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TRADE AGREEMENTS OF LEBANON

BY

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A thesis submitted in partial fulfillment for  
the requirements of the degree of Master of Arts  
in the Department of Commerce of  
the American University of Beirut  
Beirut, Lebanon  
October 1957

## ABSTRACT

In Lebanon the policy of trade agreements started immediately after the economic break with Syria in 1950. With the termination of the union, and the consequent economic independence achieved by the Lebanese Government, a new tendency became apparent in Lebanese commercial policy, namely, the conclusion of bilateral trade agreements.

The main purposes of the trade agreements are the opening up of markets for Lebanese industrial and agricultural products and, at the same time, reducing the large trade deficit by means of more exports. The present paper attempts to discover if these purposes have been served.

The thesis is divided into five chapters. Chapter One is an introduction which discusses Lebanese commercial policy and the circumstances which seemed to necessitate the conclusion of trade agreements. The reactions of the different segments of the business community are also discussed. For example, on the one hand, the industrialists and agriculturalists saw advantages of using trade agreements to expand their markets on the basis of balanced trade. On the other hand, the merchants were opposed because they felt that trade agreements would mean not more trade but less.

It should be pointed out that trade is the backbone of the Lebanese economy, trade which is largely based on a free foreign exchange market and a more or less liberal com-

mercial policy. There seems to be a certain incompatibility between traditional Lebanese trade policy and that which leads to bilateral trade agreements. This suspected incompatibility is investigated in the following pages. To facilitate this task, we have divided the trade agreements into three major groupings according to their principal characteristics. As the groupings also reveal a geographical concentration, the reader will find the following three chapters dealing with the Arab countries, western countries, and eastern countries in that order.

In Chapter Two we have analyzed the agreements with Arab countries providing for preferential treatment. These agreements have had limited effects on the promotion of trade between the contracting parties, because they did not provide for sufficient liberalization of Arab trade relations.

Concerning the trade agreements with western European countries, dealt with in Chapter Three, their main purpose is the expansion of Lebanese exports by the grant of quotas by these partner countries. This purpose has not been fulfilled, as the trade statistics show, for reasons which the paper brings out.

In Chapter Four, we have analyzed the trade and payments agreements with the eastern European countries, agreements involving an explicit attempt at a bilateral balance of trade.

Finally, in Chapter Five, we have evaluated the trade agreements in the light of the revenue items in the Lebanese

balance of payments. Reference has been especially made to the bilateral trade agreements which stipulate for a balanced trade and their prospective effects on the diversion of trade from its normal channels, in the case where they were fully enforced. Furthermore, the general dangers of bilateral trade agreements are pointed out as palliative measures of short duration and as creators of vested interests. New measures of a long-run nature have been proposed as a substitute for trade agreements, measures designed to solve the problem of outlets for Lebanese agricultural and industrial production. Among these are Arab economic integration, improvement of product quality, greater efficiency in production, and establishment of commercial attachés in major foreign countries.

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# C H A P T E R O N E

## INTRODUCTION

In the period between 1920 and 1943, the economic policy of Lebanon was drafted to the detriment of the Lebanese economy by the economic advisers and the financial experts of the mandatory power. As Syria and Lebanon had an economic union, the commercial relations between these two countries were free. Also relatively free were the relations between the union and the rest of the world.<sup>1</sup> Before the Second World War, there were no import licensing requirements, trade agreements, or exchange controls. National industries were not yet developed in Lebanon, and agricultural production was also relatively small. In that period, Lebanon depended for its foreign exchange mostly on the tourist trade, services, trade, and transit.

Since the winning of independence in 1943, Lebanon has been without a really coherent long-run economic policy. During the war, trade barriers, such as import-export licensing and exchange control<sup>2</sup> were instituted. Since the war, Lebanese policy

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1. Even before the first world war, there was a uniform customs duties of eight per cent ad valorem on all imports to Lebanon. The duties were not for protection at all, but only for fiscal purposes. Before the eight per cent, it used to be five and three per cent.
  2. Imports were restricted and rationed by the Middle East Supply Center.

has wavered between one of liberal trade (a minimum of barriers) and protection for its growing agricultural and industrial production. It is with the role played by trade agreements in this process of finding a policy that this thesis is concerned.

#### A. Lebanese Commercial Policy

The present commercial policy of Lebanon dates back to 1950 when the customs union between Syria and Lebanon was terminated. In fact, one of the main reasons for the economic rupture was a disagreement on commercial policy. Syria wanted to impose restrictions on imports in order both to save foreign exchange for development purposes and to protect local industry. Lebanon, on the other hand, took the position that the best policy was a relatively free trade one, and in cases where protection was provided for local industry, it should be in the form of tariffs rather than licensing and quotas which would have been necessary if the Syrian policy was adopted.

With the economic separation from Syria, the Lebanese Government incurred a big responsibility which necessitated urgent measures to find new foreign outlets for the national production and, at the same time, to improve the balance of trade of the country. We can see now that trade agreements were thought to be the answer to these two related problems.

On the import side, all quantitative restrictions imposed during the war in effect were removed.<sup>1</sup> Imports are now

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1. Import licensing still exists for most commodities (with some exceptions noted below), but it is a mere formality. Importers order the goods; and once the goods arrive at customs, the importers go to the Ministry of National Economy and get the licenses.

free and so are exports. (Exception should be made of temporary measures and decrees.) The only restriction on imports in Lebanon today is in the form of customs duties. That this liberal trade policy of the Government has not resulted in a deficit in the balance of payments is demonstrated by the surplus of gold and foreign exchange of LL. 18.9 million in 1951, LL. 26.3 million in 1952, LL. 32.9 million in 1953, LL. 57 million in 1954, and LL. 32.1 million in 1955.<sup>1</sup> In case Lebanon had experienced a deficit in its balance of payments, then it would have been important to improve the balance of trade position. But as long as it had a surplus, the Lebanese economy was healthy, and there was no reason to apply corrective measures. However, there still remained the problem of "surplus" production in Lebanese agriculture and industry. As a consequence, the Government turned to trade agreements.

#### B. Trade Agreement Policy

The Lebanese policy of trade agreements was inaugurated in 1950 when an agreement was signed with Italy. In the following years, agreements were signed with the countries listed below:

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1. Balance of Payments of Lebanon (1951-1955), prepared by the Economic Research Institute in the American University of Beirut (Mimeographed).

<u>Country</u>	<u>Date</u>
Italy	May, 1950, and November, 1955
Iraq	February, 1951
Egypt	September, 1951, and February, 1956
West Germany	November, 1951, and June, 1954
Syria	February, 1952, and March, 1953
Czechoslovakia	June, 1952, and November, 1954
Jordan	August, 1952
Yugoslavia	July, 1953
East Germany	December, 1953, and October, 1955
Russia	April, 1954, and October, 1956
Turkey	April, 1955
France	April, 1955
(Mainland) China	December, 1955
Poland	January, 1956
Rumania	January, 1956
Saudi Arabia	April, 1957

These agreements are not homogeneous in their characteristics, but it is possible to break them down into three classifications.

1. The sister Arab countries with whom Lebanon has not only concluded bilateral agreements, but also a multilateral one within the framework of the Arab League. (Under the multilateral agreement of September, 1953, agricultural and animal goods of Arab origin are admitted completely free of duty in all signatory countries. Industrial goods, which contain 50 percent of local raw materials or labor, are admitted at preferential rates.)

In general, trade agreements contracted between Lebanon and the Arab countries contain a preferential treatment clause. This clause is not found in treaties concluded with countries outside the Arab League.

2. Countries with a partially controlled economy such as Italy, West Germany, France, Yugoslavia, and Turkey. Here the contracting parties have pledged most-favored-nation treatment, rather than preferential treatment. (There are no quotas between Arab countries, so the obligations do not arise.)

3. The third category consists of agreements concluded with countries behind the "Iron Curtain", i.e., countries where foreign trade is "socialized". Included in this category are Czechoslovakia, U.S.S.R., Rumania, Poland and East Germany. In these agreements, the principle of balanced trade and clearing is stated, a principle not found in the agreements of the other two classifications.

An idea of the distribution of Lebanese trade among the countries in the three classifications can be gained from the following table:

Lebanese Foreign Trade During 1956 by Groups of  
Countries

<u>Group of Countries</u>	<u>Imports</u>		<u>Exports</u>	
	(Value in LL 000) <sup>+</sup>	% of total	(Value in LL 000)	% of total
Arab Countries	188,000	25	62,000	36
Western Europe & U.S.A. <sup>++</sup>	441,000	59	60,000	34
U.S.S.R. & Eastern Europe	39,000	5	10,000	6
Other Countries	<u>83,000</u>	<u>11</u>	<u>42,000</u>	<u>24</u>
Total	751,000	100	174,000	100

+ Conversion is made at the official rate of exchange of 220 Lebanese piasters per dollar.

++ There is no trade agreement with the U.S.A.; however, the statistics are given in such fashion that there is no reliable way to deduct the American share of trade.

Source: Annual Report of the Banque de Syrie et du Liban, July 1957, p/ 4.

In the light of the figures in the above table, we can see that 59 percent of Lebanese imports are from the Western European countries and the U.S.A., imports from the Arab countries account for 25 percent and from the Eastern European countries imports account for only five percent of total Lebanese imports.

Concerning Lebanese exports, 36 percent are directed to the Arab countries, 34 percent to Western Europe and the U.S.A., and only six percent to the Eastern European countries.

Therefore, we can see that trade relations between Lebanon and the Eastern European countries (Russia and its Satellites) constitute a small percentage of the Lebanon's foreign trade.

We said earlier that Lebanon adopted not only a liberal trade policy after the rupture with Syria, but also that it sought, through trade agreements, to find outlets for Lebanese agricultural and industrial products in order to reduce the "surplus" of these products and to narrow the great gap in the balance of trade. In effect, Lebanon was maintaining a liberal policy on the import side while using bilateral agreements to expand exports. (We shall see the consequences of this policy later.)<sup>1</sup>

Despite the Government's efforts to find outlets, at least one segment of the business community, the industrialists, felt that it was not doing enough. About three years ago, the Lebanese industrialists began insisting that the Government should negotiate trade agreements with all trade partners in order to force them to buy from Lebanon as much as Lebanon was buying from them, or at least a substantial percentage of Lebanese purchases. The industrialists saw the advantage of using trade agreements as an instrument of coercion. They

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1. Lebanon, for a time, was a member of G.A.T.T.; but it was obliged to withdraw when it intended to enter into agreements which provided for preferential tariff treatment.

thought that thereby they could impose Lebanese industrial goods on the trading partners. This is the reason why they proposed the principle of balanced trade. The following merchandise trade figures of Lebanon give an idea of the magnitude of the task which the industrialists would set for themselves to close the trade gap.

Merchandise Trade of Lebanon from 1951 to 1955

(In LL. Million)

<u>Year</u>	<u>Import</u>	<u>Export</u>	<u>Deficit</u>
1951	385.3	124.9	260.4
1952	401.0	122.1	278.9
1953	373.7	134.4	239.3
1954	522.2	172.1	350.1
1955	693.5	196.5	497.0

Source: Economic Research Institute, Balance of Payments of Lebanon (1951-1955), (Mimeographed).

In looking at these figures, we see that if there is to be a balance, exports have to increase well over three times, assuming that imports maintain a constant level. Lebanon has then a terrific deficit in its balance of trade; and, in the best of conditions, it could not increase its exports to equal its imports. Therefore, a policy of balanced trade for Lebanon would inevitably mean a massive reduction of imports, lessened only by Lebanon's limited ability to expand exports.



### C. Trade Agreements Committee

In October 1953, a committee composed of members from the Lebanese Ministries of Foreign Affairs, National Economy, Finance, Agriculture and from the "High Council of Customs Authority" was appointed with the function of negotiating trade agreements with foreign countries. The Committee was also to supervise the implementation of the trade agreements, according to the stipulations contained therein.

The Department of Economic Relations in the Ministry of Foreign Affairs undertakes the function of coordination between the different ministries concerned in their relations with the foreign countries in so far as the preparation, negotiation, and implementation of the agreements are concerned.

### D. Characteristics of Lebanese Foreign Trade

A number of factors attribute to Lebanese foreign trade a major importance in the Lebanese economy. This importance is not only due to the geographic position which puts Lebanon at the crossroads of nations, but also to the Government's policy of establishing a free foreign exchange market, and lessening to a great extent restrictions on Lebanese foreign trade as well.

While in most underdeveloped countries, agriculture is more important than either industry or commerce (in terms of national income), in Lebanon it is quite different. Here the trade sector is more important than either of the other two.

It has been found that, for the years 1948, 1949 and 1950, the Lebanese trade sector (internal and foreign) generated LL. 260.6, 278.6, and 299.3 million respectively, constituting around 26, 27, and 30 percent of total national income respectively; while an average of 20 percent of the national income was generated by the agricultural sector, and only around 13 percent by the industrial sector.<sup>1</sup>

A variety of factors have contributed to such a phenomenon among which, as we have noted above, was the economic policy of the Government. This policy of establishing a free foreign exchange market, of extending the free zone, and providing facilities for re-exports and transit trade, has made Beirut an important commercial center.<sup>2</sup>

In general, freedom of importation has always underlined the trade policy of Lebanon. This outstanding feature, not enforced till the break with Syria, was recognized by a law in January, 1946, that exonerated all imports from quantitative restrictions and from prior license requirements. Of course, ad valorem tariffs remained.

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1. Albert Y. Badre and Economic Research Institute Staff, National Income of Lebanon, 1948-1949 and 1950. Income Arising in the Trade Sector, Monograph No. 8. No dependable data are available for other years. The trade sector includes export, import, transit, entrepôt, industrial and agricultural trade.
  2. A considerable income is earned by Lebanon through triangular trade operations, stimulated both by the existence of a free market in Lebanon and the existence of exchange restrictions in both neighboring and foreign countries. No statistics are available, however, to indicate its magnitude.

Subsequently, it was realized that a slight measure of protection is essential for the development of certain growing local industries. Accordingly, decree No. 6780, issued in May, 1949, introduced the prior license requirement in respect to the importation of a number of articles, detailed in a list of 33 items. This list has undergone several amendments until it has taken its present shape in decree No. 9217, of December, 1954. The prior license requirement was retained only for some consumer products.<sup>1</sup> Furthermore, prior licenses are similarly required for all imports of machinery intended for installation in new factories that have existing counterparts in the country. In the matter of tariffs, there is some discrimination which is shown by the classifications below.

1. Maximum rates: These were imposed on imports from Japan until April 1957, but are now no longer applicable.
2. Preferential rates: These are accorded to the products of Arab countries with which Lebanon has concluded the multilateral trade agreement.
3. Normal rates: These are levied on imports from all other countries, now including Japan.

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1. These products are: wheat, barley, flour, maize, sesame oil, cotton seed oil, preserved apples, oranges, lemons, salt, polished leather, leather cases, rubber soles, wood manufactures and furniture, silk yarn, leather and rubber shoes, powdered milk, metallic furniture and silk cocoons.

Of the above items, the following are licensed on a quota basis: salt, leather bags, rubber soles, wood and metallic furniture, leather and rubber shoes.

Customs authorities set the values of imported articles at the official rates of exchange, despite the fact that almost all these imports are paid for with foreign currencies which are provided through the facilities of the free market. Consequently, the true value of the imported goods considerably exceeds the figures quoted in the official statistics. Moreover, the foreign trade statistics do not include articles imported into the Free Zone.

An important thing to be noted is that the effective rate of duty is less than the rate shown in the custom duties schedule, because the latter rate is based on the value of the goods converted at the official rate of exchange which is lower than the one prevailing in the free market. Thus the figures for imports and exports are not truly representative. For more accurate figures, the following modifications must be introduced:

1. The official rate of exchange by means of which the foreign currencies are converted into Lebanese currency is as follows:

	<u>Official Rate</u> (L.P.)	<u>Market Rate</u> (L.P.)	<u>Percentage Increase</u>
U.S. Dollar	221	320	45
Canadian Dollar	221	320	45
Sterling Pound	619	875	41
Iraqi Dinar	619	848	36
Jordanian Dinar	619	825	33
Egyptian Pound	635	743	17
French Franc	.627	.875	40

Source: Le Commerce du Levant, 29 June 1957, No. 301 (En Partant des Statistiques Douanières).

1. The figures for imports from the franc zone should be increased by 40 percent, this being the difference between the official and the average market rates for the franc during the last three years.
2. The figures for imports from the sterling area should be increased by 41 percent.
3. The figures for imports from the dollar area should be increased by 45 percent.

If we assume the average of the above difference to be 42 percent, we arrive at the real value of imports by multiplying the import value of the customs statistics by 1.42. This should be kept in mind when reading the statistics derived from official Lebanese sources, unless it is specifically stated that the case is otherwise.

#### E. Trade Agreements and the Maximum Tariff Issue

In November 1954, the Association of Lebanese Industrialists, as part of its idea for a move toward more balanced trade, submitted a project to a receptive Ministry of National Economy which suggested that a maximum duty equivalent to double the normal rates should be imposed on imports from countries that fail to conclude trade agreements with Lebanon within a maximum delay of six months from the date of promulgating such a measure. This proposal aroused a lot of criticism and was attacked by various economic groups, groups which were headed by the Association of the Merchants of Beirut. The latter denounced this

measure and warned against the rigid adherence to the principle of securing more balanced trade between Lebanon and individual foreign countries as this would inevitably lead to reduced imports. The Association suggested, as an alternative, that the Government should retain the normal tariff on imports from countries that have not concluded commercial agreements with Lebanon and should accord reduced preferential rates to goods imported from countries that have done so.

Early in 1955, the Ministry of Foreign Affairs condemned the maximum duty proposal of the industrialists and submitted a substitute proposal for establishing three classes of customs duties. The three different classes of duties suggested by the Ministry of Foreign Affairs were as follows:

1. Preferential tariffs fixed at 10 percent below the normal tariffs to be applied on goods imported from countries that have concluded trade agreements with Lebanon.
2. Normal tariffs, the same as the rates presently in application, to be levied on imports from countries that grant Lebanon the most-favored-nation treatment in regard to tariffs, licenses or other facilities.
3. Maximum tariffs, equivalent to double the preferential tariffs, to be applied on goods imported from the

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1. In a letter (numbered 21733) addressed to the Ministry of National Economy, the Foreign Affairs Ministry noted that even though it approved the necessity of adopting a policy leading to the improvement of the Lebanon's balance of trade, still it considered that the proposition of the Industrialists Association, as it was formulated, would not achieve the purposes of this policy.

countries that decline to enter into feasible trade agreements with Lebanon, or that abstain from granting Lebanon the most-favored-national treatment in regard to imports.

This proposal seems to have won the approbation and the support of the commercial circles in Lebanon.<sup>1</sup> It is expected that, through this process, Lebanon would be able to negotiate trade agreements more easily with foreign countries. This would be true in cases where countries are interested in taking advantage of a preferential customs duty for their products. On the other hand, the proposition of the Industrialists Association is likely to arouse the disapproval of the foreign countries against such arbitrary measures as it advocates.

Moreover, if adopted, the proposal of the Ministry of National Economy might have an adverse effect on the Lebanese economy itself, because in some cases, the Lebanese economic potentialities for export are not great, and an approach to balanced trade would mean, as we have pointed out, a large reduction of imports. Moreover, import reductions could only be achieved by measures which would invite certain retaliation, and such retaliation would mean an equally certain reduction

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1. The foreign countries have the alternative of choosing any one of the three possibilities, one which is most suitable to their own economies without being compelled to do so.

of Lebanese exports. Thus, such a measure as the industrialists advocate would be self-defeating.

So far, neither the proposal of the Ministry of Foreign Affairs nor the proposal of the Ministry of National Economy has been adopted. In fact, the whole issue has been suspended and things are going on as before. Lebanon has chosen the alternative of no policy at all; the negotiation of a trade agreement with any country is made whenever any economic, political or other opportunities arise. We shall now see what these trade agreements have meant for Lebanon.



## C H A P T E R T W O

### ARAB COUNTRIES

#### A. Trade Relations Among the Arab Countries

In 1951, Lebanon sent to the Arab countries (Syria, Egypt, Saudi Arabia, Jordan and Iraq) 47 percent of its exports (in value terms), amounting to LL. 47 million of a total of LL. 97 million; in 1952, this figure was 48 percent, or 37 million of a total of LL. 77 million. By 1953, 43.6 percent of a total of 87 million went to the Arab countries. Concerning Lebanese exports to individual Arab countries, of the 1953 exports, 15 percent went to Syria, 11 percent to Saudi Arabia, 7 percent to Jordan, 6 percent to Egypt and 4.6 percent to Iraq.<sup>1</sup>

On the import side, Lebanon, in 1951, received 29 percent of its total imports from the above Arab countries, amounting to 93 million out of a total of LL. 320 million. In 1952, it received from the Arab countries 26 percent of its total imports, equivalent to 90 million out of a total of LL. 347 million. In 1953, Lebanon received 34 percent, amounting to 123 million of a total of LL. 361 million. In that year it received 25 percent of its total imports from Syria, 4 percent

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1. Republic of Lebanon, Ministry of National Economy, Bulletin des Statistiques Trimestriel, Volume IV, No. 4, p. 22.

from Iraq, 2.2 percent from Saudi Arabia, 1.4 percent from Jordan, and 1.4 percent from Egypt.

B. Multilateral Arab Trade Agreement of September, 1953

The Conference of Arab Ministers of Finance and Economy which was held in Beirut in May, 1953 succeeded in preparing two agreements which were signed in Cairo in September, 1953 and which were later ratified by Egypt, Lebanon, Jordan, Saudi Arabia, Syria and Iraq.<sup>1</sup>

The trade and transit agreement, although it did not provide for freedom from licensing, did give inter-Arab trade a preference in licenses. It also abolished all customs duties on natural, agricultural, and animal products and gave a 25 percent reduction on the normal customs duties to a long list of products manufactured in Arab countries.<sup>2</sup> This list of industrial products was criticized by Lebanese industrialists as being both limited in scope and allowing only a small tariff preference.

The payment and capital transfer agreement contained provisions to the effect that the contracting parties would facilitate the transfer of payments arising from current transactions (visible and invisible) subject to existing foreign

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1. The agreements consisted of payment and capital transfer agreement, and a trade and transit agreement.
  2. Some of the manufactured products included in the list are the following: butter, all kinds of cheese, flour, olive oil, vegetable oil, canned meat, biscuits, cement, soap, matches, fertilizers, tanned skins, leather, cardboard, leather shoes (of Arab origin), cotton thread yarn and others.

exchange, import and export regulations. Free transfer of capital was allowed only if it were to participate in development projects. Furthermore, its withdrawal to the country of origin would always be permitted.

Obviously, the above treaty has as a primary purpose the encouragement of visible trade between members of the Arab League. This is shown by the exemption of Arab agricultural and animal produce from custom duties and the extension of preferential treatment to Arab industrial products. The facilities it provides for the free movement of Arab capital are limited, while the transfer of payments arising from inter-Arab current transactions have been subjected to existing foreign exchange regulations. Hence, the real significance of the payments transfer provision is dependent upon the degree and nature of exchange control existing in each of the Arab states.

In October, 1954, the Arab countries signed an amendment to the agreements, the main features of which were the extension of the 25 percent preferential schedule to additional products and the creation of a new schedule which gave some of the commodities of the original industrial schedule a 50 percent reduction on the normal tariff. These commodities, listed in the new schedule, require little industrial processing and are actually nearer to the class of agricultural products. Examples would be flour, vegetable oil, and sugar.

C. The Agreements and Their Incidence on the Lebanese Economy

The multilateral trade agreements of September, 1953 were directly inspired by the provisions of Article II of the Arab League Agreement.<sup>1</sup> They represent the first step toward a concrete economic cooperation among the states of the Arab League.

As we have seen, agricultural, animal, and natural products mentioned in the agreements and originating in one of the signatory countries are totally exempted from customs duties of another signatory country. This list is quite important, given the structure of production of the economies involved. It embraces many commodities and products among which are the following: living animals and animal products, fresh or salted fish, milk, eggs, honey, nursery stock, vegetables, cereals, seeds, unroasted coffee, cotton seed, mineral products (salt, phosphate, gypsum, etc.), timber, hides, cotton, flax, and hemp.

As for industrial products, another list indicates those liable to a 25 percent tariff reduction from the normal rate. These products include butter, cheese, roasted coffee, flour, starch, vegetable oil, canned fish and meat, farinaceous

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1. In Article II of the Arab League Agreement, it is stipulated that the purpose of the Arab League, among other things, is to promote a close cooperation among the member countries in the economic and financial areas, including the commercial exchanges, customs duties, monetary policies, and agricultural and industrial matters.

foods, biscuits, canned fruits and vegetables, cement, paints, varnishes, and handicraft articles. In general, all these commodities correspond to the products currently manufactured in Arab countries. Also included are other industrial products (which are not listed in the agreement), originating from outside the Arab countries but to which there has been "value added" within any Arab country in the amount of at least 50 percent.

The multilateral trade agreement also includes a transit arrangement which establishes certain facilities for the transit trade and which provides for flexibility of a number of commercial and administrative regulations such as the details of custom declarations, and the treatment and inspection of goods in transit.

#### D. Bilateral Trade Agreements with Arab Countries

##### 1. Trade Agreement with Syria

The economic separation of Syria and Lebanon has now entered its seventh year, and negotiations are still proceeding for finding a stable arrangement for the permanent economic relations between the two countries. Thus far, a modus vivendi has not been achieved, and a temporary agreement signed in March, 1953 has been given another brief extension. (This agreement is discussed below.)

In 1954, Syria submitted a draft proposal for re-establishing economic unity between Lebanon and Syria, unity

which would enable the free movement of national and foreign goods between them. The proposal also provided for free movement of capital and persons, movement which would include freedom of work, residence, ownership, transport, transit, and use of communication facilities.

Lebanese experts have made certain reservations to this proposal and have countered with several amendments relating to unity of legislation in customs duties, taxes, monetary, and financial matters. They have also demanded freedom of ports and the annulment of the famous Syrian decree No. 151.<sup>1</sup> It is here that matters now stand.

a. Description of Lebanese-Syrian Trade Agreements

Every trade agreement between the two countries since March, 1950, has been described as temporary, the declared intention being the conclusion in the future of a more complete agreement which would include the restoration of the customs union, or even the establishment of a full economic union. As we have seen in the previous section, no permanent agreement has been reached thus far.

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1. Up to 1951, almost all external trade of Syria was handled through Beirut by Lebanese firms. Later, the Syrian Government, through Decree No. 151, encouraged importers and exporters to use Latakia Port rather than Beirut and steps aiming at preventing foreign businesses from being represented in Syria by foreigners (including Lebanese) were taken.

After the break in March, 1950, the exchange of local commodities between Syria and Lebanon was allowed "within the needs of each country for consumption", but it was subjected to the normal customs tariffs, laws, and regulations. This obviously put trade relations between the two countries on the same level with those prevailing with the most distant countries.

The first change from this situation came with an agreement signed in February, 1952. Article III of the agreement provides for the exchange of agricultural and animal products, originating from either of the two contracting parties, free of customs duties and of export-import licenses. This article, however, is weakened by an exception which allows licensing to be imposed in exceptional circumstances. Article IV stipulates the imposition of a unified minimum tariff on agricultural and animal products not originating within the territory of either of the parties.

Industrial products manufactured locally were divided into three kinds:

- (i) Products exchangeable free of customs duties (schedule 2). These products include canned vegetables and fruits, glassware, stone mills, vinegar, ceramics, rope, mats, carpets, wooden mosaics, copper and bronze products, asphalt, sugar products, crushed stone, fire tiles, aluminium goods and cement pipe. On these

products, a minimum tariff on foreign imports is also laid down.

- (ii) Products exchangeable on a reduced tariff equivalent to two-thirds of the normal tariff (schedule 3). These goods include starch, flour products, women's stockings, beer, chocolates, biscuits, wine, cement tiles, iron metal work, sacks, natural silk yarns, glucose, furniture, cardboard, cement soap, mirrors and tanned hides.
- (iii) Other industrial products in which local raw materials and labor costs form no less than 50 percent of the value are exchangeable subject to the normal tariff.<sup>1</sup>

It is to be noted that this agreement was concluded before the Arab multilateral agreement which was more liberal in the treatment of goods containing 50 percent of local raw materials and labor.

If Lebanon were interested in improving its balance of trade, it was doubtful if the above agreement would contribute to that end. This was so because Syria is an animal-raising country, while Lebanon is not. The abolition of duties on animal and dairy products could only worsen for Lebanon the

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1. E.J. Boustany, Recueil des Traités, Publications du Ministère de la Justice, Vol. II, p. 953.



situation which existed when the normal tariff prevailed. This situation is best described by the experience of the period from March - December, 1950, when Lebanon exported animal and animal products to Syria in the amount of only eight percent by value of its total exports to that country, while, at the same time, these products accounted for 99 percent of total Syrian exports to Lebanon. Therefore, Lebanon is at a comparative disadvantage. Neither is Lebanon likely to profit significantly from the preferential tariff treatment accorded to industrial goods made in part of foreign raw materials. Such goods accounted for barely three percent of Lebanon's exports to Syria during the same period.<sup>1</sup> On the contrary, the bulk of Lebanese exports to Syria consisted of imported goods; and, in the agreement, Syria promises no more than to authorize the imports of these goods "within the framework of the commercial interest of the two countries."<sup>2</sup>

The second agreement, which was signed in March, 1953, varied from the above agreement in that the schedule of industrial articles exchanged free of customs duties was slightly amended (schedule 2). Schedule (3) was considerably enlarged and made subject to tariff which is equivalent to 50 percent of the normal

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1. The figures can be found in Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1951, p. 15.
  2. This quotation is from Boustany, op.cit., p. 594, Article I of the agreement.

tariff;<sup>1</sup> while industrial products which were allowed to be exchanged, not mentioned in schedule (3), were enumerated in a separate schedule (4).

While this agreement is basically similar to the 1952 agreement, it differs from the earlier one in the following respects:

- (i) It is a temporary agreement which cannot be extended beyond the stipulated six months period, while the former agreement was for one year to be renewed by tacit consent.<sup>2</sup>
- (ii) Lebanese industrial products in schedule (3) will benefit by a 50 percent reduction of normal tariffs, instead of 33 percent in the minimum tariff provided in the 1952 agreement.
- (iii) Syrian import taxes on certain foods grown in Lebanon have been lifted, and new products have been added to the list of goods exempted from taxes or subject to a reduced tariff.

b. Lebanese Trade with Syria

The commercial relations between Syria and Lebanon are best illustrated by the import-export statistics which are shown in the following table for the years 1951-1955.

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1. Schedule 3, in the 1952 agreement contained the products exchangeable on a reduced tariff equivalent to two-thirds of the normal tariff.
  2. In fact, the agreement of 1953 was renewed by means of an exchange of letters between the two parties, and it is still in force.

Lebanon's Imports from and Exports to  
Syria from 1951 to 1955  
(in L.L. 000)

<u>Year</u>	<u>Imports</u>	<u>Exports</u>	<u>Deficit</u>
1951	59,109	22,016	37,093
1952	63,863	16,624	47,239
1953	91,703	13,741	77,962
1954	108,786	14,973	93,813
1955	86,712	13,370	73,342

Source: Republic of Lebanon, Conseil  
Supérieur des Douanes, Statistiques  
du Commerce Extérieur, 1955, p. 18.

In the light of these figures, we see that imports were increasing until 1954. However, in 1955, there was a regression of about 21 percent, owing to a considerable decline in imports of many commodities from Syria, but mainly a reduction of wheat to a value of only LL. 740,651 in 1955 as against LL. 21,084,109 in 1954. Lebanon which used to purchase its cereals from Syria, turned mostly toward Australia but also to Iraq, Morocco and others for the purchase of its wheat.<sup>1</sup>

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1. In 1955, there was a very bad crop in Syria. The considerable decline of Lebanese imports of wheat and cereals from Syria was not due then to the effect of the trade agreement or of the Arab multi-lateral trade agreements, but to climatic conditions.

The following table contains a comparison of the main imports from Syria for the two year period 1954-55,

Commodities Imported by Lebanon  
from Syria in 1954 and 1955

(in LL. 000)

<u>Commodities</u>	<u>1954</u>	<u>1955</u>
Livestock and poultry	24,501	29,951
Cheese and butter	4,917	7,312
Wheat	21,084	741
Barley	4,022	920
Millet	2,960	1,576
Maize	632	289
Hemp and cotton seed	1,381	9,209
Skins and hides	2,920	6,120
Raw cotton	7,359	5,146
Eggs	2,874	2,197

Source: Republic of Lebanon, Conseil  
Superieur des Douanes, Statistiques du Commerce Exterieur,  
1955, passim.

Although Lebanon's imports diminished by LL. 22 million (most of it grain) in 1955, its exports declined only by LL. 1.6 million in the same year. This small reduction was due to a decline in Lebanese exports of potatoes, oranges, mandarins, lemons, olive oil, tobacco, medlar and wool.

Principal Lebanese exports to Syria in 1955 as compared to those of 1954 were the following:<sup>1</sup>

Principal Lebanese Commodities Exported  
to Syria in 1954 and 1955

(in LL. 000)

<u>Commodities</u>	<u>1954</u>	<u>1955</u>
Potatoes	538	379
Bananas	669	1,102
Oranges and Mandarins	3,310	2,292
Lemons	466	321
Apples	556	584
Medlar	268	129
Olive oil	351	280
Leaf tobacco	420	242
Cement	1,231	1,575
Jute sacks	807	553

Source: Republic of Lebanon, Conseil  
Superieur des Douanes, Statistiques  
du Commerce Exterieur. 1955, passim.

Despite the decline in trade, Syria remains Lebanon's first supplier; almost all the imports of livestock, butter, cereals

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1. Statistics of foreign trade with Arab countries are not very accurate. One of the reasons is that animal and agricultural products are exempted, as we have seen, from customs duties. Also the Lebanese exporter is often inclined to declare a value below the existing one, in order to evade the income tax.

(with the exception of 1955), cotton seeds and hemp are from Syria.

2. Trade Agreement with Egypt

A Lebanese-Egyptian trade agreement was signed in September, 1951. Under the agreement, two lists of commodities, one of Lebanese and the other of Egyptian origin, were drawn up. These commodities were to be exchanged "within the possibilities of each country for export." Most-favored-nation treatment was also to be accorded. As an exception to this clause, each country reserved the right to grant preferential treatment to adjacent countries. In addition to this right, Lebanon retained the right to accord such preferential treatment to Jordan.

Article V of the agreement stated that re-export of exchanged commodities was not to be allowed without the prior agreement of the two contracting parties. However, in a then-secret protocol attached to the agreement, Egypt granted Lebanon the right to re-export Egyptian products, with the exception of cotton, table salt, films, and petroleum products.

In addition, the agreement provided for the settlement of payments by opening in the National Bank of Egypt a Lebanese non-resident account.

a. The Trade Agreement with Egypt of February 1956

This agreement, which replaced that of September, 1951, stipulated among other things:

- (i) Tariff exemption on certain industrial and agricultural products manufactured in the two countries.
- (ii) The freedom of exchange of commodities between the two countries. There are four schedules:
  - (a) Schedule (1) for commodities completely exempted from custom duties in both countries provided the goods are of a Lebanese or Egyptian origin.
  - (b) Schedule (2) for commodities benefiting from a 50 percent reduction of custom duties.
  - (c) Schedule (3) for commodities benefiting from only a 25 percent reduction of custom duties.

In these three schedules, the proportion of the value added (labor and raw materials) to the commodity in either country should be equivalent to at least 50 percent of the total commodity value.

- (d) Schedule (4) for commodities benefiting from a 20 percent reduction of custom duties.

In this schedule, the amount of value added (labor and raw materials) to the commodity in either country should be equivalent to at least 20 percent of the total value.

(iii) The facilitation of transit trade by all means of transportation.

(iv) Most-favored-nation treatment.

Concerning payments, the Egyptian and Lebanese Governments agreed on the following:

- (i) The Egyptian banks will open accounts in Egyptian pounds in the name of Lebanese banks approved by the Lebanese Government.
- (ii) Into these accounts, all payments resulting from the transactions between the two countries would be recorded.
- (iii) The balance of these accounts is non-interest bearing.
- (iv) At the expiration of the agreement (one year renewable by tacit consent), the settlement of outstanding balances would be made either in merchandise or in current invisible payments such as insurance, freight, and diplomatic expenses.

b. Commercial Exchanges Between Lebanon and Egypt

The trend of Lebanese commercial exchanges with Egypt during the period from the year 1951 to the end of 1956 was as follows:



Lebanese Imports from and Exports to  
Egypt 1951-1956  
(in LL. 000)

<u>Year</u>	<u>Imports</u>	<u>Exports</u>	<u>Deficit/Surplus</u>
1951	4,604	9,243	+ 4,639
1952	2,392	6,594	+ 4,202
1953	2,985	5,986	+ 3,001
1954	5,129	8,756	+ 3,627
1955	7,376	6,696	- 680
1956	10,258	6,047	- 4,211

Source: Republic of Lebanon, Conseil Supérieur  
des Douanes, Statistiques du Commerce  
Exterieur, 1956, p. 16.

From the above data, we note that Lebanese imports from Egypt have grown since 1952 and have, in fact, by 1955 increased twice as compared with 1952. Meanwhile, exports decreased in 1955, reaching only roughly two-thirds of the 1951 figure. Further analysis shows that the trade balance with Egypt was favorable during the first four years (about LL. 3 million annually) but was unfavorable in 1955 and 1956. In 1956, for example, the Lebanese deficit was over LL. 4 million; the 1955 deficit was however much smaller, over a half million Lebanese pounds.

The task here is to account for the reversal of the Lebanese trade position with Egypt from one of surplus to one of deficit. In general, we can say that the deficit resulted from a reduction of Lebanese exports to Egypt at a time when

Egyptian exports to Lebanon were on the rise. Although we have no data on the surplus years, we can compare the experiences of the years 1955-56, when the deficit grew very much. On the export side, the following table shows sharp reductions in Lebanese shipments of onions, with smaller, but still significant, reductions of apples and eggs.

Lebanese Exports to Egypt in 1955-56  
(in LL. 000)

<u>Commodities</u>	<u>1955</u>	<u>1956</u>
Apples	2,674	2,415
Onions	1,696	510
Lentils	343	995
Eggs	146	117
Dates	126	--
Dried figs	--	116
Tobacco (leaves)	--	775

Source: Republic of Lebanon, Conseil  
Superieur des Douanes, Statistiques du Commerce Exterieur  
1956, passim.

The table below, on the other hand, shows the increase of Lebanese imports from Egypt during the same years. Here we can see that the principal contributions to the widening of the deficit were potatoes, sesame seeds, asphalt, and books and periodicals.

Lebanese Imports from Egypt, 1955-1956

(in LL. 000)

<u>Commodities</u>	<u>1955</u>	<u>1956</u>
Rice	4,108	4,178
Potatoes	--	1,290
Sesame seeds	--	1,239
Raw cotton	291	476
Asphalt	--	599
Books and periodicals	341	831
Watermelons	179	169
Salts	305	122

Source: Republic of Lebanon, Conseil  
Superieur des Douanes; Statis-  
tiques du Commerce Exterieur 1956,  
passim.

It is interesting to note that the statistics of the exports to Egypt coincide with those of the Egyptian statistics. However, the Lebanese statistics of the purchases from Egypt show much lower values than those shown by the Egyptians. The main reason for this is that the greater part of the commodity purchases from Egypt are destined for the free zone of Beirut or for transit trade. Therefore, a major portion of Egyptian exports are not recorded in Lebanese customs statistics.

### 3. Trade Agreement with Iraq

The trade agreement between Lebanon and Iraq was signed in February, 1951. Here, unlike the agreements previously discussed, there is no freedom from licensing; rather the agreement undertakes to facilitate trade by granting import and export licenses to all commodities within prevailing rules and regulations.<sup>1</sup> As Lebanon has few rules and regulations and Iraq has many, it is those of the latter country which assume importance.

There are two schedules, the first of which relates to Lebanese goods which are not subject to customs duties or which enjoy a preferential tariff granted by Iraq. Beans, potatoes, bananas, apples, cherries, pears, fruit juices (non-alcoholic), cardboard, books, magazines and natural silk yarns are exempted from all Iraqi customs duties. Olives (not in tightly-sealed containers) are granted a preferential tariff of 40 fils per kilo instead of the normal tariff of 54 fils per kilo.

The second schedule contains the Iraqi commodities coming to Lebanon on a free or preferred basis. Free are live animals, lentils, dates, rice, sesame, molasses, raw hides, raw wool and hair, books, woolen yarn and woolen blankets. Pure and woolen blankets. Pure hair thread is subject to a

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1. E.J. Boustany, Recueil des Traités, Publications du Ministère de la Justice, vol. I, p. 293.

tariff of 20 percent instead of the normal tariff of 25 percent of its value.

A payment appendix forms a part of the agreement. The Iraqi Government permits the Bank of Syria and Lebanon to keep a Lebanese non-resident account in the National Bank of Iraq, or in commercial banks which are permitted to deal in foreign exchange. Other Lebanese banks can keep such accounts with the above commercial banks on the approval of the Lebanese Government and the agreement of the Iraqi monetary authorities. Payments for imports and services from Lebanon are credited to any Lebanese non-resident account, and in the same way Iraq exports and services are debited to any such Lebanese account.

The agreement stipulates also that in case the non-resident account of the Bank of Syria and Lebanon exceeds I.D. 100,000, the excess can be transferred to sterling pounds every six months.

a. Lebanese Trade with Iraq

When Lebanon started to organize its economic relations with the Arab countries, it was with Iraq that it concluded the first trade agreement.

The agreement has given the following results during the period of its implementation:

Lebanese Imports from and Exports to Iraq

1952-1955

(in LL. 000)

<u>Year</u>	<u>Imports</u>	<u>Exports</u>	<u>Deficit</u>
1952	17,789	2,739	15,050
1953	15,118	4,497	10,621
1954	16,989	4,585	12,404
1955	23,212	6,700	16,512

Source: Republic of Lebanon, Conseil Superieur des Douanes, Statistiques du Commerce Exterieur 1955, p. 16.

As we can deduce from the figures shown above, Lebanese commercial relations with Iraq greatly increased in 1955 and so did the deficit. Both can be partly accounted for by the heavy imports by Lebanon of Iraqi grain owing to the inability of its principal supplier, Syria, to meet Lebanon's needs due to a drought in the former country.

Wheat imports increased from LL. 791,758 in 1954 to LL. 1,321,199 in 1955. Barley imports also grew from nothing in 1954 to LL. 736,841 in 1955.<sup>1</sup> Imports of sesame seeds jumped by LL. 493,000 in the same period. However, most important of all was oil products which increased from LL. 13,826,000 in 1954 to LL. 18,365,000 in 1955. Oil, it should

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1. A great part of the Lebanese imports from Iraq are intended for re-export purposes. This was the case with barley; most of it was re-exported from Lebanon to Yugoslavia in 1955.

be noted, was not included in the agreement. Evidence for these statements can be found in the table below:

Lebanese Imports from Iraq in 1954-55  
(in L.L. 000)

<u>Commodities</u>	<u>1954</u>	<u>1955</u>
Wheat	702	1,321
Sesame seeds	271	764
Barley	--	737
Dates	720	574
Beans	--	424
Skins	--	123
Kerosene	2,077	2,022
Gasoline	5,239	5,803
Heavy oil	6,510	10,540

Source: Republic of Lebanon, Conseil  
Superieur des Douanes, Statistiques  
du Commerce Exterieur 1955, passim.

While imports were widening the trade deficit with Iraq, only slightly expanded, exports meant only a slightly retarding influence on the increasing deficit. Exports in 1955 reached roughly LL. 6,700,000 as against about LL. 4,585,000 in 1954, an increase of only LL. 2,115,000. This improvement was mainly due to increased exports of cement, aluminum plate, apples, and bananas. (See table below.)

Lebanese Exports to Iraq in 1954-1955

(in LL. 000)

<u>Commodities</u>	<u>1954</u>	<u>1955</u>
Cement	--	1,340,910
Apples	623,342	831,911
Bananas	428,819	551,438
Aluminum plate	--	510,183
Machinery and Apparatus	--	210,674
Woolen Clothes	--	188,207
Wrought Iron	276,386	152,315

Source: Republic of Lebanon, Conseil  
Superieur des Douanes, Statistiques du Commerce Exterieur  
1955, passim.

Inspite of expanded trade relations with Iraq during 1955, the deficit with this country reached LL. 16.5 million, a deficit larger than that of 1954 which amounted to only LL. 12.4 million. So we can see that the trade agreement with Iraq has done nothing to reduce Lebanon's trade deficit with this country, and reduction of deficits was one of the principal reasons why Lebanon adopted the policy of trade agreements in the first place.

4. Trade Agreement with Jordan

The trade agreement between Lebanon and Jordan was signed in August, 1952. Under the agreement which is still in force, animal and agricultural products are to be exchanged free



from customs duties and licenses. (Exception is made for fresh and conserved fish, wheat and its products, barley, lentils, and chick-peas.)

There are three sets of schedules for Lebanese industrial products. One is for Lebanese products which are exchangeable free from custom duties and licenses. Another schedule is for those free from licenses but subject to one-third of the normal tariff. Articles not mentioned in the schedule of reduced tariff also obtain the privileges of reduction and freedom from licensing if labor and local raw materials account for at least 50 percent of their value. A third schedule is for those commodities subject to licenses and the normal tariff. Another two additional schedules relate respectively to Jordanian products freely exchangeable or subject to tariff reductions.

Most-favored-nation treatment is to be accorded in matters of trade exchange, import and export licenses, importation and exportation from free zones and customs procedures in matters of transit, importation and exportation.

It is to be noted that the trade agreement of Lebanon with Jordan is more restrictive than that of Lebanon and Syria. There are no unified schedules for identical treatment in both countries, but each country obtains for some of its products a special kind of preference which is not given in its territory for similar products of the other country. The schedules, in addition to being more numerous, are thus narrower in scope.

Concerning payments, no restrictions are laid down on payments or capital movements, which, if added to the absence of restriction through licensing, allows for good scope of exchange of commodities and services.

a. Lebanese Trade with Jordan

According to the official Lebanese statistics concerning the foreign trade by commodities between Lebanon and Jordan since the ratification of the agreement in 1952, the value was as follows:

Lebanese Commodity Exports to and Imports

from Jordan 1952 - 1956

(in LL 000)

<u>Year</u>	<u>Imports</u>	<u>Exports</u>	<u>Deficit/Surplus</u>
1952	2,827	3,336	+ 509
1953	5,181	6,085	+ 904
1954	9,971	5,281	-4,690
1955	4,498	5,744	+1,246
1956	8,770	7,849	- 921

Source: Republic of Lebanon, Conseil Superieur des Douanes, Statistiques du Commerce Exterieur, 1956, p. 17.

Lebanese foreign trade with Jordan was small but favorable to Lebanon since the balance of trade on current account has shown a surplus with the exception for the years 1954 and 1956 when the deficit was relatively small as compared to that with other countries.

In 1956, Lebanon imported from Jordan goods and commodities of a total value of LL. 8,769,853 as against LL.4,497,917 in 1955, an increase of almost 50 percent. This increase in the Lebanese imports from Jordan, as it is shown in the following table, has been the result of the additional purchases of lentils LL. 2,380,000 in 1956, against only LL. 429,000 in 1955. There has been also a significant increase in the Lebanese imports of watermelons, vegetables, olives, beans, barley and mineral fertilizers.

The following table reproduces in greater detail the main commodity imports from Jordan in 1956 as compared to those of 1955.

Lebanese Imports from Jordan in 1955 and 1956  
(in LL. 000)

<u>Commodities</u>	<u>1955</u>	<u>1956</u>
Olives	--	272
Tomatoes	580	660
Kidney beans	--	105
Vegetables	191	306
Beans	--	207
Lentils	429	2,380
Watermelons	826	1,213
Barley	354	691
Mineral fertilizers	--	201

Source: Republic of Lebanon, Conseil  
Superieur des Douanes,  
Statistiques du Commerce  
Exterieur, 1956, passim.

Concerning Lebanese exports to Jordan, out of the LL. 7.8 million of commodities exported to Jordan in 1956 as against 5.7 million in 1955, almost the whole of these commodities are composed of agricultural products of Lebanese origin. The most important item among Lebanese exports to Jordan has been the apple: LL. 1,379,361 in 1956 as against LL. 512,960 in 1955. Next come other fruits such as bananas, oranges, and lemons. The composition of exports by commodity to Jordan was as follows:

Lebanese Exports to Jordan in 1955 and 1956  
(in LL. 000)

<u>Commodities</u>	<u>1955</u>	<u>1956</u>
Onions	158	130
Potatoes	466	634
Bananas	--	582
Oranges	358	673
Apples	513	1,379
Cotton oil	--	157
Tanned skins	618	545

Source: Republic of Lebanon, Conseil  
Superieur des Douanes, Statistiques  
du Commerce Exterieur, 1956, passim.

5. Trade Agreement with Saudi Arabia

a. The Trade Agreement of April, 1957

The first trade agreement between Lebanon and Saudi Arabia was concluded in April, 1957 and was ratified in the same month.

Its stipulations are more liberal than the multilateral trade and transit agreement concluded among the member states of the Arab League in September, 1953. This trade agreement has better terms than the multilateral agreement on the following points:

- (i) Agricultural and animal products are completely exempted from import and export licenses and from custom duties.
- (ii) Each party agrees not to restrict trade relations between the two countries irrespective of the value attained.
- (iii) In the appendix, List I contains complete exemption from customs duties on some industrial products. (This is not provided for in the multilateral agreement.)
- (iv) In the appendix also, List IV enumerates commodities where exemption of two-thirds of the normal custom duty is to prevail while in the multilateral agreement, the maximum discount does not exceed 50 percent.
- (v) The Saudi Arabian Government will accept as valid the Lebanese certificate of origin. This shows great confidence on the part of the Saudi Government. A few years ago, some Lebanese exporters to Saudi Arabia exported commodities from Lebanon with a Lebanese certificate of origin. Later on,

these commodities were inspected in Saudi Arabia and it was discovered that they were of a non-Lebanese origin. To avoid this in the future, the Lebanese customs authorities should inspect the shipments before their dispatch in order to make sure of their true origin.

- (vi) Payments are effected in Lebanese pounds. The exchange rate of the Saudi rial is stabilized at LL. .80 in order to give confidence to Lebanese and Saudi investors.
- (vii) The debit account of each contracting party can reach LL. 6 million, but in that case it should be settled within a period not exceeding six months.

Such are the principal stipulations of the agreement. Concerning the implementation, its success depends on the good will of the two contracting parties.

The Lebanese trade agreement with Saudi Arabia could be used as a model for similar trade agreements with the other Arab countries. In fact, it could be one crucial step towards a fuller economic integration and perhaps a common market among the Arab states.

b. The Articles of the Agreement

It is worth while to indicate the stipulations as they have been stated through the different articles of the agreement, because they may serve as the basis for other agreements.

Article 1 provides for the general principle of improving the economic relations between the two countries to the maximum, limited only by the commercial policy of each country and the stipulations set forth in the agreement.

Articles 2 and 3 provide for facilitating transit trade and granting import and export licenses for the products of the two countries.

Article 4 classifies the commodities exchanged between the two countries into different schedules, each one subject to a preferential tariff below the normal one.<sup>1</sup>

Article 5 provides for the future possibility of adding or abolishing one or more items enumerated in the lists of commodities, but any change has to be made with the mutual consent of the two contracting parties.

Article 6 stresses the adoption of a free trade policy between the two countries, by forbidding any regulations such as quotas and temporary decrees which could prevent or restrict the import and export between the two contracting parties.

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1. List A contains the animal and agricultural products exempted from customs duties in the two countries.  
List B contains the Lebanese industrial products exempted from customs duties in Saudi Arabia.  
List C contains the Lebanese industrial commodities subject to a tariff equivalent to one-third of the one prevailing in Saudi Arabia.  
List D enumerates the Saudi Arabian commodities free from customs duties in Lebanon, such as jewelry, Arab dresses, embroidery, and handicrafts.  
Finally, List E contains the Saudi industrial products subject to a reduced tariff equivalent to one-third of the normal one in Lebanon.

Article 7 stipulates for the provision of a certificate of origin from the government or the local authority in each country.

The most-favored-nation clause is extended to each other in matters concerning customs duties, import and export licenses and navigation. These provisions are stipulated in both articles 8 and 10.

Article 11 provides for the method and regulation concerning the payments between the two countries.

A special article (12) provides for a mixed committee to deal with the effective implementation of the agreement.

Finally, the last article establishes the duration of the agreement as one year, renewable for another year by the tacit consent of the two parties. If there is any objection by one of the two contracting parties, the agreement is terminated.

c. Lebanese Trade With Saudi Arabia

In order to have an idea of Lebanese trade relations with this country, the Lebanese customs statistics of merchandise imports and exports to Saudi Arabia will give us the trend over the last five years:



Lebanese Imports from and Exports to Saudi

Arabia, 1952-1956

(in LL. 000)

<u>Year</u>	<u>Imports</u>	<u>Exports</u>	<u>Deficit/Surplus</u>
1952	4,188	7,278	+ 3,090
1953	8,547	9,936	+ 1,389
1954	6,641	11,924	+ 5,283
1955	18,712	11,724	- 6,988
1956	20,886	16,445	- 4,441

Source: Republic of Lebanon, Conseil  
Superieur des Douanes, Statistiques du Commerce Exterieur,  
1956, p. 19.

In 1956, Lebanon imported from Saudi Arabia products and commodities for LL. 20,886,178 as against LL. 18,712,138 in 1955, and it exported for LL. 16,444,998 as against LL. 11,723,982. Compared to 1952, Lebanese imports in 1956 have increased by almost five times. This increase in the imports is due almost wholly to the Lebanese purchases of oil and its by-products for a value of LL. 15,442,575 in 1956 as against LL. 10,184,334 in 1955.

The principal imports in 1956 as compared to those of 1955 have been as follows:

Lebanese Imports from Saudi Arabia in 1955 and 1956

(in LL. 000)

<u>Commodities</u>	<u>1955</u>	<u>1956</u>
Kerosene	1,326	1,816
Gasoline	2,633	4,579
Heavy oil	6,225	9,047
Gold in bulk	--	437
Gold currency	--	146
Silver currency	8,310	4,744

Source: Republic of Lebanon, Conseil  
Superieur des Douanes, Statistiques du Commerce Exterieur,  
1956, passim.

It should be noted that the value of oil and fuel imported from Saudi Arabia in 1956 constitutes more than 70 per cent of the total value of Lebanese imports from this country.

Lebanese commodity exports have also increased by five million Lebanese pounds as compared to the value of 1955 exports; and by 15 million when compared to those of 1952.

Obviously, the growing commercial relations between Lebanon and Saudi Arabia have not been the result of the bilateral trade agreement of 1957. But the agreement is expected to promote further the commercial relations between the two countries.

The commodities exported by Lebanon to Saudi Arabia during 1956 consisted mainly of industrial and agricultural products as it is illustrated in the following comparative table:

Lebanese Exports to Saudi Arabia, 1955-1956

(in LL. 000)

<u>Commodities</u>	<u>1955</u>	<u>1956</u>
Eggs	--	231
Tomatoes	162	219
Onions	172	125
Potatoes	--	177
Lettuce	--	239
Lentils	107	189
Bananas	178	383
Oranges and Mandarins	329	498
Lemons	--	103
Apples	832	1,214
Furniture	1,478	1,729
Jewels	352	609

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1956, passim.

As can be noted from the above table, vegetables, citrus fruits, apples, wood and metallic furniture have comprised the bulk of the commodity exports to Saudi Arabia.

## C H A P T E R   T H R E E

### WESTERN COUNTRIES

#### A. Trade Agreement with France

For a long time Lebanon's economic relations with France were unstable. The main reason was that France was maintaining quantitative restrictions in the form of quotas and prior licenses on its imports from abroad. As a result, Lebanese exporters encountered difficulties in exporting agricultural or industrial products to this country. In 1954, however, there began negotiations for an agreement between the two countries.

The trade agreement with France was concluded on April 30, 1955 and was ratified the last quarter of the same year. However, France considered herself as bound by this agreement upon her signature on April 30, and therefore granted without delay import quotas and licenses for olive and vegetable oils, tobacco and other Lebanese commodities.<sup>1</sup>

According to the Lebanese customs statistics, foreign trade with France was as follows in 1954: merchandise imports (excluding gold) 60,148 tons for a value of LL. 35,548,000.

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1. It is not easy for Lebanon to develop or increase its exports toward France and the French Union. That is so, because the main Lebanese commodity exports are produced also in North Africa.

Exports were 12,250 tons with a total value of LL. 4,301,000.

It is worthwhile to note that these figures do not coincide with those of the French foreign trade statistics, which give for the same year 10 billion francs, equivalent to LL. 87 million, for the total value of commodity exports to Lebanon and 1,070 million francs equivalent to LL. 9 million as the total value of commodity imports to France.<sup>1</sup> This difference between Lebanese foreign trade statistics and those of France can be attributed to the movements in and out the Lebanese Free Zone, movements which are not included in customs statistics.<sup>2</sup> It will be remembered that this was also the case with Lebanese and Egyptian trade statistics.

In any event, in both the Lebanese as well as the French statistics, the foreign trade deficit with France is large. Using the Lebanese statistics, the proportion of Lebanese exports to imports is of one to ten, and one to 14 if we adjust the import figures by a 40 percent increase necessitated by the divergence between the official exchange rate, by which imports are valued, and the free rate.

The trend of Lebanese foreign trade with France during the last four years has been as follows:

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1. The average annual rate of exchange is 878 Lebanese piasters for 1000 French Francs in the free market of Beirut. The official rate is of 626 Lebanese piasters for 1000 francs.
  2. In general, moreover, the Lebanese exporter, in order to evade the income tax and other fees, is inclined to declare a value below the existing one. Exports are exempt from custom duties and thus there is no strict verification.

Lebanese Imports from and Exports to  
France, 1952-1955  
(in LL. 000)

<u>Year</u>	<u>Imports</u>	<u>Exports</u>	<u>Deficit</u>
1952	26,681	3,674	23,007
1953	30,542	9,776 <sup>+</sup>	20,766
1954	38,948	4,301	34,647
1955	52,478	5,868	46,610

+ This year a considerable improvement in Lebanese exports to France has been recorded (discussed below).

Source: Republic of Lebanon, Conseil Superieur des Douanes, Statistiques du Commerce Exterieur, 1955, p. 18.

From the above table, we can see that Lebanese imports from France are increasing, while Lebanese exports to this country have shown no particular trend, rather a variation of over three times as a comparison between 1952 and 1953 shows. The lack of trend is accounted for by the fact that most of the goods exported from Lebanon are of a non-Lebanese origin (Syrian, Iraqi and other ...). However, Lebanese exports of citrus fruit amounted to LL. 698,000 in 1954, as against LL. 336,000 in 1955.

1. The Franco-Lebanese Trade Agreement

The economic cooperation and trade agreement between Lebanon and France is first of all evidence of Franco-Lebanese

friendship. But as with all bilateral trade agreements, the success of the Franco-Lebanese agreement depends to a great extent on the spirit which prevails in its execution. According to the agreement, Lebanese commodities would be allowed in France on the basis of import licenses released by the French Government. The licenses would be granted according to a list of quotas annexed to the trade agreement. Thus, for example, France has not been compelled to purchase from Lebanon a determined amount of citrus fruits, but rather France would authorize the imports of Lebanese citrus fruits up to a quota specified in the agreement. As a result, Lebanon has to offer the French purchasers commodities of a good quality at competitive prices.

The most important part of this agreement is that related to Lebanese exports and to the quotas allocated for these exports. In the "List A" annexed to the agreement, commodities and products of a value of about LL. 26 million equivalent to three billion francs are classified.<sup>1</sup> In case that this amount of three billion francs is fully exhausted, then it would represent a considerable increase in Lebanese exports which amounted to only one billion francs in 1954 and two billion in 1953.

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1. In this list commodities are classified with their corresponding value in French francs or their amount in metric tons.

Below there is set out a comparative table of the quotas specified in the 1955 agreement (either by value or weight) and the corresponding Lebanese shipments for 1954.

Comparison Between the Quotas Specified in the 1955 Agreement and Lebanese Exports to France in 1954

<u>Commodity</u>	<u>Quota</u>	<u>1954 Exports</u>
Oranges	6,000 tons	1,226 tons
Lemons	4,000 tons	834 tons
Onions	120,000 L.L.	63,000 L.L.
Kidney beans	810,000 L.L.	159,000 L.L.
Cotton oil	2,000,000 L.L.	98,000 L.L.
Tobacco	300 tons	40 tons
Silkworm cocoons	180,000 L.L.	80,000 L.L.
Oil seeds	450,000 L.L.	93,000 L.L.
Cotton thread	450,000 L.L.	--
Intestines	450,000 L.L.	96,000 L.L.

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1954, passim, for the data on exports; and E.J. Boustany, Recueil des Traités, Accords et Conventions Bilatéraux et Multilatéraux. Publication of the Ministry of Justice, Republic of Lebanon, vol. II, 1955, pp. 729-34, for the data on quotas.



## 2. Evaluation of the Agreement

Concerning cotton thread, the quota is fixed at LL. 450,000. There is here a completely new outlet because, from 1952 through 1954, France did not import a single kilogram of cotton thread from Lebanon. In 1951, France imported nine tons amounting to LL. 75,000.

As for citrus fruits, it seems difficult that the allocated quotas could be exhausted. In 1954, even though Lebanon benefited from the very bad crops in the Spanish and Italian citrus orchards, Lebanese exports did not exceed 2,000 tons of citrus, including lemons. In 1953, Lebanon exported only 905 tons. How could we expect to increase citrus fruits exports to France up to 10,000 tons? We wish so, but we do not have much hope because of the poor grading and standardization of the products. Oranges reach the country of destination with a considerable percentage of spoilage, in some cases 25 percent of the shipment.

Moreover, some reserves should be expressed concerning the opening dates of certain quotas. Thus, the citrus quota, which was allocated on the first day of April, will be implemented, according to the agreement, beginning 1, January following. The opening of the French markets for the Lebanese citrus fruits should not be after the first day of November, because the starting of the Lebanese citrus harvest is on

this date.<sup>1</sup> Concerning tobacco, it should be noted that in general, France purchases its tobacco within the framework of trade agreements. In 1954, she purchased 40 tons of Lebanese tobacco, but it was a barter transaction against French cigarettes. The trade agreement establishes the Lebanese tobacco quota to be imported by France at 300 tons. This quota is likely to be exhausted since the transaction is carried from one administration (the French Régie of Tobacco) to another administration (the Lebanese Régie of Tobacco).

The Franco-Lebanese trade agreement brings a new outlet for some of the Lebanese products. It opens the French market for some products not already sold in the French markets such as apples, beer, leather shoes, jute bags, paper sacks, and cotton yarns.

Furthermore, it is stipulated that triangular trade transactions are allowed in each one of the two countries, but only to the extent that the two Governments find it appropriate. But, the existing regulations and legislation enforced in Lebanon do not give the Government the right to prohibit a triangular transaction, unless it is a question of strategic material destined to the U.S.S.R. and to the Popular Democracies (the Russian satellites).

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1. The moving up of the date was asked by the Lebanese Agricultural Association and by the Lebanese Chamber of Commerce. France delayed purposely the opening of its markets for the Lebanese citrus fruits, in order to give preference to the North African fruit.

Therefore, the conditional clause concerning triangular transactions is only for the benefit of the French Government which has the right to prohibit triangular trade. The development of the triangular transactions between Lebanon and France becomes liable to the control of the French Government on every individual transaction.

Most-favored-nation treatment is conceded by each of the two contracting parties on all the products coming through or from the other country. This clause applies not only to customs duties, but also to export taxes.

However, privileges relative to the most-favored-nation clause are not extended to the preferential treatment that France accords or will accord to the French overseas territories. This is quite natural and normal even though it constitutes a handicap to Lebanese citrus fruits which are called to compete with those of North Africa in the French markets.

In return, the most-favored-nation clause would not be applied to the special advantages that Lebanon may grant to the products coming from countries with which it may form a customs union and, in all cases, from the member countries of the Arab League.

If all reserves are acceptable, still there is however one which is very doubtful. This one is related to the advantages which one party concedes or will concede in consideration of its participation in a community organized among many countries not only for economic purposes but also for security

and defense purposes. Thus, if one day France grants the benefit of tariff exemption on imports of products from countries signatory of the Atlantic Pact, what would remain of the most-favored-nation treatment anticipated in the Franco-Lebanese trade agreement?

France is a country under a private enterprise economy, but it is applying quantitative restrictions on its foreign trade, mainly its commodity imports. In order for French importers to purchase Lebanese citrus fruits, tobacco, apples or cotton yarn, it is indispensable that their government allocate quotas to the Lebanese commodities. It is on the basis of this important fact that the significance of the Lebanese trade agreement with France is based. The Lebanese trade agreement with France is intended to facilitate the commercial exchanges between the two countries by opening new perspectives in the form of import quotas to the import of Lebanese commodities by France.

The French Official Gazette of April 16, 1955, made the following announcement to the importers of commodities coming through and from Lebanon. Here is the translation of the text: "Import quotas are to be allocated in virtue of the trade agreement concluded between France and Lebanon, and signed in Beirut on March 25, 1955.

First Title

Products to be imported under individual licenses (inspected simultaneously); (22) cotton threads, (23) leather

shoes, (25) paper sacks (Kraft), (26) cotton textiles.

The application for import licenses should arrive at the exchange office on April 30, 1955 at noon at the latest."

### Second Title

"Products to be imported under individual licenses (inspected gradually) on their presentation. The application of licenses will be received by the exchange office starting from 25 April, 1955 for the following items: (4b) aromatic seeds, (5a) vetches, (5b) seeds, (8) intestines, (16) dried fruits, (17) apples, (19) silkworm cocoons, (27) iron ore, (29) iron scrap."

It is expected that this trade agreement would not lead to an equilibrium of the foreign trade between Lebanon and France but would allow for a considerable attenuation of the exchange disequilibrium.

### 3. Lebanese Trade with France

Lebanese commercial exchanges with France during the year 1955 were greater on both sides over the previous year. Imports by Lebanon from France amounted to LL. 52,478,000 as against 38,948,000 in 1954; and exports amounted to LL. 5,868,000 as against LL. 4,301,000 in 1954.

Among the products imported, a considerable proportion was composed of wheat, wheat flour, cement (white or colored), butane gas, chemical fertilizers, wood panels, wool thread, steel and iron in round bars, pipes, copper cables, passenger cars, and auto parts. However, at the same time,

the imports of many other commodities diminished in 1955. This was the case for oil, fuel, artificial silk, woolen textiles and gold in bulk.

On the export side, Lebanon sent to France in 1955 the following commodities: lentils, millet, vetches, onions, cotton bulk and many other vegetable seeds. The complete absence of citrus fruits in the exports should be noted, especially since a quota of 10,000 tons was opened to the Lebanese exporters for that year. In 1954, the French imports of Lebanese citrus fruits amounted to LL. 431,108 of oranges and mandarins and LL. 266,617 of lemons. The improvement of the 1955 exports over that of 1954 resulted from the sales of miscellaneous iron and steel containers whose value amounted to LL. 1,110,631 against 140,022 in 1954. The main exports to France during the years 1954-1955 were the following:

Lebanese Commodity Exports to France in 1954-1955

(in LL. 000)

<u>Commodities</u>	<u>1954</u>	<u>1955</u>
Onions	--	240
Lentils	1,134	501
Citrus fruits (oranges)	431	--
Lemons	267	--
Tobacco	--	497
Raw cotton	576	261
Iron and Steel Containers	140	1,111
Vetches	575	587

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1955, passim.

If the commercial exchanges with France have increased on both sides (imports and exports) in 1955, still one fact stands out and it is that the deficit on current account is much greater than that of 1954. As a matter of fact, the deficit in 1954 amounted to LL. 34,647,000, while in 1955 it climbed to LL. 46,610,000.

France remains the Lebanon's third supplier and is holding a privileged position for some commodities such as pharmaceutical products, combed woolen thread, iron and steel, and for miscellaneous other products specifically French such as champagne, perfumes and some other articles of Paris.

#### 4. The Opinions of Some Economic Groups

The trade agreement with France has been welcomed by the different economic groups. According to Abdel Rahman Sahmarani,<sup>1</sup> the trade agreement with France has a double objective, a psychological and a practical one. From a psychological point of view, it constitutes an innovation and a precedent. Until recently, Lebanon was convinced that no big power would agree to be bound by a trade agreement with Lebanon. Because by means of the liberal economic policy existing in Lebanon, these powers were already making use of all the advantages which could be conceded in a bilateral trade agreement without enduring the restraints or obligations towards the second contracting party. However, the Lebanese-French

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1. President of the Chamber of Commerce and Industry of Beirut.

trade agreement is going to prove the contrary, since France has admitted the principle of concluding a bilateral trade agreement. This would strengthen the Lebanese bargaining power in asking for new trade agreements with other countries.<sup>1</sup>

In the practical field, the value of this agreement depends on the implementation of the different stipulations. However, there are certain apparent advantages to Lebanon. According to the agreement, France is going to accept a greater volume of Lebanese agricultural commodities than in the past, and has renounced the artificial discrimination of the multiple rates against Lebanese commodities.

According to Philippe Tamer,<sup>2</sup> "Lebanon should conclude similar trade agreements with the principal supplier countries,<sup>3</sup> because, by a series of bilateral trade agreements, Lebanon could develop its industrial production and create new employment opportunities for its citizens."

By conceding the importance of some Lebanese industrial products such as textiles, leather shoes, raw silk, cotton threads, beer, leather and skins, seed oil and other products, France would have granted Lebanon both advantages, first to promote the Lebanese industrial development and create new employment opportunities;

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1. Lebanon has concluded a bilateral trade agreement with the U.S.S.R., but the chances of concluding a trade agreement with the United Kingdom and the United States are small. However, Lebanon concluded both a technical and economic cooperation agreement with the United States, more commonly known as the Point IV agreement.
  2. President of the Lebanese Industrialists Association.
  3. U.S.A., Great Britain, Benelux ...



second, to cure some Lebanese consumers of the inferiority complex which makes them wrongly believe that their national products are inferior in quality to the foreign ones.<sup>1</sup>

Another innovation in the trade agreement with France is the insertion of a special provision concerning the condition of "technical and economic cooperation between Lebanon and France."<sup>2</sup>

France was already cooperating with the Lebanese authorities, in the technical field, mainly in agriculture, by virtue of the Agricultural Technical Cooperation Agreement of 15 November, 1951.

However, the new agreement on economic cooperation has provided:

- a. for the supply of materials and equipment on installment payments up to five billion francs.
- b. for the execution of big developmental projects by French firms.
- c. for granting additional facilities to the transfer and investment of French capital in Lebanon.

Here again the implementation of the agreement depends on the reciprocal good will of the two contracting parties.

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1. This is the opinion of the Lebanese industrialists.
  2. The economic cooperation agreement was not conceived and prepared to the exclusive advantage of Lebanon. The credit facilities to the underdeveloped countries are today current things. They allow the heavy materials and equipment producing countries to find an outlet for new investments at higher rate of return, but with greater risk also, than that of the home investment.

B. Trade Agreement with Italy

1. Commercial Exchange Between Lebanon and Italy

The balance of trade<sup>1</sup> between Lebanon and Italy has a large deficit on the Lebanese side. According to the Italian foreign trade statistics as reported to the United Nations, it amounted to 4,283,000,000 Italian lire in 1954.<sup>2</sup>

It was in order to remedy this large deficit that Lebanon submitted a project for a trade agreement to which was annexed an agreement of economic cooperation.

In 1954, Lebanon imported from Italy the following commodities:

Lebanese Imports from Italy in 1954

(Value in millions of lire)

<u>Commodities</u> <sup>+</sup>	<u>Value</u>
Lubricants	545
Gasoline	441
Woolen textiles	316
Rice	273
Cotton yarn	189
Artificial silk	165
Fuel	231
Total	2,160

<sup>+</sup> This is not a complete list of the commodities imported; only the most representative items are classified.

Source: United Nations, Yearbook of International Trade Statistics. U.N. Publications, 1954, p. 298.

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1. The term is used in a restrictive form to mean only merchandise imports and exports.
  2. In 1954, the average rate of exchange at the Beirut free market was 514 Lebanese piasters for 1,000 Italian lire.

According to the same source, Lebanon exported to Italy in 1954 the following products:

<u>Commodities</u>	<u>Value</u> (in million of lire)
Olive oil	447
Leather, skins and hides	48
Silk	7
Wool	5
Miscellaneous	<u>87</u>
Total	594

In order to make up this large deficit of imports over exports, Lebanon asked Italy to conclude a trade and technical assistance agreement and to participate in the realization of big Lebanese developmental projects.

**2. Lebanese Italian Trade Agreement:**

In May, 1950, a trade agreement was concluded between Italy and Lebanon. It was in the form of a letter exchanged between the Lebanese Ambassador in Rome and the Italian Minister of Foreign Affairs. <sup>1</sup>

Both parties agreed on an exchange of commodities amounting to U.S. \$ 2,250,000 on each side. Lebanon was trying to remedy its balance of trade deficit with Italy

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1. Lebanon asked for a trade and technical assistance agreement but got an agreement which had to do with commodity exchange.

through a system of compensation. For this purpose, two lists A and B were annexed to the agreement. "List A" contained the Lebanese commodities to be exported to Italy, and "List B", the Italian commodities to be exported to Lebanon. The value of each commodity in both lists, was also fixed in terms of the U.S. dollar. In the light of the foregoing foreign trade statistics, it can be seen that the objective of this trade agreement was not reached. Italy imported from Lebanon commodities not mentioned in "List A", and their total value amounted to less than one million U.S. dollars.<sup>1</sup>

On November 11, 1955, another trade agreement was concluded with Italy to replace the previous agreement. The trade and technical cooperation agreement between Lebanon and Italy was expected and announced more than one year before its ratification.<sup>2</sup> Like the previous agreement, in the

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1. Lebanon, a free trade country with no restrictions on its imports, exports or foreign exchange, is not able to enforce the stipulations of the agreement.
  2. This was an answer to the desire of the Lebanese Ministry of National Economy. The Italian Government appointed a committee with Mr. Raffaele Ferretti as Chairman. The purpose of this committee was to conduct the negotiations with the Lebanese responsables in Beirut.

appendix of the new one there is "List A" which contains the Lebanese commodities to be exported to Italy. Most of them were not exported to Italy before; vegetables account for 150 tons, raisins, 400 tons, bananas, 1,000 tons, cotton seed oil, 1,000 tons, onions, (not-specified), tobacco leaves (not-specified), natural silk floss, 250 tons, hair and coarse, 30 tons, cotton thread, (not-specified), intestines, 50 tons, iron ore 10,000 tons, eggs, 100 tons, and handicraft products, (not-specified). When compared to the Lebanese exports in 1954, these quotas which the Italian Government has pledged show progress over the previous year. But the main point is that in practice these quotas should be effectively used up, and they were not.

### 3. Evaluation of the Agreement:

In order to evaluate the results of this trade agreement, it is interesting and, at the same time, instructive to compare it with previous trade agreements.

For example, it is worthwhile to compare it to the Franco-Lebanese trade agreement of April 30, 1955. As a matter of fact, there are no major differences between the Franco-Lebanese trade agreement and the Lebanese-Italian one. In the one case like in the other, quotas have been set up for Lebanese exports. Both of them also have a stipulation concerning the most-favored-nation treatment; however, the Le-

banese trade agreement with Italy is more explicit in so far as the transit trade, triangular transactions, and private compensation transactions are concerned.

Thus, the Article IV of the Franco-Lebanese trade agreement stipulates the following:

"Within the framework of their general regulation, the Governments of the two countries will authorize, whenever they find it expedient and advantageous, import and export operations carried on products and commodities coming from third countries and not mentioned in the List A of the appendix".

As to the Article IV of the Lebanese-Italian trade agreement, it is drafted in this way:

"Within the framework of their respective legislations, the Government of the Lebanese Republic and the Government of the Italian Republic would promote:

- a - transit trade of benefit to the two countries.
- b - triangular trade.
- c - trading operations under private compensation system. They would be adopted as a mean of increasing the trade exchanges themselves."

These operations could include also Lebanese commodities not specified in the List A of the appendix.

In both cases, the quotas determined in the lists of the appendix are not restricted to commodities of

Lebanese origin. They are likewise extended to commodities coming through Lebanese territory, in other words, to products of a non-Lebanese origin.

Speaking of the trade agreements, some people, mostly the merchants, predict certain restrictions to triangular transactions. <sup>1</sup> Concerning this particular issue, it is worthwhile to note that:

- a. The Italian Government, as well as the French, has pledged to facilitate such transactions.
- b. Lebanon can export to France and Italy commodities and products coming through Lebanon, exactly to the same extent as the products and commodities of Lebanese origin.

In our evaluation of the Franco-Lebanese bilateral trade agreement, we said that this agreement depends to a great extent on the political and economic outlook and the spirit which would prevail during its implementation. The same could be said for the Lebanese-Italian trade agreement, or any other trade agreement for that matter.

#### 4. Technical and Economic Cooperation Agreement

This constitutes the second aspect of the Lebanese-Italian trade agreement. As with the French-Lebanese agreement,

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1. They are convinced that foreign trade would be limited to the commodities enumerated in the list of commodities of the bilateral trade agreement.

it provides for, among other things:

- a - The supply of equipment on instalment basis to private Lebanese firms.
- b - The implementation of big national developmental projects by Italian firms in the fields of agriculture, industry, transport and communications.
- c - Training Lebanese technicians.
- d - The creation of a mixed committee for joint cooperation to implement industrial and agricultural developmental projects.

While the French-Lebanese agreement fixed at five billion francs the total amount of materials and equipment to be sold on installment to private firms, the Lebanese Italian agreement does not state any figure.

The period of instalment is for five years in case of the French agreement, while it is extended over only four years in the Italian case.

#### 5. Lebanese Trade with Italy:

The most important proportion of the Lebanese foreign trade is that with the Arab neighbouring countries. Next in importance comes the United States and the Western European countries. The main customer countries of Lebanese commodities and products are in the first place: Syria, Saudi Arabia, Egypt and Iraq respectively. The United States, France, Great Britain and Belgium come next respectively.



As far as Italy is concerned it held ninth rank among the Lebanese customer countries, in 1955, with total purchases of about two and a half billion Italian lire.<sup>1</sup>

Among the supplier countries, Syria held the first rank. Far behind came the United States, France, Great Britain, Western Germany and Iraq. Italy however, occupies the seventh place with 5,742 million Italian lire as a total value of its commodities exported to Lebanon in 1955.<sup>2</sup>

According to the Italian foreign trade statistics, the foreign trade figures between Lebanon and Italy during the last four years have been as follows:

Lebanese Imports from and Exports to Italy, 1952-1955.  
(in Million of Italian liras)

	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
Imports from Italy	2,372	2,825	5,054	5,742
Exports to Italy	<u>2,269</u>	<u>2,415</u>	<u>771</u>	<u>2,422</u>
Deficit	103	410	4,283	3,320

Source: United Nations, Yearbook of International Trade Statistics 1955, p.298.

In the Light of these import and export statistics, we can see that Lebanese merchandise trade with Italy has a persistent deficit. In general, Italian imports from Lebanon

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1. This is equivalent to L.L. 12,850,000 (1,000 livres=514 LP) Republic of Lebanon - Bulletin de Statistiques Trimestriel - IV ème trimestre 1955. p.22.
  2. This is equivalent to L.L. 29,513,880.

consist of olive oil, hides and skins, iron scraps, iron ore, cotton and wool.

Among the main Lebanese imports from Italy are textile products, rice, machinery and equipment, chemicals and drugs, passenger cars, tires and marble.

Until November, 1955, the commercial exchanges between Lebanon and Italy were not regulated by a proper bilateral trade agreement. As we have seen, the exchange of letters of May 1950, could not be considered as a bilateral trade agreement, because the terms of the agreement were too loose. However, it was not the same in the trade and economic cooperation agreement of November, 1955. This agreement was the outcome of the desire of both governments to develop to the maximum the commercial exchanges between the two countries.

It is based on the following stipulations:

- 1 - Payments would be effected in foreign currencies agreed upon by the exporting country.
- 2 - The most-favored-nation treatment with its traditional exceptions to neighbouring countries.
- 3 - The acceptance of the private compensation as a mean of increasing trade relations.
- 4 - The acceptance of transit trade and triangular operations.
- 5 - The agreement is for one year from the date of its ratification by both parties.

It is automatically renewable by the tacit consent of the two parties.

According to the stipulations of the agreement, Lebanese exports remain free of any local restrictions. The principle of free entry to Lebanon of Italian commodities, without any quantitative restriction, is also maintained.

Concerning the exports of Lebanese commodities to Italy, a list was prepared which contains principal commodities, with their respective amount or value, to be admitted to Italy. Otherwise, since the policy of quantitative restriction is enforced on all imports into Italy, by means of this trade agreement, Lebanon has been granted a specified quota for its exports, the details of which are classified in the List A of the appendix.

The present trade agreement, by preserving the existing framework which organizes the trade relations between Lebanon and Italy and by the different possibilities which it offers to the various forms of transactions between the two countries, represents a supporting device which is likely to accelerate the reciprocal commercial exchange between Lebanon and Italy.

6 - Lebanese-Italian Foreign Trade Before and After  
the Agreement:

In 1954, Lebanon imported commodities and products (valued at official rate of exchange) from Italy amounting to L.L. 16,136,683, while in 1955, the imports from this

country reached L.L. 19,695,052.<sup>1</sup>

The increasing amount of Lebanese imports is due mainly to new commodities that Lebanon did not import in 1954 and to an increase of the existing ones. These include all sorts of cheese, almonds, wheat, dyes, tires, wrapping paper, nylon stockings, cast-iron connections, steel and copper pipes, passenger cars and others.

However, the imports of other products have considerably decreased; this is especially true for artificial silk thread, wool and cotton textiles. Some commodities such as husked rice have been eliminated altogether as a part of the imports from Italy. In 1954, Lebanon imported from Italy about 25 per cent of its demand of this commodity. In 1955, Egypt was almost the only supplier of rice (13,040 tons).

The following table reproduces some of the main imports from Italy for the two years period 1954 - 1955.

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1. These are according to the Lebanese foreign trade statistics, as published in the Statistiques du Commerce Extérieur, Republic of Lebanon, Conseil Supérieur des Douanes. 1955, p.16.

Lebanon Imports from Italy in 1954 - 1955  
(in L.L. 000)

<u>Commodities</u>	<u>1954</u>	<u>1955</u>
Cheeses	-	146
Almonds	-	168
Wheat	-	298
Canned tomato juice	158	226
Husked rice	1,415	-
White marble	608	928
Drugs	149	164
Tires	-	221
Thread and yarns (cotton, wool...)	3,483	3,573
Iron, steel, pipes	303	1,595
Passenger cars	1,187	1,781

Source: Republic of Lebanon, Conseil Supérieur des Douanes. Statistiques du Commerce Extérieur, 1955, passim.

Concerning Lebanese exports to this country, they have increased in 1955 as compared to 1954 by only L.L.252,000, an insignificant amount when compared to the total value of trade. The increase consisted mostly of iron scrap and fragments. Lebanese exports to Italy attained L.L. 3,167,540 in 1955 as against L.L. 2,915,927 in 1954. They are illustrated in the following table:

Lebanese Exports to Italy in 1954 - 1955

<u>Commodities</u>	<u>1954</u>	<u>1955</u>
Kidney beans	--	186
Lentils	121	--
Oranges and mandarins	268	--
Wheat	--	408
Olive oil	330	916
Hides and skins	437	284
Leather	813	340
Wool	186	198
Scrap & iron (fragment)	--	310

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1955, passim.

Even though there was a slight improvement in the foreign trade with Italy, yet the deficit is larger than that before the agreement: a deficit of LL. 16,527,512 in 1955 as against LL. 13,220,756 in 1954; an increase of LL. 3 million.

This means that the foreign trade improvement has been one-sided to the advantage of the exports of one country, namely, Italy. However, the long-run advantage of the deficit country, in this case Lebanon, should not be overlooked or ignored, mainly in case Lebanon is increasing its imports of durable goods which are necessary for its agricultural and industrial development, both in the private and public sectors.

Nevertheless, Italy stands as the main supplier for certain commodities such as white and colored marble, passenger cars "Fiat" (721 units in 1955 as against 404 in 1954) and its famous scooters "Vespa".

C. West Germany

1. Trade Agreement with West Germany

An agreement was concluded in November, 1951 between Lebanon and West Germany. This country agreed to import from Lebanon commodities of a value amounting to U.S.\$3,600,000 per year; at the same time, no restriction was imposed on German exports to Lebanon. However, later on, the Lebanese side was disappointed with the result of the agreement, partly because the import quotas allocated by the German Government for Lebanese products were restricted to a short period of time, and one which did not coincide with the usual export season of these products in Lebanon. This is one of the reasons why, the Lebanese exporters of fruits and other agricultural products often had a tendency of neglecting the proper grading and presentation of the products. It was reported that some German firms, which had imported Lebanese onions in 1952, incurred considerable losses as a result of the defective quality of the merchandise received.<sup>1</sup>

Broadly speaking, we can say that the year 1952 was a year of experiment and testing as far as the implementation of the trade agreement was concerned. According to the statistics released by the Lebanese customs authorities, the

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1. The loss was estimated at a half million deutsche marks. This information was made available by Malek Chehab, Technical Advisor of the Chamber of Commerce and Industry of Beirut.

gross volume of commercial exchanges with Germany in 1952 amounted to 8,142 tons for a value of L.L. 10,153,000 on the import side, and 1,656 tons for a value of only L.L. 435,000 on the export side. It was in order to find a remedy for this disequilibrium that the German government agreed to extend the quota period for the acceptance of the Lebanese citrus fruits from October until March. As a result, there was adequate time, given their production season, for the Lebanese to enter the German market.

On the other hand, the quotas themselves were either doubled or considerably increased. Nevertheless, one fact still stands out; in Germany as in any other country where trade is not under state control, it is not possible to impose a product on the consumers if the many considerations concerning the quality, price and customs or habits do not facilitate its introduction into the new market. The Lebanese have little possibility of control over the last two factors listed; however, they must get control over the first two if their products are to be marketed successfully.

## 2. Trade and Economic Cooperation Agreements

An agreement for trade and payments and another for economic cooperation were signed in Beirut in June, 1954, between Lebanon and West Germany. The two agreements took effect in February, 1955.

The purpose of the agreements is to encourage the



development of commercial relations between the two countries. German technical assistance and investment in Lebanese industry and other economic development projects were to help compensate for the large deficit of the Lebanese trade balance with West Germany.

The trade and payments agreement provides that the exchange of goods between the two countries will conform with the import and export systems and regulations in effect in both countries. However, the two parties agree that they would, in principle, abstain from interfering in the flow of commodities by prohibitions or restrictions, and that there will be consultation if either party deems it necessary to impose restrictive measures.

Lebanese commodities exportable to Germany are set forth in an annexed list. They include vegetables, fresh fruits (citrus and bananas), dried fruits, olive oil and other vegetable oils, cotton and silk yarn, skins and leather, tobacco (leaves), and asphalt. German commodities to be imported into Lebanon are not listed, the natural result of Lebanon's liberal trade policy.

The agreement also provides that both Governments should encourage transit trade within the legislation and regulations effective in either country.

As to the payment for commodities exchanged, it will be effected in U.S. dollars or in any other currency that

conforms with the financial legislation in both countries.

Concerning the valuation by the Lebanese customs of German merchandise quoted in deutsche marks, the rate of exchange between the Lebanese pound and the deutsche mark will be determined on the basis of the gold content of both currencies. The rate is subject to modification in case of a change in the gold content of either currency.

There is also a stipulation that a mixed committee of representatives of both countries will have the responsibility for the application of the agreement and for studying economic and commercial relations between the two countries.

Moreover, the agreement confirms the two countries' most-favored-nation clause.

The agreement is valid for four years unless either party gives notification otherwise at least three months before the end of each annual period.

### 3. Some Particular Cases

As Lebanon was concerned with expanding its exports to West Germany, it would be interesting to investigate the behavior of the principal commodities (in value terms) sent to that country after the agreements were signed. The commodities include citrus fruits, bananas, and iron ore.

Concerning citrus fruits, the study of the German market throws into relief three basic facts:

- a. The German is a heavy consumer of citrus fruits,

and in Western Germany, there are roughly 50 million inhabitants. It is estimated, according to the German statistics, that the annual consumption of citrus fruits is about 8.5 kilograms per person. The German market is therefore able to absorb some 425,000 tons, equivalent to 12 million boxes per year.<sup>1</sup>

- b. The German consumer is considerably sensitive to the outside appearance of the fruit. California exporters, having already acquired a good reputation, easily sell their citrus fruits in the German market without delay and at the highest prices. According to the German importers, Lebanese exports of citrus fruit to Germany could be increased by at least 30 per cent in case Lebanon improves its packing and grading methods.<sup>2</sup>
- c. The German likes the small and round oranges, therefore, he is more likely to prefer the Lebanese oranges than those of Israel called the "Jaffa" variety.

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1. The Economy of Lebanon and the Arab World, No. 20, "L'Ecoulement des Agrumes Libanais en Allemagne", December, 1953. p.26.

2. In the first quarter of 1953, a consignment of Lebanese citrus fruits reached Germany labelled as "Produce of Palestine". It was afterwards discovered, that the Lebanese exporter in a hurry made use of cellophane paper dating from before the war when the Palestinian factories furnished wrapping for fruits.

Besides these considerations, foreign competition is very keen in Germany, Many countries, attracted by the alluring prospects which are offered, try to enter the German market by sending goods on consignment.<sup>1</sup> In general, the consignments are sent to Hamburg, where the fruits are sold by auction. The bidders are anxious to inspect carefully the quality of the consignment from a country whose reputation is not well-established; this requires warehousing and therefore additional expenses.

Lebanese bananas could find an excellent outlet in the European markets, and more especially in Germany, but their prices are considered too high. Lebanese bananas in Germany cost about U.S. \$ 200 per ton, while the best bananas from the Canary Islands cost \$ 120, those from Colombia \$ 100, and those from the equatorial countries only \$ 90.

Concerning Lebanese iron ore, (whose content average 47 percent), the German metallurgists scheduled the imports of 20-25,000 tons in 1954 and 100,000 tons in 1955, provided the cost did not exceed \$10 per ton. This was the price offered by Spanish and Swedish iron ore suppliers. In fact, the volume of iron ore exported to Germany in 1954 and 1955, amounted to 15,000 and 18,000 tons respectively, because the price of \$10 per ton could not be met.

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1. This is the case of North Africa, where the exporters are willing to sell their products to Germany on the basis at 70 per cent of the price paid outright on delivery, and 30 per cent after sale.

All three commodities (citrus, bananas, and iron ore) face a common obstacle, namely, competition from countries producing commodities similar to Lebanon's and with which West Germany also has bilateral trade agreements.

In any case, the consumer is, in the last analysis, the ultimate arbiter. Provided he finds what he wants, the European consumer has no special reason to prefer the Italian oranges or Colombian bananas to the Lebanese oranges and bananas. This is why the price and quality of the products are the only criteria which should be considered in Lebanese policy for the acquisition of new international markets.

For this purpose, it is the duty of the Lebanese responsables, the Government first, and the producers and the exporters second to confine themselves to a strict discipline as far as the scientific methods of marketing are concerned.

The creation of an office for the control of the exports of agricultural commodities is badly needed. It is through a continuous inspection of the good quality of the products destined for export to foreign countries that Lebanon will finally find the best stimulus in order to open new markets for its agricultural products and to have more harmony in its foreign trade balance. Trade agreements can only open the door; they cannot assure the entrance of Lebanese products.

#### 4. Commercial Exchanges between Lebanon and Western Germany

German imports of agricultural products coming from Lebanon amounted to D.M. 190,000 in 1951.<sup>1</sup> This amount increased in 1952 to D.M. 783,000 and it reached D.M. 1,042,000 in 1953.<sup>2</sup> As we have seen, Western Germany has a commercial policy still relying on quantitative restrictions and quotas on all its imports from abroad.

During 1954, quotas which amounted to U.S. \$2,775,000 were allocated to imports coming from Lebanon. Bananas, citrus fruits, and onions during this year were accepted without limits; the quota limits thus applied to other products.<sup>3</sup> Such were the conditions of trade as set down by the West Germans in 1954.

In fact, West Germany imported from Lebanon in 1954 the following commodities valued in U.S. dollars: fruits for \$155,000, skins and leather for \$76,000, iron ore for \$459,000, barley for \$84,000, and miscellaneous products for \$49,000. Thus, even with quota allocations amounting to almost \$3,000,000 and fruits accepted in unlimited amounts, Lebanon exported only

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1. United Nations, Yearbook of International Trade Statistics, 1954 p. 264.

These are the Western Germany foreign trade statistics. Before 1954 Lebanese commercial exchanges with both West and East Germany were recorded together in the customs statistics. It is only since 1954 that the foreign trade has been divided between East and West Germany.

2. As an average for this period, the Deutsche Mark was equivalent to 75 Lebanese piasters in the free exchange market of Beirut.

3. According to the trade agreement of 1951, the import quotas of bananas were limited to U.S. \$75,000, citrus fruits \$1,000,000, and onions \$100,000.

\$823,000 roughly (L.L. 2.6 million) to West Germany in 1954. The reason for this result is that Lebanese prices are relatively higher than the world prices of the same commodities. Behind these high prices lie the relatively high cost of production in Lebanon. Besides, the poor grading and packing of the products make them not in accordance with the world market demand.

In order to open a new market for Lebanese commodities in West Germany, the bilateral trade agreement is a necessary step since it leads to import quotas for Lebanese commodities. However, mere opening of quotas, even very large ones, has not proved effective in this case. Real effectiveness would demand the setting of a minimum value of commodities to be exchanged and this was not done.

According to the Lebanese customs statistics, in 1954 the imports from West Germany reached LL. 23,928,930, and exports LL. 2,428,971. In 1955, Lebanese imports from Germany increased by almost 50 percent (LL.34,032,224), however, exports decreased slightly, (LL. 2,306,774).

The increase in Lebanon's imports was due to the purchases of greater quantities of wheat flour, chemical fertilizers, tires, sanitary and cold storage equipment, iron and reinforcing steel, printing machines, and radios. There was also a considerable increase in imports of passenger cars.

Some of Lebanon's main imports from West Germany in 1955 as compared to those of 1954 were as follows:

Lebanese Imports from West Germany in 1954-1955

(in LL. 000)

<u>Commodities</u>	<u>1954</u>	<u>1955</u>
Wheat flour	--	1,412
Chemical fertilizers	1,295	1,604
Cars and trucks	3,584	5,069
Radio	666	1,037
Tires	197	415
Electrical apparatus	398	638
Printing machine	291	522
Pharmaceutical products	305	374

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1955, passim.

Concerning Lebanese exports to West Germany, they decreased in 1955; this was due to an absence in Lebanese exports of oranges, mandarins, lemons and barley. As we have discussed earlier in this chapter, in 1954, there was a very bad crop in the Spanish and Italian citrus orchards, so Germany imported a considerable amount of citrus fruits from Lebanon at that time. Bad crops elsewhere then compensated for the high proportion of spoilage, bad grading methods and relatively high prices of the Lebanese products. However, 1955 saw a revival of Spanish and Italian production and a corresponding disappearance of Lebanese fruit from the German market. Concerning Lebanese exports of barley to Germany, this commodity is of a non-Lebanese origin, usually



from Iraq. Lebanon's main exports by commodities are illustrated in this table:

Lebanese Exports to West Germany in 1954-1955  
(in LL. 000)

<u>Commodities</u>	<u>1954</u>	<u>1955</u>
Bowels and intestines	101	157
Onions	--	274
Oranges and mandarins	895	--
Lemons	163	--
Barley	387	--
Iron ore	445	506
Hides and skins	--	194

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1955, passim.

In the light of the Lebanese export and import statistics, we can see that the Lebanese merchandise trade deficit with West Germany in 1955 amounted to LL. 31,725,450, while in 1954 it was only LL. 21,499,959. The increasing deficit partially reflects West Germany's drive to regain its pre-war position as a main supplier to the Lebanese market. Of course, the other reason for the increasing deficit is the failure of Lebanese exports to expand, this in spite of the trade agreement.

## 5. Evaluation of the Agreement

The Lebanese trade agreement with West Germany has not given the expected results, since Lebanese imports of German commodities are fifteen times larger than Lebanese exports to that country.<sup>1</sup>

As a result of the 1954 agreement, Lebanon repealed the maximum tariffs levied on the German imports.<sup>2</sup> However, some months later, the Lebanese Ministry of Foreign Affairs realized that Lebanese cotton yarn and thread exports to Germany were undergoing a discriminatory treatment in the matter of customs duties. Although a mixed committee met in Bonn in March 1956, no solution was found. West Germany refused to apply the most-favored-nation clause to its imports of cotton products from Lebanon. The President of the Lebanese Industrialists Association declared that the customs levied on cotton thread and yarn coming from Lebanon was double that levied on Egyptian cotton thread and yarn. The German authorities confirmed the declaration. But they claimed that they have a multilateral agreement concluded in 1950 with many countries, including Egypt.

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1. Lebanese Imports from and Export to West Germany  
(Value in LL. 000)

	<u>Imports</u>	<u>Exports</u>	<u>Deficit</u>
1954	23,929	2,429	21,500
1955	34,032	2,307	31,725

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1955, p. 16.

2. The maximum tariff continued to be levied on the Japanese products until recently (May, 1957).

For this reason, the Lebanese industrialists asked the Government to reconsider the trade agreement stipulations with West Germany. They agreed that the agreement was useless if its clauses were not implemented. In response, the Lebanese Council of Ministers decided in November 1956 to denounce the following agreements concluded between Lebanon and West Germany:

- a. Agreement of most-favored-nation treatment of 1951.
- b. Trade and payments agreement of 1954.
- c. The economic cooperation agreement of 1954.

According to a Lebanese official spokesman, the denunciation of the agreement was the result of the continuous violation, on the part of the German Government, of the most-favored-nation clause stipulations.

As a matter of fact, the trade agreement with West Germany served only to widen the gap of the balance of trade deficit. Undoubtedly, the Lebanese had never intended to reach a rigid equilibrium on current account with Germany, but at least it hoped to have close harmony in the balance of trade. For this purpose also, the economic cooperation agreement, by promoting the private and public investment of German capital in Lebanon, was considered as a device to reduce disequilibrium on current account in the long run.<sup>1</sup>

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1. Such investment was expected to amount to D.M. 60 million. Payments for goods and services supplied in conformity with this agreement will be effected in accordance with the provisions of the trade and payment agreement.

D. Turkey

1. Trade Agreement with Turkey

The Lebanese foreign trade statistics show that the trade exchange between Lebanon and Turkey has been declining for the last few years. Lebanon's imports from Turkey declined by 43 per cent in 1952 below what it was in 1951, and it fell to 75 per cent below the 1951 level in 1953. The latter reduction was believed to be due to the agreement of March, 1953 between Lebanon and Syria, in which Syria was granted freedom from customs duties for all agricultural and animal products. These same products such as cattle, cotton and cereals had been Lebanon's main import items from Turkey.<sup>1</sup>

The trade agreement signed in April, 1955 is supposed, at least in principle, to lessen the Lebanese deficit on current account with Turkey. Unfortunately, the present economic difficulties of Turkey do not allow it to increase considerably its purchases of Lebanese commodities.<sup>2</sup>

In any case, Lebanon could expect to compensate, at least partially, its deficit of imports from, over exports to Turkey by means of triangular transactions: either by purchasing Turkish products such as citrus fruits, and cotton in order to reexport them, or to export to Turkey non-Lebanese commodities.

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1. Before March 1953, the tariff on the imports of Syrian agricultural and animal products ranged between 11 and 25 per cent.
  2. In Turkey, the Government is spending too much on development programs and on armaments. As a result there is a shortage of foreign exchange and an unfavorable balance of payments.

## 2. Lebanese Trade with Turkey

According to the Lebanese customs statistics, the trend of Lebanon's foreign trade with Turkey has been as follows:

### Lebanese Imports from and Exports to Turkey 1951-55

(in LL. 000)

<u>Year</u>	<u>Imports</u>	<u>Exports</u>	<u>Deficit</u>
1951	6,757	478	6,279
1952	3,992	654	3,338
1953	2,280	381	1,899
1954	2,570	1,100	1,470
1955	2,183	223	1,960

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1955, p. 17.

The following table represents Lebanon's main imports from Turkey in 1955 as compared to these of 1954.

### Lebanon's Main Imports from Turkey 1954-55

(in LL. 000)

<u>Commodities</u>	<u>1954</u>	<u>1955</u>
Fresh fish	330,794	602,200
Wheat	699,920	225,200
Tobacco (leaves)	310,390	420,755
Hides and skins	--	150,190
Beech wood	122,826	126,087

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1955, passim.

Lebanon imports also from Turkey animals for slaughter, rice, pistachio nuts, cotton seeds, walnuts, raisins, almonds, and wool.

Lebanon's commodities exports to Turkey are mainly cement, hides and skins.

### 3. Evaluation of the Turko-Lebanese Agreement

With the existence of the liberal economic policy in Lebanon and foreign trade restrictions in Turkey, the Lebanese merchant was performing, a few years ago, an important middle-man function between the foreign suppliers and the Turkish importers.

However, the trade agreement signed in April, 1955 at Ankara does not make any mention of this function which is essentially a Lebanese one, and consequently it could even eliminate it.

Article one of this agreement stipulates that the commercial exchanges between Turkey and Lebanon would be carried in conformity with the existing general import and export policies in each one of the two countries. As a matter of fact, the present commercial policy of Lebanon is, as we have seen, a liberal one, while that of Turkey is much more restrictive and is not likely to promote foreign trade in any fashion. In order to have the Turkish regulations applied to the foreign trade between Turkey and Lebanon, it was not worthwhile to negotiate and conclude an agreement

between the two countries.<sup>1</sup>

Article two of the agreement stipulates that the Turkish and Lebanese governments would authorize the imports and exports between the two countries of commodities of either Turkish or Lebanese origin.

According to Article four, these commodities should be accompanied by a certificate of origin. However, before the agreement, Turkey was accepting imports of commodities coming through Lebanon without requiring a certificate of origin. Therefore, instead of promoting the commercial exchanges between the two countries, the new agreement is more likely to restrict them. The same article four stipulates also that all the Lebanese and Turkish commodities should be destined to local consumption in either of the two countries. This clause lets the door open to the Turkish Govern-

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1. When the trade agreement with Turkey was submitted to the Lebanese Parliament for purposes of ratification, it was first rejected. The reason for this was that most of the Lebanese products to be exported to Turkey were already found abundantly in Turkey. Consequently, it was expected that these commodities were going to be re-exported to Israel. However, the trade agreement was expected to be a sincere manifestation of the Turko-Lebanese friendship, before the visit of the Lebanese President of Republic to Turkey in that year.

ment to prohibit the Lebanese re-export trade. Moreover, this clause could not be easily implemented by the Lebanese party, because it requires restrictions for which the Lebanese administration is not prepared.

Article three stipulates that the payments should be regulated according to the exchange control policy in each one of the two countries. This article does not constitute, properly speaking, a payments agreement.

Article seven institutes a mixed commission with the function of applying the clauses of the agreement. As we have already seen, in most of the trade agreements there is a provision for such commissions. However, none of these commissions has played a significant role so far. For this reason and because the agreement itself would not contribute to the promotion of the trade between the two countries, not too much is to be expected of this mixed commission.



E. Trade Agreement with Yugoslavia

Lebanon signed a trade agreement with Yugoslavia in July, 1953, in which Yugoslavia undertook to import from Lebanon the equivalent of the value of 60 per cent of its exports to Lebanon. Matters of payments and currencies were left to the individual dealers to arrange.

Two lists of commodities (A and B) to be exchanged between the two countries are included in the appendix.

The ratification instruments were exchanged in July, 1954; and the agreement became operative immediately. The period of the agreement is for one year, renewable by the tacit consent of the two parties.

1. Lebanese Foreign Trade with Yugoslavia

In 1954, Lebanon's commodity imports from Yugoslavia amounted to L.L. 1,703,512 and its exports only L.L.2,932. In 1955, Lebanon's imports increased considerably and reached L.L. 3,113,357, while its exports increased to L.L. 740,000. Lebanese foreign trade with Yugoslavia showed a deficit then of L.L. 2,373,357.

Lebanon imported from Yugoslavia mostly the famous "Kachekawal" cheese, beech and fir, tubes and iron pipes, and cotton textiles. In this year, it exported barley for an amount of L.L. 737,930.

In 1955, Lebanon's main commodities imports from

Yugoslavia were as follows:

Lebanon's Imports from Yugoslavia in 1954 - 1955

(in L.L. 000)

<u>Commodities</u>	<u>1954</u>	<u>1955</u>
Cheese (Kachekawal)	156	124
Fir wood	263	601
Beech wood	-	300
Cotton textiles	-	111
Tube and iron pipes	-	330
Kitchen utensils	-	111

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1955, passim.

Lebanese exports in 1954 were nil; in 1955, there were only two items, barley, amounting to L.L.737,930 and miscellaneous for L.L. 2,070. Lebanese exports to Yugoslavia are therefore negligible. At that the barley is most probably of a Syrian or Iraqi origin.

According to the Lebanese statistics, Lebanese deficits with Yugoslavia are increasing as the following

table shows:

Lebanon's Imports and Exports to Yugoslavia in 1954 and 1955  
(Value in L.L.)

	<u>1954</u>	<u>1955</u>
Imports	1,704,000	3,113,000
Exports	<u>3,000</u>	<u>740,000</u>
Trade deficits	1,701,000	2,373,000

Source: Republic of Lebanon, Conseil Supérieur des Douanes. Statistiques du Commerce Extérieur, 1955, p.18.

Trying to find a remedy for this state of things, a Yugoslav commercial mission came to Lebanon last April for the purpose of increasing the Yugoslav imports from Lebanon. It was interested in the purchases of citrus fruits (oranges and lemons), bananas, olive oil, cotton seeds and linseed oil, and iron scrap.

So far, Yugoslavia has judged the prices of the Lebanese commodities to be relatively high. Nevertheless, it is hoped that this deficit with Yugoslavia could be at least partially diminished. At present, the final results of the trade agreement between the two countries have been one-sided to the ultimate advantage of the Yugoslav exports to Lebanon.

## C H A P T E R   F O U R

### E A S T E R N   E U R O P E A N   C O U N T R I E S

#### A. Trade Agreement with Czechoslovakia

A trade and payments agreement was signed with Czechoslovakia in July, 1952. It included the most-favored-nation clause with respect to customs duties, other trade and transit dues, and general exchange and trade restrictions. The main products to be supplied by Lebanon, enumerated in annexed List A, were citrus fruits, fresh and dried fruits, raw cotton, vegetable oils, hides and skins, and cotton and natural silk yarn. (Czechoslovakia promised to import at least 5,000 tons of Lebanese citrus fruits.)<sup>1</sup> In annexed List B, Czechoslovakia was to provide mainly machinery, cars, iron products, dyes, paper, wood, cotton goods, porcelain and ceramics. In the first year of the agreement, the value of the goods exchanged was expected to amount to LL. 5 million (LL. 3.6 = U.S.\$1 at the free rate) each way, including, the 5,000 tons of citrus fruits mentioned above.

In the following years, the value of goods exchanged was to be fixed by the two parties. The payments agreement provided for the opening of a Lebanese non-resident account

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1. This provision is important in that a minimum amount is stipulated. As we noted above, the absence of a stated minimum in other agreements has meant little, if any, increase in the volume of Lebanese exports.

with the Statni Banka Czechoslovakia in Prague and of Czechoslovak non-resident account with the Bank of Syria and Lebanon in Beirut. The maximum credit accounts were fixed at LL.500,000. These accounts were to be used for settlement of all operations arising under the agreement and were to be closed every six months. If there appeared a surplus in either account of more than LL. 500,000, the debtor country was to make payment in exports in the following six months. If, at the end of that period, there was still an excess, the two countries were to agree on the best way to liquidate it.

After the trade agreement between Lebanon and Czechoslovakia had been in operation for two years, the two parties agreed to add a new protocol in November, 1954. The protocol provided for the addition of two articles to the annexed lists. In addition, facilities were given for barter agreements, and the value of exchanged commodities was raised from LL. five million to LL. eight million and the maximum of credit from LL. 500,000 to LL. 1,200,000. A quota for Czechoslovak purchases from the Free Zone was fixed at 25 percent of total value of exchanged commodities.

1. Trade Between Lebanon and Czechoslovakia

Czechoslovakia imported from Lebanon in 1954, 4,973 tons of citrus fruits as against 6,720 for the previous year. Forty percent of these were lemons, and the remaining sixty percent oranges. The average price was 42-45 piasters per

kilogram C.I.F. Trieste, or any other port on the Adriatic.

The result of the trade agreement with Czechoslovakia can be shown by the statistics of Lebanese imports from and exports to Czechoslovakia during the last five years, when the agreement was in effect.

Lebanese Imports from and Exports to Czechoslovakia,  
1951 - 1955  
(in L.L. 000)

<u>Year</u>	<u>Imports</u>	<u>Exports</u>	<u>Deficit</u>
1951	4,670	1,034	3,636
1952	4,677	1,716	2,961
1953	3,350	2,057	1,293
1954	4,877	1,620	3,257
1955	5,371	3,330	2,041

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1955, p. 17.

In the light of these figures we can see that the commercial exchange between Lebanon and Czechoslovakia is increasing to the advantage of both parties. Czechoslovakia is one of the best customers for Lebanese citrus fruits, purchasing 9,302 tons in 1955, while the agreement provides for only 5,000 tons. The Lebanese citrus fruit exporters agree unanimously on the bona fide attitude of the Czechoslovak organizations which facilitate to a large extent the import of the Lebanese product.

Some barter transactions (citrus fruits against wooden boxes and sugar) have been concluded also during the last two years. As we have seen, the second paragraph of the Protocol has provided for barter trade. Moreover, it is expected that the additional LL. 3 million of exchanged commodities would be affected to the purchase of a greater quantity of citrus fruits and miscellaneous agricultural products from Lebanon: apples, walnuts, onions, tobacco, iron ore.

## 2. Potential Lebanese Exports to Czechoslovakia

Czechoslovakia uses most of its credits in the Lebanese clearing account for the purchase of Lebanese agricultural products. The bulk of Lebanon's exports to this country consists of citrus fruits. In the recent protocol, the quantity of citrus fruits was fixed at 6,500 tons per year instead of 5,000 tons as in the 1952 agreement. However, as we have seen, in 1955, the Lebanese exports exceeded this quota by some 2,800 tons.

Exports of lemons and other citrus fruits cannot be increased further unless packing and grading of the fruit are improved. According to an official source, during the last quarter of every year, the proportion of spoilage has been estimated at between four and five percent. But during the first quarter of the year (January - February), it reaches 25 and sometimes even 50 percent in some shipments.

Another commodity which could be easily introduced into the list of Lebanese exports to Czechoslóvakia, if the

price were lower, is the apple. However, the Italians were selling apples in 1955 at the equivalent of 35 Lebanese piasters per kilogram C.I.F. Czechoslovak boundary, while the domestic wholesale price at Beirut in 1954 ranged between 70 and 80 piasters per kilogram. However, it is thought that Lebanese apples delivered C.I.F. Trieste at 70 Lebanese piasters per kilogram would be attractive to prospective Czechoslovak customers.<sup>1</sup> Lebanon's exports could be also extended to iron ore as the iron content of the Lebanese ore deposits varies between 30 and 40 percent, a fairly high percentage.

It is since 1952 that the commercial relations with Czechoslovakia have known a great development. At present, Czechoslovakia holds an important place among the Lebanese customers. In 1955, the Lebanese citrus fruits including lemon exports to Czechoslovakia reached 9,302 tons with a value of LL. 3.1 million. The importance of this amount can best be envisaged when we compare it to Lebanese exports to Syria; the latter has always been an important customer of Lebanon. During the same period, Syria imported only LL. 2.6 million (20,900 tons) of citrus fruits from Lebanon. It is the additional protocol which gave scope to Lebanese exports.

Lebanon's main imports by commodity from Czechoslovakia in 1955 as compared to those of 1954 were as follows:

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1. The varieties of the Lebanese apples and their quality are better than those of Italy, but the Lebanese exporters should take care of the proper grading and packing of the apples.



Lebanese Imports from Czechoslovakia in 1954-1955

(Value in L.L.)

<u>Commodities</u>	<u>1954</u>	<u>1955</u>
Paving stone, sand stone, bricks	389,017	622,072
Newsprint	243,890	284,210
Pots, pans, other kitchen utensils	227,595	242,134
Glass articles	187,452	230,922
Wood	180,256	181,388
Malt	140,150	177,580
Chassis	389,017	134,011

Source: Republic of Lebanon, Conseil Supérieur  
des Douanes, Statistiques du Commerce  
Extérieur, 1955.

As we have seen in the table on page 102, Lebanese imports increased from 1954 to 1955 by only LL. 0.5 million while Lebanese exports to Czechoslovakia showed an increase of LL. 1.7 million.

Until now, Prague has not purchased from Lebanon iron ore, apples, bananas, onions and scrap, these products however, are included in "List 2" which contains the Lebanese items to be exported to Czechoslovakia.

According to the Lebanese customs statistics, in 1955, the Lebanese exports of citrus fruits to all foreign countries reached a grand total of 43,307 tons. This amount is a little bit smaller than that in 1954 (46,198 tons). However, one

fact stands out and it should be noted. The considerable contraction of Lebanon's exports to Syria, the traditional customer, (20,900 tons in 1955 as against 25,406 tons in 1954) was largely compensated by the intensive exports towards the Popular Democratic Republics, including Czechoslovakia. As a matter of fact, Czechoslovakia has more than doubled its purchases of Lebanese citrus fruits in 1955 (9,302 tons against 4,973 in 1954). As a result, it stands in first place among Lebanon's customers, behind Syria in volume but not in value.<sup>1</sup>

From the analysis of the foregoing trade figures, we can say that foreign trade with Czechoslovakia has grown successfully. The 1952 trade agreement and its 1954 modifications have given good results and advantages to both parties. The evolution of Lebanese commercial relations with Czechoslovakia during the last five years was illustrated above. From the data available, we can note that the trade relations with that country have increased in both imports and exports. In 1955, the imports amounted to L.L. 5,371,000 compared to L.L. 4,877 in 1954.

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1. The year 1955 has been also characterized by the appearance of the U.S.S.R. as an important customer where more than 5,876 tons of citrus fruits were purchased. This fact is important, since, in 1954, the U.S.S.R. was not even included among the purchasers countries of Lebanese citrus fruits.

As to Lebanon's exports, Czechoslovakia has been the best customer of citrus fruits, the proceed of Lebanese citrus exports amounted to LL. 3,116,977 out of LL. 3,330,000 the total value of Lebanese exports to Czechoslovakia in 1955. This improvement was mainly due to the additional protocol signed with Czechoslovakia in 1954. The Government of Prague pledged to raise the amount of citrus import from 5,000 to 6,500 tons per year. On the other hand, the facilities conceded by the same protocol concerning barter have redressed the deficit of Lebanon's balance of trade from LL. 3,257,000 to LL. 2,041,000 in 1955.

B. Trade Agreements with Russia

An agreement for trade and payments between the U.S.S.R. and Lebanon was signed in April, 1954. This agreement provided for balancing trade exchange. It sets forth on two annexed lists commodities to be exchanged between the two countries. However, it is stipulated also that Soviet and Lebanese citizens and organizations can conclude among themselves transactions having to do with merchandise not included in the two lists.

Each party undertakes to buy commodities amounting in value to LL. 10,000,000. Sixty percent of U.S.S.R.'s imports by value from Lebanon would be composed of citrus fruits, apples and bananas. Each party grants the other most-favored-nation treatment as to goods of either Lebanese

or Soviet origin, or coming through Lebanese or Soviet territory. However, there are two exceptions to the most-favored-nation clause. The first concerns both the countries bordering the U.S.S.R. and those bordering Lebanon, in addition to countries non-bordering the latter which are members of the Arab League.

The second exception concerns merchandise coming through the U.S.S.R. or Lebanon, but whose country of origin has not been granted most-favored-nation treatment by either the U.S.S.R. or Lebanon.

Payments between the U.S.S.R. and Lebanon will be effected in the U.S.S.R. by the State Bank of the U.S.S.R. (Gosbank) and in Lebanon through La Compagnie Algérienne.

As to the rate of exchange between the two currencies, it will be based on the gold content of the ruble and the average quotation of the U.S. dollar in the Beirut exchange market.<sup>1</sup> Credit balances of either of the two accounts shall not exceed 1.2 million Russian rubles or its equivalent in Lebanese pounds. If the credit balance on either account exceeds this amount, consultations will be held as to how to remedy the situation.

The period of the agreement is for one year, automatically renewable unless either party expresses three months before the expiration date its desire to end the agreement.

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1. The average quotation is that on the day on which the payment is effected.

Settlement is made by providing more goods whose nature is to be determined by the contracting parties. If the debit balance is not settled within six months, the debtor will have to pay in free currencies.

Concerning Russian exports to Lebanon, they include mainly industrial machinery, electrical machinery, passenger automobiles and trucks, agricultural machinery, precision instruments, photographic and cinema apparatus, musical instruments, chemical products, timber and lumber, medicines and pharmaceuticals, alcoholic beverages, salted and canned fish, and newsprint.

Lebanese exports to Russia include oranges and other citrus fruits, bananas, apples, other fresh and dried fruits, vegetable and olive oil, tobacco, wool and woolen textiles, natural silk, and hides and skins. On this score, Russia agrees to take the measures necessary to ensure that imports of Lebanese citrus fruits, apples and bananas will amount to not less than sixty percent of total imports from Lebanon, or the equivalent of LL. 6 million.

The value of total goods exchanged, as well as the percentage of Lebanese citrus fruits, apples and bananas for subsequent years will be determined by mutual agreement.

1. Lebanese Trade with Russia

The trade agreement was put into execution during the last quarter of 1954.

The following data, expressed in Lebanese pounds, will convey an idea of the development of Lebanese trade relations under the agreement.

Lebanese Imports from and Exports to Russia,  
1953 - 1955  
(Value in LL.)

<u>Year</u>	<u>Imports</u>	<u>Exports</u>	<u>Deficit/Surplus</u>
1953	62,374	nil	- 62,374
1954	126,287	375	- 125,912
1955	1,663,725	3,100,987	+1,437,262

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1955, p. 17.

From the above figures, we can see that, in 1955, Lebanese exports to the U.S.S.R. exceeded imports from that country by LL. 1,437,262. In that year, Lebanon exported for the first time its citrus fruits to the U.S.S.R. for an amount of LL. 2,121,889. The remaining part of the exports consisted principally of olive oil and hides and skins.

Lebanon's imports from Russia were confined mostly to timber and lumber, and iron and steel.

Lebanese trade by commodities with Russia for the year 1955 is as follows:

Lebanese Imports (Value in LL.)

Timber and lumber	532,380
Iron and steel bars	664,415
Others	<u>466,930</u>
Total	1,663,725

Lebanese Exports

Oranges and Mandarins	1,457,385
Lemons	664,504
Olive oil	263,500
Hides and skins	590,453
Miscellaneous	<u>125,145</u>
Total	3,100,987

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1955, passim.

In this case, the advantages from the bilateral trade agreement with Russia are clear as it is illustrated in the above trade figures. This agreement has facilitated the exports of agricultural and animal products of a total value of LL. 3,100,987 in 1955. This is considerable when compared to the Lebanese exports to Russia in the previous years. Lebanon exported nothing in 1953, and for LL. 375 in 1954, an insignificant figure.

However, in 1955, Lebanon exported 3,000 tons of citrus to Russia.<sup>1</sup> It is interesting to note that it was officially

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1. At a price of 40 L.P. per kilo C.I.F. Odessa.

reported that about 20 percent of Lebanese citrus exports arrived at Odessa in a wasted condition and caused a threat of cancelling the whole arrangement.

Negotiations for exporting 25,000 tons of Lebanese apples to Russia have not made much headway, because the price demanded by the Lebanese exporters (C.I.F. Odessa) was considered by the Russians to be very high.

Lebanon imported from the U.S.S.R. timber, paper, and structural iron. It was reported also that a Lebanese importing house which has branches in Syria applied for an agency of Russian automobiles. The Russians, however, demanded cash payment for all cars exported, while the Lebanese house offered to pay 35 percent in cash and the rest six months later. Negotiations are still proceeding.<sup>1</sup> In any event, Russian cars imported into Lebanon are not to be expected on any great scale, because they can hardly compete with American and the European-made cars.

## 2. Evaluation of the Lebanese-Russian Trade Agreement

After the passage of three years since the conclusion of the trade agreement with Russia, what can be said about this agreement?

After all, three years represent a period long enough to appreciate the practical importance and the mutual advantages

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1. The Russian-made cars are: Pobeda, Zim, and Moscovitch.



of this trade agreement.<sup>1</sup> The commercial relations between Lebanon and the U.S.S.R. have started since 1954; that is to say, since the exchange of diplomatic legations and the conclusion of the agreement. During the period which preceded the conclusion of the trade agreement, more especially after the Second World War, the commercial relations between the U.S.S.R. and Lebanon had a spasmodic character and represented transactions of little importance.

Later on, the Soviet Government was more and more interested in entering the Middle East market, and especially Lebanon, its most important center. This is why Russia was ready to purchase the agricultural and animal products of Lebanon in exchange for Russian exports to Lebanon thus providing an equilibrium between the imports and exports of both countries.

### 3. The Lebanese Exports

Taking into consideration the desire of the Lebanese Government which was encountering some difficulties in finding an outlet for its agricultural products, as we have seen, the Soviet Government pledged to purchase from Lebanon citrus fruits, apples and bananas.

The trade relations between the U.S.S.R. and Lebanon have been still further developed by the new protocol signed

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1. Information was made available from an unpublished report by the Head of the Middle East Department in the Foreign Trade Ministry of the U.S.S.R., Moscow, April 30, 1957.

in October, 1956. It has fixed the volume of exchange of commodities between the two countries for a third annual period (1957). The volume of commodities to be exchanged during the new annual period, has been raised from LL. 10 to 15 million for each party.

Thus, the Soviet organizations of foreign trade have purchased and imported from Lebanon in the period between April 1954 and December 1956 more than 7,000 tons of citrus fruits and dried fruits, around 600 tons of wool, 450,000 pieces of hides and skins, 170 tons of tobacco and miscellaneous other products.

### C. East Germany

#### 1. Trade and Payments Agreement with East Germany

This agreement was signed in December, 1953; later it was modified by a protocol signed in Beirut in November, 1955.

The trade agreement signed in December 1953 was operative as from February 1954. It contained two appendices where the different commodities to be exchanged between the two countries are listed. The maximum value was fixed at U.S. \$ 1,000,000 on each side. Like Russia, East Germany undertook to import citrus fruits and bananas from Lebanon to the proportion of sixty percent of its total purchases from Lebanon. The maximum debit or credit balance was fixed at U.S. \$ 100,000.

In 1954, East German exports to Lebanon consisted mainly of typewriters, radios, electrical apparatus, automobiles, films and cameras. On the other side, Lebanon exported to Eastern Germany 500 tons of lemons.

2. The Protocol of November, 1955

This protocol provided for an exchange of goods to the amount of LL. 5 million in each direction during the first year after the protocol, valid for five years, entered into effect. The amount of the exchange during the following four years was to be determined by agreement between the contracting parties.

The most important items in Eastern Germany's exports to Lebanon (described in List A) are equipment and machinery of various kinds, vehicles, refrigeration installations, optical and precision instruments, and chemicals.

Among Lebanese exports to Eastern Germany (set forth in List B) are citrus fruits, other fruits, olive oil, yarn and textiles.

All payments between Lebanon and East Germany are to be made through accounts in Lebanese pounds. The Deutsche Notenbank on behalf of Eastern Germany and Bank Misr-Syria-Lebanon, on behalf of the Lebanese Republic, will open in their books non-interest bearing accounts in Lebanese pounds.<sup>1</sup>

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1. Commercial bills arising in connection with German exports will be made out in East German marks, while bills for Lebanese exports to Eastern Germany will be made out in Lebanese

The agreement gives Eastern Germany the right to utilize a proportion not exceeding 15 percent of its receipts for purchases in the Lebanese free zones and for merchandise not included in List B.

D. Mainland China and Poland

Lebanon signed a trade and payments agreement with Mainland China in December, 1955, and with Poland in January, 1956. Each agreement is for one year, subject to renewal. Also each agreement provides for the mutual extension of most-favored-nation treatment in relation to customs duties and other commercial matters. The agreements also provide that special advantages and facilities granted to neighboring countries by the two parties are excluded.

1. Mainland China

The agreement establishes the right of either party to maintain an office of commercial representation in the capital of the other country.<sup>1</sup>

The agreement also provides for consultations between the two parties concerning the implementation of the agreement.

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pounds. For the purpose of converting East German marks into Lebanese pounds, the applicable rate of exchange will be that quoted by the Deutsche Notenbank for the Lebanese pound, which is about LL.142.85 per 100 East German marks.

1. In an annexed letter, the Lebanese Government agreed to the functions of such an office to be established by the Chinese in Beirut.

Payments between Lebanon and China will be effected in transferable sterling or in any other currency agreed upon by importers and exporters. Payments will be made through the intermediary of authorized banks in each country. In pursuance of this agreement, Mainland China purchased from Lebanon in 1956:

2,000 tons of sugar

500 tons of cotton thread

200 tons of tobacco.

The total value amounted to LL. 7 million. The value of commodities purchased from the Free Zone, in the same year, amounted to LL. 3 million.

## 2. Poland

In this agreement, it is specified that payments between Lebanon and Poland will be handled in Poland by the Narodowy Bank Polski and in Lebanon by the Banco di Roma.

For this purpose, each bank will open an account in its books in U.S. dollars. These accounts are interest free and not subject to any taxes or charges. Payments for merchandise and related commercial expenses will be effected in dollars.<sup>1</sup> If the balance in either account exceeds U.S. \$ 350,000, a mixed commission will meet and decide on the measures to be taken. This commission is also concerned with any other

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1. If payments are effected in other currencies, the amounts of such payments will be converted into dollars at the average rate of dollar transfers in the Beirut market on the day the payments are effected.

problems arising under the agreement. In the exchange of letters annexed to the agreement, the Polish Government agreed to increase its imports of Lebanese tobacco leaves in proportion to the increase of Polish cigarettes imported by the Lebanese Tobacco Régie.<sup>1</sup>

It was also agreed that the Polish Government will purchase from Lebanon during the first year of the agreement citrus fruits and bananas to a total value of U.S. \$ 650,000.

These agreements are very recent, hence very little can be said as yet regarding the degree to which they have been put into practice.

#### E. Rumania

The trade agreement between Lebanon and Rumania was signed in Beirut in January, 1956. It extends for one year and is subject to renewal.

It provides for the mutual extension of most-favored-nation treatment and for the right of either contracting party to establish commercial representation in the territory of the other party.<sup>2</sup> Rumania's exports to Lebanon include: wood and wood products, paper, paints, varnishes, various chemicals and pharmaceutical products.

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1. The extent of the increase in this exchange will be established by a separate agreement between the Lebanese Tobacco Régie and the competent Polish organizations.
  2. Special advantages and facilities granted to neighboring countries by the two parties are excluded.

Lebanese exports include citrus fruits, bananas, olive oil, cotton, tobacco, wines, cotton yarn and raw hides.

Foreign trade statistics for the year following the agreement are not yet available. However, we could have an idea of Lebanese trade relations with Rumania for the two years preceding the trade agreement.<sup>1</sup>

Lebanese Imports from and Exports to Rumania

1954 - 1955

(Value in L.L.)

	<u>1954</u>	<u>1955</u>
Imports	2,626,700	3,682,983
Exports	<u>709,016</u>	<u>33,420</u>
Deficit	1,917,684	3,649,563

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1955, p. 18.

We can see that Lebanon's balance of trade with Rumania had a deficit of LL. 1,917,684 in 1954 and LL. 3,649,563 in 1955. Lebanese exports to Rumania consisted, in 1954, of oranges, mandarins, and lemons amounting to more than LL.700,000, while in 1955 they fell to an insignificant amount (LL.33,420). So far, citrus fruits have been the only Lebanese commodity exported to Rumania.

Concerning Lebanon's imports from Rumania they consisted mostly of fir, beech, and oak woods.

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1. The Lebanese trade relations between Mainland China and Poland respectively are very small. Lebanon imported few commodities from these two countries and exported nothing in the period preceding the trade agreement.

## CHAPTER FIVE

### CONCLUSION

#### A. Trade Agreements and a Liberal Economy

It is in order to provide an urgent outlet for Lebanese production, both in the industrial as well as in the agricultural sector, that the Lebanese have undertaken to generalize as much as possible a trade agreement policy. However, it can be argued that trade agreements would not help the development of an enterprise if this enterprise does not meet the demands of local and foreign consumers.

The trade agreement policy, which has been followed by Lebanon during the last six years, does not have the general approval of the different economic groups. That is so, since it is much easier to prepare and negotiate a political agreement, usually conceived in loose terms, than to conclude an economic agreement, apparently much less important on the surface but the incidences of which are complex and often unforeseen. The matter is even more complicated when a country practicing a liberal economic policy, such as Lebanon, tries to conclude a contract with a totalitarian country lacking economic flexibility. In this case, the stipulations and the instruments exchanged on both sides at the time of the conclusion of the agreement do not have the same meaning for the two parties. This is so because



usually, the trade agreements stipulate that the commercial exchange between the contracting parties would be carried in conformity with the existing import-export policies in each country.

As we have seen throughout the preceding chapters, Lebanon has a balance of trade deficit with most trade partners. In the case where we use the balance of trade deficit as a criterion for evaluating the effectiveness of the trade agreements on Lebanese foreign trade, we can easily see that these agreements have not given the expected results. Even more Lebanon has experienced a larger overall balance of trade deficit during the years following the agreements than in the period before the agreements. We cannot attribute the increasing trade deficit to the trade agreements, in the sense that they have been the cause of the increasing deficit but we can say that they have been ineffective in improving the balance of trade of Lebanon.

#### B. Trade Agreements and the Balance of Payments

The trade agreements of Lebanon were concluded in an attempt to find new or to expand existing markets for Lebanese industrial and agricultural products. Thus, the search for markets is motivated by a desire to help sell the export surplus of some industrial and agricultural products (especially citrus fruits and apples), and at the same time to reduce the large deficit in the balance of trade.

In no circumstances could Lebanon expect to bring its balance of trade into equilibrium, in other words, to equate the value of its exports to that of its imports. This statement can best be supported by resorting to the foreign trade figures. For instance, in 1953, Lebanon imported commodities amounting to LL. 373.7 million and exported goods for a value of LL. 134.4 million. Among the Lebanese principal imports are the following:

Lebanese Imports in 1953  
(in LL. million)

Animal products	40
Agricultural products	80
Food and beverages	13
Mineral	27
Textiles	45
Machinery and equipment	<u>37</u>
Total	242

Source: Republic of Lebanon, Conseil Supérieur  
des Douanes, Statistiques du Commerce  
Extérieur, 1953, passim.

Principal Lebanese exports in the same year consisted of the following commodities:

Lebanese Exports in 1953  
(in LL. million)

Onions	2
Bananas	2
Citrus fruits	6
Apples	4
Textiles	18
Metallic products	5

Lebanese Exports in 1953 (Cont'd)

(in LL. million)

Food and beverages	4
Vegetable oil	4
Cement	3
Hides and skins	<u>3.5</u>
Total	51.5

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1953, passim.

In the light of the above tables, one could see that 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 agricultural items. The sources of Lebanese imports, with the exception of a large part of the agricultural products, are the United States and the countries of western Europe, all of which require payment in sterling, dollars or francs. Merchandise exports cover only a small part of these imports, the rest being paid for from the revenues of such sources as capital inflows, tourism, transit, and donations, all of which (with the possible exception of the last) depend to a considerable extent on the maintenance of the free trade and exchange policy pursued by the Lebanese authorities.

In order to have an equilibrium in the balance of trade, Lebanon should obviously decrease its imports and increase its

exports. One aspect of the problem is then how could Lebanon reduce its imports. Could it reduce its purchases of meat, cheese and other dairy products? If, in 1953, the Lebanese people were consuming for LL. 40 million of animal products, we should expect that they would consume more in the coming years. This is so because both the population and the level of living are increasing. The same is true for the imports of agricultural products LL. 80 million (wheat, rice, ...); textile products, LL. 45 million (cotton, flax); and machinery and equipment, LL. 37 million. However, one could argue that in order to reduce the volume of imports, Lebanon could restrict or even prohibit imports of conspicuous and luxury goods, estimated at about LL. 10 million, and convert this amount of potential savings to the domestic production of current consumption articles. Concerning the restriction on luxuries imports, they could result in some increase in the national savings but this restriction would have unfavorable results on the tourism industry.<sup>1</sup> As for the development of consumer goods industries, this sector should be considered and even encouraged.

On the export side, even if the United States, Great Britain, France and most of the liberal economy countries

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1. Tourism depends on the imports of luxury goods. But distinction must be drawn between commodities considered as luxury goods and those which are not. For some people jewelry, precious metals are luxury goods, for other Cadillacs, silk yarn, alcohol (champagne, whisky ..) are considered luxury goods.

signed trade agreements with Lebanon and pledged the purchase of the Lebanese commodities, Lebanese exports would not likely reach the level of imports or a level even close to it. To increase its exports, Lebanon should start by increasing its production. However, by looking at the balance of payments, we see that Lebanon is not a good producing country. Exports are small compared with the imports of the country. Most of the revenues in the balance of payments are coming essentially from those other factors, foreign travel (tourism), emigrant remittances, etc., all of which are to a considerable extent dependent on the maintenance of a free trade and exchange policy by the Lebanese Government.

As we have seen, year after year, Lebanon has had a terrific deficit in its commercial account, a deficit which in 1955 comes to almost half a billion of Lebanese pounds.<sup>1</sup> Despite the tremendous deficit on commercial account, Lebanon was still able to have a favorable balance of payments and succeeded in accumulating gold and foreign exchange of LL. 60 million in 1954 and of LL. 32 million in 1955. The introduction of bilateral trade and payments agreements into Lebanese foreign trade relations was, therefore, mainly due to commercial rather than to payments difficulties.

Moreover, most of the credit items which help to cover the trade deficit are of an unstable nature, as the big dif-

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1. Economic Research Institute, American University of Beirut, Balance of Payments of Lebanon 1951-1955, (Mimeographed).

ference between 1954 and 1955 accumulated gold and foreign exchange reserves show. For example, in times of world crisis emigrant remittances and receipts from tourism would decline. Imports would decline also with the result in lower standard of living. Thus, the conclusion of trade agreements is justified by the proponents of this policy as a measure calculated to expand merchandise exports, a stable item in the Lebanese balance of payments. But what assurance has Lebanon that its trading partners would fulfill the terms of trade agreements in time of world crisis?

As a part of a commercial policy aiming at expanding merchandise exports, the Lebanese authorities have tended to enter into more and more trade agreements. However, Lebanese merchandise exports are hampered by high selling prices, inferior quality, lack of standardization and import quantitative restrictions imposed by other countries.

To sum up, some form of governmental intervention for the purpose of opening up of markets for Lebanese agricultural and industrial products is the major aim of Lebanon's trade agreements. Moreover, by expanding to some extent merchandise exports, a stable item in the balance of payments, it is expected to strengthen its position.

### C. Effectiveness of Bilateral Agreements

Bilateralism is the "theory that what one nation buys from another is dependent upon what that nation sells to the

other."<sup>1</sup> It involves a pre-determined quantitative ratio of "exports of country A to country B, to the exports of country B to country A."<sup>2</sup> A one to one balance or any other arbitrarily chosen ratio is imposed upon the mutual trade of the two countries. As a matter of fact, in the case of Lebanon, most trade agreements, with the exception of those with Russia and its satellites, do not provide for any attempts at balancing trade bilaterally, their main purpose being the encouragement of Lebanese merchandise exports. For instance, recently France refused to purchase vegetable oil from Syria at a lower price than that of Lebanon. The reason for this is that the agreement provided for the issuing of import licenses up to LL. 450,000 annually by the French Government for the import of vegetable oil from Lebanon. There is no such an agreement between Syria and France.<sup>3</sup>

Trade agreements with Western countries may be termed bilateral only in the sense that they have been concluded between pairs of countries. In fact, the main prerequisite for bilateralism, the pre-determined quantitative ratio, are missing. The present experience of Lebanon with bilateral trade agreements has shown that only trade and payments agreements with state trading countries seem to have resulted

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1. R.C. Snyder, "Commercial Policy as Reflected in Treaties", American Economic Review, XXX (1940), p. 787.
  2. Ibid., p. 797.
  3. Le Commerce du Levant No. 142 "Plaidoyer d'un Lecteur pour les Accords Bilatéraux", Saturday, December 10, 1955.

in significant stimulation of Lebanese exports. Some of Lebanon's bilateral agreement partners (state trading countries), have practically had no trade with it prior to the negotiation of the agreements with them. The agreements concluded have led to an increase in the amount of Lebanese exports to these countries (Russia, Poland ...) without leading to a contraction in the total volume of Lebanese foreign trade as a result of a diversion in the existing trade channels before the agreements or the imposition of pre-determined quantitative ratio.

Obviously, these agreements with state trading countries proved of some use in opening up markets for Lebanese merchandise exports. However, the increase in exports is still limited. This accounts for the demands by the proponents of the trade agreements policy, for the conclusion of more agreements, and for a better enforcement of the existing ones.

#### D. Classification of Trade Agreements of Lebanon

The agreements under consideration are of different types and cannot be dealt with as one group. In the preceding chapters, the trade agreements were divided into three major groups on the basis of their main characteristics, namely:

- a. Agreements with Arab countries providing for preferential treatment.
- b. Agreements 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. These agreements are concluded with some Eastern European countries and the U.S.S.R.

- c. Agreements providing simply for the most-favored-nation clause and the encouragement of trade in certain commodities, up to specified value or volume limits, but no balancing of trade.

1. Preferential Agreements

The main purposes of the preferential treatment agreements is the encouragement of trade among the contracting countries and, other than trade, the stimulation of a greater degree of economic cooperation. Their principal effect upon Lebanon can best be judged when we take into account the importance of the Arab countries as a source of supply and as a market for Lebanese exports. As was already mentioned in Chapter Two, in 1953, Lebanon sent to the Arab countries 37 percent of its exports, and in the same year it received 34 percent of its total imports. These results obtained even though all Arab countries, with the exception of Lebanon, exercise a considerable degree of trade and exchange control on their transactions with foreign countries, including other Arab countries. The fact that Lebanon is the country with the least trade and exchange restrictions in the group adds to the importance for Lebanon of a liberalization of Arab trade relations. Because there would be less or even no trade

barriers prohibiting the export of Lebanese agricultural and industrial products to the Arab countries.<sup>1</sup>

However, in the light of Lebanon's foreign trade statistics with Arab countries, we can say that in general, apart from the increase in trade with Saudi Arabia during the period 1951-1956, no significant changes in trade between Lebanon and the other members of the Arab League seem to have taken place.

As we have seen, in no case did Lebanon expect to balance its trade with any partner country.<sup>2</sup> In so far as import-export balance was not the purpose of the trade agreements of Lebanon, one could say that they have not been useful since their main purpose has been the promotion of trade relations between partner countries. As a matter of fact, by evaluating the results of the existing agreements between Lebanon and each Arab country on the basis of this criterion, one could see that they have had limited effects on the promotion of trade between the contracting parties, because they did not provide for sufficient liberalization of Arab trade

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1. Lebanese industries are in a better competitive position than the existing industries in other Arab countries, exception made for Egypt. Even Lebanese agricultural production composed of vegetables, fruits, olive oil, has a chance to find a market in all the Arab countries if an Arab Economic Integration takes place.
  2. Concerning the agreements with the Eastern European countries, they provide for balancing trade between the two contracting parties. But a great proportion of the Lebanese exports is made of commodities from the Lebanese Free Zone.

relations. This is particularly true when one looks at the imports from and exports to Egypt between 1951-1956. As we have shown in Chapter Two, the first Lebanese-Egyptian trade agreement was signed in September, 1951. Thus the foreign trade figures of the year 1951 recorded the trade exchange before the conclusion of the agreement. The figures show LL. 4.6 million for imports from against LL. 9.2 for exports to Egypt. In 1952, the first year following the agreement, the Lebanese imports dropped to LL. 2.3 million and exports dropped also to LL. 6.5 million. Setting aside any considerations concerning surplus or deficit of the balance of trade, one could obviously see a reduction in terms of value of trade relations between Lebanon and Egypt. The total value of imports from and exports to Egypt amounted to LL. 13.8 million in 1951, it dropped to LL. 8.8 million in 1952, and to LL. 8.8 also in 1953. It is only in 1954, the year following the Multilateral Agreement of September 1953, that the total value of the commercial exchanges between Lebanon and Egypt (LL. 13.9 million) exceeded the level of 1951. The multilateral agreement of September 1953 extended preferential treatment to the exchange of agricultural and industrial products among the Arab countries.

The bilateral trade agreements concluded with Iraq and Syria in the period before August, 1952 have had also a limited effect on the promotion of trade between Lebanon and

these countries.<sup>1</sup> However, this was not the case with Jordan, since, after the trade agreement of August, 1952, the trade relations between Lebanon and Jordan were slightly improved as a result of the preferential treatment it extended to agricultural and industrial products exchanged between the two countries.

The trade agreement of August 1952 with Jordan also showed a new trend in inter-Arab trade agreements. After the Libano-Jordanian treaty, trade agreements with other member countries of the Arab League started to extend preferential treatment to a number of agricultural and industrial products originating in the contracting parties.

As we have discussed in Chapter Two, in the preferential trade agreements with Arab countries, animal and agricultural products are allowed to enter in the trade partners countries free from customs duties and licenses. The positive results of the Lebanese-Jordanian trade agreement of August 1952 were reflected in the commercial exchanges between the two countries. As illustrated in the table of Lebanese imports from and exports to other Arab countries, in 1952, the total value of imports from and exports to Jordan amounted

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1. The bilateral trade agreements concluded between Lebanon and other Arab trade partners countries up to August 1952 exclusively (the date of the agreement with Jordan) subjected trade and the making of payment to existing regulations in each country such as licensing, quantitative restrictions, and exchange control which exist in all the Arab countries, with the exception of Lebanon.

Lebanese Imports from and Exports to  
Other Arab Countries  
(in LL. 000)

<u>Year</u>	<u>Syria</u>		<u>Egypt</u>		<u>Iraq</u>		<u>Jordan</u>		<u>Saudi Arabia</u>	
	<u>Import</u>	<u>Export</u>	<u>Import</u>	<u>Export</u>	<u>Import</u>	<u>Export</u>	<u>Import</u>	<u>Export</u>	<u>Import</u>	<u>Export</u>
1951	59,109	22,016	4,604	9,243	23,691	2,622	1,946	3,636	2,306	8,083
1952	63,863	16,624	2,392	6,594	17,789	2,739	2,827	3,336	4,188	7,278
1953	91,703	13,741	2,985	5,986	15,118	4,497	5,181	6,085	8,547	9,936
1954	108,786	14,973	5,129	8,756	16,989	4,585	9,971	5,281	6,641	11,924
1955	86,712	13,370	7,376	6,696	23,212	6,700	4,498	5,744	18,712	11,724

Source: Republic of Lebanon, Conseil Supérieur des Douanes, Statistiques du Commerce Extérieur, 1955, passim.

to LL. 6.1 million while the year after the agreement the total value rose to LL. 11.1 million, a net increase of LL.5 million. The commercial exchange between the two countries have increased on both sides (as shown in the above table).

The same has been obtained with the trade agreement with Syria of February 1952. It provided for the exchange of some agricultural and animal products free from customs duties and from export-import licenses. However, it was stipulated that, in exceptional circumstances, licensing could be applied on all the animal and agricultural products.<sup>1</sup> In the case of the Jordan agreement, licensing in case of exceptional circumstances could be applied only to a limited number of commodities which were listed as follows: fresh and conserved fish, wheat and its products, barley, lentils and chick-peas.

The agreement with Syria is also more restrictive than the one concluded with Jordan in so far as the prior licensing regulations are concerned. Nevertheless, it was relatively better than the previous trade agreements concluded with Syria, since it extended preferential treatment to wide varieties of agricultural, animal, and industrial products. In the year prior to the agreement the total value of commercial exchange between Syria and Lebanon amounted to LL. 80.4 million, while in the year following the agreement it reached LL. 105.4 million.

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1. This stipulation was invoked and it consisted an obstacle to free trade.

Concerning the Arab multilateral agreement, it is working very badly because the economies of the Arab world are really competitive. The industries are very much the same. As a result the Arab countries find it extremely difficult to arrive at any type of agreement regarding industrial exchange.

Concerning the Lebanese-Egyptian trade agreement of April, 1956, and the Lebanese-Saudi agreement of April, 1957, as a result of the shortness of period during which the agreements have 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 the agreements.

In any case, Lebanon should not stress too much on trade agreements as a commercial policy. Experience has shown that bilateral as well as multilateral trade agreements are not dependable. Besides the possibilities of being revoked or not renewed, in general, these agreements have a stipulation that their enforcement is subject to the regulations of each contracting party. This stipulation constitutes a loophole which makes the trade agreements ineffective and even dead letter. For instance, in order to limit its purchases from abroad, including purchases from Lebanon, Egypt has appointed a committee with the purpose of evaluating the utility of some imports. In some cases also, Egypt has justified its import restrictions on Lebanese agricultural and industrial products on the basis of its Exchange Office regulations and the license policy. The same is true in the attitude of Lebanon towards the other Arab sister countries.

Even with the present liberal commercial policy with no exchange office regulations and license policy, the Lebanese authorities could prohibit by means of a temporary decree the import or export of some agricultural products whenever they find it expedient. This state of things is likely to minimize the advantage of the multilateral and bilateral trade agreements and to render them much less effective.

## 2. Russia and Its Satellites

The characteristics of these agreements, as was already mentioned, are the development and maintenance of balanced trade between the contracting parties. Imports from and exports to Eastern European countries which are the only trading partners with whom trade is conducted on a pre-determined ratio basis, accounted for about five percent of total exports during 1956.

Thus, trade with bilateral agreement partners has constituted up to the present time a minor part of total Lebanese foreign trade which remains essentially multilateral. However, if the agreements were fully enforced the trade with Eastern Europe would be increased significantly because they establish a maximum amount for goods to be exchanged on both sides, and this maximum is not reached at the present time.<sup>1</sup>

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1. The amount was fixed at LL. 8 million in the agreement with Czechoslovakia, LL. 15 million with Russia, LL. 7 million with Mainland China, and LL. 3.2 million with East Germany.



a. Characteristics of the Agreements with Eastern Countries

The purpose of these agreements is to provide an export market for the Lebanese citrus fruits and other industrial and agricultural products to the state-controlled European economies. Such result could only be attained through bilateral trading methods, because these countries would not deal on any other basis. Among the advantages of the bilateral agreements with Eastern Europe is the fact that after the total and partial losses of the Palestinian and Syrian markets respectively, they have come to establish a market for important Lebanese exports, namely, fruits; and provided Lebanon with imported goods from the eastern countries in roughly equal values.

Bilateral agreements with eastern countries have the following characteristics in common:

- (i) Two lists are drawn up specifying which products originating with the contracting parties may be exchanged, in order to maintain balanced trade. Lebanese export items include fruits, oil, raw cotton, cotton textiles, and hides, while Eastern European export items include machinery, electrical apparatus, tractors, chemical implements, musical instruments, vehicles, and timber.
- (ii) The most-favored-nation treatment is accorded with respect to fees and customs regulations

pertaining to export, import and transit.  
(Special privileges extended by Lebanon to Arab countries are excluded.)

- (iii) Payments arising from the exchange of goods are to be settled in accordance with a clearing system.<sup>1</sup> Whereas settlements with Czechoslovakia and the U.S.S.R. are to be effected in the national currencies of the contracting parties, settlements with East Germany, Mainland China and Poland are to be effected in dollars. Authorized banks in each of the contracting parties are to open a non-interest bearing account in each other's respective names to be credited or debited as the case may be.
- (iv) The agreements fix a maximum value for the total amount of goods to be exchanged between the contracting parties. They also set up limits to the debit or credit position the accounts may show.
- (v) The time duration of each agreement is limited to one year automatically renewable unless one of the parties, three months before its expiration, expressed its wish to modify or terminate it.

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1. Other transactions to be covered by the clearing accounts in the agreement include on the whole payments for the goods exchanged in accordance with the agreement in question: insurance, freight, and other payments agreed upon by the contracting parties.

In Lebanon, free trade and free exchange are an indication of the relative absence of serious payments difficulties. As we have seen, the balance of payments of Lebanon has shown an annual accumulation of gold and foreign exchanges during the five past years. Thus bilateral agreements with Eastern countries have not been essentially stimulated by payments difficulties but rather by commercial considerations. Lebanon is more and more in need of new outlets for its agricultural and industrial products. The present capacity of production of apples is estimated at about 38,000 tons per year; out of this amount 13,000 tons are for domestic consumption and the remaining 25,000 tons are the exportable surplus; it is believed that in 5 or 6 years annual production will attain 100,000 tons. The production of citrus fruits on the other hand is estimated at about 100,000 tons, 40,000 for domestic consumption and 60,000 tons the exportable surplus.<sup>1</sup>

The reasons for the conclusion of bilateral agreements are then different from those that stimulated the rise of trade and payments agreements in Europe and the other inconvertible countries during the thirties. There is not an absolute doctrine of bilateralism; what is true for one country is not for the other. In the thirties trade and payments agreements were mainly resorted to in order to avoid settlements in convertible exchange.

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1. The production of citrus fruits is expected to attain 200,000 tons in about 4 or 5 years.

Fears have been expressed by some economic groups, among whom the merchants of Beirut, concerning the growth of bilateralism as a governing pattern of Lebanese foreign trade, especially if minima levels in terms of value, were set for the exchange of goods. The merchants are the proponents of a liberal commercial policy and consider any commercial policy either in the form of protection or trade agreements as a restrictive device which would reduce the volume of foreign trade. As a matter of fact, the bilateral trade agreements concluded with Eastern countries provided no guarantees pertaining to a minimum value of goods to be exchanged.

b. Bilateralism and Lebanese Foreign Trade

Theoretically, many arguments against and in favor of bilateralism have been put forward. Under multilateralism, the pattern of trade is many-sided. Sellers are not compelled to confine their sales to buyers who will deliver them equivalent values in other goods.<sup>1</sup> Traders sell where they please, exchanging money for goods. Each country tries to balance its current accounts with the world as a whole, but not with every other country with which it trades.

Bilateralism, on the other hand, is likely to force disadvantageous transactions and limit the economies of inter-

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1. To achieve the bilateral trade with the Eastern countries, a system of clearing, is established. Two lists one of Lebanese and one of the other party's products are drawn up and a maximum value of trade to take place annually between the two parties is specified.

national specialization. At present, only a small part of Lebanon's foreign trade is carried out on a bilateral basis (trade with Eastern European countries), the remaining part being multilateral in character. Consequently, very little diversion in the trade channels can be said to have taken place as a result of the conclusion of trade agreements. This is clear when one would look at Lebanon's overall trade deficit which actually increased in the past five years; this was LL. 260.4 in 1951, 278.9 in 1952, 239.3 in 1953 and respectively LL. 350.1 and 497 million in the years 1954 and 1955.<sup>1</sup>

The reason for the little diversion in the trade channels is that trade with Eastern Europe is still subject to the discretion of both the Lebanese private business firms and eastern buyers. With the exchange rate fixed, Lebanese importers and exporters, taking into account the relative price structures in and outside Eastern Europe, are solely directed by the profit motive. Obviously, no Lebanese merchant would sell citrus fruits at 25 Lebanese piasters per kilogram in Eastern Europe when he could sell the same fruits at 30 or 35 Lebanese piasters in any other country. What is occurring is that the Eastern countries are more or less establishing a price for the kilogram of citrus fruits C.I.F. Trieste, Odessa or any other port in the Adriatic and the Black Sea. The Lebanese exporters, in so far as it is profitable, export to these countries. Usually the prices of citrus fruits are the same

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1. Otherwise in case the Lebanon's foreign trade is carried out on bilateral basis and the agreements are fully enforced, the amount of Lebanese exports should either equal the imports or a pre-determined ratio of them.

or slightly higher than those prevailing in the local market of Beirut. Citrus is still exported to the Eastern countries, the main reason is that in general products of inferior quality are sent there.

As we have seen, by definition, bilateralism involves a one to one balance or any other arbitrarily chosen ratio imposed upon the mutual trade of the two countries. The ever increasing Lebanon's overall trade deficit in general and more particularly the trade deficit with the Eastern European countries, in 1956 a deficit which amounted to LL. 29 million, all of these show that none of the trade agreements is actually fully enforced.

The 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. The Government of the free trade and payments country, in this case Lebanon, cannot affect the amount of trade carried out. But the effects of these agreements have been rather favorable for Lebanon as far as the local prices and the production of citrus fruits and certain other products, olive oil, vegetable oil, are concerned.

Another factor which limits the effectiveness of the agreements is that the trade and payments agreements with the Eastern countries give the right to these countries to utilize a proportion varying between 15 and 25 percent of their commitments to Lebanon, for purchases in the Lebanese Free Zone. The proportion of the purchases in the Lebanese Free Zone is based on the maximum value of goods to be exchanged on each

side. Since there is no stipulation for a minimum value of exchange, in practice the quota for purchases in the Lebanese Free Zone is in fact larger than it may appear.

The reason for this is that these trade controlled states do not have much access to the Western markets and namely the American ones, for economic and also for political reasons. This is why they have concluded trade and payments agreements with Lebanon and have agreed to purchase some of its fruits and other commodities, but what these Eastern countries are really interested in is the purchases from the Lebanese Free Zone where they can find goods of a much more important nature than those of Lebanese origin. Lebanon is benefiting from these transactions in the Free Zone, but it is certain that larger benefits would accrue to Lebanon in case the total purchases of these Eastern countries consisted of agricultural and industrial products of Lebanese origin, because Lebanon is interested in finding an outlet for its own products.

### 3. Western European Countries

As we have seen earlier, Lebanon's foreign trade is still essentially carried on without bilateral trade agreements and only a small part of it, has been diverted into bilateral channels for the purpose of providing markets for Lebanese export products. In the agreements with Western European countries, the most-favored-nation clause was accorded with respect to fees and customs regulations pertaining to ex-

port import and transit. Special privileges extended by Lebanon to Arab countries were excluded.

Moreover, an attempt was made at promoting trade between the contracting parties by freeing certain Lebanese exports from some of the controls imposed by the import regulations in the European trade partners countries-regulations such as quotas, licensing, and customs formalities. The agreements with these countries are basically similar. They 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.

As a matter of fact, according to these agreements, the trade partners would provide for the issuing of import licenses up to the specified amounts without guaranteeing any minimum level of trade. Trade would remain dependent on the initiative of private traders in the contracting countries. It will thus be noted that no attempt is made in any of the agreements at achieving bilateral trade balance in trade or at interfering with the usual pattern of trade between the contracting parties. However, the main purpose of these agreements is that the French, Italian and German Governments would grant import licenses for Lebanese products up to certain amounts or value in case the private traders apply for them.

As a matter of fact, trade agreements with Western countries have proved to be ineffective. This is demonstrated



by the trade statistics with these partner countries in the years after the agreements. Lebanon's trade deficit with these countries was bigger in the period following the agreements than in the period preceding the conclusion of the agreements. In some cases, the Lebanese exports to these trade partners countries were even reduced. The reason for their ineffectiveness to develop or increase Lebanese exports of industrial and agricultural products is that, in the western countries, trade is carried out by private traders who may not find it profitable to expand their imports from Lebanon, unless they are motivated by non-economic considerations, a highly unlikely circumstance.

Anyhow, the agreements never proved an impediment to trade as bilateral agreements often have been, but were media to facilitate trade and make Lebanese goods better known in other foreign countries. As such the trade agreements with western countries may also have some significance as advertising media. They may serve as advertising devices by pointing to importers in the other contracting parties who may not have been aware of the possibilities of importation from Lebanon.

a. Treaties of Economic Cooperation

The trade agreements with France, Italy and Western Germany are accompanied by treaties of economic cooperation which have the basic purpose of encouraging the participation of French, Italian, and German capital in Lebanese development projects.

Taking advantage of the freedom from exchange control in the Lebanese market and of the decree law which exempts new companies, with a capital of LL. 1 million, from income tax for five years, Lebanon has found a device in order to compensate in some sort for its increasing trade deficit with partner countries. As a matter of fact, these treaties are only measures which would recommend, encourage and facilitate technical and economic assistance to Lebanon by the industrially more developed partner countries. What is going to promote the investment of foreign capital in Lebanon is much more an atmosphere of calm and security than a treaty of economic cooperation. Moreover, these treaties are an excellent device to promote the economic development of Lebanon with the assistance of more advanced and richer countries. But the economic cooperation treaties should not be considered as a compensatory measures intended to offset the deficit of the balance of trade with partner countries. They may prove useful to offset part of this deficit but the main purpose of these treaties is a long-run one.

So far, France is the only country among the western countries which has carried out the treaty of economic cooperation, mainly agricultural assistance in the form of an experimental station in the Beka'a valley. This project is carried out in joint cooperation with the Lebanese Ministry of Agriculture and the French Technical Mission. No such economic assistance has been given by either of the other two countries, Italy and Germany.

However, it is worthwhile to mention here that Lebanon has concluded an economic cooperation treaty with the United States. This country, with the assistance in kind and money grants, has been contributing since 1952 and is likely to go on doing so for some time. The total allocated funds as of June 30, 1955 amounted to a grand total of U.S.\$ 21,290,000. The projects are executed with the joint cooperation of the Lebanese Government and the United States Operations Mission to Lebanon. The joint projects are in the fields of agriculture, industry, development of natural resources, and communications.

These economic cooperation treaties are likely to develop the existing potentialities of Lebanon in the fields of agriculture and industry. Thus, in the long run, Lebanon would be able to depend on a more stable source of income than the existing ones, because the Lebanese balance of payments is still precarious even though it is favorable. The value of Lebanese exports is increasing from year to year but the imports are increasing at a greater rate than exports. As a result, the trade deficit is growing apace. The revenue items from tourism, emigrant remittances, transit, services and economic assistance are filling the gap of the balance of trade deficit. But, as we have discussed, these items are not dependable as a permanent source of income, mostly in a period of crisis.<sup>1</sup>

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1. Government grants in the form of technical and economic cooperation are not stable. They may be either considerably decreased or even eli-

### E. Enforcement of the Agreements

The implementation of bilateral trade and payments agreements raises a number of problems. Bilateral agreements 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.<sup>1</sup>

As Lebanon is a relatively free trade and exchange country, it can do very little to insure the proper enforcement of the trade or the trade and payments agreements it concludes. This is why Lebanon cannot expect a diversion of importation from countries that do not import from it to those that do as a result of the conclusion of trade agreements.

Bilateral agreements are likely to operate more effectively in the case of countries with exchange and trade controls. A country with no licensing system, like Lebanon, may find it difficult to implement effectively trade agreements because this is usually achieved through the granting of import and export licenses. It is the same for countries with no ex-

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minated. But still, in the meantime, the economic potentialities of the receiving country, in this case Lebanon, are growing and developed.

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

change controls. They provide little guarantee that the bulk of their foreign trade will be financed through the clearing account, provided for in the payments agreement. Because the governments of these countries exercise no control over the balances held by non-residents, transactions may be financed outside the accounts through the free market in the free exchange country.

Moreover, none of the trade agreements in effect provides for a minimum level of imports and exports; trade with partner countries is still dependent on the initiative of Lebanese private traders. This is true for the three categories of trade agreements of Lebanon.

The full enforcement of the trade agreements of Lebanon would in all probability lead to an increase in the proportional value of trade conducted with Eastern Europe and a diversion of trade from its normal channels. With these countries trade exchange has to be balanced according to a pre-determined ratio. Whatever Lebanon sells to these countries, it has to buy from them an equivalent percentage.

As a result of the absence of a minimum level of imports and exports in the agreements, these agreements have simply amounted to an insignificant increase of Lebanese foreign trade with these countries. The proponents of bilateralism in Lebanon look on the absence of a minimum level as a major weakness of the trade and payments agreements concluded, while the advocates of liberal trade policy, mainly the merchants, consider this relative absence of a minimum level and lack of enforcement of

bilateral agreements as a measure which puts limits to the restrictiveness and unprofitability of bilateral trade.<sup>1</sup>

In enforcing the clauses of the agreements, their impact on the profitability of trade must be considered. 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 administrative control to buy from those countries which have imported from Lebanon, goods amounting to a pre-determined ratio of their exports to Lebanon; even though the prices of their exports may be higher than those of other countries. This may lead to a reduction in the profitability of trade. Traders will not be free to buy in the cheapest market nor to sell in the dearest one.

This argument is not valid for the agreements which provide for the granting of import quotas for Lebanese products in the trade partner countries of Western Europe. Agreements with Western Europe if properly enforced (in fact these agreements are not enforced), may facilitate the entrance of Lebanese products into those countries without leading to an artificial diversion of trade.<sup>2</sup>

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1. Bilateralism results in a reduction in the scope and the profitability of trade by subjecting the exchange of goods and services to bilateral bargaining rather than to price considerations. It has not been so in Lebanon's case.
  2. This is true because the trade agreements with these countries do not provide for a pre-determined ratio of the commercial exchanges.

F. Danger of Bilateralism

As we have seen in the discussion of the trade agreements of Lebanon, the duration of the agreement is usually for one year, renewable by tacit consent of the two contracting parties. One could argue that this period is relatively short, and trade agreements should be concluded for a longer period, say between three and five years.

On the other hand, the purpose of the trade agreements as we have seen, is the opening up of markets for Lebanese agricultural and industrial products. This is more apparent, when it is realized that about 90 percent of the Lebanese industries operate at less than two-thirds capacity,<sup>1</sup> while agricultural production is expected to increase considerably in the coming years.<sup>2</sup> Moreover, the establishment of new industries must be expected because the power to be generated by the realization of the Litani Project and the setting up of the Industrial Institute will give the development of industry a fresh impetus.

The signing of trade and payments agreements has already led to some increase in the export of citrus fruits in 1955, particularly to the U.S.S.R. and Czechoslovakia. This

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1. Information secured by Mercuan Nasr, General Secretary of the Lebanese Industrialists Association.
  2. According to the Ministry of Agriculture, estimates of the annual production of apples, which is at present about 35,000 tons, is expected to reach 100,000 tons in less than 5 years. Citrus fruits, which amount at present to about 100,000 tons, is likely to attain 200,000 tons in a period of 3 to 4 years.

resulted in some improvement in the prices of these products. Concerning industrial products, the ones which have benefited from the conclusion of bilateral agreements are vegetable oils, dried fruits, woolen and silk textiles, and hides.

So far, the agreements have been renewed every year, but in case the agreements are revoked or not renewed for economic or any other reasons, political if any, what is going to happen to these commodities which used to be exported to these bilateral trade partners? Thus the main problem would be to find a new market elsewhere for the Lebanese industrial and agricultural commodities which used to be purchased by the bilateral trade partners.

Therefore, trade agreements are short-run temporary measures which involve an explicit attempt at conducting trade relations between Lebanon and one of the other contracting parties. Any effects that the agreements may have on Lebanese industry and agriculture by opening up markets for local products is a palliative measure of short duration.

In case the Eastern countries which are at present the main customers of Lebanese citrus fruits refuse to accept the poor quality of Lebanese citrus fruits, then Lebanon would be compelled to adjust its fruit exports to the international standard of prices, quality, packing, and grading. Otherwise there could be no export at all.

According to an official in the Ministry of Agriculture, the whole of Lebanese agricultural products could easily find



a market without recourse to bilateral agreements in case the proper packing and grading regulations were established and were carefully enforced. By proper marketing techniques, the cost of production (including the marketing cost) could be set at a level in the vicinity of the world price for the same commodities.

As a result of these marketing shortcomings, the Ministry of Agriculture is considering at present the possibility of establishing a bureau for the marketing of Lebanese fruits. This bureau, like the Silk Bureau organized in 1956, would organize the production and marketing of the fruits. This is a long-run measure which would enable Lebanon to produce agricultural commodities in conformity with world demand, and without resorting to bilateral agreements. Moreover, it should be pointed out that the increase in the exportation of agricultural products and the improvement in their prices may help to widen somewhat the local market of industrial products by increasing the purchasing power of the Lebanese agriculturalists.

#### G. Conclusion

To sum up, we have evaluated the three types of trade agreements concluded with the western countries, eastern countries and Arab countries, in considering which type or types are likely to be most effective in relation to the broad objectives of the Lebanese commercial policy. This policy consists in opening up markets for Lebanese products and at the same time reducing the large trade deficit by means of more exports. It has been shown that:

- a. trade with eastern Europe is the only one carried out on a bilateral basis. But the percentage of trade with these countries is small and Lebanese exports to these countries consist to a large extent of goods exported from the free zone.
- b. agreements with non-state trading countries do not assure the importation by the other party of any amount of Lebanese products but simply access to the market through the issuance of import quotas and licenses.
- c. Arab countries provide the major market of Lebanese agricultural and industrial exports having absorbed an average of 40 percent of these exports during the period 1951-1955.

The trade agreements policy alone has not proved to be an effective measure to carry out the broad objectives of Lebanese commercial policy. Only trade agreements with countries with state-controlled economies and the trade quota agreements with countries which maintain direct trade controls have proved to be helpful, to a limited extent, in stimulating Lebanese merchandise exports. Moreover, the desirability of free multi-lateral trade policy is essential for Lebanon because of the importance of a favorable balance of payments for economic development as well as the contribution of the present free trade policy to raise the standard of living of the country.

Therefore, other measures must be proposed in order to develop the Lebanese exports of agricultural and industrial

products. The most important one of these measures is a regional Arab economic integration (customs and payments union). 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. • 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.

• Another measure which depends on the Lebanese Government and the exporters themselves, consists of improving considerably the qualities of Lebanese products and the methods of marketing, and at the same time to lower the cost of production.

A third measure which is not sufficient alone, but in relation to the above first two methods, consists in establishing Commercial Attachés in the major foreign markets (Cairo, Baghdad, Djeddah, Paris, Prague, etc.). They will collect information regarding the possibilities of exports to these markets and will advertise the Lebanese products.

When implemented, the above measures could replace the present trade agreements policy. However, trade agreements could still be maintained whenever they may prove to be a supporting device in opening up markets for Lebanese exports.

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