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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT ON  
THE ECONOMY OF THE LEBANON

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## TABLE OF CONTENTS

	<u>Page</u>
 <u>Basic Statistics</u>	
I. <u>Summary</u> . . . . .	i
II. <u>General</u> . . . . .	1
Geography . . . . .	1
Population . . . . .	2
Standards of Living . . . . .	3
Recent History and Current Developments . . . . .	5
III. <u>Agriculture and the Food Supply</u> . . . . .	11
Cultivable Land and Irrigation . . . . .	11
Agricultural Methods . . . . .	13
Crops . . . . .	14
Livestock . . . . .	19
Forests . . . . .	20
IV. <u>Industry, Power and Transport</u> . . . . .	21
Industries . . . . .	21
Power . . . . .	26
Transportation . . . . .	27
V. <u>Currency, Bank Credit and Prices</u> . . . . .	31
Currency . . . . .	31
Credit . . . . .	35
Prices and Wages . . . . .	37
VI. <u>Government Finance</u> . . . . .	41
Budget . . . . .	41
Taxation . . . . .	43
Public Debt . . . . .	45
VII. <u>Foreign Trade</u> . . . . .	46
Total Trade and Balance of Trade . . . . .	46
Trade by Principal Commodities . . . . .	49
Principal Suppliers and Markets . . . . .	50
Transit, Entrepot and Gold Trade . . . . .	53
VIII. <u>Balance of Payments</u> . . . . .	56
Invisible Items . . . . .	56
Balance of Payments Estimate . . . . .	58
IX. <u>Present Foreign Exchange Position and Outlook</u> . . . . .	61
Regulations . . . . .	61
Availabilities . . . . .	63
Outlook . . . . .	67
 <u>Statistical Appendix</u>	

THE LEBANON

Basic Statistics

<u>Area</u>	10,170 sq. kilometers 3,926 sq. miles
<u>Population</u>	1,200,000
<u>National Income</u> (tentative estimate)	LL 600 million LL 500 per capita (equals \$156 at market value)
<u>Agricultural Production</u>	
Cereals	90,000 metric tons
Fruits	140,000 " "
Vegetables	200,000 " "
<u>Currency</u>	
Unit	Lebanese Pound (LL = 100 piasters)
Exchange Rates	
Official:	LL 2.20 = U.S. \$1
Market (May 1949):	LL 3.20 = U.S. \$1
<u>Prices</u>	
Wholesale prices	1939 = 100 1948 = 792
Cost of Living	1939 = 100 1948 = 502
<u>Government Budget</u>	
	<u>1946</u> <u>1947</u>
	(In Million LL)
Revenues	79            59
Expenditure	52            59
Surplus	27            --
<u>Foreign Trade (Syria and Lebanon)</u>	
Imports	266           362
Exports	85            83
Deficit	181           279
<u>Balance of Payments</u>	
Estimated Deficit	100           170

I. SUMMARY

1. The principal economic pursuit of the Lebanese people is agriculture: of a total population of 1.2 million, over 66 per cent are tilling the soil. Trade represents the second most important source of income. Although the country's natural resources are limited and population density is high -- 102 persons per sq. km. as compared with 25 in Turkey and 17 in Syria -- the per capita national income of the Lebanon is slightly higher than that of any other Middle Eastern country except Palestine. This is due in large part to the industry and resourcefulness of a comparatively better educated, and more thrifty and business-minded population which has, for centuries, provided trade and middle-men's services for a large Middle Eastern area.

2. The greatest assets of Lebanese agriculture are a wide range of cultivation, made possible by varying degrees of altitude, and the existing, considerable, though still partly unutilized, water resources. While production of cereals covers only 40 per cent of domestic consumption, that of fruits and vegetables yields exportable surpluses.

3. Irrigation represents the most effective means of increasing Lebanese agricultural production. It is estimated that the area now under irrigation could be trebled, which would not only provide additional employment, but, depending upon the choice of crops, would also either reduce the country's import requirements or increase its exportable surplus. Of five new irrigation projects, one is almost finished, while work on two is fairly well advanced.

4. Among the longer-term policies for agricultural advancement, two deserve special attention: a certain measure of land reform to increase the size of existing dwarf holdings, and an afforestation program, which, by using some of the country's marginal mountain areas, would provide a source of timber,

enhance the Lebanon's climatic and touristic assets, and prevent further soil erosion.

5. Lebanese manufacturing industries, mainly of the light and secondary type, were greatly expanded during the war; they are at present working at only about half of their full capacity. Textiles, cement, tanning, and food processing are the most important branches. All suffer from inefficient methods and equipment, and consist largely of small family enterprises, scattered all over the country. Production costs are generally high, and prices uncompetitive. Production suffers from foreign competition, although it is protected by fairly high tariffs.

6. Hydroelectric development has definitely a future, although it is limited by the considerable disproportion between the winter and summer flow of the rivers, and by the necessity to preserve an adequate water supply for general purposes and for irrigation. At present, two-thirds of the installed plant capacity are generated by water power; in addition, several new hydroelectric projects are being studied.

7. Transport is adequate; its international links enhance the importance of Beirut as a center of international trade.

8. While agriculture is believed to supply about one-half of the national income, the most remunerative activity -- the country's industries being small and relatively unimportant -- is trade. For this the country is particularly well-suited through its long coast line, a good port at Beirut, and excellent rail and road communications with neighboring countries. Income from trade is known to be large, but its exact amount is difficult to estimate because of the joint handling, under the customs union with neighboring Syria, of a number of trade matters, and the fact that most foreign exchange transactions do, at present, evade official channels.

9. The extent of Lebanese foreign trade transactions, which are either recorded together with those of Syria, or completely unrecorded, can only be estimated approximately. It is clear, however, that, while before the war Lebanese imports exceeded exports by two or three times, at present imports are seven or eight times larger than exports. While depletion of stocks and lack of replacement of industrial and agricultural equipment during the war could justify the large temporary disproportion, it is regrettable that much of the country's foreign purchasing power accumulated during the war now flows into imports of luxuries and unessentials.

10. The last war has, in fact, deeply affected the Lebanese economy. While imports were limited by the loss of sources of supply and lack of maritime transport, internal consumption grew materially, mainly as a result of the presence of large bodies of Allied troops. The expenditures of these supplied the country with considerable foreign exchange resources, which, however, were accumulated by comparatively small local groups for their own benefit. The pre-war differences in the distribution of wealth and income thus became even more accentuated, a development which -- apart from its socially undesirable effects -- continues to aggravate the economic situation, exchange reserves being largely spent on unessentials and speculation instead of being made to serve the country's legitimate needs.

11. A high cost structure, another war inheritance, still characterizes all sections of the Lebanese economy and constitutes one of its foremost present problems. High prices of raw materials and power, costly processes of production, and the inordinate inflation of the profit rate, combine in retarding economic expansion. While, as compared with mid-1939, wholesale prices increased eight times, the cost of living index shows a five-fold increase; although it

has been fairly stable during the last year, it is still about 50 per cent higher than in Turkey and Egypt, and 30 per cent higher than in Cyprus or Palestine.

12. The Government budget, which had always shown surpluses, appears to have been evenly balanced in 1947 and in 1948. The proportion of the national income consumed by the state is gradually increasing. Indirect taxes, including tariff duties, provide up to 70 per cent of the total revenue; taxation of income is very limited. While higher income groups are thus treated with great leniency, the present system weighs heavily on the consumer and contributes to the maintenance of the present high price level.

13. The unfavorable trend of the country's foreign trade balance is aggravated by the fact that invisible exports, which in former years paid for the import surplus, are, in general, also on the decrease. War with Israel and high prices have recently greatly reduced income from tourist trade. Although emigrant remittances can only be estimated roughly, as most of them avoid official exchange control channels, there is no reason to believe that this source of foreign exchange is yielding more now than before. Income from transit and gold trade must be considerable, but benefits the country only to a limited extent, being largely employed in further speculation or remaining abroad.

14. As a result, the country's balance of payments, so far as can be ascertained, has shown steady deterioration for the last three years, its increasing deficit being covered mainly by the liquidation of assets held abroad. A reduction of this deficit in 1948 is only due to rather exceptional capital transfers from Palestine and Syria. A continuation of this dangerous trend may well deprive the country of essential reserves required in future to pay for much needed imports of food and raw materials.

15. The Government, which for some time seemed reluctant to adopt any definite economic policy, has, however, during the last year taken a few steps

aiming at an improvement of the country's economic position: the virtual devaluation of the Lebanese pound through the recognition of the free foreign exchange market, development of the free trade zone of the port of Beirut and restriction of the importation of locally produced goods are among them. Some of the basic difficulties of a consistent economic policy arise from a certain conflict of interest between middle-men and producers as well as from the difficulty of enforcing controls on a basically individualistic population by a rather ineffective administration.

16. Unless existing high production costs are reduced, the country cannot benefit fully from the contemplated irrigation projects, even if the latter were to be financed exclusively from domestic sources. Since the existing relatively high price and cost structure is also the main impediment to industrial expansion and the revival of tourist trade, it appears to be of the utmost importance for the Government to undertake a policy which would tend to bring down prices and the cost of living and to increase the efficiency of production.

17. All the difficulties mentioned above are reflected in the foreign payments position of the country. While the disproportion between imports and exports grows, earnings from invisibles tend to decrease; at present the state has no significant reserves of foreign exchange, and the funds provided by the monetary agreement with France will soon be exhausted. In contrast to this situation, however, unrecorded transactions show an abundance of dollar and sterling availabilities on the free market of Beirut, to which both government and traders have recourse. The large supply of free foreign exchange undoubtedly constitutes an element of strength in the Lebanese position. It also would enable the government to procure the currency required for the servicing of a moderate-sized loan, if such currency should not be available at a cheaper rate from Trans-Arabian

Pipeline Company revenue. The resumption of operations by this Company considerably brightens Lebanon's economic prospects.

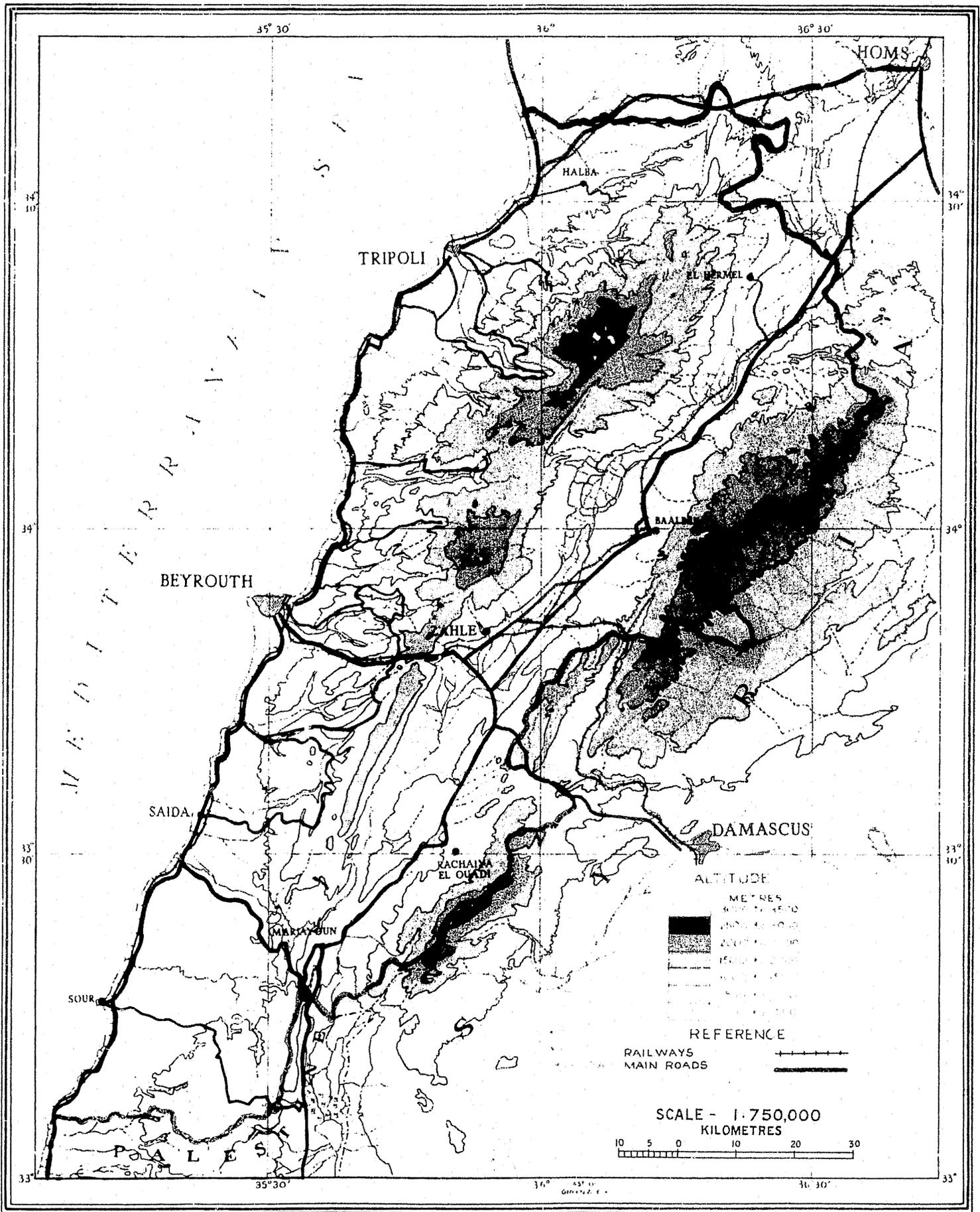
II. GENERAL

Geography.

18. The Lebanon is the smallest independent state of the Middle East. It has 220 km. of indented coastline with several ports, and land borders with Syria (278 km.) and Palestine (72 km.). By physical configuration and climate, the country is divided into four distinct regions, running more or less parallel from North to South: a) the Coastal Plain, with a Mediterranean-type of climate and vegetation; b) the Lebanon Mountains, with heavy rainfall, and a wide range of altitude and cultivation; c) the high Central Valley (Beqaa), with fertile soil, but less precipitation; d) the largely barren Anti-Lebanon, along the frontier with Syria. Apart from certain building materials, the Lebanon has practically no mineral resources, but a comparatively large portion of its soil is fertile.

19. The physical configuration of the country in itself gives it a special, in certain respects, monopolistic position in the Middle East. The Lebanon range condenses most of the moisture blown in from the sea by the prevailing western winds. Precipitation is particularly heavy near the coast, but, even if measured for the whole of the country, water resources are greater than in other Middle East countries. Fruit of the temperate zone can be grown on the high mountain slopes, the scenic beauty of which represents a climatic and touristic asset unique in that part of the world.

20. As none of the Lebanon's rivers are navigable, their importance lies in the water supply and hydroelectric potential which they represent. In most cases, the flow varies tremendously between winter and summer, (e.g., discharge of the largest river, the Litani, measured near the source, in Mansours, ranges from 3 cubic meters per second in August to 32 cubic



GENERAL MAP OF LEBANON

meters per second in January), but some rivers, receiving their waters from snow melting in the mountains, (e.g., the Orontes), have a fairly steady flow during the summer. In case of large-scale hydroelectric developments, these conditions would point towards the advisability of interconnecting the various power-producing areas by a national grid.

### Population

21. The Lebanese population, amounting to over 1,200,000, is unevenly distributed. Its density in the Mount Lebanon province is over four times greater than in the Beqaa province. The average density for the whole country (102 persons per sq. km.) is the highest in the Middle East (Palestine 73, Turkey 24, Syria 17).

22. Over two-thirds of the population are rural; there is, however, a considerable mobility, at least among the inhabitants of the Western part of the country, which leads to a swelling of the town population during the winter months. Beirut, the capital, which is also the country's main port, handling about 60 percent of its maritime trade, has about 240,000 inhabitants in the summer, and up to 350,000 in the winter. Other larger towns are Tripoli (85,000 inhabitants), the second major port, historic Saida (78,000), Baabda (60,000), and Zahle (17,000).

23. The Lebanon is the only country in the Middle East with a Christian majority. The 1946 Government statistics indicate 51.5 percent Christians, and 46.3 percent Moslems. The history of the Lebanon, which has always been a melting pot of races, nations, and creeds, is best reflected by the numerous further religious subdivisions (Maronites, Catholics, Orthodox, Sunnites, Shiites, and Druses), which at present constitute stronger links for their followers than any political party allegiance.

A balance of power between these groups is carefully maintained, and relations among them are fairly harmonious. Arabic is the official language; French is spoken throughout the country.

24. Considering the density of the population, its standard of living, the paucity of natural resources, and limited development possibilities, the country must be regarded as over-populated. Yet, the population continues to increase rapidly; the excess of births over deaths being at present about 20 per 1,000 inhabitants; at this rate, the population may be doubled within some 20 years. Large-scale emigration counter-balanced this increase in previous decades, when large communities of Lebanese in both Americas, along the West African coast, and in Egypt, came into being. Since the last war, the number of emigrants has been smaller, and more than offset by the inflow of immigrants and refugees into the country.

#### Standards of Living

25. The Lebanon has the distinction of having attained the highest educational level in the Middle East. About 60 percent of the population are literate, and the reputation of some of the high schools, the American University, and the Universite St. Joseph in Beirut, is well established even beyond the borders of the country. A large proportion of the educational institutions are aided by foreign assistance, the country thus receiving much needed foreign exchange in the form of subsidies and expenses of foreign students.

26. No estimates can be given of the country's national income, as nearly all of the elements on which its calculation must be based are unknown. For this reason, estimates worked out by some Lebanese economists, and indicating an annual per capita income ranging around LL600 must be taken with the utmost reserve. In general these estimates seem too optimistic.

Something like LL 500 may be more likely as income per head in 1947, and even this figure seems high, when compared with data collected by the U.N. Secretariat. Nevertheless, it can be assumed, for several reasons, one of which being the level of imports, that the national per capita income in the Lebanon is slightly above that of other Middle Eastern countries, except Palestine.

27. While wide disparities in living standards between various groups of the population should cause no surprise in the Middle East, they appear more striking in the Lebanon, because of the small size of the country, and the extensive co-existence of scarcity and waste. Lavishly constructed and supplied, floodlit hotels, casinos, and private residences, wastefully powerful cars, and shops completely stocked with imported luxuries can be seen side-by-side with mud villages comparatively clean but without light or sanitation, with camel dung cakes as the only fuel. There may be a larger middle class in Lebanese towns than in the neighboring countries, but middle-sized farms are rare. Some 200 persons own about one-half of the cultivated area. The size of their estates averages 790 hectares, while the average size of farms, owned by the remaining 84,000 landowners, is 1.6 hectares.

28. Disproportions in income levels were considerably increased during the last war, when comparatively small groups enriched themselves rapidly, either by selling pre-war stocks of goods at higher prices, by procuring for themselves import licenses for scarce commodities, or by manufacturing under hot-house conditions. This accumulation of large means, particularly with regard to foreign exchange, in the hands of a few accounts for the fact that large sums are employed in speculation and the import of unessentials, instead of being devoted to the productive needs of the country.

### Recent History and Current Developments

29. World War I liberated the Lebanon from Turkish rule, which had lasted 400 years. Even during that period, the historic nucleus of the country, comprising most of the present Mount Lebanon province, enjoyed at times a certain measure of freedom, which distinguished its fate from that of neighboring areas, and gave birth to a certain tradition of liberalism and tolerance, which makes itself felt up to the present day. While the Lebanon was frequently torn by internal strife of factions and families, it had only one short period of religious war, around 1860, and even then the fundamental causes were social and political rather than religious. There is also the tradition of asylum; for centuries groups fleeing from persecution have found refuge in the valleys of the Lebanon. Armenians, during the first World War, and Poles, Jews, and Christians from Syria, during the last war, as well as some 120,000 Palestinian Arab refugees in recent days, bear testimony that this tradition lives on. Another inherited trait, shared with most of the nations which formed part of the Ottoman Empire, must be added to these specifically Lebanese characteristics; a strong aversion to authority, which only too often expresses itself in a negative attitude toward the country's own government and its decrees.

30. After World War I, the Middle East settlements represented a compromise between Arab and Jewish aspirations, and the interests of the Great Powers. Under these circumstances, a French Mandate over the Levant appeared to be a logical solution, as France had repeatedly intervened in this area before, diplomatically and militarily, and French cultural influence was strong. While French rule in Syria clashed from the beginning with national aspirations, in the Lebanon the mandatory period was fairly peaceful, and marked by the construction of roads and railways, as well as by

the development of the part of Beirut. It should be remembered that the present frontiers of the Lebanon were actually carved out from the larger area by France, which added to the former Sanjak of Lebanon (autonomous under the Turks) territories immediately to the North and South, as well as the Beqaa Plain further inland. In 1926 a Lebanese Constitution was promulgated and approved. At the outbreak of World War II, the Lebanon was being gradually prepared to discard the Mandate, and to substitute for it a treaty of alliance with France, under which, however, French troops were allowed to remain in the country.

31. During the last war, Syria and the Lebanon were for some time occupied by French forces loyal to Vichy, which led, in 1941, to an armed clash, ended by occupation of both countries by British and Free French troops. Their expedition was preceded by pledges to end the mandatory regime, and to proclaim Syria and the Lebanon as free and independent states. Elections were held in the Summer of 1943. On November 8, 1943, the Lebanese Chamber of Deputies repealed virtually all the articles of the Constitution which involved French limitations on the country's full independence. After a short show of force, during which both President Bechara El Khoury and Prime Minister Riad Solh were arrested by the local French authorities, their government was reinstated, and the Lebanon began its full independence.

32. Constitutionally, the Lebanon is a Republic; legislative power is vested in a Chamber of Deputies (55 members) and executive power in a President elected by the Chamber, who carries on his functions with the assistance of a Prime Minister and a Cabinet. Of the three existing parties, the Constitutional Party, the National Party, and the Liberation Bloc, the first is now in power, and has a majority in the Chamber. President Sheikh Bechara El Khoury, at present the strongest, single political factor within

the country, was recently reelected for another six-year term, a year before expiration of the previous one. For administrative purposes, the country is divided into five districts (Mohafazats): Beirut, Mount Lebanon, North Lebanon, South Lebanon, and the Beqaa. Personal freedom, freedom of the press, and property rights are guaranteed by law, and, in general, enjoyed by the population.

33. During the first four years of its existence, independent Lebanon has established a reputation through its active role in international organizations. It is often regarded as the most westernized and politically advanced State of the Middle East. Internal conditions have been fairly stable, thanks to the well-balanced relations between the Christian and Moslem parts of the population. The same could probably not be said about the social and economic balance for the influence of certain groups of the population to a certain extent inhibit the government from adopting a firm economic policy. The lack of an experienced and reliable administration, as well as the highly individualistic attitude of the population, made it often difficult to carry out decisions and to secure respect for the law.

34. While in other Arab countries which fought in Palestine recent developments were followed by various disturbances and crises, the Lebanese Government stands out as the only one which survived without as much as a major reshuffle. It is mainly for reasons connected with internal conditions that dissatisfaction with the Government has become lately more vociferous. The recent slump in trade, added to the already existing difficulties of agriculture and industry, increases the feeling of uneasiness which finds an outlet in attacks on the Government, which is fairly frequently accused of incompetence and even graft. Opposition to the Government, though apparently widespread, seems unorganized, except for the Phalangist movement, grouping

some 30,000 youths, predominantly Christians, whose leader Pierre Gemayel, a drugstore owner in Beirut, is however not regarded as a man who would attempt a forcible overthrow of the regime.

35. With Syria, which gained its independence simultaneously, the Lebanon has a customs union, and the currency of both countries is still in fact -- though no longer legally -- interchangeable. Both countries have a largely complementary structure, with the Lebanon supplying transit and other services, and importing some of Syria's surplus cereals. The policies of the two countries often clash, both politically -- with the Lebanon having a more Western and pro-French orientation -- and economically. The reason for the latter is obvious, for Syria seeks to protect its agricultural and growing industrial production by tariffs and controls, while the Lebanon, or at least Beirut, thrives on free trade. After the liquidation of the common railway administration and tobacco monopoly, negotiations started for a new basic agreement on customs and foreign exchange and have been carried on since the beginning of 1948, but have thus far brought no result. It is to be hoped that they will end in a compromise, the more so as a separation of the common customs system of the two countries would seem to create almost unsurmountable difficulties.

36. The recent coup d'etat in Syria of Colonel Husni Zaim, apart from some satisfaction with which it was greeted by Lebanese opposition circles, gave rise to serious misgivings with regard to future Syrian-Lebanese relations. It must be remembered that the new Syrian regime was initially suspected of favoring the so-called "Greater Syria" or "Fertile Crescent" schemes, the realization of which might easily endanger relations with the Lebanon in view of that country's desire to remain outside of any such combination. Although these fears have, so far, not been justified in any

way, the manner in which Colonel Zaim has repeatedly treated relations with the Lebanon has not contributed to dispelling all fears. On the other hand, however, the quick ratification of the monetary agreement with France and of the Tapline agreement by the new dictator of Syria, may indicate that he will be more successful than the previous weak parliamentary government in solving other overdue problems, of which an economic settlement with the Lebanon is probably the most important. It is characteristic that according to press reports, the Lebanese Government, before becoming the first state to recognize the new regime of its larger neighbor country, sought and apparently obtained reassurances from representatives of the four great Powers, that Lebanon's integrity and independence will continue to be respected.

37. Although, as will be shown in more detail in the following pages, not all the economic effects of the Palestine war were unfavorable to the Lebanon, the damages suffered from it outweigh the advantages and render the country's position even more difficult. The impact of the Palestine developments makes itself felt in all parts of the Lebanese economy. Military requirements, and the influx of a number of refugees exceeding 10 percent of the country's population, have increased the shortage of motor fuel and cereals, and thus contributed to keeping prices high. The great mass of the refugees is destitute, and the necessity to support them weighed heavily on the stage budget.<sup>1/</sup> Some of the refugees, however, belong to the wealthier

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<sup>1/</sup> Although since February 1949 food and housing expenses of the Arab refugees from Palestine are covered through the U.N., Lebanese expenditures before that date amounted to LL 9 million, while the continuing expenses on medical care and sanitation exceed LL 3 million per year.

class, and had capital abroad. Their expenditure in the Lebanon compensates to a certain extent for the loss of tourist trade, due to war and travel restrictions. The turnover of the port of Beirut has increased as Haifa's trade declined, but total exports of the country were reduced by the loss of the Palestine market. Construction of the Transarabian pipeline terminal and refinery near Saida, which represents the most promising development from the point of view of supplying the Lebanon with dollars, was held up until May 1949 because of reluctance on the part of Syria to ratify the agreement with the pipeline company.

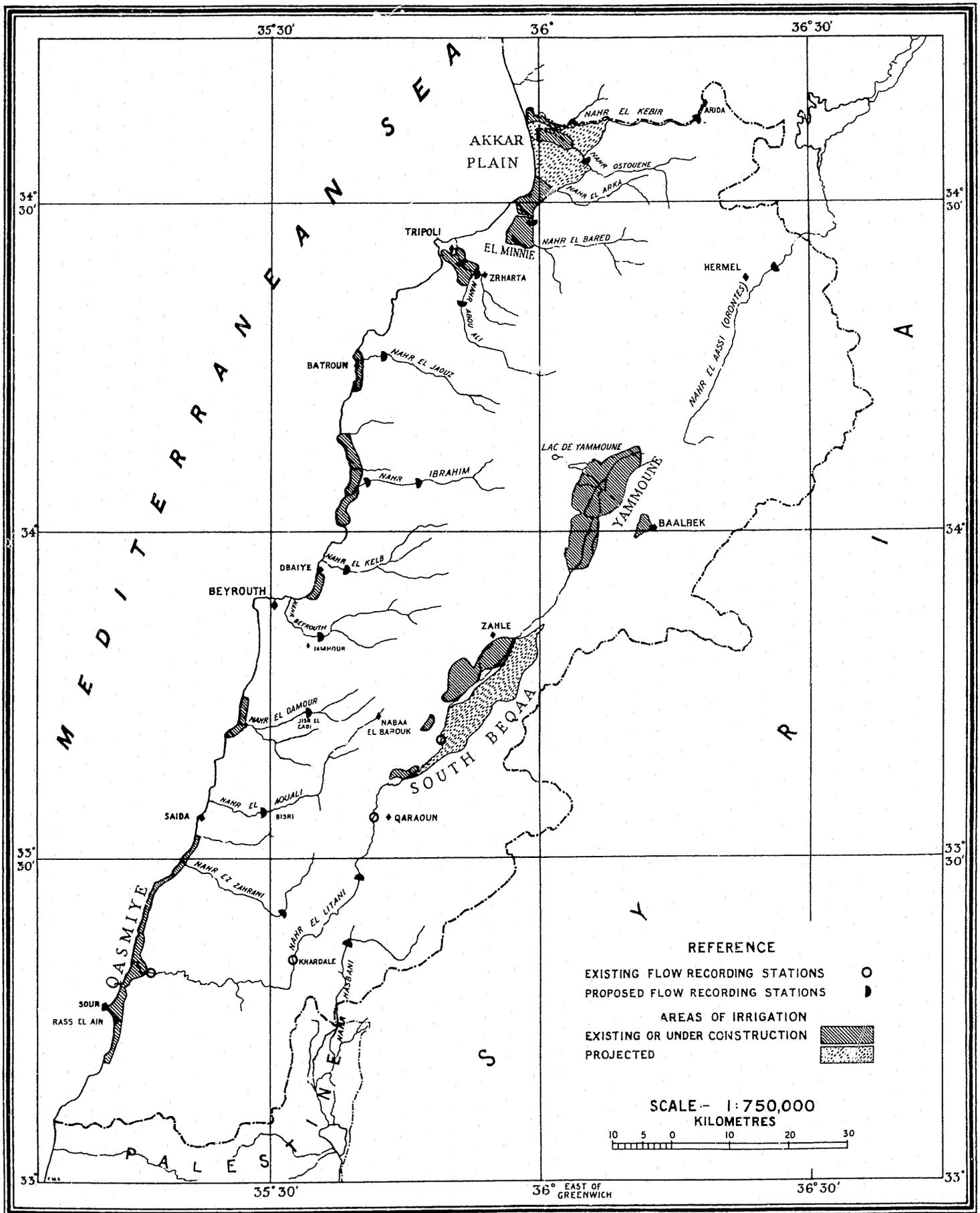
### III. AGRICULTURE AND THE FOOD SUPPLY

#### Cultivable Land and Irrigation

38. Soil and water are the main natural resources of the Lebanon, a country with no minerals of importance, and only small industries, largely dependent on imported raw materials and fuel. Although trade at present supplies a large part of the Lebanon's income, it employs only a small part of its population, while agriculture provides a livelihood for two-thirds of the Lebanese people. It is therefore justifiable to put expansion of agricultural production in the forefront of any schemes for the economic development of the country.

39. Climatic conditions permit the cultivation of a very wide variety of crops, from the tropical banana and sugar cane, the subtropical olive, citrus and fig, to the grape, apple and pear, and wheat and potato of the temperate zone. This diversity of agricultural potentialities, exceptional within such a small area, may well become the country's greatest asset; it tends to give its economy greater stability than it could attain if it were to depend only on services or monoculture. What is needed, however, is not only an increase in agricultural production, but also a lowering of its cost.

40. Because of the configuration of the country, areas which can be readily devoted to crops grown on cultivated land are restricted. Only about 25 percent of the total surface is at present under cultivation, and additional production depends primarily on irrigation. It is estimated that while the whole area of cultivated land, amounting to some 270,000 hectares, could probably be increased by about 50 percent, the irrigated part (44,000 hectares) could be trebled if existing water resources were put to fuller use. It is assumed in this determination of the amount of water



IRRIGATION AND WATER SUPPLY IN LEBANON

available for irrigation, that domestic consumption would be given priority, while hydroelectric requirements, if conflicting with irrigation, would take third place.

39. The Lebanon enjoys a fair annual rainfall over most areas, but practically the whole precipitation comes during a winter of not more than seven months. In addition, there is considerable variation in rainfall from year to year, and the vitally important autumn and spring rains are at times quite inadequate. Rain-fed cultivation is therefore somewhat hazardous; it has moreover been proved that the yield increases on irrigated lands, and makes more than one crop per year possible.

40. Irrigation has been practiced for centuries in many parts of the Lebanon, and traces of ancient irrigation canals can be found in many places. Because of the mountainous character of the land, most irrigation is by gravity. Of the five current irrigation projects, i.e.

	<u>Estimated Area</u>
1. Qasmiye	5,000 hectares
2. South Beqaa	15,000 "
3. Yammoune	13,000 "
4. Akkar	13,500 "
5. Kaa	6,000 "

the first has been almost completed, the third is complete to 50 percent, the fourth to some 20 percent, while the second and fifth have just been started. Consulting agricultural experts believe that in some cases more complete data on water supply should be collected for a number of years before construction is started or continued. As projects 4 and 5 involve water supplies common with Syria, international agreement should precede construction. The cost of the projects per hectare of irrigated land is estimated to be, in project 1 -- LL 1,900; in project 2 -- LL 413; in project 3 -- LL500. The higher cost of the Qasmiye project may be justified by the fact

that coast land is involved, with more profitable fruit cultivation. Construction work carried out thus far is of excellent quality.

#### Agricultural Methods

43. Methods that are, or should be, employed to raise productivity are largely dependent on the size of holdings. In mountainous regions, small owners predominate, whereas in the plains there are large estate and tenant farms. The system of land tenure, an inheritance of the Ottoman Law, is complicated, in spite of its partial simplification in 1930; it requires a great number of time- and energy-consuming settlements, and, in short, to quote one of the authorities, "lacks the advantages of either individualism or collectivism". No land reform or change of the local system seems to be contemplated at present. Cadastral surveys, however, have made some progress, which has encouraged the development of mortgage credit.

44. One of the most serious obstacles to progress for the small farmer is the lack of facilities for obtaining short-term capital at a low rate. Bank credit for agriculture is limited, and not easily obtainable; frequently up to nine percent interest is charged. Credit cooperatives are in their beginning stages. In practice, the small holder borrows mainly from the merchant and the money lender, to whom he frequently remains permanently in debt.

45. One of the causes of high cost in Lebanese agriculture is the excessive amount of labor required for cultivation. The number of tractors operating in the whole country is given by one source at 65. The Lebanese Government believes that much of the mountainous terrain is suitable for small gasoline tractors, and that the total mechanized power installed in Lebanese agriculture should be increased from the present 3,000 HP to 15,000 HP. Although the type of plow used in the Lebanon, and in much of the Middle

East, is probably better suited to local conditions than the moleboard type, there is, nevertheless, room for more extensive use of mechanical means of cultivation. The poverty of the small holder, and his lack of technical experience, however, are among the main obstacles to the extensive use of modern farm machinery.

46. Except on one or two of the larger farms, no chemical fertilizers are used for cereals. In non-irrigated lands, fertility is maintained by the system of fallowing, which also serves the purpose of supplying winter pasturage for sheep and goats. In the more fertile lands, leguminous crops are grown in rotation with cereals. Chemical fertilizers are used for vegetable and fruit cultivation. In view of the limited area available, and the relatively poor yields, fertilizers should be used on a larger scale. There is not enough knowledge concerning the use of fertilizers among farmers generally, and proper fertilizer requirements for the different types of soil have not been sufficiently studied.

47. The prevailing methods of marketing agricultural products are very primitive. The average producer sells good quality produce mixed with produce of poor quality. This applies in particular to the marketing of fruits and vegetables, where grading, packing, transport and processing should be improved. The greater part of the agricultural output reaches consumers through a multitude of commission agents, with the effect that prices are raised accordingly.

#### Crops

48. Cereals. Domestic production of cereals covers only about 40 percent of consumption. In an average year, the total production of wheat, barley and corn (maize) amounts to about 92,000 tons, against estimated total requirements of 210,000 tons. With the present world shortage of cereals, the desire of the Lebanese to increase their production of wheat and barley, at the cost of other crops, is understandable though it may prove to be uneconomic. The memory of mass starvation in the Lebanon during World War I still lingers, and there

is also a strong feeling that a permanent deficit in staple food makes the country too dependent on imports, which, if not obtained at rather high prices from Syria, have to be paid for in hard currency. While increased cultivation of staple food is fully justified in periods of emergency, it seems, however, that in normal times the country, owing to its climate, terrain, and environment, could more profitably concentrate on fruits, vegetables, and other products of intensive farming. Full self-sufficiency in cereals seems hardly attainable at all, and would, in any case, be prohibitively expensive and justified only under conditions of a war-time economy.

47. Wheat is mainly grown in the plains of Beqaa and Akkar. The average yield per acre for the country as a whole is 15 bushels. New varieties might produce better results. Maize, which is little used and partly exported, is growing under irrigation, in some regions successfully interplanted with groundnuts. In 1947, production of the three main cereals amounted to:

	<u>Production</u>	<u>Domestic Consumption</u>
Wheat*	50,400 metric tons	177,000 metric tons
Barley	26,600 " "	37,000 " "
Maize	12,626 " "	4,000 " "

In addition, small quantities of sorghum are grown in the dry farming sections, and some rice in the plain of Akkar.

48. Fruits. The growing of fruit is one of the most promising developments in Lebanese agriculture. Together with pulses and vegetables, it provides between one-third and one-half of the country's exports. The following data show present production and estimated potentialities:

<u>Production</u>	<u>Area of Orchards</u>	<u>Output</u>	<u>Exports</u>
Present	18,500 ha.	140,000 tons	50,000 tons
Planned	50,500 ha.	350,000 "	260,000 "

About 75 percent of the present area under orchards is irrigated, and  
\*The 1948 wheat crop was very good and is estimated at 70,000 metric tons.

the same proportion applies to the area where development is planned,

51. The Lebanese littoral is well suited to the cultivation of citrus trees, and its southern regions also to the cultivation of bananas. Production of both crops has expanded during recent years. The general practice at present is to plant bananas between newly planted citrus trees, and to remove them when the latter reach the fruit-bearing stage, after six or seven years. One of the inspected banana plantations, on newly irrigated sandy terrain along the coast, (Qasmiye) showed excellent fruit after 18 months; with stems of over 60 lbs. each; fertilizers were, however, richly applied. While at present both citrus fruit and bananas encounter export difficulties in view of their high prices, some experts believe that future marketing possibilities are better for bananas, particularly in Syria and Irak, while citrus fruit will always encounter competition from Palestine and other Mediterranean countries. Production in 1947 was:

Citrus fruit, 65,000 metric tons, of which exportable - 32,500 tons;

Bananas 11,506 metric tons, of which exportable - 1,500 tons.

52. Grapes occupy 9 percent of the arable land. The average annual production is said to be about 80,000 tons, of which from 60 to 70 percent is eaten fresh, 15 to 20 percent is pressed for wines and spirits, and the balance dried or converted into molasses. Wines and spirits are largely consumed locally.

The fig tree is well adapted to many regions of the Lebanon, because its requirements of soil, water, and care in cultivation are small, and it gives a good yield with a low cost of production. Annual average production amounts to some 12,000 tons, most of which are consumed locally.

53. The olive is the principal source of edible oil in the Lebanon. On about 16,000 hectares, some 32,000 tons of olives are produced in an average

year. The crop is largely pressed for oil, and the cake is used as fuel. If exports were to increase, it would be necessary to substitute imported fats for domestic consumption, which at present uses most of the 8,000 tons of oil produced annually. It is planned to double the area and production of olive trees. The United States Lebanon Agricultural Mission suggested that it would be advisable to grade the oil and to keep the different grades separate when sold. If standard grades for olive oil were established, and producers trained in their use, both prices and demand for Lebanese oils would be likely to increase.

54. As fruit typical of the temperate zone can be grown neither in neighboring Syria and Palestine, nor in Irak, Transjordan and Egypt, there is a good natural market for Lebanese apples, pears, peaches, and cherries, increasing quantities of which are grown in the Lebanese mountains. The annual export surplus of fruits of this kind amounts at present to some 10,000 tons, which is about one-third of the yearly production. It is estimated that production could be increased about three-fold.

55. Vegetable and Leguminous Crops Vegetable growing is particularly well adapted to the Lebanese economy as it requires little land, is not dependent on any one type of soil, and brings quick returns. The intensive cultivation of vegetables is of recent origin, and must be accompanied by improved methods if it is to expand and find both internal and external markets. At present, production totals some 200,000 tons, of which one-third is available for export.

The more important crops are:

	<u>Average Annual Production</u>	<u>Exportable Surplus</u>
Potatoes	35,000 metric tons	- 9,000 metric tons
Onions	32,000 " "	18,000 " "
Tomatoes	26,000 " "	5,000 " "
Watermelons	22,000 " "	12,000 " "
Cabbages	15,000 " "	5,000 " "

Unfortunately, the war in Palestine has temporarily deprived these exports of their best market.

56. Lentils, vetch, chickpeas, broad beans, and haricot beans are grown for the most part in rotation with cereals. They are mainly grown for domestic consumption.

57. Industrial Crops. Tobacco is grown in sufficient quantities to meet local needs, and to permit the export of up to 700 tons of tobacco leaves. The whole production is handled by the tobacco monopoly, which manufactures cigarettes, and, until 1948, was jointly administered by Syria and the Lebanon.

58. The cultivation of silk worms for the spinning industry was at one time the most important single culture in the province of Mount Lebanon. Severe competition from synthetic and other fibres has nearly stopped the silk industry, and the mulberry tree is being displaced by the fruit tree.

59. Sugar cane is grown to a limited extent on the littoral, so far with little success, as the varieties grown did not yield a good tonnage of cane, and the sucrose content was said to be low. It is intended to experiment with sugar beet in Northern Lebanon, partly to serve the needs of a new sugar mill built across the frontier in Syria near Homs. The temptation to embark on larger sugar production is great, as both Syria and the Lebanon import 90 per cent of their sugar requirements.

60. Groundnuts are grown on a small scale in the North of the country. Negotiations with British buyers for starting large-scale production proved fruitless, because prices calculated by the Lebanese exceeded those quoted in West Africa by about 100 per cent.

On an area, estimated by some observers at 5,000 ha., hemp is grown for hashish, which is exported illegally, though profitably, to Egypt.

## Livestock

61. Because of the limited area available for pasturage or the growing of forage crops, the Lebanon cannot expect to increase livestock numbers to any great extent. The number of goats may even have to be reduced, because of the damage they inflict in forest areas.

62. Goats are raised in all parts of the country; they number up to 450,000 head, and are by far the most important domestic animal. Their milk, flesh, skins and hair are all used; they yield, therefore, an important part of the income of rural communities.

63. Sheep are of the fat-tailed variety, which produces a coarse wool, the greater part of which is exported to America for carpet weaving. They are, however, largely bred for their meat. Owing to lack of pasturage, the Lebanon has relatively few sheep, and it seems hardly feasible to increase their number further.

64. Cattle are used mainly for ploughing, and, to a lesser extent, for the production of meat and hides. No cattle are raised for meat only. They are fed on natural forage and chopped straw; few are given green fodder. As a result, yields are low and products of indifferent quality. However, the government has a project to improve the race by crossbreeding with imported animals.

65. The numbers of horses, mules, donkeys, and camels are comparatively small. Pigs are bred in a small way, as the market for their meat in a half-Moslem country is limited. Poultry is widely raised.

66. The slaughtering industry works largely on animals imported, mainly on the hoof, from Syria, Transjordan, and Irak. It is comparatively large and handles about 34,000 cattle, 230,000 sheep, 30,000 goats, and 4,000 pigs

annually. Veterinary service is fairly adequate, and there have been no livestock epidemics recently.

67. In 1947, the total value of animal products was approximately LL 10 million, distributed as follows:

Casings .....	LL	100,000
Wool .....	"	400,000
Hides .....	"	5,000,000
Eggs, Milk, etc. ....	"	4,500,000

Most of the sheep casings and of the wool were shipped to the United States.

### Forests

68. The Lebanon, at one time renowned for her forests, has no more than some 74,000 hectares of indifferent timber left. The traditional and commercially precious cedar can today only be found on the national emblem, and in a few mountain reservations. Neglect by Ottoman authorities, war destruction, charcoal burning, and destruction of seedlings by goats have contributed to this condition.

69. Forests are essential to the Lebanon, not only as a source of timber, which at present has to be imported, and as a climatic and touristic asset, but also to prevent further soil erosion caused by the stormy winter rains, and already apparent on the mountain slopes which occupy a considerable part of the country's surface. It is estimated that, instead of the present 7 per cent, a total of from 25 to 30 per cent of the land should be forested; this would also represent the only possible utilization of some of the slopes of the Lebanon and of Mount Hermon in the Anti-Lebanon range. Although understanding of this fact is increasing, and some experiments in afforestation were made -- largely at the insistence of foreign advisors -- until now no development program has been seriously considered, and the budgetary endowment of the forestry service is ridiculously low.

#### IV. INDUSTRY, POWER AND TRANSPORT

##### Industries

70. General. The manufacturing industries of the Lebanon, which are largely of the light and secondary type, are still suffering from the consequences of adjustment to peace-time conditions. Before World War II, Lebanese industrial production was insignificant; it had developed largely from traditional handicrafts, a fact which, even now, accounts for the prevailing kind of small-size, family-type enterprises scattered all over the country. Lack of imports during the war, coupled with the large expenditure and consumption needs of Allied Armies stationed in the country, contributed to a rapid expansion of existing productive facilities, and to the erection of new plants. The only oil refinery in the country, food-processing plants, and manufactures of glass, paper, hardware, etc., were created at that time. Even production under technically primitive conditions proved profitable during the war, and most of the older establishments succeeded in amortizing quickly their costs of installation, without, however, being able to renew their equipment.

71. With the revival of imports, many of the war-grown enterprises collapsed. As neither industrial nor labor statistics exist, it can only be estimated that in 1947 and 1948 most industries were working at half of their capacity. The number of unemployed industrial workers was said at mid-year 1948 to be about 20,000 but must be greater now as difficulties of Lebanese industries have increased and one of the larger weaving plants actually closed down in May 1949.

72. Apart from the advantages resulting from a reduction in over-grown imports, the importance of Lebanese industry lies in the fact that it can provide gainful occupation for a quickly increasing population. Industrial development is handicapped, however, by the preference of local capital for in-

vestment in trade, by the small size of plants, by lack of experience, extending to both management and labor, by the high price of power, by the limited quantities of local raw materials and by the small size of the internal market, even if Syria is included; only the two last-named factors can, however, be regarded as being, to a certain extent, of a permanent character.

73. Government policy, which, until some time ago, had been little concerned with industrial development, seems of late to have changed somewhat. A number of industrial raw materials and semi-manufactured goods have been completely exempted from custom duties. While staple food and construction materials are dutiable at about 11 per cent ad valorem, tariffs for articles produced locally reach, in some cases, 50 per cent. In view of the high production costs of local industries, and of the propensity of the higher income groups to consume imported luxuries, however, even this protection proves frequently insufficient. As the demands of industry for cheaper petroleum fuel and import restrictions clash with both fiscal and commercial interests, one could almost say that Lebanese industrialists are pinning most of their hopes for the future on the pressure exerted on Government policy by Syria during the present trade negotiations with that country. A prolongation of the customs union, while preserving a larger market and more extensive sources of raw materials for the industries of both countries, will presumably lead to an even higher degree of protection against imports from abroad.

74. Mining. Although lead and a few other metals were found in the Lebanon's limestone hills, no commercial quantities have been uncovered. The only minerals produced are bitumen, ochre, and lime, of which the following quantities were produced:

Bitumen	-	50 tons	(1946)
Ochre	-	10 "	(1946)
Lime	-	6,000 "	(1947)

The country has an abundance of building stone — limestone, dolomite, basalt — as well as of sand and gravel and Cretaceous marl suitable for the manufacture of cement. Salt is obtained in small quantities from evaporation of seawater; production is not encouraged by the Government, which fears a loss of income for its salt monopoly.

75. Petroleum. Oil has not yet been discovered. Four concessions to prospect have been granted during the past few years; so far, only one well has been sunk at Terbol, near Tripoli, and further drilling seems to have been recently discontinued. The Tripoli refinery, belonging to the Irak Petroleum Co., Ltd. (I.P.C.) receives crude oil from Kirkuk (Irak), by a pipeline which has a capacity of 2 million tons per year. It is planned to construct a parallel pipeline which would treble the present supply of crude oil; the refinery is to expand simultaneously. 1947 production of the Tripoli refinery was as follows:

	<u>Metric Tons</u>
Gasoline	49,714
Kerosene	27,530
Gas oil	32,406
Fuel oil	130,302
Loss	<u>1,799</u>
Total processed	241,751

Recently the Compagnie Francaise des Petroles, one of the shareholders of the I.P.C., concluded an agreement with the Lebanese Government, providing for the erection of further refineries.

76. All of the 1947 refinery production was consumed in Syria and Lebanon, except for 37,583 tons of fuel oil, which were exported. While Tripoli covered only about one-half of the two countries' needs of petroleum products, the rest was imported from the Haifa refinery which has recently been closed. The marketing of petroleum products in the Lebanon is also largely in the hands of foreign companies, of which Shell appears to be the largest.

77. The Palestine dispute interrupted construction of the Transarabian pipeline, with a capacity of 15 million tons per year, which was supposed to lead to a terminal on the Lebanese coast, near Saida, where the construction of a refinery was contemplated. During the last year, even the preliminary expenses for this project supplied the Lebanese Government with badly needed dollars; similarly, the I.P.C. is the main source of the Government's sterling receipts.

78. Textiles. Textiles are probably the Lebanon's largest industry, and consist of cotton spinning (36,000 spindles), and the weaving of cotton, wool, rayon, and natural silk (694 mechanical and 300 hand looms). Although the production of cotton yarn doubled in 1948, there is still a disparity in production capacity between spinning and weaving, the cotton industry having to depend for about one-third of its capacity on imported yarn. There is only one factory equipped to weave high-class woolen cloth. The spinning of silk, at one time the Lebanon's staple home industry, is on the decline.

79. Raw cotton is imported from Syria and Egypt, cotton yarn from Europe and the U.S., rayon yarn from England, Italy and Belgium, woolen yarn from England and France. Locally-produced textiles cover a sizeable part of domestic requirements, and are also exported. The tariff of 40 percent on rayon goods, 30 percent on cotton piece goods, and 25 percent on woolens is not sufficient to protect the industry against foreign competition.

80. Cement. One of the key industries in the Lebanon is the country's only cement factory at Chekka, near Tripoli. Production increased in 1948 from an annual average of some 160,000 tons per year, valued at about LL 10 million, to 200,000 tons. The completion of a third furnace will raise the capacity to 300,000 tons annually, which should be sufficient to cover all requirements of the irrigation program. While most of the production is consumed in the Lebanon or in Syria, some cement is also exported to other Middle Eastern countries, such as Turkey and Iraq.

81. Leather. The tanning of hides and skins is an old-established industry, owing its initial development to locally produced raw materials. There are 80 tanneries producing sole leather, upper leather, and tanned goat and sheep skins, valued at some LL 3 million per annum. Small quantities of shoes are exported to neighboring countries. Raw hides come from domestic sources, as well as from Syria, Iraq, and Africa. Tanners are not satisfied with a customs tariff of 15 percent on sole leather, and 25 percent on upper leather and sheep and goat skins, but claim that nothing less than 40 percent can be considered protective. From 35 to 40 percent of total production is consumed locally; surplus sole and upper leather is sold in Syria, France, and the United Kingdom.

82. Soap. The old-established Lebanese soap industry owed its wide market in the Middle East to the popularity of its products made exclusively from olive oil. The addition of cheaper oils may have temporarily undermined the market, but in 1948 exports showed again a favorable trend. Annual production is about 3,000 tons, valued at LL 7 million. Laundry soap is exported, toilet soap imported. Manufacturers have asked for an increase in the tariff from 11 to 25 percent.

83. Food Processing. There are a number of plants concerned with the manufacture of such foodstuffs as biscuits, macaroni, and chocolate. One new chocolate factory succeeded in obtaining markets abroad, thanks to the quality of its products. Canning and preserving industries are small and handicapped by high costs of imported tinsplate and sugar. The only existing olive oil refinery does not work to capacity because there is no home market for refined oil, and foreign buyers prefer to buy the unrefined product. About 2,000 tons of vegetable oils are produced yearly from various, mainly imported, oil seeds, which represents only a small part of the capacity of existing plants; the latter depend largely on export, and expect more domestic raw material from

newly irrigated areas. There are two fully equipped breweries capable of supplying many times the present demand for their products. Lebanese brewers consider the 50 percent customs duty on beer inadequate. Over 300 tons of beer per annum are now being imported, up to 90 percent from the United States.

Power.

84. Although the Lebanon has numerous rivers following steep courses, the development of hydroelectric power is limited by two factors: the necessity to give prior consideration to an adequate water supply for domestic purposes as well as for irrigation; and the considerable disproportion between the winter and summer flow of most of the rivers. Only more detail geological investigations could determine to what extent the latter handicap could be overcome by large-scale water storage. Another solution would consist of linking the future installations of the Litani River, the production potential of which falls in summer to 10 percent, with future plants on the Yammouneh and the Orontes, which run higher in summer than in winter. Total power output would still be greater in winter than in summer, but this excess might be consumed in such seasonal operations as heating. In considering the development possibilities of the country in all fields, some experts believe that even the maximum development of hydroelectric power could never, by itself, meet total power requirements, and would have to be supplemented by thermal installations.\*

85. Ninety percent of all electric power is, at present, produced by two foreign concessionary companies, "Electricite de Beyrouth" and "La Kadisha" in Tripoli. Total installed plant capacity in the country as a whole is 27,500 kw., of which two-thirds are represented by water power. Service is highly unsatisfactory, voltage is uneven, and complete breakdowns are frequent. This is sometimes explained by the unwillingness of the companies to invest in new

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\* On the other hand, there is some speculation about the possibility of exporting power to Haifa, if the proposed hydroelectric station on the Litani River should materialize.

equipment at a time when their concessions are coming to an end, and their pro-  
longation is uncertain. In neither of the existing plants can there be a great  
increase in production without the installation of new machinery.

No statistics showing the division of consumption between light and  
power are available, but there is no doubt that consumption for power in-  
creases rapidly in urban areas.

86. The following estimates offer a comparison of consumption levels of  
electricity per head of the population in the Lebanon and neighboring countries

Palestine	-	70 kwh	yearly
Lebanon	-	46 kwh	"
Turkey	-	20 kwh	"
Syria	-	15 kwh	"

Charges for electricity are very high for a number of reasons, such as high  
fuel costs, long transmission lines in relation to a small consumption, and  
high overhead costs, particularly in the numerous small distributing com-  
panies. It must be remembered, however, that in the Lebanon power supply is  
in its early stages. While it is generally considered that a minimum demand  
of 100 watts per head of population is necessary for a successful electrical  
supply industry, that figure represents nearly three times the present demand  
in Beirut.

#### Transportation.

87. Transportation in the Lebanon is, in general, adequate. All of the  
more important centers are easily accessible by road, railway, or both; the  
road and rail net is linked with that of neighboring countries, and the exist-  
ing and planned sea and air routes enhance the traditional position of Beirut  
as one of the important gateways between East and West.

88. Railways. The Lebanon has railway connections with Homs and  
Damascus in Syria, and with Palestine, along the seacoast. All lines are  
operated by a French company, "Damas - Hama et Prolongements" (DHP), which  
also owns 434 km. of standard gauge and 147 of narrow gauge (to Damascus).

The Government owns 180 km. of standard gauge along the coast, built by the British Army in 1942, and purchased by the Lebanon. The southern section of this line is not operated at present, the northern one very irregularly.

89. The D.H.P., until recently under the control of the Syrian-Lebanese Common Interest Administration, has an agreement with the two countries whereby the latter are responsible for deficits. Largely as a result of unrestricted competition from road traffic, losses have been severe in recent years, and activities were curtailed in 1947 to reduce operating costs, notably of passenger service to Damascus. While it takes 8 hours to go from Beirut to Damascus by train, it only takes 2 hours by car.

90. Road Traffic. Partly as a result of the road-building program of Allied Armies, roads in the country are numerous, and the main ones are hard surfaced. Where mountains are crossed, grades are, in parts, rather too steep for slow-moving traffic, and some of the hairpin bends could stand improvement.

91. No traffic statistics or reliable data on the number and types of vehicles are available. It is estimated, however, that in 1947 the Lebanon had about 100 vehicles per 10,000 population, which compares favorably with other Middle Eastern countries, and is not quite hopelessly behind prewar standards for Western Europe (France, 540; U.K., 610). Among passenger vehicles, preference is given to American cars, in spite of their larger consumption of fuel, which is rationed and expensive. Standards of maintenance and driving seem rather low.

92. Ports. Of the Lebanon's two ports, Beirut and Tripoli, the former is much larger, and has adequate warehouses, a free zone, and facilities for seventeen deep-water ships. Free zone and cold storage warehouses at Beirut were extended in 1947, and a free zone at Tripoli is contemplated. Smaller ports are Chekka, Saida, and Sour. Apart from a few small sailing and motor vessels, the Lebanon has no merchant marine, which is rather astonishing, con-

sidering the country's traditional interest in foreign trade, and the volume of its transit services.

93. The port of Beirut is run efficiently by a French concessionary company. Favorable developments during 1948 include a further enlargement of the free port zone of Beirut and the creation in this zone of a Persian rug market of new freezing and grain storage facilities, as well as the beginning of construction work on connecting the port with the standard gauge railway system. The unfavorable, more recent development is the decision of London underwriters to increase maritime insurance rates for the Lebanon about twice above the level of rates for Israel and three times above those for Turkey, Egypt, etc. This decision was taken in May 1949 as a result of repeated cases of pilferage in Beirut.

94. The following figures prove that, while port traffic in 1947 was roughly on the prewar level, 1948 shows a marked increase:

	<u>1939</u>	<u>1947</u>	<u>1948</u>
Number of steamships entering Beirut	1,164	1,283	1,513
Tonnage of cargo handled (In thousands of metric tons)			
Imports	471	443*	763
Exports	91	57*	96

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\* Not including livestock.

The pronounced upward trend in 1948 is undoubtedly due to decreased competition of Haifa. Fears are expressed that the revival of maritime trade through Palestine, fostered by a dynamic development of the Jewish state, may limit the role of Beirut. There are also some misgivings with regard to Syrian plans for improving the port of Latakia. Such a development might deprive Beirut of some of its present "hinterland" in the North, and presumably would affect exports rather than imports. In view of all these uncertainties

it might be wiser to limit expansion work in the port of Beirut to smaller projects (extension of breakwaters) and postpone, for the time being, such large scale investments contemplated by the concessionary company, as the construction of a third basin.

95. Air. The country's main airport at Beirut is fairly well equipped to handle international traffic, but runways are short and the largest aircraft which can use them is a Dakota. The construction of a new airport at Khalde, 8 km. south of Beirut, is planned, and some construction work has been started but progress is slow. This airport should be capable of accommodating four-engine aircraft of the largest type in operation, and thus attract a number of international airlines, a development which would be of great benefit for the Lebanon, especially as a source of added foreign currency receipts. It seems likely that a large airport in Beirut could to a certain extent rival the present position of Cairo, as it would provide a shorter transit route from the West to some of the countries of the Middle and Far East. Two small Lebanese airlines at present operate successfully between Beirut and some Middle Eastern countries.

V. CURRENCY, BANK CREDIT AND PRICES

Currency

96. The monetary unit of the Lebanon is the Lebanese pound (L). Up to the conclusion of the Franco-Lebanese monetary agreement (January 1948), banknotes for circulation in Syria and the Lebanon were issued by a joint central bank, were exchangeable at par, and circulated freely in both countries. In February 1948, Syrian currency circulating in the Lebanon was officially withdrawn and can now be used only for payments of customs duties up to 50 per cent of the amounts charged. In practice, both currencies are still accepted by the population, the Syrian pound at a discount of from 5 to 7 per cent.

The parity of the Lebanese pound was fixed when the Lebanon joined the I.M.F. in July 1947. The official rate of exchange is \$1 = L2.20; the free market rate, which was L2.91 in mid-1947 and L3.55 in mid-1948, has recently dropped to L3.20.

97. The Lebanese Bank of Issue (Banque de Syrie et du Liban) is a private French concern which in 1919 took over from the Ottoman Bank all its agencies and privileges in the Lebanon and Syria, and functioned as a note issuing bank under the French Mandate. Its present status in the Lebanon is based on an agreement with the Lebanese Government dated May 29, 1937, expiring in April 1964. The Bank has its headquarters in Paris and seven branches in the Lebanon. The management is composed of fourteen directors (of whom three are Lebanese and three Syrian), a president, and a managing director (both French). At the end of 1947 the Bank's capital was Fr. Fr. 57,375,000 (L 1,055,657). The Bank has a Banking Department and an independent Issue Department with separate accounts. In the management of its commercial operations, the Bank is free from all Government interference; Government control over the Issue Department is exercised through a Censorship Committee.

98. Not all of the traditional functions of a central bank are performed by the Banque de Syrie et du Liban. Besides issuing notes it acts as fiscal agent for and principal lender to the Government, and as sole agency for the floating of public loans and the managing of the exchange office. The Bank does not, however, effect contraction or expansion of credit in the public interest, nor does it habitually act as a rediscount center for, and lender to, other banks.

99. Gold coverage of the Lebanese note issue amounts at present to less than 4 per cent, the remaining backing being provided by French Franc balances.

Present arrangements for the backing of Lebanese currency can be best explained by its history. Lebanese currency was originally established in 1920 as a common Lebanese-Syrian monetary unit based on the French Franc. During the Mandatory period this unit followed the changes in the value of the franc. In 1937, through a new agreement between the Lebanese Government and the Banque de Syrie et du Liban, the currencies of the two countries were separated, and a minimum gold cover of 10 per cent was stipulated for the Lebanese note issue. The latter provision was waived in June 1940, when the French High Commissioner introduced controls which centralized all foreign exchange operations in the "Office des Changes". Since payment for foreign exchange purchased by that office was made in Lebanese currency, the Mandatory power had to deposit, for the account of the Banque de Syrie et du Liban, francs and French Government bonds. It was in that year that the country's circulating media rose from around LL 55 million to LL 92 million, thus starting the inflationary trend which was to continue until 1945.

100. In June 1941, at the start of the occupation of Lebanon and Syria by the Allies, some hopes were raised that both countries would join the Sterling

Bloc. After liberation, the rate of the pound sterling was fixed at its prewar equivalent of LL 8.83. Considerable amounts of sterling and gold were brought into the country by the British Army and the Lebanese Office des Changes started sales of sterling and gold to the public, in order to offset, at least in part, the increasing inflation. This free conversion of Lebanese currency into sterling, maintained for about three years, gave rise to an accumulation of Lebanese sterling balances, which, after the war, were used to replenish the country's depleted stocks through imports.

In January 1944, on the initiative of British and French authorities, the Lebanese Government agreed to join the Franc Bloc, on condition that the rate of sterling in Lebanese currency, based on the parity of FF 176.6 to the L St., would not be changed without prior consultation with the Lebanon, and that the French Committee of National Liberation undertake to maintain constantly in L St. the counter-value of the Banque de Syrie et du Liban holdings in FF., including those kept as cover for the note issue. Accordingly, the parity of the Lebanese pound with the French franc -- established in 1944 at FF 26.65 -- was raised to FF 54.35 during the December 1945 devaluation of the franc. In January 1946, however, France notified the Lebanon that it would not be responsible for losses resulting from any further devaluations of the franc. After protracted negotiations, both countries came to a new monetary agreement, signed on January 24, 1948, i.e., one day before the new devaluation of the franc. Following this devaluation, the prevailing rates between the Lebanese pound and the L sterling were maintained, while the rate with the franc was altered to FF 97.83 to the pound.

101. The agreement of January 1948 also provided that franc assets of the Lebanese Branch of the Banque de Syrie et du Liban, outstanding at the date of

the agreement, were to be divided into an "Old No. 1 Account" and an "Old No. 2 Account". The No. 1 Account, representing the cover for the note issue, was credited with approximately 9 billion francs, and carries a ten-year sterling exchange guarantee. It was supposed to be drawn upon for the following purposes: a) to repay France for the value of French Government property sold to the Lebanon estimated at LL 20 million, in five equal annual installments, starting in June 1949; b) to provide current foreign exchange with the proviso that annual releases not to exceed one-tenth of the original amount were to be made beginning in 1953. The No. 2 Account of approximately FF 5 billion was to be debited with the value of goods purchased from France and of purchases of certain European currencies, other than French francs, converted at official exchange rates.

102. Since the signature of the French-Lebanese Agreement, the No. 2 Account has been entirely used up and -- because of the adverse Lebanese balance of payments with France -- inroads are also being made into the No. 1 Account, representing the cover for the country's currency, which was supposed to have been blocked until 1953, and then released by annual installments. Up to the end of March 1949 this account has decreased by 13.4 per cent and there was a roughly corresponding decrease in the circulation of Lebanese pounds during the same period.

103. This deflationary trend is a new factor in the Lebanese economy and follows a period of comparative stabilization, which came after a sharp wartime inflation. Between 1939 and the end of 1945, currency circulation rose from LL 29 million to LL 172 million, and demand deposits from LL 26 million to LL 226 million; since that year, however, the country's total circulating medium has, on the whole, remained fairly stable. At mid-1948, currency in circulation amounted to LL 189 million and demand deposits to LL 182 million. Both figures represent a small decrease, as compared with the first quarter of 1948, but are

somewhat higher than the sum of circulation and demand deposits at mid-1947. This, however, is explained by the fact that, when in February 1948, the Lebanese Government ordered all Syrian currency within the country to be exchanged for Lebanese currency, about 45 million Syrian pounds were presented, Lebanese currency being increased accordingly. No data which would make it possible to draw conclusions as to the velocity of circulation of Lebanese currency are available.

104. Deflation was forced upon the Note Bank by the continuous dwindling of the note cover. Drawings on the "Old Account No. 1" amounted during the first quarter of 1949 to two billion Fr. Francs and, if continued at a similar rate during the rest of the year, would result in a contraction of the money in circulation by over 45 per cent in one year. Already in Spring 1949, this somewhat involuntary deflationary policy led to a certain scarcity of money and the tightening of credit, thus aggravating effects of the marked business recession in Beirut.

105. It is therefore hardly surprising that a new currency bill was submitted by the Government and approved by the Lebanese Parliament without delay in May 1949. According to the available information the notes at present in circulation will be progressively replaced by new notes as well as by gold and silver coins. The note cover is to consist up to 50 per cent of gold coin and bullion and for the rest of foreign exchange and Treasury bills. Thus a certain measure of freedom in regulating the money supply has been restored. It is to be hoped that moderate and prudent use will be made of this leeway and that it will not be unduly enlarged by future legislation.

#### Credit

106. Since the First World War, Lebanese commercial banking has developed rapidly. The number of local banks has increased, and foreign banks, previously

limited to the financing of foreign trade, have increasingly undertaken to finance internal trade also. Commercial bank credit can, at present, be said to meet most of the needs of the country.

107. Mortgage banking, completely undeveloped in the Lebanon before World War I, is largely represented by the local branches of two French mortgage corporations, the "Credit Foncier d'Algerie et de Tunisie", and the "Compagnie Algerienne". This branch of banking has been facilitated recently by the progress of cadastral surveying, and some settlement and registrations of rights on real estate.

108. Agricultural credit, on the other hand, is still predominantly in the hands of provincial money lenders, who take heavy toll of the small farmer. Misuses are facilitated by the absence of any special Lebanese law to regulate banking and credit operations. Credit cooperatives among the peasant population are still in their beginnings, and operations in the field of agriculture of the "Societe de Credit Agricole et Industriel du Liban", (S.C.A.I.L.) established by the Banque de Syrie et du Liban, appear to be still very limited.

109. The Government has recently agreed to guarantee loans to agriculturists, made by the Compagnie Algerienne and by S.C.A.I.L. Similar guarantees are also extended to certain bank loans to industrialists, to hotel owners, and to municipalities: the latter loans being usually made by the Banque de Syrie et du Liban.

110. There are no separate investment or savings banks, and there is no modern security market. The Lebanese people mostly prefer hoarding of savings in gold to deposits in banks, and investing in real estate to investing in industry or securities. Capital is inclined to flow into speculative channels, where high profits are expected. Versatile Lebanese merchants are known to shift easily from commodity to commodity, and to withhold stocks for long periods in

anticipation of price increases, rather than to aim at large, quick turnover with moderate profits. Although the domestic discount rate is high, (between 5.5 and 7.5 per cent) considerable funds are known to be held abroad in the interest of safety. No figures for total savings and investments are available.

#### Prices and Wages

111. While wholesale prices show a rise to about eight times the prewar figure, the cost of living increased from 100 in 1939 to 502 at the end of the first quarter of 1948 and since then dropped only imperceptibly; both had reached their peak in 1945, when the index of wholesale prices stood at 1038, and the cost of living index at 607. As has been indicated, the total circulating medium increased about seven times between 1939 and 1945, but -- contrary to prices -- has not been appreciably reduced since the latter date.

112. The very considerable reduction of imports during the war and immediate postwar years, together with a marked increase of internal consumption brought about by the presence of large bodies of Allied troops, were the basic causes of the tremendous price increase. But, while the same factors gave rise to similar trends in some other Middle Eastern countries, in the Lebanon the situation was aggravated by the greater dependence of the country on imports from overseas and by the monetary developments already described, the effects of which were only partly offset by free sales of sterling and gold.

113. Statistics prepared by one of the largest of the foreign companies operating in the Middle East show that in 1939 food prices in Syria and the Lebanon were slightly below the Egyptian, and about 20 per cent below the Palestinian level, but that in 1947 they were twice as high as food prices in Egypt, and about one-third higher than those in Palestine. The same source gives the cost of living index for Syria-Lebanon in January 1948 as 590, (which is slightly

higher than the government figure, quoted before, although in both cases the summer of 1939 was taken as a base) and compares it with the following indexes for other Middle Eastern countries: Turkey, 341; Cyprus, 330; Egypt, 281. Comparison of the cost of living indices for the U.S. and the Lebanon is unfavorable to the latter country, even when the difference is reduced by application of the free market exchange rate. It would appear, then, that the LL, valued officially at 45 cents, and unofficially at 31 cents, has a purchasing power which is even smaller.

114. Labor being obviously the Cinderella of the limited statistical services of the country, no data are available on the level of wages or on the numbers of the wage-earning population. Spot inquiries have shown that the wage of a male worker employed at digging of irrigation canals ranges around LL 4, that of a woman worker around LL 2.5. Some Lebanese experts indicate LL 5 as the average daily wage, running from LL 3 as the average for an unskilled worker to LL 10 for a highly skilled mechanic. It is often said in the Lebanon that, by prewar standards, the average wage should correspond to the price of 10 kgs. of bread. If measured by this yardstick, wages must be at present considerably lower, because, in July 1948, the controlled price of bread amounted to LL 0.59 per kg., the uncontrolled price, to LL 1.10 per kg. In view of these considerations, the opinion of another expert who believes that salaries and wages have risen only about half as much as the cost of living seems to be not ill-founded.

115. Even if no specific estimates are accepted, it is undoubtedly true that during the past several years "wages have climbed the staircase, while prices have gone up by elevator". As a result, the incomes of merchants, landowners, and industrialists were increased, while the wage- and salary-earning part of the population has been impoverished. The latter also applies to public

servants, and undoubtedly accounts for the reportedly lower efficiency among them.

It follows, from these considerations, that a downward trend of production costs could hardly be initiated by lowering wages. On the contrary, it may be expected that, unless the cost of living falls, a certain pressure to increase wages will contribute to keeping costs high.

116. As a remedy against the existing high price structure, which cripples the country's whole economy, an artificial lowering of the prices of such basic consumer goods as wheat and textiles is sometimes recommended. This step would not be without precedent since, during the British occupation in the last war, under the so-called Spears plan, large quantities of wheat were at one time thrown on the market. The experiment proved abortive, as the imported cheap wheat was immediately bought up and hoarded by speculators, without any beneficial effect on the price level. Should this step be repeated, distribution obviously would have to be better controlled, and an ample supply of cheap flour (or, preferably, of bread) would have to be kept up for a longer period. This measure, which, if successful, would result in a lowering of domestic wheat prices, might, however, necessitate subsidies for Lebanese farmers.

117. Far from subsidizing the cost of living, which policy was recommended repeatedly by responsible Lebanese economists, the Government tried during 1948 to cover some of its previous expenditure on cereals by raising prices of the remaining rationed goods (sugar and rice) up to the free market level and by selling imported wheat at a profit. The exceptionally high taxation of petroleum products can be regarded as another, Government-sponsored

price lever. In view of the dependence of the Lebanese consumer supply on road transport such products can hardly be classified as luxury goods.

VI. GOVERNMENT FINANCE

Budget

118. Between 1938 and 1946 the government's budget has continuously shown a surplus ranging from 10 to 39 per cent of annual revenues; in 1946, the last year for which final figures are available, total revenue was LL 79.1 million, total expenditure, LL 51.9 million, and the surplus LL 27.2 million. Surpluses were credited to a reserve fund used mainly for the financing of development projects, some of which are grouped under the name of a five year plan. The 1947 budget anticipated revenues and expenditures balanced at LL 58.9 million. These figures were subsequently raised by deficiency appropriations, and the remaining reserve fund was partly exhausted.

119. The 1948 budget amounted to LL 67.0 million of balanced revenues and expenditures, and there were some fears that the additional cost of war and support to Palestine refugees may have caused a deficit. The actual figures are not yet available. The 1949 budget foresees revenues and expenditures balanced at 75 million Lebanese pounds. Fourteen million are foreseen for public works, such as roads, irrigation, and hydroelectric developments; credits for agricultural services amount to 1-1/2 million Lebanese pounds. Expenditure on the Army is slightly increased. Direct taxes are anticipated at 12 million Lebanese pounds, indirect taxes at 52 million, which means that the proportion between these two types of taxation remains practically unchanged. The only new tax is the Palestine Fund tax, expected to yield about 4 million Lebanese pounds. The budget has not yet been voted and is criticized because of its dimensions.

120. During the past eleven years, the size of Lebanese budgets increased over 10 times (from LL 6.3 million in 1938 to LL 75 million in 1949) nominally, and by over one-third in real terms. The extent of this increase is not surprising; it reflects, largely, the country's gradual development from autonomy under mandate to full statehood. Internal administration was taken over, public

property purchased, a small standing army created, and external representation established. The latter required additional funds in connection with the Lebanon's active participation in several international organizations. (The opposition press pointed out at one time that the Lebanon had participated in 1947, during six months, in seventeen international congresses, and asked whether a small country could afford foreign missions on such a scale.) The price of independence, however, seems heavier if it is considered that this increase of government expenditure comes at a time when national income on the basis of the most favorable estimates appears stationary. While in 1944 taxation may have required between 5 and 8 per cent of the national income, that share is probably nearer 12 per cent or more at the present time.

121. So far as breakdowns are known, the 1947 and 1948 budgets indicate, on the revenue side, the same preponderance of indirect over direct taxation. The 1948 budget contains increased appropriations for the army, for education, for agriculture, and for public health. The following three categories represent two-thirds of total expenditure: salaries and indemnities, £L 19 million; administrative expenses, £L 5 million; army and police, £L 18 million.

122. The Common Interests Administration of Syria and the Lebanon has a separate budget, with receipts depending primarily on customs duties. Its expenditures, mainly on the administration of customs, range from £L 4 million, in 1944, to £L 6 million in 1947. The net profits of the Administration are apportioned 56 per cent to Syria and 44 per cent to the Lebanon. The Lebanon's share, which is included in the budget with the income from indirect taxes, amounted in 1947 and 1948 to £L 13 and £L 16 million, respectively.

## Taxation

123. Indirect taxes provide up to 70 per cent of total revenues; apart from the net profits of the customs administration, the most important sources of receipts in this group are the income of the tobacco monopoly, about £L 12 million in 1947 and 1948, and the fuel tax, about £L 7 million. There are also considerable registration and stamp fees, between £L 3 and 4 million per year. The salt monopoly yields a profit of over £L 1 million; import license fees and the amusements tax yield about the same amount each.

124. The Lebanese tax system, with its preponderance of taxes on consumers, undoubtedly weighs heavily on the lower income classes. A substantial reduction of government income on sales of sugar, kerosene, rice, salt, etc., would be a first step towards a lowering of the cost of living. The same applies partly to motor fuel, as most of the country depends on road transport. Not too much, however, should be expected from such a step, as a large proportion of indirect taxes is imposed on luxury articles. It should also be kept in mind that the one-sided character of these large sources of public revenue may involve some dangers for the future. As one of Beirut's newspapers aptly puts it: "Lebanese independence cannot for too long depend on the sale of gasoline and tobacco."

125. A modern income tax was created in 1944, to replace the antiquated semi-income tax, based on such indices of income as the amount of rent paid, or the number of employees and servants. Incomes subject to the new income tax are: (1) profits of industrial, commercial and non-commercial professions; (2) salaries, wages and pensions; (3) income from investments other than real property. On the first two, the tax is progressive, on the third it is proportional. According to the data received from the Lebanese Government, the rate is highest on profits of commerce and industry, where it reaches 15 per cent for incomes above £L 50,000 per year; on profits of non-commercial professions, it reaches 12 per cent for

the same income class; on salaries, wages, and pensions, the highest rate is 8 per cent for incomes above LL 24,000. The rate for incomes in group (3) is 7 per cent. It would seem that rates applying to all categories of income could be raised considerably -- those on groups (1) and (2) at least in the higher brackets. The argument is often heard that it will take some time to accustom the public to this new taxation of income, but there is no doubt that a more efficient administration of the tax would substantially increase its yield. It is worth mentioning that while all the components of the cost of living index in Beirut between 1939 and 1948 show from two to seven fold increases, expenditure on direct taxes has actually dropped by 25 per cent during this period.

126. Income from land not included in the new income tax, is still taxed primitively by an old agricultural land tax, which yields only about LL 0.6 million per year. It is intended to replace this tax by a new land tax which should yield about LL 5 million annually. An appropriate project was prepared and sent to Parliament in 1945, but no legislative action has been taken -- which may to a certain extent reflect the influence of landowners on the affairs of the state. By taxing uncultivated arable land at a higher rate than the cultivated area, the proposed law would have the additional beneficial effect of encouraging increased production.

Existing taxation of inherited wealth is completely insignificant.

127. Tax evasion seems fairly general and takes various forms. Some observers believe that only the few existing corporations, with proper accounts and audits, pay the full amounts due. The war excess profit tax, imposed in 1944, was settled, in agreement with the Government, by a comparatively small voluntary payment made by the Beirut Merchants Association.

Public Debt

128. Strictly speaking, the Lebanon has no public debt which would involve payment of interest and amortization. The Government owes some LL 34 million to the Banque de Syrie et du Liban as the equivalent of the loss incurred from the devaluation of the French Franc in the part of the monetary cover not guaranteed by the French Government and LL 20 million to the French Government for some French property purchased by the Lebanon, the latter amount to be paid in five annual installments, beginning in 1949.

VII. FOREIGN TRADE

Total Trade and Balance of Trade

129. The Lebanon and Syria form one common customs area. On their frontiers no data are collected which would indicate for which of the two countries imports are destined or in which exported goods originate. Persons and goods cross the frontier between the Lebanon and Syria freely, and no data are available on this traffic. The only known trade data for the Lebanon are, therefore, the common trade statistics of both countries, published by their Council of Common Interests. The following figures show the total value of imports and exports of Syria and the Lebanon before and after the war:

	<u>Imports</u> (In Million LL)	<u>Exports</u>	<u>Exports as Per Cent</u> <u>of Imports</u>
1939	75.5	36.5	48
1945	130.6	43.8	33
1946	266.7	85.6	32
1947	362.8	83.6	23
Of which first 3 quarters	(264.3)	(56.6)	(21)
First 3 quarters of 1948	(329.9)	(43.6)	(13)

130. In order to achieve a closer approach to reality, two corrections are necessary with regard to Syrian-Lebanese trade figures: import figures must be somewhat increased, say by about 25 per cent, to allow for smuggling which takes place particularly via Transjordan; export figures must be increased to include clandestine exports of gold, which are sometimes estimated at about LL 25 million per year.

131. Opinions vary widely as to the proportion of imports which are destined for, and ultimately remain in, the Lebanon. Considering the higher standard of consumption in the Lebanon than in Syria, and the higher values of goods imported into that country (more luxuries), it can be assumed, with a certain

measure of probability, that, in spite of the smaller population, at least one-half of the imports go to the Lebanon.

With regard to exports, estimates collected from Syrian and from Lebanese sources were similar and their conclusion that not more than one-fifth of the common exports originate in the Lebanon was confirmed by a recent enquiry carried out by the Lebanese Government. This proportion does not apply, however, to gold exports, where the Lebanon probably predominates. Internal trade between the Lebanon and Syria is disregarded for the moment, in order not to complicate the picture unduly. For the same reason, no corrections are made for a possible under valuation of imports resulting from the practice of authorities to record values at official exchange rates.

132. If all the above factors are considered, trade data for the Lebanon alone, in 1947, would be as follows:

<u>Imports</u> (In Million LL)	<u>Exports</u>	<u>Exports as Per Cent of Imports</u>
$\frac{363 + 90}{2}$ (smuggling) = 226	$\frac{84 + 18}{5}$ (gold) = 35	15

It cannot be emphasized strongly enough that the above calculations are no more than estimates based on estimates. Yet, the general trend is unmistakably clear: in 1947 Lebanese imports exceeded exports by about six or seven times and in 1948 the difference must have increased further. While a deficit in external commerce is in keeping with the general nature of the country's economy, which emphasizes trade and services rather than production, and has been in evidence before the war, it had never before achieved such dimensions. In fact, prewar imports never exceeded exports by more than two to three times.

133. Because of the substantial wartime price increases, the growth in the value of imports was not accompanied by a similar increase in volume. If imports of crude oil through existing pipelines are added to imports of the two

countries shown in the statistics of the "Common Interest", it will be seen that the total tonnage imported in 1947 represents only 125 per cent of the tonnage imported in 1939. This, as was said above, is largely due to the higher prices of imported merchandise, to the increased proportion of luxury articles, and to the heavy purchases of gold coin and bullion since the war.

134. As both countries were cut off from their normal supplying markets during the war, a certain increase of imports was required in the postwar period to replenish depleted stocks. Apparently, however, since the war only a comparatively small proportion of imports was such as to increase the productive capacity of the two countries. Much of the accumulated purchasing power was consumed in the acquisition of luxuries which are of no long-term benefit to the two countries. This is the more regrettable since, as will be explained in the section which follows, at this present rate imports cannot be paid for out of current receipts from exports, services, and invisibles. While all this applies to both countries linked by the customs union, it appears to apply to an even larger extent to the Lebanon than to Syria.

135. The Lebanese Government has always granted import licenses fairly liberally, particularly so, as for some time now such licenses have not involved simultaneous foreign exchange allocations. Since the recognition of the free market in foreign exchange, in November 1943, the procurement of foreign exchange has been left completely to the importers, a practice which had been observed for some time even before that date. There is a natural reluctance to introduce import restrictions in a country which depends so highly on income from foreign trade and where it may be not too easy to carry out a strict separation of imports for local consumption and imports which are eventually reexported, though sometimes after a considerable time lag and not always through normal channels.

136. It was therefore only in May 1949, at a moment when some Lebanese industrial establishments were being closed while importers found it increasingly difficult to sell their large stocks of imported commodities, that imports of some goods were made dependent on Government permission, a step which probably was also meant to satisfy some of Syria's protectionist demands. The list of limited imports includes cement, ready made and second hand clothing, alcohol, matches, biscuits, sweets, beer, etc., all articles produced in the country, but surprisingly also some locally unavailable cotton yarn and weaving machinery.

137. Exports for both countries in 1947 represent less than one-half and in 1948 only something like one-quarter of the volume of 1939 exports and only about twice their nominal value. The reasons for the decrease of exports from the Lebanon have already been dealt with in the sections of this paper describing present high costs of production in that country.

#### Trade by Principal Commodities

138. The chief exports of the Lebanon and Syria are the products of the soil. In the Lebanon, fruit and vegetables, some olive oil and foodstuffs which have undergone simple processing and tobacco, form the bulk of these. Textiles are the largest exports of manufactured goods, with chemical products, mainly soap and matches, following. Hides and tanned leather continue to be fairly important export articles, whereas exports of shoes have decreased. Trade statistics for both countries show that, in general, products of the soil represent over one-half of total exports and textiles about one-quarter.

139. Being primarily agricultural countries with limited industrial resources, the Lebanon and Syria import the greater part of their requirements in manufactured articles. Uncertain climatic conditions, combined with backward food processing methods, also result in imports of a considerable quantity of

foodstuffs and other agricultural products. Fuels must also be imported. The main imports for both countries are, invariably, textiles, representing up to 30 per cent of the total. Before the war, the second largest items were metals, iron and steelwork. In 1946 and 1947, however, and presumably also in 1948, imports of gold coins and bullion held second place, representing, in 1946, twenty, and in 1947, fifteen per cent of total imports. Imports of machinery and technical equipment of all kinds, on the other hand, fell from 10 per cent in 1939 to 7 per cent in 1947, while imports of chemical products, including fertilizers, remained at their prewar level of 5 per cent.

#### Principal Suppliers and Markets

140. The direction of Lebanese foreign trade has undergone some definite changes after the war, in particular with regard to imports. Before the war, the origin of imports both to the Lebanon, and to Syria, was determined largely by two factors: the connections of the two countries with France and the need for manufactured articles and in particular for textiles. At that time, France was the chief supplying market, with Great Britain and Japan as close second and third, the latter supplying chiefly cotton piece goods. After the war, the U.S. became the largest supplier, with Great Britain holding its second place, and France dropping to third.

141. Export markets proved more stable. Palestine held first place, almost without interruption; France came second, the U.S., Italy, and Iraq followed as the next most important buyers of Syrian and Lebanese goods. Trade between those two countries and the rest of the Middle East flourished during the war, when overseas transport was reduced, but has dropped again after the war. This trend, frequently deplored by Arab sources for political reasons, is nevertheless natural, as most countries of that area have agricultural surpluses and few, if any, industrial goods to offer.

142. The preponderance of the United States as a source of imports is undisputed, but recently Western European countries, including Italy, have been partly replacing the U.S. as suppliers of capital goods. Total 1947 imports from the U.S. for the entire area of the customs union were 66,000 tons valued -- at the rate of £L 2.20 to the \$ -- at £L 97 million; an almost 100 per cent increase over 1946 imports from the U.S. Automobiles and spare parts were heading the list in both years, (over £L 17 million in 1947) with cotton goods, machinery, clothing articles, and gold following. A closer analysis shows that only about 20 per cent of these imports represented industrial (15%) or agricultural (5%) equipment. Among exports, the largest items are tobacco -- of the "Abou Riha" or Latakia blend, popular among American pipe-smokers -- coarse wool and liquorice. Contrary to imports, exports to the U.S. have declined by almost two-thirds between 1946 and 1947 and represented in the latter year, only seven per cent of imports.

143. Trade with France has made a good recovery since the war. Total imports for Syria and the Lebanon were £L 18 million in 1946, £L 40 million in 1947, and have presumably increased considerably in 1948. The main items in 1947 were textiles (amounting to over one-third of total imports), metals, machinery and automobiles. In 1948 the largest import items seem to have been electrical equipment and metal goods. Exports of £L 17 million in 1946 were fairly well balanced with imports, but dropped to about £L 5 million in 1947. The decrease was particularly great in fruit, fruit preserves, olive oil, and vegetables, all articles primarily produced in the Lebanon rather than in Syria. Fides and liquorice exports increased slightly in 1947 and dried vegetables in 1948. While the proportion of exports to imports in the trade with France during 1948 appears to have remained roughly at the 1947 ratio of 1:8, the absolute value of trade with France has further increased. This must be, at least partly,

attributed to the payment facilities in French Francs represented by the availability of "Old Account No. 1" and, possibly, also to the not unfavorable buying rate of the French Franc, underlying these transactions.

144. Trade with the United Kingdom is almost completely limited to imports, which exceeded exports 22 fold in 1946, and 54 fold in 1947. The main imports in the latter year were machinery, gold, iron, metal goods, and textiles. Again, consumer goods and gold predominate, representing over three-fourths of the total. Exports, in 1947, included small quantities of tobacco, hides, and olive oil, and decreased for all these items, as compared with 1946.

145. Palestine represented for several years the largest market for Lebanese exports of fruits and vegetables (including potatoes, which are hardly grown in Palestine, and are a traditional food among Jews of European origin) and artificial silk products, as well as for Syrian cereals and fresh eggs. In 1947 exports totalled £L 30 million, a considerable increase over 1946 (£L 17 million), and remarkable, in view of the increasing Arab-Zionist tension and economic boycott. Imports from Palestine remained on the same level of about £L 8 million in both years, and consisted largely of oil products from the Haifa refinery and of oranges.

146. Iraq is an important source of dates and imported cattle and buys, in turn, textiles and soap -- the latter largely from the Lebanon. Trade between Iraq and the customs union was roughly balanced in 1946, with Syrian-Lebanese imports at £L 16 million, and exports at £L 12 million; in 1947, exports were £L 18 million, and exceeded imports, valued at £L 8 million. Trade with Iran was very one-sided, and consisted largely of imports of rugs (over £L 2 million).

147. No data are available on trade within the customs union area, i.e., between Syria and the Lebanon. It is known, however, that this trade has always been somewhat one-sided, and consisted largely of sales of Syrian agricultural

products in the Lebanon; exchange of industrial goods between the two countries was roughly balanced. A comparison of estimates for the years 1939 and 1946 shows that the Lebanon was consuming more cereals from Syria than before, which can be partly explained by the increased population. Lebanese purchases of other Syrian foodstuffs, such as butter, cheese, etc., as well as of cattle, increased also and are balanced only to a small extent by Syrian buying of Lebanese fruits and vegetables.

#### Transit, Entrepot and Gold Trade

148. Because of the long-proven skill of Lebanese merchants, their world-wide connections, and the considerable freedom of action existing in a country where restrictions to business enterprise are neither numerous nor respected, Beirut has for years been an important center of transit trade for the whole Arabian Peninsula and for a fairly wide area beyond. Although the growth of nationalistic tendencies and commercial experience in adjacent countries create rivals for Beirutian middlemen, the latter continue to play a considerable role, particularly with regard to transactions in gold -- imported openly, exported secretly -- and foreign exchange, not to speak of such other items as hashish, which is exported illegally, mainly to Egypt. Individual profits from transactions of this type are certain to be considerable, but, since they largely remain abroad or continue to be employed in speculation, the benefits derived from them by the country as a whole are limited.

149. The volume of transit trade -- figures, unfortunately, are again common for Syria and the Lebanon -- appears, at first sight, impressive in tonnage (around 2 million tons during each of the last three years) and in value (LL 182 million in 1947). On one hand, these totals appear greatly inflated by the inclusion of the crude oil passing through the I.P.C. pipeline from Iraq to

Tripoli, which accounts for over 90 per cent of the volume. On the other hand, however, not all of the transit trade transactions may have been recorded as such. The appearance of vehicles, machinery and chemicals, all articles not produced within the Customs Union, among exports, justifies doubts as to the reliability of these statistics and gives rise to the suspicion that while more of the imports may be reexported, the actual trade deficit might be smaller than it looks and that profits of Lebanese merchants from this source may be more substantial.

150. Gold is deeply ingrained in the psychology of the Levant. Large parts of the population regard paper money as valuable only so far as it is exchangeable for gold, which forms the basis of most price calculations. Gold coins are accumulated by the Arabs as a form of hoarding wealth, or as travel money for the pilgrimage to the Hejaz. As a woman's likeness is forbidden around the holy Moslem towns, the needs of pilgrimage gave rise to a special exchange business; a Kingshead sovereign fetches a slightly higher price than a Queenshead sovereign, although both have the same weight and gold content.

151. Lebanese banks may neither sell gold nor lend it, and its export (except by pilgrims) is forbidden; imports of gold, however, and its transfer by private individuals, are not restricted. In February 1949 the Lebanese Government facilitated the transit of gold by liberalizing regulations concerning its storage and reexport. Syrian and Lebanese imports of gold coins, bullion and silver, which, in 1946, were officially valued at £L 52 million, do not appear to have fallen in 1947 but were somewhat smaller in 1948. Such imports originate in the U.S., Mexico, South Africa, and the U.K.; even if not officially in transit the metal seems to be largely reexported, partly to other Middle Eastern countries, and mainly to India and China (Hacao, Hong-Kong) via Teheran,

Baghdad or Kuwait. It is estimated that profits on the whole transaction range from 40 to 70 per cent of the purchasing price. A large proportion of these profits undoubtedly remains in the hands of Lebanese middlemen. One Lebanese economist estimates the total annual income, derived from gold trade, transit, and entrepot transactions by Lebanese brokers, at LL 40 million.

152. As most of the gold trade is carried out in foreign exchange, the price of gold and the foreign exchange rates in the free market of Beirut are mutually interdependent. Most of the imported gold is purchased for dollars while exports are paid for in Indian rupees or in sterling. The conversion of these currencies into dollars, which originate from oil companies, takes place in Saudi Arabia and Kuwait, often under instructions of Beirut intermediaries.

VIII. BALANCE OF PAYMENTS

Invisible Items

153. "Invisible" exports find an additional justification for their name in the case of the Lebanon since they largely flow through channels which escape both the foreign exchange controller and the statistician. Only a small proportion of emigrant remittances or of foreign exchange spent by foreign visitors passes through the Exchange Office; some of the few known figures are, or until recently were, common for Syria and the Lebanon. The increasing degree of obscurity, prevailing in the field of foreign payments is emphasized by the fact that in its 1947 report the Banque de Syrie et du Liban declared itself unable for the first time to give an estimate of the balance of payments for both countries. Yet, it is only through such estimates that one can hope to learn to what extent the deficit of the country's foreign trade -- equally based on estimates -- is covered by payments from abroad. Under the circumstances, the hopelessness of trying to establish a true balance of payments for the Lebanon is only equaled by the difficulty of attempting to do without it when analyzing the country's basic economic situation.

154. It is often said that there are more Lebanese abroad than in the Lebanon. While this may be true historically, many of the descendents of former emigrants have by now been completely assimilated by their new countries and probably not more than some 300,000 Lebanese, or former Lebanese, scattered all over the world -- but mainly in the Americas, the West Coast of Africa, and Egypt -- still maintain some links with the mother country. Before the war, remittances from them were estimated to equal or even to exceed the total value of the country's exports. As new emigration is comparatively small, and the interest of older emigrants decreases gradually, not too

much should be expected from this source in the future. Nevertheless, the Lebanon's income from emigrant remittances can be assumed to range, during the next few years, around £L 45 million annually.

155. Lebanese tourist trade has a firm foundation in the scenic and climatic qualities of the Lebanon mountain range and in the attractions of Beirut and towns such as Baalbeck, Biblos, Saida, (ancient Sidon), or Sour (former Tyr). The tourist season lasts throughout the summer, when the mountains offer welcome relief from the scorching heat of the neighboring lowlands. Although facilities for the more exacting tourists are limited and little, apart from dancing and gambling, is offered in the field of entertainment, much capital has been invested in hotels. There are also a number of hospitals mainly for patients suffering from lung diseases. As skiing is possible on the higher slopes of the Lebanon range, a winter tourist season may develop in time.

156. Postwar tourist trade has not yet recovered its prewar volume, which, in the peak year of 1938, was represented by some 19,000 summer visitors. The number of visitors in 1946 and 1947 is estimated at about 13,000 for each year. In 1948, the number of tourists was much smaller, largely as a result of the Palestinian war, involving travel and foreign currency restrictions in the Arab countries which usually supply the greatest contingent of guests. High prices are another deterrent to tourists who, at present, may find France or Italy financially more attractive. The Lebanon's foreign exchange income from tourists and foreign visitors during 1948 was at the most at about £L 10 million a year, which is roughly an equivalent of the estimated expenditure of Lebanese travelling abroad.

157. Among the other, more regular sources of the Lebanon's foreign exchange receipts are donations for schools and hospitals maintained by

foreign institutions and expenditures of foreign investors, the latter, however, counter-balanced by remittances by foreign enterprises (concessionaires) to their home countries and by purchases by the Lebanese Government of foreign assets within the country.

158. It seems now that in 1948 Lebanon had a large "windfall crop" of foreign exchange receipts from other than regular sources. A small minority of the Palestine Arab refugees consisted of richer people who succeeded in transferring their assets to the Lebanon. Some Jewish and Christian merchants from Syria moved to Beirut, whose political climate they found easier. They were joined by a number of other Syrians (including Moslems) who were concerned over the stability of economic conditions in Syria at a time when Syria did not have a monetary agreement with France and the future of its currency was an open question. The amounts involved in all these transfers of capital are of course completely unknown, but some Lebanese economists estimate their total at about £L 40 million.

Balance of Payments Estimate

159. The value of the Lebanon's total foreign trade for 1948 is very roughly estimated at:

Imports	£L 250 million
Exports	£L 30 million
Deficit	£L 220 million

The import figure includes a correction for smuggling, and is higher than the 1947 estimate. The export figure includes exports of gold and makes allowance for under-valuation by exporters; even so it may be over-optimistic considering that the available figures of Syrian and Lebanese exports in the first three quarters of 1948 are remarkably low.

Both imports and exports include trade with Syria. Transit trade is disregarded.

160. When the "invisible" items are added to the foreign trade estimates given above, the estimated balance of payments of the Lebanon for 1948 would appear to be as follows: (In million £L)

<u>Debits</u>		<u>Credits</u>	
Imports	250	Exports	30
Expenditures of Lebanese abroad	10	Emigrant remittances	45
Transfers of foreign companies	10	Foreign tourists	10
		Capital transfers from Palestine and Syria	40
		Foreign investment and donations for schools and hospitals	20
		Profits from transit and gold trade, foreign exchange operations, etc.	60
	_____	Revenue from Lebanese assets held abroad	_____ 5
	=====	Deficit	===== 60
	<u>270</u>		<u>270</u>

161. The deficit of the balance is presumably made up through the liquidation of various assets held abroad, in particular of sterling balances held abroad by Lebanese, of the "Old No. 2" and a portion of the "Old No. 1", French Franc account and possibly also by clandestine exports of gold and foreign exchange previously accumulated in the country itself. The ill effect of this deficit may be somewhat attenuated by considerable stocks of foreign exchange and exportable goods in the country, which one observer estimates at about £L 50 million.

162. Since no balance of payments estimates are available from any official Lebanese sources, the figures given above were largely based on the

studies made by Messrs. Malek Chehab, Maitre Gabriel Lenassa, Joseph Naggear, and their colleagues of the Societe Libanaise d'Economie Politique.<sup>1/</sup> In view of the tentative character of these estimates, a generous margin of error must be allowed for. Similarly, as for the balance of trade estimates, the only firm conclusions which can be drawn from the figures given are those regarding the prevailing trend. And that trend undoubtedly indicates that only a part of the country's foreign trade deficit is being currently paid for by invisible exports, that inroads are being made upon the capital assets of the country in an effort to cover the current deficit in its foreign payments, and that this deficit itself during 1948 did not assume disastrous proportions only due to the appearance among transfers on capital account of considerable but largely non-recurrent items.

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<sup>1/</sup> Some of the above economists estimated the deficits in the Lebanese balance of payments during 1946 and 1947 as £L 100 million and £L 170 million respectively.

## IX. PRESENT FOREIGN EXCHANGE POSITION AND OUTLOOK

### Regulations

163. Ever since 1940 the Lebanon has had an exchange control system which, until the signing of the Franco-Lebanese Agreement in January 1948, was operated in common with Syria. Since 1947 when foreign exchange allocations from the French Treasury came to an end, the Lebanese exchange control authority theoretically derived its resources mainly from export proceeds, emigrant remittances, oil royalties, and the expenditure of foreign companies. In practice, however, the two first-named sources yielded very little. Since the abolition of mail censorship, emigrants sent their contributions by letter or in the form of merchandise, while exporters largely kept the proceeds of their exports and disposed of them in the free market. Such proceeds were easy to sell since import licenses were issued freely to importers who did not request an official allocation of foreign exchange. Under such circumstances the amount of foreign exchange which became available to the Exchange Office was limited indeed.

164. Reports of the Exchange Office, in fact, show that the amount of dollars at the disposal of that office between mid-1946 and end of April 1948 at no time reached the 2 million mark; at the latter date it was only about \$67,000. During the same period the sterling account reached its peak on July 31, 1947, with £ 1,413,839, while the corresponding figure for April 30, 1948 was £ 340,621. Holdings of Palestinian, Egyptian, Irakian, and other foreign currencies were negligible throughout. The only reliable source of dollars was the TAP line which during the last two years spent something like \$2 million in the Lebanon. With regard to sterling, of which the Government expected to receive over £ 3 million in 1948, the most reliable sources were I.P.C. (refinery and pipeline terminal in Tripoli), and United Kingdom Legation expenditures.

165. As the existing system completely failed to work, it is hardly surprising that the Lebanese Government introduced in November 1943 new foreign exchange regulations. According to the new rules, only 10 per cent of the foreign exchange entering the country must be sold to the Exchange Office, the rest can be disposed of freely. Proceeds from exports must be returned to the country, either in the form of foreign exchange or in the form of imports approved by the Government. Commercial companies working under contract with the State must sell 80 per cent of their foreign exchange receipts to the Exchange Office, an obligation which may be revised after three months through the conclusion of specific agreements. Operations with regard to French accounts continue to be governed by previous exchange regulations, but the buying and selling of foreign currency of all kinds (banknotes and coins), including French francs, is absolutely free and subject to no control.

166. The new regulations constitute an official recognition of the already predominant free market and must be regarded as a formal introduction of multiple exchange practices. The new Lebanese system is very similar to the regulations introduced by Syria a few months earlier. The only difference, consisting of the proportion of foreign exchange to be surrendered (10 instead of 20 per cent), disappeared almost immediately as Syria adjusted its requirements after the Lebanese model; with no customs frontier between them the two countries simply cannot pretend to legislate independently from each other. As a result of the new law most free market foreign exchange operations were transferred from the hands of unlawful dealers to banks. The unfavorable buying rate established for concessionary companies reflects the concern of the Government not to lose its former most reliable sources of foreign exchange. It may, in fact, be asked, whether the maintenance of the full status quo with regard to these

companies would not have been more prudent, although it would probably have met with protests and might have contributed to discourage some potential investors.

#### Availabilities

167. The economic effects of the new foreign exchange system, as far as can be judged after six months of its duration, were favorable in the field of commerce and banking and seem to have strengthened the position of the Lebanese pound. They did not, however, improve the foreign exchange position of the Government.

168. The commercial and financial activities of Beirut could not fail to benefit from the increased freedom of operation provided by an official recognition of the free foreign exchange market. These benefits would undoubtedly have been more substantial, had this new stimulus not coincided with a general depression which has made itself felt in Lebanese commerce since the end of 1948 and is explained largely by a drop in world prices at a time when Lebanese importers had placed particularly heavy orders abroad. The buyers' resistance, which would be only natural at this stage is aggravated by general uncertainties in the Middle East resulting from such developments as the Syrian coup d'etat, Irakian difficulties and the prolonged repercussions of the Palestine conflict, while the internal market is thoroughly saturated as a result of lavish importations during the last years. It must also be remembered that, as exports have remained on a low level for a long time, Lebanese producers of goods did not participate in the merchants' prosperity and the purchasing power of the population is therefore small.

169. Freed from the encumbrances and risks of illegal operation, the foreign market of Beirut so far has shown no signs of nervousness, which is proved particularly by the steadily improving position of the Lebanese pound; (LL3.70 to the dollar in October, 1948; LL3.20 in May, 1949). This development can be regarded as spontaneous in so far as there was no intervention on the part of the Government or Note Bank, but it must have been considerably facilitated, if not caused primarily, by the general scarcity of money resulting from the decrease in circulation.

170. There is no indication that the new regulations have had any effect in increasing the foreign exchange available to the Government at the official rate. Even the small premium on the ten percent of foreign exchange receipts seems to be a sufficient inducement for evasion. The eighty percent surrendered by foreign companies continues to be the only larger, reliable source of foreign currency earnings of the Government.

171. The supply of dollars, however, which until now has been particularly small, will increase due to the reopening of the TAP line activities, which were almost completely suspended pending the ratification of the agreement by Syria. According to information received from that Company their total direct and indirect payments in the Lebanon will amount to about \$4 million during the construction period up to the end of 1950, while annual payments during the following operating period are estimated at around \$750,000. The Lebanese government, which recently seemed to have had hardly enough dollars to cover the expenses of some of its foreign representation, thanks to this new revenue may be in the position to finance some of the purchases of wheat in dollars obtained at a lower rate, which in turn should be reflected in a drop of the bread price. In recent years approximately fifty percent of the wheat imports had to be paid in hard

currency, which represented an annual expenditure of roughly \$4.5 million.

172. The sterling position has always been somewhat easier and the Government is known to have sold sterling in the free market at one time, in order to obtain dollars. It is estimated that the Government receives annually about £ 3 million at the official exchange rate. This amount should increase when the second I.P.C. pipeline to Tripoli will come under operation. As in the case of dollars, the official sterling receipts are not sufficient to cover imports from the sterling area, but the gap between the funds which are available and those which are needed is smaller in the case of sterling.

173. Contrary to the previously discussed currencies, French francs seem to be available to the government in larger quantities. This is explained by the present drawings from "Old Account No. 1" but the volume of financial transactions with France and the number of French concessionary companies in the Lebanon, if nothing else, will probably prevent French francs from becoming scarce in this country. For the time being French francs are easily obtainable in the free market without premium and even without bank commission.

174. To sum up this short review of official sources of foreign exchange, it can be said that in the most favorable circumstances the government could use its cheaply obtained currencies in order to finance some of the most essential imports, preferably those affecting most directly the cost of living. There are no prospects of renewed foreign exchange allocations for imports on a larger scale. It is also difficult to see how the government could service any substantial loans from its official foreign exchange revenue. There is no doubt, however, that the government

could purchase considerable amounts of foreign exchange, particularly dollars and sterling in the Beirut market for Lebanese pounds.

175. According to the testimony of the President of the Banque de Syrie et de Liban, fully confirmed by information from other sources, the volume of daily transactions on the Beirut foreign exchange market is large. From mid-November, 1948 to mid-April, 1949, for instance, \$21.8 million and £3.9 million were sold on the free market. While it might, therefore, not even be necessary to stagger purchases over a longer period of time in order to avoid affecting the exchange rate, some planning would be necessary as availabilities - even if large in certain periods - may undergo frequent and rapid variations in keeping with the sensitive and speculative character of this market.

## Outlook

176. There are two schools of thought with regard to the country's future economic policy. One recommends fuller, bolder, and more consistent liberalism; the other leans toward the reinforcement of some of the existing controls and the introduction of new ones.

The liberalists believe that, in the existing customs union with Syria, the Lebanon is the loser. The protectionist pressure, which has been exerted by the Syrian partner until now, and threatens to lead to even more serious restrictions under the new agreement now being negotiated between the two countries, is held responsible for the high price level and is said to have eliminated, or to threaten to eliminate, many imports which are essential for the Lebanon's position as a commercial and tourist center. Any restrictions on trade, it is said, undermine the position of the Lebanon, which can only maintain its higher standard of living by increasing its role as a supplier of services rather than goods, as a financial and commercial center for a large area. The liberalists, therefore, advocate either a complete separation of Syrian and Lebanese foreign trade, or quantitative restrictions to prevent the movement into either country of goods imported into the other with the aid of its limited currency resources.

177. The case for increased controls or "dirigisme" could probably be summarized as follows: In fact, even though not according to the letter of the law, the Lebanon is an island of free trade among largely protectionist surroundings; nevertheless the economic situation of the country deteriorates. A liberal granting of import licenses has neither lowered prices nor has it substantially increased productive capacity, the selection of goods for import being determined by the highest rate of profit for the importer. Abolition of tariffs would ruin Lebanese industry and agriculture in their present condition.

As many Syrian goods are exported through Lebanese ports, restrictions on movements of goods between the two countries would require quantitative controls on all goods exported from one country to the other in order to determine what can be left for local consumption, and what can be exported, a procedure which, from the administrative point of view, may not be much simpler than the establishment of a customs frontier between the two countries, a step which, everybody agrees, is impracticable.

179. It seems that, of these two views as to the best economic policy for the future, the second will prevail under the pressure of the deteriorating foreign exchange position, and the political necessity of cooperating with Syria. Provision must be made, however, to safeguard the commercial position of Beirut. The Lebanese Government realized that for several years a part of the country's population lived and thrived on evasion of existing restrictions, which was undoubtedly one of the deeper reasons behind the Government's unwillingness to enforce them and may have contributed to the new, more liberal, exchange regulations. A way out might be offered by the further development of a free trading zone around the port of Beirut combined with a measure of controls in the remaining area; this might constitute a compromise between two opposing concepts of economic policy, which, in the main, merely reflect the somewhat conflicting interests of Beirut merchants and the rest of the country.

STATISTICAL APPENDIX

LIST OF TABLES

<u>Table Number</u>	<u>Title</u>
I	Population of the Lebanon
II	Estimated Agricultural Production of the Lebanon
III	Land Ownership in the Lebanon
IV	The Lebanon: Livestock and Animal Products
V	Irrigation Projects in the Lebanon
VI	The Lebanon's Chief Industries
VII	Hydroelectric Projects in the Lebanon
VIII	Balance Sheet of the Banque de Syrie et du Liban, Per December 31, 1947
IX	Monetary Circulation, Dollar Rates, Cost of Living, and Wholesale Prices in the Lebanon from 1937 to 2nd Quarter of 1948
X	Indices of the Cost of Living at Beirut
XI	Revenues, expenditures and Surplus of the Lebanese Government, 1938 to 1946
XII	Foreign Trade of Syria and the Lebanon, Imports, Exports and Transit Trade
XIII	Foreign Trade of Syria and the Lebanon: Main Imports
XIV	Foreign Trade of Syria and the Lebanon: Main Exports
XV	Foreign Trade of Syria and the Lebanon: Principal Suppliers
XVI	Foreign Trade of Syria and the Lebanon: Principal Markets
XVII	The Lebanese Balance of Payments: Estimate for 1948
XVIII	The 1949 Lebanese Budget

Table I

Population of the Lebanon

(By religious groups)

(End of 1946)

Sunnites	244,307
Shiites	217,520
Druzes	77,023
Maronites	337,734
Greek Catholics	66,542
Greek Orthodox	113,197
Protestants	10,783
Roman Catholics	3,241
Armenian Catholics	10,410
Armenian Orthodox	61,660
Chaldaeans	1,394
Syrian Catholics	5,175
Syrian Orthodox	3,916
Israelites	5,830
Others	<u>6,476</u>
TOTAL	1,165,208

Source: Census Bureau, Beirut.

Note: The total population by the end of 1948 (not including Palestine refugees) is given at around 1,200,000, which roughly corresponds to the rate of increase registered during the last years.

Table II

Estimated Agricultural Production of the Lebanon

<u>Crop</u>	<u>Cultivated Area</u> (in hectares)	<u>Average Annual</u> <u>Production</u> (in metric tons)	<u>Production Related</u> <u>to Annual Average</u> <u>Consumption</u>	
			<u>Deficit</u> (in metric tons)	<u>Surplus</u> (in metric tons)
Cereals	104,000	92,000	120,000	---
Fruits	18,500	140,000	---	50,000
Vegetables	15,500	200,000	---	65,000
Leguminous	17,000	30,000	26,000	---
Industrial	45,500	60,000	20,000	---

Source: Based on data from the Ministry of Agriculture, Beirut.

Table III

Land Ownership in the Lebanon

<u>Size of Farms</u> (in hectares)	<u>Number of</u> <u>Landowners</u>	<u>Area under</u> <u>Cultivation</u> (in hectares)	<u>Percentage of Total</u> <u>Area under Cultivat</u>
From 0.5 to 5	84,111	94,500	35
From 5 to 10	191	40,500	15
Over 10	171	135,000	50
TOTAL	84,473	270,000	100

Source: Based on data from the Ministry of Agriculture, Beirut.

Table IV

The Lebanon: Livestock and Animal Products

<u>Livestock</u>	<u>Number of Heads</u>
Sheep	20,000
Goats	450,000
Camels	2,500
Pigs	2,500
Oxen	120,000
Milk Cows	2,000
Horses and Mules	12,500
Asses	25,000
Zebus	250
Foultry	1,500,000

<u>Animal Products</u>	
Milk	25,000 hectoliters
Butter	250 metric tons
Cheese	4,500 " "
Wool	50 " "
Silk Cocoons	500 " "
Eggs	12,000,000

Source: Ministry of Agriculture, Beirut

Table VIThe Lebanon's Chief Industries

<u>Industry</u>	<u>Location</u>	<u>Estimated Output in 1946</u>	
		<u>Unit</u>	<u>Quantity</u>
<u>Textiles</u>			
Cotton Spinning	Tripoli and Beirut	Tons	1,760
Cotton Weaving	Tripoli and Beirut	Meters	3,750,000
Wool Weaving	Beirut	Meters	100,000
Rayon and Natural Silk Weaving	Beirut	Meters	760,000
Silk Spinning	Mount Lebanon	Kilos	40,000
Knitting	Beirut	Dozen	65,000
<u>Cement</u>	Chekka	Tons	157,000
<u>Tanning</u>	Beirut and Achrafieh	Tons	1,500
<u>Olive Oil Pressing</u>	Chiefly Tripoli Region	Tons	6,000
<u>Soap</u>	Chiefly Tripoli	Tons	4,000
<u>Foodstuffs</u>			
Jams and Preserves	Beirut	Tons	2,000
Biscuits	Beirut	Tons	152
Chocolates	Beirut	Tons	300
<u>Alcohol</u>	Beirut	Tons	1,500
<u>Matches</u>	Beirut Region	Boxes	24,635,000

Source: Quoted from a private technical report.

Table VII

Hydroelectric Projects in the Lebanon

<u>Location</u>	<u>Capacity of Proposed Plant</u> (kw.)	<u>Estimated Annual Production</u> (thou. kw.h.)	<u>Estimated Cost of Construction</u> (million LL)	<u>Construction Cost per kw. Installed</u> (LL)
Orontes	5,500	44,000	5.0	900
Yammouneh	2,700	18,600	1.3	480
Litani	<u>50,000</u>	<u>420,000</u>	<u>35.0</u>	700
Totals	58,200	482,600	41.3	

Source: Ministry of Public Works, Beirut.

Table VIII

Balance Sheet of the Banque de Syrie et du Liban  
Per December 31, 1947.

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ASSETS	In thousands of	
	Fr. Francs	LL
Shareholders	10,000	( 100 )
Building, furniture and fixtures	25,875	( 473 )
Securities and investments	104,529	( 1,023 )
Cash in Banks	8,733,038	(160,608)
Treasury bills and bonds	542,561	( 9,133 )
Loans and accounts receivable	2,408,289	( 44,311 )
Special debit account	4,538	( 25 )
Loans guaranteed by the Republics of Syria and Lebanon	790,381	( 14,548 )
Other assets	9,274	( 171 )
Escrow accounts	158,040	( 2,808 )
<u>Note Issuing Institute</u> <u>(in Thousand Francs)</u> <u>of Syria      of Lebanon</u>		
Gold and silver coin and bullion	134,803	201,454
Central Fund of the French Public Treasury	232,270	290,984
Central Fund of Overseas France	2,177,702	1,999,931
Securities issued or guaranteed by the French State on deposit with the Bank of France	7,147,335	6,135,468
Non-interest bearing advances to the Republics of Syria & Lebanon	33,315	88,638
	<u>9,705,825</u>	<u>8,725,175</u>
	*10,479,000	(840,000)
Assets of the Reserve and retirement fund of personnel Syria and Lebanon	<u>78,051</u>	( 1,433 )
Total Assets	31,344,702	(370,721)

Source: Banque de Syrie et du Liban.

Table VIII (continued)

Balance sheet of the Banque de Syrie et du Liban  
Per December 31, 1947

LIABILITIES	In Thousands of Fr. Francs	
Capital	57,375	( 1,556)
Legal Reserve	5,737	( 106)
Reserve for contingencies	14,500	( 267)
Sundry Reserves	93,039	( 1,712)
Reserve for the redemption of bank notes	6,175	( 119)
Deposit accounts, current accounts and various creditors	12,227,932	(224,935)
Notes Payable	156,119	( 2,378)
Dividends Payable	723	( 13)
Unearned interest on bills and notes in portfolio	37,107	( 683)
Sundry liabilities	5,960	( 110)
Escrow accounts	158,046	( 2,908)
Banknotes in circulation:		
Syrian banknotes: L.S. 179,500,000 )	18,479,000	(340,000)
Lebanese banknotes: L.L. 160,500,000 )		
Profit and loss, carried forward from 1946	2,772	( 51)
Profit of 1947	21,621	( 398)
Reserve and retirement fund of personnel Syria and Lebanon	78,051	( 1,434)
Total liabilities	31,344,762	(576,721)

Source: Banque de Syrie et du Liban.

Table IX

Monetary Circulation, Dollar Rates, Cost of Living, and  
Wholesale Prices in the Lebanon from 1937 to 2nd Quarter of 1948.

Year or Quarter (End of Period)	Currency in Cir- culation Millions of Lebanese Pounds	Demand Deposits (+)	Total	Dollar Rate(Avg.)		Cost of Living Index	Wholesale Prices Index
				Free	Official		
1937	---	---	---	---	1.25	---	---
1938	---	---	---	---	1.74	---	---
1939	28.9	26.0	54.9	---	1.99	100 <u>2/</u>	100 <u>5/</u>
1940	52.7	38.9	91.6	---	2.19	110 <u>3/</u>	156
1941	60.3	29.0	89.3	---	2.19	---	309
1942	97.2	83.2	180.4	---	2.20	319 <u>4/</u>	626
1943	114.2	165.7	280.0	---	2.20	470	835
1944	146.2	178.5	324.8	---	2.20	594 <u>4/</u>	953
1945	171.9	225.8	397.7	---	2.21	607	1,038
1946	145.5	208.7	354.3	3.33 <u>1/</u>	2.20	553	889
1947	163.5	205.3	368.8	3.07	2.20	499	797
<u>1 9 4 7</u>							
1st Quarter	138.4	211.4	349.9	3.20	2.20	511	825
2nd Quarter	142.9	219.2	362.2	2.91	2.20	493	782
3rd Quarter	154.0	216.6	370.6	2.88	2.20	494	782
4th Quarter	163.5	205.3	368.8	3.29	2.20	501	798
<u>1 9 4 8</u>							
1st Quarter	201.0	192.9	393.9	3.49	2.20	502	792
2nd Quarter	189.5	131.9	371.4	3.55	2.20	---	---

(+) Principal banks including the Bank of Syria and the Lebanon.

1/ October/December

2/ June/August

3/ January.

4/ June and December.

5/ June.

Source: Ministry of Finance, Beirut.

Table X

Indices of the Cost of Living at Beirut

(Base: January - June 1939 = 100)

	<u>Food</u>	<u>Rent</u>	<u>Clothing</u>	<u>Education, Religion &amp; Misc.</u>	<u>Direct Taxes</u>	<u>General Index of Cost of Living</u>
January 1940	114	102	110	116	100	100
January 1942	334	133	260	178	187	233
December 1942	564	166	459	224	187	365
December 1943	650	208	861	316	233	300
December 1944	699	245	1,102	424	302	594
December 1945	685	244	1,119	496	74	601
December 1946	601	239	837	479	74	514
<u>1 9 4 7</u>						
January	582	239	796	477	74	500
February	549	229	784	473	74	483
March	545	229	784	465	74	480
April	540	229	785	465	74	479
May	556	229	742	471	74	477
June	534	229	726	471	74	466
July	524	229	728	471	74	463
August	538	229	719	471	74	466
September	542	229	719	471	74	468
October	562	231	724	466	74	475
November	579	231	701	466	74	476
December	565	230	701	470	74	472
<u>1 9 4 8</u>						
January	576	237	700	470	74	477
February	627	240	700	470	74	495
March	629	247	700	470	74	497

Source: Conseil Supérieur des Interets Communs, Elements Statistiques des Etats de Syrie et du Liban, Page 51. Premier Trimestre, 1948.

Table XI

Revenues, Expenditures and Surplus of the Lebanese Government, 1938 to 1946

(billions of LL)

Year	Revenue	Expenditure	Surplus
1938	6.3	5.7	0.6
1939	7.4	6.3	1.1
1940	8.7	6.1	2.6
1941	10.3	7.3	3.0
1942	16.6	12.1	4.5
1943	29.1	21.6	7.5
1944	37.8	27.6	10.2
1945	59.1	35.9	23.2
1946	79.1	51.9	27.2
1947	58.9*	58.9	—
1948	67.0*	67.0	—

\* Budget proposals.

Source: Ministry of Finance, Beirut, for figures from 1938-1943;  
Conseil Supérieur des Intérêts Communs. Éléments  
Statistiques. No. 22, for remaining figures.

Table III

Foreign Trade of Syria and the Lebanon,  
Imports, Exports, and Transit Trade

Year	Quantities in Thousands of Metric Tons			Value in Millions of £L		
	Imports	Exports	Transit	Imports	Exports	Transit
1939	542	326	2,150	76	37	38
1943	428	53	655	110	32	136
1944	429	120	1,436	94	46	158
1945	515	139	2,023	131	44	128
1946	370	107	1,998	237	36	102
1947	414	148	2,104	363	84	183
1st half 1947	193	84	1,246	177	42	101
1st half 1948	360	36	1,079	240	23	111

Note: From 1946 onward, imports of crude oil from Iraq to the Tripoli refinery were not included into the total of imports. In 1945, 232 thousand tons of crude oil valued at 4.5 million £L were included.

Source: Elements Statistiques des Etats de Syrie et du Liban. No. 23  
Deuxieme Trimestre, 1948.

Table XIII

Foreign Trade of Syria and the Lebanon: Main Imports

(Millions of £L)

Category	1938	1946	First Half of 1947
Textiles	18.5	69.6	49.2
Gold coin, bullion, & silver	6.3	52.0	27.0
Machinery	3.9	12.0	13.4
Metals	6.4	16.6	12.8
Transport Equipment	2.7	13.0	10.9
Foodstuffs (largely sugar)	4.0	10.9	11.1
Chemical Products	3.6	17.6	9.0
Agricultural Products	5.5	29.6	9.1

Source: Elements Statistiques des Etats de Syrie et du Liban

Table XIV

Foreign Trade of Syria and the Lebanon: Main Exports

(Millions of £L)

Category	1938	1946	First Half of 1947
Fruits, vegetables & pulses	10.1	25.5	16.2
Textiles, unwashed wool, cloth, silk yarn, etc.	6.2	21.1	9.3
Preserved and canned foods and tobacco leaf	2.2	7.4	3.7
Livestock and dairy produce	3.0	6.0	3.0
Vegetable oils, mainly olive oils	2.6	12.8	2.4
Chemical products, mainly soap and matches	0.4	4.8	1.4
Hides and tanned leather	1.4	3.7	1.8

Source: Elements Statistiques des Etats de Syrie et du Liban

Table XV

Foreign Trade of Syria and the Lebanon: Principal Suppliers

(Millions of £L)

Country	1938	1946	First Half of 1947
United States	4.9	48.6	42.0
United Kingdom	9.4	47.9	28.1
France	9.6	17.7	19.9
Italy	3.2	9.9	12.3
Irak	2.3	16.2	5.5
Belgium	3.3	3.1	4.6
Palestine	4.3	8.3	4.0
India	1.9	9.1	2.6

Source: Elements Statistiques des Etats de Syrie et du Liban

Table XVI

Foreign Trade of Syria and the Lebanon: Principal Markets

(Millions of £L)

Country	1936	1946	First Half of 1947
Palestine	8.0	17.5	13.6
Irak	0.9	12.2	6.3
Italy	2.2	0.5	3.9
United States	1.7	14.9	3.3
France	5.7	16.8	2.9
Egypt	1.6	5.4	2.1
Transjordan	1.2	3.9	1.4
United Kingdom	1.7	2.2	0.8

Source: Elements Statistiques des Etats de Syrie et du Liban

Table XVII

The Lebanese Balance of Payments: Estimate for 1948

(In Millions of LL)

<u>Debits</u>		<u>Credits</u>	
Imports	250	Exports	30
Expenditures of Lebanese Abroad	10	Emigrant remittances	45
Transfers of foreign companies	10	Foreign tourists	10
		Capital transfers from Palestine and Syria	40
		Foreign investment and donations for schools and hospitals	20
		Profits from transit and gold trade, foreign ex- change operations, etc.	60
		Revenue from Lebanese assets held abroad	<u>5</u>
		DEFICIT	<u>60</u>
	<u>270</u>		<u>270</u>

Source: Based on estimates of various Lebanese economists.

Table XVIII

Lebanese Budget Proposals for 1949

(In Million LL)

<u>Revenue</u>		<u>Expenditure</u>	
Direct taxation	12.0	President of the Republic	0.5
Indirect taxation	51.1	Parliament	0.6
Income from State Property	1.1	Prime Minister	0.2
State enterprises	3.0	Ministry of Finance	3.4
Various revenues	7.8	" of Interior	11.3
		" of Foreign Affairs	4.0
		" of Justice	3.0
		" of Public Works*	16.2
		" of Education	7.3
		" of National Economy	0.5
		" of Agriculture **	2.4
		" of Posts and Telegraph	2.0
		" of Defense	15.1
		" of Public Health	4.4
		Debt Service	2.7
		Reserve for unforeseen expenditures	1.4
	<hr/>		<hr/>
Total	<u>75.0</u>	Total	<u>75.0</u>

Notes: \* Including LL 14 million for roads, hydroelectric projects, etc.

\*\* Including LL 1.5 million for agricultural projects.

Source: Lebanese Ministry of Finance.