ECONOMIC RELATIONS BETWEEN LEBANON AND SYRIA

Amongst the many other preoccupations of the Middle East, the cold war which has been waged with varying intensity between Beirut and Damascus during the past year and a half has passed relatively unnoticed outside the circles most intimately concerned. At meetings of the Arab League both parties have claimed that they were only exercising their rights as brothers to have a good quarrel and have indicated that any interference, even from other members of the family, would not be appreciated.

This account of economic relationships between the two countries was written towards the end of the summer of this year (1951) and covers the period from 1943 up to the time of writing. If agreement has been reached before these pages appear in print they will give some indication of the processes which led up to the agreement. If no agreement has been signed it will be easy enough to form some idea of the exchanges which are still passing back and forth between the two sides. Most of the information in this article has been taken from the numerous notes exchanged between the two governments and from the polemics of the Damascus and Beirut press.

DURING the French Mandate complete economic unity existed between Syria and the Lebanon. It included all aspects of economic relations—joint customs, a unified currency and tax system, free movement of capital and persons, and unrestricted freedom of work in both countries. The administration of these activities and the sharing out of customs receipts were in the hands of a Council of Common Interests.

On October 1, 1943, while the French were still in occupation, the Syrian and Lebanese Governments signed an agreement at Shtaura which dealt the first blow at complete unity. The Shtaura Agreement is a somewhat vague document, but the one thing which it did state definitely was that Syria and Lebanon were to form one customs area (Article 4).

As soon as both countries achieved complete independence in 1946 the customs union was subjected to severe strain. Each side began to follow a separate monetary and fiscal policy. The Lebanese, as transit brokers, favoured an "open door" and were not greatly concerned at the lack of balance between imports and exports. By 1948 the Syrians became alarmed at the danger of this policy to their newly established industries and proceeded to claim that, since no special provisions were made and no privileges granted to the Lebanon by the Shtaura Agreement, the maintenance of complete unity had been implicit in the agreement. Syria, it was maintained, had taken great pains to observe the spirit of complete unity and during a very vital period had taken none of the measures (such as the control of movement of individuals to the Lebanon) which were required to safeguard and promote Syrian trade.

The Lebanon pointed out that on its side considerable sacrifices were being made in the interests of complete unity. It had agreed to allot to Syria the greater part of wartime import quotas and had permitted Syrian importers to import goods directly and also to dispose of them in Lebanese markets. The Lebanon had tolerated Syrian measures compelling Lebanese automobile importers to establish offices in Syria, " though this violated the natural role of the Lebanon to act as an agent to import goods for Syria." This last phrase, which is quoted from the Lebanese reply to the Syrian memorandum of March 8, 1950, is worth noting, not only because it caused indignation in Damascus but because it summarizes the Lebanese attitude towards Syria. The Lebanese view of their own role is that they should apply their superior skill as business men to buying wholesale as cheaply as possible in Europe or the United States and selling retail as dearly as possible to Syrian business men who find it pleasant to come to Beirut on a Friday and obtain their requirements while sampling the delights of the less austere of the two capitals. Incidentally, the price which the Lebanese have extracted from the Syrians for performing this service is a high one, if the standard of living in commercial Beirut and the fantastic congestion of luxury automobiles in Beirut streets are any reflection of profits. In many ways, this assumption on the part of the Lebanese is the crux of the whole quarrel which has arisen between the two countries. Syria is within certain limits self-sufficient agriculturally; it has an exportable surplus of food grains, cotton and other agricultural products, light industry is being established on a small scale, and with its commercial relations with Europe and America in its own hands there should be no insuperable difficulty about maintaining a favourable foreign trade balance. The Lebanon, on the other hand, is highly commercialized, lightly industrialized, has an exportable surplus of citrus and other fruits, but is deficient in food grains and is highly dependent on remittances from emigrants in the U.S., Africa and Australia.

As further proof of its goodwill the Lebanese Government pointed to its acquiescence in the wartime wheat control, which constituted a violation of the provisions of the customs union and its fundamental aim —namely, the free flow of products between the two countries. Lebanon had also accepted the Syrian imposition of duties on wheat exported to the Lebanon, at the rate of fifteen piastres a kilo. Moreover, the Lebanon had never suggested separation in retaliation for Syrian measures prohibiting the flow of foodstuffs, oils and livestock to the Lebanon. Every time Syria had prohibited the sale of wheat to the Lebanon, the latter had confined its action to notifying Syria formally that there were stocks in Lebanon for only fifteen days and not sufficient scarce currency to import from abroad. The Lebanon even agreed to a 50 per cent. duty on foreign wheat and its by-products, of which there was a great shortage, as a measure to protect Syria's local production.

The Lebanon had agreed to the exemption of industrial machinery from duty, to reduced duties on raw materials required by Syria, and to restricted imports of forty articles produced locally, even though Syria went on issuing permits without restriction. Duties on cotton and silk textiles had been raised in spite of the great need for these articles in the Lebanon.

During 1948 the situation was further complicated by the fact that, after prolonged negotiations in which the French, Lebanese and Syrian Governments participated, a monetary agreement was drawn up between the three countries. At the last moment Syria backed out and only the

Lebanon and France signed. The Lebanese attitude in tying its currency to France was widely condemned in Syrian Government circles at the time, but "circumstances subsequently changed" and on February 7, 1949, a similar agreement was signed between Syria and France.

By the middle of 1949 causes of economic friction had become so numerous that negotiations were undertaken with the object of finding a comprehensive solution. An agreement was signed on July 8, 1949. It provided for the reduction of dues on raw materials not produced locally but required for local industry; it raised duties on foreign industrial products which competed with local products. It envisaged the unification of exchange regulations and internal taxes and the adoption of joint and effective measures to remove the difference in value between the two currencies. The Lebanese pound was at this time at a premium over the Syrian pound, which varied from 7 to 10 per cent.

From the Syrian point of view the agreement of July 8 did not produce the anticipated results. The Syrian Government accused the Lebanon of not taking effective measures to remove the difference between the two currencies and of not equalizing duties on commodities flowing between the two countries. It added the accusation that the Lebanese Government had shown no desire to restrict the importation of luxuries which was exhausting the wealth of both countries and which hit Syria particularly hard. This would eventually hit the Lebanon as well, since the Beirut market would suffer from the loss of Syrian purchasing power.

In the Syrian view, the removal of the difference between the currencies was necessary for the retention of the customs union. To protect the Syrian pound from the danger of devaluation in relation to the Lebanese pound, which resulted from the bulk of Syria purchases being made through Beirut, the Syrian Government would be compelled to control the transfer of capital between Syrian and Lebanese territory. If, however, the Lebanon accepted the principle of allowing Syria to take such measures separately, the Syrian Government would find itself obliged to prevent the importation of certain commodities from the Lebanon to Syria. Such measures would certainly jeopardize the customs union between the two countries.

Such was the state of affairs when the Syrian Government of Khalid al Azm presented a note to the Lebanon on March 7, 1950. After a formal expression of its desire to strengthen economic relations and co-operate with the Lebanon in every respect, the note went on to review the complicated and unsatisfactory nature of relations during the previous seven years.

The experience of these years and the problems confronting the countries from time to time had proved that the confusion and weakness which had characterized the common interests were due to the fact that these arrangements had been based on temporary and short-term agreements of limited scope. Whenever there were differences the two governments had simply confined their efforts to finding temporary and partial solutions for fundamental questions. There had been no decision and clear agreement or definite policy regulating economic relations. Syria had submitted several projects for the solution of these problems, but the

Lebanese Government, contrary to the spirit of the agreement of July 8, 1949, had attached no importance to them.

The note went on to say that the only workable basis which would safeguard the rights of both parties was the establishment of complete economic unity involving the unification of the customs and monetary systems, a common export and import policy and the equalization of all customs duties. The Syrian Government hoped that it would receive the Lebanese reply within a short period, at latest March 20, 1950. Following acceptance of the principle, negotiations would start immediately for the settlement of details. In case of refusal, the Syrian Government would consider the existing customs union as terminated and would find itself compelled to look after its own interests.

The Lebanese Government was shocked at the form of ultimatum in which the Syrian note had been presented. It considered that the note was inconsistent with the spirit of co-operation and friendship which successive Lebanese Governments had striven to preserve. Its reply went over the old ground and reiterated at length the Lebanese viewpoint quoted earlier in this article.

While leaving the door open for further negotiations, the Lebanese Government said that it could not accept the Syrian proposal. If the two countries were economically complementary, a policy of economic co-ordination should preserve for each one its appropriate characteristics, specialization and natural position. The Syrian proposal for unified currency was unacceptable, since it involved the unification of issuance and cover regulations and would lead to the unification of financial, economic, legislative and political action. If such unification was effected it would prejudice the sovereignty of the two States and would definitely weaken the position of the Lebanese currency without strengthening the Syrian.

The Lebanon reiterated its desire for a negotiated settlement, but if the Syrians persisted in their attitude the Lebanon would reserve its rights and would not be responsible for the consequences.

In its reply the Syrian Government went to great pains to refute Lebanese implications that Syria alone benefited from union. Syria, it said, formed a large market for the industrial and agricultural products of the Lebanon. During and after the war, the Lebanon had made progress both in agriculture and industry, especially in the production of cement, cotton yarns, sweets, conserves, beverages, biscuits and macaroni. It was an error to imagine that Syria alone benefited by selling its products on the Lebanese market. In fact, the two countries were in need of each other to exchange products.

The Lebanon had been benefiting almost exclusively from the trade of the two countries and from transit transactions. Syria had not attempted to obtain a share in these benefits, though it could have done so, as there was no provision preventing Syria from encouraging its commercial activity by every means at its disposal, including the prevention of the movement of funds. The Lebanon had made vast profits from the money which Syria spent in the Lebanon. Syria could have controlled and limited these expenses had it wanted to balance payments between the two countries. Moreover, the Lebanon had benefited in large measure from the fact that Common Interests and customs administrations, the railway companies, foreign companies and agencies had remained in the Lebanon, where they spent much money. The commercial prosperity of the Lebanon was due to the transfer of capital to the Lebanon and the concentration of commercial activities and exchange transactions there.

So far as wheat was concerned, Syria's farmers had suffered great loss by the imposition of a price ceiling to safeguard the Lebanese during the war, while the latter refused to control the price of cotton yarn, which as a result cost the Syrian farmer ten times its real value. The prevention of the export of other Syrian commodities to the Lebanon had taken place at a time when the Lebanon had signed a unilateral monetary agreement and had deprived the Syrian pound of its purchasing power in the Lebanon. By signing the financial agreement unilaterally in 1948 the Lebanon had caused panic among holders of Syrian currency, which had compelled the Syrian Government to resume negotiations with the French. Had the Lebanon refrained from ratifying the monetary agreement separately the two countries would have obtained better terms and full economic unity would have continued to exist.

On March 13, temporary regulations were issued in Damascus to take effect from the following morning. Exchange control regulations were applied to transactions between Syria and the Lebanon. Travellers to and from the Lebanon were not allowed to import or export more than fifty Syrian pounds. Transport of goods from the Lebanon to Syria was prohibited with the exception of fuels, goods in transit, and commodities exempt from duties. Customs posts were to be established, smuggling was to be severely suppressed and special permits would be required by Syrians travelling to the Lebanon. The decision of the government was submitted to the constituent assembly and approved by an overwhelming majority. Amongst the public there was some enthusiasm at what was called " liberation from the Lebanese Mandate."

The Lebanese Prime Minister, Riadh as Solh, in a speech in parliament on March 14, stated that the Lebanon would not undertake reprisals against Syria. The Lebanon would remove duties on the import of foreign cereals, meat and dairy products, an " open door " policy would be introduced and the government would ask for a free hand to re-organize economic life in face of the rupture.

During the following month relations between the two countries became tense on several occasions. The Lebanon prohibited the import of Syrian products, with the exception of leather, wool, vetch and hay, and Syria retaliated by suspending all imports and exports to and from the Lebanon. Syria also took immediate action to push ahead with the construction of a port at Lattaqia destined ultimately to replace Beirut and Tripoli as the Syrian outlet to the west.

Meetings between Syrian and Lebanese delegations eventually took place at Bludan and Aley between June 20 and 25, and views were exchanged on practical arrangements to implement the " principle of rupture." An agenda for study by a technical committee was prepared and the meeting adjourned. On July 30, 1950, the Syrian Prime Minister, Nazim Bey al Kudsi, disclosed that the Lebanon had rejected further

Syrian overtures for unity and that the Syrian Government had therefore submitted a draft agreement for the exchange of products on the basis of separation. He also announced that he had proposed to the Lebanese Premier Riadh as Solh that Syria should guarantee to supply Lebanese requirements of wheat. This point was formally accepted at a meeting of the two Finance Ministers at Shtaura on September 19.

Reviewing the results of the first six months of rupture on September 14, Hassan Jabbara, a former Syrian Finance Minister, announced that revenue had increased quite impressively. Fiscal stamp receipts had gone up from a rate of a hundred thousand to a million Syrian pounds per year; import permits had similarly risen from a hundred thousand to a million Syrian pounds. Postage and telegraph revenues had risen and the banks and exchange markets were experiencing a boom. Syrian industry was facing the future confidently as a result of protective duties imposed on foreign competition.

At the same time the Syrian Prime Minister, Dr. Kudsi, denied in the Syrian Chamber that relations with the Lebanon were based on economic rupture and advocated only customs separation. In replying to an argument that he contradicted himself by insisting on customs separation from the Lebanon while advocating at the same time economic unity between the Arab countries, Dr. Kudsi said that he had defended himself against similar accusations in the Lebanon by explaining that Syria and the Lebanon were like two brothers, one economical and the other extravagant. Not only would the continuation of economic relations between the two be of no benefit to the extravagant party, but it would ruin the economical one.

Another meeting of the two Finance Ministers followed on October 3. Syria put forward a proposal for unity on the basis of free agricultural and limited industrial exchange, free import to Lebanon of Syrian rice and cotton, and an open door for Syrian imports coming through in transit. The Lebanon should undertake not to import from abroad products manufactured in Syria or articles considered by Syria to be luxuries. Syria would supply Lebanese requirements of wheat. The forty-four million Syrian pounds held by Lebanon would be liquidated by purchases, but Lebanese debts to Syria would be settled in dollars or Lebanese pounds.

The Lebanese Government intimated that such proposals could not be accepted under any circumstances and prepared counter-proposals, but these were overtaken by a three-day strike called by the inhabitants of Tripoli, followed by protests from other towns and economic circles in Beirut, urging that the economic stagnation in the country demanded an agreement with Syria at all costs. The strike in Tripoli was particularly embarrassing to the government and was settled only by the award of one million Lebanese pounds to the citrus growers of the town to compensate them for the loss of their Syrian market.

On November 9, 1950, a delegation from Tripoli, which is very heavily hit by the present situation, appeared in Damascus to urge agreement on complete union and not only on an agricultural exchange. The Acting Prime Minister, Zeki Khatib, said that Syrian industry must come first and that the list submitted by the Lebanese Government, which included radios and vegetable oils as duty-free Lebanese products, was absurd as the Lebanon produced neither of these items.

No further progress was made until December 25, 1950, when it was agreed to exchange agricultural products within the limits of each country's requirements for domestic consumption, and subject to the customs tariff and regulations in force in each country.

On March 14, 1951, the first anniversary of the rupture, Akram Rikabi, the Syrian Director of Customs, declared that customs receipts for this period amounted to over forty million Syrian pounds, as compared with the twenty-seven millions which Syria used to receive before the rupture.

During the period between the rupture and the time of writing, talks have been going on intermittently between the two governments. Activity was intensified during the Hussein Oueini caretaker-government in the Lebanon in the spring of 1951, and at one time it looked as if a permanent settlement might emerge, but once again it foundered, this time on the question of free circulation of Syrians in the Lebanon, which Damascus would not accept.

The advent of a new government in the Lebanon on June 5, 1951, under Abdulla Yafi, made the renewal of negotiations a strong probability and the new government was assailed from two sides by the press. On the one side the pan-Arabs urged complete unity with Syria on the best terms that could be extracted, on the grounds that the present state of economic stagnation, and the failure of the 1951 tourist season which would result from the absence of Syrians, were ruining the country. They held that the economies of the two countries were complementary and that the fears of the separatists were groundless.

The separatists, of which the paper *Orient* in the French language is a leading mouthpiece, said on June 19, 1951: " We still reject as we did on March 8, 1950, the offer of economic unity which Syria wishes to carry out under conditions of blatant inequality. Syria has introduced a directed economy which is perhaps applicable to Syria but is not necessarily acceptable to Lebanese agriculture, industry and commerce. For Khalid al Azm union means in the first place an extension of Syrian antarkie to the Lebanon without giving the latter a chance to discuss it. Union means the exploitation of the port of Beirut, the Lebanese market, and all the country's resources, for the greater glory of the Syrian republic. We all love Syria dearly, but not to the point of committing suicide for her. Fifteen months of rupture have shown us the attitude which is deliberately encouraged at Damascus towards everything Lebanese. If there is a serious crisis in the Lebanon now it is due to riotous overstocking at the time of the deterioration in the international situation at the end of 1950 and not to the rupture. If we admit any error it is that we have not reoriented our economy towards complete independence from Syria during the first fifteen months of the rupture."