pact, as well as the privileges secured by a customs union. The agreement with Italy stipulates further that both governments will facilitate, within existing regulations, transit and triangular trade between their respective territories, as well as private compensation arrangements involving goods not specified in the list drawn up in the agreement.[1] Neither

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1. No such transactions are known to have taken place as yet.

of the two agreements specifies any measures for achieving equilibrium in the balance of trade between the contracting parties, and as such cannot be considered as involving a bilateralization of the trade relations between them. The main purpose of both agreements as far as Lebanon is concerned seems rather to be the overcoming of the obstacles raised by the quantitative restrictions imposed by the partner countries, and the introduction of Lebanese export products into their markets. However, as the partner country undertakes, in both cases, merely to issue licences for certain products up to specified value or volume limits without guaranteeing any minimum level of trade, the actual amount exported will still depend on the initiative of private traders in the importing country. All that the agreements guarantee is that in case private traders in France or Italy apply for import licences from Lebanon, the governments of those two countries will issue the required licences up to the limits set in the agreements.[1]

2. Trade and Payments Agreements. In addition to the above purely trade agreements, Lebanon has trade and payments agreements wich Czechoslovakia, East Germany, the USSR, Poland, and Rumania.[2] All of these agreements are concluded

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1. Both of these agreements are accompanied by treaties of economic cooperation.

2. These agreements were signed on July 12, 1952; December 14, 1953 and amended in November 1955; April 30, 1954, January 4, 1956; and January 6, 1956 respectively.

with Eastern European countries, i.e., countries of the Soviet Bloc, and are basically similar to each other, having the following characteristics in common:

(a) They draw up two lists specifying the goods that may be exchanged between the contracting parties. Lebanese export products are made up on the whole of fruits, mainly citrous fruits and bananas, olive oil, tobacco, raw cotton, wool, hides and others.[1] Export products from the partner countries include mainly machines, electrical appliances, tractors, chemical products, vehicles, fertilizers, alcoholic beverages, paper, porcelain, glass, crystal, construction materials, etc.[2]

b) They establish a maximum value for the goods to be exchanged between the two countries, which value was set up in the agreement with the USSR at LL 10,000,000 for the year beginning in April 1954, at LL 8,000,000 in the agreement with Czechoslovakia for the year 1955,[3] and at LL 5,000,000 in the amended agreement with East Germany for the year 1956. The recently negotiated agreement with Poland, on the other hand, specifies that out of the proceeds of Polish exports to Lebanon a minimum amount of $ 650,000 is to be used for

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1. The agreement with Poland draws up a somewhat longer list of Lebanese export items, which include in addition to the above a number of other industrial products such as silk cocoons, cotton seed, oil, beer, wine, confectionary, natural silk textiles, washing machines, etc.

2. The list drawn up under the agreement with Poland contains in addition conserved food, textiles, hides, and certain other products.

3. This amount was initially set up at LL 5,000,000, but was raised in November 1954 to LL 8,000,000.

purchase of citrous fruits from Lebanon.[1]

(c) They grant most favored nation's treatment in respect to customs duties and formalities, regulations pertaining to exports and imports, export and import licençes, transit, and navigation, excluding privileges granted to Arab countries or to neighboring states.

(d) The contracting parties undertake to facilitate transit trade between their respective territories, and, the Lebanese Government guarantees to the other party the use of the Beirut free zone.

(e) They establish clearing accounts, through which payments arising from the exchange of goods and services between the partner countries are effected; they also set up limits to the debit or credit position the accounts may show.

(f) They fix maximum values for the total amount of goods to be exchanged between the contracting parties and specify, in each case, the transactions to be covered by the agreement.

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1. In the agreement with the USSR it is provided that 60% of the Soviet imports from Lebanon will be made up of citrous fruits. Similarly in the agreement with East Germany the German authorities undertake to use 60% of the proceeds of German exports to Lebanon for the purchase of agricultural products from that country and the remaining 40% for the purchase of other goods and the settlement of other payments covered by the agreement. In the agreement with Czechoslovakia, the latter undertakes to buy 6,500 tons of agricultural products.

On the other hand, the agreements differ somewhat in the details of their provisions, especially in regard to such matters as the currency or currencies in which the clearing accounts are to be kept, the transactions to be covered by the agreement, and the method of settling outstanding belances at the termination of the agreements. In the discussion that follows the provisions of trade and payments agreements relating to the method of settling payments between the partner countries will be examined in relation to the type of accounts set up, the currency of account, the method of settling excess credits, settlement at termination, and the transactions covered, with a view to indicating outstanding similarities and differences. In regard to the nature of accounts all of the agreements signed by Lebanon are of the centralized type, and provide for the financing of trade through accounts maintained by the central bank of the partner country on the one hand and some Lebanese authorized bank on the other.[1] Exports and imports of each partner country to the other are credited and debited respectively in these accounts, to which importers pay their own currency and from which exporters get paid also in local currency.

The currency in which the accounts are kept vary, between the different agreements. Thus whereas the agreements

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1. Settlements in dollars or other convertible exchange outside the clearing accounts are permitted under the agreement with the USSR.

with Czechoslovakia and the USSR provide for the keeping of accounts in the national currencies of the parties concerned, the amended agreement with East Germany provides for the use of the Lebanese pound only, and in the agreement with Poland the dollar is used as a unit of account. Where the agreements provide for the use of both currencies, the rate of exchange between them is usually fixed in advance. Thus in the agreement with Czechoslovakia the exchange rate between the Kouronne and the Lebanese pound is set up at Kouronne 1 = PL 43.75, while the rate between the Rouble and the pound is calculated on the basis of the gold content of the rouble on the one hand, and the average price of the dollar sight draft in Lebanese pounds at the closing hour of the Beirut Bourse on the other. In other words, the rate of exchange between the two currencies is made dependent on the average price of the dollar in the Beirut free market. In case of a change of more than 2% in the dollar rate of the Lebanese pound or in the gold content of the dollar, the holdings of the USSR central bank in Lebanese currency are to be revalued. In the agreement with East Germany, which provides for the use of the Lebanese currency as the unit of account, the rate of exchange between the Lebanese pound and the Deutch Mark is set at 100 Deutch marks = LL 742.85 which is the rate maintained by the Deutsch Notenbank for the Lebanese pound.[1]

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1. The value of goods invoiced in third currencies is converted into Lebanese pounds at the free market rate for those

The transactions covered by the clearing accounts are specified in the agreements, and include on the whole payments for the goods exchanged in accordance with the agreement in question, insurance and freight, expenses of commercial representatives, commission charges, travel expenses, consular and diplomatic expenses, pensions, social security payments, as well as all other payments agreed to by the contracting parties. The amended agreements with East Germany and Czechoslovakia allow, in addition, the use of a certain portion of the proceeds of each of the two countries' exports to Lebanon,[1] for the purchase of goods from the Beirut free zone, and stipulate that payments for these goods are to be effected within the clearing accounts established by the agreements. They thus cover, within certain limits, reexport and transit transactions effected through the Beirut free zone.

All the agreements in question provide for swing credit margins without which trade between the two countries

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currencies in Beirut. Most of the agreements allow the invoicing of goods in third currencies and prescribe the method at which the value of the goods is to be converted into either one of the two partners' currencies. The currency in which the goods is invoiced is particularly significant where the rate between the currencies of the two contracting parties is fixed in advance, for the value of goods invoiced in third currencies remains subject to exchange rate fluctuations.

1. The proportion is 15% in the case of East Germany and 25% in that of Czechoslovakia.

would either have to be balanced at all times or any deficits covered by payments in convertible exchange.[1] The amounts of these margins differ, however, with the different agreements. Thus whereas the agreement with the USSR stipulates that the balance in favor of either party must not exceed 1,200,000 roubles, that with East Germany provides that the said balance must not surpass 10% of the annual value of the goods and services exchanged under the agreement.[2] The margins allowed under the agreements with Czechoslovakia and Poland are LL 1,200,000 and $ 350,000 respectively. In case these margins are exceeded, negotiations between the contracting parties are to take place in view of deciding upon measures that will restore equilibrium in the balance of trade between them. None of the agreements provide for the settlement of the excess in gold or convertible exchange.

Balances outstanding at the termination of the agreements are to be liquidated through the exportation of goods from the debtor to the creditor country, within a period of six months.[3] And if the balance is not covered within the

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1. Mikesell, op.cit., 90. Swing margins have been defined in Chapter I.

2. Such a margin may prove to be somewhat low, especially if the trade between the two parties is of the seasonal type, i.e., exports from each country to the other are concentrated in different periods of the year.

3. All of the agreements except the one with East Germany are for one one year and are

said period, the debtor country is to settle its debt in convertible exchange.[1]

As apparent from the above, the four agreements reviewed are basically similar, all of them being trade and payments agreements of the usual postwar type.[2] The reasons for their conclusion, however, are different from those that stimulated the rise of payments agreements in Europe and the other inconvertible countries, where payments agreements were mainly resorted to in order to avoid settlements in convertible exchange. In Lebanon, as was already mentioned, bilateral agreements have not been essentially stimulated by payments difficulties but rather by commercial considerations. The mere fact that Lebanon is a free trade and a free exchange country is itself an indication of the relative absence of serious payments difficulties. On the other hand this relative absence of trade and exchange controls tends to make the enforcement of trade and payments agreements designed to achieve a bilateral balancing of trade rather difficult, as the government of the free trade and payments country cannot affect the amount of trade carried out

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automatically renewable unless denounced by one of the two parties some time before their expiry. The amended agreement with East Germany, on the other hand, is for five years.

1. The agreement with Poland stipulates that balances remaining after six months of the expiry of the agreement shall be settled in some convertible currency within a period of six months.

3. Postwar trade and payments agreements were discussed in Chapter I of this study.

nor the use of the balances held by non residents.[1] Inspite of this, however, the agreements with the USSR and Czechoslovakia seem to be functioning more or less satisfactorily; as a matter of fact, most of the transactions with those two countries are carried out in accordance with the provisions of the agreements and trade is more or less balanced.[2] Moreover, Lebanese exports are paid for within reasonable time limits and the prices paid for them are rather favorable.[3] Furthermore, trade with the USSR has increased appreciably after the conclusion of the agreement in April 1954. The effects of all the above agreements on Lebanese foreign trade in general and on trade with the partner countries in particular will be dealt with in chapter four and hence will not be discussed further at this point.

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1. Because of this fact free trade and exchange countries tend to avoid the conclusion of payments agreements.

2. Lebanese imports from Czechoslovakia in 1955 amounted to about LL 7,519,000 (LL 5,371,000 at the official rate) while exports to Czechoslovakia were LL 3,330,000. With the USSR on the other hand, the trade balance has been favorable to Lebanon imports being equal to about LL 2,429,000 (LL 1,664,000 at official rates) and exports to LL 3,101,000. On the other hand the clearing account between Lebanon and Czechoslovakia has shown a credit balance of about half a million Lebanese pounds in favor of Lebanon.

3. In the case of Czechoslovakia it is reported that Lebanese exporters are usually paid within four months of the date of shipment while exporters to the USSR are paid one half of the amount at shipment and the other half at delivery.

C. Regional Classification

1. Agreements with Arab Countries.[1] Commercial treaties with Arab countries include an interim arrangement with Syria, signed on March 5, 1953, a purely trade agreement with Jordan signed on August 27, 1952, a trade agreement with a payments annex with Iraq, signed on February 10, 1951, and a trade agreement with a payments clause with Egypt, not yet ratified. All of these agreements, though somewhat different in the forms they take, provide for one degree or another of preferential treatment in terms of import duties and import and export licences, and do not involve any attempt at achieving bilateral balance in the trade between each pair of countries. Their main purpose seems rather to be the liberalization of trade relations between the partner countries and the promotion of a greater degree of economic cooperation between them.[2] The degree of liberalization provided for differ, however, with the different agreements,

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1. By Arab countries are meant the members of the Arab League, viz., Syria, Egypt, Jordan, Iraq, Saudi Arabia, Yemen, Lybia, and Sudan, Kuwait, Bahrain, and the other dependent Shaikhdoms of the Arabian Peninsula, as well as Arab North Africa, are not included.

2. The agreement with Syria, signed on March 5, 1953, though basically similar to the others in that it provides for preferential treatment in respect to import duties and licences, was actually meant as a temporary arrangement while negotiations for a customs union or some other form of economic integration were going on.

the newly negotiated agreement with Egypt being the most liberal.[1] Prior to the negotiation of that agreement, that with Jordan was the most liberal one, exception made for the interim arrangement with Syria, while the agreement with Egypt existing at the time did not provide for any preferential treatment. The agreement with Iraq, which provides for the exemption of a very limited number of agricultural and industrial products from customs duties is still in force, but is likely to be replaced by a more liberal arrangement during the current year. Thus the trend seems to be towards more liberalization of inter-Arab trade both through bilateral and multilateral arrangements, i.e., the Arab Economic Treaty of September 1953. This agreement as well as the agreements with Iraq and Egypt include in addition certain parts relating to the settlement of current payments, which parts have not been already discussed. Hence it seems appropriate to review these provisions before embarking on a discussion of the importance of inter-Arab trade and the role of existing bilateral and multilateral arrangements in promoting it.

Provisions relating to the settlement of current payments between Lebanon and Iraq are included in an annex to

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1. The trade provisions of this agreement as well as those of the other three agreements, were described in the preceding section ~~as~~ and so will not be dealt with in detail here.

the trade agreement signed on February 19, 1951. According to this annex the Banque de Syrie et du Liban (BSL), is to be allowed by the Iraqi Government to open a non-resident Lebanese account in Iraqi Dinars with the National Bank of Iraq or with any other Iraqi Bank allowed to deal in foreign exchange. The Iraqi Government is also to permit any Lebanese authorized bank, suggested by the Lebanese Government and accepted by the Iraqi foreign exchange authorities to keep similar accounts with any one of the Iraqi commercial banks allowed to deal in foreign exchange. Earnings from Lebanese visible and invisible exports to Iraq are to be credited in any one of the accounts mentioned above, while Iraqi exports to Lebanon, both visible and invisible, are to be debited. Amounts can be transferred from one account to the other. In case the Lebanese account opened by the BSL shows a balance exceeding ID 100,000, the Iraqi Government is to permit the transfer of the excess into sterling.[1]

The agreement with Egypt, which has been recently replaced by another one, subjected the settlement of payments arising in accordance with the provisions of the agreement to existing Egyptian foreign exchange regulations. On the other hand it stipulated that the National Bank of Egypt shall open a non-resident Lebanese account in the name of one

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1. The agreement provided thus for a decentralized form of clearing where more than one account are kept, but where balances are readily transferable from one account to the other.

Lebanese authorized bank, and that the earnings of Lebanese exporters to Egypt and the payments due from Lebanese importers from Egypt shall be credited and debited respectively in that account.[1]

Both of the above agreements involve an attempt at the offsetting of claims arising from trade between the two countries, which offsetting is the essence of the clearing system.[2] Actually however, payments between the partner countries are not effected through the clearing accounts provided for, but are settled through authorized banks in accordance with ordinary procedure. Hence, for all practical purposes, the above provisions can be disregarded and the relevant agreements considered as purely trade agreements.

The second part of the Arab Economic Treaty of 1953, which deals with the transfer of capital and the settlement of current payments between the member countries, stipulates among other things, that the contracting governments shall facilitate the transfer of payments arising from current trade between their respective countries subject to existing foreign

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1. The new agreement stipulates that payments between the two countries shall be effected in Egyptian pounds, and guarantees for Egyptian tourists and estiveurs the minimum rate of LE 1 = LL 8.50.

2. Clearing is defined as "a process whereby two or more parties offset claims against each other with the object of eliminating cash transfers". (Paul Enzig, The Exchange Clearing System (London: McMillan and Company Ltd., 1935), 66.

exchange and import and export regulations. In case those regulations do not allow such a transfer, the debtor party is to permit the residents of the creditor party to use the blocked balances of their country to pay for imports from the debtor country, to transfer all or part of the balances to the residents of other contracting parties, and to pay for goods purchased in the debtor country for the purpose of being exported to third countries.[1] In addition, the transfer of capital between the member countries is to be allowed, if the purpose from it is the participation in development projects. Its withdrawal to the country of origin, on the other hand, is to be always permitted.

When the above provisions are taken in conjunction with the first part of the Treaty, which provides for the exemption of agricultural products exchanged between the member states from customs duties and for the reduction of these duties on a wide variety of industrial products, it becomes apparent that the main purpose of the agreement is the liberalization of trade relations between the members of the Arab League and the promotion of trade and capital transfers among them. The importance of such a liberalization, as far as Lebanon is concerned, may be indicated by the amount of trade conducted between Lebanon and the other members of the Arab League which constitute the major export markets for Lebanese products.[2]

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1. In case import regulations in the debtor country require the settlement of a certain proportion of the price of exports in specified currencies, importers in the creditor country are to be allowed to settle the remaining part out of blocked balances

2. See Appendix A to this chapter.

Moreover, the fact that Lebanon is a free trade and payments country tends to make the benefits of liberalization greater to it than to countries of the group with exchange and trade controls, both as regards trade in goods and services and the transfer of capital. However, the facilities extended to the transfer of capital and the settlement of payments are rather limited, the latter being subjected to existing foreign exchange regulations and the former restricted to investment in developmental projects. Also as regards merchandise trade the list of industrial products that benefit from the reduction of duty includes a number of items, e.g. conserved food, butter, meat, etc., which are more of an agricultural nature and which as such should have been totally exempted.[1] In addition the tariff reduction extended, i.e., 25% on the ordinary duty is a percent reduction which does not specify the base to which it is to be applied, and which therefore is likely to be of little use in promoting trade in the commodities benefiting from it, if that base was originally high. Thus a 25% reduction on a tariff of 100 percent ad valorem for example would leave the commodities receiving preferential treatment subject to a 75 percent duty which may still be prohibitive.

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1. Most of these items were later made into a separate list and granted a 50% reduction on customs duties.

On the other hand, the agreement marks the first official attempt at some sort of an Arab economic cooperation especially in regard to international trade; hence its advantages must not be looked upon as confined to the extension of preferential treatment to a number of agricultural and industrial products and the relative facilitation of capital transfer and current payments. As a matter of fact, the major advantage of the agreement seems to be the establishment of free trade between the members of the Arab League as a basis of Arab economic cooperation.

2. <u>Agreements with Eastern European Countries.</u>[1] Agreements with Eastern European countries are basically similar to each other, all of them being trade and payments agreements of the usual postwar type. The first of them, as was already mentioned, was signed with Czechoslovakia on July 12, 1952, later amended on November 11, 1954, and was followed by more or less similar agreements with East Germany on December 14, 1953, amended on November 12, 1955; the USSR, on April 30, 1954; Poland on January 4, 1956; and Rumania on January 6, 1956. As the major provisions of these agreements have been already described this section will be more concerned with pointing out the distinguishing features of this group, if any, and their signi-

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1. The term Eastern European countries refers to members of the Soviet Bloc. The agreement with China is not included, however, mainly because it differs from the rest of the agreements in this group in that it is a purely trade agreement, and also because China does not form part of Eastern Europe geographically.

ficance as far as Lebanese foreign trade is concerned than it will be with describing the major provisions of each agreement.

Most probably, the major distinguishing feature of this group is the fact that all of the agreements in it attempt at the bilateralization of trade relations between each pair of countries, by stipulating that trade between the two contracting parties must be balanced within certain limits. In order to achieve such a balance all of the agreements provide for the settlement of payments arising out of current trade through a centralized clearing system and set up limits to the credit or debit position the accounts may show every six or twelve months as the case may be.[1] Moreover, most of the five agreements establish maximum values for the goods to be exchanged under the agreement,[2] and they all draw up indicative lists of the products to be traded between the contracting parties.[3] None of them, however, provides for any explicit guarantee regarding a minimum value of

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1. Such limits which actually refer to the "limit up to which each partner is prepared to sell its currency for the other's currency without demanding cover" are usually referred to as swing margins (J.H.C. de Looper, "Current Usage of Payments Agreements and Trade Agreements", Staff Paper, IV, (August 1955), 344.

2. Maximum values for the goods to be exchanged between the contracting parties are established under the agreements with Czechoslovakia, the USSR, and East Germany and amount to LL 8 millions, LL 10 millions, and LL 5 millions respectively.

3. Lebanese products usually include citrous fruits, bananas, other fruits and vegetables, hides,

exchanges to take place within the duration of the agreement.[1] Hence the amount of trade actually conducted remains dependent on a number of factors among which are the price structure in the two countries and their relation to world prices, as well as the initiative taken by the government of the state trading party.[2]

Up to the present time, only the agreements with Czechoslovakia and the USSR seem to have been partly put into effect, the other agreements, i.e. the amended protocol with East Germany and the agreements with Poland and Rumania, having been negotiated very recently, namely, in November, 1955, and January 1956 respectively. As a matter of fact, the maximum value of the goods to be exchanged between Lebanon and Czechoslovakia was raised from LL 5,000,000 to LL 8,000,000 in November 1954, chiefly as a result of the increase in the amount of trade carried out between the two countries; while the amount of Lebanese exports to the USSR went up from nil in 1954 to over LL 3 million in 1955.[3] Moreover, the USSR

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intestines, tobacco leaves, etc., while indicated imports into Lebanon consist mainly of machines and other capital goods, chemical and pharmaceutical products, and other manufactured articles.

1. The agreement with Poland stipulates that this country would use at least $ 650,000 of the proceeds of its exports to Lebanon to buy citrous fruits from that country.

2. All of the partner countries to these agreements are state trading countries.

3. <u>Commerce du Levant</u>, No. 165 (Wednesday, February 29, 1956), p. 5.

foreign trade organizations have recently offered to purchase the whole produce of Lebanese tobacco, which offer, if realized, is likely to lead to a further expansion of Lebanese exports to that country. At the same time, Lebanese imports from the USSR have increased appreciably having gone up from around LL 184,000 in 1954 to about the same level as exports in 1955;[1] in fact, the clearing account between the two countries actually showed a credit balance in favor of the USSR during the first three months of 1956. On the other hand, however, the amount of trade conducted between the two countries has remained inferior to the limit established in the agreement between them viz. LL 10,000,000.

The other agreements, i.e., the amended protocal with East Germany and the agreements with Poland and Rumania are rather recent and have not been put into effect yet. Whether they are likely to have any effects on the trade between the partner countries or on Lebanese foreign trade in general is not yet apparent. The implications of bilateralizing a part of Lebanese foreign trade and the effects of existing and prospective agreements on that trade will be discussed in the next chapter.

3. Agreements with Other Countries. In this group are included nine purely trade agreements of different kinds with Greece, Turkey, Yougoslavia, West Germany, France, Italy, Brazil,

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1. According to customs statistics, Lebanese imports from the USSR in 1955 amounted to LL 1,664,000 at official rates, or about LL 2,429,000 at free market rates.

Argentina, and Communist China. As apparent from the above list, the agreements are concluded with countries from different geographical areas and with different economic systems. Moreover, the forms taken by the agreements are different and as such cannot be dealt with as a unit. For this reason the group will be subdivided into agreements with Latin American countries, viz. Brazil and Argentina, with Middle Eastern countries, i.e. Turkey and Greece, with Western European countries, viz. West Germany, France, and Italy, and with others, i.e., Yougoslavia and China, both of which are countries with state controlled foreign trade. In addition, an attempt will be made at indicating what agreements attempt at bilateralizing trade between the contracting parties and which do not, thus avoiding the need to devote a special section to the third classification. The reason this can be done is mainly the fact that while all the agreements with Eastern Europe attempt at bilateralizing trade none of the agreements with Arab countries does.

a. Latin America. Both agreements with Brazil and Argentina, which are the only Latin American countries linked to Lebanon by trade agreements, are treaties of friendship, commerce and navigation providing merely for most favored nation's treatment in terms of customs duties, import and export regulations, transit fees, consular fees, etc. Neither of them include any commitments regarding specific commodity or service transactions nor any attempts at establishing a predetermined quantitative ratio between the exports of each of the contracting parties to the other. They thus do not affect the usual pattern of trade relations and are not likely therefore to have any significant effects on the direction or volume of trade.

b. Middle East. The agreements with Greece and Turkey, both of which are Middle Eastern countries, are similar to the above agreements with the one exception that the treaty with Turkey includes a list of Lebanese products the importation of which is permitted under Turkish trade and exchange regulations. The said agreement subjects all trade and payments to existing regulations, and does not provide for any special privileges or commitments as far as trade and the settlement of current payments are concerned. Its only significance, therefore, is as an advertising device, since it may serve to indicate to Turkish importers the possibility of importing certain products from Lebanon. Again neither the above agreement nor the one with Greece involves any attempt at achieving bilateral balance in the trade between the contracting parties.

c. Western Europe. The agreements with Western European countries, i.e., West Germany, France, and Italy, are of a somewhat different type. The agreement with Germany, as was already mentioned, divides Lebanese export products to Germany into two categories, one which can be exported without any specific limitations regarding quantity or value, and another which remains subject to existing German foreign trade regulations. Thus a more or less moderate attempt is made at promoting trade between the contracting parties by freeing certain Lebanese exports from some of the controls imposed by German import regulations. In addition, the agreement provides for the establishment of a mixed committee which is to meet in February of each year in order to examine the trade statistics of the previous year and to elaborate any trade policies which the developmeht of the balance of payments in the previous year may necessitate. In fact, however, the number of goods freed from quantitative restrictions is limited and trade between the two countries has been far from balanced.[1] In order to encourage the entrance of German capital into Lebanon and to help cover the large deficit in the balance of trade by other items, the two governments have also signed, together with the above agreement, a four years treaty of economic and technical cooperation. According to the said treaty, the German Government helps in the economic development of Lebanon through the following measures:

a) The furnishing of capital goods and technical assistance to Lebanese agricultural, industrial, and trans-

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1. Imports from Germany amounted in 1955 to LL 34,032,000 at official rates, or about LL 49,346,000 at market rates, while exports were LL 2,307,000 only. (See Commerce du Levant, No. 165 (Wednesday, February 29, 1956) p. 15.

portation enterprises.

b) The participation of German capital in the establishment of agricultural and industrial enterprises in Lebanon.

c) The carrying out of major Lebanese developmental projects by German firms.

The capital goods furnished to Lebanese enterprises are to be paid for on an installment basis according to the following pattern:

a) 20% of the price, one month after the signature of the contract;

b) 20% at delivery;

c) the remaining 60% in five equal semi-annual installments.

The total value of the goods that can be purchased in this way is fixed at DM 25 millions; furthermore, the amount of German capital that the German Government allows to be invested in Lebanon during the four years term of the agreement is set at DM 60 millions. The agreement provides in addition for the setting up in Beirut of a German Office for Economic Guidance and Research whose main function is the helping of German firms that may want to establish business in Lebanon.[1]

The agreements with France and Italy, signed in May 1955 and November 1955 respectively, are basically similar and

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1. This Office has been actually set up.

are both accompanied by treaties of economic cooperation. As was already mentioned, both agreements draw up lists of Lebanese export products with corresponding quantities or values for which the other party agrees to issue import licences. The agreement with Italy provides in addition for the carrying out of private compensation arrangements involving goods not specified in the agreement, as well as for the encouragement of transit and triangular trade between the two countries. No explicit attempt is made in either one of the two agreements at achieving bilateral balance in trade or at interfering with the usual pattern of trade between the contracting parties. As a matter of fact, the agreements merely provide for the issuing of import licences by the French or the Italian Government up to the specified amounts without guaranteeing any minimum level of trade which remains dependent on the initiative of private traders in the contracting parties. The only significant guarantee provided by the agreements is the commitment on the part of the Italian and French authorities to grant import licences for Lebanese products, up to certain amounts or values, should private traders apply for them. The agreements may also have some significance as advertising devices.

The economic cooperation treaties accompanying the above agreements have basically the purpose of encouraging the participation of French and Italian capital in Lebanese development projects. Their main provisions are essentially similar to those of the economic cooperation agreement with

West Germany and include mainly the following stipulations:

a) The sale of capital equipment to Lebanon on a deferred payment basis.[1]

b) the carrying out by French or Italian firms of large scale developmental projects in Lebanon;[2]

c) the participation of French and Italian capital in Lebanese industrial and agricultural projects;

d) the establishment of a mixed committee: in the case of France to study the best methods for the full utilization of Lebanese resources and to make recommendations to the two governments regarding the projects to carry out; and in the case of Italy to determine the maximum amount of investment to be allowed, and the method of payment.[3]

d. Yougoslavia. The agreement with Yougoslavia, which has been already described, draws up two lists of Lebanese and Yougoslavian products to be exchanged between the two countries and provides that current payments are to be effected through authorized banks in accordance with existing regulations. In addition, it attempts to achieve a

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1. The period during which payment is to be effected is five years in the case of France and four years in that of Italy. The agreement with France fixes in addition a maximum limit, to the amount of capital goods to be sold on a credit basis, i.e. fr. 5 billions.

2. The agreement with Italy provides also for the furnishing of technical advice to Lebanese private and public enterprises.

3. Both agreements are rather recent; hence very little can be said as yet regarding the degree to which they have been put into practice.

certain quantitative ratio between the exports of each of the two countries to the other by providing that the Yougoslavian Government will instruct the foreign trade agencies in Yougoslavia to import from Lebanon 60% of the value of Yougoslavian exports to Lebanon. In practice, however, this provision has not been enforced and trade between the two countries is still unbalanced and of a small magnitude.[1]

e. China. The last agreement of this group is that with Communist China. This agreement is very recent and has not been put into effect yet. Whether it will lead to any expansion of Lebanese exports to China, assuming this to be its major object as far as Lebanon is concerned, remains to be seen. The agreement is of particular interest, however, in that it is concluded with a country which has had very little trade, if any, with Lebanon as yet, but which is trying to establish close economic relations with Arab countries. Moreover, the agreement, though a purely trade agreement,[2] provides for the equality of exports and imports, and is concluded with a state trading country. Furthermore,

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1. Imports from Yougoslavia during 1955 amounted to LL 3,113,000 at official rates of exchange, or about LL 4,514,000, at market prices while exports did not exceed LL 740,000. (See Commerce du Levant, No.165 (Wednesday, February 29, 1956), p. 5.

2. The agreement provides that payments are to be effected in transferable sterling or any other acceptable currency, but does not provide for a general method of financing trade.

the transportation difficulties involved make it extremely difficult to export Lebanese agricultural products to China. Thus Lebanese exports to that country would have to consist of industrial products and conserved foods and vegetables. The reason this feature of the agreement is of particular interest is mainly the fact that all of Lebanon's agreement partners, have up to the present been mainly purchasers of agricultural products, particularly citrous fruits.

Among the main provisions of the agreement, which have been already reviewed, are the following:

a) The two governments undertake to take all measures that will insure a balanced trade between their countries.

b) Two lists are drawn up specifying the Lebanese and Chinese products to be exchanged.

c) The most favored nation's clause is applied in respect of customs duties and formalities and export and import licences.

d) The two governments agree to facilitate transit and reexport trade between their respective territories.

e) Payments are to take place in transferable sterling or any other acceptable currency through authorized banks.

The agreements already reviewed differ considerably in the forms they take as well as in their approach to trade relations. Hence their effects on Lebanese foreign trade are likely to differ. The impact on trade and on the development of Lebanese agriculture and industry of the various types of agreements, and particularly of the agreements involving a bilateralization of trade relations, will be discussed in the next chapter.

APPENDIX TO CHAPTER III

LEBANESE TRADE WITH MEMBERS OF THE ARAB LEAGUE
1951-1955
(in LL. 1000)

	SYRIA		EGYPT		IRAQ		JORDAN		SAUDI ARABIA		TOTAL OF ALL COUNTRIES	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1951	60,700	22,629	6,331	9,479	29,115	2,932	3,550	4,285	2,740	3,443	425,521	91,791
1952	63,005	17,664	2,909	6,712	21,898	3,367	4,777	4,072	5,564	9,401	442,681	83,031
1953	86,421	13,732	4,043	5,964	16,356	4,480	8,022	6,387	7,635	10,887	413,883	87,710
1954	97,840	14,853	7,276	8,757	24,516	4,489	14,258	5,987	9,118	9,861	517,492	91,969 (2)
1955 (1)	78,041	13,370	9,586	6,696	33,656	6,700	6,712	5,744	27,132	11,724	715,922 (3)	120,599
1951-1955 as percent of total	15.3%	17.5%	1.2%	7.9%	5%	4.6%	1.5%	5.5%	2%	7.5%	100%	100%

Source: For imports and exports in 1951 and 1952, Fei and Klat, op.cit., pp.62 and 60. For imports and exports in 1953, Balance of Payments of Lebanon, 1953 prepared by the Economic Research Institute, but not published. For 1954, Lebanese Republic, Bulletin Statistique Trimestriel, 1954, 4th quarter, p. 22. For 1955, Commerce du Levant, No. 165 (Wed., Feb. 29, 1956), p.5.

(1) Includes gold imports and exports; imports are adjusted only for valuation by calculating their value on the basis of free market rates.

(2) Does not include reexports with a reimbursement of duty.

(3) This figure includes gold imports and is calculated on the basis of roughly estimated conversion factors.

CHAPTER IV

THE EFFECTS OF TRADE AND TRADE - AND - PAYMENTS AGREEMENTS ON LEBANESE FOREIGN TRADE

A. Introduction.

In the preceding chapter the various existing agreements were discussed, but very little was mentioned concerning their effects on Lebanese foreign trade, agriculture, or industry, which task will be undertaken in the present chapter. However, as the agreements under consideration are of widely different types, they cannot be dealt with as one group. For this reason existing agreements will be divided into three major groups, namely, (a) those providing for preferential treatment, i.e., the agreements with Arab countries; (b) those involving an explicit attempt at balancing trade bilaterally by regulating both the conditions affecting trade in goods and services and the method of settling current payments, i.e., the trade and payments agreements concluded with some Eastern European countries; and (c) those which provide simply for most-favored-nation's treatment or for most-favored-nation's treatment and the encouragement of trade in certain commodities, sometimes up to specified value or volume limits. The differences and similarities in the functioning and the effects of each of these types as well as of the individual agreements within each group will be pointed out mainly with view to determining which type or types is likely to be most effective in relation to the broad objectives of Lebanese commercial policy, namely, the opening up of markets for Lebanese products, and the reduction of the large trade deficit chiefly through the expansion of merchandise exports.

B. Agreements Providing for Preferential Treatment.

The first group that will be discussed is that of agreements providing for preferential treatment, which includes the bilateral and multilateral agreements concluded with neighbouring Arab countries.[1] The main purpose of these agreements, as was already mentioned, is the encouragement of trade among the contracting countries and the stimulation of a greater degree of economic cooperation. Their principal effects upon Lebanon can be best realized when one takes into account the importance of the Arab countries as a source of imports and especially as a market for Lebanese exports; also the fact that Lebanon is the country with the least amount of trade and exchange restrictions in the group adds to the importance of a liberalization of Arab trade relations. Moreover, it

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1. Bilateral agreements are concluded with Syria, Jordan, Iraq, and Egypt and have already been described in the preceding chapter. In addition, members of the Arab League, i.e., Lebanon, Syria, Egypt, Jordan, Iraq and Saudi Arabia, are parties to a multilateral arrangement which was negotiated in September 1953.

must be remembered that Lebanon has a considerably smaller trade deficit with Arab countries than with countries of Western Europe and the United States. Reference to the trade statistics between Lebanon and the other members of the Arab League will illustrate the importance of the neighboring Arab countries, i.e., Syria, Egypt, Iraq, Jordan, and Saudi Arabia, both as markets for Lebanese exports and as sources of imports; it will also show the relatively small magnitude of the trade deficit with these countries.[1] As a matter of fact, imports from Syria, Egypt, Jordan, Iraq, and Saudi Arabia amounted during the period 1951-1955 to a little less than 30% of total imports, while exports to these countries constituted over 40% of total Lebanese merchandise exports. Moreover, the balance of trade with Egypt, Jordan, and Saudi Arabia was favorable to Lebanon over most of the period under consideration.

<u>The Arab Economic Treaty of 1953</u>. The effects of the trade agreements concluded between Lebanon and some of those countries on Lebano-Arab trade is very difficult to ascertain, as will be shown later in this chapter. This is especially true of the Arab Economic Treaty of 1953, for though that treaty was negotiated by all members of the Arab League on September 7 of that year, it has gone into effect

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1. See page 140.

during 1954 only among Egypt, Jordan, and Lebanon. The reason for this is that according to article 8 of the agreement under consideration, the agreement does not go into effect until one month after the depositing, with the Secretariat of the Arab League, of the documents pertaining to its ratification by three Arab countries. The first countries to ratify it were Lebanon, Egypt, and Jordan. They were followed in 1955 by Iraq, Saudi Arabia and Syria. The amendment to the agreement, which provided for the drawing up of a new schedule of industrially processed agricultural products receiving 50% reduction on customs duties, did not go into effect until March 1956.

As a result of the shortness of the period during which the agreement has been in effect, it seems difficult to decide how much of the changes, if any, in trade between the contracting parties have been due to it. Apart from the increase in trade with Saudi Arabia during the period 1951-1955, however, no significant changes in trade between Lebanon and the other members of the Arab League seem to have taken place following the ratification of the agreement.

Nevertheless, it must be pointed out that all attempts at reducing barriers to trade and the transfer of capital between Lebanon and the other Arab countries are likely to be particularly useful to Lebanon which relies to a considerable

TABLE **10.**

LEBANESE IMPORTS FROM AND EXPORTS TO

OTHER ARAB COUNTRIES

1951-1955

(at market rates in LL. 1000)

	SYRIA		EGYPT		IRAQ		JORDAN		SAUDI ARABIA	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1951	60,700	22,629	6,331	9,479	29,115	2,932	3,550	4,285	2,740	3,443
1952	63,005	17,664	2,909	6,712	21,898	3,367	4,777	4,072	5,564	9,401
1953	86,421	13,733	4,043	5,971	16,356	4,485	8,022	6,400	7,635	10,887
1954	97,840	14,853	7,276	8,751	24,516	4,489	14,258	5,987	9,118	9,861
1955	78,041	13,370	9,586	6,696	33,656	6,700	6,712	5,744	27,132	11,724

Note: The import and export statistics for the years 1951-1954 include certain minor adjustments, e.g., the exclusion of gold imports and exports, which are not included in the import statistics for 1955 and the export statistics for 1954 and 1955.

extent on imports from and exports to the Arab countries, especially Syria, as well as on capital inflows from them.[1] Reference to the trade statistics and the balance of payments figures cited in Chapter II of this study will indicate the importance of Arab export markets to Lebanon, as well as the heavy reliance on capital inflows, which come mainly from the oil producing Arab countries, as a credit item in the balance of payments. Moreover, Beirut is at present an important center of entrepot and reexport trade for the rest of the Arab world while the amounts spent every year by Arab "estiveurs", tourists, students, patients, etc., constitute an important source of foreign exchange for Lebanon. A comparison between the volume of trade carried out between Lebanon and the rest of the Arab countries prior to and after the Second World War, however, will reveal a somewhat decreasing trend. Syro-Lebanese exports to Arab countries during the period 1935-38 amounted to 45% of total merchandise exports, while Lebanese exports to these countries, i.e., the other Arab countries excluding Syria, during the period 1951-1954 were about 27.2% of the total.[2] The major reason for this decrease is most probably the loss of the Palestinian market

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1. This is especially true of Saudi Arabia and Kuwait which provide the bulk of the capital inflow into Lebanon, which is a major credit item in the Lebanese balance of payments.

2. Assuming that 50% of Syro-Lebanese exports and imports before the war were due to Lebanon, the ratios will be the same for Lebanon alone. (See Makdisi, op. cit., 108.)

after 1948. However, the expansion of trade between the countries of a certain region is not only dependent on the reduction of tariff barriers among them, but also on such factors as the adequacy of marketing facilities and the achievement of a certain degree of regional specialization, i.e., the development of different industries in the various countries of the region in accordance with factor endowments. For example, if Lebanon can produce cement more efficiently than the other members of the group, the other countries should not attempt to establish cement factories through tariff protection, subsidies and similar measures, but should rather strive to develop other industries which better fit their factor endowments.

<u>Bilateral Agreements Between Lebanon and Other Arab Countries</u>. As a result of the loss of the Palestinian market in 1948 and of the rupture of the customs union with Syria in 1950, the Lebanese authorities have tried to establish closer economic relations with the other Arab countries, and this mainly through the conclusion of bilateral trade agreements providing for some degree or another of preferential treatment. Thus trade agreements were signed with Iraq, February 1951, Egypt, September 1951, Jordan, August 1952, and Syria, March 1953.[1] The effects of these

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1. These agreements were discussed in Chapter III. The agreement with Egypt was recently replaced by a more liberal one, while the agreement with Syria, though originally meant as a temporary arrangement, is still in operation.

agreements on trade with the partner countries are very difficult to ascertain, because of the shortness of the period following their conclusion. In addition, the recent increases in the incomes of certain oil producing countries, e.g., Iraq, Saudi Arabia, and Kuwait, the relative changes in prices and consumers tastes, and other political and economic developments make such an assessment particularly difficult. Nevertheless, an attempt will be made at making certain rough approximations regarding the effects that the above agreements may have had or are likely in the future to have on trade between Lebanon and the partner countries.

a. Syria. Trade with Syria was considerably affected by the rupture of the customs union in March 1951 and the measures that accompanied it on the part of the Syrian authorities. However, after the negotiation of the 1952 and later the 1953 agreements, trade between the two countries tended to become more stable and Lebanese imports from Syria increased somewhat.[1] One reason for this increase is probably the fact that Lebanese imports from Syria consist mainly of agricultural products, which were exempted from customs duties

1. Total Lebanese imports also increased during that period, and hence a part of this increase may have been due to the overall increase in imports. Imports from Syria amounted to LL 60,700,000 in 1951, LL 63,005,000 in 1952, LL 86,421,000 in 1953, LL 97,840,000 in 1954 and LL 78,041,000 in 1955.

under the 1952 and the 1953 agreements. Lebanese exports to Syria on the other hand are made up chiefly of industrial items not all of which received preferential treatment under the agreements concerned, and which did not benefit, therefore, to the same extent as imports.[1] Thus the interim arrangements with Syria seem to have been, on the whole, more favorable to Syria than to Lebanon as far as the encouragement of exports is concerned.

b. Jordan. Of the other agreements the one with Jordan seems to have been the most effective as far as the encouragement of trade between the two contracting parties is concerned; imports, exports, and transit have increased considerably after its conclusion.[2] How much of this increase has been due to the agreement and how much to other factors is not easy to decide. The economic blockade of Israel, and the fact that prior to 1955 goods could be imported into Jordan without import licences with foreign exchange bought in Beirut might have contributed to the increase in trade between the two countries. Moreover, the shortness of the period during which the agreement has been in operation and the fact that

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1. Lebanese exports to Syria actually decreased from LL 22,629,000 in 1951 to LL 17,664,000 in 1952, to LL 13,733,000 in 1953, LL 14,853,000 in 1954, and LL 13,370,000 in 1955.

2. Imports and exports during the period 1951-1955 were as follows: (in LL 1000)

	1951	1952	1953	1954	1955
Imports	3550	4777	8022	14258	6712
Exports	4285	4072	6400	5987	5744

the bulk of Lebanese imports from Jordan are made up of agricultural products which are usually considerably affected by climatic conditions tend to add to the difficulty of assessing the effects of the agreement. Nevertheless, it may be concluded that the agreement has been at least one of the major factors contributing to the development of trade between the two countries after 1952, since it tended to reduce some of the barriers to trade between them. Moreover, neither the above agreement nor the one with Syria attempt to regulate trade or to divert it into artificial channels.

c. Iraq. The agreement with Iraq, which provided for a limited degree of preferential treatment, does not seem to have had any appreciable effects on the amount of Lebanese imports from Iraq. Lebanese exports to that country, however, increased appreciably after the conclusion of the agreement, having gone up from LL 2,932,000 in 1951 to LL 3,367,000 in 1952, LL 4,485,000 in 1953, LL 4,489,000 in 1954 and LL 6,700,000 in 1955. The value of imports, on the other hand actually decreased from LL 29,115,000 in 1951 to LL 21,898,000 in 1952, and LL 16,356,000 in 1953; it then increased to LL 24,516,000 in 1954 and to about LL 33,656,000 in 1955. The increase in exports since 1951 and in imports after 1953 may have been due, at least partly, to other factors than the 1951 agreement such as, the increase in oil production and royalties in Iraq, the concomitant rise in incomes, and the increase in population in both countries. As a result of all this it becomes rather difficult to isolate the effects of the agreement on trade between the two countries. All what can be said is that Lebanese merchandise exports to Iraq have increased both in absolute amounts and as a proportion of total merchandise exports, but that inspite of this increase, trade between the two contracting parties is still far from balanced. At the same time it may be of interest to point out that trade with Saudi Arabia, which is not linked to Lebanon by a bilateral agreement, seems to have increased considerably during the period under consideration, i.e., 1951-1955, both in absolute amounts and proportionately to trade with other Arab countries. The reasons for this increase are chiefly the development of the oil industry in Saudi Arabia and the accompanying changes in national income, prices, tastes, etc. Improvement in the prices and qualities of Lebanese export products as well as in their method of packing and their delivery dates may have also contributed to that increase, for in fact, it is mainly these factors that determine the demand for Lebanese exports abroad given the level and distribution of income and the pattern of tastes in the importing countries. However, as similar developments seem to have taken place in the case of Iraq, the abovementioned increase in trade with Saudi Arabia leads one to doubt the effectiveness of the trade agreement with Iraq.

d. Egypt. The agreement with Egypt, which has been recently replaced by a more liberal arrangement, does not seem to have had any important effects on the volume or the composition of trade between the two contracting parties, the value of Lebanese imports having fluctuated between LL 6,331,000 in 1951, LL 2,909,000 in 1952, LL 4,043,000 in 1953, LL 7,276,000 in 1954 and LL 9,586,000 in 1955, while merchandise exports amounted to LL 9,479,000 in 1951, LL 6,712,000 in 1952, LL 5,971,000 in 1953, LL 8,751,000 in 1954, and LL 6,696,000 in 1955. The increase in exports in 1954, may have been partly due to a relative loosening of some of the controls imposed by the Egyptian authorities on importation from Lebanon[1] as well as to the relative improvement of the quality and the method of packing of certain Lebanese exports, particularly apples. As to the new agreement which was negotiated in January 1956, it has not entered into effect yet. However, as it extends preferential treatment to a wide variety of agricultural and industrial products, it is likely to lead to an expansion of Lebano-Egyptian trade by reducing some of the restrictions imposed by each of the two countries, especially Egypt, on trade with the other. It may also help encourage Egyptian "estiveurs" come to Lebanon as it guarantees a minimum

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1. In 1955, the Egyptian authorities imposed an internal fee on the sale of apples, which practice violated the provision in the agreement providing that no internal fees or duties shall be levied on imports from the partner country as are not levied on goods produced locally.

rate of exchange between the Lebanese and the Egyptian pounds, which is equal to LE1 = LL 8.50.

Evaluation of the Trade Agreements with Arab Countries. Of the other Arab countries Saudi Arabia is the most important trade partner to Lebanon, having ranked third among all Arab countries as a source of Lebanese imports and second as a market for exports during the period under consideration. The first in both cases was Syria followed by Iraq, Saudi Arabia, Jordan, and Egypt as regards imports and by Saudi Arabia, Egypt, Jordan, and Iraq as regards exports. The position occupied by Saudi Arabia is thus an important one as far as Lebanese foreign trade is concerned, though the country is not linked to Lebanon by a bilateral trade agreement. Moreover, Saudi Arabia is the source of a large part of the capital which flows annually into Lebanon and which is one of the major items that cover the large deficit in the Lebanese balance of trade.[1]

The relative increase in trade with Saudi Arabia over the past five years leads one to doubt the effectiveness of the bilateral[2] trade agreements concluded with other members of the Arab League. As was already mentioned, trade with Saudi Arabia increased more than with any other Arab country over

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1. In 1952, 1953, and 1954, the amount of the balance of payments surplus was smaller than the net amount of capital inflow, i.e., LL 43.7 million, LL 48.6 million and LL 63.0 million respectively.

2. Bilateral is used in the sense of between two countries.

the period under consideration, i.e. 1951-1955, despite the fact that no bilateral trade agreement existed between Lebanon and that country. In 1955, however, Saudi Arabia ratified the Arab Economic Treaty of 1953, thus undertaking to extend preferential treatment to agricultural and industrial products originating in the other contracting parties.[1]

The increase in Lebanese imports from and exports to Saudi Arabia in 1955 may have been partly due to the ratification of the Arab Economic Treaty of 1953. Nevertheless, it must be pointed out that trade with that country has shown a constant tendency to increase since 1951, which is the first complete year for which statistics are available for Lebanon alone.[2]

The reasons for this increase can be mainly attributed to the big rise in incomes and the radical changes in tastes and consumption patterns which took place in Saudi Arabia as a result of the rapid development of the oil industry over the past few years. Saudi Arabia, which had no major source of income prior to the discovery of oil, is now among the major oil producing countries of the world. Thus the budget of the Saudi Government went up from 25 million Rials in 1938 to 758 millions in 1952-1953.[3] In the meantime, new cities sprang up,

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1. According to that agreement, agricultural products originating in any one of the contracting parties were to be admitted into the other parties free from customs duties. Industrial products, on the other hand, were to receive a 25% reduction on ordinary duties.
2. Prior to March 1950, Lebanon and Syria formed one customs area, and trade statistics were kept for the two countries together.
3. Benjamin Shwadran, <u>The Middle East, Oil and the Great Powers</u> (New York: Frederick A. Praeger, 1955) p. 357.

and railroads, schools, hospitals, highways, and airports were constructed either by the Oil Company or by the Government. Moreover, the austerity in life, previously characteristic of that country, gave way to conspicuous consumption on the part of members of the Royal Family and other enriched Saudis. Furthermore, the country received considerable amounts of gold and foreign exchange and so did not experience payments difficulties. Also, as oil revenues constituted, and still do, the major source of government revenue and as there are no local industries in need of protection,[1] customs duties have tended to be relatively moderate. At present they actually vary between five percent and thirty five percent on a few luxury items. Thus, trade with Saudi Arabia seems to have been relatively free from restrictions, though no bilateral agreement providing for preferential treatment existed between Lebanon and that country.

Syria. As regards the bilateral agreements with other Arab countries, a distinction must be made between the agreement with Syria, which was meant as an interim arrangement following the dissolution of the customs union between the two countries, and those with Jordan, Egypt, and Iraq. The agreement with Syria actually replaced a customs union and hence cannot be considered as involving a liberalization of the trade relations

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1. A cement factory is being built in the country.

between the two countries. Its main purpose was rather the provision of a temporary basis for trade between the two countries while negotiations for some form of economic integration were going on.

Jordan. The agreement with Jordan is the most liberal of the other agreements, excluding the one recently negotiated with Egypt. However, it is not as liberal as the agreement which existed between that country and the Syro-Lebanese customs union prior to the Second World War, and which established a free trade area between the two contracting parties. As a matter of fact, the present agreement merely provides for the exemption of a wide variety of agricultural products and a few industrial products from customs duties, without establishing a unified tariff schedule for items receiving preferential treatment. In addition, the movement of capital and the making of current payments between the two contracting countries are subjected to existing regulations.[1]

Nevertheless, the agreement did result in some stimulation to trade between the two countries, especially prior to the ratification of the Arab Economic Treaty. The increase in trade with Jordan, however, remained inferior to that with Saudi Arabia, most probably because Jordan did not experience similar internal developments.

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1. Jordan is a member of the sterling area and as such maintains trade and exchange controls similar to those imposed by other members of that area.

Egypt. The agreement with Egypt concluded in 1951 subjected trade and payments to existing regulations and did not provide for any preferential treatment. As a result, its effects on trade between the contracting countries have been negligible. On the other hand, in view of the relatively severe trade and payments restrictions imposed by Egypt, and of the importance of the Egyptian market for Lebanese exports, a liberalization of the trade relations between the two countries seems to be in the interest of Lebanon. An attempt at such a liberalization was recently made when the two governments negotiated a new agreement extending a greater degree of preferential treatment in respect of customs duties than the Arab Economic Treaty of 1953.

Iraq. Lebanese exports to Iraq increased appreciably after 1951 which is the date of negotiation of the Lebano-Iraqi trade agreement. Exports to and imports from Saudi Arabia, with whom Lebanon does not have a bilateral trade agreement increased to a greater extent, however, during the same period.

In view of this fact and of the recent increases in oil revenues in Iraq, the role of the agreement in stimulating Lebanese exports to that country becomes subject to doubt. As a matter of fact, the 1951 agreement extended preferential treatment to a very limited number of agricultural and industrial products of Lebanese and Iraqi origin, and subjected transit trade and the transfer of capital to existing regulations. It thus did not provide for a sufficient liberalization of the trade relations between the two countries. The importance of such a liberalization becomes more apparent when it is realized that Iraq is a member of the sterling area and as such maintains trade and exchange controls similar to those maintained by other member countries. Also, Iraq makes considerable use of customs duties, and in some cases even of outright prohibition for the protection of local industry.

Conclusion. In view of the above, a closer economic cooperation among the members of the Arab League, such as the establishment of an Arab free trade area, seems to be necessary for the development of inter-Arab trade. As a matter of fact, existing agreements between pairs of Arab countries have had limited effects on the promotion of trade between the contracting parties, mainly because they did not provide for a sufficient liberalization of Arab trade relations. Some of them merely subjected trade and the making of payments to existing regulations, e.g., the 1951 agreement with Egypt.

The establishment of an Arab free trade area would involve the abolishment of customs duties on goods exchanged within the area, the adoption of a unified tariff schedule, and the suppression of restrictions on the movement of persons and capital among the member countries. Such measures are believed to lead to an expansion of trade among the countries concerned through both the abolishment of trade barriers and the achievement of a better specialization among them. For example, the suppression of restrictions on the movement of capital and labor among the member countries may actually lead to a better distribution of labor and capital among them. Also the removal of trade barriers may result in the rise of larger producing units which will possibly benefit from some of the internal economies of large scale production.

The various implications of this as well as of some other forms of Arab economic cooperation will be discussed in more detail in the next chapter.

C. Agreements Providing for a Bilateral Balancing of Trade.

Of the existing trade-and-payments agreements with Eastern European countries, which are the agreements that involve an explicit attempt at bilateralizing trade relations between Lebanon and each of the other contracting parties, only those with Czechoslovakia and the USSR have been in effect for more than one year, and so may have had some effects on Lebanese foreign trade.[1] The others, i.e., the amended agreement with East Germany, and the agreements with Poland and Rumania are very recent, having been signed in November 1955, and January 1956 respectively. Hence a discussion of the effects that the agreements providing for a bilateral balancing of trade may have had on Lebanese foreign trade, industry, or agriculture will have to be confined mainly to the trade and payments agreements with Czechoslovakia and the USSR.

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1. A trade and payments agreement was signed with East Germany on December 14, 1953, but was barely put into effect. It was later amended in November 1955.

The main purpose of the two above agreements, as was already mentioned, is the development and maintenance of balanced trade between the contracting parties. To achieve this purpose a system of clearing accounts was established, two lists of Lebanese and the other party's products were drawn up, and a foreseen volume of trade to take place annually between the two parties was specified under each of the two agreements. Such arrangements, however, are usually subject to a number of limitations, chief among which is the fact that they are likely to lead to an artificial diversion of trade and hence to a reduction in its profitability. Thus in attempting to evaluate the effects of the two above agreements on foreign trade their impact on the profitability of trade must be reckoned with. On the other hand, any effects that the agreements may have on local industry and agriculture by opening up markets for local products must be taken into consideration, since the benefits accruing in these fields may more than offset the loss in the profitability of trade, if any. Moreover, if trade between the contracting parties were insignificant prior to the conclusion of the agreement because of the imposition of certain restrictions by one or both parties on trade with the other party, or as a result of imperfect knowledge or other imperfections of the market, a bilateral agreement may actually lead to an expansion rather than a contraction in the volume of trade between the two parties.

Before considering the effects of each of the individual agreements it seems appropriate to point out that trade with bilateral[1] agreement partners have constituted up to the present a minor part of total Lebanese foreign trade, which remains essentially multilateral. As was pointed out in Chapter II above, imports from and exports to Eastern European countries, which are the only trading partners with whom trade is conducted on a bilateral basis, accounted only for about 3% of total Lebanese imports and exports respectively during the period 1951-1954.[2] In 1955, there was some increase in the amount of trade conducted with the USSR and Czechoslovakia, but the ratio of trade with Eastern Europe to total Lebanese foreign trade remained small in magnitude.[3] Thus up to the present, there does not seem to have taken place any large-scale bilateralization of Lebanese foreign trade. Consequently it does not seem probable that there has resulted any important diversion of trade from its normal channels, the negotiation of

1. Bilateral is used here to denote those agreements which involve an explicit attempt at balancing trade between the two contracting parties.

2. Imports from Eastern Europe amounted to 3% of total imports in 1951, 4% in 1952, 3% in 1953, and 3% in 1954, while exports averaged around 3% of total over the same period.

3. Exports to the USSR increased from nil in 1954 to LL 3,101,000 in 1955 and imports from LL 184,000 to about the same level as exports. (The information regarding imports was privately obtained from the USSR commercial representation in Lebanon).

the above agreements having simply amounted to the diversion of an insignificant part of Lebanese foreign trade into bilateral channels and this mainly for the purpose of opening up markets for Lebanese agricultural and industrial products.[1] Moreover, most of Lebanon's trade and trade and payments agreements cover transit and triangular trade and hence are not apt to be considerably restrictive as far as the scope of trade is concerned. The suitability of a bilateral trade policy to Lebanon, however, will be discussed in Chapter V.

1. Czechoslovakia. The trade and payments agreement concluded between Lebanon and Czechoslovakia in July 1952 is considered on the whole as one of the very few agreements signed by Lebanon which have been actually enforced. As a matter of fact the volume of trade foreseen under the agreement was raised from LL 5,000,000 to LL 8,000,000 less than two years after its introduction mainly as a result of the increase in the volume of Lebanese exports to Czechoslovakia which went up from LL 1,035,000 in 1951 to about LL 3,330,000 in 1955.[2] Imports on the other hand do not seem to have increased after

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1. Some of Lebanon's bilateral agreement partners have practically had no trade with her prior to the negotiation of the agreements with them, e.g., Poland, and the USSR.

2. In 1952, 1953 and 1954, Lebanese exports to Czechoslovakia amounted to LL 1,773,000, LL 2,057,000, and LL 1,621,000 respectively. Moreover, the figures cited above do not include transit and reexport, for which payment is effected through the clearing account. However, it must be pointed out that the clearing account between the two countries actually showed a credit balance of about half a million Lebanese pounds in favor of Lebanon in 1955.

the negotiation of the agreement, having fluctuated between LL 7,896,000 in 1951, LL 7,773,000 in 1952, LL 4,709,000 in 1953, LL 6,786,000 in 1954, and LL 7,812,000 in 1955, thus resulting in a decrease in the trade deficit between the two countries from LL 6,861,000 in 1951 to about LL 4,482,000 in 1955.[1] In view of the above, the agreement seems to have fulfilled partly its two main purposes, namely, the expansion of Lebanese merchandise exports to Czechoslovakia and the reduction of the trade deficit with her. A comparison with the exports to some countries that are not linked to Lebanon with bilateral trade agreements, however, will indicate that in absolute amounts exports to those countries have increased more than the exports to Czechoslovakia. Thus exports to the United States, for example increased from LL 6,276,000 in 1954 to LL 12,008,000 in 1955 while exports to the United Kingdom increased from LL 4,218,000 in 1954 to LL 5,713,000 in 1955. Moreover, though the volume of the trade deficit between the two countries has actually decreased, trade is still unbalanced in favor of Czechoslovakia. On the other hand, the clearing account between the two countries has shown in 1955 a credit balance in favor of Lebanon of LL 434,660. According to that account, Czechoslovakian purchases from Lebanon during 1955 amounted to LL 8,314,575 while sales to Lebanon were valued at LL 7,879,915.[2] The reasons for the large discrepancy

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1. In 1952, 1953, and 1954, the trade deficit amounted to LL 6,964,000, LL 2,652,000, and LL 5,165,000 respectively.

2. Commerce du Levant, No. 185 (May 9, 1956) p.2.

between the value of Lebanese exports registered in the clearing account and those recorded at the customs are mainly the following: (a) that the clearing account includes reexport and transit transactions in addition to direct imports and exports; and (b) that exports and imports are recorded in the account at the time they are transacted for and not as they cross the Lebanese frontiers which is the case with Customs statistics.

Thus, imports from the creditor country, i.e., Czechoslovakia do not seem to have been restricted in order to balance trade between the two contracting parties; on the contrary, the agreement seems to have led on the whole to an expansion of merchandise trade between the two countries. In addition the provision that Czechoslovakia can use 25% of the proceeds of its exports to Lebanon to buy goods from the Beirut free zone has permitted the carrying out of transit and re-export transactions between the two countries, thus tending to make the agreement less restrictive as far as the transactions covered are concerned. At the same time, a study of the composition, prices and quantities of Lebanese imports from and exports to Czechoslovakia as well as their relation to total imports and exports does not seem to reveal any marked reduction in the profitability of trade as a result of its diversion into predetermined channels.

Lebanese export items to Czechoslovakia consist mainly of citrous fruits,[1] while imports from her are made up largely

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1. In 1955, 9,300 tons of citrous fruits were exported to Czechoslovakia. Commerce du Levant, No. 186 (May 9, 1956) p. 5.

of machines, tiles, paper, "porcelain", works in crystal, musical instruments, chemical products, ceramics, glass products, and various other manufactured articles. The prices paid for these imports are based on the world prices of similar products with the result that there does not seem to be any appreciable overpricing of imports because of the carrying out of trade on a bilateral basis. On the other hand, the prices paid for Lebanese exports seem to be somewhat higher than the world price. Furthermore, the recent increase in Lebanese merchandise exports, especially of citrous fruits, to Czechoslovakia, the USSR, France and certain other countries has tended to maintain the prices of these products, and even to raise them somewhat, while production was increasing.[1] Moreover, it is claimed by some that the recent improvement in the prices of agricultural lands in Northern and Southern Lebanon has been, at least partly, due to the opening up of markets for Lebanese fruits, mainly citrous.[2] On the other hand the poor quality of Lebanese products, the lack of standardization, poor packing, and the difficulty of transport have tended to limit the expansion of Lebanese merchandise exports both to agreement partners and to

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1. Part of the demand which helped maintain prices may have been local. However, a comparison of the movement in the prices of citrous fruits and apples will indicate that whereas the prices of citrous fruits have increased somewhat those of apples have tended to decline.

2. See the article entitled "Plaidoyer d'un Lecteur pour les Accords Bilateraux", <u>Le Commerce du Levant</u>, No. 141, (December 1, 1955) p. 1.

other countries.[1] As a matter of fact these factors are cited by certain bilateral agreement partners as the reasons for their unwillingness or inability to import from Lebanon goods up to the volumes of trade foreseen under the relevant agreements. The absence of one or more big exporting concerns, and the sensitivity of local prices to speculation are also factors which handicap or limit exportation from Lebanon. The conclusion of bilateral agreements, is therefore, only one factor in providing markets for Lebanese products, though it may be that some countries, particularly those with strict trade and exchange control, may discriminate against imports from other countries which refuse to conduct trade with them on a bilateral basis.

Soviet Union. As regards the other agreements in the group, that with the USSR seems to be the one which has been carried out most effectively. As a matter of fact the amount of trade conducted between the two countries increased considerably after the introduction of the agreement in April 1954, imports having gone up from LL 184,000 in 1954 to about LL 3 million in 1955[2] while exports increased from practically

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1. In addition Lebanese exporters of fruits and vegeta bles are not organized and so usually find it extremely difficult to meet large demands on them.

2. According to the customs trade statistics imports from the USSR amounted to LL 1,664,000 at official rates of exchange or about LL 2,413,000 at market rates. On the other hand, the USSR commercial representation in Lebanon maintains that according to the trade statistics kept by

nothing in 1953 and 1954 to over LL 3 million in 1955. Moreover, a further increase in trade between the two countries is expected to take place in the near future as Lebanese exporters, especially of citrous fruits, are becoming more and more aware of the importance of the USSR as a market for their exports while Soviet trading organizations are trying to add new items to their imports from Lebanon, particularly tobacco and woolen textiles. On the other hand, the amount of trade carried out is still considerably inferior to that foreseen under the agreement namely, LL 10,000,000 in each direction, both imports from and exports to the USSR having amounted to about LL 3,000,000 in 1955. The main factors that tend to limit the expansion of Lebanese exports to the USSR are at present poor packing, lack of standardization, and absence of adequate transport facilities such as ships with refrigerators. The inability of most Lebanese exporters to contract for large quantities of any one product and the sensitivity of local prices to speculation are two other major handicaps.[1] In case these

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Soviet foreign trade organizations the amount of Lebanese imports from the USSR in 1955 exceeded LL 3,000,000. The reason for this discrepancy is most probably the fact that, imports are recorded in the Lebanese Customs at the time they cross the Lebanese frontier and not as they are transacted for.

1. The writer of this study is under the impression that the relatively high prices of certain Lebanese agricultural products are more due to speculation in the local market, which is very sensitive to speculation because of its tightness, than to relatively high costs of production.

obstacles are overcome, the USSR may be willing to absorb all the export surplus of certain Lebanese products, e.g. citrous and tobacco. This, however, is likely to involve an equal increase in Lebanese imports from the USSR as trade between the two countries is to be bilaterally balanced.

Lebanese exports to the USSR have been made up mostly of citrous fruits, and to a lesser extent, of dried fruits, vegetable oils, wool, and certain kinds of hides. In addition negotiations are being carried out at present with the Regie Cointeresse de tabac and with a Lebanese textile company for the purchase of certain quantities of Lebanese tobacco and woolen textiles.[1] Lebanese imports from the USSR, on the other hand, have been largely constituted of electrical and agricultural machines, pumps, compressors, diesel motors, tractors, trucks, trollers, iron bars for construction, wood, paper, and iron tubes. Payments for these goods have been effected wholly through the clearing accounts and trade between the two countries has been more or less balanced. Furthermore, import prices seem to be based on world prices while the prices of Lebanese exports are somewhat higher.[2] The fact

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Moreover, certain Lebanese industrial products, mainly textiles compare favorably with similar foreign products both as regards quality and price.

1. The agreement seems thus to have provided a partial solution for the problem of markets as far as citrous fruits are concerned. As to the other Lebanese export products, particularly of an industrial nature, the agreement does not seem to have been directly effective up to the present.
2. Some traders claim that the prices paid for tractors, trucks, machines, etc., imported from

that outstanding balances have to be liquidated through the export of goods from the debtor to the creditor country, however, may lead to an artificial diversion of trade as the creditor country will have to accept payment in goods even though those goods may be overpriced or not in demand. Hence an increase in Lebanese exports to the USSR will have to be matched by a comparative increase in imports from that country. The effects of such an increase, on the profitability of trade will of course mainly depend on the relation of the prices, qualities, and delivery dates, of Soviet products to those of similar products exported by other countries.[1] Up to the present the prices paid for imports from the Soviet Union seem to have been rather favorable as compared with those paid for similar imports from other sources. Should this continue to be the case, an increase in imports from the USSR may prove to be useful to Lebanon on two scores, first as it is likely to lead to an increase in Lebanese exports to that country and second as the bulk of those imports is apt to be made up of machines and other capital goods which may help in the development of Lebanon. The increase in merchandise exports from Lebanon is of partifular interest as it is likely to provide a partial solution for the problem of markets which can be considered as the major problem

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the USSR have been appreciably below the prices of similar items from other sources. the reason for this and for the relatively high prices paid for Lebanese exports may be political rather than economic.

1. Under the present system of free trade an increase in the value of Lebanese exports to the USSR is not likely to lead to a comparable increase in the value of Lebanese imports from that country, if that increase is not profitable.

facing Lebanese industry and agriculture. As a matter of fact about 60% of Lebanese industrial concerns actually operate at between 1/3 and 1/2 capacity, mainly because of the lack of markets, while agricultural production, especially of citrous fruits and apples is increasing rapidly.[1] The opening up of export markets for the products of these industries and agricultural concerns is therefore an essential prerequisite for their development and consequently for the development of local production as a whole.[2] On the other hand, the fact that

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1. The annual production of apples, which is about 35,000 tons at present, is expected to reach 100,000 tons by 1961, while that of citrous fruits - at present about 162,000 tons - is likely to reach 200,000 tons by 1960. The amount exported at present is about 70,000 tons per year while prices vary between 18 and 24 piasters per kilogram. Prices of apples on the other hand range between 50 piasters per kilogram in areas of a moderate altitude and 70 piasters in areas of high altitude. (Information secured from the Association of Agriculturists).

2. Up to the present the composition of Lebanese exports to bilateral agreement partners seems to indicate that the increase in Lebanese exports, where such an increase has taken place, has mainly taken the form of increased sales of citrous fruits and some kinds of vegetables, while exports of apples and most industrial items barely increased if at all; the industrial products which seem to have benefited directly somewhat from the negotiation of trade agreements are woolen and silk textiles, some kinds of oils, and dried fruits.

payments are effected through clearing accounts may require the exclusion of certain service and other items, e.g. capital movements, triangular and exchange operations, donations, etc., from trade carried out under the agreement, which items are of prime importance in Lebanon's balance of payments. In trade with the Soviet Union, however, these items have been practically absent, and hence their exclusion is not likely to prove greatly restrictive. Nevertheless, their over-all importance in Lebanon's foreign trade and its balance of payments is overwhelming and so must be always kept in mind. On the other hand, it must be pointed out that should bilateral agreements allow the settlement within the clearing accounts of payments arising from transactions involving goods imported from third countries, as is the case under the agreements with East Germany, Czechoslovakia, and Poland, their effects on the expansion of Lebanese merchandise exports may be decreased.[1]

East Germany, Poland, and Rumania. The other agreements, i.e., the amended protocole with East Germany and the agreements with Rumania and Poland are very recent and have not gone into effect yet. Their effects on trade between the partner countries, however, are not likely to differ from those of the two agreements already discussed as they are basically similar to them in their provisions and in that they are concluded with state trading countries. Moreover, the volume of merchandise trade with these countries is also small and

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1. The various implications of a bilateral trade policy for Lebanon will be discussed in Chapter V.

capital movements and donations, exchange operations, and certain other services which are usually excluded from clearing arrangements are of little significance. Only transit and reexport transactions may be of some importance and these are covered by the agreements as the other party is allowed to use a certain proportion of the proceeds of its exports to Lebanon for the purchase of goods from the Beirut free zone. As regards the volume of trade prior to the negotiation of the agreements, Lebanese exports to Poland and East Germany were practically nil, while exports to Rumania amounted to LL 1,683,000 in 1951, LL 134,000 in 1952, LL 22,000 in 1953, LL 709,000 in 1954, and LL 433,000 in 1955 thus reflecting a decreasing trend. On the other hand imports from Poland and Rumania amounted to LL 809,000 and LL 2,157,000 respectively in 1951, to LL 794,000 and LL 4,320,000 in 1952, to LL 983,000 and LL 2,375,000 in 1953, LL 1,790,000 and LL 3,895,000 in 1954, and to LL 693,000 and LL 5,340,000 in 1955. Imports from East Germany which have had a trade-and-payments agreement with Lebanon since 1953 amounted to LL 670,000 in 1954 and LL 1,021,000 in 1955.

The composition of trade with these countries is also similar to that with the USSR and Czechoslovakia. However, the list of Lebanese export products drawn up under the agreement with Poland includes a number of industrial products which do not appear on the lists drawn up under other agreements.[1] The actual bearing of that list on the composition of trade between the contracting parties will of course, depend on a number of factors among which are the relation of the prices of the goods mentioned in the list to world prices and to the prices of local substitutes in Poland, the demand for imports from Lebanon in that country, the packing of Lebanese exports, the import policies followed by the Polish authorities, and other factors. Moreover, the fact that Lebanon is a free trade and exchange country tends to render the enforcement of bilateral agreements rather difficult, as such countries usually lack the administrative machinery for the effective carrying out of trade or trade-and-payments agreements and are likely to have little to offer in way of concessions in a bilateral bargain.[2] Hence it is actually rather difficult to decide beforehand whether any increase in trade between the two parties to the agreement will take place or not.

Evaluation of the Agreements As a Group. The full enforcement of the above agreements will, in all probability, lead to an increase in the proportional value of trade conducted

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1. The list includes such items as beer, wine, confectionary, washing machines, natural silk textiles and cotton seed oil, in addition to the products included in most other lists, viz., fruits, particularly citrous and bananas, olive oil, tobacco, raw cotton, wool, and hides.

2. The main privilege such countries can offer to their agreement partners is to go on with their liberal policy.

with Eastern Europe,[1] which is apt to result in some diversion of trade from its present channels. Whether such a diversion is likely to be of benefit to Lebanon or not will depend mainly upon its effects on the profitability and composition of Lebanese foreign trade, as well as on local industry and agriculture. Up to the present, however, the amount of trade carried out on a bilateral basis has been rather insignificant with the result that very little artificial diversion of trade, if any, may be expected to have taken place. Moreover, as none of the agreements already in effect provides for a minimum level of imports and exports, trade with bilateral agreement partners is still wholly dependent on the initiative of Lebanese private traders.

Both of these facts are looked upon by the advocates of bilateralism in Lebanon as major weaknesses of the trade and payments agreements already concluded, while they may be considered by the advocates of a liberal trade policy as factors that tend to limit the restrictiveness and the relative unprofitability of bilateral trade.[2] On the other hand, it may

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1. By 1955 the ratio of Lebanese exports to Eastern Europe to total merchandise exports has increased from about 3% to over 5%.

2. Bilateralism is believed to result in a reduction both in the scope and the profitability of trade by omitting certain items which are difficult to measure and by subjecting the exchange of goods and services to bilateral bargaining rather than to price considerations.

be argued that the diversion of a certain part of Lebanese foreign trade towards bilateral channels, can present certain advantages to Lebanon if it will lead to an expansion of merchandise exports and to a reduction of the annual deficit in the balance of trade. The importance of opening up of markets for Lebanese agricultural and industrial products, which is the major purpose of Lebanese trade and trade-and-payments agreements, becomes more apparent when it is realized that about 90% of Lebanese industries operate at less than 2/3 capacity, while agricultural production, is expected to increase considerably in the coming five to six years. Thus the annual production of apples which is at present in the vicinity of 35,000 tons, is expected to reach 100,000 tons in less than five years, while that of citrous fruits which amounts at present to about 162,000 tons is likely to attain 200,000 tons in a period of three to four years.[1] The areas planted are also increasing with the result that a further increase in production may be expected to take place in another four or five years. Apparently local consumption cannot be expected to keep up with such increases hence making it imperative to open up foreign markets if prices are to be maintained. The signing of trade and payments agreements has already led to some increase in

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1. There are at present about 3,000,000 apple trees occupying about 75,000 dunums. The area planted with citrous fruits on the other hand is around 18,210 hectars. (Information privately secured from the Association of Agriculturists.)

the export of citrous fruits in 1955, particularly to the USSR and Czechoslovakia, which increase has resulted in some improvement in the prices of these products. In fact, about 16,000 tons of citrous fruits were exported in 1955 to the USSR and Czechoslovakia; and local prices varied between 18 and 24 piasters to the kilogram.[1] On the other hand, the poor method of packing Lebanese citrous fruits, their relatively poor quality, sudden speculation in the local market, and the lack of adequate transportation facilities have tended to limit the exportation of Lebanese fruits and to give them a bad reputation in foreign markets. Thus it is reported that in USSR ports, for example, all the cases containing Lebanese citrous are opened for inspection while only a sample of the fruits imported from other sources is examined. Moreover, the lack of convenient transportation facilities, such as ships with refrigerators, and poor packing have in certain cases led to the spoiling of large quantities of Lebanese exported fruits, especially to the USSR, which fact resulted in large losses to the Lebanese exporters. In view of these limitations a number of Lebanese exporters are considering at present the possibility of establishing a large corporation for the marketing of Lebanese fruits, and the government is preparing a plan for the creation of a citrous office which will organize the production

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1. Prices of apples vary at present between 50 and 70 piasters per kilogram depending on the area. (Information obtained from the Association of Agriculturists.)

and marketing of these fruits. As regards industrial products, the only ones which seem to have benefited directly from the conclusion of bilateral agreements, though to a very limited extent, are vegetable oils, dried fruits, certain woolen and silk textiles, and certain kinds of hides. Nevertheless, the increase in the exportation of agricultural products and the improvement in their prices may help to widen somewhat the local market for industrial products by increasing the purchasing power of Lebanese agriculturists. These considerations, should not be taken however, to imply the desirability of a large scale bilateralization of Lebanese foreign trade, which desirability will be discussed in Chapter V.

D. Other Agreements.

1. China. Of the other agreements, the one recently concluded with China stipulates that the two governments shall take all the necessary measures for insuring equilibrium in the balance of trade between the two countries, and as such may be considered as essentially bilateral in character.[1] However, as it does not provide for the settlement of accounts through a clearing system and does not specify the measures to take in case trade is not bilaterally balanced, it was not included with the agreements involving an explicit attempt at a bilateral balancing of trade. As for its effects on trade between the

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1. Bilateral is used again here in the sense of involving an attempt at balancing trade bilaterally.

two contracting parties, very little can be said since it has not gone into effect yet. Nevertheless, it may be pointed out that practically no trade was carried out with China prior to the negotiation of the agreement in December 1955, and that due to the lack of adequate transportation facilities the exportation of agricultural products to that country is exceedingly difficult. As a result, the bulk of Lebanese exports that may take place to China will have to consist of industrial products. Hence the enforcement of the agreement is likely to lead to the opening up of a new market for Lebanese industrial products. Whether this will actually take place or not, however, seems to depend largely on the willingness of the Chinese authorities to buy from Lebanon, and the relation of the prices and qualities of Lebanese products to those of other foreign countries. This is especially so, as Lebanon is a relatively free trade and exchange country and hence can do very little to insure the proper enforcement of the trade or the trade-and-payments agreements it concludes.[1] During the past two years, several suggestions were made by certain industrialists and economists for the modification of the present import and export procedure, mainly through such methods as the institution of an import and export licensing system, the application of the maximum tariff to goods imported from non-

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1. The reason for this is mainly the fact that Lebanon maintains practically no controls over the exchange of goods and services, or the making of payments and as such cannot divert importation from countries that do not import from her to those that do.

agreement partners or partners that do not fulfill their obligations as established under the relevant agreements,[1] and others. These suggestions are subject to many objections, however, and may do more harm than good. For example, the application of a maximum tariff to imports from non agreement partners can be objected to on the grounds that it involves an undue discrimination in favor of imports from agreement partners, which is apt to lead to an artificial diversion of trade into less profitable channels. In addition certain imports may be only obtainable from countries which refuse to conclude bilateral agreements with Lebanon. Furthermore, the suggested system is likely to lead to a restriction of imports from countries with whom the balance of payments may be actually in surplus though the balance of trade may be in deficit. It can also result in an increase in the prices of certain essential imports and hence in a rise in the cost of living.[2] On the other hand, it may act, if not met by retaliation, as a device for the expansion of Lebanese merchandise exports, which increase may help solve partly the problem of markets facing Lebanese agriculture and industry.

2. Yougoslavia. Of the other existing agreements that with Yougoslavia is the oldest having been signed on July 28, 1953. Reference to the trade statistics between the two countries prior to and after the negotiation of the agreement

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1. A ministerial decision to this effect was actually taken but was not put into effect.

2. The same objections apply to the two other suggestions though to a somewhat lesser extent. In the next chapter suggestions for a commercial policy that is likely to be suitable for Lebanon will be made.

will indicate very little effect, if any, on the volume of Lebanese exports to Yougoslavia. These exports amounted to LL 400,000 in 1952, nil in 1953, 2,000 in 1954, and 740,000 in 1955. Imports from Yougoslavia on the other hand seem to have assumed an ascending trend since the negotiation of the agreement, having amounted to about LL 570,000 in 1951, LL 979,400 in 1952, LL 1,042,470 in 1953, LL 982,300 in 1954 and LL 5,359,000 in 1955, thus tending to increase the trade deficit incurred with that country. Hence it is apparent that the provision requiring the Yougoslavian authorities to instruct their trading organizations to import from Lebanon an amount equal to 60% of their exports to that country is not actually enforced. The reasons for this are mainly two, namely, the inability of the Lebanese authorities to insure the effective carrying out of the agreement due to Lebanon's free trade and payments system, and the relative unattractiveness of Lebanese products to Yougoslavian trade organizations. According to the Yougoslav commercial attache in Beirut, the main reason Lebanese exports to Yougoslavia are so low is the fact that Lebanon does not export the products which are most in demand in Yougoslavia, such as scrap iron for example. One reason for this is probably the fact that Yougoslavia produces locally most of the products exported by Lebanon. The relatively high prices and poor quality of most Lebanese export items constitute another reason. On the other hand, it must be pointed out that a part of Lebanese imports from Yougoslavia is actually reexported to some neighboring countries and as such may be looked upon as involving a triangular transaction rather than a direct importation into Lebanon. A strict balancing of trade between the two countries is apt to result in the suppression or at least the reduction of such transactions and hence in a concomitant contraction in the volume of that trade.

3. West Germany. The operation of the agreement with West Germany which was signed in 1951 was disappointing to Lebanon, import quotas for Lebanese products being issued by the competent German authorities in periods which did not correspond with the normal season of exportation and the periods fixed for their adjudication being extremely short, i.e., about six weeks. The result was speculation in the local market and hence higher prices and poor packing and standardization of Lebanese export products.[1] Thus in 1952 exports to Germany amounted only to LL 435,000. As a result of these difficulties the two governments agreed in 1954 to replace the above mentioned agreement by another one which divided Lebanese products into two categories, one including those products that can be imported into Germany without limitation as to value or quantity and another which covered the items that are subject to existing restrictions in Germany. The agreement

1. Malek Shehab, "L'Importance du Marche Allemand", L'Economie Libanaise et Arabe, III, Nos. 17 & 18 (September and October 1953), pp. 5-8.

provided, also for the application of the most favored nation's clause in relation to customs duties, import and export licences, shipping etc. In practice, however, the German authorities still discriminate against certain Lebanese products mentioned in the annexed list. The reason for this is most probably the weakness of Lebanon's bargaining position where practically no restrictions, other than customs duties, are maintained on the movement of goods and services or on the making of payments. On the other hand, both imports from and exports to Germany seem to have assumed an increasing trend since 1951, imports in that year having amounted to LL 13,987,000 against LL 15,515,000 in 1952, LL 23,070,000 in 1953, LL 34,938,000 in 1954, and LL 49,346,000 in 1955 while exports increased from LL 255,000 in 1951 to LL 2,428,000 in 1954, and LL 2,307,000 in 1955.[1] How much of this increase has been due to the negotiation of the 1951 and the 1954 agreements is very difficult to determine. Other factors have had their effects on trade between the two countries, chief among which is the rapid recovery of the German economy after the war. Moreover, the shortness of the period during which the 1954 agreement has been in operation makes it particularly difficult to derive any definite conclusions regarding its effects on trade between the two countries. A more careful examination of the trade statistics between Lebanon and Germany, however, will indicate that the bulk of the increase

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1. In 1952 and 1953, Lebanese exports to Germany amounted to LL 446,000 and LL 392,000 respectively.

in Lebanese exports to that country has actually taken place after the second half of 1954, or in other words, after the negotiation of the trade agreement between the two countries in June 1954. Thus whereas the value of Lebanese exports to Germany in the first half of 1954 did not exceed LL 490,000, it amounted to LL 1,938,000 in the second half of that year and to LL 1,160,000 in the first half of 1955. Part of this increase may have been due to the relative relaxation of trade restrictions in Germany since 1953 and probably to the relative improvement in the method of packing of certain Lebanese products mainly fruits and vegetables.[1] Nevertheless, the fact remains that both imports and exports have increased after the negotiation of the agreement which may have contributed to part of this increase particularly as regards exports. As a matter of fact, one of the main arguments made in favor of such agreements is that they insure, if properly enforced, that the other party will not stop or impose undue restrictions on importation from Lebanon because of the conclusion of trade agreements with other countries which produce items similar to those exported by Lebanon.[2]

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1. Germany is an important consumer of oranges, especially those of the small and round type. Moreover, the German buyer is greatly influenced by the method of packing.

2. A case which is usually cited in this connection is that of France which issued licences for the importation of 2,000 tons of olive oil from Lebanon in 1955 but refused to issue such licences for imports from Syria though prices in Syria were more favorable. The validity of this argument will depend, however, on the forms taken by the

4. France. The agreement with France is still recent, having been signed in March 1955. It is hence rather difficult to derive any definite conclusions regarding its effects on trade between the two countries, especially that no trade statistics are yet available for 1956. Nevertheless, certain approximations or first hand estimates may be made on the basis of the information concerning the issuing of licences and quotas by the French authorities for imports from Lebanon. These are only permissive quotas, however, and need not be actually realized, even in part. Their main use is that they insure the entrance of certain Lebanese products into France, up to specified value or volume limits in case French private importers are willing to import those products from Lebanon. For 1956, quotas for 6,000 tons of oranges and 4,000 tons of lemons, as well as for 100 million francs worth of dried fruits were opened under "the exchange certificate system".[1] Quotas for the importation of tobacco, hides, leather, shoes, cotton threads and textiles, paper bags, intestines, olive oil, wool, wood, cocoons, iron ore, etc., were also opened subject to different licensing requirements. Thus applications for the importation from Lebanon of tobacco and hides, for example, can

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agreements concluded, the maintenance of trade controls by the other contracting party, and the relative prices, qualities, and delivery dates of Lebanese products assuming that Lebanon possesses an export surplus of at least a few of the products demanded by the other party to the agreement.

1. Under this system French importers who want to import from Lebanon can do so after submitting an import certificate in two copies to the competent customs office. Delivery must be at the port of Marseilles.

only be made by certain so called "groupement assimile", which are in this case the "Industrial Corporation for the Exploitation of Tobacco and Matches" and the "Groupement d'Importation de Cuirs et Peaux Bruts" respectively.

Although the opening of such quotas by the other party to the agreement does not insure the actual importation of the goods concerned up to the specified value or volume limits, it guarantees that no undue restrictions will be imposed by the contracting party on the importation of certain Lebanese products; consequently, it is likely to prove of some help in facilitating the entrance of those products into foreign markets. Moreover, such agreements may serve as advertising devices for exports from Lebanon, by indicating to traders in the other contracting parties that Lebanon is capable of the exportation of such and such items. In the case of France out of a 300 tons quota of tobacco in 1953, 250 tons were actually imported while the 2,000 tons quota of olive oil was exhausted. In addition, France refused to grant licences for the importation of olive oil from Syria, though the prices of Syrian olive oil were more favorable than those of Lebanese oil, merely because no import quotas similar to those opened for Lebanese oil in accordance with the Lebano-French trade agreement were opened for Syria. The agreement with France seems, thus, to have achieved some results, at least as far as reducing some of the restrictions imposed by France on imports from Lebanon are concerned. On the other hand, the trade deficit between the two countries seems to have increased in 1955, imports from France having increased in value at a faster rate than exports to her. Thus Lebanese imports from that country increased from LL 50,409,000 in 1954 to LL 73,469,000 in 1955 while exports amounted to LL4,447,000 and LL 5,868,000 in 1954 and 1955 respectively.[1]

The increase revealed may have been due to the general rise in the total value of Lebanese imports and exports in 1955 rather than to the negotiation of the agreement. However, the facts mentioned above concerning the opening of quotas for imports from Lebanon and the actual fulfilling of some of these quotas in 1955 seem to indicate that during its first year of operation the agreement between Lebanon and France did result in some encouragement of Lebanese exports to that country. Moreover, as the agreement does not attempt at establishing any predetermined ratio between the exports of each of the contracting parties to the other, its effects on the pattern and direction of trade may be considered as negligible.

5. <u>Italy</u>. The agreement with Italy is very recent and hence is not likely to have had any measurable effects on trade with that country as yet. However, as it is basically similar to the agreement with France, and as trade with Italy is essentially similar to trade with that country, the effects of the agreement in question, if enforced, are likely to be more or less the same as those of the one with France. Lebanese

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1. Lebanese exports to France were considerably higher in 1953, having been estimated at LL 9,785,000.

exports to Italy, however, seem to have assumed a decreasing trend since 1951, having amounted to LL 4,537,000 in 1951, LL 3,384,000 in 1952, LL 2,333,000 in 1953, LL 2,636,000 in 1954, and LL 3,168,000 in 1955,[1] while imports remained more or less constant from 1952 on, having been valued at LL 28,717,000 in 1952, LL 26,784,000 in 1953, LL 24,332,000 in 1954, and LL 28,780,000 in 1955. The amount of Lebanese imports, as indicated by these figures is about eight times that of exports thus revealing the extent of the deficit in the balance of trade between the two countries. Hence all attempts at balancing trade bilaterally between the two countries are likely to result in a contraction of imports as it does not seem possible, in the present state of production and costs, to raise the level of merchandise exports to Italy to the present level of imports from her unless a diversion of exports from other sources takes place. As to the balance of payments between the two parties to the agreement no reliable figures are available, though it is believed that a part of the balance of trade deficit is covered by such items as profits from reexport, transit, and triangular operations as well as earnings from different other services. Probably as a result of this the November 1955 agreement did not provide for the bilateral balancing of trade and stipulated that triangular and reexport transactions are to be encouraged by the two contracting parties. Hence the

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1. This decrease may have been one reason for the conclusion of the trade agreement between the two countries in November 1955.

main effects of that agreement are to be sought in relation to the opening up of markets for Lebanese agricultural and industrial products rather than to the achievement of a bilateral balancing of trade.

6. Other Agreements. The remaining agreements, i.e., those with Turkey, Greece, Brazil and Argentina merely express the will of the contracting governments to encourage trade between their countries and thus are not likely to have had any effects on the volume and the direction of trade.

When the effects of all of the above agreements are considered together, it becomes apparent that only a small part of Lebanon's foreign trade, i.e., trade with Eastern European countries,[1] is actually carried out on a bilateral basis, the remaining part being essentially multilateral in character. Hence very little diversion in trade channels can be said to have taken place as a result of the conclusion of trade and trade and payments agreements, while the magnitude of the overall trade deficit actually increased in the past two years. As a matter of fact, most trade agreements do not provide for any attempts at balancing trade bilaterally,

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1. Imports from and exports to these countries amounted during 1951-1954 to about 3% of total imports and exports respectively. In 1955, however, the proportion of exports increased to about 5.3% of the total.

their main purpose being the encouragement of Lebanese merchandise exports. Hence It may be concluded that Lebanon's foreign trade is still essentially multilateral and that only a small part of it has been diverted into bilateral channels mainly for the purpose of providing markets for Lebanese export products. The effects of the agreements which have been carried out, though none of them is actually fully enforced, have been rather favorable as far as local prices and the production of citrous fruits and certain other products, mainly olive and vegetable oil are concerned. However, the increase in exports is still limited and demands for more agreements as well as for a better enforcement of existing ones are constantly made by Lebanese industrialists and agriculturists. The implications of a greater degree of bilateralization of Lebanese foreign trade as well as its desirability and/or disadvantages will be discussed in the following chapter.

CHAPTER V

BILATERALISM AS AN INSTRUMENT OF LEBANESE COMMERCIAL POLICY

A. Introduction

In the preceding chapters the effects of the various trade and trade-and-payments agreements concluded between Lebanon and other countries, on Lebanese foreign trade, agriculture, and industry were reviewed, and it was pointed out that pressure is being exerted by associations of Lebanese industrialists and agriculturists for the negotiation of more agreements as well as for better enforcement of the ones already in existence. It was also mentioned that only the agreements with Eastern European countries involve an explicit attempt at balancing trade bilaterally, and that as trade with these countries constitutes a very small part of total Lebanese foreign trade, that trade may be still considered as essentially multilateral. In the present chapter an attempt will be made at deciding whether the bilateralization of a greater part of Lebanese foreign trade is likely to help the development of the country by opening up markets for Lebanese agricultural and industrial products, as well as by adding to the stability of the balance of payments situation which depends to a considerable extent, at present, on such items as capital inflows of "the transit type",[1] donations, exchange and triangular operations etc., which items are beyond the direct control of the local authorities. Once this is done and in the light of the answer given to it, an attempt will be made at laying down some general principles of Lebanese commercial policy that would seem likely to foster the economic development of the country and hence to raise its standard of living. Such a policy has many political and social implications in addition to its economic effects; the discussion that follows will be largely restricted, however, to the economic implications of that policy.

B. The Economic Implications of a Bilateral Trade Policy for Lebanon

1. The Importance of a Liberal Trade Policy for Lebanon. As was mentioned in Chapter II of this study, Lebanon is a country which maintains very few restrictions on trade in goods and services and practically no exchange controls.[2] Moreover, it manifests a large yearly balance of trade deficit, its merchandise imports being five times its merchandise exports.[3] Despite the existence of this deficit,

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1. Capital in transit is foreign capital which is deposited temporarily in Beirut banks and which awaits investment opportunities abroad.

2. The only trade restrictions that exist in Lebanon today are customs duties and import and export licences for an extremely limited number of commodities.

3. In the period 1951-1954 the trade figures were as follows: (in LL. millions)

	1951	1952	1953	1954
Imports	425.5	342.7	413.9	517.5
Exports	91.8	83.0	86.4	95.0

however, the Lebanese balance of payments has been increasingly favourable to Lebanon over the period 1951-1954.[1] In 1955 also, though there was an increase in the amount of the trade deficit, the balance of payments showed a surplus of a slightly smaller magnitude than in 1954.[2] The items that helped cover this deficit were mainly earnings from tourism, profits made on reexport, transit, and exchange operations, donations and capital movements of a transit type, all of which are to a considerable extent dependent on the maintenance of a relatively free trade and exchange policy by the Lebanese authorities. As a matter of fact, the pursuance of a liberal trade policy by Lebanon in a period when most countries maintained strict trade and exchange controls has tended, together with the country's geographical position, to make of Beirut a major center of exchange and triangular operations, as well as an entrepot and a transit center for the Arab World, and a point of departure for Arab and other capital seeking investment outlets abroad. The result was a surve of banking and other trade activities in Beirut and the achievement of a strong payments position despite the existence of a large trade deficit. The importance of a liberal trade policy to Lebanon

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1. The balance of payments surplus was estimated by the Economic Research Institute at the American University of Beirut at LL 18.9 millions in 1951, LL 26.3 millions in 1952, LL 32.9 millions in 1953, and LL 57.0 millions in 1954.

2. The balance of payments surplus in 1955 was estimated by Prof. Paul Klat, on the basis of the change in the foreign exchange reserves during that year at about LL 43 millions (See Commerce du Levant, No. 165, (Wednesday February 29th., 1956). p.4.

may be further illustrated by the fact that about 15% of the national income in 1950 has originated in foreign trade and that of this about 61% were due to imports alone, 29% to transit, and 10% to exports and others.[1] Moreover, the exchange rate between the Lebanese pound and the U.S. dollar has been relatively stable over the past two years, and the international monetary reserves of the country have increased from the equivalent of $ 39.5 million at the end of 1951 to about $ 86.5 million at the end of 1955,[2] both of which facts have led some economists to advocate the stabilization of the exchange rate between the Lebanese pound and the U.S. dollar or gold, thus achieving convertibility as defined by the International Monetary Fund. Hence it may be concluded that all attempts at a large scale interference with the freedom of international trade and payments on the part of the Lebanese authorities are likely to result in the loss of at least some of the foreign exchange earnings from the above mentioned sources. Such a loss is apt to lead either to the restriction of imports or to the development of an unfavorable balance of payments position.

2. Arguments for a Bilateral Trade Policy. On the other hand, it may be argued that the majority of the credit items in the balance of payments are of unstable nature, being

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1. Information secured from the Economic Research Institute at the American University of Beirut.

2. International Financial Statistics, IX (February 1956), pp.142-143.

largely dependent on factors that are beyond the direct control of the Lebanese authorities and that consequently, all efforts must be made at promoting the expansion of merchandise exports which constitute the most stable items in the Lebanese balance of payments.[1] The reduction of the large deficit in the balance of trade, through the expansion of merchandise exports becomes, therefore, according to the advocates of this argument, the major aim of Lebanese commercial policy. To achieve this end a number of methods are usually suggested, the most important of which, from the point of view of this study, is the negotiation of trade or trade-and-payments agreements with as many countries as possible, and the diversion of imports, through administrative action, such as the use of import licences, quotas, and discriminatory tariffs, from those countries that do not conclude bilateral agreements with Lebanon into those that agree to and actually do import from Lebanon goods amounting

1. Considering each of the major credit items in the Lebanese balance of payments separately, it may be argued that donations are subject to the policies of the countries of origin regarding capital transfer, as well as to the state of economic activity in those countries; that capital movements of the type common in Lebanon are subject to sudden reversal; that the earnings from exchange and triangular operations depend on the maintenance of exchange controls by other countries; that earnings from tourism are largely dependent on the level of income in the countries from which tourists come, as well as on the policies of those countries regarding foreign travel; etc.

to a certain predetermined proportion of their exports to that country. Such a policy, it is claimed, is apt to insure the needed markets for Lebanese agricultural and industrial products, thus leading to an expansion of production and hence to a rise in employment and in the standard of living of the country as a whole. The narrowness of the local market and the unavailability of foreign markets are two of the main, if not the two major, hindrances to the development of Lebanese agriculture and industry. The increase in merchandise exports, it is also argued is apt to lead to a better distribution of the gains from trade[1], as it is the districts that benefit the least from the present free trade policy, namely, Mount Lebanon and the districts around Tripoli, Saida, and Sour, which are likely to derive most of the profit that may accrue from an increased exportation of apples and citrous fruits.

The present prosperity which is attributed to Lebanon's free trade policy is confined to Beirut according to the holders of this view, while the rest of the country derives very little benefit from foreign trade. A commercial policy that can be expected to lead to a more equitable distribution of the benefits arising from trade, among the various districts of Lebanon, is therefore, justifiable on social as well as on economic grounds. Furthermore, it is sometimes suggested that a country which

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1. The term gains from trade is used in this chapter to denote all the profits accruing to Lebanese residents from foreign trade or related activities.

relies to a large extent on earnings from sources that cannot be locally controlled is likely to be considerably affected by the commercial and other economic policies of the countries from which those earnings are derived, and hence runs the risk of becoming particularly susceptible to foreign influences.

3. Limitations of the Arguments for Bilateralism. A careful study of the above arguments will reveal that though they may have a considerable amount of truth in them, they are rather one-sided, as they do not take into consideration the reduction that may occur in the total volume and profitability of trade as a result of pursuing a strict bilateral policy, as well as the possible suppression of some of the major credit items in the balance of payments.[1] The arguments equally leave out the fact that the expansion of merchandise exports and the better distribution of the gains from trade may be achieved through other means such as reduction in costs and improvement in quality of Lebanese products, utilization of subsidies, better advertisement, and public finance measures designed to achieve a more even distribution of income among the various districts of Lebanon. Furthermore, they tend to overlook the fact that it is the balance of payments of a country, and not its balance of trade which determines its international position, and that a favorable balance of payments in an important asset to a country seeking

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1. Merchandise exports cannot be expected in the near future to reach the present level of merchandise imports.

seeking economic development and which as such requires considerable quantities of foreign exchange for the purchase of capital goods abroad. In addition a favourable balance of payments is one of the factors that tend to create an atmosphere conducive to foreign investment.[1] Furthermore, Lebanon depends to a large extent on the importation of machinery and other capital goods, as well as the importation of various manufactured articles and some agricultural items, from the United States and the countries of Western Europe, which require payment in dollars, sterling, or francs. Merchandise exports cover only a small part of these imports, the rest being paid for from the earnings of such sources as capital inflows, tourism, transit and entrepot trade, and donations, all of which depend to a considerable extent on the maintenance of the free trade and exchange policy presently pursued by the Lebanese authorities.[2] Hence, a large scale bilateralization of foreign trade in Lebanon may actually lead, through the imposition of such trade and payments controls as discriminatory tariffs, licensing and the subjection of international payments to administrative authorization,[3] to

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1. A country with a favourable balance of payments is likely to find it much easier to obtain long-term or even short-term loans from abroad than one which experiences balance of payments difficulties. In addition such countries are usually able to maintain a free exchange system which tends in its turn to attract foreign funds into the country in question.

2. For a discussion of the reasons for the dependence of these items on the maintenance of a free trade and payments policy, refer to Chapter II.

3. Payments controls need not be introduced if only purely trade agreements are concluded.

a reduction of the earnings from these items and hence either to a restriction of imports or to balance of payments difficulties, unless merchandise exports increase sufficiently to fill the gap created by that reduction.

Moreover, the carrying out of trade on a bilateral basis may result in some loss in the profitability of trade as Lebanese traders will be obliged, through licensing, quotas, and other forms of administrative control to buy from those countries which have imported from Lebanon goods amounting to a certain pre-determined ratio of their exports to Lebanon, though the prices of their exports may be higher than those of other countries. In addition, some losses are liable to arise from the delays, favouritism, and red tape which are usually involved in the enforcement of controls by an inefficient administration such as the one existent in Lebanon. Furthermore, should the settlement of international payments be also regulated for the purpose of insuring the proper functioning of clearing arrangements,[1] Lebanon may tend to lose much of its attractiveness to foreign capital which is mainly attracted at present by the lack of restrictions on its movement into and out of Lebanon. Also the clearing process itself, as was already mentioned several times, may lead to the omission of

1. This assumes of course that a bilateral trade policy will involve the negotiation of a large number of clearing arrangements in addition to trade quota agreements and similar forms of bilateral trading.

certain items from trade between the two countries, e.g. triangular and exchange operations, because of the difficulty of obtaining physical evidence of them.

4. The Case for a Limited Utilization of Bilateral Trading Methods. On the other hand, the negotiation of bilateral agreements with some countries, particularly those with a state-managed foreign trade may, as has been pointed out in chapter IV, result in an increase in the amount of trade done with those countries, thus opening up new markets for Lebanese products, while leaving the bulk of Lebanese foreign trade essentially free and multilateral. As a matter of fact, some of the agreements already concluded have actually resulted in a sensible increase in the sales of Lebanese citrous fruits to the other contracting parties, which increase has contributed in its turn to the improvement of the prices of citrous fruits and, possibly also, to the rise in the prices of agricultural lands in Northern and Southern Lebanon.[1] Such an increase in the exports of agricultural products may, if realized on a larger scale, lead to a rise in the purchasing power of Lebanese agriculturists and consequently to an increase in the local demand for Lebanese industrial products.

The reason agreements with state-trading countries are likely to prove of some use in opening up markets for

1. Refer to Chapter IV.

Lebanese merchandise exports is mainly the fact that foreign trade in those countries is conducted under a state monopoly and as such may be influenced by non-economic as well as economic considerations. As a result the governments of such countries may actually refuse to buy from countries with whom they do not have bilateral agreements, while they may be willing to import from states to whom they are linked by such agreements at prices which are higher than those obtainable elsewhere. The increase in the purchases of the USSR from Lebanon after the negotiation of a trade-and-payments agreement between the two countries in April, 1954 from nil in the year in which the agreement was negotiated to over LL 3 million in the following year is a case to cite in this respect, especially when it is realized that the prices of Lebanese export products were somewhat higher than world prices of similar products.[1]

In Lebanon, however, importation is still essentially free from government intervention, except for customs duties. Hence Lebanese private traders are not likely to import from the other parties to bilateral agreements, if the prices, qualities and delivery dates of the export products of these countries are less favourable than those of similar products exported by other countries. Also in trade with countries that maintain strict trade and exchange controls such as France and Italy, which have specific quota systems, trade agreements

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1. The agreement with Czechoslovakia has also led to an increase in Lebanese exports to that country.

of the quota agreement type[1] may stimulate exportation from Lebanon by guaranteeing, if properly enforced, that the other party will allow the importation of certain Lebanese products up to specified value or volume limits. In the absence of such agreements, that party may refuse to issue the required licences or quotas for Lebanese exports thus preventing their importation by its residents. Such agreements, however, need not provide for the bilateral balancing of trade between the contracting parties, or even for the establishment of a certain pre-determined ratio between the exports of each of the two countries to the other, but may merely stipulate that the party with trade restrictions will allow the importation of certain listed commodities of Lebanese origin up to specified value or volume limits while importation into Lebanon remains free of restrictions.

The main characteristics of such agreements is, therefore, that they guarantee the issuance by the other party of quotas and licences for certain Lebanese products without insuring that these products will be actually imported, since trade on both sides is carried out by private traders who are mainly motivated by profit considerations. It is hence the prices, qualities, grading, method of packing, delivery dates, etc. of Lebanese products which basically determine the demand for them in the other contracting parties. The negotiation of trade

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1. See Chapter III.

agreements of this type, unless accompanied by purposive discrimination on the part of the Lebanese authorities against imports from countries that do not import from Lebanon, a certain predetermined proportion of their exports to that country, seems thus to be a factor of minor importance in determining the demand for Lebanese exports abroad. In fact, when accompanied by such measures as indicated above, trade agreements of this type may not lead to an appreciable expansion of Lebanese merchandise exports to such countries as the United States and the United Kingdom, Lebanon being a small state whose purchases from those countries constitute an insignificant part of their total exports; also, as trade in such countries is essentially free from administrative direction, an attempt to direct trade, on the part of the Lebanese government is almost certain to abort.

Nevertheless, the agreements may serve as advertising devices by pointing out to importers in the other contracting parties, who may not have been aware of the possibilities of importation from Lebanon, that Lebanon can export certain specified products to them. As a matter of fact, knowledge of foreign trade markets is far from perfect, and the pattern of trade may in some cases be the result of a certain historical accident rather than the outcome of factor endowments.[1] Actually, trade patterns between a number of countries, especially between a developed and an underdeveloped country, may have been

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1. S. Makdisi, op.cit., 57.

influenced, to a considerable extent, by such factors as military conquest, political domination, the lack of entrepreneurial skills in the underdeveloped country, and other similar factors. Moreover, exporters and importers in many countries have a tendency to follow established trade patterns and hence may overlook certain possibilities of establishing new trade relations.

Hence a certain degree of governmental intervention with the working of the price mechanism in international trade may in certain cases, such as when it is likely to result in the establishment of new trade relations or the overcoming of certain rigidities of the market, prove to be useful for countries seeking economic development. The governments of such countries may also find it advisable to interfere with the interplay of market forces for the purpose of encouraging capital acquisition by overcoming the so-called demonstration effect, i.e., the tendency of relatively poor countries to adopt the consumption patterns of richer countries with whom they trade; this purpose may be also achieved, however, through public finance and hence need not lead to the imposition of trade restrictions.

5. Liberalization of Lebano-Arab Trade Relations. Another type of trade agreements which is likely to be most effective in promoting the development of Lebanese agriculture and industry is that which provides for some liberalization of the trade and payments relations between Lebanon and other Arab countries.

As was already mentioned, the Arab countries, mainly Syria, Saudi Arabia, Egypt, Jordan and Iraq, provide the major market for Lebanese agricultural and industrial exports havihg absorbed an average of about 40% of those exports during the period 1951-1954.[1] Moreover, the lowering of the barriers imposed upon the exchange of goods and services, and the making of payments, or the transfer of capital among Arab countries is likely to be particularly useful to Lebanon which is the country with the least amount of trade and payments restrictions in the group.

Furthermore, such a reduction, or abolishment, of trade barriers, including customs duties is apt to increase the possibilities of specialization among Arab countries and thus help avoid the establishment, in each of the countries, of small uneconomic industries producing the same kind of products, as is the case today. The freeing of capital transfers, in its turn, is likely to result in a better distribution of investible funds among the countries of the region.

At present, one of the major weaknesses of Lebanese industry in particular, and of Arab industries in general, is the over capitalization of certain branches of industry and the lack of sufficient capital in others:[2] The intensity of the

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1. Egypt is the major export market for Lebanese apples, followed by Iraq, Syria, Jordan and Saudi Arabia. Moreover, these countries constitute important markets for Lebanese industrial products and are the major countries of destination for Lebanese reexports.

2. This is illustrated by the multiplicity of similar industrial concerns working at 2/3 or even 1/3 capacity.

problem becomes greater when the Arab states are taken as a unit, for most of these countries are trying through tariff protection, government subsidies, the extension of long-term credit at favorable rates, the conclusion of trade agreements, and other similar measures to stimulate the development of similar industries, such as, cement, food and beverages, breweries, textiles, etc. This lack of coordination of industrial policies followed by the various countries of the region is one of the major factors which contribute to the multiplicity of small-sized concerns producing similar products, and consequently, to the loss of the main benefits of large-scale production.

To achieve such a coordination, however, a greater degree of economic integration than is provided by bilateral or even multilateral trade agreements of the type existent at present may be needed, e.g., a customs union. Such a kind of integration requires the adoption by the member countries of similar commercial monetary and fiscal policies; the unification of the customs duties imposed on imports from non-member countries; and the establishment of a system that insures the convertibility of the member countries' currencies into one another. The practical difficulties implied in achieving such a coordination of policies among sovereign states, each having its own economic problems, its independent legislature, its vested interests, and may be also its peculiar political and economic philosophy are too obvious to warrant a detailed discussion.[1] It seems, therefore, sufficient to point out simply to the fact that the establishment of a customs union or any other form of regional economic integration may necessitate the introduction of certain modifications into Lebanon's present free trade and payments policy, hence making it imperative to weigh the probable advantages of economic integration against the loss that may possibly arise if a less liberal trade policy were to be adopted as a result of that integration.

6. Recapitulation. The advantages of a free trade and payments policy for Lebanon have been already reviewed; and it was pointed out that in view of the peculiar importance of foreign trade, especially imports, for the Lebanese economy and of the heavy dependence on service items and capital inflows as a source of needed foreign exchange for the country, the maintenance of such a policy seems to be advisable. On the other hand, it was also mentioned that a number of the major credit items in the balance of payments are beyond the direct control of the local authorities, thus resulting in a precarious balance of payments position. In addition, it was

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1. The adoption of similar economic policies would require the establishment of an autonomous body for the coordination of these policies and thus may necessitate the surrender by the legislatures of the parties concerned, of some of their legislative powers. Moreover, each of the member states may have its own commercial, monetary and other economic problems and hence may be reluctant to follow the same policies as the others.

indicated that the development of Lebanese agriculture and industry is dependent, to a considerable extent, on the opening up of foreign markets for Lebanese merchandise exports, which fact, together with the precariousness of the balance of payments situation, tended to point out towards the desirability of some form of governmental intervention for the purpose of expanding Lebanese merchandise exports.

The methods that are usually suggested, for achieving this end, are mainly two, the negotiation of bilateral trade or trade-and-payments agreements, and the establishment of a greater degree of economic integration among the members of the Arab League. A bilateral trade policy, however, may lead, if carried far enough to achieve effectively the above indicated purposes, to the limitation of the presently followed free trade and payments policy. Hence it becomes imperative to devise a solution that would be likely to stimulate the expansion of merchandise exports without resulting in a contraction in the volume and the profitability of trade or in the development of an unfavorable balance of payments position.[1]

C. Suggestions for Future Commercial Policy

In view of what has been already mentioned regarding the Lebanese balance of payments and the importance of foreign trade in general and of imports in particular, the maintenance

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1. The expansion of merchandise exports itself may be expected to lead to a better distribution of the gains from trade among the various districts of Lebanon.

of a system of free multilateral trade and payments seems to be strongly advisable. The particular geographical position of the country which favors the development of tourism, transit, and entrepot tends, in its turn, to add to the desirability of a free multilateral trade policy for Lebanon.[1]

The adoption of a large scale bilateral policy by the Lebanese authorities does not seem, therefore, to be appropriate as it is likely to lead to a contraction of the total volume of trade and probably also to an unfavorable development in the balance of payments position.[2] Furthermore, the fact that trade will have to be balanced with each country separately may lead to a reduction in the profitability of trade as traders will not be free to buy in the cheapest market nor to sell in the best one. This will be the case if a large scale bilateralization of Lebanese foreign trade is to take place; such a bilateralization is apt to result in the imposition of trade, and possibly also payments, controls in Lebanon, for the purpose of achieving bilateral balance in trade with the other parties to bilateral trade and/or trade and payments agreements.

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1. The importance of a balance of payments surplus for economic development as well as the contribution of the present free trade policy to achieving such a surplus and to raising the standard of living of the country have been already dealt with.

2. In view of the present production structure of the country it seems extremely difficult to raise the present level of merchandise

Such a regulation of trade and payments need not actually take place, if only a small part of Lebanese foreign trade is diverted into bilateral channels while still maintaining a general free trade and payments policy. As is the case at present, a limited number of agreements may be concluded with some foreign countries without the regulation of the movement of goods and services or the making of current payments. On the other hand, it must be pointed out that such a policy is not likely to be particularly effective in stimulating Lebanese exports since the agreements concluded may not be actually enforced. As a matter of fact, up to the present only the trade and payments agreements with certain state-trading countries, namely, the USSR and Czechoslovakia, and the trade quota agreement with France, seem to have resulted in some stimulation to Lebanese exports, mainly citrous fruits and olive oil, exception being made, of course, for the agreements with Arab countries which are of a completely different nature.

The reason for the relative ineffectiveness of most other agreements is most probably the fact that trade in the contracting countries is carried out by private traders who may not find it profitable to expand their imports from Lebanon. Moreover, as importation into Lebanon is almost completely free, except for customs duties, the trade authorities of the other

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exports to that of imports, while the bilateralization of trade may lead to the suppression of some of the service items which help cover the trade deficit at present. (Refer to Chapter I.)

parties to trade agreements are not likely, except if motivated by non-economic considerations, to attempt at directing trade in such a way as will increase importation from Lebanon. Hence it becomes evident that in addition to the negotiation of some trade agreements, i.e., trade and payments agreements with state-trading countries and trade quota agreements with countries that maintain quota systems, other means will have to be devised for the purpose of expanding merchandise exports, if the problem of markets facing Lebanese agriculture and industry is to be solved.[1]

D. Conclusions

1. The Use of Bilateral Agreements. As has been already repeated several times, the maintenance of a system of free multilateral trade seems most likely to result in a maximization of the gains from trade. However, a limited degree of governmental intervention in foreign trade may be necessary for the purpose of opening up markets for Lebanese agricultural and industrial products, as well as for achieving a greater proportion of capital imports and a better distribution of the gains from trade. Hence a diversion of a small part of Lebanese foreign trade into bilateral channels, while still maintaining a relatively free multilateral trade system, may actually prove

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1. The main other objectives of the suggested policy are the maximization of the gains from trade, and the achievement of a better distribution of them.

to be helpful to the development of the country, if it leads to an expansion of exports without resulting in a contraction in the volume and/or the profitability of trade.

On the basis of Lebanon's present experience with bilateral trading methods, it may be maintained that bilateral agreements are likely to be most effective when concluded with state trading countries, such as the USSR, Czechoslovakia, Poland, Rumania, etc. The experience with the agreements concluded between Lebanon and some of these countries, namely, the USSR and Czechoslovakia, seems to support this proposition as they have led to an increase in the amount of Lebanese exports to those countries without leading to an overpricing of Lebanese imports or a contraction in the total volume of Lebanese foreign trade.[1] On the contrary, the prices of the other parties' imports from Lebanon seem to have been relatively high as compared to those of similar items obtainable elsewhere, while the prices of those countries' exports to Lebanon were based on world prices, and in some cases were even lower.

In addition, agreements which provide for the granting of import quotas for Lebanese products by countries which maintain direct trade controls may, if properly enforced, facilitate the entrance of Lebanese products into those countries without leading to an artificial diversion of trade and hence to a reduction in its volume or profitability. As

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1. Refer to Chapter IV.

to the other agreements, though they are not likely to be particularly effective in stimulating trade in general, and Lebanese exports in particular, they may serve as advertising devices for Lebanese exports.

Hence it may be concluded that, despite the fact that the maintenance of a free multilateral trade policy is essential for the development of the country, the negotiation of trade-and-payment agreements with the countries of Eastern Europe, as well as of trade quota agreements with countries which maintain direct trade controls may prove to be helpful in stimulating Lebanese merchandise exports and hence in promoting the development of Lebanese agriculture and industry. Nevertheless, as the percentage of trade conducted with Eastern Europe is exceedingly small and as the agreements with non-state-trading countries do not insure the importation by the other party of any amount of Lebanese products but simply provide for the issuance of import quotas and licences, the devising of other measures for the promotion of merchandise exports seems to be necessary.

1. Arab Economic Cooperation. One such measure is the promotion of a greater degree of Arab economic cooperation through the negotiation of both bilateral and multilateral agreements providing for the liberalization of trade and payments among the members of the Arab League. This, however, should only be the first step towards some form of Arab economic integration, e.g. a customs union, the advantages of

which were reviewed in the first part of this chapter. As was mentioned then, the advantages of such an integration ought to be weighed against the probable disadvantages of a possible limitation of Lebanon's present free trade policy. In the meantime, it may be asserted that all attempts at liberalizing inter-Arab trade are likely to be particularly useful to Lebanon which depends primarily on the other Arab countries for marketing its merchandise exports, and which receives annually considerable amounts of capital from those countries. Moreover, Lebanon depends on the Arab States for a considerable amount of its imports, and derives quite respectable amounts of foreign exchange each year from the services it renders to Arab tourists, estiveurs, students, patients, etc.,

3. Other Measures. Other than the negotiation of trade agreements and the promotion of a greater degree of Arab economic integration there are a number of measures which may be adopted for achieving one or both of two major purposes, namely, the expansion of the volume of merchandise export and the achievement of a better distribution of the gains from trade between the various districts of the country. Such measures will not be discussed in detail here, as they fall beyond the subject matter of this paper. However, they will be mentioned briefly in order to attract attention to them.

The most effective of these measures seem to be those which are likely to lead to an improvement of the qualities of Lebanese products and the methods of marketing them, as well as to the lowering of their cost of production and hence possibly their prices. Thus, the Lebanese authorities can set up special institutions for the provision of technical assistance to Lebanese industrial concerns, which may help reduce the cost of production of Lebanese products. They can also establish specialized financial institutions that will provide Lebanese agriculture and industry with the capital they need at favorable interest rates and which will participate, where necessary, in the setting up of new industries. The government can in addition establish vocational schools which will insure an adequate supply of trained labor for both industry and agriculture. It may also exempt the raw materials used by local industries from customs and excise duties thus tending to reduce their prices. Furthermore, the local authorities can help in the improvement of the methods of marketing Lebanese products by improving the methods of grading and packing those products, by providing adequate means of transportation both internally and with other countries, by promoting the establishment of marketing cooperatives, by closely inspecting all products destined for exportation before they are actually exported, and preventing the exportation of items of poor quality, and other measures. In addition, they can set up in the major foreign markets special bureaus which will collect information regarding the possibilities of exportation to those markets and which will advertise Lebanese products.

Such measures, if properly carried out, are likely to improve the competitive position of Lebanese exports in foreign markets and consequently to result in their expansion. Moreover, they are not apt to have any adverse effects on imports or on the major service items in the balance of payments, as they do not involve any interference with freedom of trade or payments. They will thus enable the Lebanese authorities to expand merchandise exports without having to impose trade or payments restrictions. However, such measures are of a long-run nature and as such cannot be expected to be particularly effective in the short-run. Hence the need may remain for some other measures which are likely to be more effective in the short run, such as the conclusion of a limited number of bilateral agreements, and the reduction of barriers to trade with neighboring Arab countries.

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