THE EUROPEAN COMMON MARKET
AND THE
ARAB MIDDLE EAST

by

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COMMON MARKET

AND

ARAB COUNTRIES

by

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PREFACE

The aim of the present study is to evaluate the probable effects of the European Economic Community on the Arab countries. As such it is by no means to be taken as an exhaustive appraisal of all possible repercussions on the Arab world, and the conclusions should not be considered as unrefutable dicta. The study is just an assessment of the consequences on the Arab Middle East of a venture which was qualified as one of the most important event in European history after the French Revolution.

I take this opportunity to express my deep gratitude to all those who helped me in writing this paper. In particular I wish to thank my advisor Professor Burhan Dajani under whose supervision this study was undertaken; the commercial attachés of the Six Common Market countries; the Center of Documentation of the French Embassy in Beirut; the Bureau of the Information of the European Community, and the OEEC head office in Paris; the High Authority of the European Coal and Steel Community in Luxembourg; the Center of the European Economic Community in Brussels and Miss Monroe from the London's "The Economist" staff, for their kind cooperation in supplying me the information I needed.

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ABSTRACT

Many factors, historic, economic and political, have lead to the creation of the European Economic Community. A Community inhabited by some 168 million people (225 million with the overseas territories) with a 950 dollars average per capita income. Trade is the vocation of the Six nations of the Common Market. In 1957 they alone had imports from countries outside the Community of 14.5 billion dollars. Of these 10.3 billion dollars was in non-manufactured products, including 3 billion dollars worth of foodstaffs, 4.6 billion dollars worth of raw materials, and 2.4 billion dollars worth of combustibles and fuels.[1] As seen, the Community's weight in the world trade is extremely important and she might, if she practices a policy of autarky and protectionism, hurt badly the interest of her trading partners; specially of countries under way of economic development because most of their exports are raw materials and food.

This new European integration - which amounts to nothing less than an attempt to create a European version of the United States - will establish a market which will be discriminatory arrangement vis-à-vis the rest of the world. An unusual kind of discrimination is involved - a discrimination to be arrived at by lowering barriers internally rather than by raising them

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1. Committee for Economic Development, The European Common Market and its Meaning to the United States, (New York: C.E.D., May 1959), p. 83.

externally. The world being divided into sixty national economies almost each will have its share of discrimination, whether negligible or strong. The Arab countries will not be in one of the extreme position. Of their aggregate exports only 15.6 per cent is sent to the Common Market area of which only a small portion is likely to be affected. This however, should not minimize the worries of the Arab states and preventive measures should be adopted without delay. "Those who are asleep while this revolution is occurring will never wake up" said Paul Henry Spaak speaking of lethargic firms within the Community. Similarly, countries which greet the development of the Common Market without any reaction may, some day, be faced with serious economic difficulties.

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CHAPTER I

INTRODUCTION

A. Aim and Scope of the Study

The study is devoted to the analysis of the implications of the European Common Market on the Arab Middle East. As such, it is directed towards a future which is always uncertain. Things dealt with are moving rapidly and can not be pinned down for leisurely examination. Yet an attempt is made to assess the probable effects of this new economic "revolution" on the Arab states. It is true that economic circumstances change rapidly and predictions concerning five, ten or fifteen years ahead are always guesses. But there is a difference between a guess that is based upon a rational appraisal of the range of possibilities, and a guess that is a simple gamble.

The growing importance of foreign trade for the Arab Middle East is the main reason which prompted the choice of this topic as the subject of my theses. Due to many reasons, which we shall see later, the patternof foreign trade in the Arab countries will be affected by the Rome Treaty in one way or another such that the European integration should be of a direct concern for the Arab states.

By the Arab Middle East we meant the two regions of the

United Arab Republic, Iraq, Sudan, Lebanon, Jordan, Saudi Arabia, Kuwait, and the other principalities of the Arabian Gulf. Their total area is 7.5 million square kilometers or more than the area of all the countries of Western Europe united;[1] and are inhabited by some 45 to 50 million people.[2]

In analyzing the effects of the European integration on the Arab world all the Arab countries are not considered. Six of them, namely Egypt, Syria, Iraq, Sudan, Lebanon and Jordan are retained in the assessment of the effects of the Common Market on the Arab exports, whereas, the oil producing countries -including Iraq- are dealt seperately in a different section. The reason for this segregation is that only these six countries have appreciable trade relations with the Common Market countries, whereas the others are important relative to their oil exports. If some of the Arab League countries were not considered at all, it is because their trade relations with the European states are insignificant (e.g. Yemen, Lybia) or they entertain special commercial relations with any one member of the Rome Treaty (e.g. Tunisia, Morocco).

All the statistical data used for analysis are for the year 1958, except for Lebanon in which case the year 1957 was deliberately chosen because the figures of 1958 would have

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1. A.R. Sahmarani, "Le Moyen-Orient et l'Economie Arabe" L'Economie Libanaise et Arabe, No.56, Juin 1957, p. 7.
2. Deadline Data on World Affairs, Arab League, New York, Sep. 11, 1959, p. 1.

given a distorted picture of the reality due to the political crisis prevailing during that year. Also, for Sudan the year 1957 was adopted because of the impossibility of finding more recent figures in spite of all the quests near the official institutions.

Apart of this, the study comprises five other chapters. The second chapter deals of the Rome Treaty itself. It is normal that before appraising an undertaking it is necessary to know what is being appraised. Thus the purpose and the contents of the Rome Treaty are analysed in the second chapter. The third chapter is a theoretical analysis which reveals the media of transmission and the effects of an economic union to outside countries. The fourth deals with the most important aspect of the problem, namely the European integration and the Arab exports where the possible effects of the union are treated in a detailed manner. Next, some suggestions are advanced in the fifth chapter as to the policies to be adopted to mitigate the adverse effects. The last chapter winds up the study with a special emphasis for the achievement of the Arab Common Market.

B. <u>Difficulties</u>

Being a pioneer work, the difficulties encountered in the present study were numerous. Due to the limitations in the availability of data, and the complex nature of the subject studied, it has not been possible to treat in depth all the sides of the problem. Were it not for the shortage of statistics, the analysis could have been made more detailed and more profound.

Serious difficulties had to be faced specially when it was necessary to adopt a base year for carrying on the analysis. It would not be realistic to take the data of a particular year and base the effects of the European integration on these bare figures. With this purpose it was found necessary to establish a five-year trend - a period sufficient to distinguish the essential from the accidental - of the Arab exports to the Common market area. But here the handicap was that, for the last decade, the Arab Middle East has been on of the world's most rapid growing area and through all its existence it has never known such a rate of economic as well as political and ideological changes. Given these evolutions, it was very difficult even with the trend analysis, to make a choice of a particular year specially when the period under consideration is abundant with the conclusion of bilateral trade agreements which largely modified the traditional pattern of trade. Yet this choice ought to be made anyway, and after careful analysis the most appropriate was found to be the year 1958.

Another important difficulty was encountered in summing up the exports of different Arab countries to the Common Market. It was impossible to add the different export figures without converting them into a common monetary unit. Because of its relative strength, the U.S.Dollar was chosen as the common unit. But this was not the main problem. It was necessary to know the exact rates of exchange for each exported product. Of course this could not be done accurately and for most countries the average rates for the whole period gave quite satisfactory results. The difficulty was with the Egyptian pound. There was during the period chosen three different rates for the Egyptian pound; the official, the market and mixed rates. For our purpose the application of the mixed rates would result in the most satisfactory figures because they would give the actual dollar value of exports. The mixed rates operated as follows . From each export transaction the government took some percentage of the sales proceeds in hard currency and left the remaining to the exporter who could sell his foreign exchange thus earned at the market rate. Therefore, to arrive at the exact computed dollar figures it was necessary to have all these mixed rates, which, with the available references and statistics, could not be done. The second possibility was to use the market rate, but it would have given very distorted figures so that this approach was also abondoned. The choice which remained was the official rate, which, in the absence of a better alternative, was reluctantly adopted.

Finally, there was the difficulty of adding up commodities or groups of commodities together. The statistical compilations of each country gave different classifications of commodity groups. In one compilation a given commodity was included in a group whereas in another it was not so that it was impossible to add such groups of commodities to get the aggregate exports of a commodity group. The principal exports were therefore taken one at a time and for the minor exports subdivisions were made as far as possible, and many times compromises were necessary.

C H A P T E R II

THE TREATY AND ITS PROSPECTS

A.- Purpose and Contents

The movement for an integrated Europe has deep roots in history but none of the attempts had succeeded in launching a "United Europe". The most recent idea dates to the Marshall Plan which originated the 17 nations Organization for the European Economic Co-operation (OEEC) on April 1948, which was designed as an instrument through which European Nations might plan their recovery co-operatively. In the same year, Belgium, Netherlands and Luxembourg agreed to form a customs union called Benelux, a small but highly successful facet of the attempt to create Europe. Two years later, the European Payments Union (EPU) was created within the framework of the OEEC which provided a clearinghouse for the trade balances for its European members and sought to stimulate multilateral trade and discourage bilateralism. This was soon followed by the formation of the European Coal and Steel Community (ECSC), which established a common market in these two commodities.

Several other efforts were made by the countries of "Little Europe" to establish unions for limited purposes on the ECSC type, principally agricultural (Green Pool) and military (European Defense Community), but because of many difficulties they were abandonned at various stages of their development.

All these movements though partly successful realisations and partly vain attempts, have prepared the ground for a closer cooperation among European States. Despite the recognition of the progress achieved through these institutions, and mainly through OEEC, six Western European countries have tried for several years to strengthen the bonds, both economic and political, that link them.

Thus three years after the ratification of the Treaty creating the European Coal and Steel Community and only one year after the rejection of the European Defense Community the members of the ECSC - namely Belgium, France, Germany, Italy, Luxembourg, and the Netherlands - made a new effort to achieve a real European integration. This was the purpose of the conference of the six Foreign Ministers in Messina in June 1955, which led with the Venice Conference (May 1956) to the adoption of the Common Market and the Euratom treaties in Rome on March 25th, 1957. With these a major step was taken on the way to European Unification and already a new European spirit was replacing the old nationalistic feeling of the uniting countries.

The purpose of the Rome Treaty is laid down in its article 2 which stipulates:

"It shall be the aim of the Community, by establishing a Common Market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and closer relations between its Member States".

For the purpose set out in the preceding Article, the activities which the Common Market is to undertake are the following:

a. the elimination, as between Member States, of customs duties and of quantitative restrictions in regard to the importation and exportation of goods, as well as of all other measures with equivalent effect;

b. the establishment of a common customs tariff and a common commercial policy towards third countries;

c. the abolition, as between Member States, of the obstacles to the free movement of persons, services and capital;

d. the inauguration of a common agricultural policy;

e. the inauguration of a common transport policy;

f. the establishment of a system ensuring that competition shall not be distorted in the Common Market;

g. the application of procedures which shall make it possible to co-ordinate the economic policies of Member States and to remedy disequilibria in their balances of payments;

h. the approximation of their respective municipal law to the extent necessary for the functioning of the Common Market;

i. the creation of a European Social Fund in order to improve the possibilities of employment for workers and to contribute to the raising of their standard of living;

j. the establishment of a European Investment Bank intended to facilitate the economic expansion of the Community through the creation of new resources;

k. the association of overseas countries and territories with the Community with a view to increasing trade and to pursuing jointly their effort towards economic and social development.[1]

The achievement of these tasks will be ensured by:

- an Assembly,
- a European Council,
- a Commission, and
- a Court of Justice.

These are the major lines of the Rome Treaty. Before going deep in the study of the subject and before analysing the effects of the integration on Middle Eastern countries, it is appropriate to speak of the important provisions of the Treaty and particularly the ones which concern most the outside world.

The principal goal of the European Common Market is the creation of a substantial area within which goods, people, services and capital can circulate with increasing freedom and eventually with complete freedom. To achieve it, the Treaty provides for the creation of a customs union among the member countries, the elimination of quantitative restrictions

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1. A.H. Robertson, European Institutions, (London: Stevens and Sons Limited, 1959), p. 299.

on imports, as well as the progressive relaxation of barriers to the movement of people and capital.[2] This will be realized over a transitional period, which will be divided into three stages of four years each and so will last, in principle, for twelve years. The passage from the first to the second stage, however, will be dependent on the achievement of the objectives of the first. The Council must unanimously agree that these objectives have been attained. Failing such unanimity, the first stage will be prolonged for a fifth year, at the end of which there may be a further prolongation for a sixth year on the same basis. (See next page Table 1, for the scheduled timetable.)

The first step in the reduction of custom duties has been taken on January 1, 1959. It was a 10% reduction on all products. Subsequent reductions will be such as to reduce total customs receipts by 10 per cent. (Total customs receipts will be calculated by multiplying the value of imports from other Member States in 1956 by the basic duties)[1]. Thus as the table shows, the goal to be achieved by the end of the first stage is at least a 25 per cent reduction of the duty on each product; by the end of the second stage this reduction will attain 50 per cent, and will be completed with the termination of the transitional period. Moreover, the imposition of any new customs duties and any increase in existing duties is forbidden.

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2. Serge Hurtig, "The European Common Market". International Concilation, Carnegie Endowment for International Peace, March 1958, p. 344.

1.- Robertson, op.cit., p. 151.

TABLE I

THE SCHEDULED TIME TABLE OF THE EUROPEAN COMMON MARKET

		CREATION OF THE COMMON MARKET				COMMON ECONOMIC POLICY				RELATIONS WITH OUTSIDE COUNTRIES		
		Custom Duties % of 1957	Quotas % of 1957	Services, Persons Capital	Agriculture	Salaries	SUBSIDIES to firms	SUBSIDIES for export	Monetary policy	Custom duties	Quotas	Export subsidies
FIRST STAGE	1959	-10%	Global 20% reduction, at least, 10% on sensible products. No quota can be less than an 3% of the national product	Rough drafting of transport harmonization; Establishment of the rules on the movement of laber	Preparation of an organ concerning the markets	Harmonisation of laws on paid holidays & women salaries	Keeping up of temporary State aids which are justified by price distortions and, aid for conversions	Keeping up for this stage only	—	At the latest at the end of this stage: Common tariff when none of the national tariff does not deviate more than 15% of the arithmetic average of the existing tariffs the other duties must not deviate more than 30% of this average	OEEC system kept	Within the framework of GATT at the will of each member country
	1960	10% average reduction. 5% on sensible products, 10% on products having more than 30% duties	Global 20% reduction			Harmonisation of laws on overtime payments			—			
	1961		20% reduction at the beginning of 1961	Free bus. estab. & cap. movem. Mutual acceptance of diplomas	Eventual beginning of a common policy							
EVENTUAL REST FOR ONE OR TWO YEARS												
SECOND STAGE	1962	IO (on each (product (the average	Global 20% réduct.			Pursuit of harmonisations of the social and fiscal laws	No more state subsidies only for conversions	—	—	—	—	—
	1963	IO (& at least (50% at the (end of						—	—	—	—	—
	1964	IO (the stage		End of discriminations in transport				—	—	the difference between national and the average tariffs must again be reduced by 30%	—	—
	1965				Strengthing of a common policy				Elaboration of a common policy			
EVENTUAL REST FOR ONE OR TWO YEARS												
THIRD STAGE	1966	Progressive reduction to be fixed such that at the end of the stage all duties be abolished	—	—	—	completion of the harmonisations of the social and fiscal laws	—	—	—	General application of the common tariff	—	—
	1967		All remaining quotas cannot be more than 20% of the national product	—	—		—	—	—	Use of this tariff as a basis for discussion with outside countries		
	1968				Harmonization of the agricultural legislations	—	—	—	—			
	1969											
FINAL PERIOD OF THE EUROPEAN ECONOMIC UNION BEGINNING 1970 TO 1973, ACCORDING TO THE RESTS		NOR MORE CUSTOM DUTIES AMONG THE SIX	NO MORE QUOTAS	COMMON TRANSPORT POLICY	COMMON AGRICULTURAL ORGANISATION AND POLICY	CONTINUOUS COOPERATION FOR THE SOCIAL AND FISCAL LAWS WHICH AFFECT THE PRICES	SUBSIDIES ONLY FOR THE UNDER DEVELOPED REGIONS	NO AID FOR THE EXPORTS WITHIN THE SIX	COMMON MONETARY POLICY	COMMON TARRIFF TOWARDS OTHER COUNTRIES UNLESS DEROGATION AUTORIZED BY THE COUNCIL	POSSIBILITY OF SEASONAL QUOTAS FOR AGRICULTURAL PRODUCTS	WITH THE INITIATIVE OF THE COMMUNITY AND NOT THE MAMBER STATES.

Source: "Du Marché Commun a une politique Européene"
Economie et Humanisme.

The effect of this progressive lowering of the tariff barriers would not be very meaningful, if each of the member states were allowed to continue to protect its own producers against foreign competition by means of import quotas. Accordingly the Treaty provides for the gradual abolition of this practice. (See Table 1 for the stages of reduction). The member countries will transform bilateral quotas open to the others into global quotas, and will increase these quotas as a whole by at least 20 per cent of their total value in comparison with the preceding year and each of the global quotas per product by at least 10 per cent. This procedure will be repeated annualy until it is found that for two consecutive years the quota has been greater than actual imports, in which case it will be abolished.[1]

Thus the internal tariffs and quotas, i.e. the tariffs and quotas now applied by the Common Market countries on imports from each other, are to be gradually reduced until they are entirely eliminated. Concurrently, a common customs barrier will be adopted vis-à-vis third countries in such a way that by the end of the transitional period, the Common Market will have one common external tariff towards outside countries. This is a prerequisite for the proper running of any customs union, because if the external tariff were not uniform a merchandise coming from a third country will enter the customs union area by the country where the tariff is the lowest and then will circulate freely in all the other countries member

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Ibid., p. 152

of the union where the tariffs are higher. In the European Common Market case this common tariff will be equal, with some exceptions, to the arithmetic average of the member nations tariffs as of January 1, 1957, being agreed that the Benelux countries will be considered as one customs territory. In providing for this progressive introduction of the common tariff the Treaty first lays down a method for gradually equalising national tariffs; secondly, it sets in advance a ceiling to the duties on certain classes of goods. In this respect, in some products it has fixed the final rates and in most products it will be fixed by mutual agreement at later negotiations.

The general procedure for equalisation provided in the Treaty is as follows: when the existing unadjusted tariff rates do not differ from the proposed common tariff by more than 15 per cent either way, the latter will be introduced at the end of the first stage of the transitional period. The quantity and value of goods affected by this provision will of course vary from country to country. On the same date, other duties will be adjusted to the extent of 30 per cent of the difference between the existing rate as per January 1, 1957 and of the proposed common tariff. This difference will again be reduced by 30 per cent at the end of the second stage, and the equalisation of national tariffs will be finally completed during the third stage.[1]

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1. Miriam Camps, The European Common Market and American Policy, (Princeton: Center of International Studies, Nov. 1956), Appendix p.V.

This means that all other things being equal, goods produced within any Common Market country will have a steadily increasing advantage in the Common Market area over those from the rest of the world. It is this provision of the Treaty which concerns most the countries outside the Community and specially those countries which have large exports to the Six, which with justice did not disguise their hostility.

The implementation of the above mentioned provisions will encounter difficulties that the Treaty negotiators foresaw and thus took a number of measures designed either to meet these problems, or to leave solutions for future negotiations. The eleboration of a common economic policy will, to a large extent, help in this direction. To abolish the obstacles to trade among them and specially the customs duties, and consequently to put gradually the respective economies in competition in order to enable their ultimate merger, the Six of the Rome Treaty recognized that they had to coordinate and harmonize progressively their commercial, financial, agricultural and social policies.[1] This common economic policy is not an end in itself. It is, like the common external tariff, a prerequisite for the good functioning of the Common Market.

The provisions laid down in this respect concern the rules for competition where the formation of Trusts and cartels and dumping are banned. The assistance granted by states,

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1. Marc Ouin, '<u>LOECE et le Marché Commun</u>,(Paris, OECE, Avril 1958), p. 7.

in whatever form it is given, is inconsistent with the Common Market if it interferes with competition and the division of labor by favoring certain enterprises or certain products. The factors of distortions - such as direct or indirect taxes, social securities, price regulations, conditions of work, credit policies - will be corrected and all legislations - with some exceptions - will be harmonized. These corrections and harmonizations are to be somewhere mid-way to the existing conditions within the Six. Special efforts are being made to harmonize existing regulations governing principle of equal pay for men and women, lenght of work week and overtime and lenght of paid holidays.[1]

As far as the balance of payments is concerned what matters are the equilibrium of the over-all external balances of each country. The gradual creation of the Common Market and the evolution of trade resulting from it, could alter the balance of payment's equilibrium: accordingly adjustments in exchange rates might theoretically appear a useful counterpart of this evolution. In difficult circumstances the adoption of such remedial measures is permitted but it is made clear that they can be implemented only in very extreme cases. In fact, the promoters of the scheme believe that the chances of resorting to such measures are very small because the reason which justifies the very gradual nature of the establishment of the Common Market is precisely the need to enable smoth adjustments in the structure of production and costs

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Camps, op.cit., appendix, p.XIV.

instead of abrupt changes in the external value of currencies.

In the field of agriculture a special regime is envisaged which will bring about not free trade in agricultural products, but greater freedom in their exchange, with some assistance necessary to support agriculture in all six countries. There will be established a common agricultural policy, with the object of increasing agricultural production, ensuring a fair standard of living for the agricultural population, stablilising markets, guaranteeing supplies and ensuring reasonable prices. Measures of adaptation provided for in the Treaty recommend the fixing of minimum prices and the conclusion of long-term contracts. These arrangements will form part of a programm for progressively harmonizing national agricultural policies during the transitional period. The programme will provide for common regulations in respect of competition and for obligatory co-ordination of the various national marketing organisations, making it possible at the end of the transitional period, to substitute a common agricultural policy for the seperate national agricultural policies.

However, there are escape clauses which, for a time, permit a given country to resort to restictive measures and restore import quotas if the price of a product falls below a certain level. The reason why agriculture has enjoyed such a special treatment is that of mitigating the effects of the new competitive conditions on the agricultural economy which is much more subject to fluctuations than any other sector of the economy.

Taken as whole these provisions will have the effect of establishing a preferential zone within western Europe from which all cheaper agricultural products of countries outside the Community will be excluded. The principal beneficiaries of this situation will be France and the Netherlands which will be assured prices for a number of their agricultural products that will be higher than those prevailing in world markets. Members of the union will have recourse to non-member producers only after their stocks have been exhausted. This will aslo have a beneficial effect on overseas exports which, as we shall see, are to some extent associated with the Six.[1]

As just mentioned, associated with the Common Market are those non-European countries and territories which have special relations with its member states. Most of these are situated on the African continent. Their total population is nearly 53 million, they are economically underdeveloped and their dominant activities are agriculture and extractive industries and their exports are basic products which are sensitive to world market fluctuations. Main products are: coffee, cocoa, bananas, oleaginous products, wood and mineral products (These six represent 80 per cent of the total exports).[2]

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1. Hurtig, op.cit. p. 353.
2. Leonard Tennyson, The European Community: New Opportunity for U.S.Business, (Washington: The European Community Information Service), p. 26.

These overseas territories' association will be realized by the adoption of three sets of measures.

1. Over the 12 to 15 year transition period, the Common Market countries will gradually abolish all tariff and quota restrictions on imports from the overseas countries and territories, which in turn will extend to the whole Community the preferential terms they now grant to any of its members. This amounts to saying that, at the end of the transitional period, exports coming from the overseas countries and territories will be able to enter the Common Market quite freely, while exports from all member states to these countries and territories will enjoy the preferential treatment accorded to the metropolitan countries. At the same time the countries and territories retain the right to levy customs duties as needed for their industrialisation or for fiscal purposes.

2. The participation of the European countries in the investment of the overseas territories. For this purpose the Community countries have set up a special 581.25 million dollars development fund to develop these countries and territories during the first five years.

3. The progressive extension to the member states of the Community without discrimination of the right to set up businesses, hitherto reserved to nationals of the metropolitan countries. As a counterpart, the Treaty contains obligations regarding the financial participation of the other member states in investment in the overseas countries and territories,

by participation in the Development Fund.[1]

The Treaty of Rome further provides for the establishment of four major agencies which were already mentioned. They will perform the following functions:

1. The Council of Ministers is responsible for ensuring coordination of the general economic policies of the Treaty signatories and exercising powers of decision. In any voting case unanimity must prevail, but abstentions are permitted.

2. The European Commission is specifically charged with supervising the application of the provisions of the Treaty and measures adopted by the organs of the Community. It is an organ of an executive character subject to the general direction of the Council of Ministers. Its chairman and members will be designated jointly by governments and can act by simple majority.

3. The Assembly is the controlling body of the institutions of the Community. It votes by an absolute majority of the votes cast. Its real power lies in the Article 143 and 144, which provide that it shall discuss the annual general report submitted to it by the Commission and that the latter shall resign in a body if the Assembly adopts a vote of censure by a two-thirds majority.

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1. "Analyse du Traité de la Communauté Européénn", Du Marché Commun à une Politique Européenne, <u>Economie et Humanisme</u>, Paris ler. trim. p.9.

4. The Court of Justice ensures observance of law and justice in the interpretation and application of the Treaty. It will rule on complaints concerning violations of treaty by states or enterprises and it can review the legality of decisions of the Council and the Commission and thus can annul them.[1]

Side by side with these four major organs responsible for the achievement of the Community's tasks, the Treaty provides for the creation of advisory bodies: the economic and social Committee to advise the Council and the Commission, and for several other specialized committees which are: and expert advisory transport committee, special committees appointed by the Council to assist the Commission in the negotiation of tariff agreements with third countries, and a committee of government delegates and representatives of trade unions and of employers' associations to administer the European Social Fund. Here one must bear in mind that the four major bodies are not exclusively the agencies of the Common Market but also they are the organs of the Coal and Steel Community, which has been the progenitor of the Common Market, and of the Euratom which took birth with it.

In addition to these, there will be a readaptation fund (European Social Security Fund) financed by contributions from member states, to assist those workers and communities

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1. J.F. Deniau, <u>le Marché Commun</u>, (Paris: Presses Universitaires de France, 1958) pp. 62-63.

that will be injured by the disappearance of tariffs between the six countries, and a European Investment Bank with one billion dollars authorized capital, to assist injured firms in converting to other enterprises and to contribute to the balanced and smooth development of the Common Market. Its main function is stated in Article 18 which stipulates that the Bank will grant loans to its members or to public or private enterprises for investment projects to be carried out within the European territories of Member States, to the extend that means from other sources are not available on reasonable terms.

Such are the bases on which the European Common Market is to work and to be organised. Of course all the provisions of the Treaty were not mentioned, for it was impossible to fit in such a study of limited space, all the clauses of a Treaty of some 250 Articles. Yet I think, enough details were pointed out which are largely sufficient in making this paper a comprehensive and a complete study.

Evaluation

Thus traced the Common Market is then more than a simple liberation of trade. It is significant that at the request of the French delegation it has changed its name during the negotiations and was entitled the "European Economic Community" which must be differentiated both of a simple intergovernmental cooperation as it is practiced within the framework of the OEEC, and of the British sponsored scheme of the Free

Trade Area which excludes a common economic policy and the association of the overseas territories.[1] It is this aspect of the Treaty which is considered to be revolutionary and it is for this reason that Belgium's Spaak - the promoter of the scheme called the Common Market the greatest event in European history since the French revolution. As Dr. Walter Hallstein, the President of the European Commission pointed out in a speech in the U.S. "The European Econimic Community represents one situation, that, we all know, does not mean only the abolition of customs barriers and of innumerable restrictions on trade between the six member states; nor is it only a customs union with a uniform external tariff. It is the harmonization, coordination, even unification, of major aspects of ecenomic policy and profoundly modifies the economic policy of the Six States".[2]

The countries which have pledged to form the European Economic Community constitute the world's second most important economic bloc after the U.S. Inside it are the followings:

1. the world's No.1 importer: here is some figures on the world trade where the outstanding position of the Common Market countries is reflected.

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1. Action Civique et Politique, Le Marché Commun, No. Special Juin 1958, p. 17.
2. Miriam Camps, The Free Trade Area Negotiations (London: PEP., Occasional Paper No.2),6 April 1959, p.13

	Imports (CIF) (in million U.S.Dol.) (1957)	Exports (FOB)
World Trade	106,400	98,800
U.S.A.	13,079	20,641.8
Continental Western Europe	34,340	30,000
Of which Common Market's	24,772.3	22,463

(Source: U.N. Statistical Abstract 1958)

2. The world's No.2 industrial power.

3. A community of 168 million inhabitants - excluding the overseas population - as compared with a U.S. population of 175 million, an area of 1,165,878 square kilometers and a gross national product of some 165 billion dollars, compared with a GNP of 450 billion dollars in the U.S. already outproducing Russia and with ample room for expansion and growth.[1]

Now what are the chances that the common marketeers will succeed in achieving their ambitious scheme. There are skeptics who say it cannot work. Unlike the United States which has a common language and common nationality, Europe has many languages, prides of nationality and background of recurrent conflicts including two major wars during the present century. This is true to a very large extent and Paul H. Spaak

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1. Stanislaw Wellizs, "The European Common Market and American Foreign Trade and Investment", The Journal of Business, The University of Chicago Press, July 1959, p. 247.

declared the day after the treaty was signed, that no one can imagine all the difficulties involved in creating a new Europe, "but without it", he said, "in 30 years time our continent would become one of the free world's backward areas".[1] They realized that they could not go very far in their status quo because they were aware that their relative economic position was weakening in the world. Between the United States which, almost in all sectors enjoyed half the world production and the countries which, under a collectivist régime, possessing one third of the world population, increased their national production 10 to 15 per cent per annum, Europe, which previously had the monopoly of industries of transformation and drew important resources from its overseas possessions, saw its influence diminish and its potential for progress lost in its divisions.[2] Thus looking ahead and seeing in the future nothing but decline, they decided to sign a treaty which though imperfect to some extent yet better than nothing. With this they thought integration should bring about a sustained increase in Europe's rate of economic growth. The propensity to save would increase as a result of higher real income and the more competitive atmosphere, combined with wider market opportunities should induce business enterprises to match the higher savings with more investment.[3] They believed the difficulties

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1. "France and the Common Market" <u>Monthly Letters</u>, First Nat'l City Bank of New York, July 1958, p.80
2. Noel Chablis, "Du Marché Commun A La Communauté Economique Européenne: Les Principes" <u>Hommes et Commerces</u>, 1957, p. 57.
3. Franz Gehrels and Bruce Johnston, "The Economic Gains of European Integration", <u>The Journal of Political Economy</u>, Aug. 1955, p. 288.

which lie in attaining these aims are in proportion to the magnitude of the goal to be achieved. If they are numerous and sometimes unprecedented, there is no one of them which is not susceptible to a practical and reasonable solution. For them the building of "Little Europe" is now a question of will.[2] Having this in mind and knowing well that their economies are interdependent and that prosperity of each one of them depends on the prosperity of the other they decided to take the first step towards a "United Europe".

Despite all this optimism in the future doubts still exist as to the smooth running of the Treaty. The structural adjustments, which undoubtedly will rise as the Common Market moves into fruition, might be met with relative ease if the European Social Security Fund and the European Investment Fund handle properly all the problems which result from these adjustments. But the ultimate establishment of a real Common Market is still threatened by three grave dangers:

The greatest one is depression, which might force member nations to apply policies to protect individual business and labor groups. It does not seem probable that there will be serious trouble so long as the general economic activity remains high and firms operate at full capacity. But the transition might be very difficult in depression, and if,

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2. Grove C. Haines, European Integration, (Baltimore: Johns Hopkins Press, 1957) p. X.

in such situations sufficient protectionist pressure builds up, the Treaty might be suspended because of balance of payments difficulties.

The second danger rises from the lack of a firm commitment for a coordinated fiscal and monetary policy and as long as exchange rates are fixed, trade imbalance is likely to occur. Of course international loans can help, but they are at best a temporary expedient, and if the imbalance persists, new trade restrictions will have to be imposed. It is true that there are provisions expressing that member nations will attempt to harmonize their monetary policies and will avoid, as far as possible, the reimposition of quantitative trade restrictions in times of difficulties, but these do not go much beyond the expression of a hope.

Finally, there is the danger that private restrictive practices nullify the provisions of the Treaty. Europe has a long tradition of cartels which have been maintained with more or less tacit approval of governments. The continued existence of such cartels is threatened by free trade in goods and services and by the anticartel provisions of the Treaty. How the anticartel clauses will be applied is an open question, however, only time will show how vigorously this policy will be put into practice.[1]

In spite of all the threats to the implementation of the Treaty, there is reason to believe that the forces making for unity will prevail. After one and a half year of experience

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1. Welliz, op.cit. pp. 245-46.

things have evolved as scheduled and there are rumors that the transitional period may be shortened. Supposing that all the hopes were largely fulfilled and the total wealth and trade in the great enclave is increased, what will the effect on outside countries be ? I am not competent to answer to such a question but one thing is clear that, it will depend not only on developments within Europe and on the way the Six conduct their affairs but also on economic conditions outside Europe and on the way the rest of Europe reacts to the union. It was more than once reiterated that the Community will not be restrictive and inward looking and it is not intended to build a protectionist citadel. The Vice President of the European Commission, Mr. Robert Marjolin declared in Washington on April 17, 1958: "Undoubtedly", he said, "there will be pressures on the Community institutions to behave in a protectionist way. But I can assure you that it is our firm determination - and I think that I can speak for all my colleagues - to resist these pressures and to see that not only the letter but the liberal spirit of the Treaty provisions are carried out".[1] How much weight these promises can be given nobody can answer. Only future developments will reveal their real value.

Another aspect of the Treaty which was not refered and it is worth while to mention is the political. To talk of the

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1. Walter Buchdahl, "The European Economic Community As a Market for Imprts", <u>Foreign Commerce Weekly</u>, VoL; 59 No.26, June 30, 1958.

Community as mere integration of the European economy is to underestimate what is happening. There is a feeling that Economic Community is mainly a political façade. But it is important also to understand that the Rome Treaty and the measures already taken toward fulfillment of its objectives do not in themselves represent political unification of these six countries. They do, however, represent significant steps toward the unification of Western Europe. As one transplanted European said in New York: "Napoleon tried to unite Europe with bayonets, Hitler with panzers, now the Common Marketeers may succeed in doing it with money".[1]

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1. John A. Convey, "The Common Market Goes into Action... What is it - What it is not - for United States Trade". *Newsweek,* Nov. 10, 1958, p.49.

CHAPTER III

EUROPEAN INTEGRATION AND OUTSIDE COUNTRIES

A. Media Through Which A Union Affects Other Economies

Any economic union tends to change the existing pattern of trade and establish a new pattern involving a larger exchange among member countries. This if felt by outside countries by almost all the items which enter in their balance of international payments, i.e. visible and invisible trade, capital movement and monetary gold movement. This does not mean that all the items classified in the balance of payments will be affected. In fact some may remain unchanged, some may decrease and still some others may increase. It all depends on the respective economies of the uniting countries, their pre-union trade relations with the outside world, and the magnitude of tariff barriers or any other kind of new restrictions they impose on the movement of goods and services and on other factors of production to protect their respective economies. In the present paper the study of this - i.e. the effect of the union on outside countries - is the most significant and the most important. Having more or less all of these data, we have to find out what is likely to be the effect of the European Common Market on the Arab Middle East. Before discussing this question it is convenient to study the possible effects of any economic union on the members of the union and on the outside world.

B. Effects of the Integration on Outside Countries

The effects of a customs union have been explained in different ways by different economists. But the two most important consequences are grouped under the heading of trade creation and trade diversion. All the other effects are considered to be the result of these two consequences.[1]

The trade creation is the displacement of domestic production in one member country of the union by lower cost imports from another member. This is approved by economists because there will be commodities which one of the members of the customs union will now newly import from the other but which it formerly did not import at all because the price of the protected domestic product was lower than the price at any foreign source plus the duty. It follows that the world output increases and the union members benefit without any loss to outside countries.

Trade diversion is the displacement of lower production cost in countries outside the union by higher production cost within the union, with the result that world output is reduced and some countries within the union are made worse off. This occurs in the case of goods for which the union tariff is greater than the unit money cost differences between the union and non-union sources, such that the price of the protected

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1. Jacob Viner, The Customs Union Issue, (New York: Carnegie Endowment for International Peace, 1950)

imported commodity is rendered more expensive due to the tariff wall.[1]

As far as the outside countries are concerned, the direct effect of the establishment of the Common Market will be to diminish trade with the outside world and redirect (or divert) it to suppliers and customers within the member nations. Our main concern in this part being the possible effects of the customs union on the outside world we are interested with the trade diverting effects. Therefore, before speaking of the other possible consequences, it is adequate to elaborate a little more the trade diversion effects.

While economic union increases trade and specialization among the members of the union and is, on the whole, beneficial to their internal economic organisation and relations among themselves, it may have the opposite effect on trade and specialization between the union and the outside world because of the probable diversion of trade from the outside world to other member countries. Whether the cumulative effect on the world as a whole is positive or negative does not concern us - this implies a welfare economics approach - one thing is clear that the disturbance in the status quo will adversly

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1. Franz Gehrels, "Customs Union from a Single Country viewpoint", Review of Economics Studies, Vol. XXIV, No. 63, 1956-57, p. 61.

affect the outside world. The trade diversion will have two effects: first it will directly affect the exports of the outside world to the Common Market area, this because of the shift from extra - to intra-union trade, and second it will indirectly affect the outside world because of the trade shifts from outside to member countries of products which are close substitutes for goods produced within the Common Market area and which were before imported from non-union members. If, for example, in the German market peaches were close substitutes for apples and Italy produced high cost peaches and not apples, then the abolition of tariffs would divert the German imports of Lebanese apples to imports of Italian peaches and consequently would result in a shift from an extra-union trade of apples, to an intra-union trade of peaches. Here another repercussion may arise as far as the complementarity of goods is concerned. If, for example, Lebanon produced its own apple cases then the reduction in exports of apples would necessarily result in a reduction in the exports of apple cases: but if Lebanon imported its apple cases from outside, then this would result in a contraction in Lebanese import trade which is favorable in Lebanon but unfavorable to the country from where they were imported. Another possible case is the situation when Italy is not producing its cases but importing them say from Austria. Then the outcome of this will be increased trade with the outside world, which will be beneficial in particular to both parties concerned and in general to the outside world. To tell therefore what are the exact consequences of an economic union to the outside world it is necessary to examine carefully each case of union individually. It implies a close study of the elasticity of demand and supply of goods which enter in the international trade, both in the importing and exporting countries, as well as their degree of substitutability and complementarity.

From all these one thing is obvious. The creation of the customs union will result in the establishment of an area of discrimination which will surely adversly affect the non-member countries. Probably, it will in some ways improve the division of labor. If machines can be made more cheaply in Germany and shirts in Italy, elimination of trade impediments between these two countries may contribute to a more rational production pattern. But it may also, by the existence of a tariff at the outside frontier of the union, lead to an erroneous increase in apple production in Italy, if the cheaper potential supplier would have been Lebanon.[1] It is this latter aspect which pushed many countries to raise protests because it was a challenge to the stability of their very economies.

The trade diversion is not the only effect of the Common Market on the rest of the world. There are other effects which though not as important, yet have some significant bearing on the outside economies.

A customs union alters in favor of its member countries

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1. J. Tinbergen, International Economic Integration, (Amsterdam: Elsevier), p. 59.

the rate at which its exports exchange for the imports which survive the tariff change, e.i. the union area will improve its terms of trade with the outside world. This is the result of the shift in the trade pattern. The restriction of trade with the outside world will necessarily imply a raising of export and/or lowering of import prices vis-à-vis the outside world, because the demand on union exports will increase whereas the demand on non-union exports will decrease. With this the union's balance of payments with the outside world is also likely to be affected. If the establishment of the union lowered the physical volume of the union's exports to and imports from the outside world by equal amounts, the balance of payments would be improved because of the above-mentioned reason, that is owing to the rise in export and/or fall in import prices, this being obtained at a disadvantage to foreign countries' balances of payments; if the union restricted imports more than exports - which is the most probable case if the outside world does not take retaliatory measures - the balance of payments would be improved even more at the expense of the other countries; and finally, if exports were lowered more than imports, the balance of payments would improve less, not at all, or might even get worse with a parallel lesser deterioration, or not at all, or even improvement of the balance of payments of the outside countries.[1] But this

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1.Tibor Scitovsky, Economic Theory and Western European Integration,(California: Stanford University Press, 1958) p. 61.

latter case is the most unlikely - at least in the short run - to happen because it would be a wrong customs union. In the long run it may be that economic circumstances fall short of all anticipations so that the union may run a deficit in its balance of payments; but in this case also it is highly probable that the union countries will resort to protective measures which will necessarly imply decrease in imports and increase in exports.

The increased productivity within the Common Market, which the integration is likely to bring about by the increased international specialization and the better allocation of factors of production due to the increased competition, will also affect to some extent the outside countries. Three possible cases can arise here:[1]

First a lowering of costs of production in some domestic industries, which neither export to nor compete with imports from non-member countries. This is a net gain and most of it accrues to the union's members. The outside world is likely to benefit because the cost reduction (a)may raise the output of goods containing imported materials, (b) raises real incomes and thus stimulates demand for imported consumers' goods, and the consequent rise in the union's imports shifts the balance of payments in favor of the outside world.

Second is a lowering of production costs in industries that export to non-member countries. This is a net gain to

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1. _Ibid._, pp. 71-72.

the world as a whole and the distribution of this gain will depend on the relative importance of demand from within and demand from outside the union. The cost reduction may, just as in the previous case, stimulate the union's demand for imports and thus favorably affect the balance of payments of the outside countries. But this very cost reduction can also increase the outside countries demand of that product, this dependign on the demand price elasticity. Therefore, in this case the cumulative effect is uncertain, it may be either favorable or unfavorable depending on the actual economic conditions.

Finally, the most complex case and the one most severely affecting the outside world is that where the cost reduction occurs in those of the union's industries that compete with imports from non-member countries. A cost reduction in import-competing industries is almost certain to reduce the union's imports: and the outside world therefore is almost certain to lose.[1]

Heretofore in our discussion we have omitted the strengthing in the bargaining power of the Common Market countries resulting from the integration of the six economies into one.

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1. All these three cases could be assimilated into a terms of trade effect because they will necessarily affect the terms of trade. But if they were considered to be so, then all changes in exports and imports ought to be grouped under this category which would then be a very general one. Thus it was considered to be more convenient to present it as seperate effects.

The higher the tariffs of other countries on imports from the union area, the less favorable, other things being equal, will be the terms of trade of the union with the outside World. But, and here is the crucial point, the level of foreign tariffs can be affected in some degree through tariff-bargaining, and the larger the bargaining unit the more effective its bargaining can be.[1] Thus it is evident that the union will strengthen the bargaining power of the Six, and consequently there will be an additional improvement in the terms of trade of the union vis-à-vis the outside world.

To complete our review of the effects of the Common Market on the rest of the world, we must also take into account the effects of the decreased exports of the outside countries on each other. The discrimination which the Common Marketers will put on their extra-union trade will mean that a substantial amount of the outside countries exports have to seek new outlets. These goods will compete more severely in third markets, and the result will be a loss for the countries concerned. In the short run the effects of such changes might be more rigorous and can cause disturbances in the balance of payments: but in the long run it could be possible to overcome such difficulties by implementing the proper measures necessary for a smooth adjustment.

As one would gather from all the above discussion, the effects of an economic union can be numerous on outside economies

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1. Viner, op. cit., p. 56.

and there are many possible cases which arise according to the kind of union, the structure of the economies of the uniting countries, the cost conditions under which industries are working, the height of the tariff wall, the commercial relations with the outside world, the market structure of the outside world's economies and a lot of other factors. To assess therfore the effects of the European Economic Gommunity on the Arab Middle East is not an easy enterprise; it is not also the job of a student to predict the results of such a venture. Nevertheless, an atempt to anticipate is not to be repudiated. This, we will do it in the next chapter.

C A P T E R IV

THE UNION AND THE ARAB EXPORTS

Exports in the Arab World

The chief characteristic of the Arab countries' exports is their primary nature. Aside from oil, all the foreign sales of the region consist mainly of agricultural and animal products. Most of the countries are dependent upon only one or two commodities for the bulk of their exports. The prices of these exports are highly volatile and the volume exported swings violently from year to year causing large fluctuations in earnings. These facts would be seen most clearly from a study of the export figures of different Arab countries.

Table 2 — Principal Exports by Commodities
EGYPT (1958)

Articles	Exports in Egyp. £.	Per cent of Tot. Export.
COTTON (all sorts)	122,058,721	74,5
RICE	13,542,308	8,2
ONIONS	3,964,953	2,4
ARTIFICIAL SILK	1,430,707	0,87
PHOSPHATE	1,304,556	0,79
SUGAR, CANE	1,208,964	0,73
CEMENT	1,137,930	0,69
GROUND NUTS	1,018,356	0,68
POTATOES	890,868	0,53

Source: Monthly Summary of Foreign Trade 1958, UAR (Southern Region), Government Printing Offices, Cairo 1959.

TABLE 3 Principal Exports by Commodities
SYRIA (1957-58)

Articles	Exports in Syr. £.	Exports in Syr. £.	Percent of tot. Exp. 1958
COTTON (all sorts)	196,952,000	178,397,000	42,4
CEREALS	143,787,000	61,006,000	14,5
WOOL	30,841,000	27,188,000	6,5
SILK	25,560,000	19,408,000	4,6
ALIMENTARY VEGET.	19,696,000	14,880,000	3,5
OILSEEDS & OLEAG.	20,552,000	13,412,000	3,2
LIVING ANIMALS	6,584,000	12,806,000	3,1
DAIRY PRODUCTS	14,864,000	11,766,000	2,8
CLOTHING	9,367,000	10,731,000	2,5

Source: Statistical Abstract 1958, UAR, Syrian Region, Ministry of Planning, Damascus, 1959.

TABLE 4 Principal Exports by Commodities
Iraq (1958) Oil excluded

Articles	Exports in Din.Iraq.	Percent of tot. Exports
BARLEY	4,758,535	34,1
DATES	2,858,088	20,1
COTTON	1,320,419	9,2
WOOL & GOAT HAIR	924,128	6,5
LIVE ANIMALS	637,014	4,4
STRAW, FODDER	600,841	4,2
CEMENT	439,185	3,1
RAW HIDES & SKINS	336,853	2,4

Source: Statistical Abstract 1958, Republic of Iraq Ministry of Economics, Baghdad, 1959

TABLE 5 Principal Exports by Commodities
SUDAN (1956-57)

Articles	Exports in Sud.£.1956	Exports in Sud.£.1957	Percent of tot.Exp.1957
COTTON	46,690,314	21,244,611	46,6
COTTON SEED	4,674,031	4,976,928	10,9
GUM ARABIC	5,368,889	4,491,178	9,8
GROUND NUTS	3,788,752	4,363,148	9,6
SESAME	2,050,368	2,631,565	5,8
CATTLE	1,026,267	1,313,087	2,9
DURA(millet)	356,367	1,124,323	2,5

Source: Annual Foreign Trade Report, 1957, The Republic of Sudan, Ministry of Social Affairs, Khartoum.

TABLE 6 Principal Exports by Commodities
LEBANON (1957)

Articles	Exports in Leb. £.	Percent of tot.exp.
CITRUS FRUITS	12,769,000	8,2
LENTILS	10,697,000	7,03
APPLES	8,639,000	5,7
GOLD	6,892,000	4,5
COTTON(all sorts	5,304,000	3,5
WOOL	5,186,000	3,4
OIL-CAKE & RESIDUES	3,596,000	2,4
BANANAS	3,082,000	2,03
TOBACCO	2,652,000	1,7
POTATOES	2,489,000	1,6
ONIONS	2,471,000	1,6

Source: Statistique du Commerce Exterieur, 1957 Republic of Lebanon, Beirut, 1958.

TABLE 7

Principal Exports by Commodities
JORDAN (1958)

Articles	Exports in Jordan.Din.	Percent of tot.exp.
NATURAL PHOSPHATE	978,472	31,2
WATERMELONS	241,390	7,7
BANANAS	132,913	4,5
RAW-HIDES	103,036	3,2
WHEAT FLOUR	102,548	3,2
OLIVE OIL	56,188	1,8
CIGARETTES	31,228	1
WHEAT	30,972	0,99

Source: Statistical Yearbook, 1958, Hashemite Kindgdom of Jordan, Ministry of National Economy, Jerusalem.

TABLE 8

SUMMARY OF ARAB EXPORTS FROM 1953 to 1958.

(National Currencies)

YEAR	EGYPT Egyp. £.	SYRIA Syr. £.	IRAQ Iraq.Din.	SUDAN Sud. £.	LEBANON Leb. £.	JORDAN Jord.Din.
1953	142,553,173	376,000,000	19,068,502	43,037,785	87,710,000	1,900,400
1954	142,293,151	466,000,000	17,973,932	38,901,742	105,582,000	2,433,900
1955	144,631,040	474,000,000	15,917,437	48,836,083	120,528,000	2,619,400
1956	140,940,789	516,000,000	13,166,903	65,341,401	145,795,000	4,379,300
1957	170,264,113	548,000,000	12,879,622	45,548,505	152,179,000	4,302,300
1958	162,622,698	420,000,000	14,247,690		110,506,000	3,139,300

Source: The Statistical Abstracts of the respective countries.
For Iraq oil is excluded.

The above tables show that for most of the Arab countries very few products make a large portion of their total exports. For Egypt cotton constitutes three quarters of the total exports; for Syria the same commodity is again the largest export with a share of 42.4 per cent. For Iraq, more than one third of the exports is barley and on fifth dates, (oil excluded). In Sudan again cotton constitues about one half of the exports followed by cotton seeds with a share of 11 per cent. In Jordan natural phosphates are one third of the exports with a total value of 978,472 J.Ds. Among these, Lebanon has the most diversified exports the most important of which are: citrus fruits, the largest group with only 8.2 per cent of the total exports, which is followed by lentils and apples with respective shares of 7 and 5.7 per cent.

All these show that the Arab countries rely heavily upon exports of a very few primary commodities. For the year 1958 one commodity - cotton - constituted 60 per cent of all the Arab exports. Moreover, as table 8 shows, there are large fluctuations from one year to another, in the quantity and value of the total exports. This is due to the very nature of the agricultural economies. Within a year, between 1957 and 1958, the Syrian exports decreased in value by 25 per cent and the Jordanian by 35 per cent. In Syria a single commodity namely cereals, evidenced a net decrease in value of about 60 per cent, from £.S. 143 million in 1957 to £.S. 61 million in 1958. In Sudan, the value of the cotton exports decreased 55 per cent from 1956 to 1957, and the percentage share of this product in the total exports showed a net decrease of 18 per cent. These figures show how much the Arab economies are subject to fluctuations and witness the extent of their vulnerability to outside factors. Furthermore, the effects of these external forces are aggravated due to the relative smallness of the Arab exports compared to the total world trade. The share of the Arab exports in the world trade is so small that the Arab countries can hardly exert any appreciable effect on the prices of these exports. For example cotton is the largest export of Egypt, but this export is not more than 6 per cent of the world trade in cotton. It is obvious that with such a share, Egypt can have little influence on the international price of cotton and thus has to follow the fluctuating prices in the world market.

To summarize, the Arab countries depend on few agricultural commodities for the bulk of their exports. These exports, which are mainly cotton and cereals, fluctuate largely in quantity as well as in value and are very vulnerable to external forces. This vulnerability is a direct threat to the Arab economies because they rely heavily on their exports as a source to finance their imports. It is therefore necessary to bring the Arab economy on more strong basis. With this respect a double diversification in the Arab exports can be largely beneficial. First, a diversifaction in the commodities exported, which implies long run structural changes in the economies of the different Arab countries. Second, a diversification in the destination of the exports so as to eliminate the monopoly privileges which a few importing countries can enjoy.

After this introductory note on the general pattern of the Arab exports, we can now discuss the destination of these exports to the different countries or regions in the rest of the world.

Table 9 indicates the exports of each Arab county to different regions in the world, expressed in value terms and as a percentage of total exports, and Table 10, the sum of these exports to each country, also expressed in value terms and percentagewise, but in one monetary unit.

Table 9 shows that the exports of Arab countries have three major destinations: exports to Arab countries, exports to the Common Market area and exports to the Soviet bloc, with the exception that in the case of Iraq and Sudan the Soviet bloc is to be replaced by the United Kingdom. For Syria, the exports to these three group of countries form 88 per cent of its total exports, for Jordan 78 per cent, for Sudan 70 per cent, for Egypt and Iraq 67 per cent and for Lebanon 65 per cent. Within these the exports to the Common Market area are not negligible. The largest share of the exports of Sudan goes there (26%), for Lebanese exports the Six are the second most important source with 15 per cent and for Syria, Iraq and Egypt, they are the third

TABLE 9

ARAB EXPORTS BY COUNTRIES OF DESTINATION

(1958)

Countries of ORIGINE / Countries of Destination	EGYPT Eg. £.	% of Tota.	SYRIA Syr. £.	% of Tot.	IRAQ Iraq.D.	% of Tot.	SUDAN Sud. £.	% of Tot.	LEBANON Leb. £.	% of Tot.	JORDAN Jor.Din.	% of Tot.
ARAB LEAGUE	15,515,625	9,4	155,268,000	35,4	4,222,184	29,6	9,536,885	20,9	65,359,000	42,8	2,126,300	67,7
COMMON MARKET	18,375,043	11,2	98,006,000	22,5	2,161,981	15,2	12,061,393	26,3	23,389,000	15,4	9,100	0,3
COMMUNIST BLOC	75,614,794	46	131,381,000	30,1	8,068	0,1	2,768,345	6,1	10,376,000	6,7	320,300	10,2
U.S.A.	3,199,416	2	14,452,000	3,3	701,359	4,8	1,207,976	2,7	6,791,000	4,6	13,500	0,4
UNITED KINGDOM	7,931,277	4,9	10,578,000	2,4	3,138,708	22	10,141,684	22,3	7,192,000	4,7	——	
JAPAN	9,044,733	5,5	6,180,000	1,3	184,464	1,3	738,434	1,6	178,000	0,1	——	
INDIA	4,616,804	2,8	——		791,052	5,6	5,293,341	11,6	299,000	0,2	198,300	6,3
YOUGOSLAVIA	4,740,030	2,8	3,162,000	0,7	116,418	0,9	24,990	0,1	1,192	0,8	424,900	13,5
OTHERS IN EUROPE	17,069,719	10,2	2,082,000	0,5	1,631,985	11,5	1,475,618	3,2	6,144,000	4,1	25,100	0,8
OTHERS	8,990,014	5,2	15,786,000	3,8	1,291,471	9	2,299,839	5,2	31,259,000	20,6	21,800	0,8
TOTAL	165,097,555	100	436,895,000	100	14,247,690	100	45,548,505	100	152,179,000	100	3,139,300	100

Source: Statistical abstract of the respective countries for 1958 except for Lebanon and Sudan the abstract of 1957. For Iraq oil is excluded.

TABLE 10

ARAB EXPORTS BY COUNTRIES OF DESTINATION
IN ONE MONETARY UNIT
(U.S.Dollars)

(1958)

Countries of Destination / Countries of Origine	EGYPT	SYRIA	IRAQ	SUDAN	LEBANON	JORDAN	TOTAL	% of Total
ARAB LEAGUE	43,443,750	43,500,000	11,822,115	26,703,278	20,749,000	5,953,640	152,171,783	18,8
COMMON MARKET	51,450,120	27,450,000	6,053,547	33,772,890	7,425,000	25,480	126,177,037	15,6
COMMUNIST BLOC	211,721,423	36,800,000	22,590	7,751,366	3,294,000	896,840	260,486,219	32,2
U.S.A.	8,958,365	4,050,000	1,963,805	3,382,333	2,156,000	37,800	20,548,303	2,5
U.K.	22,207,576	2,962,000	8,788,383	28,396,715	2,283,000	——	64,637,674	8
JAPAN	25,325,252	1,731,000	516,499	2,067,615	57,000	——	29,697,366	3,6
INDIA	12,927,051	——	2,214,946	14,821,355	95,000	555,240	30,613,541	3,8
YOUGOSLAVIA	13,272,084	858,000	325,970	69,972	378,000	1,189,720	16,093,746	2
OTHERS IN EUROPE	47,795,213	583,000	4,569,558	4,131,731	1,950,000	70,280	59,099,782	7,3
OTHERS IN THE REST OF WORLD	25,172,040	4,422,000	3,616,119	6,438,559	9,923,000	61,040	49,632,809	6,2
TOTAL EXPORTS	462,272,874	122,356,000	39,893,532	127,535,814	48,310,000	8,790,040	809,158,260	100%

Note: The exchange rates used to convert the national currencies into U.S.$. are the following:

Eg.£. 1.= $2,80   S.£.3,57= $1. I.D. 1. = $ 2,80 Sud.£. 1. = $2,80 ⁄ L.£. 3,15 = $ 1. J.D.1. = $2,80 most important with respective shares of 23 per cent, 15 per cent and 11 per cent of their total exports.

Table 10 is more interesting for comparative purposes. It gives in a common monetary unit the value of all exports from Arab countries to different regions in the world. All Arab exports amount to a total value of 809,158,260 dollars excluding oil. The communist bloc ranks first as an export market for Arab countries with a share of 32 per cent of total Arab exports. The inter-Arab exports occupy the second place with 19 per cent, followed closely by the Common Market countries with a share of 15.6 per cent in the total Arab exports and having a value of 126,177,037 dollars. Of this, 41 per cent (see table 11)

TABLE 11 Percent Share of Each Arab Country In The Total Exports To The C.M.

Country	Exports in U.S.$.	% Share
EGYPT	51,450,120	40,8
SYRIA	27,450,000	21,7
IRAQ	6,053,547	4,8
SUDAN	33,772,890	26,8
LEBANON	7,425,000	5,9
JORDAN	25,480	--
TOTAL	126,177,037	100

Source: Computed from the Statistical Abstracts of the respective countries.

is exported by Egypt but this 41 per cent is only 11 per cent (table 9) of Egypt's total exports. For Syria and Sudan these percentages are respectively 22 and 27%, with almost equal proportions in their total exports. For Iraq and Lebanon though the shares in the total exports to the Common Market is not very important (5 and 6 per cent), yet the shares in their own total export is quite significant with percentages of 15% for both countries. Jordan's exports are negligible.

These figures show the importance of the Arab exports to the Six. Of course 15.6 per cent is not such a high rate and the impact of the European integration can not be a matter of life and death. But the probable effect can be serious if any reduction in this rate results from the decrease in the exports of one sector of the economy of any Arab country and worse if this reduction is mainly felt in one commodity. Before studying these probable effects of the European Economic Community on the Arab exports it is convenient to know how much representative of the actual export pattern is the year we have chosen as a basis to carry on our analysis. For, nowadays, there is no static economy. We live in a dynamic world in which change is the only constant. To stick therefore to one year as a basis for analysis will be inconsistent, unless the reliability of that year is shown. For this purpose it has been considered appropriate to examine the trend in the Arab exports to the Common Market countries for a certain number of years.

Table 12 gives the Arab exports to every one of the Six from 1954 to 1958 and then the total of these exports for every year. Within this period, the total exports to the Common Market area have decreased about 50 per cent. Every year there has

TABLE I2

EXPORTS OF ARAB COUNTRIES TO THE COMMON MARKET

(From I954 to I958)

(In National Currencies and in US. Dollars)

DESTINATION :		FRANCE	:	GERMANY	:	ITALY	:	NETHERLANDS	:	BELGUIM-LUXEMBOURG	:	U;S. $
ORIGIN	YEAR	NATIONAL CURRENCIES	U.S. DOLLARS	NATIONAL CURRENCIES	DOLLARS U.S.	NATIONAL CURRENCIES	U.S. DOLLARS	NATIONAL CURRENCIES	U.S. DOLLARS	NATIONAL CURRENCIES	U.S. DOLLARS	TOTAL IN DOLLARS
EGYPT	1954	15,841,747	44,356,891	11,391,978	31,897,539	10,434,613	29,216,916	2,895735	8,108,058	2,460,380	6,889,064	120,468,468
SYRIA	"	72,27I,698	20,244,I73	27,93I,9I2	7,824,065	I8,253,626	5,II3,06I	42,495,834	II,903,595	29,664,504	8,309,385	53,394,279
IRAQ	"	93,I68	260,870	2,523,I45	7,064,806	226,683	634,7I3	3,I04,I79	8,69I,70I	I,03I,I56	2,887,237	I9,539,327
SUDAN	"	3,283,04I	9,I92,5I5	3,864,08I	I0,8I9,427	2,942,05I	8,237,743	I,232,976	3,452,333	736,844	2,063,I63	33,765,I8I
LEBANON	"	4,469,000	I,4I8,730	2,429,000	77I,III	2,9I6,000	925,7I4	8,I06,000	2,573,333	4,92I,000	I,562,222	7,25I,II0
JORDAN	"	---	---	4,I00	II,480	32,700	9I,560	---	---	4,600	I2,880	II5,920
Total	1954		75,473,I79		58,388,428		44,219,807		34,729,020		2I,723,95I	234,534,385
EGYPT	I955	I2,09I,684	33,856,7I5	7,783,450	2I,793,660	7,424,830	20,789,524	3,286,899	9,203,3I7	2,060,I22	5,768,342	9I,4II,558
SYRIA	"	98,I20,000	27,484,594	2I,383,000	5,989,636	48,640,000	I3,624,650	I,095,000	306,723	I4,I34,000	3,959,I04	5I,364,707
IRAQ	"	37,575	I05,2I0	2,0II,832	5,633,I30	779,6I4	2,I82,9I9	I,477,896	4,I38,I09	586,409	I,64I,945	I3,I0I,3I3
SUDAN	"	4,638,202	I2,986,966	4,I44,988	II,605,966	4,684,545	I3,II6,726	I,09I,72I	3,056,8I9	528,249	I,479,078	42,245,555
LEBANON	"	5,858,000	I,862,857	2,307,000	732,380	3,I68,000	I,005,7I4	4,559,000	I,447,302	3,724,000	I,I82,222	6,230,476
JORDAN	"	---	---	2,I00	5,880	89,500	250,600	---	---	5,700	I5,960	272,440
Total	I955		76,296,342		45,760,653		50,970,I33		I8,I52,270		I4,05I,67I	205,226,079
EGYPT	I956	I0,235,996	28,660,789	6,74I,430	I8,876,004	8,I76,430	22,894,004	3,02I,363	8,459,8I6	I,430,083	4,004,232	82,894,845
SYRIA	"	63,396,000	I7,757,983	30,556,000	8,559,I04	56,83I,000	I5,9I9,048	8,749,000	2,450,700	I5,303,000	4,286,555	48,973,390
IRAQ	"	I7,2I2	48,I94	I,57I,876	4,40I,253	556,984	I,559,555	897,827	2,5I3,9I6	55I,994	I,545,583	I0,068,50I
SUDAN	"	3,I57,65I	8,84I,423	4,646,I64	I3,009,260	5,702,4I3	I5,966,756	I,306,680	3,658,704	I,I36,533	3,I82,292	44,658,435
LEBANON	"	II,084,000	3,5I8,730	3,782,000	I,200,635	6,465,000	2,052,38I	6,037,000	I,9I6,508	2,932,000	930,794	9,6I9,048
JORDAN	"	---	----	3,700	I0,360	70,600	I97,680	---	---	4,400	I2,320	220,360
Total	I956		58,827,II9		46,056,6I6		58,589,424		I8,999,644		I3,96I,776	I96,434,579
EGYPT	I957	3,202,396	8,966,709	5,487,999	I5,366,397	6,288,059	I7,606,565	3,4I4,555	9,560,754	5,525,944	I5,472,643	66,973,068
SYRIA	"	56,379,000	I5,792,437	29,594,000	8,289,633	63,742,000	I7,854,902	II,37I,000	3,I88,I54	20,088,000	5,626,89I	50,749,0I7
IRAQ	"	26,682	74,7I0	403,496	I,I29,789	29,257	8I,920	374,36I	I,048,2II	679,723	I,903,224	4,237,854
SUDAN	"	3,533,587	9,894,044	2,3I8,837	6,492,744	4,248,492	II,895,777	I,285,357	3,598,999	675,I20	I,890,336	33,77I,900
LEBANON	"	7,504,000	2,382,222	5,5I3,000	I,750,I59	7,885,000	2,503,I75	I,5I3,000	480,3I7	974,000	309,206	7,425,079
JORDAN	"	---	---	4,000	II,200	45,000	I26,280	---	---	3,000	8,400	I45,880
Total	I957		37,II0,I22		33,039,922		50,068,6I9		I7,873,435		25,2I0,700	I63,302,798
EGYPT	I958	4,609,545	I2,906,866	3,3I4,842	9,28I,558	6,796,922	I9,03I,382	I,979,240	5,54I,872	I,674,444	4,688,443	5I,450,I20
SYRIA	"	42,299,000	II,848,459	9,92I,000	2,778,992	39,534,000	II,073,950	3,530,000	988,796	2,722,000	762,465	27,450,000
IRAQ	"	I0,238	28,666	I,046,090	2,929,052	I2I,548	340,334	343,0II	960,43I	64I,094	I,795,063	6,053,547
SUDAN	I957	3,533,587	9,894,044	2,3I8,837	6,492,744	4,248,492	II,895,777	I,285,35I	3,598,999	675,I20	I,890,336	33,772,890
LEBANON	I957	7,504,000	2,382,222	5,5I3,000	I,750,I59	7,885,000	2,503,I75	I,5I3,000	480,3I7	974,000	309,206	7,425,000
JORDAN	I958	---	---	4,500	I2,600	I00	280	---	---	4,500	I2,600	25,480
Total	I958		37,060,257		23,245,I05		44,844,898		II,570,4I5		9,458,II3	I26,I77,037

NOTE : The rates of exchange used for conversion of the national currencies into U;S. Dollars are the ones used in Table I0.

TABLE 13

SUMMARY OF ARAB EXPORTS

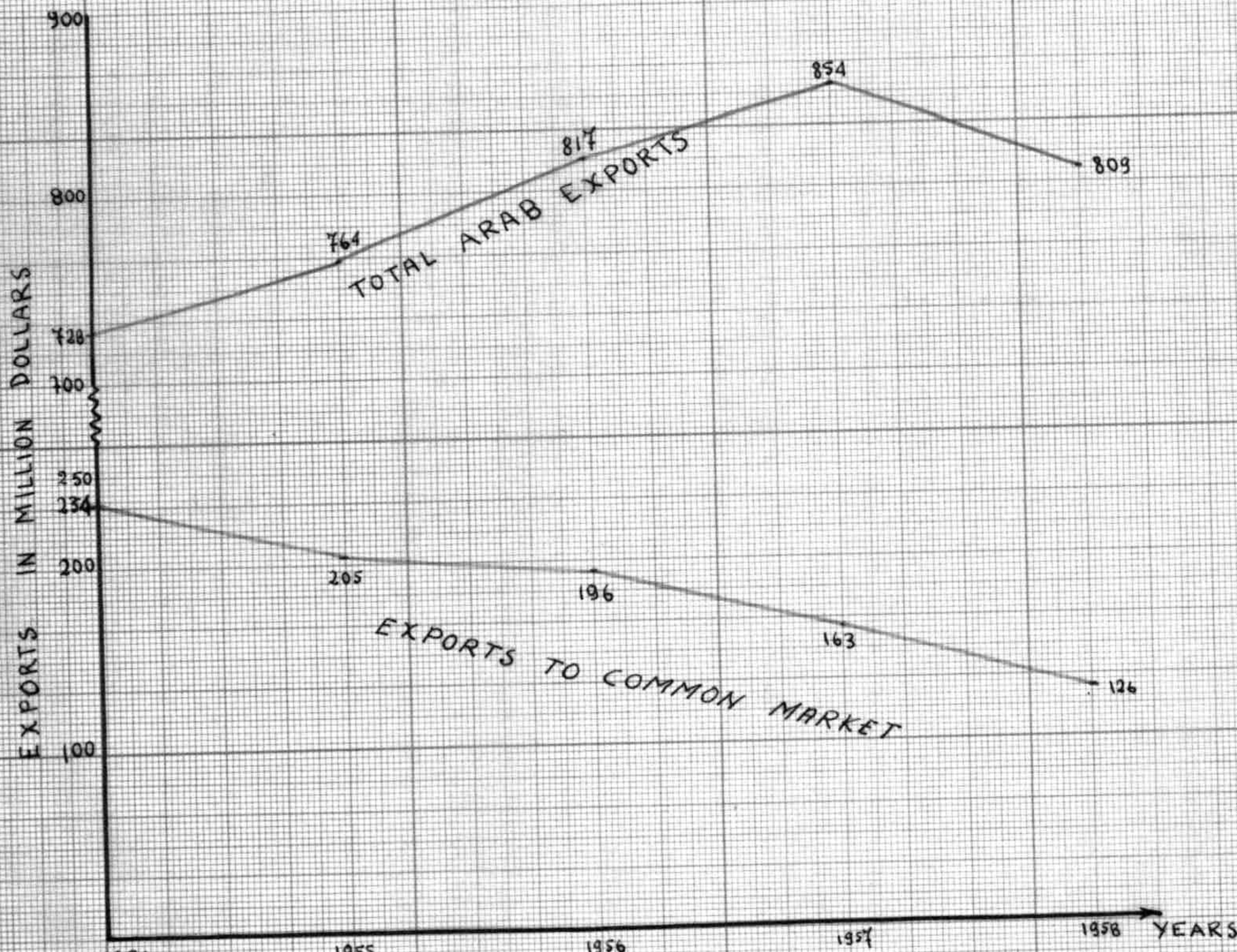
(From 1954 to 1958)

(Table 8 converted into U.S.Dollars)

YEAR	EGYPT	SYRIA	IRAQ	SUDAN	LEBANON	JORDAN	TOTAL
1954	398,420,543	130,532,212	50,327,010	108,924,880	33,518,095	6,814,920	728,537,660
1955	404,966,912	132,713,109	44,568,824	136,741,032	38,262,857	7,334,320	764,647,054
1956	394,634,209	144,537,815	36,967,328	182,955,923	46,284,126	12,262,040	817,641,441
1957	476,739,516	153,501,400	36,062,942	127,535,814	48,310,793	12,046,440	854,196,905
1958	462,272,874	122,356,000	39,893,532	127,535,814	48,310,793	8,790,040	809,158,260

Note: For Lebanon and Sudan the same figures of 1957 are used for 1958.

CHART I



TOTAL ARAB EXPORTS & EXPORTS TO THE COMMON MARKET been some reduction whereas the total exports in the same period have witnessed a constant increase except for 1958 in which there has been a decrease of 45 million dollars (see table 13 and chart I). In this single year the exports of the Arab countries to the Common Market have been reduced by more than 37 million dollars or about one fourth. Of course, all these changes have explanations: the Suez crisis, the "rap-rochement" with the Soviet Union, and other political causes, but this does not concern us. The fact is that there is surely a shift in the pattern of exports in the Arab Countries, and a large part of this shift is from the Common Market to other countries. Chart I shows this clearly. The line representing the total exports has a positive slope for the period from 1954 to 1957, whereas, for the same period the line representing the exports to the Common Market has a negative one. For 1958, both have a negative slope and the two lines are almost parallel which means that the drop in the total exports has been largely absorbed in the drop in the exports to the Common Market.

From all these what should we therefore deduce? Isn't the further decrease in the exports to the Common Market area the logical conclusion? We can not speculate on such issues. The future being always uncertain, extrapolations become very dangerous. But from these one thing is obvious. Had the Common Market not been formed, it would be more likely that in the future the Arab exports to the Six would decrease . We shall not rely on this argument, but we shall use it as an asset in our analysis, for we shall be on the safe side when we adopt the relatively reduced figures of 1958 as a basis in the coming discussions.

B. Possible Effects of the Union on the Arab Exports

We shall now study the vulnerability of the Arab exports to the formation of the European Common Market. Of course, this wide market will not be created overnight, but, as we have seen in Chapter II, progressively, within 12 years, and the effects at the beginning of the integration are likely to be very weak. Nevertheless, it is good to look further ahead in the future and try to anticipate the fate of the Arab exports. It is obvious that within this same period it will be developed in the Arab countries new products, but it would be pure speculation to examine them.

The impact of the European Economic Community on the Arab exports can not be determined from the aggregate statistics which we have arrived at above. We have found that 15.6 per cent of all Arab exports (excluding oil) goes to the Common Market area. From this figure we can not tell what is likely to be the effect of the European Integration, for neither the same percentage of all commodities is exported to the Six, nor each commodity is protected by the same tariff wall when it enters the Common Market area.

The finding out of the vulnerability of Arab exports as the Rome Treaty moves into fruition, implies the disaggregation of the total exports into their commodity components. But this is not sufficient in determining the extent of Arab exports diversion from the Common Market. Two other elements must also be considered. One is the degree to which the Arab exports become competitive with European products which gain a competitive advantage through integration, and the other is the extent of increase in the tariff incidence on imports from Arab countries.[1] Available data are not adequate to examine the ultimate impact of the integration with these three factors, and even if they were available, such a study could not be successfully done by one person, the help of a group of researchers and statisticians being a sine qua non for the accomplishment of reliable results. We have to depend therefore mainly on the commodity components of Arab exports to the Common Market, and in due time, as much as possible, mention will be made of the tariff incidence on some commodities and the degree of European competition for some Arab exports.

Table 14 to 19 give the commodity components of all Arab exports to the Common Market are and the percentages of these as to the total commodity group exports. Table 20 groups all six tables in one monetary unit and gives also the percentage of each commodity exported to the Common Market. From these the following concluding table can be derived:(Page 62, table20)

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1. M.E. Kreinin, "European Integration and American Trade", The American Economic Review, v.XLIX, No.4, Sept. 1959, p. 616.

TABLE 14

COMMODITY COMPOSITION OF EXPORTS OF EGYPT TO COMMON MARKET COUNTRIES

(In Egyptian Pounds & U.S.$.)

(YEAR 1958)

COUNTRIES OF DESTINATION	FRANCE Eg. £.	GERMANY Eg. £.	ITALY Eg. £.	NETHER. Eg. L.	B.-L.	TOTAL EXP. TO C.M. Eg. £.	U.S.$.	TOTAL EXP. TO REST OF W. Eg. £.	U.S.$.	EXP. TO C.M. AS PER CENT OF TOTAL COMM. EXP.
COTTON	4,340,541	1,169,766	2,270,214	269,773	696,704	8,746,998	24,491,594	121,818,493	341,091,780	7,2%
ONIONS	175,081	464,002		674,947	129,187	1,443,217	4,041,008	3,964,953	11,101,863	36,4%
RICE	24,000	900,955		176,056	294,111	1,395,122	3,906,342	13,542,308	37,918,462	13%
POTATOES				213,657	93,706	303,362	894,414	890,868	2,494,430	34%
CAKE (ALL SORTS)		254,231		14,984		269,215	753,802	1,036,983	2,903,552	25,9%
FLAX		52,786	117,460	2,296	8,650	181,192	507,338	370,873	1,038,444	48,5%
GROUND NUTS		119,253		53,499		172,752	483,706	1,018,356	2,851,397	16,7%
MANGANESE		50,587		108,625		159,658	447,042	390,658	1,093,842	40,9%
WHEAT					81,326	81,326	227,713	333,336	933,341	24,4%
RAGS, SNAPS & WASTE COTTON			4,336	4,469	64,513	73,318	205,290	184,330	516,124	40%
MOLASSES (NOT EDIBLE)			43,878			43,878	122,858	715,193	2,002,540	62%
SKINS, HIDES & LEATHER		43,056	31			43,087	120,644	210,671	589,879	20,4%
GLYCERINE		18,972			13,922	32,922	92,182	76,587	214,444	42,8%
METALLIC ORES		10,205		21,348		31,533	88,292	35,543	99,520	88,7%
OTHER VEGETABLES				11,692		11,692	32,514	255,611	715,711	45%
TOBACCO		2,795		7,396		10,191	28,535	95,022	266,061	35,7%
ANIMAL, RAW MATERIAL		844	2,026	2,275		5,185	14,518	169,118	473,530	3%

TABLE 15

COMMODITY COMPOSITION OF EXPORTS OF SYRIA TO COMMON MARKET COUNTRIES

(In Syrian Pounds & U.S.$.)

(YEAR 1958)

COUNTRIES OF DESTINATION	FRANCE Syr. £.	GERMANY Syr. £.	ITALY Syr. £.	NETHER. Syr. £.	B.-L.- Syr.£.	TOTAL EXP. TO C.M. Syr. £.	TOTAL EXP. TO C.M. U.S.$.	TOTAL EXP. TO REST OF W. Syr. £.	TOTAL EXP. TO REST OF W. U.S.$.	EXP. TO C.M. AS PER CENT OF TOTAL COMM. EXPORTS.
COTTON	41,609,000	5,496,000	2,366,000	112,000	51,000	49,634,000	13,903,081	170,630,000	47,795,518	29,1%
WHEAT	12,000	340,000	29,253,000	2,567,000		32,172,000	9,011,765	44,749,000	12,534,734	71,9%
BARLEY		1,263,000	2,196,000	383,000	488,000	4,330,000	1,212,885	12,901,000	3,613,725	33,6%
WOOL		80,000	3,415,000			3,495,000	978,991	26,340,000	7,378,151	13,3%
HIDES		814,000	1,256,000			2,070,000	579,832	3,054,000	855,462	67,8%
BRAN					835,000	835,000	233,893	2,006,000	561,904	41,6%
MILLET						199,000	223,809	2,906,000	814,007	27,5%
CAKES (ALL SORTS)		396,000		227,000	107,000	730,000	204,482	8,765,000	2,455,182	8,3%

TABLE 16

COMMODITY COMPOSITION OF EXPORTS OF SUDAN TO COMMON MARKET COUNTRIES

(In Sudanese Pounds & U.S.$.)

(YEAR 1957)

COUNTRIES OF DESTINATION	FRANCE Sud. £.	GERMANY Sud. £.	ITALY Sud. £.	NETHER. Sud.£.	B.-L.- Sud.£.	TOTAL EXP.TO C.M. Sud. £.	TOTAL EXP.TO C.M. U.S.$.	TOT.EXP.TO REST OF W. Sud. £.	TOT.EXP.TO REST OF W. U.S.$.	EXP. TO C.M. AS PER CENT OF TOTAL COMM. EXP.
COTTON	2,294,745	1,420,019	1,781,132	70,091	221,740	568,727	15,925,636	21,244,611	59,484,911	27%
GROUND NUTS	897,488	111,493	1,636,917	469,985	104,650	3,220,533	9,017,492	4,363,148	12,216,814	73,7%
GUM	265,670	188,226	412,175	304,310	161,494	1,331,875	3,729,850	4,491,178	12,575,298	29,5%
SESAME		314,615	175,316		18,951	568,882	1,592,870	2,631,565	7,368,382	21,6%
CAKE (ALL SORTS)		75,517	3,371	388,690		467,578	1,309,218	799,599	2,238,877	58,4%
COTTON SEED		99,812		79,339		179,151	501,623	4,976,928	13,935,398	36%
HIDES, SKINS & LEATHER	70,550	34,805	58,444	10,128		173,921	486,979	979,512	2,742,634	17,6%
MILLET (CEREALS)		11,965	4,320	1,560	64,947	82,792	231,818	1,124,323	3,148,104	77%
TRACHUS & MOTHER OF PEARL SHELLS	3,400	30,711	55,535			89,646	251,009	115,493	323,380	77,6%
ANIMAL PRODUCT: MEAT			1,204	1,840	41,587	44,654	125,031	123,133	344,772	36,3%
MANGANESE			9,466	28,826		38,286	107,201	51,245	143,486	74,7%
COFFEE, TEA, COCOA		11,325	7,493	6,500		25,318	70,890	162,088	353,046	20,1%
VEGETABLES, LUBIA			11,434			11,434	32,015	559,999	1,567,997	2%
WOOL		9,464		850		10,314	28,879	15,101	42,283	68,3%
METALLIC ORES			5,565			5,565	15,582	27,235	76,258	20,4%
FATS & OILS		980		1,477	351	2,808	7,862	726,814	2,035,079	0,04%
NON METALLIC MINES		1,055				1,055	2,954	66,802	187,046	1,6%
LIVE ANIMALS		415				415	1,162	8,508	23,822	4,9%

TABLE 17

COMMODITY COMPOSITION OF EXPORTS OF IRAQ TO COMMON MARKET COUNTRIES

(In Iraqi Dinars & U.S.$.)

(YEAR 1958)

COUNTRIES OF DESTINATION	FRANCE I.Din.	GERMANY I.Din.	ITALY I.Din.	NETHER. I.Din.	B.-L. I.Din.	TOTAL EXP. TO C.M. I.Din.	TOTAL EXP. TO C.M. U.S.$.	TOT. EXP. TO REST OF W. I.Din.	TOT. EXP. TO REST OF W. U.S.$.	EXP. TO C.M. AS PER CENT OF TOT. COMM. EXP.
BARLEY		795,450	42,080	143,100	457,728	1,438,858	4,028,802	4,759,535	13,326,698	30,2%
STRAW, FODDER				42,287	147,520	189,807	531,460	600,841	1,682,355	31,6%
COTTON	3,539	71,680	15,984	67,569		158,772	444,562	1,320,419	3,697,173	12%
DATES	231	82,354	23,830	10,283	7,196	123,894	346,903	2,916,733	8,166,852	4,2%
COTTON SEED & LINSEED		4,000	32,642	11,365	9,375	57,382	160,670	198,175	554,890	28,9%
WOOL	5,973	39,091				45,064	126,179	924,128	2,587,558	4,9%
MILLET			800	12,980	7,694	21,474	60,127	198,000	554,400	10,8%
GALL RUTS		13,525				13,525	37,870	600,841	1,682,355	2,3%
LIQUORICE ROOTS				6,490	6,564	13,054	36,551	311,340	871,752	4,2%
HIDES & SKINS		2,640	4,441			7,081	19,827	155,105	434,294	4,6%
ANIMAL FOOD		2,171	828			2,999	8,397	249,188	697,726	1,2%
OTHER CEREALS,GREEN GRAVES					812	812	2,274	45,669	127,873	1,8%
LIVE ANIMALS			412			412	1,154	637,014	1,783,639	0,06%

TABLE 18

COMMODITY COMPOSITION OF EXPORTS OF LEBANON TO COMMON MARKET COUNTRIES

(In Lebanese Pounds & U.S.$.)

(YEAR 1957)

COUNTRIES OF DESTINATION	FRANCE Leb. £.	GERMANY Leb. £.	ITALY Leb. £.	NETHER. Leb. £.	B.-L.- Leb. £.	TOTAL EXP. TO C.M. Leb. £.	U.S.$.	TOT. EXP. TO REST OF W. Leb. £.	U.S.$.	EXP. TO C.M. AS PER CENT OF TOT. COMM. EXP.
SILVER MONEY	1,180,299	1,295,785	2,292,726			4,776,810	1,516,448	5,078,000	1,612,063	94%
¢ LENTILS	1,644,828	508,856		159,478	196,707	2,509,860	796,784	10,697,000	3,395,873	23,5%
COTTON	1,577,059	208,485	484,600			2,270,144	720,681	5,304,000	1,683,810	42,8
OLIVE OIL			1,950,785			1,950,785	619,297	2,373,000	753,333	82,2%
GOLD MONEY				1,056,400		1,056,400	335,315	12,490,000	3,965,079	8,4%
CITRUS FRUITS	829,599	242,904				1,072,503	340,477	12,779,000	4,056,825	8,4%
LEATHER		327,380	695,194			1,022,574	324,627	2,698,000	856,508	37,9%
APPLES	555,662	321,633				877,295	278,506	8,639,000	2,742,540	10,2%
CAKES		576,457	102,015			849,986	269,837	3,596,000	1,141,587	23,6%
METALLIC ORES		545,780				545,780	173,263	616,000	195,556	88,6%
MILLET					563,782	563,782	178,978	1,320,000	419,048	42,7%
METAL SCRAP			535,226			535,226	169,913	1,070,000	339,682	50%
CEMENT PRODUCT		496,643				496,643	157,664	993,000	315,238	50%
WOOL	145,738		252,092			397,830	126,295	5,186,000	1,646,349	7,7%
SESAME SEED			126,795			126,795	40,252	528,000	167,619	24%
ANIMAL RAW MATERIAL		60,166				60,166	19,100	225,000	71,430	37,2%

TABLE 19

COMMODITY COMPOSITION OF EXPORTS OF JORDAN TO COMMON MARKET COUNTRIES
(In Jordanian Dinars & U.S.$.)

(YEAR 1958)

PEACH & PRODUCT THEREOF		4,166			2,938	7,104	19,891	18,506	51,817	38,4%
MARBLE					1,000	1,000	2,800	20,525	57,470	4,9%

TABLE 20

Less than	4.9%	of	exported	products	account	for	22%	of	Arab	countries aggregate	exports.
5 to	9.9%	"	"	"	"	"	1.3%	"	"	"	"
10 to	24.9%	"	"	"	"	"	65.1%	"	"	"	"
25 to	39.9%	"	"	"	"	"	7.4%	"	"	"	"
40 to	59.9%	"	"	"	"	"	0.5%	"	"	"	"
60 to	75%	"	"	"	"	"	3.7%	"	"	"	"

Source: Adapted by M.E. Kreinin, "European Integration and American Trade", The American Economic Review, v.XLIX, No.4, Sept. 1959, p. 616.

Table 20 reads as follows: 22% of all Arab exports consist of commodities in the case of which exports to the Common Market from less than 4.9 per cent of all exports of those commodities. 1.3 per cent consist of commodities which exports form between 5 and 9.9 per cent of all exports of those commodities and so on. The most important group is the third one with between 10 and 24.9 per cent of exported products accounting for 65.1 per cent of the aggregate exports. It is this group, and to some extent the fourth and the last group, (with respective shares of 7.4 and 3.7% of total exports), constituting together 76% of the aggregate exports, which is likely to suffer the impact of the Common Market. The commodities which form these exports are in order of importance, cotton, ground nuts, wheat, barley, onion, rice, gum and cake. These commodities require therefore somewhat a more detailed analysis. Before touching on this problem we have to tell something of the prospective tariff wall.

It was said in the second chapter that the tariff of the Six will be the arithmetic average of the existing tariffs among the member countries as on January 1, 1957, the Benelux countries being considered as one customs area. This will result in a decrease in the duties of high tariff countries France and Italy, and an increase in the duties of low tariff countries, Germany and Benelux. It is stated that the final tariff will not be of a greater incidence than the prevailing tariffs before the union. But for many products the duties are not yet decided. They are enumerated in a "list G" and wait future negotiations for the fixing of the tariff protection they will enjoy. With this respect French economists have established the minima and maxima duties for each sector of imported commodities which they presented as follows:[1]

Commodity Group	Percent Duty
Raw materials	0 to 8
Semi-manufactured products	0 to 21
Producer's goods	8 to 25
Consumer's goods	12 to 29

As far as the Arab countries are concerned their exports consisting mainly of raw materials, the duty imposed by the Six will not be more than 8 percent. In fact, in most cases, for a number of primary products the duty will be nil and for these commodities the tariff incidence will be zero. The most important thing to know therefore is the degree of competition which the Arab exports are likely to encounter with the gradual development of the Rome Treaty.

The largest exported commodity by the Arab countries is cotton. It constitutes 44 per cent of all Arab countries' exports to the Common Market and 12.2 per cent of all cotton exports

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1. Pierre Drouin, "Quels Sont les Rapports de Forces Libre-Echangistes et Protectionists dans l'Economie Occidentale", Monde Hebdo, du 24 au 30 Mars 1960, p. 7.

TABLE 2I

COMMODITY COMPOSITION OF TOTAL ARAB EXPORTS TO THE COMMON MARKET AND THE REST OF THE WORLD

(in U.S. Dollars)

COMMODITY	EXPORTS TO THE SIX							EXPORTS TO THE REST OF THE WORLD							
GROUP	EGYPT	SYRIA	SUDAN	IRAQ	LEBANON	JORDAN	TOTAL	EGYPT	SYRIA	SUDAN	IRAQ	LEBANON	JORDAN	Total comm group exp.	Exp. to C.M.as% of Tot. C.Gr.Ex
COTTON	24,49I,594	I3,903,08I	I5,925,636	444,562	720,68I		55,485,554	34I,09I,780	47,795,5I8	59,484,9II	3,697,I73	I,683,8I0		453,753,I92	I2.23
GROUND NUTS	483,706		9,0I7,492				9,50I,I98	2,85I,397		I2,2I6,8I4				I5,068,2II	63.3
WHEAT	227,7I3,	9,0II,765					9,239,478	933,34I	I2,534,734					I3,468,075	68.4
BARLEY		I,2I2,885		4,028,802			5;24I,687		3,6I3,725		I3,326,698			I6,940,423	30.8
ONIONS	4,04I,008						4,04I,008	II,I0I,868						II,I0I,868	36.4
RICE	3,906,342						3,906,342	37,9I8,462						37,9I8,462	I0.5
GUM			3,729,250				3,729,250			I2,575,298				I2,575,298	29.6
CAKE (all sorts)	753,802	204,482	I,309,2I8		269,837		2,537,339	2,903,552	2,455,I82	2,238,877		I,I4I,587		8,739,I98	29.04
SESAME			I,592,870				I,592,870			7,368,382				7,368,382	2I.6
HIDES, SKINS & LEATHER	I20,644	579,832	486,979	I9,827	324,627		I,53I,909	589,879	855,462	2,742,634	434,294	856,508		5,478,777	27.96
SILVER MONEY					I,5I6,448		I,5I6,448					I,6I2,063		I,6I2,063	94.00
WOOL		978,99I	28,879	I26,I79	I26,295		I,260,344		7,378,I5I	42,283	2,587,558	I,646,349		II,654,34I	I0.8I
POTATOES	849,4I4						849,4I4	2,494,430						2,494,430	34.00
STRAW FODDER				53I,460			53I,460				I,682,355			I,682,355	3I.60
DATES				346,903			346,903				8,I66,852			8,I66,852	4.20
COTTON SEED LINSEED & SESAME SEED			50I,623	I60,670	40,252		702,545			I3,935,398	554,890	I67,6I9		I4,657,907	4.80
MILLET		223,809	23I,8I8	60,I27	I78,978		694,732		8I4,007	3,I48,I04	554,400	4I9,048		4,935,559	I4.08
FLAX	507,338						507,338	I,038,444						I,038,444	48.50
MANGANESE	447,042		I07,20I				554,243	I,093,842		I43,468				I,237,328	44.70
METALLIC ORES	88,292		I5,582		I73,263		277,I37	99,520		76,235		I95,556		37I,3II	74.90
METAL SCRAP					I69,9I3		I69,9I3					339,682		339,682	50.00
RAGS, SNAPS & WASTE COTTON	205,290						205,290	5I6,I24						5I6,I24	40.00
MOLASSES NOT EDIBLE	I22,858						I22,858	2,002,540						2,002,540	6.20
GLYCERINE	92,I82						92,I82	2I4,444						2I4,444	42.80
OTHER VEGETABLES	32,5I4		32,0I5				64,529	7I5,7II		I,567,997				2,283,708	2.80
TOBACCO	28,535						28,535	266,06I						266,06I	35.70
ANIMAL RAW MATERIAL	I4,5I8		I25,03I	8,397	I9,I00		I67,046	473,530		344,772	697,726	7I,430		I,587,458	I0.50
TRACHUS & MOTHER OF PEARL SHELLS			25I,00I			I9,89I	270,892			323,380			5I,8I7	375,I97	72.20
COFFEE, TEA, COCOA			70,890				70,890			353,046				353,046	20.I0
FATS & OILS			7,862		6I9,297		627,I59			2,035,079		753,333		2,788,4I2	22.40
NON METALLIC MINERAL			2,954				2,954			I87,046				I87,046	I.60
LIVE ANIMALS			I,I62	I,I54			2,3I6			23,822	I,783,639			I,807,46I	0.20
BRAN		233,892					233, 892		56I,904					56I,904	4I.60
GALL NUTS				37,870			37,870				I,682,355			I,682,355	3I.60
LIQUORICE ROOTS				36,55I			36,55I				87I,752			87I,572	4.20
OTHER CEREALS GREEN GRASS				2,274			2,274				I27,873			I27,873	I.80
LENTILS					796,784		796,784					3,395,873		3,395,873	23.50
GOLD MONEY					335,365		335,365					3,965,079		3,965,079	8.40
CITRUS FRUITS					340,477		340,477					4,056,825		4,056,825	8.40
APPLES					278,506		278,506					2,742,540		2,742,540	I0.20
CIMENT PRODUCTS					I57,664		I57,664					3I5,238		3I5,238	50.00
MARBLE						2 800	2 800						57 470	57 470	4.90
							I08,265,85I								

TABLE 2I

COMMODITY COMPOSITION OF TOTAL ARAB EXPORTS TO THE COMMON MARKET AND THE REST OF THE WORLD

(in U.S. Dollars)

COMMODITY	EXPORTS TO THE SIX							EXPORTS TO THE REST OF THE WORLD							Exp. to C.M.as%
GROUP	EGYPT	SYRIA	SUDAN	IRAQ	LEBANON	JORDAN	TOTAL	EGYPT	SYRIA	SUDAN	IRAQ	LEBANON	JORDAN	Total comm. group exp.	of Tot. C.Gr.Ex
COTTON	24,49I,594	I3,903,08I	I5,925,636	444,562	720,68I		55,485,554	34I,09I,780	47,795,5I8	59,484,9II	3,697,I73	I,683,8I0		453,753,I92	I2.23
GROUND NUTS	483,706		9,0I7,492				9,50I,I98	2,85I,397		I2,2I6,8I4				I5,068,2II	63.3
WHEAT	227,7I3,	9,0II,765					9,239,478	933,34I	I2,534,734					I3,468,075	68.4
BARLEY		I,2I2,885		4,028,802			5;24I,687		3,6I3,725		I3,326,698			I6,940,423	30.8
ONIONS	4,04I,008						4,04I,008	II,I0I,868						II,I0I,868	36.4
RICE	3,906,342						3,906,342	37,9I8,462						37,9I8,462	I0.5
GUM			3,729,250				3,729,250			I2,575,298				I2,575,298	29.6
CAKE (all sorts)	753,802	204,482	I,309,2I8		269,837		2,537,339	2,903,552	2,455,I82	2,238,877		I,I4I,587		8,739,I98	29.04
SESAME			I,592,870				I,592,870			7,368,382				7,368,382	2I.6
HIDES, SKINS & LEATHER	I20,644	579,832	486,979	I9,827	324,627		I,53I,909	589,879	855,462	2,742,634	434,294	856,508		5,478,777	27.96
SILVER MONEY					I,5I6,448		I,5I6,448					I,6I2,063		I,6I2,063	94.00
WOOL		978,99I	28,879	I26,I79	I26,295		I,260,344		7,378,I5I	42,283	2,587,558	I,646,349		II,654,34I	I0.8I
POTATOES	849,4I4						849,4I4	2,494,430						2,494,430	34.00
STRAW FODDER				53I,460			53I,460				I,682,355			I,682,355	3I.60
DATES				346,903			346,903				8,I66,852			8,I66,852	4.20
COTTON SEED LINSEED & SESAME SEED			50I,623	I60,670	40,252		702,545			I3,935,398	554,890	I67,6I9		I4,657,907	4.80
MILLET		223,809	23I,8I8	60,I27	I78,978		694,732		8I4,007	3,I48,I04	554,400	4I9,048		4,935,559	I4.08
FLAX	507,338						507,338	I,038,444						I,038,444	48.50
MANGANESE	447,042		I07,20I				554,243	I,093,842		I43,468				I,237,328	44.70
METALLIC ORES	88,292		I5,582		I73,263		277,I37	99,520		76,235		I95,556		37I,3II	74.90
METAL SCRAP					I69,9I3		I69,9I3					339,682		339,682	50.00
RAGS, SNAPS & WASTE COTTON	205,290						205,290	5I6,I24						5I6,I24	40.00
MOLASSES NOT EDIBLE	I22,858						I22,858	2,002,540						2,002,540	6.20
GLYCERINE	92,I82						92,I82	2I4,444						2I4,444	42.80
OTHER VEGETA-BLES	32,5I4		32,0I5				64,529	7I5,7II		I,567,997				2,283,708	2.80
TOBACCO	28,535						28,535	266,06I						266,06I	35.70
ANIMAL RAW MATERIAL	I4,5I8		I25,03I	8,397	I9,I00		I67,046	473,530		344,772	697,726	7I,430		I,587,458	I0.50
TRACHUS & MOTHER OF PEARL SHELLS			25I,00I			I9,89I	270,892			323,380			5I,8I7	375,I97	72.20
COFFEE, TEA, COCOA			70,890				70,890			353,046				353,046	20.I0
FATS & OILS			7,862		6I9,297		627,I59			2,035,079		753,333		2,788,4I2	22.40
NON METALLIC MINERAL			2,954				2,954			I87,046				I87,046	I.60
LIVE ANIMALS			I,I62	I,I54			2,3I6			23,822	I,783,639			I,807,46I	0.20
BRAN		233,892					233, 892		56I,904					56I,904	4I.60
GALL NUTS				37,870			37,870				I,682,355			I,682,355	3I.60
LIQUORICE ROOTS				36,55I			36,55I				87I,752			87I,572	4.20
OTHER CEREALS GREEN GRASS				2,274			2,274				I27,873			I27,873	I.80
LENTILS					796,784		796,784					3,395,873		3,395,873	23.50
GOLD MONEY					335,365		335,365					3,965,079		3,965,079	8.40
CITRUS FRUITS					340,477		340,477					4,056,825		4,056,825	8.40
APPLES					278,506		278,506					2,742,540		2,742,540	I0.20
CIMENT PRODUCTS					I57,664		I57,664					3I5,238		3I5,238	50.00
MARBLE						2 800	2 800						57 470	57 470	4.90
							I08,265,85I								

(table 21). There will be no duty on this commodity such that the tariff incidence will be nil. As far as the competitive conditions are concerned we have to see whether the Six as a whole are net importers or exporters of cotton. For 1957 the imports of cotton of the Six have amounted to 827,359,000 dollars, whereas the exports only 41,469,000 dollars.[1] Of these 827 million, about 110 million dollars is imported from member countries or associated territories of Africa such that on balance the Common Market area is a net importer of cotton for more than 700 million dollars worth.

Whether this trend will continue or not is not known, but it is probable that it will because the internal production being insufficient to satisfy their needs the Six have anyway to import from someplace their cotton requirements. With this respect the African territories may cause some trouble to imports from other sources. These countries, specially French Equatorial Africa and the Belgian Congo, are becoming large producers and exporters of cotton. The tremendous physical possibilities of these regions where only part of the fertile land is utilized,[2] can in the future considerably increase competition and consequently depress prices. Which countries, assuming that as it is stated in the Treaty no tariff will be imposed on cotton imports, are likely to bear the brunt of this new competition? Of course no precise answer

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1. OEEC, Foreign Trade Statistical Bulletin, Paris, August, 1958.
2. La Zone Franc en 1957, Cinquième Rapport Annuel du Comité Monétaire de la Zone Franc, (Paris, Comité Mon~~dais~~ de la Zone Franc).

can be given to such a question, but it is probable that all the exporting countries be affected in one way or another. As far as the Arab Middle East is concerned, it seems it will resent the minimum of effect because cotton produced in this part of the world (mainly in Egypt and Sudan) is mostly staples not produced in the overseas territories associated with the Common Market.[1]

What is likely to be therefore the fate of the Arab cotton exports? Under normal condition (i.e. excluding any other economic or political changes), the Common Market by itself will in no way affect the Arab cotton exports to that area. If the overseas territories succeed in producing substantial quantities of cotton and export to the Common Market area displacing some Arab exports, this can not be considered to be the effect of the Rome Treaty, because, as just noted, this product will not be granted any preferential treatment.

The second most important exported product is ground nut with only 7.5 per cent of total Arab exports but 63 per cent of the total exports of that commodity. This is the second export product of Sudan and it accounts for 74 per cent of its ground nuts exports. The extent of tariff protection is not yet known. For the time being Italy has the highest tariff with 10 per cent ad valorum duty. France has a 5 per cent duty on shelled ground nuts and 15 per cent on the unshelled.[2] 90 per

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1. Food and Agricultural Organisation, <u>Agricultural Commodities and the European Common Market</u>, Rome, 1957, p. 23.
2. The customs duties are taken from the list of the tariff rates of the respective countries.

cent of ground nuts exports being shelled, the latter rate is of no use for our purpose. Therefore, the ceiling for the tariff on groundnuts is 10 per cent. Actually this should be between 4 and 6 per cent if the averaging process is used. By assuming that this will be the ultimate tariff, then the incidence is likely to be nil because this will mean:

- a decrease from 4 to 6 per cent of the tariff on ground nuts for one third of Arab exports(Italy, table 16).

- an increase from 4 to 6 per cent of the tariff on ground nuts for one third of the Arab exports, (Western Germany and Benelux, tables 14 and 15).

- a constancy of the tariff on goundnuts for one third of the Arab exports, (France, tables 14 and 16).

With respect to competition, it can raise problems specially for Sudan and to some extent for Egypt. Internally the Common Market countries do not produce of this commodity and they must rely on outside source. But here the African countries, being also a large producer, can directly affect the Arab exports. The extent of the tariff will be decisive as regards this commodity. If the tariff wall, which should not be superior to 5 or 6 per cent, is intentionally raised - though in principle this would be illegal because the Six have agreed that it will be the arithmetic average - then the impact on some Arab countries exports can be acute. In the opposite case also the effect is not likely to be negligible. When by the end of the transitional period all the commodities originating in the

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overseas territories enter duty free in the metropolitan countries, then this 5 or 6 per cent tariff can cause considerable trade diversion with the consequent depressing effect on the Sudanese and Egyptian ground nuts exports. Hence, in any case groundnuts exports are likely to be sensibly affected.

The third most important export commodity is wheat. In 1958 the most important Arab exporting country has been Syria with about 98 per cent of all exports of wheat to the Common Market, and 68 per cent of all Arab aggregate exports of wheat. The Common Market is not likely to raise any problem with respect to this commodity. Syria being an export county of wheat in 1958, has becaome a net importing country in 1959 with substantial amounts of imports to satisfy her local needs. If in the future, the external forces turn to be favorbale and Syria or any Arab country become exporters of wheat the Six will again be a ready market because in 1958, Italy which was the principal importer of Syrian wheat, bought for S.£. 29 million(table 15) when the tariff on wheat was 50 per cent. Now, with the entry into force of the Treaty this rate will be lowered and probably be fixed between 20 and 30 per cent because France's tariff is 30 per cent and the other partners' nil or insignificant. Hence, as far as the tariff incidence is concerned the Treaty will be favorable, but this is likely to be compensated by the adverse effect of competition.[1] It is true that the Common Market is

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1. We have to remind here an important provision of the Treaty which stipulates: should the production or processing of cereals or wheat flour in any Member State be seriously threatened or interfered with by

a net importer of wheat for more than 320 million dollars worth and it is probable that this will continue or even increase. But the opening up of European markets to the overseas territories can divert all possible new imports to that countries such that any eventual benefit from the decrease in tariffs may be nullified.

Barley is the fourth principal export product of Arab countries. It is mainly exported by Syria and Iraq and the countries of destination are Germany, Italy and the Benelux. France being an important producer of barley it is an exporting country. The total imports of the Six exceed the exports of this commodity by 80 million dollars. From this, there is likely to be a shift of 30 million dollars worth from extra- to intra-union trade because France exports that amount to non member countries and the establishment of a preferential area ought to change the old pattern of trade. Therefore the outside countries have to suffer a loss of export market to the extent of 30 million dollars. If this loss is devided pro rata on the exporting countries (though not a very sound way for allocation, but logical in the absence of any other concrete data) the share

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such suspension of duties in another Member State, the Member States concerned shall enter into negotiations with each other. Should such negotiations produce no result, the Commission may authorise the State suffering damage to take appropriate measure. (Treaty Establishing the European Economic Community and the Connected Documents, Published by the Secretariat of the Interim Committee for the Common Market and Euratom, Brussels, 1957, p.218).

of the Arab countries amounts to 2 million dollars. Nobody knows whether this loss will be incurred. The conclusion is that the fate of this commodity can be precious as far as the Six are considered as an export market.

Rice and onions are the next two important exports of Arab Middle East and Egypt is the only exporting country. The percentage shares are respectively 10.5 and 36.4% of the total commodity exports. For rice the Six are a net importer of 13 million dollars worth. For onion, the statistical abstracts of OEEC classifies it after SITC classification under the heading of vegetables such that it has been not possible to know the exact amount of foreign trade in onions. But for both of these commodities it is likely that the Common Market, for a given lapse of time at least, will be net importer, but the prospects cannot be very bright because Italy with a little more effort can be the unique supplier of the Six. Moreover, 98 per cent of the rice exports is sent to the lower tariff countries of the Six. The duties on this product when arrived at by the averaging method will be higher than the existing duties for Germany and Benelux because the France's and Italy's present tariffs are respectively 30 and 25 per cent, whereas for the 4 others the average is 10 per cent. This increase in the tariff incidence will thus accentuate the effect of the discrimination in the long run.

For onion the Six have agreed on a 12 per cent common tariff, which will mean lowering of duties of France, Germany and Italy, which had respectively 20, 25 and 15 percent tariffs, and an increase in the tariffs of the Benelux countries. The imports of the two groups of countries being almost equal the ultimate tariff effect is likely to be nil. This does not prevent that the prospective Italian exports exercise their harmful effects by displacing some exports. Therefore, in the long run in these two commodities also the chances of an adverse effect is more probable and its impact will be completely felt by Egypt. Fortunately, the percentage as to the total Egyptian exports is less than 2 per cent.

The last export commodity considered to be relatively important is gum which is solely exported by Sudan. 3o per cent of Sudan's export of gum goes to the Common Market. The duty being nil, the tariff incidence will be zero, but the exports cannot continue for a long time because of the discovery of artificial or synthetic substances which render unnecessary the further importation of such commodities.

In the above cited products we have covered about three quarters of all Arab exports. Of course it would be ideal to speak in the same way of all the other exports but the lack of statistics does not permit us to go beyond this. Nevertheless, in order to make the final conclusion more reliable an attempt will be made to predict the probable effects of the union on all remaining exported commodities with a value of more than 1,000,000 dollars.

There are five such group of commodities: cake, sesame, hides and leather, silver money and wool. For cake the share in the total commodity group exports is quite important with 29 per cent; the most important exporter being Sudan followed by Egypt. On balance the Six equilibrate the exports and imports of this commodity such that the outcome of competition is difficult to be predicted. The respective tariff falls under the "list C" where it is stipulated that the duty can not exceed 10 per cent. This corresponds to the arithmetic average of the respective duties which means increase in the duties of the low tariff countries. The imports being sent mainly to these countries, this increase in tariff can not leave the future exports unaffected. Therefore it is likely that the cumulative effect be quite sharp.

Hides and leather constitute also an important part in the total exports of that products. The Common Market area is a net importer with imports three times the exports. The tariff is to be nil on all raw skins and a maximum of 10 per cent for tanned leather.[1] The integration is therefore to have an effect but a moderate one because most exports are raw.

Sesame is only exported by Sudan and it is about 22 per cent of all Sudanese sesame exports. There is likely to be no

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1. Jacques A. Zighera, "Le Marché Commun et les Exportations Marocaine", Confluent, No.29, Mars, 1959, p. 112.

prospective competition within the union area but the associated areas can hurt badly the Sudanese exports (there is a 10 per cent duty on all sesame imports from outside sources) because they are also important producers of this product.

The tariff on wool will be zero but there will be a protection of less than 10 per cent on all processed wool. Here again the effect will probably be little because Arab countries are raw exporters of wool. Competition from within is also not likely to affect because they are net importers, in 1957 their imports from outside countries being nine times the exports.

Finally, for Lebanon there is the export of silver money which ammounts to L.£. 1,500,000. This product having a ready market, Lebanon has not to worry, because whenever it is necessary silver or gold can be used for the settlement of debts by selling them at the world price in any money market.

So far we have seen the principal exports of Arab countries to the Common Market area, and we have tried to evaluate the probable effects of the integration on the Arab exports. Without hiding the imperfections of the method followed in the discussion - which cannot pretend of studying the problem in all the details required[1] - and taking into account that uncertainties

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1. For example we did not consider the probable change in the relative prices (including the customs duties) of Arab exports and of European goods on the European market, nor did calculate the demand response to such a relative price change. To make exact trade-deviation estimates, it is necessary to have the elasticity of supply of European and overseas goods and the cross-elasticities of demand for Arab exports with respect to European goods.

still exist (quota policy and fixation of an external common tariff) we can now try to draw some conclusions.

The commodities covered include about 80 per cent of all Arab exports to the Common Market. An important group of them enters all the member countries duty free and will continue to do so under the rules of the Rome Treaty. Others will see reductions in the duties but will not be advantageous to the Arab exports because of compensating adverse effects. These two groups, which comprise mainly agricultural products: cotton and wheat, will therefore be unaffected. The remaining commodities have been divided into four different groups according to the degree of trade diversion which they are likely to be subject. In the next page there is, in a tabular form, a general survey of the possible outcome.

Contrary to common feeling it appears unlikely that the Common Market will cause serious disturbances to the Arab Exports.

			Percent of Total Arab Export to C.M.	Percent of Total Arab Export To The World.
1.	Unaffected			
	COTTON	44		
	WHEAT	7.4		
	SILVER AND GOLD MONEY	1.5		
	METALLIC ORES	1	53.9%	8.4
2.	Slightly Affected			
	ONIONS	3.2		
	RICE	3.1		
	HIDES AND LEATHER	1.2		
	WOOL	1	8.5%	1.3
3.	Moderately Affected			
	BARLEY	4.2		
	GUM	2.9		
	SESAME	1.3	8.4%	1.3
4.	Sensibly Affected			
	GROUND NUTS	7.5		
	CAKE	2	9.5%	1.5
5.	Unknown	19.7	19.7%	3.1
			100.0%	15.6

As the above analysis has shown, about 80 per cent of the exports to the Common Market are not to be affected at all or, if affected, they will be very slightly. The remaining 20 per cent, which were classified under the heading of "unknown" may reveal a surprise. Of course some part of it, which was not analysed separately because of the very smallness of the quantity exported, will not be influenced at all. But beside these, there are other minor exports which probably will face serious difficulties. For example, cement products, coffee, cocoa, tobacco and all other products which can be obtained from the overseas territories. It was already noted that not only tariffs will be abolished among the Six, but also between the Six and the overseas territories. Consequently, a product from the Ivory Cost or of Madagascar will enter Germany or Italy by paying progressively a decreasing duty and eventually enter duty free.[1] The extent of this problem will not become clear until the Six have agreed on the duties on "list G" which accounts for most of the raw materials where they have not already agreed on low or zero duties. The products on this list account for 15 per cent of the Common Market's imports.[2]

The effects of trade diversion of the Common Market on the Arab exports will therefore be limited mainly to those products which can be obtained from the member nations overseas

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1. P. Moussa, "De l'Europe A l'Eurafrique", Confluent, No. 29 Mars 1959, p. 84.
2. Economist, Dec. 26, 1959, p. 1233.

territories. These include in addition to cake and groundnuts, citrus fruits (20% common tariff), bananas (20%), tobacco (30%), fats and oils (madimum 10%), live animals and meat (16%) and to a lesser extent, onions, rice, barley, hides, wool. Other non edible primary products (agricultural and non-agricultural) cannot be obtained from the overseas territories in any substantial amount; hence the pattern of trade in such goods will not be affected.

It follows that a small proportion of the Arab exports will have to seek new markets. These might have to face the keener competition in third markets of similar goods chased from European markets. It is even possible that dumping wars can be initiated when countries try to place their surplus production. Consequently, internally these may be reflected in structural changes. Contractions and expansions can take place in some sectors of the affected economies which may necessiate a lengthy period of adjustment. How the Arab countries will react to this new indirect challenge is premature to be told. There are many choices presented to them. The adoption of the proper one will depend on their common attitude and their solidarity in front of conflicting point of views.

C H A P T E R V

WHAT SHOULD THE ARAB MIDDLE EAST DO

A. Necessary Adjustments

It is obvious that a customs union which unites an area with as large a proportion of the world's trade as does that of the Six, will, in the short run at least, create sharp enough problems for her principal trading partners. As far as the Arab countries are concerned, as we have seen in the previous chapter, there is likely to be some decrease in the Arab exports to the Common Market area. In addition to this, three other possible effects can arise:

First, some Arab imports from the Common Market may have to suffer, for it is likely that a number of the Common Market export to non-European markets will be diverted to Intra-European destinations. If Arab countries are importing of these commodities, this will result in a loss of cheaper supply source for imports and will oblige the Arabs to find new sources or pay higher prices to get the same quantity of Goods.

Second, the establishment of the Development Fund for the Overseas Territories, which is financed by the member countries, is likely to have repercussions on the future investments ~~in~~ of the Six in Arab countries. This Fund may divert money which formerly went or which could have gone to the

Middle East, and pour it into the African associates of the Rome Treaty. Moreover, it "will make it possible for the colonies to specialize in their production in such a way as to enable them to produce all the types of products which are now being exported by the Arab states to Western Europe. In this way, Arab products will be further discriminated against."[1]

Third, the prospective Arab exports to the associated territories might be somewhat jeopardized. The Arab countries are in full economic development and they are striving to establish industries of their own. Although at present, their exports of finished goods are negligible, in the long run they will probably produce light or even heavy industrial goods. The overseas territories of the Common Market are also in full economic expansion and they are likely to increase substantially their purchasing power in 5 or 10 years hence. In an open economy this will mean higher imports of finished goods which would probably have as a source - other things being equal - the nearer Arab countries. But the common tariff wall which will be raised against third countries (mainly for finished goods) by both the metropolitan and the overseas

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1. B. Dajani, The Arab Common Market, (translated from Arabic at the Middle East Research and publishing Center), Paper submitted in the name of Egyptian Federation of Chambers of Commerce to the 8th Session of the Arab Chambers of Commerce, Industry and Agriculture, (mimeographed), p. 2.

countries may greatly prejudice these kind of exports, and it is probable that this discrimination may become more harmful than the actual losses incurred in some exports.

What is likely to be the ultimate outcome of these changes is not predictable at this stage. It is obvious that the new tariff rates and the preferential treatments will almost certainly cause adjustments in imports and exports from the Arab countries, just as they will from other parts of the world. It is certain that the gradual implementation of the Treaty will result in shifts of both composition and sources of European foreign trade and a new pattern of trade will be established. As noted in the previous chapter, these will cause contractions in some sectors and expansions in others and the ultimate effect will depend on whether the Common Market is going to live up to expectations or degenerate into just one more protectionist tariff bloc. Admitting that the clauses of the Treaty will be fully respected by the members, and that the Treaty will be outward looking, then what can the Arab countries do to mitigate the adverse effects. It is easy to resort to retaliatory measures so that the European economies may be hurt too. But such a policy will harm both parties equally. The metaphore which the London's Economist made of the then projected Free Trade Area as a reply to the Common Market can be a compatible analogy for our purpose. The Economist's reasoning runs as follows: when a man is trying to make a four-penny telephone call and has only put two pence in the slot, it is no use banging the box. He may jam the

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works, so that he eventually fishes out two more coppers nothing happens at all. He may even cause expensive damage to the machine. One thing he will not do is get through to the number he wants.[1] Similarly, the Arab countries may cause some damage to the Six by resorting to a "beggar my neighbour" policy, but it is unlikely that they receive any worthy benefit from it. Furthermore, it is even possible that any ill-advised measure may deepen the division between the two parties and thus make agreement later on impossible. But, to repete once more, these very measures can have a considerable value as "retaliation".

What steps should the Arab countries take then? Resort to harsh retaliatory measures or adopt a conciliatory attitude and try to agree on a compromise? It is not up to us to decide on this issue. Whether they will choose this or that will not exclusively depend upon a nice balancing of advantages and disadvantages - an issue in which politics may play an even more important role than economics. However, in spite of these drawbacks an analysis of the possible alternatives is not out of place and we shall in the next section try to expose as far as possible the different alternatives.

B. The Choices

A practical and realistic initiative would be to enter into direct negotiations with the Six to seek a common ground

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1.- "Short of Coppers", The Economist, London, v. CXCI, No. 6037, May 9, 1959, p. 508.

of agreement. Article 238 of the Treaty stipulates: "The Community can conclude with a third country, a Union of States or an international organisation, agreements creating an association embodying reciprocal rights and obligations, joint actions and special procedures". Benefiting from this article the Arab Countries can negotiate and get a reduction of European tariffs on the kinds of commodities which is expected to Europe granting as quid pro quo other facilities to the imports from the Six. But such an initiative requires a concerted action by all the Arab countries together, for, one country alone will not be enough powerful to pick up concessions. Moreover, a concerted action will exert increased benefits due to the size of the bargaining unit. A multilateral trade agreement of the Common Market with different Arab countries would be very complicated. It would imply that the Six negotiate seperately with each Arab country and reach an agreement. Whereas, if the Arab countries present themselves with a united front, the settlement of a bilateral trade agreement would be much more easy and the advantages for both parties would be greater. The conclusion of such bilateral agreements, which would result in the decrease or abolition of some tariffs or quotas, should be welcomed because, being a step towards freer trade it would be beneficial for both the Arab and the Common Market countries. This solution would be the optimal one-of course if the Six prove to be co-operative, (and they should according the clauses of the Treaty)-and a "wait and see" attitude would but only be harmful to Arab countries.

If, for one reason or another, it could not be possible to reach an agreement with the Six, then the alternative for the Arab countries would be to resort to reprisals by adopting retaliatory measures. These could only be avoided if the difference in treatment between countries within the union and the Arab countries is kept within tolerable limits.[1] What will prove to be tolerable will vary from commodity to commodity, and in fact the probably affected Arab exports will most likely fall within this tolerable limits. But, the future being always uncertain, to be on the safe side we shall assume that some exports will be badly hurt and create disturbances in the economies of Arab countries. Then, in addition to the internal measures to correct the disequilibrium what retaliatory actions could be taken as a defence against this threat? The most logical step would be to resort to protectionism by restricting imports from the Common Market countries. The efficiency of such a measure being function of the quantity of Arab imports from the Six, it is necessary to know the amounts of these imports.

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1. M. Camps, <u>oP.cit.</u>, p.49.

TABLE 22

TOTAL IMPORTS OF THE ARAB COUNTRIES FROM COMMON MARKET COUNTRIES AND FROM THE WORLD (1958)

	IMPORTS FROM C. MARKET		IMPORTS FROM THE WORLD		Per cent of C.M. to World Imports
	Nat. Curren.	U.S.$.	Nat. Curren.	U.S.$.	
EGYPT	68,248,528	191,095,878	238,247,394	667,088,603	28,6
SYRIA	232,601,000	65,154,000	729,643,000	204,354,000	31,8
SUDAN	10,231,056	28,646,957	63,339,693	177,351,160	16,1
IRAQ	28,756,589	80,518,449	109,795,843	307,428,500	26,1
LEBANON	165,499,000	52,540,000	666,035,000	211,440,000	24,8
JORDAN	8,020,100	22,456,280	34,028,700	95,280,360	23,5
Total Imports		440,411,564		1,662,942,623	26,5

Source: The Statistical Abstracts of the respective countries for 1958 except for Sudan and Lebanon the Abstracts of 1957.

Table 22 shows that 26.5 per cent of all Arab imports come from the Common Market countries. This is quite an important share, but this share represents about 2 per cent of the Community's exports (in 1958 the exports of the Six have amounted to 22,746,000 dollars).[1] This shows that, for the time being, retaliation which would result in protectionism would not be a very efficient measure; but in the long run, as the Arab countries becoming more developed will need larger imports to match their development projects, this will mean a shift in their import sources and thus a loss for Western Europe of an important potential market. Therefore the Six can not ignore any discriminatory measures which would prejudice their interest in the Arab countries, and specially Western Germany's which already has invaded the whole Middle East with German salesmen and relies considerably on this area as an export market.

Nevertheless, if tariffs or quotas imposed against imports from the Common Market may not reveal to be very effective at the beginning as retaliatory measures, yet they are badly needed as protective measures against possible crisis because the free interplay of the price mechanism in a relatively open economy is likely to result in the impovrishment of the weaker countries and the improvement of the more developed. As Kindleberger proved, in a country of primary production an increase in exports will result in an increase in imports; once established, this situation will persist even when the exports decrease and consequently there will be a

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1. OEEC. <u>General Statistics</u>, Paris No.4 July 1959.

deficit in the balance of payments which will create difficulties for the country concerned. This is due to the established fact that the demand for consumer's goods, which increases when income increases (the marginal propensity to consume of underdeveloped countries is greater than the more developed countries), stands at the same level when income decreases.[1] It is therefore absolutely necessary that the Arab countries resort to protective measures so as to neutralize the adverse effects of the European integration. Of-course they are not asleep and on the morrow of the signature of the Rome Treaty, the Arab Economic Council met on May 1957, and outlined a defensive plan consisting of three points:

1. Find new markets to the Arab agricultural production in the Afro-Asian markets.

2. Industrialize in order to avoid pressures from these countries which prove to be their traditional import supplier.

3. Create an Arab Common Market.[2]

On January 1959, the Arab Economic Council adopted another resolution which stipulated: "Given the gravity of the threat that the establishment of the European Common Market constitutes for the Arab economy, the Council decides to charge the provisional Committee of the Arab Economic Union to

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1. Firmin Oulès, "Marché Commun & Zone de Libre Echange", Les Etudes Americaines, Cahier LXVII, 1959, p. 6.
2. Malek F. Chehab, "L'Economie Arabe à la Recherche d'un Equilibre entre l'Europe Unie et le Bloc Afro-Asiatique", l'Economie Libanaise et Arabe, No. 61, Jan., 1958, p. 10.

study the dangers of the European integration in the Arab countries and to submit appropriate recommandations and suggestions to counterbalance it, giving however a special importance on the two projects aiming at the creation of an Arab Common Market and the establishment of an economic cooperation between the Afro-Asian countries."[1]

During its very recent meeting in Cairo from 5 to 13 March the Council again reiterated the previous resolutions and in addition asked the different Arab countries to present a detailed report on the evolution of the exchanges between the Arab and the Common Market countries, in order to determine the probable effects on the Arab economy as a whole and consequently adopt the necessary measures to mitigate the adverse effects.[2] How could then the Arab countries protect their home markets in the absence of any special agreemnt? There are three possibilities. Price restrictions, ~~quantitative restrictions~~, quantitative restrictions and complete prohibition of some imports from the Common Market.

The two first measures refer to tariffs and quotas. tariffs consist in putting a cost impediment on imports, and quotas in limiting the quantity imported of the protected products. Both will result in price increase and consequently will decrease the consumer's demand. The efficiency of these

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1. "Importantes Décisions sur le Plan de la Cooperation Economique Inter-Arabe", L'Economie Libanaise et Arabe, No.72, Feb. 1959, p. 17.
2. "Importantes Résolutions du Conseil Economique Arabe", L'Economie Libanaise et Arabe, No.84, Avril 1960, p. 14.

measures as a retaliation will depend on the magnitude of the tariff and the way the quotas are distributed among the exporting countries. With this respect a quota policy would be easier to be implemented, because the quota can be allocated among non-Common Market countries, whereas the tariff would imply a duty on imports from all countries. In case these measures reveal to be not sufficiently efficient then a complete prohibition of some imports from the Common Market can be resorted to. But if in front of such developments the Six ban all Arab imports, wouldn't this be more harmful? It would because 15.6 per cent of all Arab exports goes to the Common Market whereas the Common Market countries send only 2 per cent of their exports to the Arab Middle East. But what are the chances that the Six have recourse to such measures. They are very little and in fact they seem improbable for the following reasons:

In the first place this would be against the spirit, if not the letter of the Rome Treaty. It was more than once reiterated that the duty of the Community is to pursue at all times a line of conduct which, far from dissociating the European economy from the world economy will integrate the former and the latter to the benefit of both. From this angle it will watch not only the expansion but also the stability of the pattern of trade.[1]

Secondly, by resorting to such measures the Arab countries

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1. European Economic Community Commission, <u>First General Report on the Activities of the Community</u>, Brussels, Sept 17, 1958 p.50.

would act with the intention of protecting their economies, whereas the Six would act only for the sake of retaliation. This they cannot do because of their moral obligations towards the free world and also because they would be acting against the IMF and GATT rules of which they are full members.

Thirdly, the most important handicap would be the fear of an adverse response from the Arab oil-producing countries on which they still heavily rely for filling the gap in their energy reguirements.

A boycott of the Arab exports by the Six is therefore unlikely and the Arab countries can have their way free to resort to such measures as far as these do not jeopardize their national interest.

In addition to the above three protective measures, there are three other possibilities, which if adopted, will in no way be directed against the Common Market countries but will be efficient as a defence against discrimination. These are the three plans already put forward by the Arab Economic Council in 1957.

The first consisted in finding new markets for the Arab agricultural products. This is possible by signing bilateral or multilateral trade agreements or establishing marketing offices in potential importing countries. Another possibility would be to arrange barter agreements and long term contracts to stabilize the price and the volume of the

Arab agricultural exports. This would to a very large extent avoid the creation of surpluses and the shrinking in income when world demand and prices fall. The "Attaché Commercial" of respective countries can help a great deal in the conclusion of such agreement, and in the absence of proper agencies they are the proper bodies which should take care of national interest.

Industrialization is the second important solution in reducing the effects of exogenous factors which are the inherent evils of agricultural economies. "Industrialization is not an end in itself, but the principal means at the disposal of underdeveloped countries of obtaining a share of the benefits of technical progress and progressively raising the standard of living of the workers".[1] Agriculture, which is the principal economic activity of Arab countries involves much more risks than industry. It is much more liable to destruction due to the natural outside factors, and past experience shows that the frequency of such accidents are not negligible. (For example in Syria for three consecutive years the harvest has been disappointing). Up till now exports have been exclusively agricultural whereas it is becoming indispensable that they be shifted into manufactured goods. Arab countries can only find their economic salvation by concentrating in industrial activities which will not put the product of their effort at the mercy of some mysterious factors nor cause large fluctuations in prices from one season to another. Such a shift will in addition have as

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1. Gunnar Myrdal, <u>An International Economy</u>, (New York: Harper and Brothers Publishers), 1956, p. 226.

result a diversification of the country's exports which minimizes the effects of variations in one commodity on the overall economic activity.

The third most important solution would be to achieve the long-heralded Arab Economic Union. The formation of the European Economic Community has given a new impetus to the realization of this scheme but up till now no important concrete steps have been taken. It is presumed that the establishment of closer cooperation are not very far away and that the ultimate Arab Economic Union is to be achieved. Of the advantages of such an importent step we shall speak in more detail in the next chapter.

C. <u>FUTURE OF THE ARAB MIDDLE EAST OIL</u>

Up till now we have avoided in our analysis any referrence to the incidence of the Common Market on the Middle East oil. It was considered that because of its tremendous importance, it would be appropriate to analyse this product seperately in a different section.

It is common knowledge that the Middle East oil is of a considerable value for both the have and the have-not countries of the Middle East. Today, the oil fields of this area contain more than two-thirds of the free world's reserves of crude oil/ Already they are producing one-quarter of the free world's supplies.[1] The oil industry has brought a new source of income to the governments and people of the Middle East. The royalties have increased from about 100 million dollars in 1948 to more than 1 billion in 1958 which represented about 90 per cent of Arab country's budget.[2]

It is evident that any decrease in these royalties can badly hurt the Middle East countries. For example when in 1958 there was a price decrease of 18 cents per barrel, Iraq "lost" of its oil revenues 24 million dollars, Saudi-Arabia 35 millions and Kuwait 46 million dollars,[3] that is roughly all the Arab exports together to the Common Market in 1958. It is therefore obvious that any decrease in the quantity of Arab oil exports

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1. Arabian American Oil Company, <u>Middle East Oil Development</u>, 4th ed. March 1956, p.1
2. Edouard Sablier, "Alerte au Pétrole", <u>Monde Hebdo</u> du Jeudi
3. <u>Ibid</u>.

may result in substantial reduction in the income of oil producing and oil transiting countries and thus imperil their development projects.

What are the problems which the establishment of the Common Market is likely to create to the Arab oil exports? It seems that there is no immediate effect, but as we shall see, the future appears to be rather gloomy.

First, there is the Treaty establishing the European Atomic Energy Community - commonly known as Euratom - which was negotiated and signed at the same time as that for the Economic Community. Its aim is "to stimulate a powerful atomic industry for the peaceful use of nuclear power",[1] for, a report presented by the "Three Wise Men" concluded that without nuclear energy, the cost of the Community's energy imports would rise from 2 billion Dollars in 1955 to 4 billion dollars in 1967, and might reach 6 billion dollars by 1975.[2]

Table 23 gives some figures about the energy requirements of the Community. Of course the forecasts can not be prophecies determining the energy requirements which the Six will exactly need. They are just estimates of the level of energy production and imports which will probably be attained under normal conditions, that is excluding any random outside economic or political change.

1.Leonard Tennyson, op.cit. p.21
2.Ibid. p. 21

Table 23(a) Energy requirements of the Common Market (1955 to 1975) (in million tons coal equivalent)

	1955	1960	1965	1970	1975
Energy Requirement	400	475	566	648	731
Internal Production	316	344	384	416	449
Net imports(excluding nuclear energy)	84	131	182	232	282
Net imports(including nuclear energy)	84	131	164	164	164

Source: "Un Objectif pour Euratom", Rapport Présenté par Louis Armand, Franz Etzel et Francesco Giordani, Mai 1957, pp. 61 and 96.

The above table gives the imports net of re-exports. To find the total imports we have to inflate these figures by 15 per cent because there is 15 per cent of oil re-exports. (In 1959 the total oil imports of the Six amounted to 104,823,000 metric tons,[1] whereas if the above figures are converted into their oil equivalence we shall get 91,000,000 metric tons.[2])

Therefore the actual forecasted oil imports are likely to be:

Table 23(b) (million tons of coal equivalent)

	1955	1960	1965	1970	1975
Imports excluding nuclear energy	97	150	209	267	324
Imports including nuclear energy	97	150	191	199	208

Table 23 (c) (million tons of oil equivalent)

Imports excluding nuclear energy	68	105	146	187	227
Imports including nuclear energy	68	105	134	139	146

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1. "Commerce Pétrolier de l'Europe: 200 millions de tonnes", Petroleum Press Serfice, v.27, No.4 Avril 1960, p. 141.
2. Conversion factors: Coal=7000 kcal/kg, Petroleum=10,000 kcal/kg.

From these tables the following conclusions can be drawn:

Excluding energy produced by nuclear power, the Six have to import in 1965 about 36 per cent; 1970, 41 per cent; and in 1975, 44 per cent of their total energy requirements, whereas these rates become respectively 33, 31 and 28 per cent if the projected atomic power production gives the expected results. To the extent that Euratom will make this possible, it will be reflected in the stability of oil imports after 1965, for the target of Euratom is to hold imports at the same level after 1965-67 (see chart II). Will the Six succeed in their scheme? This is a question which many people have asked and nobody has given a precise answer. But there is one fact which everybody admits that is the Euratom's goal is over ambitious. The expected reults are unlikely to be obtained within the projected period. There are some who qualify it even utopian. Anyhow, the more this kind of energy production falls short of expectations the more will be the Six's import of oil from outside countries and mainly from the Middle East because about 90 per cent of their oil imports have their origin in the Middle Eastern countries.[1]

In the long run therefore Euratom may have some effect on the prospective Arab oil exports which ought to be reflected in the way of a constancy of exports' level rather than in their decrease. But more acute seems to be the impact of the

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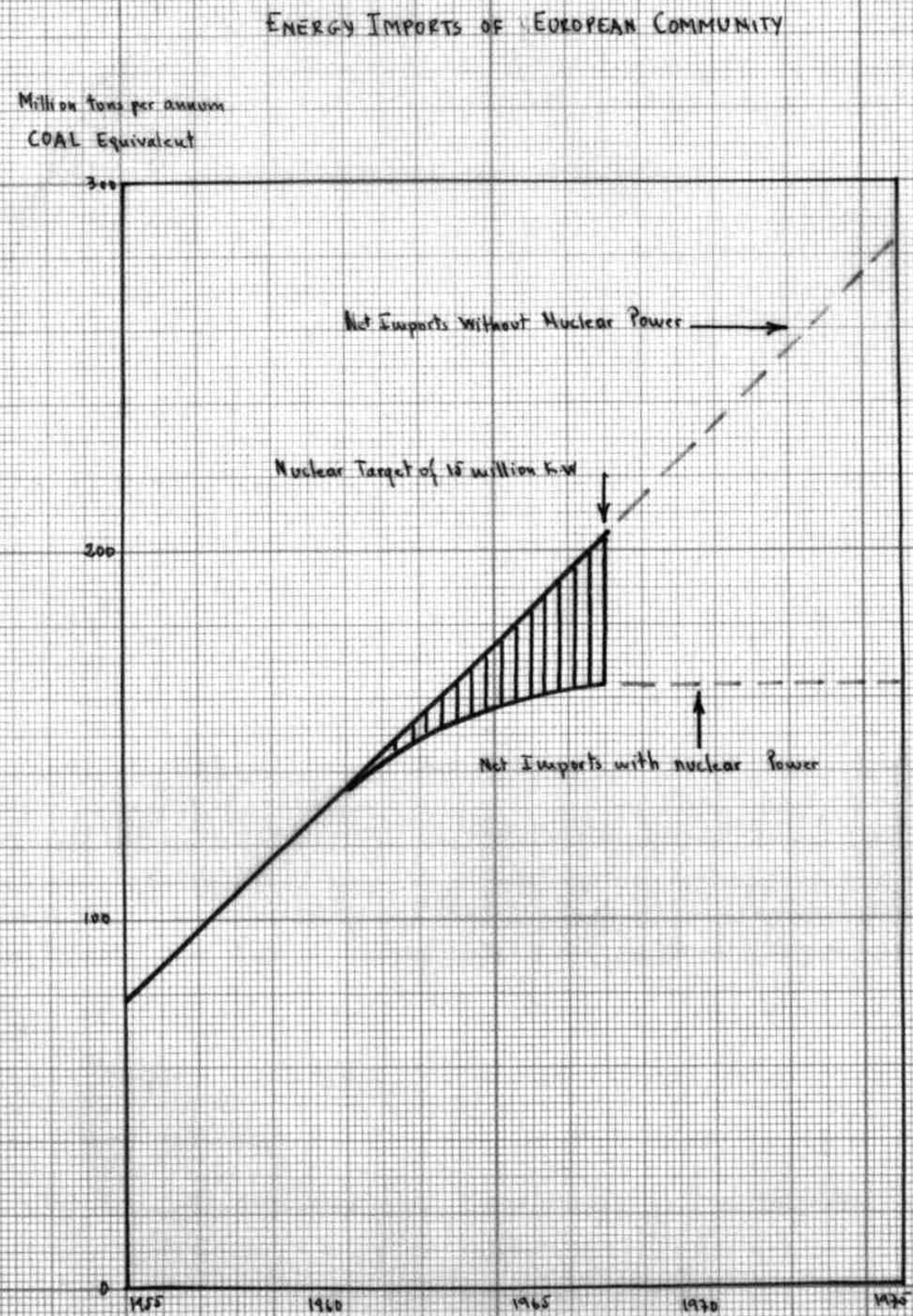
1. "Making Room for Saharan Crude", Petroleum Press Service, London, v. 26, No.10, 1959 p. 374.

CHART II



SOURCE: *A Target for Euratom, Messrs. Armand, Etzel and Giordani, May 1957*

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Saharan oil discovery which is likely to compete directly with the Middle East oil.

Table 24 Arab Crude Oil Production (1958-59)
(thousand metric tons)

	1958	1959
Kuwait	70,217	70,000
Saudi Arabia	50,128	53,600
Iraq	35,670	41,700
Qatar	8,222	8,150
Kuwait Neutral Zone	4,258	6,000
Egypt	3,165	3,600
Bahrain	2,035	2,250
	173,695	185,300

Source: Petroleum Press Serfice, January, 1960, p. 5.

The Common Market countries oil imports amounted to 96,331,000 metric tons in 1958 and 104,823,000 metric tons in 1959. As noted above, 90 per cent of these were imported from Middle East (including Persia), the share of the Arab countries in these is estimated to be about 69 million metric tons in 1958 and 77 million metric tons in 1959 or respectively 40 and 42 per cent of their total production.

The entry of the Saharan oil in the competive cold is likely to cause some trouble to the Arab exports. The contribution of Sahara will increase from half a million tons in 1959 to 10 million during this year. Reynolds News estimates the production to 25 million tons next year and to 50 million

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in 1965,[1] whereas conservative people estimate that the 25 million tons will be reached by the end of 1962 and the target of 50 million in the seventies.[2] The Saharan oil is therefore, surely to affect to some extent the Arab oil exports because this new production ought to find its way in France if not in all Europe because of some natural advantages. Of course this effect is not the direct consequence of the Common Market. Oil in Sahara has been discovered long before the signature of the Rome Treaty, but the very existence of this Treaty will accentuate the effect of the Saharan oil on the Arab oil.

Already the French government proposed that Saharan oil should get preferential treatment in the Common Market area. The propose̊d scheme would give priority to refined products from Saharan oil in excess of the current consumtion of the Six. But for the time being, it was greeted with scant enthusiasm by France's partners, and strongly opposed by the United States.[3] But nobody knows what future developments will bring and France may, in one way or another, prevail upon its partners to give the preferential treatment she is seeking for to the Saharan oil. It is thus apparent that Saharan oil will make its presence felt in European countries to an increasing degree from now on, and it is the Middle Eastern producers who are in

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1. "La France a Déclenché La Guerre du Pétrole " L'Orient, January 4, 1960, p. 5.
2. "La France Accède au Rang des Pays Grands Producteurs de Pétrole" L'Orient, Dec.6, 1959, p.5.
3. "Sahara Oil & Common Market" Middle East Business Digest, v. IV, No. 46, March 1, 1960, p. 28

any case bound to bear its brunt.[1] Of course it is impossible at this early stage to say how far the oil from these new fields will ultimately travel. It is said its quality would make it more suitable for the needs of United States refiners and some may even find its way to the American market displacing crude oil from Venezuela or the Middle East.[2] But such a displacement would not be considered an effect of the Rome Treaty and here is not the place to discuss any such consequences.

In addition to the possible preferntial treatment of the Saharan oil, the Common Market may have another effect on the Arab oil exports. Being an important buyer of the Arab oil, the Six may establish a buyers' monopoly for oil and thus can impose their purchase conditions because of their strengthened bargaining power.[3] These may take the form of lower prices or securing new concessions at more advantageous terms or any other kind of benefits. The unique alternative in front of such a situation would be for the Arab oil producing countries to unite or set up one selling agency which would operate as a monopoly and thus impose its selling conditions. The effectiveness of such an initiative would be quite perceptible had the African oil not been discovered, but with the entry of these new suppliers, the effects are likely to be less efficacious. Anyway, the Common Market will have some effect on the Arab oil producing countries either because of the

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1. "Seeking Protection for Saharan Oil", <u>Petroleum Press Service</u>, v.27, No. 1, Jan.1960, p.10
2. Making Room for the Saharan Crude, op.cit. p.374
3. B. Dajani, <u>op.cit</u>. p. 2

establishment of the Euratom, or the discovery of the Saharan oil or the increase in the bargaining power. It is impossible at this stage to assess with precision the gravity of the menace. But it is certain that the European Economic Community will create problems to the oil exports, and the Arab Middle East has to face it and look for remedies by finding new markets.

With these major considerations, the fact remains that, in the circumstances of today, so large an accretion of new oil in such a short time-the emergence of African oil with their natural advantages (Sahara and Lybia), the growing exports of USSR to European countries and the high rate of expansion of already producing countries (in 1959 7.7 per cent in the Middle East and 7.6 in the world)-is bound to cause numerous headaches to oil companies and others engaged in the international oil trade, specially the Arab Countries. Of course imports of crude oil is likely to increase with the expected economic progress. "But it seems that the vertical ascension of the Middle East oil has reached its apogee. No doubt, the increase in the world demand will probably permit for 2-3 years still a 6 per cent increase. But just after the entry into the commercial circuit of the North African oil, this increase will at most be limited to one or two per cent per annum".[1] It therefore will mean lower income - not necessarily in the absolute sense - but relatively to what they would otherwise have been for the important oil producing countries.

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1. Edouard Sablier, op.cit. p.7

Yes, all the major oil exporting countries will be affected in one way or another, but it will decisively affect the fortunes of the Middle East.

CHAPTER VI

LESSONS OF AN EXPERIENCE

A. Concluding Remarks

Throughout all the above discussion, we have only referred to the adverse effects of the European integration. To pass over in silence the possible advantages of the scheme to the outside countries would be unfair. While it is believed that the discriminating aspects of the new European market will be harmful to the rest of the world, there are other aspects which can hardly said to be adverse. It is adequate therefore to mention such possible advantages.

The economic objective of the European Economic Community is to rationalize production through the most efficient allocation of the different factors of production. As such it will considerably contribute to the improvement in the prospects for European growth and development. A recent GAAT report expressed the opinion that "the Six Western European countries, outside the Common Market, would probably increase their gross product during the period from 1953/55 to 1973/75, by 90 per cent, but that given the Common Market, the Six could legitimately hope for an increase, during this period, of 120 per cent, perhaps as much as 150 per cent.[1] If these specific hopes should be largely fulfilled, and, if the total of wealth in the enclave is increased due to the accelerated economic and,

1. Committee for Economic Development, op.cit. p.84

social progress, then countries not inside the bloc ought to benefit,[1] because "a prosperous economic region in the 20th century style should necessarily import and export on a large scale, should vivify and dynamise itself in foreign trade".[2] Moreover, Western Europe is a great manufacturing and trading area. As such, it is increasingly dependent upon the outside world for both imports and exports. In 1957, the primary products represneted 75 per cent (12.6 billion dollars) of imports from outside countries.[3] It is logical to expect therefore that, the more rapid economic expansion in Europe is likely to result in a faster increase in imports from the rest of the world, (according to most estimates Europe's marginal propensity to import is about 0.3, i.e. for each additonal dollar of income, imports rise by 0.30 dollars).[4] Of course it is possible that some countries will absorb greater shares of these expanded European imports (e.g. the overseas territories) but speaking in the absolute sense there is no reason that the exports of the outside trading countries ought not to benefit, and that the Arab Middle East also should not have its share in these.

One other favorable effect might result from the opening up of new markets for some Arab exports. If European

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1. "Europe Big or Little" The Economist, v. CLXXXIX, No. 6008, Oct. 18, 1958, p. 209.
2. Albertini, "Marché Commun et Unité Européenne", Economie et Humanisme, No. 116, Jan-Fev. 1959, p. 52.
3. Buchdahl, op. cit. p. 22.
4. Wellisz, op. cit. p. 244.

economies are operating at full capacity, it is likely that some of their exports to non-European markets will be diverted to intra-European destinations, Certain Arab products partly excluded from the Common Market may thus be shifted to markets from which European exports are withdrawn.[1] Of course for the time being such new markets can not be explored, but the prospects can be favorbale once the Arab Middle East begins to reap the fruits ot its development projects.

To sum up therefore, this economic evolution in Europe is likely to bring two sorts of repercussions:

First, on the debit side, the progressive abolition of customs duties inside the Community and the establishment of common tariffs against third countries will enable Europeans to exchange their wares freely among themselves while continuing to find shelter behind tariff fences.[2] This will cause reductions in certain Arab exports owing to the fact that a free trade in the Continent will be discriminatory for outside countries.

Second, on the credit side, every increase in production in Europe will generate new purchasing power which will mean a proportionally greater increase in imports of raw materials and energy.[3] Also possible diversion of trade from

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1. Kreinin, op.cit. p. 620.
2. Ken Miller, "New Opportunities for Yankee Traders", The Reporter, v. 18, March 20, 1958, p. 15.
3. Tennyson, op.cit. p.31.

extra-to intra-union trade might open new markets for third countries including the Arab Middle East.

Whether on balance this or that will predominate can not be predicted at this stage. It will to a large extent depend both on the way the Six conduct their affairs and on the way the rest of Europe reacts to the union. But, for any outside country which has not reached a special agreement with the Six, under the most favorable conditions, the debit should exceed the credit side. This explains the fact that up till now no economist from countries outside the union has praised the favorable effects to the rest of the world. No outside governments welcomed it except that of the United States' which tacitly approved it for political reasons.

While, because the Community is in its embryonic stage, no country has yet resorted to protective measures to mitigate the possible adverse effects, another threat is likely to emerge in the amalgamation of the "Inner Six" with the "Outer Seven". The Outer Seven or European Free Trade Association, sponsored by Great Britain, comprises European countries left outside the Common Market. They are Great Britian, Austria, Norway, Denmark, Sweden, Switzerland and Portugal. Their basic objective was to get rid of discrimination by forming an economic union which would create the incentive and the willingness on both sides to come to terms. All the seven countries do more trade with the Six than with each other: Austria sends half its exports to the Six, Switzerland 40 per cent, Denmark 30 per cent.[1] They were all (and still are) deeply interested in reaching agreement with the Six and thought that by uniting they would be capable of extracting the maximum of concessions from the Six and eventually integrate and form one economic bloc.

If such a union were to be realized, it would be further detrimental to the outside countries. Already the Seven absorb as much as the Six of the Arab exports (15 per cent, table 10). Although, it is expected that the shock will be less severe because this union will not establish a common outside tariff wall, yet it is certain that the cumulative impact of the new merger would be more depressing than if the two blocs were isolated because a greater number of imported goods from the outside world will be discriminated against. Thirty one per cent of the Arab exports would have to face the possible evils of this new venture and it is then that the real economic problems would result.

I would exceed the limits of my subject if I were to discuss at lenght the impact of this new integration on the Arab Middle East. But it is good to point out that as long as the fundamental division remains between the Six and the Seven and there still exist basic differences in concepts much hopes cannot be placed on the talks which are going on now.[2]

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1. "Seven and Six", The Economist, v. CXCI No.6042, June 20, p.1082.
2. "Dr. Erhard's Rearguard Action", The Economist, v. CXCV, No.6085, April 9, 1960, p. 135.

But this in no way will nullify the adverse effects which the union of the Seven will have on the Arab countries and anyway the Arab economy has to face its dangers.

We cannot assume that the Arab countries will passively accept these tariff discriminations. Here comes a double peril which threatens the very stability of the Arab economy. These are threats wich cannot be neglected. The adoption of immediate defensive measures is indispensable. Preventive actions, to be efficient, imply a concerted conduct from the Arab countries as a whole. Therefore the realization of the Arab Common Market is a sine qua non for the success of the adopted measures. It is of the advantages of this scheme which we shall now speak briefly.

B. <u>The Arab Common Market</u>

The idea of an Arab Economic Union has deep roots back in history. The most recent and the most important step in this direction has been taken on the 7th of September 1953 when the first Inter-Arab agreement on trade, transit and payments was signed. Since then every year new agreements have been concluded and almost everytime a greater emphasis has been put on the Arab Economic Union.[1]

With the emergence of these new regional economic blocs and the dangers which they are likely to bring about, it seems that the accomplishment of the Arab Common Market should no

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1. A.R. Sahmarani, "Le Moyen-Orient et l'Economie Arabe", L'Economie Libanaise et Arabe", No.56, Juin 1957 p. 8.

more be delayed. As a statement by the Research and Policy Committee of the C.E.D. asserts, the chief lesson of the European Common Market may be that "it shows us once more, and dramatically, that the world is in motion, on the economic front as on others." [2] The Arab Middle East is also in motion on the "economic front as on others", but the failure of achieving the economic union has slowed down the rate of motion and incurred sizable "unrealized losses."

It is true that the difficulties of amalgamating disparate economies are real but it is also evident that the realisation of such a project should in principle encounter far less difficulties and obstacles than the Common Marketeers are now facing. The Arab countries belong to the same Arab-Islamic civilisation, have been subject to the same system of political and economic administration and possess "in addition to the common geographic features a common language and heritage, and a tourmenting feeling of unity.[1] Many of these natural advantages did not exist in the Common Market and even played against European Integration. Yet, the Six aware of the difficulties did not withdraw from their ambitious scheme. And now developments show that they were not wrong in taking this major step in the European history.

For one reason or another the Arab countries lagged

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2. Committe for Economic Development, op.cit. p. 17.
1. Burhan Dajani, "A Rounded Picture of Middle East Economy", L'Economie Libanaise et Arabe, No. 32, Fev. 1955, p. 7.

behind in the achievement of economic union, though it was natural that they be the initiators rather than the imitators. The political divergences may considered to be the main cause in this delay but, due to the very similarity (or non-complementarity) of the uniting economies, some people have questioned the very benefits of such a union. It is with the refutation of this fallacious argument which we shall wind up our study.

It is well known that the Arab Middle East presents many of the features of the underdeveloped countries.[1] It is also an established fact that such countries experience much greater fluctuations in their export earnings than the more developed countries. These fluctuations often give rise to the curtailment of imports and thus disrupt important development projects. The problem is therefore to lessen the effects of such perturbations which deprive the countries of their badly needed foreign exchange. Won't an economic union including such countries contribute to minimize such fluctuations. I think it will, because in the case of agricultural and relatively small economies there are, in addition to the classical arguments, three other important reasons for free trade.

First, statistical studies have shown that the deviation of the agricultural production from the average return per acre is smaller for a country as a whole than a region in this country; smaller for a continent than a country in this continent and finally, smaller for the world as a whole than

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1. *Ibid.*, p. 8.

for a continent.[1] Therefore, as an agricultural market gets larger, the geographic compensation turns to be in favor of the regularity of the harvest. This does not mean that an economic union will solve the agricultural problems of the Arab countries, but it will contribute to some extent to reduce the effects of fluctuations.

Second, economic union among small countries will strengthen their bargaining power both as a seller and as a buyer. "This consideration has been an important element in fostering aspirations on the part of small countries for customs union,"[2] because the larger the bargaining unit the more effective its bargaining can be. This advantage is therefore an important factor in support of the Arab Economic Union. After all in this world of giants, what can the tiny Arab countries do isolated? An integration at least will make of them a stronger bargaining unit.

Third, the present inter-Arab trade relations is a warrant as to the success of such an undertaking. Table 10 shows that one fifth of all Arab exports (with a value of 152 million dol.) is exchanged among themselves. For many countries the inter-Arab trade is the largest group in their aggregate trade. Jordan, Lebanon, Syria, and Iraq sent in 1958, respectively, 68%, 43%, 35%, 30% of their total exports to the other Arab countries. For Sudan and Egypt the shares are more modest

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1. J. Milhau, "Craintes et Espoirs des Agriculteurs Français", Economie et Humanisme, No. 116, Jan-Fev. 1959, p. 44
2. Viner, op.cit. p. 56.

(21 and 9 per cent), but in absolute terms they are not negligible.

Such a pattern of foreign trade shows that the Arab economies are to some extent interdependent and that an abolition of trade barriers would largely contribute to further stimulate the inter-Arab trade. To plunge to the discussion of the benefits which such a union may bring, would be out of the context of the present study. Nevertheless, a brief note on the possible gains appears to be relevant.

The weight of the economic argument and common sense, support that if trade barriers are removed, the result will be more trade and more effective competition, and with them the incentive for harder work and more efficient production methods and a greater likelihood that new investment will be encouraged and will be made in those places and in those industries where economies of location and scale can best be exploited.[1] There is no difference, in principle, between the reasons for, and benefits of, specialization and exchange within a national economy and among national economies.[2] The existence of artificial boundaries decreased specialization by putting obstables to resource mobility, which in turn, slowed down the spread of innovations, and limited competition. Tariffs, and quotas protected the inefficient producers and

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1. Miriam Camps, <u>The European Common Market and American Policy</u>, (Center of International Studies, Princeton University, 1956), p. 21.
2. Delbert A. Snider, <u>Introduction to International Economics</u>, (Homewood, Illinois: Richard Irwin 1954) p. 13.

prevented the rationalization of production. The elimination of the tariff barriers and quotas will increase efficiency by putting pressure on the uneconomic units. A new incentive will be created to get rid of the existing economic and technical backwardness. It is true that underdeveloped economies require protection, assitance, and credits rather than foreign competition. But the benefits of a moderate competition, which would push specialization to the point where the marginal cost of each good becomes the same in every country,[1] cannot be ignored. In the modern world, "prosperity like peace is indivisible".

Through all my readings I did not encounter an economist - a European minded economist - condemning the Six's union. No doubt, there were mercyless critics but none of them condemned the very essence of the scheme. Some economists attacked the inward looking attitude of the Treaty, others the obstinance of the French in rejecting the free trade area proposals, but the concept of the union was rarely - if ever-attacked. The words of the French writer, François Fontaine will cut short any further commentaries: "Suggest, he says, a more efficient means of freeing the European of his decrepitude, of his fears, of his complexes, propose a revolution which MODIFIES MORE STRUCTURES WHILE DESTROYING LESS, show me that progress goes by another way, and I give up Europe for

1. Scitovsky, op.cit. p. 52.

this other search".

After one and a half year of experience, the Community has worked smoothly and there are persistent rumors that the transitional period may be accelerated (the proposals got the quasi unanimity of the Assembly).[1] Meanwhile, the Arab governments are having occasional meetings to put the foundations of the Arab Common Market. During the recent meeting in Cairo the Economic Council adopted a resolution that the Arab Economic Union be realised within 10 years and decided that resolutions about the measures to be taken be left to subsequent meetings. Since 5 years such decisions are being adopted without any further effect. It is high time that Arab countries resort to concrete measures to achieve their ultimate union. Declarations or resolutions on paper are not of great importance, unless they are executed. In this age of "luniks" ACTION is the only key of progress and success.

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