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INCOME DISTRIBUTION AND ECONOMIC DEVELOPMENT IN THE ARAB WORLD

1950 - 1970*)

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Underdeveloped countries have shown no weaker inclination to import academic fashions from the West than to import its goods. Just as the subject of income distribution went out of fashion in Western academic circles some twenty years ago, so it also lost its attraction to Arab economists. Concentration came instead to be on the problems of raising per-capita income of the country as a whole.

This is indeed regrettable for if the advanced countries have on the whole succeeded in eliminating, or at least in greatly reducing, the worst forms of personal and regional inequality this has by no means been achieved by any Arab country.

Arab statistics on income distribution are, significantly, among the most deficient and when they do exist are among the most difficult to obtain. Available estimates, however rough, indicate a degree of inequality of personal distribution of income comparable to that prevailing in other underdeveloped countries such as India, Ceylon or Mexico but considerably higher than those prevailing in Western Europe and the U.S.A.

(*) Only nine Arab Countries are covered by this study : Libya, Egypt and Sudan in Africa, and Syria, Lebanon, Jordan, Iraq, Kuwait and Saudi Arabia in Asia.

TABLE (1)

Percentages of National Income Received by the 5% of Total Population with Highest Income, in the Late 1950's

Country	%	Country	%
Lebanon	34	Syria more than	33 (b)
Iraq	34	Libya	16
Egypt	more than 34(a)	Sudan	17
U.S.A. (1950)	20.4	India (1950)	33
Britain (1951-2)	20.9	Ceylon (1952-53)	31
W. Germany (1950)	23.6	Mexico (1957)	37
Denmark (1957)	20.1		
Netherlands (1950)	24.6		

(a) Percentage of the total income of urban population only according to the top 5% of urban population

(b) Percentage of total national income according to the top 5% of urban population only

Sources: Lebanon, Iraq, Libya and Sudan: Adelman & Morris, An Anatomy of Income Distribution in Developing Countries, Development Digest, Oct. 1971 p. 27; Egypt: Elad, H., L'Egypte Nouvelle, Les Editions de Mouton Paris, 1951, p. 41; Syria & Bilan de la Culture et de Développement en Syrie et dans les Pays Méditerranéens, Editions Anthropos, Paris, 1969, p. 228.

Other countries: Gunnar, G., The Distribution of Income in Underdeveloped Countries, in Myrdal, J. & F. Albin, B. (eds.), The Distribution of National Income, Macmillan, N.Y., 1958, p. 310.

One excuse given for the neglect of the problem of income-distribution in underdeveloped countries is of course their poverty.⁽¹⁾ In the words of T. Morgan:

Where nearly all people are very poor the sentiment for reducing a wide range of above-average but still moderate income-groups to plainly less than adequate consumption can hardly be strong.⁽²⁾

(1) Another reason is what Myrdal calls "scientific ignorance" or the art of avoiding a subject that must inevitably lead to a discussion of political power and corruption (The Challenge of World Poverty, Pelican, London, 1971, p. 118 & 237).

(2) Distribution of Income in Developed and Underdeveloped Countries, Economic Journal, 1956, p. 161.

This is obviously inapplicable to Kuwait for whom growth rather than distribution should be considered a marginal problem. Its significance may also be doubtful for Libya or Lebanon where per capita income is considerably higher than in most other underdeveloped countries. But even for other Arab countries where per capita income is much lower the argument seems to gain in strength only in so far as the standard of comparison is the income levels of advanced countries. The fact that a perfectly equal distribution of Iraq's national income, for example, would not give each person more than about one seventeenth of U.S. per capita income may not give a sufficient cause for excitement over equality. If the aim, however, is to eradicate the worst forms of «absolute» poverty and to meet the much simpler demands of the poorest sections of the population, a great deal seems to be possible through redistribution. It would emerge, for example, that if the average income of the richest 5% of the population of Iraq is reduced to half its 1960 level, the other half being transferred to the poorest 20%, the average income of the latter would be multiplied more than nine times.

But even if the economist was ready to admit that the immediate effects of redistribution on welfare may not be insignificant he may still fear that it may have negative effects on growth. This fear is largely the result of reading the last-century experience of the now-developed countries where inequality seems to have been favourable or at least not a serious obstacle to their rapid growth. But contemporary conditions in the Arab world are so different that a case at least equally strong can be made for the favourable effects of greater equality on economic development.

Compared with the puritanical upper-income groups of the last century in the West and the strong drive for rapid capital accumulation shown by the Soviet state in this century, the Arab upper-classes as well as the new elites show much lower propensities to save and invest in socially productive channels. It is through this small section of the population, but particularly through the new bureaucratic elites, that the international demonstration effect makes for a high propensity to consume

for the country as a whole. These new elites are likely to appear to the lower-income groups as more imitable than their predecessors whose social distinction rested on more than mere wealth. They also seem more inclined to display their newly acquired wealth than both the superceded landlords, who tended to enjoy it in the privacy of walled-in palaces, or the rich of the developed countries who keep most of their wealth in the form of stocks and bonds.

In countries where so much depends on the government official taking the right decision with regard to public investment and on the readiness of even the poorest sections of the population to accept restraints on consumption, economic development must suffer from a system of distribution in which the wrong decision can sometimes be more highly rewarded, in which the lower strata of the government bureaucracy are discouraged by comparing the high salaries at the top with their own poor pay and with their governments' socialist slogans, and where petty bribes are accepted as a desperate measure for a redistribution of income which the government has failed to enforce.

The favourable effects of inflation in so far as it redistributes income in favour of a class characterized by a high propensity to save and invest are largely lost when home industries are insufficiently protected, as is the case of the oil countries and Lebanon, and when the beneficiaries of inflation are mainly the traders and speculators. The Classical economists' argument that a more equal distribution would merely lead to faster population growth thus wiping out whatever benefit the poor may have reaped, is much less relevant to underdeveloped countries of today where population growth is much less the result of increasing income than of modern medicine. On the other hand a wider market brought about by greater equality was probably less vital to Europe in its early stages of growth than it is to underdeveloped countries today with their per-capita income being lower than that of the presently developed countries before their initial phases of industrialization⁽¹⁾ and with all the too-familiar problems facing their exports.

(1) See Kuznets, *U. S. Economic Growth and Income Inequality*, American Economic Review, 1963, p. 23.

Inequality of opportunities in education also seem more detrimental to growth in present-day underdeveloped countries than at earlier times when industries were able to make more use of traditional craft skills and whom entrepreneurs as well as labourers drew more upon traditional skills and inventiveness and relied more on education through the family or personal apprenticeship than upon formal education.⁽¹⁾

Some Western economists have expressed their dissatisfaction with a criterion of social welfare from which income distribution is excluded and which regards any increase in aggregate output as desirable so long as the gainers could, but not necessarily would, compensate the losers.⁽²⁾ But if it is fanciful to suppose that some redistributive mechanism operates in a developed country by means of which the poor is compensated for being made poorer during the process of growth, it is much more fanciful to make such an assumption where the «spread effects» of growth are much more limited, where income taxes are much less effective and where social benefits are heavily concentrated in a few cities.⁽³⁾ In fact there are strong reasons to believe that at least in some of the nine Arab countries personal as well as regional income inequalities have increased with the rise in per capita income over the last two decades.

(1) On this point see Fullin, L.: *Equality, Merit, and Democracy in the New States*, in Geertz, C. (ed.): *Old Societies and New States*, The Free Press of Glencoe, London, 1962, p. 191.

(2) See for example, Little, I.: *A Critique of Welfare Economics*, Oxford, 1960, pp. 92-3.

(3) Apart from the income tax levied on the oil companies, the main source of revenue for Arab governments are indirect taxes. In many Arab countries no general income tax exists and where it does, its rates are less steep than those of the United States. This last statement is true even of Egypt where income tax rates are much steeper than in any other Arab country. The evasion of taxes levied on commercial and industrial profits as well as on incomes from the professions is generally high especially in Lebanon where, according to informed estimates, the rate of tax evasion runs in the neighbourhood of 80%. Taxes on wages and salaries are however easily ascertained and deducted at source.

Twenty years ago the two main sources of income inequality in the Arab world were the domination of foreign economic interests and inequality of land ownership. A third source of inequality may be added for Lebanon but had no comparable counterpart in other Arab countries, namely the confessional dichotomy of Lebanese society whereby most businessmen and hence most of Lebanon's rich, were, as they still are, Christians.⁽¹⁾ Since then Arab countries have succeeded in reducing the strength of these factors but new ones have been working with increasing force towards greater inequality. Of these new factors two only will be discussed: the growth of the government sector and a government bias against agriculture.

(a) Land Tenure and Foreign Economic Interests

Outside agriculture and petty trade the Arab economy of 1950 was largely controlled by foreigners. Together with minority groups they controlled finance, manufacturing, foreign trade, a large part of internal trade and often even the public utilities and the professions. In some cases, Libya for example, foreigners even provided most of the skilled labour and monopolized the modern section of agriculture.⁽²⁾

On the other hand in all except Saudi Arabia, Kuwait and the Sudan, the biggest 2% of all landowners owned or held a proportion of total cultivated land ranging from about one

(1) In a study of entrepreneurs in Lebanon conducted in 1958, out of 207 entrepreneurs chosen mainly on the basis of their innovating quality in their fields 163 were found to be Christians compared with only 34 Muslims, 4 Jews and 3 druses. In industry alone the number of Christians and Muslims were 165 and 21 respectively, in finance 11 and 2, and in services 40 and 7. (E. Y. Sayigh: *Entrepreneurs of Lebanon*, Harvard University Press, Cambridge, Massachusetts, 1962, p. 70. See also Isawi, Charles: *Economic Development and Liberalism in Lebanon*, *Middle East Journal*, Summer 1964, p. 281.

(2) See Isawi, Charles: *The Arab World's Heavy Legacy*, in Thompson and Robinson (eds.), *Modernization of the Arab World*, Oxford, Princeton, 1959, pp. 20-21.

seventh in Egypt to about two thirds in Lebanon.⁽¹⁾ In the other three countries, inequality in the ownership of agricultural land constituted a much less serious problem either because the country had virtually no agriculture (Kuwait) or because land was under the collective control of the whole tribe village or the state, or was held by a broad class of small landholders, as in the Sudan and Saudi Arabia.⁽²⁾

- (1) In Syria 21% of the total number of landowners held about 45% of irrigated and 30% of rainfed land while about 70% of the rural population did not own any land at all. About two thirds of Syria's big landowners were absentee landlords most of whom were not themselves farmers but merchants who invested their profits in agricultural land. However, the appropriator of the lion's share of agricultural income in Syria was not always the landowner, but varied from one agricultural region to another with variations in the relative scarcity of factors of production. In areas where rain is scarce the owner of a pump could get between 45 and 60% of the crop simply in return for the water he provides. Where rain and labour were abundant the landowner could get half the crop for providing the land, while in the Gezira where land was abundant compared with labour, the lion's share went to the owners of tractors (See Garwood, G. : *Land Reform in Syria*, *Middle East Journal*, Winter-Spring, 1963, p. 23; Warriner, D. : *Land Reform and Economic Development in the Middle East* Oxford, 1963, Ch. 3; Berger, M. : *The Arab World Today*, Anchor Books, 1964, p. 167; Farley, *Planning Economic Development in Libya*, Praeger, N.Y., 1971, pp. 137-38 and IERD : *Economic Development of Syria*, Baltimore, 1968, p. 37.
- (2) In the Sudan, individual landownership is concentrated mainly in the riverain areas and cover about 6 million feddans, i.e., no more than 1% of the total area of the Sudan. The rest is owned by the state, about 40% of which is communally held by a tribe or a village community. Even in privately owned land the tenant has a status which is nearly equal to that of the proprietor-cultivator. As a result, and in contrast to Egypt, Syria and Iraq, neither the military nor the democratic governments of the Sudan were pressed to introduce land reform. Similarly, in Saudi Arabia the more widespread form of landholding is that of communal land tenure whereby the land is considered the property of the whole tribe or of an extended family whose members share the produce together. For the land which is individually owned large ownership is not common and rarely exceeds 40 acres. (See Awad, M.H. : *The Evolution of Landownership in the Sudan*, *Middle East Journal*, Spring, 1971, pp. 212-23; Raouf, A.H. : *The Kingdom of Saudi Arabia*, in Ismael, T. : *Governments and Politics of the Contemporary Middle East*, The Dorsey Press, Illinois, 1970, p. 258).

Foreign economic predominance has since greatly diminished in importance, so that outside the oil sector it is now important only in Lebanon.

The success of Arab countries in dealing with the other main source of inequality is much less obvious. In Jordan and Lebanon no land reform was introduced on a large scale. In Syria and Iraq both the expropriation of land and its redistribution have been far too slow. The whole 1958 land reform program of Iraq was supposed to be completed in five years. By 1962 only 12% of the land subject to distribution had actually been distributed. By mid-1963 out of a 7 million hectares that had originally been estimated to fall under the terms of the law only 815,000 hectares (or 21.6%) had been actually requisitioned and distributed while more than 1.3 million hectares were being held by the land reform authorities. Much of the latter area has been temporarily rented to peasants, often by underground means, and distribution is effected. The lack of security given to the peasants as well as the inadequacy of credit facilities and irrigation facilities provided to them often led to cultivators abandoning the land.⁽¹⁾

In Syria, expropriation and redistribution have been obstructed by the continuous change of governments. The original

(1) Lebanon has not yet known a land reform and in the early 1960s more than half the cultivated land was still owned by 5% of all landowners. Jordan's land reform was undertaken mainly on the basis of the East Ghor Canal development project and did not cover the whole country. The influx of Palestinian refugees resulted in a decrease in the share of rent in farm income from about 150% between 1946 and the early 1960s.

(Lebanon's Ministry of Agriculture, *Agriculture in the Lebanese Economy* (Beirut), 1968, p. 19; Clavin and M. Lundgren, M. A. Alexander, L. S., *The Agricultural Potential of the Middle East*, American Educational Publishing Company, N.Y., 1971, p. 227 and U.N. *Report on the World Social Situation, 1963*).

(2) Economic Intelligence Unit: *Iraq, Annual Supplement 1971*, p. 10; Hamel, S.: *Towards a Socialist Land Reform* (Arabica, Beirut 1964) p. 11 and Clavin & others, *op. cit.*, p. 61.

land reform law of September 1958 was repealed and replaced by another in February 1962. In May of the same year it was again repealed and replaced by a legislative decree which re-instituted the 1958 law with minor modifications. In June 1963 a new decree abolished the 1962 modifications of the 1958 law and introduced new ones. Syria's land reform, in contrast to that of Egypt, also suffered from the lack of a sufficient number of trained officials who could carry out the necessary surveys and distribution, from the difficulty of applying the distinction made in the law between irrigated and rainfed land and from the inadequacy of cadastral surveys which often made it difficult to be certain about how much land one owned. Estimates of the area subject to expropriation in Syria could therefore vary from one to two and a half million hectares or from 20% to nearly 50% of cultivated area.⁽¹⁾ At the end of 1965, the area of land which had actually been expropriated was 1.2 million hectares of which only 708,000 were announced by the government to have been distributed by 1969.⁽²⁾ In both Syria and Iraq the establishment of agricultural cooperatives has been equally slow.⁽³⁾

Thus although the Egyptian land reform of 1952 was less radical on paper than those of Syria and Iraq in terms of the proportion of cultivated area subject to expropriation, it had a greater effect on peasants' income just as it was less damaging to productivity. But even for Egypt, the redistributive effects of land reform could be exaggerated. Writing in 1970 Doreen Warriner summarized these effects as follows :

«although the law of 1952 brought a revolutionary change, the scope of redistribution under it was quite

(1) Wielonar, W. : *Modernization of Administration in the Near East*, Beirut, Khayat 1963, p. 71.

(2) Waznan, S. : *From Backwardness to Socialist Development in the Agricultural Sector (Arabia)*, Damascus, 1967, pp. 224-36 and *Economist Intelligence Unit ; Syria, Lebanon & Cyprus, Annual Supplement*, 1971, pp. 7-8.

(3) Less than 10% of all Syrian farmers belonged to cooperatives by the end of 1965 and about a fifth in Iraq in 1968.

small. Its immediate effect was to raise the incomes of a small proportion of the farm population on a small proportion of the cultivated area. Six other laws were later passed, one in 1961 reducing the original maximum holding of 200 acres to 100, others expropriating foreign-owned and other categories of land. Under these seven laws ... the area distributed amounted to about 12% of the total area in cultivation while the number of recipients represented about 10% of total farm population ... Apart from the larger holdings, where some control is exercised, the number and nature of leasing arrangements render (the) enforcement (of the legislation controlling rents and conditions of tenancy) impossible, as is always the case where the supply of labour greatly exceeds labour requirements. Minimum wage enforcement proved impossible for the same reason.⁽¹⁾

Early in 1953 the new Egyptian regime announced its commitment to a general program of rural reform and development which came to be known as the 'Combined Units' Project'. In each of some 868 areas inhabited by the rural population of about 13 million a 'combined unit' was to be created including a complete health centre, child-welfare centre, a centre for expectant mothers, an assembly hall, a museum, a school, a nursery, five villas for married officials as well as dwellings for 24 bachelor officials. According to the optimistic estimates of the Permanent Council for Public Welfare Services, the 868 combined units were to be completed by 1960. In 1955 President Nasser inaugurated the first combined unit in a village in the Giza Province. By 1960, however, only 250 units had been built. The first five-year plan indicated that by 1970 over 500 combined units would be functioning but by the spring of 1967 a total of only 301 combined units could be verified.

The government blamed this on 'the lack of funds and of qualified personnel'. But more important than the sheer num-

(1) Warriner, D.: Land Reform, Income and Employment in the Middle East, *International Labour Review*, June 1970, p. 613.

bar of buildings is the fact that other than those combined units located in the governorates just outside of Cairo, which appear to operate mainly as a model for foreign visitors, the buildings of the combined units are very poorly equipped, while many are largely deserted. A study published in 1965 and conducted by the Egyptian Institute of National Planning in cooperation with the I.L.O. was based on interviews from a random sample of 994 rural households chosen from 48 «typical villages» in six different governorates. In these interviews the head of each household was asked whether «he or his family had received any benefits from administrative services available in their village.» The percentages of negative responses were 26% for health, 73% for education, 76% for agricultural services, 82% for veterinary and agricultural extension services and 98% for vocational training.⁽¹⁾

(b) The Growth of Government Sector :

One result of the flow of oil revenue as well as of foreign aid directly into the hands of Arab governments was the rapid growth of the public sector and of government administration. An additional factor in countries governed by the military was the advocacy of «Arab Socialism».

Thus the rate of growth of the civil service was no less than 15% per annum in Syria (1961-66) and Egypt (1962-63—1966-67).⁽²⁾ At the same time that the Egyptian government was declaring its aim to make administration more efficient it was announcing its intention of finding jobs for most of the 28000 new university graduates looking for work in 1965, a «revolutionary» version of an ethic of a poor society. In the Sudan the main public corporation beside the Gezira scheme, namely the Sudan Railways, which monopolizes railroads and steamers and operates hotel and catering services, is the largest

(1) See Mayfield, J. : Rural Politics in Nasser's Egypt. University of Texas Press, Austin, 1971, pp. 177-184.

(2) Hanson, B. : Economic Development in Syria, Rand Corporation, 1970, p. VI and Ghannem, A. : The New Class in Egypt, in *Al-Talia*, February, 1968.

employer of labour in the country. But the rapid growth of the civil service is not confined to countries with unitary governments. In Saudi Arabia the number of civilian employees increased by 120% in six years (1959-65) and by 1967 about 50% of the total employed (excluding the armed forces) were government employees. The corresponding percentage for Kuwait was 40% in 1965, and now almost one of every six persons living in Kuwait is on the government payroll.⁽¹⁾

Twenty years ago public ownership rarely extended beyond irrigation works and public utilities and the government's share in total expenditure did not exceed one-fifth of GNP except in some of the oil countries. By the mid-1960's this ratio had increased by 50% in Jordan, 80% in Iraq and more than doubled in Egypt, Syria and Kuwait.⁽²⁾ Except in agriculture, oil, retail trade, housing and small-scale industry, the public sector is now predominant in Egypt, Iraq and Syria so its fast growing world except Lebanon. Outside Lebanon and Jordan⁽³⁾, the share of public investment is nowhere less than 50% and it is more than 75% in Iraq and Egypt. Even traditional Saudi Arabia has gone a long way since the state itself is a private enterprise. In recent years public investment in Saudi Arabia has been rising twice as fast as private investment (20% and 8% a year respectively) so that the two are now roughly equal.⁽⁴⁾ The General Petroleum and Mineral Organization (GPROMIN)

(1) International Labour Office, *Arabia, Economic Development in Saudi Arabia*, G. Alexander, R. and Cooper, Ch. Economic Development and Population Growth in the Middle East, Ann Arbor, M.I., 1972, p. 374-375 and B. M. Haddad, *Economic Development and Regional Cooperation*, Kuwait, Chicago, 1968, p. 78.

(2) See Table 12.

(3) In the Jordan, however, the Gezira scheme, which occupies a little more than a quarter of all of Jordan's land and a crop production (with irrigation and rainfall) is run as a public corporation.

(4) In Jordan (1960) the share of public investment in total gross investment was 43% in Jordan and less than one-fifth in Lebanon.

(5) *Issues, Growth and Structural Change in the Middle East*, Middle East Journal, Summer 1971, p. 312.

established in Saudi Arabia in 1962 and charged with the task of diversifying the economy is a state-owned corporation. Only in Lebanon is the role of the state still confined to public utilities⁽¹⁾ and, ideological slogans apart, Lebanon is the only true citadel of private enterprise which remains in the Arab world.

TABLE (3)
Government Expenditure as % of GNP.

Country	Year	%	Country	Year	%
Lebanon	1965	21	S. Arabia	1966	40
Sudan	1965	23	Syria	1966	41
Iraq	1965	29	Kuwait	1966	47
Jordan	1967	38	Egypt	1966	55

Source: David Charles: Growth and Structural Change in Middle East, Middle East Journal, Summer, 1971, pp. 320-1.

In all the nine countries the higher ranks of government officials constitute a privileged group whose rewards, especially if the non-monetary ones are included, are more often than not, out of proportion with their services.

For example in Egypt, where redistribution of income in favour of the lower classes has probably gone further than in any other Arab country, the total pay of top government officials has been increasing much more rapidly than the total salaries and wages of the lower ranks. According to state budgets, between 1962-63 and 1963-67 total salaries in government administration as well as public companies and organizations increased by 77% while the salaries and «representation allowances» paid

(1) Even this overstates the role of the Lebanese government, considering that many public utilities are still privately owned and run such as a good part of the means of transport and the only two television stations. Even money supply and control was run until 1964 as a concession by a private bank which assumed the role of Lebanon's central bank.

to the higher ranks in central government administration increased by as much as 146% during the same period.⁽¹⁾ In 1966-67 the total annual salaries as well as representation allowances paid to the top 1085 jobs in central government administration amounted to L.E. 2,578 million, the average annual income being L.E. 2376 or about 40 times the per capita income of the whole population.⁽²⁾ According to the scale of salaries included in the Presidential Decree No. 3309, 1966 the ratio between the highest salary, excluding representation allowances (L.E. 1900-2000) and the lowest (L.E. 60-84) in government administration and the public sector is 28 : 1. If representation allowances for the highest grade is included the ratio may exceed 40 : 1.⁽³⁾ This is to be compared with a ratio between the salaries of top grades of the civil service and the wage of an average unskilled labourer in Britain of about 5 : 1 before and 4 : 1 after tax.

(c) The Bias Against Agriculture

Development economists are now agreed that in order for industrialization to succeed, agricultural output has to grow at a comparable rate, and that failure to achieve this may constitute the most important obstacle to industrial growth. A more obvious but no less important justification for aiming at a high rate of growth in Arab agriculture is that more than half the Arab population relies directly on it for its livelihood. In most Arab countries the average rate of growth of agricultural output over the last two decades has been less than half that of manufacturing.⁽⁴⁾

(1) Numbering 753 jobs in 1962-63 and 1043 in 1966-67 (see Ghannim, *op. cit.*, p. 61).

(2) Calculated from *ibid.*, p. 69.

(3) Ghannim, *op. cit.*, p. 60.

(4) Available agricultural data indicate an annual rate of growth of agricultural output in Saudi Arabia (1963-68) of 17% compared with 12.1% for manufacturing and 7.9% for GDP. In Libya (1962-67) the annual rate of growth of agriculture was 4.5% compared with 28% for GDP, 30% for construction and over 20% for services. After achieving remarkable progress in the early post-war years, Syria's agricultural output grew at an average annual rate of only 1.3%

In Saudi Arabia and Libya oil has not only failed to pull forward the production of agriculture and animal husbandry but has actually contributed to their decline.⁽¹⁾ This has been partly due to the increasing sedentarisation of nomads and to the increasing competition of well-paid and more stable employment with the oil companies or the government. Yet many more labourers have emigrated to the towns than could be absorbed by either, and had more attention been given to agriculture many of these might have remained on the land without a labour shortage being felt in the towns. Water seems to be available⁽²⁾

between 1958 and 1968, to which Hansen attributes the decline in Syria's over-all rate of growth after 1968. The performance of Egyptian agriculture also tended to deteriorate so that compared with about 10% increase in per capita agricultural output over the 1950's it remained more or less constant between 1960 and 1965 and declined after 1965. No data is available for Kuwait except for 1966-68 during which an annual rate of decline of 18% was reported (including fishing and pearling). Iraq, Lebanon and the Sudan show different performances in different periods, from an annual rate of growth of 2.7% (1955-60) to 7.8% (1960-68) in Iraq; and from 2.0% (1950-57) to 6.9% (1957-64) and 3.3% (1964-68) in Lebanon, and from 2.7% (1959-60) to 10.3% (1960-64) in the Sudan. The highest rate was that of Jordan (12.5% at current prices between 1959 and 1968.) (Sources : U.N. : Yearbook of National Accounts Statistics 1969, UNESOB : La Croissance Economique et le Niveau de Qualification de la Population Active Dans Divers Pays au Moyen-Orient (nomencl.) April, 1971, p. 57 & 276-8; Hansen, B. : Economic Development in Syria, op. cit., p. 11; Economist Intelligence Unit : Saudi Arabia & Jordan, No. 1, 1971, p. 7; Farley, op. cit., p. 244 and FAO: Production Yearbook, 1969).

- (1) Before the exploitation of oil both Saudi Arabia and Libya were net exporters of livestock. Since then the decline in animal husbandry has turned them into net importers. By the late 1960's the total value of exports of food and live animals of both countries constituted no more than 1% of their imports of the same items. Primary non-oil exports other than food such as Libya's exports of esparto grass (used in the paper industry) and sponges, have also dwindled.
- (2) Compared with the present area under cultivation in Saudi Arabia of less than one million acres (about 0.2% of the country's total area) an American estimate gives 18% of the total area of Saudi Arabia as potentially cultivable. The IERD mission to Libya has also reported large possibilities for developing Libya's water re-

but it is misused or neglected either because of the existing tribal rights or because little has been invested by the government in the digging of new wells or in the preservation of flood waters.⁽¹⁾ A similar neglect of pearling and fishing could be observed in Kuwait.⁽²⁾

TABLE (8)
Saudi Arabia : Financial Allocations in the Five-Year plan
(1970-75) (Percentages)

Administration	18.6
Defence	23.1
Education	17.5
Health and Social Affairs	4.7
Public Utilities and Urban Development	11.1
Transport and Communications	18.1
Industry	2.7
Agriculture	3.8
Trade and Services	0.3
Total	100.0

Source : Economic Intelligence Unit - Saudi Arabia and Jordan, Annual Supplement 1971, p. 14.

source. (See Economic Intelligence Unit - Saudi Arabia and Jordan, Annual Supplement 1971, p. 4; IBRD - *The Economic Development of Libya*, Oxford, 1960, p. 24. See also Farley, *op. cit.*, pp. 242-3 & 133; Alan, J. : *Some Recent Developments in Libyan Agriculture*, Middle East Economic Papers, 1969 and UNESOB - *Studies on Regional Development Problems*, 1968, p. 23).

- (1) See Table (8). In 1968 the Monetary Agency of Saudi Arabia authorized the Agricultural Bank to provide farmers with loans for the purchase of engines, pumps and livestock. During the following five years the total value of loans provided by this bank was 53.5 million S. Riyals, the annual average being 10.7 per cent of the annual allocations to the Royal Treasury (173 millions). (Saudi Arabian Monetary Agency : *Annual Report, 1358-59 A.H.*, p. 22).

In the 1965-69 development of Libya, agriculture, animal resources and forests were allotted L.L. 11 million in addition to 8.9 million in the general budget, compared with \$1.2 million allotted to the ministry of interior and 14.3 million to defence. (Farley, *op. cit.*, pp. 304-5).

- (2) In 1912 Kuwait had more than 800 ships employed in pearling, by 1936 the number had declined to five (El-Mulhik, *op. cit.*, p. 12).

In Lebanon, the government has not shown particular zeal in making credit available to small farmers, while the banking system has provided much less credit to agriculture than to either industry, building or commerce (see Table 4).

TABLE (4)

Lebanon : Loans Provided by the Banking System to Various Economic Sectors (L.L. 000)

	1964	1965	1966	1967 Dec.	1968 Dec.
Agriculture	194216	176194	132023	151233	132004
Industry	255967	362730	321133	287170	461604
Building	141051	206522	212142	229337	248870
COMMERCE :					
Foreign Trade	196350	226230	219208	379655	367552
Internal Trade	646540	637919	663767	648762	512634
Services	123068	141144	172945	171500	170270
Consumption	122445	135993	147367	140392	123363
Total Commerce	987413	1181286	1242687	1240406	1273759
Finance	160911	116770	143034	151642	121141
Other	218916	273771	251221	237867	236647
Grand Total	1826494	2311189	2333363	2356333	2316476

Source : Keyrouz, K. : Reflections on the Most Important Socio-Economic Problems of Contemporary Lebanon, (Arabic), Lebanese University, Beirut, 1970, p. 127.

In 1965 a new bank was established in Lebanon under the name of the Bank of Agricultural, Industrial and Financial Credit (B.C.A.I.F.) and was described by the IFRED mission in 1961 as «the only credit organization aiming at the development of the whole country»⁽¹⁾ The Government was to own 40% of its shares, the rest being left for other banks or individuals. Out of the average annual loans provided by this bank between 1965 and 1969 (L.L. 114,000) less than 5% went to agriculture, and this «unfortunately went particularly to urban capitalists who wanted to create orchards with the likely result of dispossessing poor peasants.»⁽²⁾ The IFRED report went on to say that :

(1) IFRED : *Le Liban Face A Son Développement*, Beirut, 1962, p. 258.

(2) *Ibid.*

«usury is very widespread in agriculture; one competent person has described the Bekaa as the land of usury». It is not surprising if the inhabitants of that region do not regard a bank in Baalbeck, which charges an interest of 18% per annum a great benefactor. Usury often forces the poor peasant to cultivate «hashish» which clearly indicates that attack against its cultivation cannot make any sense if not coupled with a policy for supplying middle and long-term agricultural credit at less heavy terms.⁽¹⁾

A project for the development of the use of the Litani river, Lebanon's most important source of water, for both irrigation and hydro-electricity was entrusted to a special government department as long ago as 1954. The development of hydro-electricity was carried out quite rapidly but that of irrigation has been much slower. By 1968 three hydroelectric stations had been completed but only a «model» irrigation project covering 1500 hectares. One writer explained this by the fact that «hydroelectric projects show more rapid profits than do agricultural ones, the former can be self-liquidating while the latter require a long-term investment policy» as well as by disagreements between the representatives of the different regions on the allocation of the water saved.⁽²⁾

In countries with more «radical» governments the bias against agriculture did not take the form of depriving it of investment funds. In fact in many of their plans agriculture was given a greater share of total investments than industry.

(1) *Ibid.*, p. 239

(2) Hudson, J. «The Litani River of Lebanon: An Example of Middle Eastern Water Development». *Middle East Journal*, Winter, 1971, pp. 11-2 and UNESCO, op. cit., 1969 pp. 163-4 of the Arabic edition.

(3) In Iraq's plans priority was given to agriculture over industry up to 1956, thereafter first priority was given to industry. Again while in the earlier period (1951-56) the percentage of actual to planned investment in agriculture was 51.1% it became 38.6% in 1959-65. In the following three years (1966-67/1968-69) actual development expenditure on agriculture ranged between 19% and 39% of allocations made to agriculture in annual budgets. (Jalal, B. *The Role of Government in the Industrialization of Iraq* Cass, London, 1972, p. 47 & 68 and Economist Intelligence Unit: *Iraq*, Annual Supplement, 1971, p. 8).

The problem was rather that too great a share of public investments directed to agriculture has been in large-scale, capital intensive irrigation projects. This is not to deny either the importance of the High Dam for Egypt, considering her population pressure on the land, or of the Euphrate's Dam for Syria with her urgent need to reduce dependence on rainfall. However, in all the four countries : Egypt, Syria, Iraq and the Sudan, the construction of big irrigation projects has been at the expense of improving yields which could have brought substantial returns and greater employment at less cost and in a much shorter time.⁽¹⁾ Moreover, while the construction of the Euphrate's Dam was being delayed by the continuous changes in the Syrian government, Egypt was spending large amounts of capital on the Tahrir Province and the New Valley schemes which brought little result. In contrast to Iraq and Syria, however, Egypt should at least be credited with avoiding a decline in crop yields.⁽²⁾ In Iraq, although the area under cultivation has doubled since the second world war, little was done to improve credit and marketing facilities, to extend the use of

(1) For an elaboration of this point see, for Egypt, Mahic-El-Din, A. : *Agricultural Investment and Employment in Egypt Since 1934*, Unpublished Ph.D thesis, London University, 1966 and for Iraq, Badri, A. : *Economic Development in Iraq*, in Cooper & Alexander (eds.) op. cit., p. 292 and for Sudan, Wynn, R. : *The Sudan's 10-year Plan*, *Journal of Developing Areas*, July, 1971, pp. 574-5 and Osman, A. : *Planning Agricultural Policies and Policy Implementation in the Republic of the Sudan*, Unpublished Ph.D. thesis, Michigan State University, 1968, pp. 69-70.

(2) In Syria the net value added per hectare of cultivated land in 1963 was almost half its level in 1960 (both relatively normal years). By 1967 it had partly recovered but had not regained its 1960 level. In Iraq the average annual production of grain in 1963-68 was about 10% below the 1954-58 average. No such decline in yields has occurred in Egypt where some crop yields have on the contrary shown considerable improvement. With a much less urgent drainage problem than Iraq, Egypt made greater progress in this field. Thus the yield per feddan in 1967-68 was 86% higher than the 1960-61 average for wheat, 67% for maize and 40% for rice. But no such big increase is recorded for cotton especially during the last decade. (Hansen : *Economic Development in Syria*, pp. 21-22; Warriner, D. : *Land Reform, Income and Employment in the Middle East*, op. cit., pp. 618-19 and National Bank of Egypt : *Economic Bulletin*, 1970, No. 1).

fertilizers beyond the small area under cotton¹ or, above all to save the already cultivated land from increasing salination, which is by far the most serious single problem facing Iraqi agriculture. According to Dr. M. DIB of the American University of Beirut, an Iraqi consultant engineer reported to him that a minister in reply to the latter's plea for an allocation of financial resources to the provision of more adequate drainage facilities and less to dams said, "Everybody sees a dam but who sees a drainage canal?" Another minister told him: "A dam could be inaugurated, but who would wish to inaugurate a drainage network?"⁽²⁾

In the Sudan, agricultural progress has been heavily concentrated in the relatively small modern sector which lies almost exclusively in the area between the two Niles south of Khartoum, to the neglect of traditional agriculture which supports no less than two thirds of the population. Within the traditional sector, the southern provinces, inhabited by about a third of total population, have been the most discriminated against both economically and socially. On Sudan's independence in 1958 the Gezira, together with the Cush-Tokar region employed only 8% of Sudan's labour force but earned about fifth of national income. Low as per capita income was for the Sudan as a whole, per capita income in the Three Towns where most of the population of the modern sector is concentrated, was estimated to be about 12 times that of a typical rural owner in southern Sudan.⁽³⁾ Since independence these disparities have increased. In the six years following independence the rate of growth of GDP of the modern sector increased more than 5 times as fast as that of the traditional sector. Again in the ten-year plan (1960-70) a growth rate of 6.8% was projected for the modern sector while the traditional sector was scheduled to grow at the

(1) See Stalling, *Soil and Water Conservation, Irrigation and Agriculture in the Middle East*, American University of Beirut, 1960, p. 157.

(2) DIB, M.: *Environmental Considerations in the Management of Natural Resources in the Middle East*. A paper presented to UNESCO Regional Seminar on Development and Environment, Beirut, 1971 (unpub.) p. 15.

(3) McLaughlin, P.: *The Sudan's Three Towns, Part II: City and Expenditure, Economic Development and Cultural Change*, Jan. 1969, p. 139.

same pre-plan rate of 3.3%.⁽¹⁾ National policy continued, as was the case before independence, to concentrate on the improvement of the marketing of the cotton crop, which is predominantly produced in the modern sector. Fertilizers and insecticides are easily and cheaply accessible to the Gezira area where they are obtained in bulk at cost price, while the traditional cultivators obtain them, if at all, through intermediaries at much higher prices. Thus the average yield per feddan of three main crops of traditional agriculture, sorghum, sesame and groundnuts were in 1964-66 between 15 and 20% lower than the 1960/61 level.⁽²⁾ Discrimination against the Southerners also continued after independence. While the British service for the South was almost confined to abolishing the slave trade, educating a few in English and converting them to Christianity, national governments concentrated on replacing Christian by Islamic teaching rather than on providing the South with more schools.⁽³⁾

It may be argued that such a policy of concentrating investment in the modern sector is economically sound considering the extremely underdeveloped infrastructure in the rest of the economy. This view is not only difficult to defend on social grounds but may prove to have been short-sighted even from the economic point of view. In the first place, whatever gain may be reaped from higher returns on investments made in the modern sector may be lost by the demoralizing effect which such a policy of discrimination must have on the inhabitants of the traditional sector. Secondly, if such discrimination results, as it has in fact done, in the aggravation of tension between the two regions one must count among the losses the increase in military expendi-

(1) Osman, *op. cit.*, p. 69. Of total planned investment in agriculture the share of traditional agriculture was 7.7%.

(2) *Ibid.*, pp. 164-66.

(3) Two projects for the exploitation of the agricultural resources of the South were abandoned by the government, one for building a sugar factory and another for the production of paper from the papyrus of the southern swamps. The two firms which were entrusted with the projects, one British and one German, had asked to establish the factories near the source of raw materials but the government insisted on establishing them in the North. (A. Albino, O. : *The Sudan : A Southern Point of View*, Oxford, 1970, p. 90)

ture as well as the costs of political instability.⁽¹⁾ Thirdly, despite the more developed infrastructure of the northern region, it is by no means obvious that higher returns should in all cases have been reaped from building new factories there rather than in areas of traditional agriculture where factories may be nearer to the sources of raw materials. Nor is this necessarily more remunerative than developing the cultivation of cash crops in the south such as sugar-cane or coffee, or than increasing the production of livestock which is almost completely produced in traditional agriculture and has better export prospects than cotton.

A rough indicator of the differences between the level of living of the agricultural population and the rest is provided by table (5). The disparity is particularly wide in the oil countries other than Kuwait, and in Lebanon where the service sector is exceptionally profitable. Thus, for example, while more than half the economically active population in Saudi Arabia are engaged in agricultural activities they contribute no more than one tenth of GDP. Similarly, Lebanon's service sector contributes as much as 70% of GDP but employs less than half the economically active population, whereas the agricultural sector contributes only 10% of GDP and supports about a third of the population.⁽²⁾

(1) According to Albino, *op. cit.*, p. 63 the cost to the Government of the security operations against rebellion in the South was L.8.3 million per month.

(2) According to another source the ratio between per capita income of farm population and national average income was 19% in Egypt (1965), 41% in Lebanon (1966) and 57% in Iraq (1965) while in Jordan the ratio between value added per worker in agriculture and that in the whole economy was 59% in 1961 (Chevone, M., Landsberg, H. and Alexander, L.; *The Agricultural Potential of the Middle East*, p. 100). According to the Egyptian Family Budget survey of 1963-64 the percentage of the rural population whose total annual expenditure per family was LE. 100 or less was 48.5% compared with 23.8% of the urban population (U.A.R. Central Agency for Public Mobilization and Statistics: *Population Growth and its Challenges to Development*, *op. cit.*, p. 223). For other estimates see Wizer, *op. cit.*, p. 204; El-Moukhl, R. *The Economics of Rapid Growth: Libya*, *op. cit.*, p. 313; Hossain, S. *op. cit.*, p. 248 and U.N.: *Report on the World Social Situation 1965*, p. 149.

TABLE (5)
**The Share of Agriculture in Total Economically Active
 Population and in GDP in 1965**

Country	% of Economically Active Population	% of GDP
Sudan	78	54
Saudi Arabia ⁽¹⁾	58	10
Syria ⁽²⁾	58	28
Egypt	52	28
Iraq	42	19
Libya	35	5
Lebanon ⁽²⁾	34	10
Jordan	33	16
Kuwait	1	0.5

(1) 1948

(2) 1967

(3) 1968

Sources : FAO : Production Yearbook, 1968; U.N. Yearbooks of National Account Statistics ; UNESCO : Le Croissance Economique, op. cit., pp. 84-5 & 229.

There is also some statistical evidence for the tendency of the gap between rural and urban average incomes to increase. Thus an index of differential industrial and agricultural real wages in Egypt shows an increase of 54% between 1950 and 1961 compared with a decline of 15% during the period 1938-50.⁽¹⁾ For Iraq an FAO report estimated the 1958 per capita income in the «non-oil» sector (which is likely to be higher than that of the agricultural population alone) at \$ 105 compared with \$ 135 as a national average. For 1965 an unpublished report of Iraq's Bureau of Statistics estimated the per capita income of the agricultural population as \$ 123⁽²⁾ compared with a national

(1) Mahro, R. : Industrial Growth, Agricultural Under-Employment and the Lewis Model, Journal of Development Studies, July, 1967, p. 377.

(2) Clawson & others, op. cit.

average of about \$ 217 in the same year. The two estimates indicate a decrease in the ratio between average income in agriculture and the national average from about 77% to 55% between 1956 and 1965.

Among the urban population the most privileged are of course, the inhabitants of capital cities where most of manufacturing, educational and health services, and the various media of entertainment and culture tend to concentrate and where per capita income could be at least four times the national average.⁽¹⁾

In view of such a high degree of dualism national averages lose much of their significance and the nation-state becomes highly inadequate as a unit in per capita income comparisons. The fact, for example, that the way of life of the nomads of Arabia makes it difficult to estimate their number should not be regarded simply as a problem facing the statistician in his attempt at estimating the per capita income of the state of Saudi Arabia, but should rather throw doubt on the value of the whole exercise.

(1) See Meloughin, P. *The Sudan's Three Towns: A Demographic and Economic Profile of An African Urban Complex*, part I: *Introduction and Demography, Economic Development and Cultural Change* (Oct. 1963, pp. 75-76 and part II: *Output and Expenditure*, Jan. 1964, p. 159.

A more recent estimate for Egypt indicates that the governorate with the highest per capita income (Cairo) had an average per capita income during 1964-65/66-67 which was two and a half times that of the lowest (the Border's Governorates) and that per capita income in the latter was about half the per capita income of the country as a whole. This is to be compared, for example, with a country like Britain where the average income of different areas vary only around 10% of the national average.

(see Khair El-Din, H. *Some Aspects of Regional Differences in the A.R.E. L'Egypte Contemporaine*, Jan. 1971, pp. 78-82 and Scott, D. and Jay L. (ed.) *Development in a Divided World*, Indian, 1971, p. 15).

CONCLUSION :

Modernizing Poverty ?

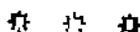
It is indeed remarkable how Arab countries, starting from so different points and following different routes have reached such similar results. With or without land reform the landlords and tribal chiefs have been largely deprived of political power but the agricultural population continue to be discriminated against. With or without socialist slogans the public sector is growing but the rate of saving is not. The domination of the traditional forms of foreign economic interests have either vanished or are on the decline, even in oil, but they are rapidly being replaced by those of a new native class.

The one feature which is most generally admitted to be common to all : their common desire to achieve rapid economic development and the pressure of the so-called "revolution of rising expectations" seems however to be the one feature most in need of qualification.

A revolution of rising expectation does undoubtedly exist but it is by no means that of the large majority of population whose aspirations rarely extend beyond the demand for clean drinking water and slightly more adequate diet and shelter. Those whose expectations are continuously rising but never satisfied constitute only a small minority of the urban dwellers whose influence is strong enough to allow them to hope not unrealistically, for still higher levels of living.

In contrast to its early optimism with regard to the population problem, the Egyptian government made frequent use of it since the mid-1960's as the main cause of the country's economic difficulties. Rather than treating the high birth rate as something which Egypt has to learn to live with for a long time, just as, for instance, her poverty in minerals is taken for granted, Egyptian apologists, like the Pearson Commission, persist in considering it as the most serious obstacle to development compared with which "no other phenomenon casts a darker shadow". A similar tendency was shown 150 years ago by economists who frequently quoted Malthus in blaming poverty on the poor themselves for breeding too fast. But while the earlier emphasis on the population problem helped to divert attention from the last

increasing profits, the present emphasis only helps to divert the attention from the wastes of government expenditure. The high rate of population growth in Egypt was in fact neither the main factor behind the rapid growth of consumption nor the easiest problem to solve in a few years. It neither prevented Egypt from achieving a remarkable rate of growth between 1956 and 1963 nor was responsible for Egypt's spending about one fifth of GDP on the armed forces, nor for a large part of the increase in other items of public consumption. Nor could the obstinacy of Egypt's high birth rate be simply blamed on the persistence of irrational or short-sighted social or religious attitudes. When the existing system of social insurance is so deficient the only safeguard against deprivation in old-age is to have as many adult children as possible. The provision of a more adequate system of social insurance may still not bring quick results but it is likely to be much more effective in reducing birth rates than a free distribution of contraceptives.



Observing the growing role of Arab governments in the economic and social life of their countries Charles Issawi remarked that :

"Sir William Harcourt's statement made nearly seventy years ago 'we are all socialists now' apply to the Middle East of today."⁽¹⁾

A more apt description of Arab governments is that they have all become "modernizers". The features which they have in common have led not so much to the reduction of poverty as to its modernization, to the creation of a facade of modernity behind which the majority of the population continues to lead virtually the same way of life. It is this function of Arab governments as mediators between their own people and European civilization, whether of the Western or Eastern variety, or rather as agents transmitting to their countries only the most superficial aspects of this civilization, not the realization of socialism or economic advance, which could explain the largest number of features which they have in common. Only thus can

(1) Economic History of the Middle East, p. 511.

one explain, for instance, their premature adoption of comprehensive planning,⁽¹⁾ their formation of an ineffective Arab common market, their educational imbalances, the over-concentration of services in the capital cities, their invariable preference for capital-intensive techniques, as well as their neglect of agriculture.

Favourable to the task of creating a facade of modernity, though not so favourable to the reduction of poverty, is the ceaseless emphasis, for which western economists are no less responsible, on the need to close the gap between per capita incomes in the Arab world and those of the advanced countries, a gap which is not only impossible to close for many decades but would perhaps be smaller the less is said about it. Rather than defining a threshold income which every Arab country could determine for itself as a possible target to reach within a relatively short period of time, those who raise the slogan try instead to engage the whole population in a desperate race from which only a few can reap any benefit. A strong desire of a small minority to catch up with western ways of life was thus translated into a desire of the whole population, the majority of whom are either completely unaware of the existence of such a "gap" or, because of their much simpler needs, would find its existence completely irrelevant.



Economists have gradually come to realize that economic development is much more tolerant of cultural and institutional variety than they tended to think when they first showed interest in the problems of under-developed countries and had less direct experience of their societies and cultures. Neither a strong religious belief, for example, nor an extended family system, nor even the inferior position of women seem necessarily to constitute obstacles to rapid economic development. Attempts at merely making a country look more modern do not, however, show the same degree of tolerance. Traditional institutions which are

(1) G. Amin: On Arab Economic Planning, *Revue des Sciences Juridiques et Economiques*, Faculty of Law, Ain-Shams University, Cairo, January 1973.

obviously harmless but give the contemporary Arab a sense of identity and self-esteem are, therefore, undermined merely because of their conflict with modernity. Thus the colourful Arab feasts accompanying birth, circumcision, marriage and death are regarded as "backward" and the social pleasure of the month of fasting are kept alive only by the primitive poor. Traditional Arab forms whether in music, dress, furniture or architecture are indiscriminately replaced by western forms. Thus, the "revival" of Arab music takes the form of multiplying the number of instruments and dressing the musicians in dinner jackets, while "modern architecture (is) used uniformly and indistinguishably from the almost alpine climate of the Lebanese mountain village to the almost oven-like climate of Kuwait".⁽¹⁾ Just as Egypt's Al-Azhar was modernized so was the pilgrimage in Arabia — while Arab intellectuals whose knowledge of their countries' intellectual leaders is derived largely from western scholarship have accepted without questioning the purely western view of regarding as the greatest of these leaders not the most original, scholarly or even influential, but the most eloquent westernizers.

It is sad to think that while the gradual loss of cultural differentiation in the advanced countries today as well as their deteriorating environment are largely the price of their rapid

(1) Shiber, S.: *Planning Needs and Obstacles*, in Forger, C., *ibid.*, p. 169.

(2) Describing the transformation of the Saudi port of Jeddah Van Der Meulen writes: "For centuries Jeddah's ports have been the first touch of that possibly greatest of all human duties called the Hajj, but now a new dawn had appeared. The Holy Land of Islam no longer depended on the income from the Hajj. How possible that income now obtained with the profit from oil. Pilgrims now walk ashore from ships that tie up alongside a long pier. They then go straight through concrete electronic buildings to pilgrim towns, a perfectly ugly modern kind of pilgrim barracks, and in motor buses they are carried over an asphalt road to Mecca. An ever-growing number of pilgrims arrive by air and touch the sacred soil of Hejaz when they alight down the fine concrete runway of an American-built air-ground. If they arrive at night-time they are greeted by the neon lights and advertisements telling them that Coca-Cola will do them good."

(The Wells of Ibn Saud, p. 123 & 224-8)

economic development, the same ills are being suffered by Arab countries for little or no reward. In the West, as in the Arab countries, the growth of cities was accompanied by the emergence of slums but while there, investment in working-class houses was sluggish because it had to compete with investment in manufacturing and railways, in the Arab world its sluggishness is largely due to its failure to compete with middle-class housing. Air and water are polluted in Arab cities not so much because of fast industrialization as because of their fast-growing consumption. They are noisy and congested without the country having a car industry. Their architecture is ugly not because the Arabs produce ugly designs but rather because they are demolishing their fine old buildings to import foreign forms. Agricultural land and open grounds are not encroached upon mainly by factories, nor by houses built for industrial labourers but mainly by luxury blocks of flats, grandiose buildings and government offices. Slums are growing not because there is so much expansion in industrial employment but simply because agriculture is neglected.

History has known "consumer" as well as "producer" cities. In the former, the inhabitants import most of the goods they need, export relatively little and tend to dominate other cities as well as the countryside either militarily, economically or both.⁽¹⁾ Arab capital cities exhibit these characteristics more strongly than those of a producer city, and this being the case, the conflict between the quality of life and economic development appears to be to a large extent illusory. In order to have capital cities of finer quality, there is no need to slow down industrialization but simply to build more industries in the provinces. To get rid of noise and congestion, there is no need to curb the production of private cars. In any case the country either does not produce any, or if it does, economic development would often benefit by such a factory being closed down or by the produc-

(1) On this distinction see, Coombes, J. and Cahnman, W.: *How Cities Grew*, Madison, N.J., 1962, p. 11. Boeke, J.: *Economics and Economic Policy of Dual Societies as Exemplified by Indonesia*, Institute of Pacific Relations, N.Y., 1953 and Viner, J.: *America's Aims and the Progress of Underdeveloped Countries*, in Hoeslitz, B. (ed.), *The Progress of Underdeveloped Areas*, Chicago, 1962, pp. 182-3.

tion of buses instead. Nor does an Arab country need to spend some of its scarce resources on eradicating the slums and building new homes, since rural migration may slow down considerably if only more investment is directed to agriculture. On the other hand, to realize that it is mainly consumption and not production which is damaging the Arab environment should make one much more pessimistic about a possible solution. It is much easier for a highly productive society to adapt its products to the requirements of a higher quality life than it is for a parasitic consumer suffering from a heavy feeling of inferiority which drives him to copy indiscriminately whatever the more advanced countries are doing. Moreover, when the growth of the urban population is relatively independent of the growth of productive capacity, the financial ability of the government and of municipal authorities to improve the conditions of city life is not likely to grow as fast as the city population. Prices of land are likely to soar to levels beyond the reach of a municipality desiring its conversion for public use, as is only too evident in Beirut. Whatever funds might be available for such purposes are likely in any case to be used to the benefit of that portion of the city population which has the greatest political influence. It is also far easier to tax the producer for whatever damage he might do to the environment than to tax the consumer. It is probably also much easier to control private producers and consumers than to restrain the bureaucracy which is the one both to draw and to break the plan.⁽¹⁾



In the introduction to a remarkable book, S. Andreaski gives the following analogy for the results of Africa's attempt at modernization :

"If you put rabbits and chickens through a mincing machine the resulting meats will differ less than did the animals (even when dead) while their structure was still intact. Likewise, the traditional African societies exhi-

(1) For an elaboration of the relationship between urbanization, income distribution and economic development, see : G. ABUIN : *Urbanization and Economic Development in the Arab World*, Beirut Arab University, Beirut, 1972.

bited a greater variety than do the social agglomerates undergoing the process known as modernization; largely because the external forces which are grinding them are the same: foreign big business, the mass media, the contacts with foreign models, the pressures of big powers, the enticements of international organisations, air transport and imported goods."⁽¹⁾

As a result of the same forces, Arab countries have become after a quarter of a century of growth, much more alike than they were at the end of the war. But it is just as difficult now to fit them in any of the alleged stages of economic growth as it was 25 years ago.⁽²⁾ Arab countries today are neither launching their take-off nor are they in a pre-take-off stage. The nearest analogy is neither that of a growing body nor of a body failing to grow. A more fitting description is that used by Arnold Toynbee to describe the attempts of Mohamed Ali's successors at westernising Egypt which "proved in the upshot to be a Western-Islamic hybrid exhibiting some of the worst features of both the original and the imitated civilizations."⁽³⁾

(1) *The African Predicament*, M. Joseph, London, 1969, p. 19.

(2) See G. Amin: *Arab Economic Growth and Imbalances*, *L'Egypte Contemporaine*, Oct. 1972, pp. 5-43.

(3) Toynbee, A.: *A Study of History*, Abridgement of Volume VII - X by D.C. Somervell, Oxford University Press, London, 1960, p. 170.

THE INTERNATIONAL CURRENCY CRISIS

(Part II)*

Dr. Waguh Shady

III. The Third Stage : the Smithsonian Compromise

1.—The Search for a compromise :

The Autumn of 1971 witnessed intensive negotiations within the Group of Ten and Common Market members. Several Summit meetings were also held in Washington D.C. and the Azores to find a solution for the most pressing problem facing the international monetary system.

The European countries plus Japan gradually recognized that the starting point was a realistic parity realignment coupled with the abolition of the import surcharge. The exchange rate should be made more flexible but within the principle of fixed exchange rates.

For this purpose both the U.K. and Germany held the view that the I.M.F. should recognize a new set of "pivotal" rates of exchange between the dollar and other currencies. Countries would be expected to support the dollar value of their currencies within 3 per cent of the pivotal rate.

By Mid-September 1971, the six finance ministers of the E.E.C. were able to reach a common position to be presented at the Group of Ten meeting in London and later to the annual meeting of the I.M.F. at the end of that month. This included the devaluation of the dollar against gold, widening the margin

(*) Part I of this study dealt with the anatomy of the international currency crisis of 1971, its causes and impact on the international trading and financial system. This part deals with the different stages of the crisis from the end of September 1971 to March 1973. It deals specifically with efforts to reach a compromise solution to the problem during the few months at the end of 1971, the Smithsonian Agreement, the floating of the Pound Sterling on June 23, 1972, and the second devaluation of the dollar on February 12, 1973.

of fluctuations around par, expanding the role of special drawing rights and the phasing out of the reserve role of the dollar.

This was an important achievement in reconciling the views of the Six, since France was insisting in the past on the principle of increasing the price of gold and Germany was reluctant to make too blunt an appeal for a dollar devaluation. However, when these proposals were put forward at the Group of Ten ministerial meeting in London, little progress was achieved. Instead they agreed on the following points :

First, "that the U.S. was in a fundamental disequilibrium in its trade and payments, requiring permanent radical remedies."

Second, that a "substantial adjustment is required... of the present payments imbalance in the world... and that measures to bring about this adjustment should be taken on a wide front and should include an appropriate realignment of currencies"⁽¹⁾.

The U.S. secretary of the Treasury Mr. J. Connally, was dismayed at the stand of the European countries. He was hoping to receive some help from them in the difficult moment in return for the U.S.A.'s help after the Second World War, instead of "ganging up against him". He refused therefore to modify his stand to increase the dollar price of gold «by one lot».⁽²⁾

Recognizing the difficulties of holding its views further and the need to solve the crisis, the U.S. modified its stand. Thus, Mr. Connally declared a few days before the November 30th meeting of the Group of Ten that "there is nothing sacred, we will talk about anything"⁽³⁾. In fact, Congressman Henry Reuss introduced, a few days after this statement, a bill to Congress giving the President discretionary power to raise the

(1) Communiqué of the Group of Ten, London, 8.p. 16. 1971.

(2) Reported by Peter Jay, Economics Editor, The Times, 8.p. 17, 1971.

(3) Statement at the New York Economic Club, before mid-November 1971.

official price of gold by up to 10 per cent, i.e. devaluing the dollar.

Although this bill was not officially presented by the U.S. government, however it reflected along with the statement of the U.S. Secretary of the Treasury the general mood about a possible compromise by the U.S. Thus, instead of solving all the financial and trade problems as one package, the U.S. re-arranged its priorities into two phases. The first, would include the revaluation of the strong currencies against the dollar. In turn, the U.S. would drop the 10 per cent surcharge. The second, would deal with long-term issues like U.S. trade with E.E.C., cost-sharing of the defence expenditure in Europe and the overhauling of the international monetary system.

The first proposition was accepted in principle by most European countries with the exception of the U.K., France and Italy which were against major revaluation in their currencies. As of Japan, it was clear that the U.S. requested a revaluation of at least 17 to 18 per cent. The Japanese government, in order to preserve its competitive position, resisted such a high percentage of revaluation.

The O.E.C.D. which played a key role in studying the problem, changed its previous position and regarded the American request for "11 per cent revaluation" as a reasonable contribution to bridge the American deficit.

From there on, the attention was centered on the distribution of the realignment between the European countries specially Germany and France. The parity between the D.M. and the Franc is important given the importance of trade between the two countries. While the D.M. was allowed to float, the value of the commercial Franc did not change. Thus, french exports held a competitive edge within the community and with the outside world. Thanks to the two-tier system and other restrictive measures.⁽¹⁾

(1) The French government established the two-tier system on August 20th, 1971. Furthermore it announced on December 3, 1971, new exchange control on non-resident deposits to halt further increase in the price of the financial Franc. Non-resident were given therefore, seven days to sell their holdings of Francs for other currencies.

It was natural therefore, for the Germans to refuse any realignment which would involve a greater revaluation of the D.M. against the Franc. This problem was not solved until the West German Chancellor Willy Brandt met the French President in Paris on December 4, 1971. They both agreed to adopt a coordinated stand within the group of ten and during their coming bilateral meetings with President Nixon.

Thus, the road was paved for an official agreement between the U.S. and its major partners. Few days after the Canadian, British, French and German summit meetings with President Nixon in Washington D.C. and the Azores, the Smithsonian Agreement was announced.

2 — The Smithsonian Agreement; a stopgap solution :

After several months of negotiations between the major European countries and Japan on one hand, and the United States on the other, the Smithsonian Agreement was reached in an attempt to solve the international currency problem. In declaring the decisions reached by the group of ten, their communiqué talked about "new and lasting equilibrium in the international economy." Before we can analyse the agreement it is useful to summarize the main decisions reached.

- An increase in the official price of gold from 35 dollars to 38 dollars an ounce, thus devaluing the dollar by 8.57 per cent.
- The immediate removal of the 10 per cent surcharge imposed by the U.S. in August 1971.
- In exchange the eight European countries plus Japan and Canada agreed to effect the following parity changes

Belgian franc	+ 11.57
French franc	+ 8.57
Italian Lira	+ 7.48
German mark	+ 13.58
Netherlands florin	+ 11.57
Swedish krona	7.49
Swiss franc	+ 13.9
British pound	+ 8.57
Japanese Yen	+ 16.88
Canadian dollar	(floating)

In the meantime, both sides agreed to widen the permitted margin of fluctuations around par from 1 per cent to 2 1/4 per cent on either side of the parity.

The communiqué also reflected the agreement reached by the group of ten that "discussion should be promptly undertaken, particularly in the framework of the I.M.F. to consider reform of the international monetary system over the longer term. It was agreed that attention should be directed to the appropriate monetary means and division of responsibilities for defending stable exchange rates and for insuring a proper degree of convertibility of the system; to the proper role of gold, of reserve currencies, and of special drawing rights in the operation of the system; to the appropriate volume of liquidity; ... and to other measures dealing with movements of liquid capital."

Thus for the first time in four decades the American Government officially agreed to devalue the dollar. In fact it reached a bigger depreciation than any other currency. The percentage of depreciation was particularly big against the yen and the weaker European currencies like the pound, French franc and the Italian Lira, as is clear from the following table :

Percentage upvaluation against the dollar⁽¹⁾

	Col. 1 New Parity	Col. 2 Since May 1	Col. 3 Since August 13	Col. 4 Since Dec. 17
Yen	308	+ 16.9	+ 15.9	+ 1.9
Sterling	2.6057	+ 8.6	+ 7.8	+ 3.0
French francs	5.1157	+ 8.6	+ 7.8	+ 7.8
Lira	581.5	+ 7.5	+ 6.2	+ 3.3
Swiss francs	3.84	+ 13.9	+ 5.9	+ 1.0
D. marks	3.223	+ 13.6	+ 5.1	+ 1.1

(1) The Economist, London, December 25, 1971.

The increase in the official price of gold was admitting a *facto* situation by legalizing it into a *de jure* situation. In any case it was and still is the price at which the U.S. refuses to sell gold. For this reason, the stumbling block towards reaching a solution to the problem was not the official price of gold as much as the realignment of the new parities between the Americans and the rest of the Group of Ten. This was actually an exercise in brinkmanship and political manoeuvre. The parity changes were supposed to bridge the 9 billion dollars deficit in the U.S. balance of international payments which meant an average currency revaluation of 11 per cent. However, the parity changes reached at the Smithsonian meeting did not achieve the desired effect as we shall see later.

In fact, the Americans had a bigger depreciation than most experts expected or even thought possible when the critical point was reached in August 1971. Let us only recall the statement of the Under Secretary of the Treasury that the devaluation of the dollar was "like a balloon that has been burst long time ago". In the meantime the American Government removed the 10 per cent surcharge which represented a turnback from its liberal trade policy, although the full impact of the surcharge was not completely felt yet.

As of the upward revaluation of other currencies, it was part of the deal. They agreed to revalue their currencies if the Americans devalued by more than 5 per cent. As it turned out their effective rate of revaluation was more than 9 per cent from August 13, 1971. However, the relative position of each currency was different after the revaluation from their previous position.

The yen was officially revalued by 18.88 per cent. At this rate it was revalued by 15.9 per cent from August 13, 1971, making it the highest revalued currency. However, in comparison with the going rate on December 17, 1971, it was revalued by 1.9 per cent only. The Americans pressed for the relatively higher percentage of depreciation for the dollar against the yen to insure an end to the ever rising trade surplus with them. To their surprise later on Japan continued to achieve a trade surplus and accumulate more reserves, which brought about another crisis at the beginning of 1973. as will be seen later on.

The second highest revalued currency was the D.M. It was revalued by 13.58 per cent. In fact the D.M. had been revalued twice before in 1961 by 5 per cent and in 1969 by 9.3 per cent before it was allowed to float on May 10, 1971. However, it was upvalued against the dollar by 5.1 per cent only from August 13, 1971. At this rate it was relatively depreciated against the yen, French franc and even the pound Sterling. That is why the Economist rightly declared that the D.M. had "come out of the realignment too cheaply."⁽¹⁾ For this reason it was felt at that time that Germany might start another export-led boom to get over their mini-recession.

As to the pound sterling it was revalued by 8.57 per cent to preserve its competitive position against other currencies since May 1, 1971. However, at this rate the position of sterling was not envied by other currencies. By this revaluation it was relatively upvalued by 2.1 per cent against the Swiss franc and by 2.7 per cent against the D.M., while at the same time other countries like Australia had devalued their currency against the pound by 2 per cent and South Africa by 12.3 per cent. Thus the pound became one of the overvalued currencies at a time when the U.K. needed a push to improve its external accounting position. As it turned out, the fall of the pound below the "floor" during the summer of 1972 came as one of the results of this realignment. In the meantime the Dutch and the Belgians moved together by revaluing by 11.57 per cent due to their close trade relations.

(1) The Economist, London, December 25, 1971, p. 66.

What happened to the different currencies⁽¹⁾

Fund members chose one of six different options :

A — to float.

B — to keep their gold parities,

C — to devalue against gold and the dollar,

D — to devalue upwards.

E — to appreciate in terms of the dollar but by less than the gold parity, and

F — the dollar area which devalued in terms of gold in the exact percentage like the U.S. dollar.

A. Canada Korea Lebanon Philippines Paraguay
Ecuador

B. Britain France Spain Ethiopia Somalia Iraq
Libya Kuwait Saudi Arabia Yemen

Sterling associates : Australia New Zealand Ireland Cyprus
Malaysia Singapore Hong Kong Nigeria Sierra Leone
The Gambia Jamaica Barbados Trinidad and Tobago
Malawi

Franc Zone and associates : Algeria Tunisia Morocco
Madagascar Republic Dehomey Ivory Coast Mauritania
Niger Senegal Togo Upper Volta Chad Mali
Cameroon Gabon Congo Guinea Central African Republic.

C. Israel Yugoslavia Ghana Burma South Africa
Rhodesia Lesotho Swaziland Botswana.

D. Germany Japan Austria Belgium Luxembourg
Netherlands Malta Venezuela

E. Italy Norway Sweden Denmark Finland India
Turkey Portugal

F. Argentina Bolivia Brazil Chile Guyana Mexico
Panama Nicaragua Uruguay Costa Rica Peru
El Salvador Haiti Honduras Dominican Republic Greece
Taiwan Thailand Vietnam Korea Nepal Iran
Ceylon Kenya Tanzania Uganda Zambia

(1) From the Dollar Crisis, by Susan Strange, Foreign Affairs, January 1972, p. 212.

The reason behind the whole exercise was to return the international financial system from widely floating rates to fixed exchange rates. The unprecedented movements of funds in 1971 resulted in frequent central banks interventions in the market to prevent the value of their currencies from appreciating against the dollar. The intervention of the central banks did not accommodate the market or stop the muddle in the major currencies mainly due to the limited ability of these banks and the limited margin of fluctuations permitted under the rules of the I.M.F.

To overcome this problem the Smithsonian Agreement allowed currencies to fluctuate by 2.25 per cent on either side of parity, or by a range of 4.5 per cent. This was a step forward, since governments and central banks do not have to peg the exchange rate as frequently as they did before. Furthermore, the business community could plan for the future with some degree of certainty.

To insure more flexibility in the system, different governments can inform the I.M.F. about their par value or their central rate. Unlike the par value the Articles of Agreement of the IMF do not require the approval of the central rate.

With all the emphasis on going back to the system of fixed exchange rates according to the Bretton Woods principles, there were still some unresolved problems. The convertibility of the dollar into gold or S.D.R. especially when several European central banks were holding vast amounts of dollars from their support operations, has been one of the major problems. The implicit acceptance of the Bretton Woods system was based on the ability of the leading currencies specially the dollar to be converted into gold. In fact the system was based for a long period on a dollar standard.

On the question of the convertibility of the dollar the communiqué spoke only about "insuring a proper degree of convertibility of the system" without specifying the ways and means of insuring this goal. Thus, the American authorities had no obligation to convert the huge amounts of overseas-held dollars into gold, S.D.R. or other foreign currencies. In fact the Ame-

rican government have never attempted to maintain a fixed rate against other currencies. In a system based on a dollar standard it was up to foreign governments to fix and maintain fixed exchange rates against the dollar to avoid revaluing their currencies. With the huge accumulation of dollars during their support operations, most European countries plus Japan were left with the unpleasant choice of holding devalued dollars, or selling them on the market at a loss.

This problem had another dimension relating to the proper function of the IMF and in particular to absorption of the big British debt repayment which was due in June 1972. During sterling's difficulties near the end of the 1960's, the British Government had borrowed about 1,000 million dollars. This amount had increased due to the dollar devaluation to about 1,078 million dollars, which the Bank of England wanted to repay in June 1972. However, according to the IMF practices the repaying country has to hand over acceptable currencies to the Fund. At the time, the dollar could not be considered as such because of the huge holdings of other countries. It was thought therefore that a U.S. drawing of usable currencies would help, as these currencies could then be exchanged with Britain for dollars; thus the U.K. would be able to repay.⁽¹⁾

The U.S. attitude on the convertibility of the dollar was therefore, subject to several attacks and criticisms even by American financial experts. In a paper published in N.Y. Mr. Edward Bernstein the former Research Director at the I.M.F. criticized the U.S. reluctance to begin negotiations or even to restore a measure of convertibility to the dollar. He even went further to point out that this is a violation of the Smithsonian Agreement which spoke about "defending stable exchange rates and ensuring a proper degree of convertibility in the system."⁽²⁾

In short the Smithsonian Agreement was a stopgap solution by the "rich-man's club" to a difficult and thorny problem.

(1) Samuel Britton, *Financial Times*, London, Feb. 10, 1972.

(2) Muel Roland and Co., *Quarterly Review*, N.Y., 1972, reported in the *Financial Times* February 8, 1972.

The solution, although partial, did not pass the first practical test a few months later. For this reason Susan Strange was right when she called it a truce than a peace treaty.⁽¹⁾

However, the Common Market countries later agreed to give some trade concessions to the Americans as part of the package deal. This included a reduction of tariffs on the following items.

- On oranges from 15 to 4 per cent during the peak of the U.S. export season (June to September) for the next two seasons.
- On grapefruit from 6 to 4 per cent for the next two seasons.
- In addition the Community agreed to stockpile 1.5 million tons of surplus grain from its 1971-72 harvest, compared with a U.S. request to stockpile 3.4 million tons in both farm years.⁽²⁾

The idea behind the quick trade concessions given by the Community in early February 1972 to the U.S. was to present the dollar devaluation bill to Congress along with the trade concessions from the Community to avoid being defeated or loaded down with Christmas tree amendments by Congress. For the same reason the thorny issues of trade policy between the E.E.C. and the United States were postponed to a new round of long-term negotiations to be held in 1973.

In the meantime, the E.E.C. Commission wanted to limit fluctuations between any two currencies within the Community to 2 per cent instead of the 4.5 against the dollar for each one of them. In presenting this proposal to the Foreign Ministers of the Community Mr. Raymond Barre reminded the delegates that "the realignment so far had not led to any reflux of capital to the U.S." as was expected before.⁽³⁾ He feared that further speculative pressure against the European currencies might take place if the U.S. continued its credit and budgetary policies. The only

(1) *The Dollar Crisis*, Foreign Affairs, N.Y., January 1972, p. 209.

(2) *Financial Times*, February 1, 1972.

(3) Speech by M. Raymond Barre on February 1, 1972, reported in the *Financial Times*, February 2, 1972.

way for the Community currencies to have an advantage over the dollar would be through narrowing the margin of fluctuations to 2 per cent only. This policy was particularly desirable for a well functioning common agricultural policy.

IV. The Fourth Stage : The Sterling Floats

To start with, the Smithsonian rate of the pound sterling was set at a relatively higher rate than other currencies. It was difficult therefore to sustain this rate for a long period. Furthermore, the overall balance of payments surplus was reduced from 933 million pounds in the first quarter of 1971 to only 57 million in the corresponding period of 1972.⁽¹⁾ In fact, the merchandise trade balance recorded a deficit of 118 million pounds in the first quarter of 1972 after a surplus of 74 million pounds during the same period of 1971. These adverse developments can be explained by the industrial disputes, coal miner's strike, lost output and declining export competitiveness due to wage inflation. Wage costs per unit of output increased by 27 per cent from mid-1967 to the fourth quarter of 1971. This fact reflected on British export prices which registered an increase of 26 per cent from mid-1970 to the first quarter of 1972.⁽²⁾ Moreover, the British Government and the business community wanted to enter the European community with a favourable rate for the pound.

The rate of sterling continued to drop against the European currencies (except the Italian Lira) and even the dollar. To keep the rate between sterling and the E.E.C. currencies within the allowed narrow margin of 2 1/4 per cent, instead of the 4 per cent permitted under the Smithsonian Agreement, European Central Banks spent over 2.6 million dollars in supporting sterling, most of it on Wednesday and Thursday, 21 and 23 June, 1972. In the meantime the Bank of England gave direct support especially after the European banks closed their doors. Nevertheless, holdings of sterling continued to sell, and the rate drop-

(1) Excluding £124 million S.D.R. allocation, World Financial Markets, Morgan Guarantee Trust Company N.Y., June 23, 1972, p. 2.

(2) The Economist, July 1, 1972, p. 88.

ped. On Thursday evening the pressure was so strong that the closing rate dropped to 2.485 dollars on Wednesday June 21, 1972 and to 2.575 on Thursday, June 22, 1972 against the old Smithsonian rate of 2.805 dollars to the pound. At this rate the pound had devalued against the dollar by 4.5 per cent and 3 per cent respectively below the old Smithsonian rate.

To remedy this situation the British Government decided on the morning of Friday June 23, 1972 to allow the pound to float. Thus, the London foreign exchange market was closed on Friday June 23, 1972 and on Monday June 28, 1972. In declaring this decision the Chancellor of the Exchequer emphasized both the temporary nature of this measure and the immediate application of exchange controls on transactions by U.K. residents with residents of the Overseas sterling Area (O.S.A.) except the Irish Republic.

Bank of England approval was thus required for new direct investment in O.S.A. countries on the borrowing of U.K. companies for their operations in the U.K. if they are controlled by O.S.A. residents, and a maximum limit of 20,000 pounds per family was imposed on emigrants to O.S.A. countries.⁽¹⁾

What has happened in manufacturing Since last time⁽²⁾

% Increase	Export Price in U.S. dollars		Hourly earnings		Wage costs per unit of output
	Mid-1967 to Mid-1970	Mid-1970 1st qtr 1972	Mid-1967 to 1st qtr 1972	Mid-1967 to 1st qtr 1972	Mid-1967 to 4th qtr 1971
	% (1)	% (2)	% (3)	% (4)	% (5)
Britain	0	28	28	58	27
Germany	12	16	30	53	21
Japan	12	9	29	101	23
Italy	10	12	23	62	32
United States	13	4	18	31	13
France	5	9	14	64	18

(1) Economic Progress report, U.K. Treasury, London, 30 August, 1972.

(2) The Economist, London, July 1, 1972.

Following the British decision, there was a division in the views between some E.E.C. members as to the proper course of action to be taken for their own currencies. While both the Dutch and the Belgians wanted the Six's snake tunnel to float against both sterling and the dollar, the Germans and the French wanted to maintain the Smithsonian fixed parities and the application of the narrow exchange margins agreed upon by the E.E.C. members. Both of them were motivated by the desire to keep their exports lead through a stable and relatively undervalued currency, while protecting their imports either through the cheap commercial French franc or the undervalued D.M. They convinced Belgium and the Netherlands, therefore, to maintain the existing rules and a communique was issued to that effect stating that the finance ministers of the E.E.C. agreed to "maintain the margins and parities agreed in the Smithsonian Agreement and the European Economic Community's narrow system of exchange margins."⁽¹⁾ The Japanese and the Americans were pleased with this decision, but for different reasons. As for Japan it was impossible to keep the fixed parity of the yen while the major European currencies were floating. The U.S. would have benefitted from such a float, but it did not want a further deterioration of the dollar immediately before the presidential election.

At the same time several European countries like Germany, Switzerland plus Japan embarked on applying exchange controls to avoid foreign inflow of funds especially the dollar at its unattractive rate. Italy also applied exchange controls, but for a different reason, that is to prevent a further outflow of funds due to the weaker position of the Lira.

Thus, by July 1, 1972 there were more exchange controls in most industrial countries than at any time since the beginning of the sixties. This fact let the Economist to declare that "unless worldwide exchange controls are far more effective than before ... this may still lead to a general floating"⁽²⁾.

(1) Statement of the E.E.C. finance ministers, Luxembourg, Monday, June 28, 1972.

(2) The Economist, London, July 1, 1972, p. 90

V. The Fifth Stage : The second Devaluation of the Dollar.

At the beginning of 1973 the economic scene in the U.S. looked encouraging. Sales, production, employment, incomes and profits were rising in 1972 while the rate of inflation slowed; the balance of trade was the only uncertain indicator. This was in sharp contrast to the recession of 1969-70. In fact, between the third quarter of 1971 and the same quarter of 1972, real gross national product rose by 7.2 per cent against 4.6 per cent between the fourth quarter of 1970 and the third quarter of 1971⁽¹⁾.

However, the international monetary scene became erratic within a very short period of time, when the Italian Government decided to introduce a two-tier exchange system effective from January 22, 1973. This step was motivated by the government's fear of an outflow of arbitrage money plus the usual speculative outflow of capital due to the rising interest rates all over Europe. Italy chose this approach rather than devaluing the Lira because of its handsome current balance of payments surplus — 1.3 billion dollars — which as a proportion of G.N.P. is higher than Japan's, while the level of its reserves could not sustain additional outflow⁽²⁾. In the meantime, it pushed aside any rise in interest rate to restimulate economic growth.

Thus it joined the "floating club" of other E.E.C. members like France, Belgium, and Holland which allowed their currencies to float for capital transactions. If we add Britain and Ireland which are floating for both capital and current transactions, then we could say that with the exception of Germany the major countries in Europe joined this club.

Following the Italian decision, the international currency market was shaken when the Swiss National Bank, under the impact of large inflows of foreign exchange, especially dollars, ceased to intervene in the exchange market to support the dollar price after its rate dropped. From the last few days in January

(1) Monthly Economic Letter, First National City Bank, N.Y. January 1973, p. 2.

(2) The Economist, January 27, 1973, p. 71.

the rate sank visibly on most foreign currency exchanges. Against this background, the Swiss Government decided to float the franc.

The sharp upward float of the Swiss franc triggered off speculation that other strong currencies could be candidates for floating. The foot-loose hot money acted quickly to convert dollars to D.M., yen, guilder and other strong currencies. Speculators thus tried to have the best of both worlds, to opt out of their holdings, to avoid any loss and at the same time to share in the forthcoming float or revaluation of the strong currencies.

The news coming out of the U.S. about the increase in the trade deficit from 2.7 billion in 1971 to 6.4 billion dollars in 1972, the alarmist stories in the U.S. about the energy crisis and its impact on the balance of trade in the future, the unconvertibility into gold, and the advancing phenomenon of inflation were added reasons for pessimism.

Against this background, the situation developed very quickly. Despite the restrictions imposed in most countries on capital transfers, huge amounts of funds were transferred mainly to Germany and later to Japan. The Bundesbank had thus to accept a large amount of dollars at the lower intervention point of 3.15 D.M. to the dollar. Monetary authorities in other countries found themselves in the same boat. However, the dollar purchases were on a smaller scale there than in Germany.

To counteract this massive inflow of dollars and to protect its own self-interest, the Federal Government adopted further restrictions on capital movements from February 5, 1973 and requested Parliament to amend the Cash Deposit Act permitting the ratio of cash deposit to be raised from 50 per cent to a maximum of 100 per cent⁽¹⁾.

However, the different statements coming from the U.S. about possible devaluation of the dollar intensified the inflow to Germany and Japan. The Bank of Tokyo had to accept more

(1) Monthly Report, Deutsche Bundesbank, Vol. 25, No. 2, February 1973 p. 7.

than 650 million dollars at the floor rate of 301.10 yen to the dollar in the few days preceding February 9, 1973⁽¹⁾. In fact, the dollar reached its floor limit in practically all major exchanges on February 8, 1973. The barriers erected in Germany and the different programmes to control the inflow in Japan proved ineffective. Thus, the major currency exchanges were closed from Monday, February 12, to Wednesday, February 14, 1973.

From the beginning of speculation to the close of currency exchanges about 8,000 million dollars were absorbed by foreign central banks. Out of this total amount the Bundesbank alone took 6,000 million dollars — about 18.5 billion D.M. — at the lower intervention point. As the official report of the Bundesbank put it "no previous wave of speculation had resulted in funds flowing into Germany on such a scale⁽²⁾".

Unlike the previous crisis of 1971, the February crisis of 1973 was not a dollar-D.M. crisis, but a dollar-yen crisis. The fact that more dollars were sold in Germany than in Tokyo does not negate this analysis. There are two explanations for this paradox :

Firstly, the widespread belief that the West-German Government was more vulnerable to political pressure to re-value than the Japanese Government, and,

Secondly, the exchange control protection given to the yen was more effective than that given to the D.M.

The French franc was not affected by the 1973 crisis because of the strong protection of the franc by the two-tier system which was introduced in August 1971. Furthermore, there were several reports about the possibility of a change in government as a result of the March elections. The French franc did not attract therefore speculators as a strong currency in the immediate future that might bring a quick profit.

Let us now turn back to the reasons why the crisis of February 1973 was a dollar-yen crisis and not a dollar-D.M.

(1) Reported in the Daily Telegraph, London, February 9, 1973.

(2) Reported in the Times, London, Oct. 17, 1972.

The revaluation of the yen by 16 per cent at Smithsonian Agreement was supposed to bring equilibrium in Japan's external accounting. This desired result did not materialize, the trade balance registered a continued increase which reflected an ever increasing reserves. However, the Japanese efforts were directed mainly at tightening foreign exchange controls to prevent the inflow of foreign funds rather than encourage the outflow. The Government, therefore, announced three programmes to defend the yen from May 1971 to the end of 1972. The first was the eight points programme announced in the summer of 1971 which ended with the Smithsonian Agreement. The second was the seven points programme of May, 1972, which was overshadowed by an ever increasing trade surplus and reserve accumulations. In September 1972 the statistics for the first half of the Japanese fiscal year (April to September) were announced showing an overall exports of 14,097 million dollars, or a gain of 15.9 per cent to the same period a year ago while exports to the industrially advanced countries increased by 22 per cent over the first half of fiscal 1971. In other words the overall export surplus for fiscal 1972 was expected to reach more than 9,000 million dollars. With a trade surplus in 1972 similar or even higher than the surplus of 8,500 million dollars in 1971, it meant further balance of payments surplus contributing to an increase in reserves to nearly 20 billion dollars by the end of 1972 instead of the 16.7 billion dollars reached at the end of March 1972.

With this kind of economic performance, not only the expected equilibrium was far from being reached, but also the government and the business community were under heavy pressure to formulate new liberal policies to encourage imports, slow down exports and liberalize foreign capital investments.

In fact, the powerful Japanese Federation of Economic Organizations — Keidanren — came out in favour of a foreign trade control ordinance for curtailing exports as the only way to slow down the pace of expansion in exports to the U.S. and Western Europe. Furthermore, it requested a cut in tariff rates by between 20 to 30 per cent, reduction in the number of items remaining subject to import restrictions, and expansion of import quotas.

The Tanaka Government thus embarked on studying ways and means to reduce this huge surplus which would ultimately

lead to another upvaluation of the yen. However, there was a division of views within the cabinet between the Ministry of Finance supported by the Bank of Tokyo on the one hand and the Ministry of International Trade and Industry (MITI) supported by the business community on the other. While the former proposed the imposition of an export tax to reduce the level of exports, the latter opposed such a measure which would be in effect a disguised upvaluation of the yen; instead it proposed liberalising imports and reducing exports to the developed countries. The views of the Ministry of Finance subsided. Thus the Cabinet announced on Friday, October 20, 1972, the third five points programme to defend the yen against revaluation or floating.

The programme included the following measures :

- 1 — To reduce tariffs on nearly three-quarters of Japan's tariffs by 20 per cent, while decreasing the quotas on several items to encourage imports,
- 2 — To limit the expansion of Japanese exports through administrative measures on items where exports have been rising at an annual rate of over 20 per cent,
- 3 — To promote the outflow of capital through private investment or through foreign economic aid to the developing countries,
- 4 — To liberalize the rules on foreign direct investment in Japan while tightening the rules on foreign speculation into the yen and,
- 5 — To increase spending at home on welfare projects through a supplementary budget.

However, these measures were not well received by financial experts. They based their judgement on the inability of tariff reduction to increase the general level of imports mainly because more than 50 per cent of Japan's imports are raw materials which are not price sensitive. Furthermore, Japan did put forward two programmes before and neither was effective. They would have preferred instead an outright revaluation of the yen or at least an export surcharge of 10 per cent especially when the Japanese National Economic Research Institute declared before that Japan

could absorb a 6.2 per cent upvaluation of the yen and still enjoy 11 per cent growth rate in the next two financial years.

In anticipation for such a revaluation, the yen was quoted at about 280 to the dollar in forward transactions which meant an upvaluation of 10 per cent on the Smithsonian parity (301.10).

Despite the previous steps to liberalize imports and capital investments, and to lower imports tariffs, Japan recorded a surplus of more than 4 billion dollars in its foreign trade with the U.S. This trade deficit with Japan was considered from the American point of view the largest with any one single country, it constituted about two-thirds of their overall trade deficit in 1972.

Mr. William Eberle, President Nixon's special trade representative was thus sent to Tokyo, to request the Japanese government to revalue the yen by at least 10 per cent otherwise the U.S. may take actions against Japan like an import surcharge.

The Japanese attitude was very cool, they refused to offer any major trade concessions on two grounds. First, to make export and import even does not necessarily mean an equilibrium due to large deficit suffered by Japan with the U.S. in non-trade balance. Japan thus should continue to maintain a trade surplus of 2 billion dollars with the U.S.⁽¹⁾ Second, the Japanese Government requested more time for the 1971 adjustment in parities to be felt. Mr. K. Inamura, Deputy Minister of Finance for International Affairs expressed the official attitude by declaring that "the Smithsonian Agreement is only one year old and it takes time for the effects to be felt."⁽²⁾

Thus the Eberle's mission in Tokyo did not achieve its goals. He left to the major capitals in Europe to express the official American view that progress in trade, monetary, financial co-

(1) Yoshinano Iwasa, Chairman, Japan - U.S. Economic Council, The Japan Economic Review, Tokyo, January 18, 1973.

(2) Reported in the Financial Times, London, Feb. 9, 1973.

operation and defence cost-sharing negotiations was necessary on a coordinated basis between the U.S. and the European countries. The U.S. was still hoping then that the surplus countries would either agree to participate in another Smithsonian general revaluation agreement or to start a joint float.

The American policy therefore adopted the previous strategy of 1971, that if they do have a currency crisis they can remain resolute and leave the problem simmering, their other partners would have to take action before it explodes. Thus they could be relieved from taking a drastic action while passing the problem to the others.

This strategy however did not work out during this crisis. In fact the Japanese Government took the previous position of the Americans, they stood tight and resolute. The major industrial countries did not feel the need to change their exchange rates simply because they all adopted well in advance direct controls on capital account and at the same time they did not consider that their external position was one of significant surplus. Thus they refused to upvalue or let their currencies float. Japan felt then that even if the U.S. threat of imposing a surcharge on its exports were to materialise, it would leave its mark on the international trading system. It would try then to divert its exports to other countries especially Western and Eastern Europe. Furthermore, this situation might start a trade war between the major industrial countries in the world.

In the meantime the international support operations for the dollar in the six trading days ending Feb. 8, 1973 reached more than 8,000 million dollars. The dollar thus reached its floor limit in practically all major financial markets in the world by the end of the first week of Feb. 1973.

Discovering that its old strategy did not pay off, and convinced that the surplus countries, particularly Japan, are not going to take appropriate measures, the moment of decision could not be further delayed. A 10 per cent devaluation of the dollar was thus announced by the U.S. Secretary of the Treasury late Monday night Feb. 12, 1973. The magnitude of this devaluation exceeded the expectations of some observers. It came quicker

and by a bigger percentage than the 7.8 per cent first devaluation of December 1971.

Uncertain about the future stability of the dollar, the leading industrial countries representing the nine members of the E.E.C. reacted by announcing a "joint float". This float was based on linking their currencies to one another through fixed parities to allow them to move up or down in the market as a unit according to the forces of supply and demand.

By adopting floating rates, the whole structure of the Bretton Woods of international monetary-system based on stable and fixed exchange rates has been dethroned. It is the first time since 1946 that the forces of supply and demand are given major expression in determining the exchange rates. This helps to restore equilibriums in the balance of payments at the cost of greater uncertainty in world trade.

It is still to be seen whether the new practice would be widely adopted and to what extent it will be effective. The unilateral action by the leading industrial countries and the indecision of the Group of Twenty has cast its shadow on the future role of the I.M.F.

INTERNATIONAL RESPONSES TO INVESTMENT PROBLEMS

Some Basic Comments*

Dr. Ibrahim F.I. Shihata**

General :

1 — Universal awareness of the challenge presented by the problems of foreign investments has led so far to the adoption of certain international measures which have generally taken one of three forms : the conclusion of bilateral or multilateral treaties establishing standards for the treatment of foreign investors ; the establishment of facilities for the settlement of investment disputes ; and the provision of financial guarantees against non-commercial risks. The development of such measures does not seem however to have been based on an agreed definition of the problems involved, even though such a definition may provide the logical prelude to devising effective responses. To be sure, there has been a wide assumption underlying the different approaches to the effect that the problem is in essence a matter of quantity ; that international measures are basically needed to stimulate a greater inflow of private capital from rich to poorer countries. Acting on this assumption international efforts seem to have paid less attention to the equally if not more relevant questions of what kind of investment ought to be internationally encouraged, what international rules of behaviour should the investors be called upon to follow and how to effectively combat the harmful effects of foreign investments on the economies of the recipient countries.

* This article is based on the comments made by the writer in the Conference on International Control of Foreign Investment, Düsseldorf, Germany (January 4-6, 1973).

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2—There has also been a tendency to deal with the issue as if foreign investments constitute one homogeneous whole and therefore deserve the same international legal treatment. No legal differentiation was therefore devised for the old colonial-type investments which enjoyed concessionary terms that would have been unthinkable for Western countries even in the last century. Investments in the extractive industries, which flourish on the depletion of non-renewable resources of host countries and which may thus have little positive effect on the value added to the national economies of these countries (as the income generated by them is in essence a cash form of the depleted wealth), have not been treated as an independent category either. Nor, for that matter, have multinational firms been singled out for a special treatment in view of their strong bargaining power vis à vis host countries as well as parent governments. The principle of equality, held dear in the literature on the international legal treatment of foreign investments, has thus been advocated for what are basically unequal subjects.

Factors of Success :

3—The success of international responses to investment problems, like indeed the success of any response to a given challenge, does not depend on their content alone. Of equal importance is the source of the suggested action and the approach and techniques followed in presenting it to the interested parties.

4—International financial institutions have proved to be particularly useful catalysts in developing successful remedies within certain limitations. Thus, while the powerful and prestigious World Bank seems to have been the «right» source for initiating such responses as the creation of the International Centre for the Settlement of Investment Disputes (ICSID) and may eventually succeed in playing a major role in the development of a universal investment code, it does not seem to have met the same measure of success in sponsoring the establishment of a multinational insurance agency. If such an agency is to be financed by the rich industrialized countries which already have their national insurance programs, these countries themselves or an association of them, such as the Organization

for Economic Cooperation and Development (OECD), may be better suited to act as the exclusive sponsor for creating that agency or for adopting more modest proposals like the establishment of an international reinsurance corporation to serve the existing national agencies. The Kuwait Fund for Arab Economic Development has, on the other hand, successfully sponsored the creation of the Arab Corporation for Investment Guarantee on regional basis, with the participation of the capital exporting as well as the capital importing Arab countries. The basic difference is of course that rich Arab countries, not being industrial states looking out for export markets and foreign sources of raw materials, have no national programs for investment insurance and indeed no clear economic interest in encouraging their nationals to invest in other developing countries. They were persuaded to participate in the project by the participation of the poorer countries in the share capital of the corporation and in its other responsibilities.

5— The Source of the response is also particularly relevant in determining the chances of success for the many proposals for the adoption of an international code of investment. Such chances are usually greater when the code is developed by a regional organization to be exclusively applied by its member States. A wider acceptance of such a code is rather unlikely, as is the case for codes devised by sources which are or appear to be partisan on behalf of the investors or the host countries. Proposals like the OECD's draft convention on the protection of foreign property or the Asian African Legal Consultative Committee's resolution on the status of aliens may remain, therefore, merely as instruments for the stimulation of further legal thinking on the subject.

6— The approach followed in drafting the ICSID Convention seems also to have been a positive factor in its eventual adoption by a great number of States. The close consultation of all the States members of the World Bank and the successive regional meetings gave even the smallest State the comforting feeling of participation in the making of the Convention. This is a lesson which can be usefully followed in the presentation of other international responses if such collective diplomacy is properly administered by an efficient and trusted secretariat.

Continued personal contacts with Government officials, especially in the developing countries is also an important approach for the success of future steps. The particular fickleness and second thoughts of decision makers in these countries, along with their rapid replacement, pinpoint the importance of this factor.

7 — A response emanating from the «right» source and presented in the «right» procedure may still remain without universal acceptance if its contents are objectionable to any given group of States. The result is that universal regulation will necessarily aim at the bare minimum which can be attained in a particular situation. This may in certain circumstances present a step forward, like in the case of the procedural facilities provided by the ICSID Convention. In other situations, however, all sides may be left in a better position without agreement on the attainable minimum. This seems to be the case with the proposed international investment codes. Due to the seemingly incompatible interests of the capital importing and capital exporting countries (although they all play host to some foreign investment) a comprehensive and universal agreement on the substantive rules regulating the treatment of foreign investments may not provide a useful remedy to their problems at present. This should not mean, however, that the issue ought to be ignored in favour of the procedural approach and the last defence technique of investment insurance.

Future Steps :

8 — There are areas where international regulation is required and seems to be attainable on group basis, if not on a universal scale. Among these areas the following may readily present themselves for possible consideration, although they may not all be in the same degree of ripeness for immediate action :

First : Some of the existing international responses need to be gradually strengthened, if they are to be effective at all. The ICSID, for instance, cannot remain for ever without continued jurisdiction, thus repeating the unhappy experience of the Permanent Court of Arbitration. One of the objectives of

its Secretariat should be to persuade member States to include in their investment laws and contracts compulsory clauses accepting the jurisdiction of the Centre, or to issue declarations to that effect similar to those issued by States under Article 36/2 of the Statute of the International Court of Justice. Efforts for the international resolution of conflict of private company laws and for their unification as well as the progressive development of international company law rules should also be activated on the intergovernmental level.

Secondly : If the principle of renegotiation of old investment contracts whose terms have been outdated by economic and political developments is accepted, as I think it should be, there is a clear need for an agreed definition of this principle. Furthermore, conflicts arising in the renegotiation process — being polycentric problems of varied magnitudes, not typical legal disputes — may need for their resolution new types of international forums. Such forums would take up the issue when negotiations fail, not necessarily for the purpose of imposing a settlement but more appropriately for suggesting guiding principles to be followed in further discussions between the parties.

Thirdly : More effective efforts may presently be exerted for the resolution of the conflict between capital exporting and capital receiving countries in their manipulation of international capital flows for improving their balance of payments. In particular, the measures adopted by certain capital supplying countries in their attempt to benefit at the expense of the capital importing countries call for collective measures on the part of the latter or, if at all possible, for international agreements to resolve this conflict.

Fourthly : If establishing an international code of behaviour for multinational corporations involves formidable difficulties at present, the need for the progressive development of such a code cannot simply be ignored. This is particularly true in the extractive industries of developing countries where there is a fairly high degree of concentration of control of the industries and of their export markets in a limited number of firms in each industry. It is also of special relevance to the exploitation of

new resources such as the seabed and the ocean floor. The parent countries may eventually find enough common interest to unite with host states in an agreed regulation of the behaviour of those evergrowing giants. Short of such an agreement, the less developed host countries are certainly called upon to devise their own rules and to adopt measures for their implementation. The pioneering initiatives of such organizations as the OPEC in this direction may point to the possibility of further action on regional or sectoral basis. There is certainly a great deal to be added to ensure systematic and progressive local participation in equity, continuation of the transfer of technology and managerial techniques, reinvestment of an increasing percentage of profits and prevention of their use in competitive areas in other countries, training and promotion of local personnel, etc. The effectiveness of such measures depends, however, on improving the professional capacity of the developing countries' bureaucrats and technocrats involved—a fact which calls for the more pressing task of establishing international centres for the training of such staff in the ways of dealing with foreign investments and for supplying them with adequate information on the subject.

Precautions :

9— On devising international measures such as the ones already mentioned we should not perhaps lose sight of the fact that some developing countries have spared no effort in the encouragement and protection of foreign investments, by way of issuing favourable laws and statements, entering into bilateral and multilateral investment treaties, etc., yet they remained ignored by the investors because of some myth about their unfavourable investment climate or due to ignorance of, or actual lack of, good investment opportunities in their territories. Myth and ignorance can certainly be remedied by international centre or centres for investment information which may be sponsored by an association of investors or, more appropriately, by the interested developing countries themselves. The actual lack of investment opportunities is a different matter, however. Short of a non-existing philanthropic investor, the flow of foreign capital to areas lacking attractive investment opportunities can only be expected under generous insurance of commercial risks or outright subsidies. Although such measures might be cited

as examples of what aid agencies in the rich countries can do for their nationals investing in less developed countries, the mixture of international charity and transnational private business does not seem however to provide a happy solution for this problem.

10 — It is also true — although it is not commonly observed — that different developing countries have different investment problems and therefore may have good reasons to adopt different policies for the treatment of foreign investments. If dealing with foreign investments as if they constituted a one whole was an erroneous generalization, elements of error are equally discerned in the assumption that all developing countries should be expected to react in the same way to the problems of foreign investments or to the international responses devised for tackling these problems.

A Legal Precondition for Universal Regulation ?

11 — Finally, it may be noticed that economists and businessmen have been speaking of the multinational firm as one entity with such an ease that cannot perhaps be shared by the lawyer. For although the term has been used to mean different things, the so-called multinational firm is in the typical case an integrated system of corporations under the global control of a parent company, and is not, legally speaking, one single corporation. However, the formulation of legal standards and rules to direct multinational enterprises towards a more desirable and effective international economic order assumes the possibility of dealing with each one of these integrated systems as one legal entity. Since that cannot be achieved through any domestic legal system without stretching its scope to such extraterritorial limits as may not be readily acceptable to other host countries, there may be room to initiate thinking of a novel concept of international or transnational corporate personality for the integrated system of the group of domestic corporations which makes a multinational enterprise. Such a legal person would be a direct subject of the envisaged international law rules, while each of its domestic corporate components remains subject of the domestic legal system concerned which would be limited in this respect by the higher international law standards. This,

of course, is a vision for the future (perhaps the far-away future) which assumes agreement on the legal criteria for the definition of the multinational enterprise along with some form of international recognition for these enterprises. As such, it may appeal to business circles for the legally recognized international status which it confers on the multinational enterprise as an integrated transnational system. It may also appeal to States insofar as it provides the legal basis for directly subjecting the multinational enterprise to international rules. It is not realistic however to expect a quick acceptance of this concept by either side at present. I am presenting it, at any rate, as an elementary thought which may prove under closer scrutiny to raise more problems than it can help solving. However, it may deserve that closer scrutiny to examine its potentialities as a useful legal basis for further international responses to investment problems.

MAIN OBSTACLES TO A FASTER AGRICULTURAL ECONOMIC DEVELOPMENT IN THE A.R.E.

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Introduction : Since 1952, basic changes have taken place in the economic, social, and political structure of Egypt as a result of the mobilization of the country's human and material resources to raise economic and social standards of the population. It has been recognized that in order to raise the standard of living of the people, planning must be the method for achieving the target.

Current agricultural policies in Egypt are centering around three basic approaches : extensive, intensive, and distributive. In their turn, these approaches center around two main goals, namely ; maximizing the national agricultural income and optimizing the income distribution.

During 1952 - 66 due to both extensive and intensive agricultural measures, agricultural production has increased much more rapidly than in the years preceding 1952. In the race between the growth of population and agricultural production, the latter was drawing considerably ahead. From 1952 to 1966 total population increased by about 44% while the value of agricultural production, measured in current prices, increased by 88%⁽¹⁾. It seems, therefore, that there has been a significant improvement in the supply of food and other agricultural products per head of total population. But considering the rate of increase in the value of agricultural production measured in real terms (at 1954 prices) it turns that as of the same period, this value

(1) Presidency of the Republic, Central Agency for public Mobilization & Statistics, Statistical Pocket-Book of the U.A.R., 1952-1966, Memphis Printing House, Cairo, pp. 9 and 22.

increased by only 24%⁽²⁾ which is much less than the increase in population. Even when measured in real terms, the increase of agricultural production is conspicuous. However, the rate of population growth outstripped the corresponding rate of agricultural production. The resulting rise of 24% in production was, therefore, hardly sufficient to alleviate the mounting pressure of population and was in any case not to last.

With this in mind, the main objective of this paper is to identify and explore the most important factors that have a bearing on agricultural development of the Egyptian economy; that is to trace out the major economic, social, and political barriers which stand against the achievement of a relatively higher rate of agricultural advancement.

Capital accumulation: In fact many factors impede development of the Egyptian economy and lead to its failure. Foremost among them is the rapid growth of population which necessitates the utilization of a large part of the capital for basic purposes which are non-productive, such as social services and housing and also calls for concentration on the production of food. At the same time, the increased demand of a growing population for consumption goods makes it difficult to achieve a given level of saving and capital accumulation.

Economic progress is largely dependent upon the rate of the formation of new capital. In the advanced countries the rate of capital formation averages about 10% of the national income, and surpasses this rate in some of these countries. On the other hand, in most of the developing countries the rate of capital formation does not exceed 5% of the national income. This rate hardly suffices for meeting the increase in population, and only a small portion is left for raising the standard of living of the people. Further, the problem of capital formation is accentuated in the economically backward countries by the fact that the supply of capital is restricted by the limited capacity and propensity of the people to save. The per capita disposable income is too low to allow for an appreciable rate of individual saving. At the same time this low per capita

(2) Presidency of the Republic, Central Agency for Public Mobilization & Statistics, Estimates of National Income from Agriculture, 1963, Ref. No. 01-112 : Cairo, 1963, p. 7.

income is occasioned by the low level of productivity which in turn, is a result of the deficiency in capital resulting from the reduced saving. On the demand side, the incentive for investment is poor on account of the low purchasing power of individuals as a result of their low real incomes.⁽²⁾

According to 1963 figures on land tenure in Egypt, the country has the total cultivated area of only 6.4 million feddans and 8.2 million holdings making an average of 2 feddans^(*) farm size for a family, of these over 90% have less than 5 feddans. Besides there is a large section of the agricultural population which own no land; i.e., landless labourers. Thus it signifies Egyptian agriculture to be of subsistence nature carried on in uneconomic holding. The average farmer is able to save little and hence the capital formation in this sector is very low. The problem becomes still worse when the cultivator runs into debt in time of bad crops or when for purposes of consumption and carrying on his normal occupation his expenditure unexpectedly expands. In view of these facts, the economic conditions of the farmers are so poor that the possibility of making an increased investment for agricultural development from farm income is scarce or hardly practicable.

Scale of farming : As mentioned earlier Egyptian agriculture is characterized by the predominance of under-sized farms. Most of all Egyptian farms, which amount to 1.641 million according to 1961 Agricultural Census, were classified as small size farms, that is, farms of less than 3 feddans each. There were about 1.107 millions of these farms with a total area of about 17.8% of all the cultivated area which amounted to about 6 million feddans (Table 1). Holders of such small farms are believed to supply most of its farm labour requirements in such a way that they really constitute a large segment of the actively employed agricultural population in Egypt. The second category of farms, namely farms with area between 3 and 10 feddans, were about 445 thousand farms with a total area of about 2.1 million feddans. However, farms with such a size cannot effec-

(2) Nurkse, Bagnar, *Problems of Capital Formation in Under-developed Countries*, Oxford: Basil Blackwell, 1963, p. 8.

(*) 1 Feddan = 4200 sq. meters = 0.42 hectares.

tively utilize much of the modern technological, economical, and sociological agricultural inputs. The problems arising from the predominance of small-scale farming are made more acute by the excessive fragmentation of the units operated; these are often broken up into several plots, scattered in different areas of the same village or even among different villages; losses in production due to fragmentation have been estimated at 30% of gross production.⁽⁴⁾ All these informations suggest that the size of holdings in Egypt is a drawback regarding its inability to use machines, arrange crop rotation, or to use the other agrotechniques and modern means of production. Naturally this situation affects the country's agricultural production by reducing the level of output and thus affecting the national income. Besides, it seems that because of the agrarian reforms this obstacle has increased during the last few years.

Not only that, but where the small-scale farming is to stay as a dominant characteristic of Egyptian agriculture, it might happen that agriculture in this country will assume a self-sufficient character. Self-sufficiency would stand as an obstacle to the faster development of other main sectors. Industrial, commercial, and foreign trade sectors may suffer failure as they rely heavily on cash crops, the production of which contrasts with the state of self-sufficiency.⁽⁵⁾

Agricultural techniques : In order for the economic welfare in the low-income countries to be increased substantially, an increase in the output of goods and services per capita is required. If output is to be increased, changes in inputs will be required. A large share of the differences in income levels among countries can be attributed to the extent of applying new inputs. Thus, the modern inputs as related to agriculture are specially important. Economic growth of the agricultural sector of a poor country depends predominantly upon the availability and prices of modern (non traditional) agricultural factors.

(4) Saah, Gabriel S., *The Egyptian Agrarian Reform 1932-1967*, Oxford University press: London, 1967, p. 10.

(5) Osman El-Kholi, "Economic policy Ends and Agricultural Economic Development in the UARs", Abstract from *L'Egypte Contemporaine*, *XXème Année*, No. 224: Outo, 1968, pp. 53-54.

The suppliers of these factors in a real sense hold the key to such growth.⁽⁶⁾

However, most of the techniques, agrotechnology, and methods of production applied to Egyptian agriculture are crude and simple. Equipments mostly used on small farms are rather primitive and obsolete. These equipments rely heavily on the utilization of both human and animal efforts rather than on the power of modern machines and tools. The hand-plough that is used hardly scratches the soil, while harvesting and threshing are mainly done by hand. It is estimated that about 10% of the crop is lost through hand and animal harvesting and threshing. To this it must also be added another important fact relating to the farmer's more or less complete ignorance of the basic principles concerning agricultural operations such as fertilization, soil conservation, plant protection, weed control and other similar operations.⁽⁷⁾ The efficiency of Egyptian agriculture, therefore, is normally impaired by the use of these old techniques in cultivation.

But, in deciding on the application of large modern machines to Egyptian farms one might face a situation offering choice between unwelcome alternatives. Machinery equipments are widely recognized as much more efficient in performance of agricultural operations, compared to human or animal work. However, Egypt is suffering from surplus labour, most of which is in the state of unemployment. The level of disguised unemployment in agriculture is very high. According to Nurkse⁽⁸⁾, the disguised unemployment in Egyptian agriculture is estimated at 40 to 50%. Whereas according to El-Zakki⁽⁹⁾, it is estimated at 2 millions, or about 30% of the total farm labour force in 1957⁽¹⁰⁾.

(6) Schultz, T.W., *Transforming Traditional Agriculture*, Yale University Press: New York, 1964, p. 145.

(7) *Op. Cit.*, 54.

(8) *Op. Cit.*, p. 35.

(9) El-Zakki, M.M., and Associates, *Farm and Non-Farm Unemployment in Egypt*. Department of Agricultural Economics, University of Alexandria, 1957.

(10) Worth mentioning in this regard that in a study by El-Imam, the coefficient of the labour term in a Cobb-Douglas production function of Egyptian agriculture during the period 1913-53 inclusive, turned out to be 0.306, and it was significantly different from zero. Using

TABLE 1. Main obstacles to a faster agricultural development in the ARE : Fragmentation of holdings by number of plots and by size of holdings (numbers and areas are in thousand muls).

Size class	Total number of holdings, plots	Number of holdings consisting of:							
		1 plot		2 plots		3 plots		4 plots	
		No.	Area	No.	Area	No.	Area	No.	Area
Less than 1 faddan	435	283	119	108.0	62	30.0	20	14	10
From 1 to less than 2 fed	886	877	124	148	172.0	13	5.0	104	81
" 2 "	287	803	54	117	79.0	175	86.0	199	66
" 3 "	175	548	28	89	39.0	125	51.0	165	58
" 4 "	100	343	15	63	20.0	85	23.5	100	41
" 5 "	170	668	25	153	31.0	197	52.0	201	82
" 10 "	57	275	8	93	9.0	118	8.5	112	31
" 20 "	23	145	3	95	3.0	81	3.0	87	14
" 50 to less than 100 fed	6	46	1	82	1.0	52	0.7	45	4
100 faddans and more	4	39	1	173	0.5	160	0.4	87	2
Total	1643	4395	542	1132	422.5	1168	312.1	1120	365
% of holdings within each plot 100			33		26		19		22

Source 1 computed from

ARE: The Fourth Agricultural Census, 1961, Co-operative Training Establishment - Cairo, 1961, p. 60.

Thus, if labour-using or capital-saving techniques are adopted more people can be put on the job than if the same work was done by employing the use of capital-intensive techniques. Thus, the advantage of the more labour-intensive techniques is that for a given amount of capital investment they create a larger volume of employment. Since most of the wage income is spent on consumption, there is therefore a higher level of present consumption. Since a larger volume of employment means that the available income is spread over a larger number of people, there is also a higher degree of economic equality.

«The densely populated countries in process of development do not need tools and machines of the same degree of capital intensity as those used in the advanced economies where labour is relatively scarce. Ideally, capital imported into undeveloped countries should be specially designed for the factor proportion prevailing in these countries.»⁽¹¹⁾

An important factor linking the standard of farm mechanization to that of the general economic development is farm labour supply and the closely related question of farm wages. Historically, advances in farm mechanization have been made where a strong demand for labour in other non-agricultural industries has withdrawn workers from the land and forced wage rates up. Where this demand has not arisen, as is the case in Egypt, a high proportion of the population is generally composed of subsistence farmers or landless farm labourers, standards of skill and wages of farm labour remain low, and there is no economic incentive for introducing labour-saving machinery. All these points of view may explain the compara-

1954 prices, he finds that the value of average production per labourer increased from L.E. 87 in 1937 to L.E. 108 in 1957. Consequently, the value of marginal product (at constant prices) has increased from 27 to 33, far from falling down to zero. Further, the author goes to suggest that the assumption of disguised unemployment in Egyptian agriculture has to be treated with caution, and even with a lot of doubts. M.M. El-Imam, *Some Remarks on The Labour-Force in The Egyptian Region*, Memo. No. 63, The Institute of National Planning, Cairo, 1961, pp. 9-11.

(11) Nurkse, Ragnar, op. cit. p. 43.

tively small extent to which tractors and other modern large machines are introduced into Egyptian agriculture.

The main argument in defence of labour-intensity as the basis of investment criterion deals with the assumption that such a choice would provide employment, disguised or otherwise, to the surplus labour in the Egyptian agricultural sector. However, the critics of this assumption reply that if such a policy is adopted, the solution for unemployment would be temporary, and in the long-run the problem of unemployment would continue to prevail.

«... in deciding on the utilization of capital-intensive versus labour-intensive techniques, the planning authority have to bear in mind that the abundance and cheapness of currently available labour may well be only a temporarily prevailing condition preceding the realization of any given stretch of the development programme.»¹

Besides, the advantage of the more capital-intensive methods is, that for a given amount of capital investment, they yield a higher net output or surplus above the wage bill, this surplus can be made available for further investment. So although they yield a lower volume of present employment and consumption, they promise a higher rate of economic growth in the future, and therefore a higher potential level of employment and consumption in the future. There is, however, a greater degree of unequal distribution of income.

The Egyptian agriculture has the task of contributing a large amount of capital necessary to the advancement of the whole economy. Capital accumulation is possible when the rate of agricultural production is appreciably higher than the rate at which products are being consumed in the economy. Since the rate of population growth is one of the formidable problems in Egypt, it would be through the growth of capital-intensive techniques that the rate of agricultural production can exceed the rate of consumption at a reasonably greater margin.

«The more we value raising the present level of consumption and employment against future growth, the more

(12) Paron, Paul A., *Political Economy of Growth*, Monthly Review press, New York, 1957, pp. 287 - 288.

we should favour labour-intensive techniques. On the longer 'planning horizon', the more we value the future rate of growth over the present level of consumption and employment, the more we should favour capital-intensive methods which are capable of yielding a larger surplus of output over wage costs for a given capital outlay and so make possible a higher rate of reinvestment for the future.⁽¹³⁾

Foreign trade: Both exports and imports are emphasized as being essential for economic growth. Exports are still important since they provide the necessary foreign exchange to pay for imports. Imports are necessary and sometimes vital to the growth process. The availability of imported goods and equipments necessary for industrial development in Egypt, is not only a determinant of the rate of economic growth, but it is also one of the principal limiting factors. The ability of the country to obtain necessary imports to finance its development projects depends on foreign exchange earnings of exports.

The Egyptian economy is highly dependent on agricultural exports as means for obtaining foreign exchange to finance its industrial development plans. In 1967, the value of agricultural exports amounted to L.E. 213 million, or about 86% of the total value of Egyptian exports. The basic crops dominating the Egyptian agricultural exports are raw cotton, rice and onions. These three basics alone accounted for about 66% of the total foreign receipts secured by exportation, or nearly 77% of the total value of agricultural exports in 1967.

With this high degree of dependence on a few major export crops, the Egyptian economy is very vulnerable to the fluctuations in the world market prices of these exports. A United Nations report has estimated that, making allowance for trend, the year-to-year fluctuations in the export receipts of the underdeveloped countries during 1948-58 have averaged between 9% and 12%.⁽¹⁴⁾ Not only that, but also the demand

(13) Myint H. *The Economics of the Developing Countries*, Frederick A. Praeger, publishers New York, 1965, p. 142.

(14) United Nations, *International Compensations for Fluctuations in Commodity Trade*: New York, 1961, pp. 2-3.

for exports of the primary products of the developing countries has shown a much slower rate of growth as compared with that for manufactures. This can be seen from the fact that the share of primary products in world trade declined from 54% in 1953 to 41% in 1965. Since the participation of developing countries in world exports is quite limited (4.6% in 1965-66), this trend has not been to their advantage.⁽¹⁵⁾

In the short-run, this is clearly one of the serious problems facing Egypt as well as other developing countries. It not only introduces a serious instability into the consumption and living standards, but also creates formidable difficulties for maintaining a steady flow of investment for long-run economic development.

On the other hand, Egyptian agricultural imports, especially food bill, account for a significant portion of total foreign liabilities. In 1967, the value of main food products imported into the Egyptian economy constituted about 25% of the value of total Egyptian imports. Thus, though Egypt is a predominantly agricultural country, it is not self sufficient in food. It has been importing food since the early fifties and many of its hard earned foreign exchange had been drained away over the years. Such a situation might lead to increasing the danger of massive foreign indebtedness, and in turn retarding economic advancement of the country.

CONCLUSION

The FAO Index numbers of Egyptian total and per capita food production and total and per capita agricultural production indicate that the level of both food and agricultural production in 1968 were respectively 52% and 48% greater than their counterparts in the period 1952-56. However, the per capita of both food and agricultural production has shown a slight change amounting to 13% and 9% respectively.⁽¹⁶⁾ These data

(15) National Bank of Egypt, Economic Bulletin, Vol XXI - No. 1, 1968. The Arab Writer, publishers and printers, Cairo, 1968, pp. 22-23.

(16) FAO, Production Yearbook, 1967, vol. 31 : Rome, Italy, 1968, pp. 27-30.

reveal that some progress is being made, and there has been some increase in the national agricultural output in Egypt. However, such an increase in output is being easily matched by a rise in population, so that on per capita basis there has not been much improvement in the consumption level.

Raising the recent low Egyptian per capita agricultural production to achieve the maximization goal of the economic policy necessitates elimination of the obstacles that may be responsible for retarding the realization of a higher rate of agricultural advancement. Among such obstacles are the extremely restricted capital supply along with the poor incentive for investment, the predominance of under-sized farms, the rather old fashioned and obsolete techniques used on most of all Egyptian farms, the high degree of dependence on a few major export crops, the great shortage of skilled labourers and technicians, and the strong adherence of Egyptian farmers to their traditional social and cultural values and attitudes. This list, of course, does not include anything like all the obstacles to agricultural development of Egypt. It merely suggests some of the special problems which the country faces in its attempts to achieve rapid growth.

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THE ROLE OF AGRICULTURAL SETTLEMENTS IN ISRAELI PROPAGANDA

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INTRODUCTION

ISRAELI ACHIEVEMENTS AND PROPAGANDA

Propaganda may be defined as the art of inducing others to behave in a way in which they would not behave in its absence. Propagandists adopt several techniques for gaining the attention of their audience.⁽¹⁾

Political scientists consider propaganda as an important aspect of the use of power in politics. Thus, some countries attempt to reflect an image which is an exaggeration of their actual achievements.

We may distinguish between propaganda and information in the following manner. Propaganda is a means of changing the views of a particular audience which would not change were the audience left to consider them logically while information is a means which allows people to acquire a set of facts which are undistorted.

Israel uses propaganda as an instrument of its foreign policy and its achievements are considered the backbone of its propaganda. Israeli achievements are represented primarily in its economy which has experienced rapid economic growth since Israel came into existence in 1948. It has absorbed immigrants

(1) Doctor Adil H. : *International Relations, An Introductory Study*, Vikas Publications, New Delhi, 1969, pp. 129 - 145.

who usurped the indigenous Palestinian people of their rights. It is of great importance to take into consideration the inputs and outputs of the Israeli economy. This will enable us to destroy the myth of the miracle in the deserts.

There is a lack of Israeli economic independence because it is in need of foreign aid for financing its import surplus. The Balance of current payments of Israel has consistently been more and more in deficit. Unilateral transfers were and still are the main component of capital imports such as the restitution and reparation agreements with West Germany which, throughout the years, have constituted the largest share of foreign aid to Israel. Another important item is the institutional transfers which have proved to be the most constant and most reliable source of foreign aid. These institutions are the Jewish Agency, the Jewish National fund and the Keren Hayesod.⁶

It is therefore valid to conclude that Israel has been depending basically upon Zionist institutions throughout the world, the United States and West Germany in financing the sectors of its economy. The inputs of the Israeli economy are a product of resources derived from other countries and it is difficult to find another country in the world depending as Israel does upon foreign aid for its economic development. Israel exploits its economic achievements in its propaganda without taking into consideration the reality of these achievements and their dependence upon foreign assistance.

(2) Elwainy, Mohamed: Israeli Foreign Policy in Africa, Faculty of Economics and Political Science, Cairo University, July 1971, Unpublished Master's thesis (in Arabic).

Einhorn, Alex: The Economy of Israel, London, 1963, pp 171-272.

CHAPTER I
TYPES OF ISRAELI SETTLEMENTS

There are three types of agricultural cooperatives in Israel, the kibbutz (collective), the Moshav shitufi, (collective village), and the Moshav (cooperative village). The following table illustrates the differences between them.⁽³⁾

Types of Activity	Kibbutz	Moshav shitufi	Moshav
Working of land ... etc.	collective	collective	family
Purchase of household and personal supplies.	mainly collective	individual	individual
Purchase of agricultural equipment seeds, etc...	collective	collective	cooperative
Marketing of produce	collective	collective	cooperative
Housing	adults, individual children collective	family	family
Care of children	collective	family	family

These types of settlements have been established basically during the emergence of Israel. As a result of the seizure of Palestine by foreign settlers and the expulsion of the indigenous

(3) Kreinin, Mordechai: *Israel and Africa, a Study in Technical Cooperation*, Praeger, 1964, p. 28.

Elewainy, : *op. cit.*, pp. 231-232.

inhabitants,⁽⁴⁾ the invaders found it suitable to exploit the land of Palestine according to the above mentioned farming communities for the following reasons :

- The confiscation of Palestinian land after the expulsion of the indigenous population by force.
- The fact that some Palestinians were compelled to sell their lands due to the use of direct force by the Israelis.
- Zionist leaders found it important to assign groups of settlers to work in agriculture and consolidate Israel's existence there because the settlers historically preferred work in finance and commerce . . . and they had not resorted to the field of agriculture.
- The collective settlements enabled the settlers to constitute a social community in order to take into consideration their integration because they had come from all over the world and had no social ties except Zionism which was condemned by a sector of the Jewish Community itself. They were and still are different in race, origin, civilization and language although the Hebrew language has begun to prevail throughout the country.

We can conclude therefore that these types of settlements suited the needs of settlers who invaded a territory by force and subsequently expelled the indigenous population. These factors placed the settlers in a constant state of danger because they usurped the Palestinians of their rights.

(4) El wainy, Mohammed, *Racial Ideology in Israel and Southern Africa*, Information Department, Arab League Cairo, 1972.

CHAPTER II

A DISCUSSION OF ISRAELI SETTLEMENTS AND THEIR FUNCTION IN ZIONIST PROPAGANDA

Israel is seeking to gain influence in Africa and Asia. It has sought to befriend African and Asian states by pursuing a policy in keeping with African and Asian aspirations for economic development and modernisation.⁽⁵⁾ It does not appear that the kibbutz or Moshav ahitufi are capable of widespread emulation.

The Kibbutz can succeed only under Jewish Idealism stated an African Newspaper.⁽⁶⁾ A prominent economist said that most observers seem to agree that the success of these collectives has depended so far upon the special emotions associated with immigrant Jewish agriculture in Israel and upon the part played by collective organizations in the military defence of isolated settlements. Sooner or later, the special strains and emotions involved in creating a Jewish National home will wear off and if the collectives then retain their primitive communism, and succeed economically, they will be doing so contrary to all previous human experience.⁽⁷⁾

Recent immigrants to Israel from Asia and Africa were not able to accept the collective way of life and very few of the settlements have been established since 1948.

In the opinion of a F.A.O. economist, the great difficulties in developing large scale production in Africa along the lines of the collective farm lie in the field of farmer incentives. "Farmers will inevitably develop an attitude toward the land, the crops and the livestock, typical of a hired worker who has only

(5) Reich, Bernard : Israel's Policy in Africa, Middle East Journal, Middle East Institute, Washington, Winter, 1964, p. 14.

(6) Tanganyika Standard, June 23, 1961.

(7) Lewis, Arthur : The Theory of Economic Growth, George Allen and Unwin Ltd., London, 1963 p. 63.

a rather remote personal interest in the ultimate outcome of the production process and the overall efficiency of the enterprise. He receives his income in the form of wages and in some cases of dividends on stock shares he owns in the land which he cannot identify with his own individual efforts and care. (8)

A well organized and adequate sized family farm enterprise is technically and economically more efficient in the use of productive resources than even well managed large scale enterprises mainly depending upon hired workers. (9)

On the other hand the same observer believes that the Israeli Moshav (like the Gezira scheme in the Sudan) is capable of wide application in Africa. The Moshav combines individual ownership and management, provides safeguards against fragmentation of land.

Most Afro-Asian trainees and visitors to Israel share the view that the Moshav can be adopted to their countries conditions.

The following statement by an Ethiopian student is quite typical. The Moshav with its individualistic nature suits the temperament of personality of the Ethiopian farmer since he can achieve the objectives of large scale production and services and mutual aid without risking his privacy. (10)

This leads to the conclusion that Israel has no models to be applied in Africa and Asia according to the studies of prominent characters such as Arthur Lewis and Mordechai Kreinin, except the Moshav which is widespread in the Arab World such as Sudan and Egypt. (11)

For example, the Gezira Scheme like the Moshav constitute farms owned by families and produce cotton under large scale farming conditions and under central management and super-

(8) Kreinin : *Loc. Cit.*, p. 35.

(9) *Loc. cit.* p. 36.

(10) *Loc. Cit.*

(11) Elwanly Mohamed : *op. cit.* p. 234.

vision. They produce maize, vegetables and animal products. Individual holdings range between thirty and forty acres of which about one third is planted with cotton.⁽¹²⁾ Also there is the Liberation Province and the New Valley in Egypt.

It is therefore valid to conclude that Israeli models of settlements are not suitable to Africa and Asia except the Moshav which is also found in the Arab World.

CONCLUSION

THE ROLE OF ARAB INFORMATION IN CONFRONTING ISRAELI PROPAGANDA

World public opinion is in need to know the reality of Israeli settlements and how Zionist propaganda fabricates the facts and deceives the world by claiming that Israeli settlements such as the kibbutz represent the best type of community for developing nations; especially those in Africa and Asia, to be applied in their own countries.

The above mentioned facts enable us to determine that Israel has no unique models to be applied in Africa and Asia.

We are in a world characterized by a huge role of mass media and revolution in communications. This makes the information complicated in addition to the nature of the contemporary international system where the ideological conflict and the national interests play no small role in world events. The nature of political systems complicates the case of information where the power, political parties, pressure groups and lobbies influence decision making. This allows us to know the difficulties which confront Arab Information in order to take into consideration the personnel and financial potentialities because of the Zionist influence in the World.

Here, the role of Arab information is to reveal the facts about Israeli settlements and how these models are the result of Israeli experience based upon usurpation and expansion.

(12) Krcatin : op. cit. p. 22.

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LES DROITS SOUVERAINS SUR LE PLATEAU CONTINENTAL EN VUE DE L'EXPLORATION ET DE L'EXPLOITATION

(Article 2 de la Convention de 1958 sur le plateau continental)

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Le plateau continental est devenu une institution du droit
des gens, par la Convention de 1958.

Mais cette Convention est insuffisante pour résoudre tous
les problèmes qui se posent par son application. Elle se présente
d'ailleurs comme un compromis entre les différentes tendances
exprimées tant au cours de la conférence, qu'au cours de son
élaboration à la commission du droit international, ainsi que le
formule dans ses études le «Naval War College». «La conven-
tion se présente comme le point culminant d'un effort de com-
promis entre les diverses prétentions étatiques, lesquelles ont
différentes origines géographiques, des conditions technologiques
et des perspectives légitimes différentes». (1)

Les termes utilisés dans cette convention «exploration et
exploitation» sont très vagues, et ils posent maints problèmes en
raison de la facilité pour les hommes politiques et militaires (2) de
donner une interprétation, offrant pour eux la faculté d'obtenir

(1) C.M. Financhi — The law of the sea: some rights development,
U.S. Naval War College - International law studies - 1958-1960
p. 10.

(2) Nations-Unies (assemblée générale) -- Comité spécial chargé d'étu-
dier les utilisations pacifiques du lit des mers et des océans au-delà
de la juridiction nationale -- Les utilisations militaires des fonds marins
au-delà des limites de la juridiction nationale actuelle — Doc. A/AC/1
135/28-10 Juin 1963.

des buts contraires à l'exploitation pacifique du lit du plateau continental conformément aux principes généraux énoncés par la convention sur le plateau continental.

Mais l'un des problèmes les plus graves, est celui qui se pose par l'application de l'article 2 de la convention sur le plateau continental en raison de la confusion entre les «droits souverains» (article 2)⁽¹⁾ de la souveraineté.

Pour certains Etats, «droit souverain», n'est pas la souveraineté; pour certains autres ces droits sont identiques à la souveraineté territoriale, et ils «prennent des mesures législatives pour l'étendre parfois jusqu'à deux cents milles sur les parties de la mer⁽²⁾».

D'ailleurs, les mobiles substantiels des prétentions latino-américaines sont d'ordre économique, légitimés par des prétentions géologiques.

Nous tentons donc d'analyser d'une part, le problème que pose l'exercice des droits souverains sur le plateau continental aux fins de l'exploration et de l'exploitation, et d'autre part, la nature des droits souverains.

Première Partie

LE PROBLEME QUE POSE L'EXERCICE DES DROITS SOUVERAINS SUR LE PLATEAU CONTINENTAL

Si on laisse de côté les intérêts des pêcheries ou des ressources vivantes, le plateau continental contient surtout des ressources

(1) Conférence des Nations-Unies sur le droit de la mer - Documents officiels Vol. II-1958 — Le texte initial de l'article 1 (définition du plateau continental) de la convention se trouve dans les documents officiels de l'Assemblée Générale — 8ème session, mais aussi en supplément No. 8 - p. 64 à 66.

(2) A.B. Barry — The continental shelf. The practice and policy of the latin american states with special reference to Chile - Ecuador - Peru — Thèse of 1964.

(3) Nous utilisons désormais l'abréviation P.O. au lieu de plateau continental.

minérales et chimiques, dont la mise en valeur est facilitée actuellement par les progrès techniques, surtout depuis que le perfectionnement de la technique a permis l'exploitation des gisements pétroliers à partir de l'eau.

A la Conférence de Genève de 1958 relative au plateau continental, les parties contractantes ont essayé de systématiser les principes régissant cette nouvelle institution.

Mais en raison de l'importance économique du socle continental d'une part, et des atteintes que peuvent comporter son exploration et son exploitation au régime juridique admis de la haute mer d'autre part, maints problèmes se sont posés, auxquels l'article 2 de cette convention ne peut donner leur juste solution.

En outre, se pose la question de savoir qui a le droit d'exercer un contrôle des ressources enfermées par le sous-sol marin, sachant que ce ne sont pas seulement les riverains qui ont droit d'accès à la mer.

Nous allons étudier deux points :

- Les difficultés résultant de la mise en vigueur de l'article 2 de la convention de 1958.
- La discrimination établie par la convention entre les droits des Etats riverains et les Tiers.

A — Difficultés résultant de la mise en vigueur de l'article 2 de la Convention.

Plusieurs difficultés se présentent à l'occasion de la mise en oeuvre de cet article que nous allons étudier ci-après.

a) Problème résultant de l'article 2 § 1.

Tout d'abord, c'est le problème résultant de « l'exploration et de l'exploitation » du plateau continental aux fins « autres » que l'exploitation de ses ressources naturelles. Les droits visés à l'article 2 § 1 sont exclusifs en ce sens, que, si l'Etat riverain n'exploite pas le P.C. ou n'emploie pas ses ressources naturelles, nul ne peut entreprendre de telles activités, ni revendiquer des droits sur le P.C. sans le consentement exprès de l'Etat riverain.

Les droits de l'Etat riverain sur le P.C. sont indépendants de l'occupation effective ou fictive que de toute proclamation expresse. Cet article laisse supposer que l'Etat riverain peut «user» de son P.C. délimité «en vue d'installer d'une manière permanente des installations pour des buts défensifs : radars, plate-formes, installations sous-marines de détection, stations hydroliques, débarcadères des missions missiles (even launching sites)⁽¹⁾»; on doit comprendre quels abus en résulteraient si les Etats donnaient une interprétation fâcheuse du mot «exploitation» du P.C. Une exploitation du P.C. serait en contradiction flagrante des principes énoncés à la Convention de 1958.

La délégation de la Bulgarie⁽²⁾ à la Conférence de Genève proposa que l'Etat riverain ne soit pas en mesure de constituer sur le sol de son P. C. des installations d'origine militaire contre d'autres Etats. Cette délégation visait à introduire dans les notes de l'article 5 § 2 que «l'Etat riverain ne serait pas en mesure d'user de son P.C. dans le but de construire des bases ou des installations militaires». Mais cette proposition a été rejetée. L'Inde⁽³⁾ également, a fait une proposition de nature pareille, mais cette proposition n'a pas été davantage retenue.

b) Problème résultant de l'article 2 § 2 et 3.

Il est clairement précisé au paragraphe 2 de l'article 2 que l'Etat jouit de droits exclusifs, même s'il n'exploire pas ou n'exploite pas le P. C.

Le paragraphe 3 de l'article 2 dispose que :

«Les droits de l'Etat riverain sur le P. C. sont indépendants de l'occupation effective ou fictive aussi bien que de toute proclamation expresse». C'est là selon M. le Professeur Rousseau «une innovation insolite en droit international, que l'on a justifiée par le fait que l'exploitation des ressources du plateau continental est sous l'étroite dépendance du littoral continental et qu'elle suppose l'existence d'installations adéquates sur le territoire de l'Etat riverain».⁽⁴⁾

(1) U.S. Naval War College - op. cit.

(2) Nations-Unies - Doc. A/Conf. 13 C 1 41, 1958.

(3) Nations-Unies - première conférence sur le droit de la mer - Doc. Off. 1958 - Vol. VI - 4^{ème} commission - - Doc. A/Conf. 13 C 1 L 57.

(4) Ch. Rousseau - Progrès technique et droit international - cours D.E.B. 1963-1967 - p. 163.

L'Etat riverain étant titulaire de droits sur son P. C., même s'il n'était pas en mesure d'en exploiter lui-même les ressources naturelles, il serait capable d'implanter des installations techniques militaires dans la région du P. C. et des pics océaniques, étant donné que les installations techniques de l'exploitation pacifique, permettant le meilleur camouflage des engins militaires, d'ordre classique ou nucléaire.

Or l'Etat riverain étant titulaire des droits sur son P. C., rien ne permet de dire que ceux-ci sous la forme de l'exploration et de l'exploitation, combinées avec la possibilité de poser des armes classiques ou non sous l'eau, puissent atteindre leurs objectifs militaires plus avancés.⁽¹⁾

De même dans le cas des installations pacifiques permanentes d'exploration, il serait difficile pour un tiers d'apprécier avec certitude la nature des installations sous l'eau, sinon sur la surface.

Si une guerre marine éclatait l'Etat ennemi n'étant pas sûr de la «nature pacifique des installations», les attaquerait immédiatement pour détruire les engins militaires éventuellement camouflés dans ce cadre général des installations de l'exploitation de la mer.

Cette éventualité, dans le monde où nous vivons, devrait bien faire réfléchir les hommes politiques et ceux de la science, quant au sort de la conservation de la mer dans son intégrité naturelle. Dans l'éventualité d'une guerre, ou de la pollution des installations techniques, il en résulterait non seulement des pertes en vies humaines, mais aussi la mort du royaume liquide, berceau de la vie !

(1) Nations-Unies — Assemblée Générale — Comité spécial — Les utilisations militaires des fonds marins au-delà de la limite de la juridiction nationale. A/AC/125/28-10 Juillet 1968 (Il est à remarquer que ces documents sont établis d'après des renseignements publiés et il est difficile pour le comité spécial des Nations-Unies de dire dans quelle mesure il s'agit de renseignements autorisés). Le comité pose la question "Faut-il considérer qu'ils mentionnent des possibilités plutôt que des réalités".

c) Controverse résultant de l'article 2 § 4.

La Convention donne l'énumération des ressources naturelles dans l'article 2 § 4. Mais le problème posé par cet article, est de savoir si les organismes mobiles tels que les crustacés ou les poissons vivant au fond de la mer, appartiennent à la catégorie des ressources naturelles. La Convention de 1958 reste muette sur ce point.

Pour les uns, le principe de l'exclusion des crustacés des produits accessoires du P. C. a paru si évidente qu'on a estimé inutile de l'incorporer dans une disposition expresse.

Pour les autres, si la convention de 1958 n'a pas consacré une disposition particulière aux crustacés, c'est parce qu'elle considérait les crustacés comme une ressource naturelle du P.C. La controverse sur ce point a fait naître un problème juridique entre la France et le Brésil, ce dernier considérant les langoustes comme faisant partie des ressources naturelles du P. C. réservées à l'Etat riverain.⁽¹⁾ Pour la France d'après la théorie traditionnelle, les pêcheries sédentaires ne pourraient s'effectuer que dans l'espace de la haute mer. Pour le Brésil, la théorie française va à l'encontre de ses intérêts économiques et politiques propres parce que pour lui, prétendant la propriété absolue des richesses de la mer, il cherche à avoir la propriété absolue d'une portion du lit de la haute mer sous forme d'huîtres perlières, de coquillages, de coraux, d'éponges !

B — Discrimination établie par la convention entre les droits des Etats riverains et les Tiers.

La mer, conçue dans son unité physique comprend le lit et les eaux qui la recouvrent ; par conséquent, il ne fait point de doute que le P.C. se situant au-delà de la mer territoriale, appartient physiquement à la haute mer.

L'appartenance de ce P. C. à la haute mer suggère l'idée que celui-ci constituerait un bien commun de tous les peuples, et ne saurait de ce fait être soumis à une domination particulière. Pour M. le Professeur G. Scelle⁽²⁾ la haute mer n'est pas seulement

(1) Ch. Rousseau - L'affaire des langoustes — R.C.D.I.P. - 1964 - p. 133.

(2) G. Scelle — Le plateau continental et le droit international de la mer — ed. Pedone — 1955.

un res communis, mais elle constitue un élément du domaine public international. Il nous semble donc que non seulement le lit et le sous-sol du P.C. et le fond des océans en général doivent être considérés comme faisant partie intégrante de la haute mer, mais aussi les ressources qu'ils recèlent doivent être soumis au même régime applicable aux eaux internationales dans l'intérêt de l'humanité présente et future. L'article 4 de la convention de Genève de 1958 sur la haute mer reconnaissait à tous les Etats, riverains ou non de la mer, le droit de faire naviguer en haute mer des navires arborant leur pavillon. Il en résulte que les Etats non riverains ont non seulement le droit d'accès à la mer, mais aussi une partie de la richesse qu'elle renferme.

Si un principe fondamental du droit international veut qu'un Etat ne peut exercer souverainement sur une partie quelconque de la haute mer l'une de ses compétences, ni défendre une position qui romprait l'égalité des Etats, il s'ensuit qu'aucun Etat ne peut non plus exercer sa souveraineté sur la richesse de la mer sans porter atteinte aux intérêts des autres Etats, riverains ou non.

Etant donné que la convention de Genève a prévu la souveraineté des Etats riverains sur la richesse de la mer, il faudrait alors une autre règle du droit international public qui veillerait sur les intérêts de la communauté internationale, et ainsi que le souligne M. le Professeur Paul Reuter «les mesures qui assurent la sauvegarde des intérêts communs doivent s'imposer à tous, et elles doivent selon le principe de la souveraineté recevoir l'agrément de tous».⁽¹⁾

S'il en était autrement, un déséquilibre des intérêts frapperait la société internationale, et surtout les Etats tiers, ou ceux qui ne disposent pas de moyens techniques pour l'exploration et l'exploitation du P. C.

D'ailleurs les Etats riches en moyens techniques affecteraient le lit des mers à des fins militaires après l'avoir exploité économi-

(1) P. Reuter — Principes de droit international public — R.C.A.D.I. La Haye — 1961 — p. 448 — T. II. Prof. à la Faculté de droit de Paris. Il fut conseiller de l'Espagne contre la Belgique en l'affaire de la Barcelona traction, light and power company Limited en 1970.

quement, alors que la majorité des Etats riverains ou non, n'aurait jamais la possibilité de jouir de l'égalité des droits souverains.

Si l'on admettait ces hypothèses, il ne serait pas exagéré de dire que dans la société internationale, il y a une majorité d'Etats jouissant de droits simplement théoriques sur la surface de la mer (principe de la liberté des mers), alors que d'autres (impériales, mais puissantes), auraient des droits, non plus théoriques, mais «concrets», «économiques», «industriels» et «militaires», par voie de conséquence.

Il est évident que cette distinction de droits pour les uns et pour les autres constitue une discrimination flagrante et une injustice frappante au sein des membres égaux de la société internationale.

Deuxième Partie

NATURE DES DROITS SOUVERAINS

Dans son projet de 1958, la commission de droit international a établi un projet suivant lequel, le P. C. est soumis à l'exercice par l'Etat riverain du contrôle et de la juridiction aux fins de l'exploitation de ses ressources naturelles. La commission, ensuite, sous la pression des Etats latino-américains et asiatiques, a été obligée de remplacer les mots contrôle et juridiction par ceux de «droit souverain», tout en soulignant dans son commentaire que les termes n'étaient pas dans l'esprit l'équivalent de la souveraineté.

C'est de cette façon que l'article 2 de la convention de Genève s'est élaboré, souscrivant aux droits souverains.

Avec l'adoption des droits souverains dans les projets, la satisfaction des Etats était quasi-totale. Il suffit d'une interprétation politique de ces droits souverains pour que les Etats atteignent leurs objectifs désirés, c'est-à-dire en les assimilant à la souveraineté. D'ailleurs, le danger avait été remarqué par le Danemark⁽¹⁾ observant que les termes «droits souverains» impli-

(1) Nations-Unies — Débats de la quatrième commission du 13 mars 1958 p. 4.

quent l'idée de souveraineté et que même si cette expression est assortie d'une clause restrictive, elle risque de susciter des difficultés d'interprétation et d'appréciation en cas de guerre ou d'entraves en temps de paix, à la liberté des recherches scientifiques.

Ces droits sont exclusifs et inconditionnels à l'article 2 § 2 et 3 de la convention de 1958 sur le plateau continental.

On se demande donc finalement à quelle catégorie de droits appartiennent ces «droits souverains».

Font-ils partie des droits dont l'Etat use souverainement, ou sont-ils purement et simplement des droits de la souveraineté. Ont-ils des similitudes avec d'autres droits existant, ou s'agit-il de droits particuliers qui ne peuvent s'expliquer que par rapport à une branche naturelle de la haute mer ?

Il s'agit donc de répondre aux deux questions suivantes :

- En quoi ces droits souverains diffèrent-ils de la souveraineté et de la notion de droits acquis ?
- En quoi les droits souverains se rapprochent-ils du droit d'usufruitier et du mandat ?

A — En quoi les droits souverains diffèrent-ils ?⁽¹⁾

a) de la souveraineté.

Sous l'optique des éléments juridiques de la souveraineté (indépendance, exclusivité, autonomie), il ne nous semble pas que l'Etat riverain puisse monopoliser l'intégrité des pouvoirs de sa souveraineté sans ce milieu maritime, mais seulement ceux des droits qui lui sont nécessaires à l'exploration et l'exploitation des ressources naturelles.

Les dits «droits souverains» sont limités au seul but de l'exploration ou de l'exploitation du P.C., et si les navires ne respectent pas la zone de sécurité (500 mètres), l'Etat intéressé ne peut pas exercer un droit de contrainte, c'est-à-dire appliquer des

(1) La même question que nous posons en notre travail spécialisé relatif au sujet «La délimitation du plateau continental», 9 Février 1970, 200 pages.

mesures découlant de sa compétence territoriale, alors qu'il peut le faire dans sa mer territoriale.

La convention de 1958 permet à l'Etat exploitant du P.C. de prendre unilatéralement les mesures nécessaires à l'exploration et à l'exploitation, mesures que les navires de pêche doivent respecter, mais la convention ne semble pas autoriser la saisie et la présentation de ces navires récolitants devant la juridiction nationale.

De même, les mesures unilatérales dépendent pour leur exécution de la coopération des autres Etats dont les nationaux participent à la pêche.

Selon M. Sorenson, bien que cette compétence spéciale de l'Etat riverain sur la haute mer soit un prolongement de ses compétences sur le territoire, elle est de caractère si limité qu'il ne semble pas correct de la ranger parmi les compétences de souveraineté territoriale.⁽¹⁾

Ces droits dits «souverains» appartiennent donc à la catégorie de compétence à caractère exceptionnel, et ils se limitent au seul but spécifique de l'exploration et de l'exploitation; ils ne peuvent donc pas s'identifier à la souveraineté territoriale, idée qui serait incompatible avec le principe fermement établi de la liberté de la haute mer.

En d'autres termes, si dans le domaine national la souveraineté de l'Etat est évidente, dans le domaine public international la présomption est en faveur de l'absence de toute compétence d'ordre territorial, et par conséquent, les droits «souverains» de l'Etat sur cette partie de la haute mer qui est le P.C., ne sont pas identiques aux droits de la souveraineté, l'Etat ne disposant pas du pouvoir de «impérium» qui lui permettrait d'en disposer à sa guise !

b) de la notion des droits acquis.

Pouvons-nous caractériser les droits «souverains» comme des «droits acquis»? Le principe des droits acquis est l'un des principes fondamentaux du droit international, aussi bien que du droit interne.

(1) M. Sorenson — Principes du droit international public — R.C.A.D.I. La Haye — 1960 — T. III — p. 145.

Si nous nous en tenons à la rigueur traditionnelle, les droits acquis sont par excellence les droits de «propriété» et par conséquent, ils doivent être permanents et immuables pour le possesseur.

En droit interne par la notion des droits acquis, «il s'agit de la protection de certains droits individuels contre les atteintes possibles d'une législation rétroactive.»⁽¹⁾

Si nous comparons l'article 2 § 2 (exposé ci-dessus) à la notion des droits acquis de droit interne, nous remarquons qu'il y a un certain nombre de ressemblances, en ce sens que le maître de la «chose possédée» peut en disposer ainsi que des droits découlant de la possession.

L'article 2 § 3 dispose que «les droits de l'Etat riverain sur le P.C. sont indépendants de l'occupation effective ou fictive». De la comparaison des paragraphes 2 et 3 de l'article 2, il ne résulte pas que l'Etat riverain dispose d'un droit de propriété sur son P.C., lui permettant d'en user à sa guise.

Si par exemple, une province maritime riveraine du P.C. (Etat unitaire) se détache de celui-ci et sa cession est reconnue, elle devient sujet du droit international, donc à son tour Etat unitaire, riverain du P.C. contigu du P.C. à sa mer territoriale.

L'Etat unitaire précédant ne peut pas invoquer le titre «des droits acquis souverains», et empêcher l'exploration et l'exploitation légalement du P.C. de son ancienne province.

Le Droit international public ne pourrait être invoqué par l'Etat précédant (unitaire), parce que le droit «ne saurait intervenir que s'il y a atteinte, non pas à un intérêt quelconque, mais à un droit ? En droit international comme en droit interne, tout intérêt économique n'est pas nécessairement reconnu comme digne de protection juridique.»⁽²⁾

Mais en droit international public, le problème peut se poser différemment; il existe en effet dans ce domaine des droits non

(1) P. Lalive — Le principe international des droits acquis — cours à l'Institut des Hautes Etudes Internationales — 1957-1969 — p. 9.

(2) P. Lalive — op. cit. — p. 17.

matériels, et le droit de passage; pouvons-nous le considérer comme un droit acquis? Nous ne le pensons pas.

En effet, le droit de passage s'analyserait alors en un droit de pouvoir étatique qui s'exercerait sur un territoire étranger, ce qui est impossible. Car cet Etat n'a ni la propriété (dominium), ni la souveraineté (impérium).

B - En quel les droits souverains se rapprochent-ils?

a) des droits d'usufruitier.

On pourrait dire dans une certaine mesure que les droits souverains se rapprochent de ceux d'usufruitier, si on peut admettre que l'Etat riverain ne peut pas annexer le P.C. à son propre territoire, que cet Etat ne recueille que les fruits (ressources naturelles) sur la partie du P.C. contigue à sa mer territoriale.

Cette considération nous amène à penser que si les lit et sous-sol du P.C. ne sont plus rentables, ils doivent revenir à la société internationale, comme étant indivisible de l'ensemble du lit de la haute mer.

b) des mandats.

En droit international public, la puissance mandataire ne dispose que de compétence limitée sur le plan territorial. A l'égard «des territoires» en mandat, la puissance mandataire n'a pas la souveraineté originale et inconditionnelle, mais des compétences limitées. Ces compétences ont deux caractères :

- attribuées par un traité,
- soumises au contrôle d'une autorité internationale.⁽¹⁾

Or, si l'on fait un rapprochement en droit international des mandats avec les droits souverains accordés par traité à l'Etat riverain en vue de l'exploration ou de l'exploitation, on pourrait trouver quelques similitudes.

Si nous examinons ce que le mandat ne permet pas de faire, nous voyons que le mandataire ne peut disposer de son P.C. suivant sa liberté, ni le céder par un traité bilatéral parce qu'il n'en est pas le maître.

(1) Ch. Rousseau - - Compétence territoriale - - cours D.E.B. 1943-1944 pp. 89 et 103.

Le droit de souveraineté ne peut pas s'appliquer à la totalité, parce que l'Etat n'a pas le droit d'annexer son P. C. et d'y appliquer la souveraineté territoriale; les droits souverains ne permettent pas d'ignorer les intérêts des autres Etats, et le maître véritable, c'est-à-dire la communauté océanique.

Par contre l'Etat riverain a un certain nombre de droits particuliers sur son plateau.

Selon M. Sorenson, «l'étendue des droits particuliers de l'Etat riverain est déterminée par un critère d'ordre géographique et fonctionnel à la fois, de sorte que l'aspect fonctionnel prédomine».⁽¹⁾

Cela explique que l'Etat conserve certains pouvoirs législatifs, exécutifs et judiciaires relatifs au P.C., mais seulement sur les moyens qui ont trait à l'exploration ou à l'exploitation.

Ces pouvoirs expliquent encore pourquoi les moyens techniques et les installations et engins ont nationalité de l'Etat exploitant.

Tout ceci nous mène à penser que l'Etat riverain a un seul mandat sur le P.C. qui se réduit à la seule exploration et exploitation.

En somme, le seul mandat que l'Etat riverain a reçu du droit conditionnel consiste dans l'exploration et l'exploitation des ressources naturelles et dans leur administration ou leur libre disposition; tout autre pouvoir ne se présume pas !

Le mandat prendrait donc fin lorsque l'objet pour lequel il était prévu a pris fin.

Au-delà de l'instruction de l'objet du mandat, toute activité sur le sol, ou les entraves au droit des Tiers de l'utiliser au but pacifique et spécifique y porterait atteinte au principe de la liberté de la haute mer, domaine public de la société océanique.

(1) M. Sorenson -- Questions concernant le plateau continental, op. cit.

CONCLUSION

Un grave problème se pose par la formule des droits souverains, c'est que le régime laisse un champ d'interprétation ouvert aux États qui essayeront par le biais de ces droits d'arriver progressivement à transformer ces mêmes droits particuliers en souveraineté. On comprendrait bien les entraves et atteintes au régime juridique de la haute mer, si les progrès techniques peuvent augmenter les possibilités d'actions de l'homme au-delà du plateau continental.

Le critère de l'exploitabilité est donc interne, très élastique, et ne fait qu'impliquer les situations juridiques futures qui régissent le milieu naturel.

ANNEXE I

Texte de l'article 2 de la convention de Genève de 1958 sur le plateau continental.

- 1 — «L'Etat riverain exerce des droits souverains sur le plateau continental aux fins de l'exploration de celui-ci et de l'exploitation de ses ressources naturelles.»
- 2 — «Les droits visés au paragraphe 1 du présent article sont exclusifs en ce sens que, si l'Etat riverain n'explore pas le plateau continental ou n'exploite pas ses ressources naturelles, nul ne peut entreprendre de telles activités, ni revendiquer des droits sur le plateau continental sans le consentement exprès de l'Etat riverain.»
- 3 — «Les droits de l'Etat riverain sur le plateau continental sont indépendants de l'occupation effective aussi bien que de toute proclamation expresse.»
- 4 — «Les ressources naturelles visées dans les présents articles comprennent les ressources minérales et autres ressources non vivantes du lit de la mer et du sous-sol, ainsi que les organismes vivants qui appartiennent aux espèces sédentaires, c'est-à-dire les organismes qui, au stade où ils peuvent être pêchés, sont immobiles sur le lit de la mer, au-dessous de ce lit, sont incapables de se déplacer si ce n'est en restant constamment en contact physique avec le lit de la mer ou le sous-sol.»

مذبح لاعراب انجليزية
رمم التيداج بدار نكب
١٩٧٠ / ٦٢٨٥