

# SUMMARY OF RECENT ECONOMIC DEVELOPMENTS IN THE MIDDLE EAST 1952-53

*Supplement to World Economic Report*

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Erratum (English only)

Page 85:

Substitute the following for the first paragraph of chapter 4, "Recent Developments in Israel".

The economy of Israel took a new orientation during 1952 and 1953, mainly as a result of the measures which have been called the "New Economic Policy". Agricultural production and exports expanded, and there was an easing of the strong inflationary pressure which had been in evidence in 1951 and at the beginning of 1952. Prices, however, continued to increase, if more slowly, and the exchange value of the Israeli pound was again reduced in 1953. Thus, while substantial progress has been achieved it is difficult to determine to what extent the basic difficulties facing the economy of Israel have been solved; the most acute of these have been inflationary pressure, the deficit in the balance of payments and the lack of the necessary means for development in agricultural and industrial fields.

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## PREFATORY NOTE

This Summary of Recent Economic Developments in the Middle East, 1952-53 forms a supplement to the survey of the world economic situation prepared by the Secretariat of the United Nations and issued in the World Economic Report, 1952-53.<sup>1/</sup> The summary was prepared by the Division of Economic Stability and Development in the Department of Economic Affairs.

The introduction to this summary endeavours to present an over-all view of main economic trends in the Middle East; as in previous years, this designation includes Afghanistan, Egypt, Iran, Iraq, Israel, Jordan, Lebanon, Saudi Arabia, the Sudan, Syria, Turkey, Yemen; Aden Colony, Aden Protectorate, Bahrein, Cyprus, Kuwait, Muscat and Oman, Qatar and Trucial Coast. Two chapters are devoted to major aspects of production and trade and of petroleum. Three studies of individual countries - Egypt, Israel and Turkey - follow. Detailed and complete analysis of the various economic trends prevailing in the region and of the situation in each of the Middle East countries has not been attempted in this report. A more comprehensive study will be prepared in next year's report, as was done in the Review of Economic Conditions in the Middle East, 1951-52.<sup>2/</sup> and will include, inter alia, a survey of transport problems in the Middle East.

In general, information for the figures in the text and the tables was obtained from data compiled by the Statistical Office of the United Nations. In addition to government sources, other official international and national sources were utilized; when such data were not available, private sources were consulted. Because of variations in methods of compiling data, information for the various countries is not always strictly comparable.

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<sup>1/</sup> United Nations publication, sales number: 1954.II.0.1.

<sup>2/</sup> Sales number: 1953.II.C.1.

## EXPLANATION OF SYMBOLS

The following symbols have been used in the tables throughout the report:

Three dots (...) indicate that data are not available or are not separately reported

A dash (-) indicates that the amount is nil or negligible

A blank in a table indicates that the item is not applicable

A minus sign (-) indicates a deficit or decrease

A full stop (.) is used to indicate decimals

A comma (,) is used to distinguish thousands and millions

A slash (/) indicates a crop year or fiscal year, e.g., 1952/53

Use of a hyphen (-) between dates representing years, e.g., 1950-53, normally signifies an annual average for the calendar years involved, including the beginning and end years. "To" between the years indicates the full period, e.g., 1950 to 1953 means 1950 to 1953, inclusive.

References to "tons" indicate metric tons, and to "dollars" United States dollars, unless otherwise stated.

Details and percentages in tables do not necessarily add to totals, because of rounding.

Information regarding rates of exchange may be found in issues of the United Nations Monthly Bulletin of Statistics.

## CONTENTS

	<u>Page</u>
Introduction . . . . .	8
1. Production and trade . . . . .	15
Principal developments in agriculture and industry . . . . .	15
Agricultural output . . . . .	15
Industrial output . . . . .	21
Foreign trade . . . . .	24
Volume and value . . . . .	27
Terms of trade . . . . .	31
Composition of imports and exports . . . . .	31
Direction of trade . . . . .	34
Foreign exchange reserves . . . . .	36
2. Petroleum . . . . .	39
Exploration and development of facilities . . . . .	39
Production and refining . . . . .	45
Exports and consumption . . . . .	52
Use of petroleum income . . . . .	57
Bahrein - Iran - Iraq - Kuwait - Qatar - Saudi Arabia	
3. Recent developments in Egypt . . . . .	67
Foreign trade . . . . .	73
Cereals and other crops . . . . .	75
Industry . . . . .	77
Government budget . . . . .	79
Economic development . . . . .	80
4. Recent developments in Israel . . . . .	85
Prices . . . . .	85
Production . . . . .	90
Balance of payments . . . . .	96
5. Recent developments in Turkey . . . . .	101
Agriculture . . . . .	101
Industry . . . . .	105
Investment in agriculture and industry . . . . .	112
Foreign trade . . . . .	119

## APPENDICES

A. Output of the sixteen Sümer Bank establishments, 1950 to 1952 . .	126
B. Major Sümer Bank projects recently completed or under way . . . .	127



# LIST OF TABLES

Page

## 1. Production and Trade

1. Output of major agricultural products, 1948-50 and 1951 to 1953 . .	17
2. Dollar value of imports and exports, excluding gold, 1950 to 1953 .	25
3. Value of imports and exports, excluding gold, 1950 to 1953 . . . .	28
4. Quantum indices of imports and exports of selected countries, 1949 to 1953 . . . . .	30
5. Terms of trade of selected countries, 1949 to 1953 . . . . .	32
6. Direction of trade, 1950 to 1953 . . . . .	35

## 2. Petroleum

7. Estimated proven reserves of crude petroleum, by country, 1951 and 1953 . . . . .	40
8. Production of crude petroleum, by country, 1948 and 1950 to 1953 .	47
9. Output of major refinery products, 1950 to 1952 . . . . .	49
10. Exports and imports of crude petroleum, by country, 1950 to 1952 .	54
11. Destination of crude petroleum exports, 1951 and 1952 . . . . .	55
12. Estimated inland consumption of major petroleum fuels, by country, 1950 to 1952 . . . . .	57
13. Iraq: Allotment of funds and estimated expenditures for development projects, 1951/52 and 1952/53 . . . . .	61
14. Saudi Arabia: Budget for 1952/53 . . . . .	65

## 3. Recent Developments in Egypt

15. Production, prices and exports of cotton, 1949 to 1953 . . . . .	68
16. Area and production of principal cereals, 1934-38, 1945 and 1949 to 1953 . . . . .	69
17. Output of principal industries, 1949 to 1953 . . . . .	72
18. Principal items in balance of payments, 1948 to 1952 . . . . .	76
19. Principal items in government budget, 1950/51 to 1953/54 . . . . .	81

## 4. Recent Developments in Israel

20. Indices of cost of living and wholesale prices, 1950 to 1953 . . .	87
21. Agricultural production, 1951 to 1953 . . . . .	91
22. Output of certain industries, 1950 to 1953 . . . . .	93
23. Foreign exchange income and expenditure, 1952/53 and 1953/54 . . .	99

## 5. Recent Developments in Turkey

24. Output of principal agricultural products, 1950 to 1953 . . . . .	103
25. Indices of industrial production, 1950 to 1952 . . . . .	106
26. Manufacturing and mining output, 1950 to 1953 . . . . .	108
27. Loans of the Industrial Development Bank, 1950 to 1952 . . . . .	115
28. Status of counterpart funds withdrawn, 1948 to 1953 and 1952/53 . .	117
29. Procurement authorizations, 1948 to 1953 and 1952/53 . . . . .	118
30. Economic development expenditures in ordinary and special budgets, 1951 to 1953 . . . . .	120
31. Principal categories of imports, 1938 and 1950 to 1952 . . . . .	122
32. Unit values of exports, 1948 to 1953 . . . . .	123



## INTRODUCTION

During 1952 and 1953 deflationary tendencies of varying degrees of intensity appeared in a number of Middle East countries, the principal exceptions being Turkey and some of the oil producing countries. These tendencies were, in some cases, the result of international economic trends, whose impact in the different countries was uneven; in some cases, they arose from internal factors; and in others, from a combination of internal and international factors. In spite of this deflationary trend, noteworthy economic progress was achieved but, generally speaking, such progress was localized. The greatest expansion was registered in the production of petroleum, but only a small number of Middle Eastern countries are major oil producers. Agricultural output showed a more widespread, though generally a smaller, increase. Industrial production rose more slowly, but its progress, though unequal, was widely diffused in the region. The economic experiences and circumstances of the various countries presented a great degree of diversity, and no generalizations covering all parts of the region, and the whole period under review, can therefore be made.

As regards international economic trends, the effects of the raw material boom and of its conclusion were felt in the Middle East more widely at the end of the period under review than at the beginning. In 1952, the value of the imports of all countries in the region was greater than in 1951, owing mainly to substantial orders placed when the high level of exports eased the foreign exchange situation, but the rise was generally smaller than had occurred from 1950 to 1951. Export prices were stable or declining, and the terms of trade tended to deteriorate, falling most sharply in the countries where they had previously improved most. Trade deficits rose in 1952. Most countries responded to this situation by restricting imports, so that trade tended to decrease in 1953. However, this process did not take place simultaneously in all countries. Those which are greatly dependent on cotton exports, such as Egypt and the Sudan, were the first to experience the effects. Cereal exporters, on the other hand, were affected later, and less severely, by the decline in international demand. In other countries, this general trend was checked by internal factors; thus, in the major petroleum producing countries, rising revenues from oil activities made it possible, in most cases,

to expand imports and at the same time increase foreign exchange reserves. Two countries, Iran and Israel, faced with difficult internal situations, resorted to currency devaluation, which helped to widen the market for their exports; in Iran, the loss of oil royalties since 1951 has had very serious repercussions on the economy, and in Israel the need to bring the standard of living more nearly into line with existing productive capacity resulted in a deflationary policy which was carried out with the devaluation. In Turkey, export trade and economic activity were kept at a high level by excellent crops, a large amount of investment and continuing foreign aid.

There was marked, but localized, economic progress in the Middle East during the period under review. Agricultural output in 1952/53 was about 7 per cent greater than that of 1951/52, and per capita output was above the pre-war level. The 1953 crop was at least as large as that of the preceding year. The advance, however, was largely confined to cereals and cotton; most cash crops and livestock products increased little, or not at all. Moreover, the increase in output was mainly due to favourable weather conditions or to the extension of the cultivated area rather than to an improvement in methods of cultivation; there was little expansion in irrigation. Progress was uneven, being most marked in Turkey and, though to a lesser extent, in Syria and Iran.

A similar diversity may be observed in the industrial sector. Progress was, on the whole, slow, but there were some exceptions, notably in Turkey, and in some countries, such as Egypt, Iraq and Israel, important steps were taken in certain fields. Such advances were most notable in mining and power, and were also marked in recently established branches of manufacturing, such as the metallurgical and chemical industries, where the possibilities of substitutions for imports were greatest. Other branches of manufacturing suffered more from the decline in internal demand. Most countries have taken steps to improve their industrial equipment. Governments have generally confined themselves to carrying out large-scale schemes, such as the provision of power, in which private capital showed little interest, and to protecting and stimulating industry by fiscal and other policies. In certain countries, however, such as Iraq and Turkey, the Governments set up and operated various new enterprises or have participated, together with private capital, in their establishment. Achievement in the industrial sector was, to a large extent, determined by the availability of capital.

Several countries of the region received substantial amounts of capital from foreign sources, permitting them to further their economic development or to supplement deficiencies in domestic resources. Thus, the economy of Turkey and Iran benefited from economic and military aid from the United States; Israel received aid, both private and public, from the United States, as well as other foreign capital and German reparation payments; Jordan received financial aid from the United Kingdom, and the assistance provided by the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) played an important part in providing relief and work for Palestine refugees in that country. The major petroleum producing countries received increasing revenues from the oil companies - owing to greater output and more favourable terms of payment, - estimated at about \$260 million in 1951, \$440 million in 1952 and about \$500 million in 1953. In addition, these countries derived a substantial amount of foreign exchange from the local activities of the petroleum companies. On the other hand, Afghanistan, Egypt, Lebanon, the Sudan, Syria and Yemen, which among them account for half of the population in the region, received little or no outside financial assistance and had to finance development from their current resources or from foreign exchange reserves.

The petroleum industry continued to develop in 1952 and 1953. Although Iran's output has been negligible since 1951, Middle East crude petroleum production amounted to 106 million metric tons in 1952 and exceeded 120 million in 1953, accounting in that year for 18.4 per cent of world output; in 1950, the last year in which Iran maintained its full rate of output, the region produced 89 million tons. Proved reserves also increased during the period under review, amounting to 8,310 million tons, a rise of 28 per cent over the 1951 figure. Refining showed a much lower rate of development, largely because of the shut down in the Abadan refinery and the expansion of refining capacity in the major consuming areas outside the Middle East. Nevertheless, excluding the Abadan refinery, there was an increase of 9 per cent in the output of refined petroleum products in 1952. Domestic and industrial consumption of petroleum products - excluding refinery use - increased considerably in all countries of the area. However, consumption of petroleum is still at a very low level, given its availability, on the one hand, and the potential needs of the region and the lack of other sources of power, on the other. The substantial increase in the amount received as royalties presents a contrast to the small proportion of these sums

which is currently being spent on development, despite the region's urgent need for capital. The proportion of oil revenue spent on development was under one-fifth of the total for the region.

Trade among the countries of the region, which in 1951 was already at a low level, declined further in 1952. This trend to a large extent reflects the fact that the economies of most of the countries in the region are not complementary. Trade between Israel and Turkey, however, showed a significant increase.

On the whole, it appears that economic progress in the region was uneven during the period under review. In almost all the Middle East countries, however, some advances were achieved in one or more of the major fields of economic activity and in some, progress was more widespread; economic development was most marked in Turkey. In certain other countries, such as Iraq, projects under construction are expected to result in an appreciable expansion of economic activity in the near future. Important reforms recently adopted by various countries, and large-scale projects under way, should provide the basis for the more rapid economic development which the governments of the region seek to achieve.

At conferences of the Ministers of Finance and National Economy of members of the Arab League, held in May and August 1953, the establishment was proposed of an Arab Bank for Economic Development, which would promote a greater degree of economic co-operation between oil producing and other countries in the region. Such a bank would grant loans to governments of member countries or to development institutions, and it would be able to share in regional development projects conducted by commercial enterprises. It was proposed that the bank should have a nominal capital of £E 200 million and should be able to issue bonds or borrow from the International Bank for Reconstruction

and Development.<sup>2/</sup> No decision on this proposal has been reported. Following the above-mentioned conferences, two agreements reducing customs duties and facilitating payments for current transactions and capital movements were drawn up, and by the end of 1953 they had been ratified by Egypt, Jordan, Lebanon and Saudi Arabia. The same conference also recommended, in addition to the Arab Bank, the creation of a regional economic organization for the Near and Middle East and the foundation of an Arab navigation company.

As regards bilateral co-operation between countries of the region, the most noteworthy event, in addition to various trade agreements, was the agreement concluded in 1953 between Jordan and Syria for a joint project on the Yarmuk river, providing irrigation for Jordan and electricity for both countries.

Participation of Jordan in the Yarmuk scheme was facilitated by an agreement concluded with the United Nations Relief and Works Agency in March 1953, which undertook, pending the completion of economic and engineering surveys, to reserve up to \$40 million during the period ending 31 December 1953. The amounts to be reserved or committed were to be related to the number of refugees to be removed from the ration rolls under project agreements. Another agreement, concluded by the agency and Egypt, provided for irrigation of an area in the Sinai peninsula with Nile water. It is expected that these two schemes, when completed, would "offer opportunities for becoming self-supporting to between 150,000 and 200,000 refugees". In addition, another agreement reserved a total of \$11 million for projects in Jordan, with the object of making approximately 5,000 refugee families self-supporting, and an agreement was signed with the Syrian Government under which the agency undertook to reserve \$30 million for a programme for the period ending 30 June 1954, to improve the living conditions of refugees in Syria. Both

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<sup>2/</sup> It was proposed that capital would be contributed as follows (in millions of Egyptian pounds): Egypt 80, Iraq 34, Saudi Arabia 32, Kuwait 24, Syria 8, Qatar 6, Lebanon 4.8, Jordan 4, Sudan 4, Libya 2.4 and Bahrein 0.8. Of the total subscription, 2 per cent would be payable in gold and the balance in the currencies in which the member countries receive their incomes. One-quarter would be payable within six months after the signing of the bank's agreement, and the remainder later, at the bank's request (International Monetary Fund, International Financial News Survey (Washington, D.C.), 18 December 1953).

these schemes allocated most of the expenditure to agricultural projects. An agreement was also reached with the Government of Libya, providing for the admission and establishment of 1,200 families.

Relief work by the United Nations Relief and Works Agency continued during the period under review. At the end of June 1953, there were 872,000 Palestine Arab refugees, to whom the agency distributed 808,000 rations. The total spent on relief during the year 1952/53 amounted to \$23 million. Of the registered refugees, 476,000 were in Jordan, 209,000 in Gaza, 102,000 in Lebanon and 85,000 in Syria.<sup>3/</sup>

As a result of an agreement between the Palestine Conciliation Commission and the Government of Israel to free the accounts of Arab refugees blocked in banks in Israel, the Government of Israel began, early in 1953, to release the first instalment, amounting to £1 million; by 15 January 1954, 3,206 applications totalling £677,000 had been received, and of these, 2,517 applications, totalling £242,000, were approved.

Technical assistance to Middle East countries under the expanded programme of the United Nations and the specialized agencies increased considerably in 1952 and 1953, though it still remained at a modest level. Such aid was received in varying degrees by Afghanistan, Cyprus, Egypt, Iran, Iraq, Israel, Jordan, Lebanon, Saudi Arabia, Sudan, Syria, Turkey and Yemen.<sup>4/</sup> In addition, several meetings were organized in the region during 1952 and 1953 by the United Nations, the Food and Agriculture Organization of the United Nations, the World Health Organization and the United Nations Educational, Scientific and Cultural Organization. Of the 1,767 experts, supplied during 1952 by the United Nations and the specialized agencies, 389 went to Middle East countries, of which 92 went to Iran, 51 to Iraq, 46 to Afghanistan and 43 to Israel. The number of fellowships or scholarships granted under the expanded and regular programmes in Middle East countries was 620, of a total of 3,160 for the world as a whole. Total obligations

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<sup>3/</sup> United Nations, Annual Report of the Director of the United Nations Relief and Works Agency for Palestine Refugees in the Near East, covering the period 1 July 1952 to 30 June 1953 (supplement No. 12 to document A/2470)

<sup>4/</sup> Detailed information on the fields in which assistance was rendered and on other aspects of the programme may be found in the reports of the Technical Assistance Board to the Economic and Social Council.

incurred for carrying out technical assistance projects in the Middle East during 1952 amounted to the equivalent of \$4.7 million, compared with one million dollars spent by the end of 1951; the 1952 figures represented 25 per cent of the world total of such obligations. Total contributions pledged by the governments in the region to the Expanded Technical Assistance Programme amounted to \$377,000 for 1952 and \$401,000 for 1953.<sup>5/</sup> Some of the Middle Eastern countries, such as Egypt, Israel, Lebanon and Syria, also provided a number of experts for the work of the technical assistance programme, and some of them, such as Egypt, Lebanon and Turkey, in addition acted as hosts to fellows and scholars from other countries.<sup>6/</sup>

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<sup>5/</sup> These figures do not include the share of local expenditure borne by governments receiving technical assistance.

<sup>6/</sup> The technical and financial assistance provided by the Governments of France, the United Kingdom and the United States to several countries in the Middle East continued in the period under review, and in some cases it was expanded. A summary of the assistance provided in previous years may be found in United Nations, Review of Economic Conditions in the Middle East, 1951-52 (Sales No.: 1953.II.C.1).

## Chapter 1

### PRODUCTION AND TRADE

Production continued to increase during the period under review and, for the region as a whole, per capita output was greater than in previous years. As stated before, this improvement was, however, very unequally distributed, both among countries and among various sectors of the economy. Petroleum output rose rapidly while agricultural and industrial production showed a more widespread, though smaller, increase.

The foreign trade of most Middle East countries was affected by the fall in the price of raw materials in 1951 and 1952, and the decline in the value of their exports was followed by a decrease in their imports; in this respect, also, there were some important exceptions. Balance of payments difficulties were experienced by most countries, even those receiving substantial foreign assistance. However, because of rapid increases in revenue, the major petroleum producing countries found no difficulty in balancing their foreign accounts and in building up their foreign exchange reserves.

#### Principal Developments in Agriculture and Industry

##### Agricultural output<sup>1/</sup>

Agricultural production in 1952/53 was about 7 per cent higher than that of 1951/52, which was in turn approximately 25 per cent above the 1934-38 level. For the region as a whole this increase represented a gain of about 8 per cent in per capita agricultural output as compared with pre-war levels. The increases were the result of an extension of the cultivated area, of favourable weather conditions and, in varying degrees, of improvements in methods of cultivation. However, these averages conceal wide differences among countries and products.

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<sup>1/</sup> Information in this section has been drawn largely from various publications of the Food and Agriculture Organization of the United Nations, from background papers circulated at the third Regional Meeting on Food and Agricultural Programmes and Outlook in the Near East, held in Cairo in September 1953; from the State of Food and Agriculture, 1953, (Rome); and from the Monthly Bulletin of Statistics (Rome).



The most important advances occurred in Turkey, especially in the wheat crop, which amounted to 5.7 million tons in 1951, 6.6 million tons in 1952 and 8.1 million tons in 1953. A smaller, but significant, increase in wheat production took place in Iran and Syria. In some food deficit countries, such as Egypt and Lebanon, food production rose much more slowly or was even below the immediate post-war level. Cereals and cotton registered the largest increases in 1952 for the region as a whole (see table 1). The output of cereals was about 25 per cent above the 1948-50 level in 1952 in spite of a decline in rice production. Cotton output was 16 per cent above the 1951 level and 30 per cent higher than in 1948-50. It was only in 1953 that the fall in cotton prices and the accumulation of inventories in certain countries of the region led to a decrease in production. As compared with 1951, the output of oil-seeds rose while that of tobacco, pulses and sugar remained about the same. There was some increase in animal products in several countries, but, on the whole, progress in this respect was very slow.

In 1952, the region was still a net importer of cereals in spite of large crops harvested in Turkey and some of the other countries. This was because rice exports from Egypt were negligible, and because only a part of the wheat surpluses available for export had been shipped by the end of the year while wheat imports were only 18 per cent below those of 1951, owing to the general increase in consumption in these countries, the population of which is expanding. However, the region's net grain imports decreased from 1,005,000 tons in 1951 to 459,000 in 1952. Cotton exports in 1952, as in 1951, were about 22 per cent below the peak of 1950. Tobacco exports fell because of increased foreign competition. Imports of sugar were at a level distinctly higher than pre-war; they reached 390,000 tons in 1951 and 460,000 tons in 1952.

In 1953, according to preliminary reports, the area planted to cotton decreased in Egypt by about one-third, in Iraq and Syria by one-fifth and in Turkey by one-seventh, and cotton production declined in the region as a whole; however, in Afghanistan and Iran production continued to rise to meet domestic requirements. Most countries announced larger cereal crops than in 1952; Turkey had an unprecedented cereal crop of about 14 million tons compared with 12.3 million in 1952. Egypt, where the area under wheat was extended by 25 per cent, had a wheat crop of 1.5 million tons in 1953, also

Table 1. Output of Major Agricultural Products, 1948-50 and 1951 to 1953

(Thousands of metric tons)

Product	1948-50	1951	1952	1953 <sup>a/</sup>
<u>Grains:</u>				
Wheat .....	10,160	11,850	13,990	15,950
Barley .....	4,770	5,350	6,390	6,560
Maize .....	2,300	2,560	2,590	2,970
Rice (paddy) .....	2,430	1,760	1,830	2,190
Pulses <sup>b/</sup> .....	1,090 <sup>c/</sup>	1,150 <sup>c/</sup>	1,230	...
Citrus fruits .....	616	745	796	...
Cotton (lint) .....	616	690	804	623
Sugar (raw) .....	390	480	500	565
Oil-seeds (oil content) <sup>d/</sup> .....	346	342	406	...
Tobacco .....	115	120	125	160
Olive oil .....	75	65	80	75

Source: Food and Agriculture Organization of the United Nations.

a/ Estimated.

b/ Including dried beans, dried peas, broad beans, chick-peas, lentils.

c/ Partially estimated.

d/ Including soya beans, ground-nuts, cotton seed, linseed, rape seed, sesame, sunflower seeds.

a record figure, and the Syrian output of 870,000 tons was nearly a record. Cyprus, Iraq and the Sudan also reported larger crops in 1953. Threats of drought during the spring in Jordan, Syria and Israel did not generally materialize, and locusts in north-west Arabia and adjacent countries were controlled, as in the previous year, by large-scale international action. The region as a whole appears to have regained its pre-war position as a net exporter in 1953, because of substantial stocks carried over from 1952 in Turkey and larger crops in most countries, including Egypt, the main importer. Without Turkey, however, it is doubtful whether the region was a net exporter in 1953.

In all countries of the region, though to a varying degree, governments pursued policies to stimulate agricultural development. The extension of irrigated areas, which is of special importance in most countries of the region, was, however, rather slow, in spite of progress reported in the Sudan, Syria, Turkey, Israel and Cyprus.

In Afghanistan, a dam has been completed on the Arghandab River and another, in 1953, on the Helmand River, as part of the Helmand valley project. Similar programmes for irrigation and land reclamation were under way in the northern provinces. Irrigation canals were remodelled and extended, and the area under crops has increased with the aid of technicians supplied by the Food and Agriculture Organization of the United Nations. It was also reported that a plan for the utilization of the Kabul River for irrigation and for hydro-electric power was being carried out.

Since the inception of the ten-year development plan in Cyprus in 1946, the area under perennial irrigation has increased by about 45 per cent; in 1953 it amounted to 50,000 acres. In recent years there has been a rise in the production of irrigated crops, mainly potatoes and citrus fruits. A cereal seed station has been established, mainly for producing rust-resistant wheat varieties. Work in pasture improvement and soil conservation has also begun.

In Egypt, agricultural projects established under the auspices of the Permanent Council for the Development of National Production covered selection of wheat and cotton seeds, increase in rice production, livestock improvement, control of plant and animal diseases and development of fertilizer output. The project for a higher Aswan dam, which would increase the cultivated area by some 800,000 hectares and produce 6 billion kilowatt hours of electricity per annum, is under study. Work has started on a reclamation project in the east Menoufeya and Dashudy area.

In Iran, several projects were under way for the construction of dams to increase the area under irrigation; in 1952 work was completed on the Kuhrang tunnel, which was designed to divert some of the headwaters of the Karun river into the Isfahan valley for utilization in cultivation. Steps were taken towards building a hydro-electric and irrigation dam at Karaj, near Tehran. Rural development through the improvement of livestock and poultry, control of locusts and plant and animal diseases, selection of seeds for major crops, establishment of farm machinery co-operatives and development of irrigation were carried out mainly under the United States Technical Co-operation Administration programme, in co-operation with the Seven-Year Plan Organization and other governmental agencies. The distribution of crown-lands continued after a temporary halt. Steps have been taken to implement the law of 1952 increasing the share of tenants in their produce.

In Iraq, the first stage of the Habaniya project on the Euphrates River has been completed, and in March 1953 work was started on a 209-metre dam to increase the capacity of the Habaniya lake as a reservoir. Part of the first stage of the Tharthar scheme on the Tigris river has been completed. Both these projects are for flood control and irrigation. Work has also begun on the Musayab canal, to irrigate an area of 25,000 hectares south of Baghdad, and plans are under way for the construction of a dam at Doukan on the lesser Zab River. The programme for artesian wells, under which 210 wells are to be bored, has progressed. Studies were undertaken for projects to drain about 100,000 hectares in the Dujaila, Soghaweja, Towereij and Massih areas, and work has started on some of them.

In Israel, the proposed seven-year plan aimed at trebling the irrigated area and at increasing local production of food to save foreign currency. Under the plan, priority would be given to bread cereals, fats and sugar; a limited expansion of livestock was also planned. Industrial crops, mainly citrus fruits, were to be further developed.<sup>2/</sup>

In Jordan, the carrying out of the Yarmuk scheme would make it possible for the irrigated area to be increased by some 43,500 hectares and would provide 28,500 kilowatts of electric power. Possibilities for livestock improvement

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<sup>2/</sup> For additional details, see chapter 4.

under a five-year development plan were under study. Encouragement was being given to the cultivation of vines and fruit and olive trees, for which some parts of the country are particularly suitable.

In Saudi Arabia, efforts were under way to improve livestock and crop production in the oases and to obtain a better utilization of the water potential of the country, through wide-scale distribution of pumps to farmers and through intensified study of irrigation and dam construction. Processing of dates has been started in Jeddah. The establishment of a fertilizer factory with an annual capacity of half a million tons of ammonium sulphate, to utilize waste natural gas, has been planned.

In the Sudan, the planned increase in production in the irrigated areas is expected to result from the Gineid pump scheme in the Blue Nile province, now in process, and from the Roseires dam, preparatory work for which has started. Experiments in mechanized crop production in rainland regions have been intensified, and schemes for cultivation of rice and sugar-cane have been started. A meat canning factory is expected to be in operation at Kostî in the near future.

Syria has prepared a five-year agricultural and industrial development plan, under which cultivation methods, selection of seeds and control of livestock diseases are to be improved. A survey of the cultivable land was also foreseen in the plan, and surveyors have been trained at the engineering school at Aleppo. Research and extension services are to be enlarged. Drainage work on the Rouj swamp started in 1952, and a survey of the Ghab drainage scheme has been completed. Under the Land Reform Law of 1952, an area of 50,000 hectares was surveyed and distributed to 15,000 families in the eastern section of El Jezira.

In Turkey, the Government has made great efforts to encourage agriculture: price, fiscal and credit policies have contributed to its rapid development. The number of tractors increased from 23,000 in 1951 to 33,000 in 1952 and about 40,000 in 1953; new silos have been constructed and two fertilizer plants are being built. The Seyhan dam near Adana and the Gediz dam near Izmir, which will permit the irrigation of 144,000 and 134,000 hectares, respectively, and other smaller projects for irrigating a total of 226,000 hectares are under way. A credit of 500 million Turkish liras for irrigation, drainage and other uses of water was voted in June 1953.<sup>3/</sup>

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<sup>3/</sup> For further details, see chapter 5.

## Industrial output

In the region as a whole, progress in industry was slow during the period under review; Turkey was the main exception. The outbreak of hostilities in Korea had given Middle East industry a two-fold impetus in 1950 and 1951, by reducing foreign competition and raising the price of local export crops, thus increasing domestic purchasing power. During the period under review, these two factors tended to subside and, in some countries, some of the major branches of manufacturing, faced with slackened demand, were forced to slow down production or accumulate stocks. However, other more recently established branches - such as the metallurgical and chemical industries - continued to expand, as did the mining, construction and electric power industries.

In 1952, the Government of Afghanistan outlined a general plan to expand the national economy and improve the country's mechanical and industrial equipment. Work has continued on the Sarobi hydro-electric power station, which will add 22,000 kilowatts to the country's present capacity of 10,000; further expansion is planned at a later stage. The textile industry was also expanded: 15,000 additional spindles were installed in 1952, and a new cotton textile factory under construction at Gulbahar is expected, when completed, to enable local production to cover 70 per cent of consumption; construction of cotton gins was also under way. Other projects included a vegetable oil refinery and a factory for making spare parts. Owing to improved methods, output of sugar and coal increased.

Egypt's output of cotton, rayon and woollen textiles was slightly greater in 1952 than during the previous year, and available figures for 1953 indicate that the 1952 level has been maintained or slightly raised. Output of minerals also increased in 1952. Noteworthy new developments included the expansion of electric generating capacity, of munitions plants and of the paper, chemical fertilizer and steel industries. Construction and the output of building materials declined in 1952 but recovered slightly in the following year. Among the measures taken by the Government to aid industry have been higher customs duties, revision of corporation and mining laws with a view to attracting foreign capital, tax exemptions and increased activity by the recently founded Industrial Bank.<sup>4/</sup>

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<sup>4/</sup> For further details, see chapter 3.

Iranian industry was aided by the general advance in prices and even more by the sharp rise in foreign exchange rates and decrease in imports caused by the loss of the foreign exchange previously contributed by the petroleum industry. Owing to an increase in capacity, output of refined sugar rose from 70,000 tons in 1951/52 to an estimated 80,000 in 1953/54, and a further increase to 105,000 tons is planned. Two cement plants, scheduled for completion in 1954, are expected to raise the country's daily capacity from 300 tons to 800 tons. Output of textiles increased in 1952, and a new factory with 10,000 spindles and a capacity of 12 million metres of cotton cloth is near completion. A 12,000 kilowatt thermal station started operations at Isfahan. There has been a small increase in the production of certain minerals, aided by the Central Bank, which advanced funds to the Seven-Year Plan Organization and to private individuals and by technical and financial assistance provided by the United States Technical Cooperation Administration.

In Iraq, a slight expansion in industry has been achieved, and the basis for more rapid development has been laid. Capital invested in major industries rose from a cumulative total of 3.18 million Iraqi dinars in 1948/49 to 5.84 million in 1951/52; the value of output rose from 1.4 million dinars to 4.4 million, and the number of workers increased from 1,650 to 4,550. More recent figures are not available but some noteworthy advances have been achieved. The woollen, silk and cotton textile industries, which are still on a small scale, increased their production. The output of the cement industry was raised from 90,000 tons in 1951 to 216,000 in 1952 and was scheduled to expand further, to 360,000 tons. Current production made it possible to export some 20,000 tons to Jordan and Kuwait. However, owing to large-scale irrigation schemes and other development projects, domestic needs were expected to rise considerably and an additional plant, with an annual capacity of 100,000 tons, was under construction in the northern part of the country. Other recent establishments included silk weaving plants, a vegetable oil refinery and a bakery; a petroleum refinery was also under construction.

In 1952, the capital of the government-owned Industrial Bank was raised from one million Iraqi dinars to 3 million, and in 1953 a Council for Development of Industries was established. The bank holds from 20 to 35 per cent of the capital of six major industrial enterprises and is rapidly increasing its loans to industry. Among the projects under study are a sugar refinery, a cement plant,

a large cotton spinning and weaving factory, and refineries for lubricating oil and asphalt.

In Israel, industrial production in 1952 was probably slightly above that of 1951, but industrial employment was somewhat lower. Production was impeded by contraction of local demand, shortage of credit and lack of raw materials resulting from foreign exchange difficulties; these factors reflected disinflationary trends in the Israeli economy. The composition of industrial output has changed significantly. Construction and the output of building materials declined; (though in 1953 some export of cement took place); production of textiles, clothing, footwear and other consumer goods also fell. On the other hand, the output of metals, machinery and chemicals increased appreciably, and certain branches of mining were further developed. Consumption of electricity continued to expand rapidly, as did the output of electrical appliances.<sup>5/</sup>

Recent industrial developments in Jordan included the construction of a cement factory, which started production early in 1954. Exports of phosphates rose, and negotiations were under way regarding the extraction of potash and manganese.

During the period under review, Lebanese industry, which was hard hit by the dissolution of the customs union with Syria in 1950, sought readjustment by access to other foreign markets. Exports of cotton yarn encouraged a rise in 1952 production to a level above that of the two preceding years, though still well below that of 1948 and 1949, while output of cotton cloth rose appreciably. In 1953, however, restrictions imposed in some important markets once more led to difficulties in textiles and other industries, as did the shortage of electric power. Construction and cement output remained at a very high level. Output of electricity increased, having risen more than threefold since 1943, but was still below the country's needs. Two hydro-electric and two thermal stations, scheduled to start operations at the beginning of 1954, were expected to raise annual output from about 130 million kilowatt-hours to 206 million; a fifth station, under construction, is to produce an additional 87 million kilowatt-hours. Long-term plans envisage an annual output of a billion kilowatt-hours. Such an expansion in power would facilitate industrial development. The recently founded Economic Development Board is studying certain industrial projects, and it is proposed to establish an industrial bank in Lebanon to finance such development.

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<sup>5/</sup> For further details, see chapter 4.



In Syria, the textile industry increased its output and its capacity, and the production of glass, sugar, beer and vegetable oils rose appreciably. Construction remained at a high level, and output of cement expanded considerably, from 39,000 tons in 1951 to 151,000 in 1952 and 109,000 during the first six months of 1953. Electric capacity is to be increased by a thermal and hydro-electric plant, both of which were scheduled for completion in 1954; the initial capacity of the former is 10,000 kilowatts, which is to be raised to 20,000 and eventually to 40,000 kilowatts.

In 1952 and 1953 a major factor sustaining industrial production in Syria was the rise in the income of the rural population due to larger crops. In 1951, the fall in cotton prices had affected industry adversely, as had the stringency of capital resulting from large-scale investment in cotton. The Government, however, furnished aid to industry, advancing nearly 20 million Syrian pounds to some of the large firms; it also increased the duties on imported goods. In 1952, new industrial enterprises were placed under licence, and were granted exemptions from customs duties as well as from income and property taxes. Recently authorized firms include a paper plant and a paint factory.

In Turkey, industrial activity gained momentum during the period under review, and increased more rapidly than in any other country of the region. Most branches shared in the rise. The production of consumer goods, notably cotton textiles and processed foods, increased markedly, as did that of such capital goods as steel and chemicals. Output of several minerals, for example, coal, lignite, iron ore, copper and manganese, also registered a noteworthy rise. Construction increased, and the output of cement rose rapidly. There was also a large expansion in the production of electricity. Most of the increases took place in privately owned establishments, which were assisted by the Industrial Development Bank. <sup>6/</sup>

#### Foreign Trade

The diversity in foreign trade movements among the Middle East countries in 1952 and 1953 marks the period under review as one of transition. During 1952, the effects of the upswing which followed the Korean conflict were still felt;

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<sup>6/</sup> For further details, see chapter 5.

Table 2. Dollar Value of Imports and Exports,<sup>a/</sup> excluding Gold, 1950 to 1953  
(Millions of United States dollars)

Country	1950			1951			1952			1953 (First half)		
	Im- ports	Ex- ports	Bal- ance	Im- ports	Ex- ports	Bal- ance	Im- ports	Ex- ports	Bal- ance	Im- ports	Ex- ports	Bal- ance
Aden Colony <sup>b/</sup>	117	109	- 8	141	124	- 17	158	128	- 30	89	58	- 31
Cyprus <sup>b/</sup>	38	31	- 7	54	43	- 11	57	51	- 6	29	19	- 10
Egypt <sup>c/</sup>	564	504	- 60	666	583	- 83	608	417	-191	234	214	- 20
Iran <sup>d/</sup>	191	108	- 83	212	134	- 78	160	180	20	74	79	5
Iraq <sup>e/</sup>	105	60	- 45	142	81	- 61	173	56	-117	90	23	- 67
Israel	287	37	-250	343	47	-296	356 <sup>f/</sup>	45 <sup>f/</sup>	-311 <sup>f/</sup>	141	36	-105
Jordan <sup>g/</sup>	30	6	- 24	36	5	- 31	49	4	- 45	...	...	...

Source: Statistical Office of the United Nations. Imports, c.i.f., and exports, f.o.b.

a/ Special trade unless otherwise indicated.

b/ General trade.

c/ Excluding trade with the Sudan.

d/ Figures for Iran exclude imports and exports of the petroleum company and other concessionaires; annual figures refer to the Iranian year beginning 21 or 22 March; "1953 (First half)" refers to the period 22 December 1952 to 21 June 1953; for technical reasons, the rate of 3.101 United States cents per Iranian rial is used for conversion while the actual rates (including exchange certificates) for most imports and exports fluctuated between 2.5 and 0.966 United States cents per rial during 1950 to 1953.

e/ Excluding pipeline exports of crude petroleum.

f/ Figures for 1952 adjusted to annual rates on the basis of eleven months.

g/ Excluding trade of concessionaires.

Table 2. Dollar Value of Imports and Exports,<sup>a/</sup> excluding Gold, 1950 to 1953  
(cont.)  
(Millions of United States dollars)

Country	1950			1951			1952			1953 (First half)		
	Im- ports	Ex- ports	Bal- ance	Im- ports	Ex- ports	Bal- ance	Im- ports	Ex- ports	Bal- ance	Im- ports	Ex- ports	Bal- ance
Lebanon <sup>h/</sup>	84 <sup>i/</sup>	24 <sup>i/</sup>	- 60 <sup>i/</sup>	136	41	- 95	141	35	-106	79	19	- 60
Sudan	78	95	17	120	180	60	177	123	- 54	72	48	- 24
Syria <sup>h/</sup>	86 <sup>i/</sup>	95 <sup>i/</sup>	9 <sup>i/</sup>	133	126	- 7	138	146	8	...	...	...
Turkey	286	263	- 23	402	314	- 88	556	363	-193	245	205	- 40
Total <sup>i/</sup>	1,903	1,349	-534	2,385	1,678	-707	2,573 <sup>e/</sup>	1,548 <sup>e/</sup>	1,025	1,053	701	-352

Source: Statistical Office of the United Nations. Imports, c.i.f., and exports, f.o.b.

a/ Special trade unless otherwise indicated.

b/ (Footnote on preceding page)

c/ Excluding trade with the Sudan.

d/ (Footnote on preceding page)

e/ ( " " )

f/ ( " " )

g/ ( " " )

h/ Excluding trade of the petroleum companies, beginning in 1950.

i/ 14 March to December only. Trade of the Lebanese-Syrian customs union for January to 13 March 1950 (in United States dollars) was as follows: imports 37 million; exports 17 million.

j/ Totals include figures for Iran without adjustment for overlapping months of fiscal year; trade of the Lebanese-Syrian customs union for January to 13 March 1950 is included. Totals for first half of 1953 exclude Jordan and Syria.

imports continued to increase while exports of most countries remained at a level higher than the post-war average, and close to that of the preceding year. <sup>7/</sup> By the second half of 1952, however, exports began to slow down and measures were taken by most countries to reduce imports. This trend continued in 1953, when imports declined more than exports, bringing the region closer to equilibrium in its balance of trade. The most important change in the direction of trade was the relative decline in the shares of the United Kingdom and the United States; the marked increase, both absolute and relative, in Western Germany's trade with the region; and the continued decline in trade within the region. The main exception to these general tendencies occurred in Syria and Turkey, where both imports and exports continued to increase in 1952.

#### Volume and value

The value of foreign trade in the Middle East as a whole was, in terms of dollars, roughly equal in 1952 to that of the preceding year; there was a decline of a little less than 10 per cent in exports but an increase of similar magnitude in imports (table 2). Such regional averages, however, represented somewhat different situations in the various countries. The total value of imports and exports in 1952 rose almost 30 per cent over 1951 in Turkey, and also increased, though to a lesser extent, in Israel and Jordan, while it declined by 18 per cent in Egypt. Available figures for 1953 indicate a tendency to decline from the 1952 level, except in Turkey where there was little change as compared with 1952.

(Values of imports and exports in local currencies are shown in table 3.)

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<sup>7/</sup> Wherever possible, exports of petroleum and imports by petroleum companies have been excluded from the figures given in this chapter; they are discussed in chapter 2. The petroleum industry of the region has been developed by foreign companies under special concessions, and marketing activities are controlled almost entirely by the companies themselves. Exports of petroleum and its products do not result in direct receipt of foreign exchange for the national economies of the region and, similarly, imports by petroleum producing companies do not involve foreign exchange payments abroad by importing countries, though, of course, petroleum activities are the principal indirect source of foreign exchange in the major producing countries. Exports of petroleum from the Middle East, valued at f.c.b. prices, were estimated at about \$1.55 billion in 1952 and approximately \$1.8 billion in 1953.

Table 3. Value of Imports and Exports, <sup>a/</sup> excluding Gold, 1950 to 1953  
(Millions of local currency)

Country and currency	1950			1951			1952			1953 (First half)		
	Im- ports	Ex- ports	Bal- ance	Im- ports	Ex- ports	Bal- ance	Im- ports	Ex- ports	Bal- ance	Im- ports	Ex- ports	Bal- ance
Aden Colony <sup>b/</sup> (pound sterling).....	42	39	-3	50	44	-6	57	46	-11	32	21	-11
Cyprus <sup>b/</sup> (pound sterling).....	13	11	-2	19	15	-4	20	18	-2	10	7	-4
Egypt <sup>c/</sup> (Egyptian pound).....	196	175	-21	232	203	-29	212	145	-67	82	74	-7
Iran <sup>d/</sup> (rial).....	6,150	3,494	-2,656	6,834	4,319	-2,515	5,007 <sup>e/</sup>	5,811 <sup>e/</sup>	804	2,387	2,554	167
Iraq <sup>f/</sup> (dinar).....	38	22	-16	51	29	-22	62	20	-42	32	8	-24
Israel (Israeli pound)....	103	13	-89	123	17	-106	127 <sup>g/</sup>	16 <sup>g/</sup>	-111 <sup>g/</sup>	51	13	-38
Jordan <sup>h/</sup> (dinar).....	11	2	-9	13	2	-11	17	1	-16	...	...	...
Lebanon <sup>i/</sup> (Lebanese pound).....	184 <sup>i/</sup>	52 <sup>i/</sup>	-132 <sup>i/</sup>	298	90	-209	308	77	-231	174	41	-133
Sudan (Egyptian pound)....	27	33	6	42	63	21	62	43	-19	25	17	-8
Syria <sup>i/</sup> (Syrian pound)....	189 <sup>i/</sup>	208 <sup>i/</sup>	19 <sup>i/</sup>	291	277	-14	303	320	16	...	...	...
Turkey (lira).....	800	738	-62	1,126	879	-247	1,557	1,016	-541	687	574	-113

Source: Statistical Office of the United Nations.

Imports, c.i.f., and exports, f.o.b.

a/ Special trade unless otherwise indicated

b/ General trade.

c/ Trade with the Sudan.

d/ Figures for Iran exclude imports and exports of the petroleum company and other concessionaires; annual figures refer to the Iranian year beginning 21 or 22 March; "1953 (first half)" refers to the period 22 December 1952 to 21 June 1953.

e/ Partially estimated.

f/ Excluding pipeline exports of crude petroleum. Figures for 1952 adjusted to annual rates on the basis of eleven months.

g/ Excluding trade of concessionaires.

h/ Excluding trade of petroleum companies, beginning 14 March to December only. Trade of the Lebanese-Syrian customs union, January to 13 March 1950 (in millions of Lebanese-Syrian pounds): imports 82; exports 37.

Except in Egypt and Iran, the dollar value of imports continued to increase in 1952 but in most countries the rise was slower than in 1951. The quantum of imports also increased, but to a smaller extent than values, in most countries of the region (see table 4). The most marked increases occurred in Turkey and the Sudan, where dollar values in 1952 were, respectively, 38 and 48 per cent above the levels of 1951, and the quantum was 37 and 43 per cent higher. These changes reflected the large volume of orders placed in the previous year, when the price of raw materials exported by the region was at a high level as a result of the Korean conflict, a fact which eased the foreign exchange position of most countries. It was also partly due to the rise in import prices which, while slowing down, still continued in 1952. Largely as a result of this increase in import values, most Middle East countries faced increasing deficits in their balance of trade in 1952. The chief exception was Iran which, because of the extreme shortage of foreign exchange resulting from the stoppage of oil exports, was forced to take drastic measures to balance its trade. <sup>8/</sup> To counteract rising deficits, most of the countries in the course of 1952 and 1953 imposed restrictive measures on imports by raising customs duties, requiring licences or modifying the exchange rates, as in Israel and Iran. Available figures for 1953 (covering from six to eleven months) show a reversal of the trend: import values began to decline in most countries and, in Iran, declined further. An increase in imports occurred in Iraq, where it was due to the continued increase in revenues derived from the petroleum industry; there was also a slight increase in Lebanon, where only a few restrictions had been imposed on imports. It is, however, probable that the oil producing countries of the Arabian peninsula also increased their imports.

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<sup>8/</sup> In April 1952, both imports and exports were divided into two categories, essential and non-essential commodities, the exchange proceeds from exports of essentials being used to finance imports of essential goods, while non-essential exports paid for non-essential imports. In mid-1953, the sale of foreign exchange to importers was temporarily discontinued, and later was resumed for essential commodities only. Barter trade or payments agreements were concluded with Czechoslovakia, France, Western Germany, Hungary, Italy, Poland, the Union of Soviet Socialist Republics, and other countries. In March 1952, an Export Expansion Bank was founded, with a capital of 550 million Iranian rials; its function was to encourage exports, to improve and standardize export products and to guide exporters. Owing to the sharp rise in foreign exchange rates, as well as to greater availability of export goods due to larger crops, the large import surplus of 1950 and 1951 was replaced by an export surplus in 1952 and the first half of 1953.

Table 4. Quantum Indices of Imports and Exports of  
Selected Countries, 1949 to 1953  
(1938 = 100)

Country and item	1949	1950	1951	1952	1953 First half
<u>Cyprus:</u> <sup>a/</sup>					
Imports . . . . .	100	118	140	138	...
Exports . . . . .	172	227	187	218	...
<u>Egypt:</u>					
Imports . . . . .	160	188	188	141	...
Exports . . . . .	118	117	86	80	...
<u>Iran:</u> <sup>b/</sup>					
Imports . . . . .	154	160	154	102	...
Exports . . . . .	111	265	283	383	...
<u>Israel:</u> <sup>c/</sup>					
Imports . . . . .	100	114	113	131 <sup>d/</sup>	112 <sup>d/</sup>
Exports . . . . .	100	112	134	155 <sup>d/</sup>	232 <sup>d/</sup>
<u>Sudan:</u>					
Imports . . . . .	121	136	153	219	200
Exports . . . . .	111	110	142	96	82
<u>Turkey:</u>					
Imports . . . . .	125	146	176	242	219
Exports . . . . .	120	115	116	140	170

Source: Statistical Office of the United Nations. Indices for Iran constructed by dividing indices of rial values of imports and exports (excluding petroleum) by import and export price indices from International Monetary Fund, International Financial Statistics (Washington, D.C.). Indices for Egypt from National Bank of Egypt, Economic Bulletin (Cairo).

a/ 1947 = 100.

b/ 1948 = 100.

c/ 1949 = 100.

d/ First nine months.

The total value of exports in terms of dollars in 1952 was slightly under the level of 1951, because of a substantial decrease in exports from Egypt and the Sudan. In these countries the decline in dollar value was 28 and 32 per cent, respectively; the quantum also decreased especially in the Sudan, while in Egypt the decline in cotton prices made it possible to maintain the quantum of cotton exports in 1952. There was also a drop in Iraqi and Lebanese exports. In other countries of the region, however, export values and, in a number of cases, the quantum continued to rise but at a slower rate than in 1951. This was due, in Turkey and Syria, to larger crops, which made it possible to increase exports of wheat and cotton. Lower effective exchange rates and better crops also resulted in an increase in the rial, but not the dollar, value of Iranian exports.<sup>9/</sup> Available figures for 1953, covering from six to eleven months, did not show a clearly marked tendency. In some countries which had increased their exports during 1952, such as Cyprus and Iran, a tendency towards contraction appeared; Turkey however made further substantial progress and Israel distinctly increased its export trade. The exports of Egypt and Lebanon, which had already experienced reductions in 1952, seemed to have reached a fairly stable position.

#### Terms of trade

The terms of trade deteriorated in 1952 for all the countries for which figures are available: Cyprus, Egypt, Iran, Israel, Sudan and Turkey; but the decline was slight in all these countries, except Egypt, where it was very sharp (see table 5). In general, the rise in import prices was the chief factor accounting for the deterioration in the terms of trade; a very slight decrease in export prices of Israel and Turkey also contributed to the deterioration. In Egypt, both the rise in import prices and the fall in export prices were much greater than elsewhere; this was partly due to the sharp fall in the price of cotton and partly to the use of export accounts and import entitlement accounts, discussed below in chapter 3. Available figures for 1953 show a further deterioration in the terms of trade of the Sudan and Turkey.

#### Composition of imports and exports

No very marked trend can be discerned in changes in the composition of imports and exports of most countries. In Egypt, there was a decrease in 1952 in the imports of consumer goods, like textiles and motor cars, which was "due to the general depression in trade, the political disturbances and the psychological

<sup>9/</sup> Bank Melli of Iran, Balance Sheet for the end of 1331 /20 March 1953/, (Tehran, 1953; in Persian), pages 5 and 6.



Table 5. Terms of Trade of Selected Countries, 1949 to 1953  
(1938 = 100)

Country and item	1949	1950	1951	1952	1953 First half
<u>Cyprus:</u> <sup>a/</sup>					
Import prices . . . . .	91	93	113	118	...
Export prices . . . . .	106	132	186	192	...
Terms of trade . . . .	116	142	165	163	...
<u>Egypt:</u>					
Import prices . . . . .	302	306	349	416	...
Export prices . . . . .	392	506	798	608	...
Terms of trade . . . .	130	165	229	146	...
<u>Iran:</u> <sup>b/</sup>					
Import prices . . . . .	96	89	106	119	129
Export prices . . . . .	86	72	83	82	97
Terms of trade . . . .	90	81	78	69	75
<u>Israel:</u> <sup>c/</sup>					
Import prices . . . . .	100	103	124	127 <u>d/</u>	115 <u>d/</u>
Export prices . . . . .	100	110	118	118 <u>d/</u>	107 <u>d/</u>
Terms of trade . . . .	100	107	95	93 <u>d/</u>	93 <u>d/</u>
<u>Sudan:</u>					
Import prices . . . . .	326	327	452	473	408
Export prices . . . . .	459	536	777	776	552
Terms of trade . . . .	141	164	172	164	135
<u>Turkey:</u>					
Import prices . . . . .	439	361	426	429	420
Export prices . . . . .	409	413	523	494	459
Terms of trade . . . .	93	114	123	115	109

Source: Statistical Office of the United Nations; International Monetary Fund, International Financial Statistics; National Bank of Egypt, Economic Bulletin; ministère de l'Economie et du Commerce, Conjoncture, (Ankara).

a/ 1947 = 100.

b/ 1948 = 100.

c/ 1949 = 100.

d/ First nine months.

effect of the agrarian reform that induced landowners to curtail their expenses, and to various measures taken by the Government to check the growing deficit in the balance of payments";<sup>10/</sup> in 1953, the increase in local production of wheat and fertilizers tended to displace imports and, as in previous years, imported textiles continued to give way to domestic products. In Israel, the share of imports of food, drink and tobacco in total imports declined at the beginning of 1952, but was higher during the first nine months of 1953 than in the same period of 1952, partly because of reconstitution of stocks; the share of investment goods continued to increase in 1952 but decreased during the first part of 1953, and their value fell from 31.1 million Israeli pounds in the first nine months of 1952 to £118.0 million in the corresponding period of 1953,<sup>11/</sup> while the share of raw materials rose appreciably in 1952 and 1953. In Turkey, the share of consumer goods declined from 29 per cent of total imports in 1950 to 27 per cent in 1951 and 22 per cent in 1952 while that of capital goods was 51, 49 and 57 per cent respectively. However, this marked increase in imports of capital goods in 1952 was partly due to exceptional needs, and the share of such imports in total import trade is likely to be smaller in 1953.<sup>12/</sup>

In most countries, the pattern of exports remained unchanged. Egypt and the Sudan continued to rely heavily on raw cotton. In Turkey, cereals became the main export product in 1952, with a value of 249 million Turkish pounds as against £T76 million in 1951, and a higher figure was reached in 1953; cotton was the second largest item, followed by tobacco and dried fruits. In Israel exports of citrus fruits appeared to regain their former importance, with 4.7 million cases exported during the first nine months of 1953, compared with 3.3 million cases in the corresponding period of 1952 and 3.8 million in 1951; exports of industrial products also increased. Iran's exports consisted mainly, as in the past, of a wide range of agricultural products, and of carpets.

<sup>10/</sup> National Bank of Egypt, Economic Bulletin, 1953, vol. I, page 36.

<sup>11/</sup> Based on the exchange rate of £I 1 = US \$2.80.

<sup>12/</sup> Machinery imports by Turkey during the first nine months of 1952 and 1953 amounted to £T323 millions and £T258 million, respectively, the decrease being due to declines in imports of agricultural machinery.

### Direction of trade

There were some shifts in the direction of the region's trade in 1952 and the first half of 1953, chiefly because of the sharp decline, both absolute and relative, in the trade of the United Kingdom and the United States; the rapid rise in western Germany's trade with the Middle East; the increase in the trade of the Soviet Union with Egypt and Iran; and the continued decrease in trade within the region (see table 6).

The trade of the United States with the region declined in 1952, especially its exports to Middle East countries, which decreased by about a quarter. After the outbreak of hostilities in Korea, Middle Eastern exports to the United States, notably cotton, rose appreciably, and a large part of the increase in dollar earnings was used in 1951 for greater purchases of capital goods and consumer goods from the United States. In 1952, however, exports to the United States declined, and the restrictions imposed by most Middle East countries on imports affected United States exports to the region; an exception was Iraq, where rising income from oil royalties eased the exchange position, and Lebanon, which did not attempt to reduce its imports appreciably. In spite of the sharp decrease in imports from the United States, all Middle East countries, except Turkey, exported less to the United States than they imported from it in 1952. Available figures for six months of 1953 show that these declines in imports and exports levelled off, or were replaced by an increase, except in Egypt.

The United Kingdom's trade with the region as a whole also declined appreciably in 1952, owing to a marked drop in trade with Egypt and Iran, particularly in imports from these countries. United Kingdom exports to Iraq, Lebanon, Syria and Turkey, however, increased, and its imports from Israel and Syria also rose. Turkey had a trade deficit of \$75 million with the United Kingdom in 1952. In most countries, the deficit in trade with the United Kingdom increased in 1952. Figures for the first six months of 1953 seem to indicate that the situation was similar to that of 1952, the most important change being a further decline in British exports to Egypt.

Table 6. Direction of Trade, 1950 to 1953

(Millions of United States dollars)

Trading partner and year	Reporting country													
	Egypt <sup>a/</sup>		Iran <sup>b/</sup>		Iraq		Israel		Lebanon <sup>c/</sup>		Syria <sup>c/</sup>		Turkey	
	Im- ports	Ex- ports	Im- ports	Ex- ports	Im- ports	Ex- ports <sup>d/</sup>	Im- ports	Ex- ports <sup>d/</sup>	Im- ports	Ex- ports	Im- ports	Ex- ports	Im- ports	Ex- ports
<b>Total:</b>														
1950	611	504	194	108	105	57	287	35	165 <sup>e/</sup>	48 <sup>e/</sup>	144 <sup>e/</sup>	112 <sup>e/</sup>	286	263
1951	803	583	217	134	143	76	343	45	146	45	139	126	402	314
1952	628	417	161	150	173	53	...	...	158	35	143	146	556	363
1953	234	214	...	...	90	...	141	35	...	...	...	...	245	205
<b>Middle East:</b>														
1950	44	10	15	17	7	17	6	-	46	22	33	42	22	22
1951	52	9	9	21	9	12	9	-	49	22	33	57	25	25
1952	36	6	12	...	7	13	...	...	43	16	35	49	29	19
1953	12	4	...	...	3	...	7	2	...	...	...	...	11	15
<b>France:</b>														
1950	60	42	4	4	1	-	6	-	32	6	15	14	14	11
1951	58	58	8	2	2	1	17 <sup>f/</sup>	1	17	2	14	23	22	21
1952	40	53	4 <sup>f/</sup>	4 <sup>g/</sup>	3	-	14 <sup>f/</sup>	1 <sup>g/</sup>	15 <sup>f/</sup>	2	13 <sup>f/</sup>	22 <sup>g/</sup>	27	52
1953	20	30	2 <sup>f/</sup>	2 <sup>g/</sup>	3	...	3	-	13 <sup>f/</sup>	4 <sup>g/</sup>	7 <sup>f/</sup>	8 <sup>g/</sup>	12	10
<b>Germany, western:</b>														
1950	18 <sup>h/</sup>	16 <sup>h/</sup>	11 <sup>h/</sup>	13 <sup>h/</sup>	-	1	4 <sup>h/</sup>	-	3 <sup>h/</sup>	-	3 <sup>h/</sup>	1 <sup>h/</sup>	50 <sup>h/</sup>	56 <sup>h/</sup>
1951	28 <sup>h/</sup>	25 <sup>h/</sup>	23 <sup>h/</sup>	26 <sup>h/</sup>	2 <sup>h/</sup>	3	6 <sup>h/</sup>	-	4 <sup>h/</sup>	-	8	1	95 <sup>h/</sup>	84 <sup>h/</sup>
1952	35	33	24 <sup>h/</sup>	27 <sup>h/</sup>	4 <sup>h/</sup>	3	5 <sup>f/</sup>	-	5 <sup>h/</sup>	-	9	5 <sup>f/</sup>	139	86
1953	25	12	12 <sup>h/</sup>	13 <sup>g/</sup>	3 <sup>h/</sup>	...	2	-	8 <sup>f/</sup>	-	5 <sup>g/</sup>	5 <sup>f/</sup>	51	38
<b>Italy:</b>														
1950	44	43	4	11	7	-	16	-	6	2	9	11	13	15
1951	45	47	8	8	10	-	14 <sup>f/</sup>	-	5	2	10	7	28	13
1952	35	45	6 <sup>f/</sup>	10 <sup>g/</sup>	10	-	5 <sup>f/</sup>	-	6	2	9 <sup>f/</sup>	8	40	26
1953	17	15	3 <sup>f/</sup>	3 <sup>g/</sup>	5	...	4	-	2 <sup>f/</sup>	3 <sup>g/</sup>	6 <sup>f/</sup>	6 <sup>g/</sup>	43	17
<b>USSR:</b>														
1950	17	25	10	1	-	...	-	-	-	-	-	-	-	-
1951	20	7	25	28	-	...	-	-	-	-	-	-	-	2
1952	31	29	24	22	-	...	...	...	...	...	-	-	-	2
1953	14	10	...	...	-	...	-	1	...	...	...	...	-	-
<b>United Kingdom:</b>														
1950	119	109	54	21	51	9	25	11	21	3	24	7	30	37
1951	120	112	41	16	49	23	34 <sup>f/</sup>	15	14	1	18	9	68	26
1952	85	19	19 <sup>f/</sup>	9 <sup>g/</sup>	65	19	24 <sup>f/</sup>	16 <sup>g/</sup>	17 <sup>f/</sup>	2 <sup>g/</sup>	18 <sup>f/</sup>	35 <sup>g/</sup>	99	24
1953	21	19	8 <sup>f/</sup>	3 <sup>g/</sup>	34	...	15	13	8 <sup>f/</sup>	1 <sup>g/</sup>	7 <sup>f/</sup>	12 <sup>g/</sup>	41	12
<b>United States:</b>														
1950	36	44	49	12	9	2	106	8	21	3	26	12	70	44
1951	187	56	51	8	20	3	109	10 <sup>f/</sup>	26	10	25 <sup>f/</sup>	17 <sup>g/</sup>	48	67
1952	103	48	36 <sup>f/</sup>	16 <sup>f/</sup>	32	1	90 <sup>f/</sup>	12 <sup>f/</sup>	25 <sup>f/</sup>	3 <sup>f/</sup>	13 <sup>f/</sup>	8 <sup>f/</sup>	47	58
1953	35	10	11 <sup>f/</sup>	11 <sup>g/</sup>	16	...	48	5	12 <sup>f/</sup>	1 <sup>g/</sup>	8 <sup>f/</sup>	3 <sup>g/</sup>	26	37

Sources: Statistical Office of the United Nations. Exports, f.o.b.; imports, c.i.f. Figures for 1953 represent totals for first half of year.

a/ Figures include trade in gold.

b/ Figures for 1950 and 1951 refer to years beginning on 21 March of year stated; all direct figures include gold, exclude trade of concessionaires.

c/ Figures include trade in gold, bullion and specie.

d/ National exports only.

e/ Prior to 13 March 1950 data are for Lebanon and Syria.

f/ Figures reported by trading partner, f.o.b.

g/ Figures reported by trading partner, c.i.f.

h/ Including both eastern and western Germany.

Western Germany's trade with the Middle East continued its marked post-war expansion. In 1952, there was an increase in both the imports of all reporting Middle Eastern countries from western Germany, and in their exports to it. The increase in imports, however, was generally greater than the increase in exports. Turkey had a \$53 million deficit in its trade with western Germany in 1952. Available figures for the first half of 1953 show that this increase in trade continued, though there were certain exceptions, such as Turkey. Western Germany supplied a wide range of capital goods which were formerly purchased in the United Kingdom and the United States.

The increase in the trade of the Union of Soviet Socialist Republics with Egypt and Iran in 1952 was due to barter agreements concluded with these countries. The agreement with Egypt provided for the exchange of wheat from the Soviet Union against Egyptian cotton, while that with Iran provided for the exchange of sugar, textiles, paper, chemicals and machinery against Iranian rice, tobacco, fruits and skins.

Total trade with both France and Italy showed little change during the period under review. In both cases, it declined somewhat in 1952 in most countries, except Turkey, where both imports from France and Italy and exports to these countries increased, the increase in exports being especially marked. In the first half of 1953, the amount of foreign trade of Middle East countries with France and Italy was comparable with that of 1952, except that trade between Turkey and Italy increased further.

Trade within the region continued to decline from the high level attained during the war years. In 1952, the value of trade with their neighbours of all the countries for which figures are given was lower than in 1951, and available figures for 1953 show a further decrease. An exception occurred, however, in the trade between Israel and Turkey, which increased markedly. The tariff and payments agreement recently adopted by a Conference of Ministers of Finance and National Economy of the Arab States, and which has, so far been ratified by Egypt, Iraq, Lebanon and Saudi Arabia, is intended to arrest this trend.

#### Foreign exchange reserves

The import surpluses registered during the period under review were met to only a small degree by drawing on foreign exchange reserves; in

most countries they were covered, wholly or partly, by various credit items. The principal exception was Egypt, where the foreign assets of the National Bank, including gold, foreign exchange and foreign investments, declined from \$957 million at the end of 1951 to \$752 million at the end of 1952; during 1953, however, there was little change, the total amounting to \$726 million at the end of October. In Iran, merchandise exports increased sufficiently to redress the balance of trade; the decline in gold and foreign exchange reserves of the Bank Melli from \$196 million in December 1951 to \$177 million in December 1952, was followed by a rise to \$185 million by December 1953, as exports increased and financial aid was granted by the United States. In Syria, receipts from oil companies and expenditures of the United Nations Relief and Works Agency eased the foreign exchange situation. In Turkey, the most important offsetting factors were United States financial aid and credits by the European Payments Union; some of the latter were settled by gold payments. The gold and foreign exchange assets of the Central Bank fell from \$217 million in 1951 to \$190 million in 1952 but recovered to \$212 million by the end of 1953.

In the Middle East countries whose foreign exchange receipts do not proceed mainly from trade, the trend of foreign exchange reserves was different. In Israel, the large import surplus was mainly covered by gifts and donations, grants-in-aid from the United States, the proceeds of the Independence Loan floated in the United States and, at the end of the period under review, reparations paid by western Germany. No recent figures are available on foreign exchange reserves, but there is no reason to believe that those of the National Bank have risen above the very low level of \$19 million to which they fell in 1951, compared with \$55 million in 1950 and \$139 million in 1949. Foreign assets held by other banks in Israel rose from \$26 million in December 1951 to \$27 million in September 1952 and \$62 million in November 1953; this increase, however, was offset by the decline in these periods in dollar exchange held in United States banks by the Israel Government, banks and individuals, from \$27 million to \$22 million and \$14 million.<sup>13/</sup>

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<sup>13/</sup> International Monetary Fund, International Financial Statistics.

In Jordan, the large import surplus was covered by individual remittances, grants by the United Kingdom Government and the expenditures of the United Nations Relief and Works Agency. In Lebanon, where the import surplus is also large, tourist expenditures, the profits of transit trade, remittances, and receipts from oil companies met the import surplus, the gold and foreign exchange holdings of the Government and the Bank of Lebanon rising from \$40 million at the end of 1951 to \$42 million in 1952 and \$55 million in 1953.<sup>14/</sup>

The position in Iraq, which is probably representative of other major oil producing countries, is different, being determined by the large increase in oil revenues, which has more than covered the import surplus. The foreign assets of the National Bank, which include both foreign exchange and foreign investments, rose from \$114 million at the end of 1951 to \$129 million in 1952 and was \$186 million in November 1953; in the same period, foreign exchange holdings of other banks rose from \$28 million to \$43 million and \$52 million, respectively.<sup>14/</sup>

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<sup>14/</sup> International Monetary Fund, International Financial Statistics.

## Chapter 2

### PETROLEUM

The petroleum industry of the Middle East continued to develop rapidly in 1952 and 1953. The proved crude oil reserves of the region, which represented one-half of the world total in early 1952, rose substantially as a result of petroleum discoveries in Saudi Arabia, Kuwait, Iraq, Trucial Coast and the neutral zone between Kuwait and Saudi Arabia. The output of crude petroleum increased from 105.7 million metric tons in 1952 to 121.7 million in 1953 - accounting for 17 per cent of the world's total production in 1952 and 18.4 per cent in 1953. Production in Iran remained at a low level, sufficient only for domestic consumption. The importance of the Middle East as a supplier of refined products declined, but exports of crude petroleum continued to rise, supplying the greater part of the demand of western Europe. The petroleum income of oil producing countries, other than Iran, continued to rise rapidly because of new profit-sharing agreements between the oil companies and the Governments as well as greater production; and while only a limited part of this income was used for economic development in the region as a whole, the absolute amount spent for such purposes continued to increase.

#### Exploration and Development of Facilities

The proved reserves of crude petroleum in the Middle East were conservatively estimated at 8,300 million metric tons in early 1953 - a rise of 28 per cent over those of 1951. The share of the region in the world's total proved reserves of crude petroleum rose from 50 per cent to 53 per cent in this period (see table 7). Several important discoveries during 1953 have substantially increased earlier estimates of proved oil reserves. Since a large part of the region has not yet been surveyed, the probable reserves of petroleum in the Middle East are believed to be much greater.



Table 7. Estimated Proven Reserves of Crude Petroleum, by Country  
1951 and 1953

Country	Millions of metric tons		Index, 1953 (1951 = 100)	Per cent of world total	
	1951	1953		1951	1953
Bahrein . . . . .	40.9	40.9	100	0.3	0.3
Egypt . . . . .	25.7	28.6	111	0.2	0.2
Iran . . . . .	1,722.3	1,722.3	100	13.3	11.1
Iraq . . . . .	1,163.1	1,470.6	126	9.0	9.4
Kuwait . . . . .	2,036.9	2,444.3	120	15.7	15.7
Qatar . . . . .	130.6	163.2	125	1.0	1.05
Saudi Arabia . . . . .	1,348.1	2,426.5	180	10.4	15.6
Turkey . . . . .	1.5	11.1	750	-	0.1
Total, Middle East . . . . .	6,469.1	8,307.5	128	49.9	53.3
United States . . . . .	3,571.4	3,809.6	107	27.6	24.5
Venezuela . . . . .	1,387.3	1,380.5	100	10.7	8.9
World Total . . . . .	12,953.5	15,580.4	120	100.0	100.0

Source: Gulf Publishing Company, World Oil (Houston, Texas), 15 July 1951 and 15 August 1953. Data are for 1 January of given year.

Exploration and drilling activities in the Middle East as a whole were expanded during the past two years, though they were still at a low level compared with those in other major petroleum producing areas. While exploration and drilling operations were expanded in Iraq, Kuwait, the neutral zone, Saudi Arabia, Trucial Coast and Turkey, there was some decrease in activities in Egypt and Iran. Several companies were granted new concessions in countries not producing petroleum at present.

In Saudi Arabia, drilling operations reached a record level in 1952 with the completion of forty wells and the discovery of three oilfields; as a result, the total area of proved reserves rose by 225,000 acres to 562,700 acres in 1952<sup>1/</sup>

<sup>1/</sup> World Oil, 15 July 1952, and 15 August 1953.

Extensive reconnaissance and exploration were conducted by the Arabian American Oil Company in several parts of its concession area of 440,000 square miles. In December 1953, the discovery of the Huiya field was announced; this appeared to be an extension of the Ghawar field. In the neutral zone between Kuwait and Saudi Arabia, the Wafra oilfield was discovered in March 1953, following an expenditure of about \$30 million, and drilling activities in the oilfield resulted in the completion by the end of 1953 of five wells capable of producing 15,000 barrels a day. In Iraq, a major extension to the Zubair field was announced in 1952, and another successful exploration at Rumaila was reported in late 1953. In Kuwait, after the oilfield discovery at Magwa in 1951, another field was found at Ahmadi in 1952; both were considered extensions of the Burghan field. Drilling operations on the Trucial Coast led to the discovery of petroleum at Abu Dhabi in December 1953.<sup>2/</sup> In Turkey, discovery of an oilfield at Adi Yeman in Malatya province was announced in 1953 by the Turkish Institute for Mineral Research.<sup>3/</sup> On the other hand, in Egypt, the operating oil companies which had abandoned their exploration activities in 1951 ended a great part of their field drilling operations in 1952. In 1953, however, the mining law of 1948 was drastically revised and under it the Government granted the right of petroleum exploitation in the Wadi-Feiran region of the Sinai peninsula to the Egyptian Co-operative Petroleum Society.<sup>4/</sup> In early 1953 the Southern California Petroleum Corporation concluded an agreement, for supervision of drilling and exploitation of petroleum, with the International Egyptian Oil Company (controlled by a Swiss banking group)<sup>5/</sup> and started work in mid-1953. In Iran unsettled conditions in the oil industry following nationalization and the sharp decline in production unfavourably affected further exploration in the south. However, the activities of the Iranian Oil Company, directed by the Seven-Year Plan Organization, resulted in the discovery of an oilfield in the Qum area, south of Tehran.

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<sup>2/</sup> Journal of Commerce (New York), 22 December 1953.

<sup>3/</sup> Ibid., 27 November 1953.

<sup>4/</sup> Al Ahram (Cairo, Egypt), 2 April 1953.

<sup>5/</sup> Association of Lebanese Industrialists, Commerce du Levant, 27 May 1953. Southern California Petroleum Corporation will own 10 per cent of the stock, with an option to purchase additional shares (see Petroleum Times (London), 12 June 1953, page 585).

During the past two years the search for petroleum has been extended to additional areas in the Middle East. Several companies obtained new concessions for petroleum exploration and exploitation, and a few of them commenced their drilling or exploration activities. In Israel, under the terms of a petroleum law that became effective on 31 August 1952, the Government by 31 May 1953 had granted thirty-one licences for oil exploration to seven different groups.<sup>6/</sup> According to the law, exploration must begin within four months after the concession grant and drilling must start within two years.<sup>7/</sup> By the end of 1953 three companies were planning to start test drilling in the Negeb desert and the adjoining area near the Dead Sea, and others were engaged in exploration activities.

In Qatar in June 1952 the Royal Dutch Shell was granted an offshore concession beyond a three-mile limit around the peninsula;<sup>8/</sup> the concession covered about 10,000 square miles of undersea area. The company formed a subsidiary with a capital of £1 million and started exploration in 1953; it was expected that the first submarine well would be drilled in 1954.<sup>9/</sup> The Anglo-Iranian Oil Company also obtained petroleum concessions in two marine areas off the Trucial Coast in the Persian Gulf: one at Abu Dhabi in March 1953, covering an area of 12,000 square miles, for a period of 65 years; and the other at Dubai in August 1952, over an area of 1,300 square miles, for a period of 60 years. The Cie Française des Petroles is associated in the latter concession.<sup>10/</sup>

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<sup>6/</sup> C. Tadmor, Israel Economic Survey, July-December 1952 (Jerusalem), June 1953.

<sup>7/</sup> For the text of the petroleum law see Ministry of Commerce and Industry, Economic News: Petroleum Industry in Israel (Tel Aviv, 1953).

<sup>8/</sup> The concession was originally held by the Superior Oil Company, which relinquished it in early 1952. The Royal Dutch Shell paid £260,000 on signing the contract for the new concession, which will run 75 years. The terms will be determined later, after negotiation (Petroleum Publishing Company, Oil and Gas Journal (Tulsa, Oklahoma) 14 July 1953).

<sup>9/</sup> International Monetary Fund, International Financial News Survey (Washington, D.C.), 30 October 1953.

<sup>10/</sup> Petroleum Times, 7 August 1953, page 787.

In the Dhofar province in the sultanate of Muscat and Oman, two United States companies, Cities Service Company and Richfield Oil Corporation, acquired rights and started to make a preliminary geological reconnaissance in 1953. This followed the relinquishment of a concession by an associated company of the Iraq Petroleum Company.<sup>11/</sup>

In Lebanon, the Pacific Western Oil Corporation and another United States firm obtained exploration rights from the Cie Libanaise des Petroles, in an area of over 700,000 acres.<sup>12/</sup> A "wildcat well" drilled in Bekaa valley proved to be dry and no further exploratory effort was then contemplated for the near future.<sup>13/</sup> In Turkey, by a decree issued on 22 November 1952, the Government announced a change in its policy: henceforth private Turkish and foreign firms would be authorized to explore and exploit, and a petroleum law to this effect was passed in 1954. In Yemen, the Government granted an oil concession to the west German firm of C. Deilmann Berghan Gruh; it covered almost 74,000 square miles, and a geological survey was begun in the Salif coast area. If no oil is found within five years the contract is to be ended; should prospecting prove successful the contract is to be valid for twenty years.<sup>14/</sup>

Petroleum development programmes in the region included a marked expansion in oil handling facilities through the proposed construction of pipelines, storage tanks and port establishments, mainly in Aden Colony, Iraq, Kuwait, the neutral zone and Saudi Arabia. In Aden in 1953 new port and storage facilities were under construction by the Anglo-Iranian Oil Company to handle the oil products of a new refinery, which was scheduled to start operations before the end of 1954. Work was also begun on nineteen miles of pipeline, with six-inch and sixteen-inch diameters, to connect the refinery with storage tanks.<sup>15/</sup>

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<sup>11/</sup> Petroleum Times, September 1953.

<sup>12/</sup> The Oil and Gas Journal, 8 June 1953, page 77.

<sup>13/</sup> United States Department of Commerce, Foreign Commerce Weekly, (Washington D.C.), 7 September 1953, page 6.

<sup>14/</sup> It is reported that the terms of agreement provide for sharing costs and profits by the Government of Yemen and the German firm in the proportion of three to one (The Economist (London), 7 November 1953).

<sup>15/</sup> Petroleum Times, 30 October 1953.

In Iraq a pipeline with diameters of twenty-six, thirty and thirty-two inches, connecting the Kirkuk oilfield in Iraq to Baniyas in Syria, was completed in April 1952. The line is 895 kilometres long and has a normal capacity of 13.5 million tons a year. It required an investment of about \$115 million. In connexion with the construction of the pipeline, twenty-three storage tanks, with a capacity of 575,000 tons, were built, and port facilities were established to handle 13.5 million tons of oil a year at its terminal, Baniyas. Other activities in Iraq included the completion of a twelve-inch pipeline in September 1952, with a length of 220 kilometres and a capacity of 1.4 million tons a year, linking the Ain Zalah oilfield with the main pipelines stretching towards the Mediterranean coast. In Southern Iraq a twenty-four-inch pipeline, with a crude charging capacity of 6 million tons a year and a length of 120 kilometres, connecting the Zubair oilfield to the port of Fao on the Persian Gulf, was expected to be completed late in 1953. The port facilities of Fao, including two jetties, were being expanded to handle additional oil coming from the new pipeline, and the project included two new jetties and six storage tanks to be completed early in 1954. A pipeline with a length of 135 miles between Baiji and Dora, the site of the Government refinery near Baghdad, was also under construction on the Iraq Government account.

The oil handling facilities of Kuwait were also expanded substantially. The crude charging capacity of pipelines from oilfields to loading docks at Mena-al-Ahmadi increased to about 60 million tons a year; two gravity lines, one of them thirty-four inches in diameter were under construction in 1953. The storage capacity of tank farms at Ahmadi rose to over 4 million barrels. The world's largest tanker pier, with a loading capacity of about 50 million tons a year, was being expanded during this period by the construction of three new sea berths, each connected to oil tanks on shore by a crude oil loading pipeline with a twenty-four inch diameter. In the neutral zone, on the discovery of an oilfield in March 1953, steps were immediately taken to develop the field by construction of a 34-mile pipeline and port and storage facilities at Mena Abdullah in order to begin the shipment of oil in January 1954.

In Saudi Arabia, expansion of the pipeline system in 1952 included the construction of nearly 98 kilometres of field gathering lines, and 28 kilometres of 20-inch to 24-inch gas transmission lines as part of the pressure maintenance system, 79 kilometres of a 30-inch and 31-inch pipeline between Uthmaiyah and

Abqaiio, and 26 additional kilometres of underwater pipeline to Bahrein.<sup>16/</sup> In addition, port facilities were expanded and storage capacities increased along with field developments and increased production in Saudi Arabia.<sup>17/</sup> In Qatar new gas separating and pumping facilities, as well as a new 12-1/2-inch pipeline from Fahahil to Umm Bad, were constructed to increase production.<sup>18/</sup> In Egypt, a new basin for berthing tankers was constructed in the port of Alexandria at a cost of £E750,000. In addition, the Government approved a project for the construction of two pipelines from Suez to Cairo, for transporting fuel oil at a cost of £E 2 million. The necessary funds have been appropriated and the project is to be completed within two years.<sup>19/</sup>

#### Production and Refining

Production of crude petroleum in the Middle East as a whole continued to increase in the years 1951 to 1953, as world demand, mainly that of European refineries, for the crude oil of the region was stepped up. The rate of increase declined somewhat in the second half of 1953. Output of crude petroleum in the Middle East in 1953 amounted to 121.7 million tons, representing 18.4 per cent of the world's crude production, compared with 17 per cent in 1950 and 1952. Despite the cessation of almost all exports from Iran and a drastic decline in its production, the output of crude petroleum in the Middle East as a whole increased 10.1 per cent in 1951, 8.3 per cent in 1952 and an estimated 15.1 per cent in 1953, compared with the world total of 5.2 per cent in 1952 and 5.9 per cent in 1953 (see table 8). Excluding Iran, the region's output rose by 29.3 per cent in 1952 and 15.3 per cent in 1953.

Iraq, Kuwait and Saudi Arabia accounted for 92 per cent of Middle East production in 1953 as against 57 per cent in 1950;<sup>20/</sup> on the other hand, Iran's share declined from 36 per cent to one per cent. The remainder was contributed by Bahrein, Egypt and Qatar.

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<sup>16/</sup> Arabian American Oil Company, Report of Operations, 1952. (New York, 1953).

<sup>17/</sup> Ibid.

<sup>18/</sup> Oil and Gas Journal, 4 August 1952.

<sup>19/</sup> Egyptian Gazette (Cairo), 18 August 1953.

<sup>20/</sup> The year 1950 has been used for purposes of comparison because it is the last year in which Iran's oil industry operated at full capacity.

The greatest expansion in production of crude petroleum within the region took place in Iraq, where the output increased from 8.7 million metric tons in 1951 to 18.9 million in 1952 and 28.2 million in 1953. This sharp growth resulted from the opening of new pipelines to the Mediterranean coast and the Persian Gulf, the expansion of production facilities in the Kirkuk field and the bringing into operation of the oilfields of Zubair in the south, in December 1951, and of Ain Zalah in the north, in September 1952. In accordance with article 5 of the revised agreement of February 1952 between the Government of Iraq and the operating companies, the latter have undertaken to produce and dispose of a minimum of 22 million long tons of crude petroleum, beginning in 1954, from the concession areas of the Iraq Petroleum Company and the Mosul Petroleum Company and a minimum quantity of 8 million long tons, starting in 1955, from the Basrah Petroleum Company's concession.

The crude petroleum output of Kuwait, the largest producer in the Middle East in 1953, increased from 28.3 million metric tons in 1951 to 42.7 million tons in 1953; the rate of increase being 33 per cent in 1952 and 13 per cent in 1953. The sharp increase in crude petroleum production in Kuwait furnished replacements for a major part of the Anglo-Iranian Oil Company's losses of Iranian oil.

In Saudi Arabia crude production amounted to 41.6 million metric tons in 1953, compared with 40.7 million in 1952 and 37.5 million in 1951. The rate of increase in Saudi Arabia fell behind that of Iraq and Kuwait mainly because of marketing problems. In Qatar, output of crude oil reached 4 million tons in 1953, a rise of 69 per cent over 1951. Production in Bahrein and Egypt was unchanged from 1951; crude petroleum output in Turkey remained low, but was expected to increase sharply after the completion of refining facilities.

Productive capacity in the Middle East is much higher than actual production. It was conservatively estimated that in October 1953 the unused oil producing capacity of the region amounted to almost 50 million tons a year; facilities for 35 million tons were located in Iran, and the remainder in Iraq, Kuwait, Qatar and Saudi Arabia.<sup>21/</sup>

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<sup>21/</sup> Journal of Commerce, 8 December 1953. An official of the Arabian American Oil Company was recently reported to have stated, to a United States Senate sub-committee, that the company was capable of doubling its current production if necessary (see Journal of Commerce, 4 December 1953).

Table 8. Production of Crude Petroleum, by Country,  
1948 and 1950 to 1953

(Thousands of metric tons)

	1948	1950	1951	1952	1953 <sup>a/</sup>
Bahrein . . . . .	1,496	1,511	1,508	1,510	1,506
Egypt . . . . .	1,886	2,607	2,332	2,352	2,350
Iran . . . . .	25,270	32,259	16,844	1,348	1,366
Iraq . . . . .	3,427	6,479	8,690	18,850	28,200
Kuwait . . . . .	6,400	17,291	28,327	37,631	42,654
Qatar . . . . .	-	1,636	2,370	3,296	4,003
Saudi Arabia . . . . .	19,260	26,904	37,476	40,698	41,566
Turkey . . . . .	3	17	19	22	28
Total, Middle East . .	57,742	88,613	97,566	105,707	121,673
World Total . . . . .	470,000	525,000	592,000	623,000	660,000
Middle East output as percentage of World Total . . . . .	12.3	16.9	16.5	17.0	18.4

Source: United Nations, Monthly Bulletin of Statistics; Petroleum Press Bureau, Petroleum Press Service; Gulf Publishing Company, World Oil, 15 August 1953.

<sup>a/</sup> Preliminary figures.

With the shutdown in Abadan, the importance of the Middle East as a supplier of refined petroleum products has declined in recent years. In 1952, the region processed a little less than 4 per cent of the refined petroleum products of the world, as against 9 per cent in 1950. The output of major refined products in the Middle East, which amounted to 40.5 million tons in 1950, declined to 33.2 million tons in 1951 and 23.6 million tons in 1952; but a rise was expected in 1953. This trend has been due mainly to the shutdown of most of the Abadan refineries in mid-1951, and the subsequent efforts of the oil companies to raise the output of their refineries in the region. In 1950, Iran supplied 61 per cent of the output of Middle Eastern refineries, as compared with 5.6 per cent in 1952. The refineries of the Middle East, excluding Iran, increased the output of their major products by 29 per cent in 1951 and 9 per cent in 1952; the greater part of the rise was contributed by refineries in Bahrein and Saudi Arabia (see table 9).



The annual crude charging capacity of Middle East refineries, which amounted to 52.5 million tons at the end of 1951, continued to increase slowly; several programmes are under way for the construction of new refineries and the expansion of existing ones. In Saudi Arabia, the yearly capacity of the Ras Tanura refinery increased by nearly 1.5 million tons in 1952, as a result of new installations of crude distillation units and improvements in other processing facilities.<sup>22/</sup> The annual capacity of the Bahrein refinery was also increased, by about 2 million tons. In Iran, a lubricating oil plant with a capacity of 20,000 tons per annum, which was constructed by the Anglo-Iranian Oil Company at Abadan but was not operating at the time of nationalization, was placed in operation.<sup>23/</sup> In Iraq, a small Government-owned topping plant at Muftiyah, near Basrah, began operations in August 1952; it has a capacity of 300,000 tons.

The largest new refinery construction in the region during 1953 was the building of a refinery with a capacity of 5 million tons a year by the Anglo-Iranian Oil Company in Aden Colony. It is estimated that the plant and the associated oil port will cost approximately \$130 million; its initial processing operations are scheduled to begin before the end of 1954.<sup>24/</sup> The Kuwait Oil Company refinery at Mena-al-Ahmadi, which supplied local requirements of oil products as well as fuel oil for tankers, was being expanded in 1953 to increase its capacity from 1-1/4 million tons a year to about 5 million tons by the end of 1954.<sup>25/</sup> In Egypt, the Government refinery at Suez was also being expanded in order to increase its yearly capacity from 350,000 tons to 1-1/2 million tons by 1954. In Iraq, a Government refinery at Dora, near Baghdad, was expected to be completed early in 1955. The plant is expected to cost about 9 million Iraqi dinars, and its initial capacity will be over one million tons a year.<sup>26/</sup> In addition, the Government of Iraq on 5 September 1953 approved a proposal to

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<sup>22/</sup> Arabian American Oil Company, Report of Operations, 1952.

<sup>23/</sup> The plant had produced about 800 tons of lubricating oil by September 1953, but has not been able to operate regularly owing to lack of equipment. Report of the Government of Iran on the Iranian National Oil Company, Keyhan (Tehran) 29 September 1953.

<sup>24/</sup> Journal of Commerce, 23 December 1953.

<sup>25/</sup> Petroleum Press Bureau, Petroleum Press Service (London), May 1953, page 163.

<sup>26/</sup> Ibid.

Table 9. Output of Major Refinery Products, 1950 to 1952

(Thousands of metric tons)

Country and year		Motor fuel	Kerosene	Heavy oils	Total, major products
<u>Bahrein:</u>	1950 . . . . .	1,754	705	4,382	6,841
	1951 . . . . .	2,005	828	5,207	8,040
	1952 . . . . .	2,179	1,103	5,339	8,621
<u>Egypt:</u>	1950 . . . . .	195	151	1,761	2,107
	1951 . . . . .	208	210	1,715	2,133
	1952 . . . . .	187	220	1,991	2,398
<u>Iran:</u>	1950 . . . . .	4,571	2,300	17,794	24,665
	1951 <u>a/</u> . . . .	2,525	1,290	8,992	12,807
	1952 <u>b/</u> . . . .	271	200	861	1,332
<u>Iraq:</u>	1950 . . . . .	67	77	252	396
	1951 <u>b/</u> . . . .	94	73	346	513
	1952 <u>a/</u> . . . .	92	107	489	688
<u>Israel:</u>	1950 . . . . .	31	27	129	187
	1951 . . . . .	110	98	499	707
	1952 <u>a/</u> . . . .	146	113	546	805
<u>Kuwait:</u>	1950 . . . . .	15	5	1,081	1,101
	1951 . . . . .	17	7	1,179	1,203
	1952 . . . . .	21	9	1,296	1,326
<u>Lebanon:</u>	1950 . . . . .	98	61	235	394
	1951 . . . . .	117	62	241	420
	1952 . . . . .	114	66	281	461
<u>Saudi Arabia:</u>	1950 . . . . .	956	371	3,498	4,825
	1951 . . . . .	1,383	588	5,424	7,395
	1952 . . . . .	1,404	627	5,940	7,971
<u>Turkey:</u>	1950 . . . . .	1	-	4	5
	1951 . . . . .	1	-	5	6
	1952 . . . . .	1	-	4	5
<u>Total:</u>	1950 . . . . .	7,688	3,697	29,136	40,521
	1951 . . . . .	6,460	3,156	23,608	33,224
	1952 . . . . .	4,415	2,445	16,747	23,607

Source: United Nations, Statistical Yearbook, 1953; United States Department of the Interior, Bureau of Mines, World Petroleum Statistics (Washington, D.C.), 1950, 1951 and 1952.

a/ Partly estimated.

b/ Estimated.

construct a lubricating oil plant to meet local needs. The cost of the plant is estimated at 3 million Iraqi dinars.<sup>27/</sup> In Turkey, the Government signed a contract in January 1953 with a United States firm for construction of a catalytic cracking plant with a capacity of 330,000 tons a year, to be completed before the end of 1955.<sup>28/</sup> Construction work was started in 1953 on this project which, together with 42 kilometres of pipeline, will require an investment of about 35 million Turkish liras.<sup>29/</sup> The refinery will be located at Batman and is expected to meet the demand for petroleum products in eastern and south-eastern Turkey.

Despite recent developments in refining, neither the expansion of refining capacity nor the output of refined products in the Middle East kept pace with the increase in crude petroleum production. In 1950, the region processed the equivalent of 49 per cent of its crude output, compared with 24 per cent in 1952. Full operation of the Abadan and Haifa refineries - the former operated at about one-twentieth of capacity and the latter at about one-quarter in 1952 - would of course greatly increase the proportions. There is, however, a tendency to locate refineries in or near the consuming centres for petroleum products, mainly in Europe and the Far East, utilizing the crude oil of the Middle East, and this has limited the expansion of refining facilities in the region. In the countries in the Organisation for European Economic Co-operation,<sup>30/</sup> the yearly crude charging capacity of refineries increased from 23 million tons in 1948 to 82 million tons at the end of 1952, and was expected to reach 106 million tons by the end of 1954. As a result of this expansion, a few countries in western Europe have become net exporters of refined products and have tended to increase their surplus of refined products for export.<sup>31/</sup>

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<sup>27/</sup> Foreign Commerce Weekly, 5 October 1953.

<sup>28/</sup> Cevat E. Tasman, "Major Companies Examine Oil Prospects in South-Eastern Turkey", Oil and Gas Journal, 2 November 1953.

<sup>29/</sup> Turkiye Iktisat Gazetesi, official organ of the Union of Chamber of Commerce and Industries, 31 August 1953.

<sup>30/</sup> Austria, Benelux countries, Denmark, France, western Germany, Greece, Iceland, Ireland, Italy, Norway, Portugal, Sweden, Switzerland, Trieste, Turkey and the United Kingdom.

<sup>31/</sup> "Europe's Refinery Over-Expansion", Petroleum Press Service, July 1953.

In recent years steps have been taken in the Middle East towards the utilization and conservation of natural gas and refinery gas, which are produced in large quantities in conjunction with the production and refining of petroleum in the region; hitherto these gases were almost entirely wasted.<sup>32/</sup> In Saudi Arabia, the Arabian American Oil Company had under construction in 1952/53 a field pressure maintenance plant at Abqaiq to re-inject up to 1,600 million cubic metres of high pressure gases yearly into the oil reservoir. The cost of the project was estimated at \$19 million.<sup>33/</sup> The operation of the plant will enable the company to produce about 5 million tons a year more from the Abqaiq field than would be possible without repressuring and, at the same time, natural gas will be saved for future exploitation.<sup>34/</sup>

Another project in Saudi Arabia was under consideration in 1953 by an expert provided under the United Nations technical assistance programme, who recommended that the Government of Saudi Arabia construct a nitrogen fertilizer plant at Damman. The expert recommended utilization of natural gases from the Qatif field to produce about 400,000 tons a year of ammonium sulphate, with a nitrogen content of not less than 20.5 per cent.<sup>35/</sup> In case the delivery of natural gas from Qatif should fail to meet requirements, additional gases are to be brought from Dhahran and Abqaiq.<sup>36/</sup>

In Iraq, a mission of the International Bank for Reconstruction and Development recommended the erection of a plant to utilize natural gas produced at Kirkuk oilfield; following this recommendation, the Government signed a contract with a British firm to study the possibilities of implementing it.<sup>37/</sup>

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<sup>32/</sup> Cf. United Nations, Review of Economic Conditions in the Middle East, 1951-52 (1953.II.C.1), pages 63 to 66.

<sup>33/</sup> Arabian American Oil Company, Report of Operations, 1952.

<sup>34/</sup> World Oil, 15 August 1953.

<sup>35/</sup> Nearly half the quantity of ammonium sulphate would be produced by sulphuric acid and the balance by gypsum or anhydrite, which would be brought to Damman from the surrounding areas.

<sup>36/</sup> Information supplied by the United Nations Technical Assistance Administration.

<sup>37/</sup> Middle East Economist and Financial Service (New York), September 1952.

The Bank's recommendation calls for the construction of a plant with an annual producing capacity of 500,000 tons of ammonium sulphate fertilizer, 100,000 tons of elemental sulphur, 10,000 tons of carbon black and 300,000 tons of cement. The cost of the plant was estimated at 25 million Iraqi dinars.<sup>38/</sup>

In Iran, the Seven-Year Plan Organization has undertaken negotiations with a Swedish firm for utilization of natural gas to produce chemical fertilizers, alcohol and cement. The plan calls for an investment of \$20 million to \$25 million within a period of about three years.<sup>39/</sup>

Small quantities of hydrocarbon gases were also utilized in refineries or in domestic consumption in Bahrein, Kuwait and Saudi Arabia. In the latter country, the total volume of gas produced, saved and sold amounted to 46,023,000 cubic feet in 1952, compared with 49,323,000 cubic feet in 1950 - less than 0.02 per cent of its probable total output of natural gas. In Kuwait, a unit driven by a gas turbine was to be installed by the Kuwait Oil Company in its new oil gathering centre.<sup>40/</sup> The company also constructed 30 miles of 8-inch pipeline, from Burghan oilfield to the town of Kuwait, for the utilization of natural gas. In Egypt gases from the Suez refinery have been utilized in the production of nitrogen fertilizers, and the capacity of the fertilizer plant is to be increased. In Israel most of the future output of refinery gases of the Haifa refinery has been earmarked for utilization in a nearby ammonia plant.<sup>41/</sup>

#### Exports and Consumption

Exports of petroleum from the region continued to increase in the years 1951 to 1953. The sharp rise in the tonnage of crude petroleum exports was greater than the amount of decline in exports of refined products in 1951 and 1952. In terms of crude equivalent, net exports of crude petroleum and refined products, including bunkering fuel, were estimated at 97 million metric tons in 1952, compared with about 90 million

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<sup>38/</sup> International Bank for Reconstruction and Development, Economic Development of Iraq (Baltimore, 1952).

<sup>39/</sup> Chambre de Commerce Franco-Asiatique, L'Asie Nouvelle (Paris, 21 January 1954).

<sup>40/</sup> Petroleum Times, 20 March 1953, page 242.

<sup>41/</sup> Israel, Ministry of Commerce and Industry, Economic News: Petroleum Industry in Israel.

metric tons in 1951 and 81 million in 1950. Crude petroleum furnished by far the greater part of net exports - 79 million metric tons in 1952, a rise of 27 per cent over net exports in 1951 and 80 per cent over the 1950 figure (see table 10). On the other hand, net exports of refined products, which amounted to about 45 per cent of total net exports of petroleum from the region in 1950, declined by over one-half between 1950 and 1952; however, there was a small increase in 1953.

The region's crude petroleum exports came from Kuwait, Saudi Arabia, Iraq and Qatar; and refined products from Bahrein, Saudi Arabia and Kuwait. Exports of crude and refined products from Iran, the largest exporter of the Middle East until 1951, ceased in mid-1951, and there were only small shipments - to Italy and Japan - in 1953. Total exports of Iran in 1953 amounted to about 120,000 tons, in addition to 12,000 tons of fuel for the tankers carrying the exports.<sup>42/</sup> There was also a movement of crude petroleum within the region to supply all or part of the crude oil required by refineries; however, Israel filled its crude petroleum requirements mainly from Caribbean oil.

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<sup>42/</sup> Report of the Government of Iran on the Iranian National Oil Company, Keyhan, 29 September 1953.

Table 10. Exports and Imports of Crude Petroleum,  
by Country, 1950 to 1952  
(Thousands of metric tons)

Country	1950	1951	1952
<u>Exports from:</u>			
Iran . . . . .	6,550	3,540	-
Iraq . . . . .	6,180	7,920 <sup>a/</sup>	17,260
Kuwait . . . . .	15,990	26,900	36,250
Qatar . . . . .	1,530 <sup>a/</sup>	2,350	3,240
Saudi Arabia . . . . .	20,660	29,990	31,750
Total exports . . . . .	50,910	70,700	88,500
<u>Imports by:</u>			
Bahrein . . . . .	6,250	7,390	7,990
Egypt . . . . .	-	100	100
Israel . . . . .	220	760	920
Lebanon . . . . .	490	550	550
Total imports . . . . .	6,960	8,800	9,560
Net exports	43,950	61,900	78,940

Source: United States Department of Interior, Bureau of Mines, World Petroleum Statistics, 1950, 1951 and 1952

a/ Estimated.

The rapid rise in exports of crude petroleum from the Middle East was made possible by the swift development of production in the region, on the one hand, and the increasing demand for crude petroleum, mostly by European refineries, on the other. In 1952, Europe imported about 65 million tons of Middle East crude petroleum, which represented 93 per cent of its total imports of crude, as against 50 million tons, representing 90 per cent of its imports, in 1951. The United States also imported substantial quantities of crude petroleum from the Middle East - 5 million tons in 1951 and 7.6 million in 1952. There were also exports to Argentina, Australia and Canada (see table 11). No figures are published on the movement of

refined products from the region, but it is known that the greater part of the refined products of Bahrein and Saudi Arabia, the main suppliers in the past two years, are consumed east of Suez.

Table 11. Destination of Crude Petroleum Exports, 1951 and 1952  
(Thousands of metric tons)<sup>a/</sup>

Country	<u>1951</u>	<u>1952</u>
United Kingdom . . . . .	14,850	21,390
France . . . . .	16,490	19,830
Italy . . . . .	6,950 <sup>b/</sup>	9,260
United States . . . . .	5,060	7,640
Netherlands . . . . .	5,340	5,890
Japan . . . . .	1,590	3,210 <sup>b/</sup>
Germany . . . . .	2,880	2,930
Belgium . . . . .	850	2,540
Argentina . . . . .	1,100 <sup>b/</sup>	1,250 <sup>b/</sup>
Canada . . . . .	1,810	1,120
Sweden . . . . .	900 <sup>b/</sup>	1,020 <sup>b/</sup>
Spain . . . . .	350	910
Other countries . . . . .	4,130	2,570
Total <sup>c/</sup>	62,300	79,560

Source: United States Department of the Interior, Bureau of Mines, International Petroleum Trade (Washington, D.C.), April 1953 and August 1953.

a/ Conversion rate of 0.135 metric ton to a barrel has been used.

b/ Estimated.

c/ Partially estimated.

Consumption of petroleum continued to increase in the period under review in all countries of the Middle East except Iran. The growing demand for petroleum products was largely due to industrial development, gradual mechanization of agriculture, growth of railway and motor traffic and increasing domestic uses of petroleum, as well as the expansion of marketing facilities for petroleum products and the generally favourable



prices of such products in comparison with other fuels. Increased marine traffic, especially in tankers, was responsible for the use of a large quantity of bunker fuel in the region, though its volume appears to have declined in recent years with the cessation of fuel oil supplies from Iran.

The gross inland consumption of petroleum in the Middle East as a whole remained stable in 1952. This was due to the cessation in mid-1951 of most of the activities of the Abadan refineries, causing a drastic decline in Iran's total inland consumption despite a rise of nearly 10 per cent a year in petroleum consumption by the other sectors of its economy. The total use of petroleum in the region, exclusive of consumption by Abadan refineries, increased 16 per cent in 1951 and about 12 per cent in 1952. Gross inland consumption appears to have increased in 1953.

Gross inland consumption in the Middle East of four major petroleum products - motor fuel, kerosene, distillate fuel oil and residual fuel oil - was estimated at 9.5 million metric tons in 1951 and 1952 (see table 12); consumption of liquid fuel in the refineries of the region accounted for approximately 25 per cent of total inland consumption in 1952 and about 20 per cent in 1951. In addition, the bunker fuel oil supply of Middle Eastern ports, which had amounted to almost 8 million metric tons in 1950, was estimated at 6.5 million metric tons in 1952.

Regional data on the uses of petroleum by different branches of the economy are not available. However, the composition of petroleum products used in 1952 indicates that about 15 per cent consisted of motor fuel, 17 per cent of kerosene and 68 per cent of distillate fuel oil and residual fuel oil; of the latter about 30 per cent was used in the refineries of the region. Moreover, increasing quantities of lubricating oil, which were almost entirely imported, were utilized in the Middle East; estimated consumption amounted to 160,000 tons in 1952, compared with 145,000 tons in 1951 and 125,000 tons in 1950.

Table 12. Estimated Inland Consumption of Major Petroleum Fuels,  
by Country, 1950 to 1952<sup>a/</sup>  
(Thousands of metric tons)

Country	1950	1951	1952
Afghanistan . . . . .	20	20	25
Bahrein . . . . .	415	640	700
Cyprus . . . . .	85	90	100
Egypt . . . . .	2,830	3,080	3,280
Iran . . . . .	2,895	2,060	1,200
Iraq . . . . .	620	635	690
Israel . . . . .	655	815	870
Jordan . . . . .	55	55	60
Kuwait . . . . .	165	185	200
Lebanon . . . . .	265	240	315
Saudi Arabia . . . . .	485	740	850
Sudan . . . . .	120	165	200
Syria . . . . .	230	260	345
Turkey . . . . .	415	550	700
Total	9,255	9,535	9,535

Source: Estimated by the United Nations Department of Economic Affairs.

a/ Including refinery consumption, but excluding bunker fuels.

#### Use of Petroleum Income

##### Bahrein

The economic development of Bahrein, largely a result of petroleum activities in the islands, has continued on a moderate scale in recent years. The 1952 profit-sharing arrangement with the Bahrein Petroleum Company, in the form of income tax on net income from the production and sale of crude oil,<sup>43/</sup>

<sup>43/</sup> The arrangement does not appear to apply to refining activities.

has resulted in greater revenue for the country. As a result, the decline in income from the activities of local industries, such as pearling and fishing, has been more than offset by higher oil revenues, increased employment in the oil industry and the growth of trade.

Direct payments by the oil company in Bahrein were estimated at the equivalent of nearly \$6.5 million in 1952 and in 1953, compared with about one half of that in 1950. In addition, local expenditures of the company for the purchase of local materials and the payment of wages have continued to increase and, in recent years, have averaged in the neighbourhood of \$5 million a year. Employment in the oil industry has also risen considerably in the past few years; the total number of employees of the Bahrein Petroleum Company increased from 6,078 in 1948 to 7,749 at the end of 1951. Of the latter, 4,937 were nationals of Bahrein and 1,035 were nationals of the United States, the United Kingdom and other countries of Europe.<sup>44/</sup> There were also nationals of India, Pakistan and of neighbouring countries.

The major part of the revenue in Bahrein's budget consists of receipts from oil operations. In the year ending in October 1951, the budget revenue of Bahrein was estimated at the equivalent of \$5.3 million, of which 61 per cent came directly from oil and 35 per cent from customs duties.<sup>45/</sup> In the past, one-third of the oil revenues were reserved for the ruler,<sup>46/</sup> and another part was set aside as reserves and invested abroad. In 1950, 18 per cent of the total revenue of Bahrein was thus invested,<sup>47/</sup> and the balance was used for current expenditures and development programmes.

The Government has constructed a network of roads, bridges and modern shipping facilities, as well as a large airport. Water wells have been drilled for use in villages. Hospitals have been built and maintained at government expense. Free education has been provided, and scholarships

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<sup>44/</sup> J.H.D. Belgrave, Welcome to Bahrein (1953), page 45.

<sup>45/</sup> Bahrein Petroleum Company Limited, Bahrein 1952.

<sup>46/</sup> Petroleum Press Service, May 1953, page 166.

<sup>47/</sup> J.H.D. Belgrave, "Future of the Bahrein Islands", The Arab World (London), October 1951.

have been granted to send students abroad for advanced training. In addition, the Government has a programme for the construction of low-cost housing to replace sub-standard dwellings.

### Iran

The oil industry of Iran, unlike that of other oil producing countries in the Middle East, became a great financial burden to the Government in the years 1951 to 1953. Nationalization of the oil industry in March 1951 was followed by cessation of oil exports (which amounted to over 30 million tons in 1950), and a halt in crude production (32.3 million tons in 1950) and in petroleum refining (24.7 million tons in 1950), except for limited domestic consumption. The activities of the Anglo-Iranian Oil Company, which contributed an estimated 10 per cent of the national income of Iran in 1950, ceased completely. Direct payments by the company to the Government, amounting to the equivalent of \$44.9 million in 1950, and substantial local expenditures by the company in the form of foreign exchange for the payment of wages and the purchase of local materials, the equivalent of \$70 million in 1949/50 and \$56 million in 1950/51, as well as imports of substantial capital and consumer goods by the company, \$59 million in 1949/50 and \$29 million in 1950/51, were discontinued. Government revenues, work on development projects under the seven-year plan and imports all sustained losses on this account.

Several attempts were made to bring about an agreement and to open outside markets to Iranian oil exports, but none had been successful by mid-1953. As a result, the Iranian Government, in order to find foreign markets for its petroleum products, offered a price discount of 50 per cent, but was able to sell only 135,000 tons of petroleum in 1953, mainly to Italian and Japanese firms. In addition, the National Iranian Oil Company sold 1,993,000 metric tons of oil products in Iran, during the two-year period ending 31 June 1953, for 3,091 million Iranian rials. These receipts by the company met only a portion of its current expenditures. The company retained most of the Iranian nationals employed in the plants, though employment in the oil industry declined from 64,600 before nationalization to 56,300 in September 1953; one-half of the decrease resulted from the departure of foreign employees, and about 2,500 temporary employees were dismissed. By September 1953 the National Iranian Oil Company

had incurred debts of 548 million rials to the Ministry of Finance and 2,209 million rials to the National Bank of Iran, and deficits continued at the rate of about 120 million rials a month.

Later in 1953, negotiations were resumed between the parties concerned to reach agreement, on the basis of the Iranian Nationalization Act, in regard to the compensation of the nationalized oil industry and the marketing of Iranian oil products. It was estimated by the National Iranian Oil Company that an expenditure of \$30 million to \$40 million would be necessary to purchase equipment and spare parts and to employ about 600 foreign technicians in order to raise production and refining to the level preceding nationalization.

### Iraq

Increasing availability of revenue from petroleum sources, combined with the rich natural resources of the country, have given Iraq great potentiality for economic development. In 1950, a Development Board was set up to implement development programmes financed largely by oil revenues. By 1953 work was started on several projects, including irrigation, land reclamation, transportation and building; several others were being studied.

Direct payments by oil companies operating in Iraq, the equivalent of nearly \$40 million in 1951, increased to \$95 million in 1952 and were expected to reach \$140 million in 1953.<sup>48/</sup> In addition, the oil companies paid \$14 million in 1952 for settlement of previous claims. It was decided in 1952 that 70 per cent of the oil revenues were to be assigned to the Development Board. The actual allotments amounted to the equivalent of \$26.3 million in 1951/52 and \$57.4 million in 1952/53 (see table 13).<sup>49/</sup>

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<sup>48/</sup> Local expenditures by the oil companies amounted to the equivalent of \$16 million in 1951 and \$20 million in 1952.

<sup>49/</sup> Years ending in March. The remaining 30 per cent was allocated to the general budget. Total budget receipts were the equivalent of \$90 million in 1950/51 and \$134 million in 1952/53; about 42 per cent of the latter came from direct oil revenues.

Table 13. Iraq: Allotment of Funds and Estimated Expenditures  
for Development Projects, 1951/52 and 1952/53  
(Thousands of Iraqi dinars)

Item	1951/52		1952/53	
	Allotments	Estimated expenditures	Allotments	Estimated expenditures
Administration and study	170	110	460	260
Irrigation projects	3,024	1,733	7,100	1,064
Roads	2,066	836	3,800	2,933
Buildings	2,368	2,368	2,650	2,650
Land reclamation and other projects	1,736	953	3,450	2,076
Industries	-	-	3,000	5
Total	9,364	5,000	20,460	8,988

Source: United Nations Relief and Works Agency for Palestine Refugees, Quarterly Bulletin of Economic Development (Beirut), No. 7, May 1953. Years ending in March.

As shown in the table, appropriations on development projects have fallen behind the plan. This is largely due to the preliminary study and field work necessary to begin the implementation of projects. In addition to investing 5 million and 9 million Iraqi dinars in 1951/52 and 1952/53, respectively, the Development Board transferred to several ministries a total of 2.5 million dinars in 1951 and 2 million dinars in 1952 for expenditure on development. Furthermore, it advanced loans amounting to 6.3 million dinars to various government agencies and departments, of which 3 million dinars were for oil refining. At the end of the fiscal year 1951/52 the Development Board's reserves amounted to about 11 million Iraqi dinars.

#### Kuwait

Marked economic changes have occurred in Kuwait in recent years as a result of the unparalleled development of the oil industry, which in

1953 had access to 16 per cent of the world's proved petroleum reserves and produced about 6.5 per cent of the world's crude output, with a value somewhat over \$500 million.<sup>50/</sup> Substantial oil revenues, employment in the oil industry at increased wages, expanding construction activities and a sharp growth in trade have brought about a continuing rise in the standard of living of the inhabitants.<sup>51/</sup>

Increasing crude petroleum production and changes in the terms of direct payments by the operating oil company to the Sheikh in December 1951 resulted in an estimated revenue of nearly \$140 million in 1952 and \$155 million in 1953. Part of this income was used for economic and social development, and part for current expenditures of the Government, including the expenses of the Sheikh and his household. The remainder was invested abroad as a reserve fund through a board which was recently established in London.<sup>52/</sup> The amount thus invested was reported to have been between £30 million and £40 million in late 1953. Until recently, the chief development activities of Kuwait have consisted of the rebuilding and modernization of the town of Kuwait, the erection of modern houses, the establishment of a seawater distillation unit, and the construction of a new generating plant with a capacity of 30,000 kilowatts of electricity, mainly used for lighting. Considerable progress has also been made in providing educational and medical facilities.

Development projects for the future include the construction of a sewer system in the town of Kuwait, hospitals, highways, harbour improvement, housing and a water distilling plant. Proposals for the diversification of the local economy, to reduce its dependence on oil activities, include the establishment of glass-making and brickmaking industries, the initiation of agriculture in desert areas by making water supplies available, and the improvement of docks and local shipbuilding facilities to encourage trading.<sup>53/</sup> In 1952, a special government department was established in Kuwait to take charge of implementing a

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<sup>50/</sup> Estimate based on the posted price of oil for Kuwait.

<sup>51/</sup> The total disbursement of the oil company on account of wages, purchase of local materials and other expenditures in Kuwait was roughly estimated at \$15 million in 1949 and has since risen.

<sup>52/</sup> Petroleum Press Service, May 1953, page 163.

<sup>53/</sup> Petroleum Press Service, May 1953.

\$400-million development programme, extending over a ten-year period ending in 1962. It was announced that an estimated \$250 million of this sum would be spent during the first five-year period.<sup>54/</sup>

The Kuwait Oil Company in late 1953 had 8,200 employees, of whom 3,000 were nationals of India and Pakistan, 2,400 of Kuwait, 1,800 were Arabs from neighbouring areas, and 900 were nationals of the United Kingdom or the United States.<sup>55/</sup>

#### Qatar

The oil income of Qatar has continued to increase as a result both of growing production of crude petroleum and of changes in the terms of royalty payments and the adoption of a formula for equal sharing of profits. Thus, the oil revenues of Qatar, which amounted to the equivalent of about \$1 million in 1950, increased to about \$9 million in 1952 and \$16 million in 1953. In addition, the Sheikh received the equivalent of \$730,000 in 1952 as a bonus from Royal Dutch Shell for granting another petroleum concession on the sea-bed area off the coast.

Oil revenues have constituted the major part of foreign exchange receipts and government revenues. The first budget of Qatar, which was drawn up in 1950, anticipated a revenue of 7 million Indian rupees (\$1.5 million), all of which, except about 9 per cent from customs, was to be derived from oil royalties.<sup>56/</sup> It is reported that approximately one-quarter of the oil receipts are reserved for the Sheikh.<sup>57/</sup> Part of the royalties are spent in the construction of new buildings and public utilities, as well as the maintenance of welfare services, in the capital of Doha where about one-half of the 17,000 population lives.

#### Saudi Arabia

The contribution of the oil industry to the national economy of Saudi Arabia has greatly increased in recent years. Direct payments

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<sup>54/</sup> Foreign Commerce Weekly, 11 May 1953.

<sup>55/</sup> Petroleum Times, 30 October 1952, page 1070.

<sup>56/</sup> British Information Services, Britain and Middle East Development (Great Britain), November 1951.

<sup>57/</sup> Petroleum Press Service, May 1953.



by the oil company, estimated at approximately \$160 million in 1952 as against \$110 million in 1950, increased further in 1953. The total number of employees of the company rose from 17,350 at the end of 1950 to 24,840 at the end of 1952. Of the latter, 14,820 were Saudi Arabs - a rise of 38 per cent over the 1950 figure. Minimum wages per day were raised from 3 Saudi Arabian riyals in 1950 to 5 in September 1952;<sup>58/</sup> in 1953 a strike was accompanied by a demand for higher wages and further employment benefits. In addition to the employees of the oil company itself, there were 11,170 workers employed on an average in 1952 by contractors of the oil company, compared with 6,340 in 1951. The Arabian American Oil Company paid 47.5 million Saudi Arabian riyals in 1952 for work done by these contractors, as against 21 million in 1951. The oil company also aided the growth of private industries and the development of communities in eastern Saudi Arabia, and at the same time gave support to several government projects, including railway facilities.

Increasing direct payments by the company to the Government in the form of royalties and taxes, as well as growing customs duties resulting from higher imports facilitated by the increased availability of foreign exchange, have greatly increased government receipts. Government revenues rose from the equivalent of about \$7 million in 1938 to about \$55 million in 1947/48 and \$198 million in the year ending 16 March 1953. Of the latter, nearly 80 per cent consisted of direct receipts from oil operations and 10 per cent from customs duties (see table 14). Pilgrimage dues, a former major income item of the Saudi Arabian Government, were abolished in 1952.<sup>59/</sup>

The major development activities have been located until recently in the province of Al-Hasa, where oil operations are centred. With the expansion of the economy there have been many construction activities, including the creation of a new port, new towns, an airfield, highways, a 357-mile railway from Damman to Riyadh costing \$52 million, some development of irrigation and agriculture and the establishment of power plants.

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<sup>58/</sup> Arabian American Oil Company, Report of Operations, 1952.

<sup>59/</sup> More detailed information concerning the Saudi Arabian budget is contained in a report by Arthur N. Young, head of a financial mission to Saudi Arabia in 1951 and 1952, "Saudi Arabian Currency and Finance", Middle East Journal (Washington, D.C.), vol. 7, No.4 Autumn 1953.

Table 14. Saudi Arabia: Budget for 1952/53<sup>a/</sup>  
(millions of Saudi Arabian riyals)

Item	Amount	Approximate dollar equivalent	Per cent of total
<u>Revenues:</u>			
Taxes <sup>b/</sup> . . . . .	356.0	96.4	48.7
Royalties . . . . .	220.8	59.7	30.1
Foreign trade . . . . .	75.2	20.3	10.3
Pilgrims and travellers . . . . .	16.8	4.5	2.3
Government enterprises . . . . .	22.3	6.0	3.0
Other income . . . . .	10.9	2.9	1.5
Issue of new coins . . . . .	30.0	8.1	4.1
Total	732.0	197.9	100.0
<u>Expenditures:</u>			
General development, including agriculture . . . . .	163.1	44.0	21.5
Defence, including installations . . . . .	135.2	36.5	17.8
Riyadh affairs . . . . .	103.1	27.9	13.6
Internal security and subsidies to tribes . . . . .	79.1	21.4	10.4
Ministries, departments, etc. . . . .	75.0	20.3	9.9
Health, education, social and religious services . . . . .	39.8	10.7	5.3
Government enterprises . . . . .	25.2	6.8	3.3
Debts . . . . .	100.0	27.0	13.2
Purchase of new coins . . . . .	30.0	8.1	4.0
Reserve and adjustments . . . . .	7.5	2.0	1.0
Total	758.0	204.7	100.0

Source: Arthur N. Young, "Saudi Arabian Currency and Finance", Middle East Journal, (Washington, D.C.), vol. 7, No. 4, Autumn 1953.

<sup>a/</sup> Year ending 16 March 1953.

<sup>b/</sup> Mostly income taxes.

Notable development which have taken place in Hejaz province include an airport and pier at Jidda, highways, electric power plants and facilities for water supplies. These activities constitute part of a \$350-million development programme which includes the extension of the present railway from Riyadh to Jidda at a cost of nearly \$220 million, the improvement of port installations at Damman and Jidda, the construction of power plants and sewerage systems in large cities, the improvement of water supplies, the construction of government buildings, hospitals and mosques, and a \$30-million highway construction project.

## Chapter 3

### RECENT DEVELOPMENTS IN EGYPT

In Egypt the period under review was marked by two main tendencies:  
(1) readjustment to counteract the disequilibrium caused by the sharp reduction in cotton exports; and (2) initiation or acceleration of projects for developing the Egyptian economy.

The dominant factor in 1952 was the sharp fall in cotton prices, coming after the equally sharp rise of 1950/51. Several elements accounted for the rise. There was, first, an advance in raw material prices in general, caused by increased demand arising upon the outbreak of hostilities in Korea. An additional factor was the small size of the 1950 United States cotton crop, which greatly reduced available supplies; given the continuing dollar shortage, this put a premium on non-dollar cottons, whose price rose more than did that of United States cotton. Finally, in March 1951 the Egyptian Government fixed minimum prices and in April undertook to buy all cotton offered at those prices, thus exerting a powerful upward pressure on the market of which full advantage was taken by speculators.<sup>1/</sup> As table 15 shows, the price of Egyptian long-staple cotton advanced by 117 per cent between June 1950 and June 1951, against a rise of 32 per cent in United States cotton, and between June and December 1951 declined by only one per cent, against 7 per cent in the United States price. At the latter date, the difference in price between Egyptian cotton and other kinds was unusually large.

The result of this rise in prices was twofold. First, growers more and more evaded the law restricting cotton acreage in favour of cereals, and the area planted to cotton increased from 711,000 hectares in 1949 to 829,000 in 1950, 832,000 in 1951 and 826,000 in 1952 - the highest figures since 1930. As table 16 shows, the area planted to cereals decreased correspondingly; moreover, growing conditions were unfavourable, yields of both cotton and grain were low, and, as the table indicates, the cereal crops in both 1951 and 1952

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<sup>1/</sup> In 1953, the President of the National Bank of Egypt, reviewing the situation, said: "Two years of official intervention in the cotton market resulted in the disorganization of the Egyptian price mechanism during the 1950/51 and 1951/52 seasons. Thus, this mechanism no longer functioned normally, but only in the direction of a rise." National Bank of Egypt, Report of the Fifty-Third Ordinary General Meeting, 1952 (Cairo, 1953).

Table 15. Egypt: Production, Prices and Exports of Cotton  
1949 to 1953<sup>a/</sup>

Period	Annual production (thousands of metric tons)	Prices in Alexandria <sup>b/</sup>		Prices in United States <sup>c/</sup>	Exports	
		Long staple (Karnak "good")	Medium staple (Ashmuni "good")		Quantity (thousands of metric tons)	Value (millions of Egyptian pounds)
1949.....	391	79	54	32	359	106
1950:						
June...		75	...	34	203	72
December	382	126	124	43	386	150
1951:						
June...		163	117	45	163	106
December	363	161	100	42	255	164
1952:						
June...		107	70	41	89	57
December	424	61	53	33	270	126
1953:						
June...		60	52	33	191 <sup>d/</sup>	63 <sup>d/</sup>
December	272	62	52	33	248 <sup>d/</sup>	82 <sup>d/</sup>

Source: United Nations, Monthly Bulletin of Statistics; National Bank of Egypt, Economic Bulletin (Cairo); Food and Agriculture Organization of the United Nations Food and Agricultural Statistics (Rome); Egypt, Ministry of Finance, Monthly Survey of Foreign Trade (Cairo).

<sup>a/</sup> All figures for 1949 and all production data are for calendar years; other prices represent monthly averages, and other export statistics are for six-month periods ending in the specified month.

<sup>b/</sup> In tallaris per cantar. One tallari equals US \$0.57 and one cantar equal 44.9 kilogrammes.

<sup>c/</sup> 15/16" middling; average of ten spot markets in United States cents per pound.

<sup>d/</sup> September.

Table 16. Egypt: Area and Production of Principal Cereals  
1934-38, 1945 and 1949 to 1953

(Area in thousands of hectares; production in thousands  
of metric tons)

Years	Wheat	Maize	Rice	Barley	Total
1934-38:					
Area . . . . .	588	649	174	113	1,524
Production . . . .	1,184	1,616	609	225	3,634
1945:					
Area . . . . .	692	789	265	151	1,897
Production . . . .	1,182	1,697	866	262	4,107
1949:					
Area . . . . .	595	628	295	71	1,589
Production . . . .	1,167	1,250	1,168	138	3,723
1950:					
Area . . . . .	576	610	294	49	1,529
Production . . . .	1,018	1,306	1,242	91	3,657
1951:					
Area . . . . .	629	695	205	50	1,579
Production . . . .	1,209	1,421	620	99	3,349
1952:					
Area . . . . .	589	705	157	57	1,508
Production . . . .	1,089	1,467	517	118	3,191
1953:					
Area . . . . .	752	847	187	49 <sup>a/</sup>	1,836
Production . . . .	1,547	1,834	652	103	4,136

Source: Food and Agriculture Organization of the United Nations, Yearbook of Food and Agricultural Statistics; Monthly Bulletin of Food and Agricultural Statistics (Rome).

a/ Unofficial

were smaller than in 1950 and 1949. Second, exports of cotton declined very sharply, from 386,000 tons in 1950 to 255,000 in 1951; the reduction was particularly great during the second half of 1951. In spite of a fall in cotton prices the quantity exported continued to decline throughout the first half of 1952.

The fall in the quantity and value of exports and the increase in imports, particularly of wheat to fill the gap left by smaller crops, led to a large deficit in the balance of payments. Although the first half of 1951 had shown a surplus on current account of ££12.2 million, the year closed with an over-all deficit of ££19.8 million. During the first half of 1952 the deficit amounted to ££30.2 million and, though there was a slight reduction during the second half, the year showed a deficit of ££55.4 million. These deficits were met by drawing heavily on Egypt's sterling balances; in 1952, when the free sterling balances had been exhausted, Egypt had to draw on its dollar reserves to meet payments in sterling.<sup>2/</sup>

The fall in the value of exports and the large deficit in the balance of payments constituted a deflationary factor which, being only partly offset by continued addition of purchasing power through the Government's cotton purchases, led to a decline in prices. The wholesale price index dropped from its peak of 123 in January 1952 (1948 = 100) to 113 in May 1952. Measures taken by the Government to reduce the cost of living brought this price index down to 104 in December 1952, but thereafter it started once more to rise slowly, under the impact of an improvement in the balance of payments, higher import prices, the budget deficit and the rise in the price for wheat decreed by the Government. These last two factors are discussed below.

The principal adjustment to deflation, however, was not through price declines but through business losses and a reduction in employment. Prices in Egypt tend to be rigid, especially in a downward direction, first because a substantial proportion of available goods is imported and tends to be held off the market rather than sold below cost, and, second, because wages constitute a

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<sup>2/</sup> Under an agreement regarding Egypt's sterling balances, concluded on 1 July 1951, annual release of £10 million (sterling) was provided for, Egypt having the right to draw an additional £5 million should its No.1 (free) account fall below £45 million. Assets in the No.1 account fell from £23.9 million on 29 December 1951 to £6.3 million on 27 December 1952, rising again to £21.4 million on 29 August 1953.

large percentage of the cost of local goods and, being low, are difficult to reduce. As table 17 shows, industrial production was maintained, but stocks increased and unemployment rose.<sup>3/</sup> The number of bankruptcies also rose, numbering 288 in 1952, compared with 120 in 1950 and 180 in 1951, and the bills protested numbered 77,300 in 1952, compared with 26,700 in 1950 and 38,500 in 1951. This trend continued in the first three quarters of 1953; from January to September, inclusive, there were 276 bankruptcies and 64,500 bills protested, figures well above those of the corresponding period of 1952. Available figures on investment show a marked drop. Between 1 July 1952 and 30 June 1953, capital issues by joint stock companies, both for forming new companies and for increasing the capital stock of existing companies, amounted to only £E3,044,000. This was below the 1951/52 figure of £E3,958,000, which in turn was distinctly lower than the 1946-50 average of £E9,620,000.<sup>4/</sup> Construction also declined in 1952, owing to poor business conditions, but revived in 1953; the monthly average of building permits issued for dwelling units in Cairo, Alexandria and Port Said declined from 401 in 1950 and 327 in 1951 to 256 in 1952. The same factors accounted for the decline in Stock Exchange quotations. The average price of shares fell from 73.0 at the end of 1951 to 54.8 at the end of 1952 and in May 1953 dropped to 49.2.<sup>5/</sup>

The events mentioned above had repercussions on the government budget. Losses were incurred on cotton purchases;<sup>6/</sup> the abolition of the tax on cotton exports and the decrease in imports in 1952 reduced customs revenue; and poor business conditions affected the yield of direct taxes. At the same time expenditure increased sharply, and the 1951/52 budget closed with an unprecedented

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<sup>3/</sup> The textile industry, by far the most important in Egypt, suffered particularly, owing to higher prices of raw cotton.

<sup>4/</sup> Banque belge et internationale en Egypte, Revue économique trimestrielle (Cairo), January 1954 and National Bank of Egypt Economic Bulletin (Cairo), No.4, 1951.

<sup>5/</sup> General index of the National Bank of Egypt, December 1946 = 100. There was an increase in construction during 1953; the monthly average of building permits issued for dwelling units in the three principal cities rose to 277 during the first quarter. There was also a small rise in the price index of shares during the summer and autumn of 1953.

<sup>6/</sup> Losses on the 1951/52 crop amounted to about £E25 million, and on the 1952/53 crop to £E9 million.



Table 17. Egypt: Output of Principal Industries, 1949 to 1953

(Thousands of metric tons, except as indicated)

Industry and product	1949	1950	1951	1952	1953 <sup>a/</sup>
<u>Mining:</u>					
Gold <sup>b/</sup> . . . . .	7,700	11,300	15,300	15,400	...
Manganese ore . . . . .	139	152	155	195	...
Petroleum, crude . . . . .	2,285	2,607	2,332	2,352	1,774
Phosphates . . . . .	350	397	515	528	240 <sup>c/</sup>
Salt . . . . .	364	567	607	498	...
<u>Textiles:</u>					
Cotton yarn . . . . .	54	49	53	56	43
Cotton fabrics <sup>d/</sup> . . . . .	...	...	208	220	165
Rayon yarn <sup>e/</sup> . . . . .	950	1,890	2,310	2,300	...
Rayon fabrics <sup>e/</sup> . . . . .	15	1,350	2,200	1,700	...
Woollen fabrics <sup>e/</sup> . . . . .	1,184	970	785	847	...
<u>Other industries:</u>					
Alcohol <sup>f/</sup> . . . . .	9.4	14.6	10.6	14.4	2.9 <sup>g/</sup>
Cement . . . . .	889	1,022	1,130	947	1,097 <sup>h/</sup>
Glass, bottles and tumblers <sup>e/</sup> . . . . .	350	3,500	2,600	3,300	...
Glass, window <sup>e/</sup> . . . . .	-	-	4,000	4,900	...
Nitrate fertilizers . . . . .	-	-	80	100	...
Paper . . . . .	18	20	20	20	...
Phosphate fertilizers . . . . .	50	60	85	99	...
Steel . . . . .	5	25	32	50	...
Sugar, refined . . . . .	216	231	218	210	92 <sup>c/</sup>

Source: Statistical Office of the United Nations; Annuaire de la Fédération Egyptienne de l'Industrie, 1952-53 (Cairo, 1953).

<sup>a/</sup> Nine months.

<sup>b/</sup> Ounces.

<sup>c/</sup> Six months.

<sup>d/</sup> Millions of square metres, representing about 70 per cent of total output.

<sup>e/</sup> Metric tons.

<sup>f/</sup> Millions of litres.

<sup>g/</sup> Three months.

<sup>h/</sup> Twelve months.

deficit of £E38 million; the 1952/53 budget was expected to show another substantial deficit. Government deposits with the National Bank fell from £E67.4 million at the end of 1950 to £E42.8 million at the end of 1951, and by the end of August 1952 the Government owed the bank £E3.7 million; a large volume of treasury bills was also outstanding, the National Bank's holdings alone amounting to £E13 million. It should, however, be noted that "a considerable part of these funds was spent on purchase of cotton and foodstuffs",<sup>7/</sup> which will later be resold.

The Government which came to power after the change of régime in July 1952 has been faced with three major tasks: to restore equilibrium in the balance of payments; to balance the budget; and to set in motion forces raising the country's productive capacity.

### Foreign Trade

The first steps to stimulate cotton exports were taken in the spring of 1952, when the minimum prices fixed by the Government were allowed to drop gradually while all outstanding contracts were liquidated under government supervision. The tax on cotton exports was abolished, and barter deals were concluded with the Union of Soviet Socialist Republics for the exchange of cotton for grain, and with eastern Germany and China: Taiwan for sugar. The Government also undertook to buy the unsold part of the 1951/52 cotton crop at prices close to those prevailing in the international market; to finance this purchase, two internal loans aggregating £E25 million were floated.

In the second half of the year cotton prices were allowed to drop still further, and by the end of the summer were once more at a competitive level. In order to ease pressure on the market, the Government held back its stocks and also guaranteed advances by the banks to growers. In November 1952, the guarantee scheme was abandoned, the futures market was closed,<sup>8/</sup> and the Government undertook to buy all cotton offered to it at fixed prices (60 tallaris per cantar for Ashmuni "good", and 67.5 tallaris for Karnak "good"), reselling it at prices based on the previous day's quotations in New York, with a premium of 5 per cent for medium-staple cotton and 30 per cent for long-staple. Private

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<sup>7/</sup> National Bank of Egypt, Economic Bulletin, No.3, 1952.

<sup>8/</sup> It had been closed during the war years and re-opened in 1948 but had not functioned satisfactorily, partly because of the fact that the Liverpool market was closed but mostly because of repeated government intervention.

spot trading, however, was not interfered with. In 1953, this arrangement was extended to cover the 1953/54 crop, purchase prices being brought down to 50 tallaris for Ashmuni and 58 for Karnak. The restriction on cotton acreage was tightened, the maximum being reduced to 30 per cent of individual holdings, and at the same time the price paid by the Government to wheat growers was raised, encouraging a shift. As a result, in 1952/53 cotton acreage fell sharply. Steps taken to stimulate exports of cotton included barter agreements with Canada, Spain and the Union of Soviet Socialist Republics, and trade or payments agreements with Austria, Belgium, Bulgaria, Czechoslovakia, France, Eastern Germany, Western Germany, Greece, Hungary, India, Italy, Lebanon, Libya, Netherlands, Poland, Romania, Saudi Arabia, Switzerland, Turkey and Yugoslavia. The system of "import entitlement accounts" was introduced in February 1953; under this, exporters of cotton yarn may sell 75 per cent of their dollar and sterling earnings to importers at a premium, which has averaged about 5 per cent for sterling and 12 per cent for dollars. The system of export accounts was also extended; this allowed the use of "export pounds", which are debit accounts arising out of an import transaction, for payments for exports from Egypt. Both these devices are designed to enable cotton exporters to quote cotton below official prices.

The result of these measures, coupled with the improvement in the world textile industry, has been a marked revival in cotton exports. During the first half of 1953, both the quantity and the value of cotton exports were greater than in the corresponding period of 1952. Exports during the 1952/53 cotton season, from 1 September to 31 August, totalled 320,000 tons, against 262,000 in 1951/52. <sup>2/</sup>

In spite of this improvement, stocks of cotton at the end of the 1952/53 season (on 31 August 1953) were greater than during the two previous years, amounting to 155,000 metric tons against 98,000 in 1952 and 74,000 in 1951. The small size of the 1953 crop, however, has reduced the total supply for the 1953/54 season to 429,000 tons, against 545,000 in 1952/53 and 438,000 in 1951/52. The supply available at the beginning of the 1953/54 season (that is, the crop harvested in 1953 plus the stock carried over from the previous season) is equal to an average cotton crop.

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<sup>2/</sup> In the present (1953/54) season, exports are running at a level well above that of the preceding season. Between 1 September 1953 and 20 January 1954, exports totalled 109,000 tons, against 84,000 tons during the corresponding period in the 1952/53 season. The most noteworthy increases were in exports to the United Kingdom, which rose from 2,000 to 17,000 tons and to Japan, from 2,000 to 8,000 tons; exports to Switzerland, Germany and India also rose. On the other hand, exports to France and Italy decreased slightly.

At the same time steps were taken to restrict imports. In March 1952, gold imports were made subject to the approval of the Exchange Control administrator, and, no licences being granted, soon dried up. In June, payments for imports of a wide range of goods from countries with which Egypt did not have a payments agreement were also made subject to the approval of the Exchange Control administrator, and banks were requested to obtain full cover for credits opened for imports. In August, import duties on many goods were increased, those on luxuries markedly so; raw materials and foodstuffs were not affected by this rise. In October, all imports became subject to licensing. In December 1952, new modifications were introduced: imports from countries with which Egypt had payments agreements were freed from restriction; imports of essential commodities from the sterling area were to be permitted; imports of specified goods from the dollar area were to be allowed provided payment was effected through an export account to be used for payment of Egyptian exports to countries outside the above-mentioned three groups of countries; finally, imports of certain goods from countries outside the three groups were to be permitted on the same conditions as imports from the dollar area and imports of other goods against barter and sterling.<sup>10/</sup>

As a result of these restrictions, Egypt's imports in the first eight months of 1953 fell to £E110.9 million against £E144.8 million in the corresponding period of 1952. The most marked declines were recorded for wheat, fertilizers, rayon and cotton textiles, in the case of which local production partly displaced imports, and in petroleum, motor cars and woollen textiles.

The stabilization of the foreign payments situation (table 18) is shown by the fact that in 1953 changes in the gold and foreign exchange reserves and foreign investments of the National Bank were very slight; at the end of November 1953 they amounted to \$725 million, compared with \$750 million in November 1952.

#### Cereals and Other Crops

Removal of the disequilibrium in Egypt's foreign trade was also attempted by the encouragement of cereals at the expense of cotton, the supply of which

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<sup>10/</sup> National Bank of Egypt, Economic Bulletin, No.4, 1952.

Table 18. Egypt: Principal Items in Balance of Payments,  
1948 to 1952

(Millions of Egyptian pounds)

Item	1948	1949	1950	1951	1952
Current transactions					
<u>Credit:</u>					
Proceeds . . . . .	132.6	138.7	184.8	201.9	145.6
Shipping . . . . .	...	7.9	7.5	7.5	6.8
Suez Canal tolls . . . .	18.4	23.0	26.2	26.4	26.6
British army expenditures	23.1	11.5	13.0	14.7	5.8
Other credit items . . .	20.6	35.8	36.8	41.7	33.9
Total	194.7	216.9	268.3	292.2	218.7
<u>Debit:</u>					
Payments for imports . .	162.5	158.3	221.7	241.9	210.5
Shipping . . . . .	...	8.8	7.0	6.1	6.9
Interest, dividends and other revenue . . . . .	6.8	13.7	15.8	17.4	16.9
Travel and family allowances . . . . .	7.2	10.4	10.3	15.3	11.6
Other debit items . . . .	22.0	15.5	25.1	26.7	26.2
Total	198.5	206.7	278.9	307.4	272.1
Balance of current transactions	-3.8	10.2	-10.4	-15.2	-53.4
Recorded capital items					
Capital remittances, net	-8.4	-5.3	-3.6	-4.6	-2.0
Reduction in sterling balance . . . . .	4.9	23.6	29.0	54.4	40.1
Gold and foreign exchange holdings; increase (-)	-3.6	-19.4	-23.0	-37.7	17.7
Non-resident accounts held in Egypt; increase (-)	10.5	-9.5	8.0	1.9	-1.8
Balance of recorded capital items	11.8	-5.3	14.0	18.6	56.0
Unrecorded items					
Balance of unrecorded items errors and omissions	0.4	0.4	-	1.2	-0.6

Source: National Bank of Egypt, Economic Bulletin.

was judged to exceed market requirements. In the autumn of 1952, the Government decided that during the following three years, the area planted to cotton should not exceed 30 per cent of any holding. Shortly after this, the official price of wheat was raised slightly, and in June 1953 it was increased sharply. These two measures had the desired effect, and in 1953 cotton acreage fell to 556,000 hectares, against 826,000 in 1952 and 831,000 in 1951, the crop declining to 272,000 tons, against 424,000 and 363,000 in 1952 and 1951, respectively, as shown in table 15.

Table 16, giving changes in the acreage and output of cereals, indicates that in 1952, both area and production fell to their lowest levels in many years, and were below both the pre-war and the post-war averages. The decline was particularly marked in wheat, where reduced acreage combined with a fall in yields to limit the crop; the acreage under rice was also sharply curtailed because of water shortage, and yields were very low. This reduction was only partially offset by an expansion in the acreage under maize and a slight rise in yields from the very low level of 1951.

Available information indicates a distinct improvement in 1953. Both area and yields of wheat and rice increased, and barley yields also rose, resulting in a larger output of all three crops. The wheat crop was probably the largest ever harvested in Egypt, but the rice crop, though larger than that of 1952, was still well below the record level of the years 1947 to 1950.

Output of other crops in 1952 was high; in particular, production of sugar-cane and vegetables increased appreciably.<sup>11/</sup> Available figures for 1953, show a decline in the production of pulses, owing to smaller acreage, and a sharp decline in that of oil-seeds, because of the reduction in cotton acreage and the consequent decline in supplies of cotton seed.

#### Industry

Industrial output in 1952, as table 17 shows, was slightly above the level of the previous years. The increase was most marked in textiles, metals, chemicals and electric power; industries producing building materials

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<sup>11/</sup> In 1952/53 output of refined sugar was 225,000 metric tons, the highest achieved. Consumption, however, has also been increasing rapidly; it was estimated at 300,000 tons for that year.

suffered from the decline in construction, and food processing industries also encountered difficulties; production of most minerals showed a slight rise. Available information for 1953 indicates that the level of the previous year was maintained or slightly surpassed.

Among the major factors accounting for such increase as took place was the expansion of capacity or the replacement of obsolete machinery by new equipment. On the other hand, the decline in the income of the rural population, resulting from the sharp drop in cotton prices, reduced the demand for most consumer goods, while the depressed state of the building industry affected sales of investment goods, such as cement and reinforcing rods. Foreign competition became more intense, but this was partly offset by greater tariff protection.

In the textile industry, output of cotton yarn and cloth reached a record level, that of woollen fabrics showed a rise while that of rayon dropped slightly. In all three branches, imports are being cut and an attempt is being made to increase exports of cotton and rayon goods. The food processing industries, which were greatly expanded during the war years, are still producing well below capacity; in most branches, for example, fruit and vegetable canning and bakery products, output in 1952 was above that of the preceding year, but this increase was generally achieved at the expense of imports. The tobacco industry showed a distinct decrease in 1952.

The small steel industry, which started production in 1949, expanded its capacity and in 1952 raised its output to 50,000 tons, while that of cast iron rose to 9,000 tons. Increasing foreign competition is, however, pressing on the market for metal products, and in some branches, for example, metal furniture, output was reduced. The engineering industry, which consists mainly of repair and assembly plants, but which also includes construction work, such as building irrigation pumps and small motor boats, continued to expand. In 1952, 7,000 motor cars and tractors were assembled for the private sector, against 2,300 in 1951; in addition an unspecified number was assembled for the use of the army and the Government.

Most of the chemical industries also expanded. In 1952, the capacity of the nitrate fertilizer industry was raised from 140,000 to 250,000 tons, and that of the superphosphate industry from 100,000 to 160,000 tons. Output has not yet risen correspondingly, but is expected to do so in view of the steady increase in local consumption. The output of pharmaceutical products and insecticides is also

growing; a plant for making 700 tons of DDT per annum is being built by the Government with financial assistance from the United Nations International Children's Emergency Fund. The only major chemical industries to show a decrease were soap and matches, which were affected by the decline in the purchasing power of the rural population.

Electric power capacity is being increased considerably; in the course of 1952, it was raised from 373,000 kilowatts to 419,000.<sup>12/</sup> In addition to the Aswan hydroelectric project discussed below, further expansion of thermal plants is also under way; the most important single project is a 120,000 kilowatt station near Cairo. The very low level of residential building and public works construction in 1952 had its repercussions on industries producing building materials. Compared with production in 1951, output of cement declined by 16 per cent and that of bricks by 27 per cent; the glass and steel industries were also affected. Available figures for 1953 show a sharp recovery, output of cement during the first ten months rising to 886,000 tons, against 778,000 during the corresponding period of 1952.

As regards mining, in 1952 there was an appreciable increase in the output of manganese and, among metals produced in smaller quantity, lead and zinc. Output of phosphates rose slightly, that of petroleum remained unchanged and that of salt declined.

#### Government Budget

During this period various measures were taken to balance the budget. In the last quarter of 1952, customs duties were raised and income and inheritance taxes were increased. Expenditure, including that for development purposes, was also cut in 1952.

In order to balance the 1953/54 budget, various further cuts were made in expenditures, including a reduction in the government wheat and bread subsidy and in the cost of living allowance to civil servants. At the same time, customs duties on luxuries and excise duties on sugar were raised; however, the rate of direct taxes, other than the land tax, remained unchanged. With the object of stimulating investment, tax exemption was extended to new important industries for

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<sup>12/</sup> United States Department of Commerce, Foreign Commerce Weekly (Washington, D.C.), 22 June 1953.



seven years and undistributed industrial profits earmarked for investment in new industries or for expansion were granted a remission of 50 per cent of current rates. Owing to the exhaustion of the reserve fund, the development budget, which is now separated from the ordinary budget and which provides for an expenditure of £E35.5 million, is to be financed by borrowing (see table 19).

Simultaneously with its attempts to secure immediate equilibrium, the Government took some important measures to bring about long-term expansion of productive capacity; among these are the land reform law and the establishment of the Permanent Council for Development of National Production.

#### Economic Development

The land reform law of September 1952, modified in certain respects by subsequent legislation, expropriates land properties in excess of 200 feddan;<sup>13/</sup> certain exemptions are, however, allowed. Compensation is payable in 3 per cent thirty-years bonds. The land is to be redistributed, against payment, to small farmers or landless cultivators. The law also provides for the formation of multi-purpose co-operatives among the beneficiaries; prohibits subdivision of properties below a specified minimum; regulates relations between landlords and tenants; imposes a rent ceiling; and grants to agricultural labourers the right to form trade unions. The law has been supplemented by another dissolving family waqfs, that is, entailed estates, which accounted for a sizable part of the cultivated area of Egypt.

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<sup>13/</sup> A feddan is equal to 1.038 acres or 4,200 squares metres.

Table 19. Egypt: Principal Items in Government Budget,  
1950/51 to 1953/54

(Millions of Egyptian pounds)

Item	1950/51	1951/52	1952/53 <sup>a/</sup>	1953/54 <sup>a/</sup>
Revenue . . . . .	184.7	191.5	206.0	197.5
Taxes on land and buildings . . . . .	8.2	14.4	15.3	18.8
Direct taxes on income and wealth . . . . .	19.6	26.7	32.2	26.2
Customs and excise duties .	93.1	93.3	94.9	88.7
Expenditure . . . . .	190.2	231.0	206.0	197.5
Defence . . . . .	30.8	49.2 <sup>a/</sup>	38.7	39.3
Education . . . . .	21.8	28.8 <sup>a/</sup>	25.8	26.4
Communications . . . . .	20.4	24.5 <sup>a/</sup>	22.0	21.3
Public works . . . . .	14.7	18.2 <sup>a/</sup>	14.6	11.5
Balance . . . . .	-5.5	-39.5	-	-
Expenditure on development projects . . . . .	-	-	-	35.5

Source: National Bank of Egypt, Economic Bulletin.

<sup>a/</sup> Estimated.

It has been estimated unofficially that about 400,000 feddan, or 6.5 per cent of the total cultivated area, fell under the provisions of the land reform law. By the middle of 1953, 181,000 feddan had been expropriated, and a beginning had been made in transferring land to small farmers and landless cultivators.

The explanatory note to the law states that, in addition to the promotion of social justice, the reform has an economic purpose - the stimulation of economic development by removing two obstacles standing in its way: the tendency to invest the major part of savings in land, which does not create new wealth but merely increases the price of existing resources; and the low purchasing power of agricultural labourers. It is believed that the reform will divert capital into industrial, mining and commercial enterprises since it is expected that part of the indemnity paid to landowners will be invested in other branches of the economy. It is also expected that the redistribution of land and the raising of agricultural wages will widen the internal market for Egyptian industry.<sup>14/</sup>

The Permanent Council for Development of National Production "was established early in 1953, to study economic projects for the development of national production in agricultural, industrial and commercial fields, and related projects for irrigation, reclamation of arid and desert land, crop variation and the improvement of agricultural methods. The Council also has studied the following subjects: developing of animal and livestock resources; generating of electricity; building highways; improving other methods of transportation; prospecting for oil and other minerals; encouraging existing industries; establishing new industries; promoting industrialization to make industry a main source of income for the country; organizing internal markets; finding external export markets; finding the necessary means for financing these projects; finding means of seeking help from international and foreign banks; benefiting from Egyptian and foreign capital; surveying the system of taxes and customs to match the development of production; and suggesting necessary legislation to realize these objectives."<sup>15/</sup>

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<sup>14/</sup> For further details, see United Nations, Progress in Land Reform (Sales number 1954.II.B.3).

<sup>15/</sup> Report on Activities of the Permanent Council for Development of National Production, from date of establishment to May 1953 (Cairo).

Among the most important projects studied and approved by the Council are those relating to agriculture, transportation and petroleum.

A project to reclaim 150,000 hectares of land, mainly in the Delta, and to provide improved drainage for another 85,000 hectares is scheduled for completion in 1956. Its cost is estimated at ££11.7 million. The United States Technical Co-operation Administration is expected to assist the project both technically and financially, to the extent of \$10 million. A project for the settlement of Palestine Arab refugees in 20,000 hectares in Sinai, with the help of the United Nations Relief and Works Agency, has also been approved. Other important agricultural projects are a three-year plan to distribute improved wheat seed and hybrid maize seed to farmers; a plan for pest control; and the expansion of the capacity of nitrate and superphosphate fertilizer plants.

The most important project under study is that of the High Dam to be constructed 6.5 kilometres above Aswan. Its estimated capacity is 135,000 million cubic metres of water, about twenty-six times that of the present Aswan dam, which is by far the largest in the region. This will make it possible to expand the cultivated area by nearly 850,000 hectares, or about one-third; to supply all remaining basin lands with perennial irrigation, enabling more than one crop to be grown each year; to expand the acreage of rice, which is dependent on the water supply; and to provide flood control. It is estimated that the combined effect of all these measures will be to raise agricultural output by 50 per cent. The dam will also provide 6,000 million kilowatt hours of electricity per annum, which will be used for producing fertilizers, for irrigation and for industrial power.<sup>16/</sup> It has been estimated that the cost of the project will be about ££200 million and it is hoped that construction will start in 1954 or early in 1955. This dam will replace several previously projected works.

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<sup>16/</sup> Third meeting of the Food and Agriculture Organization, on Food and Agricultural Programmes and Outlook in the Near East, Paper presented by the Egyptian delegation: Irrigation, Land Reclamation, Land Settlement and Other Programmes for Increasing the Area under Cultivation or Raising Yields through Better Land and Water Use (Cairo), 1 to 8 September 1953.

In the meantime work is proceeding on the installation of hydroelectric turbines for the Aswan dam; the scheme is scheduled for completion in 1958. Part of the electricity will be used to produce fertilizers. Construction is also proceeding on the Owen Falls dam which is being jointly financed by the Governments of Egypt and Uganda. It will supply electricity to Uganda and, by raising the storage capacity of Lake Victoria, will provide water for about 400,000 hectares in Egypt and an additional large area in the Sudan.

Industrial projects include a 120,000 ton steel mill (to be expanded later to a capacity of 500,000 tons), an oil pipeline, an oil refinery, a paper factory and munition works; some of the munition works have been completed and expansion of the government oil refinery from its present capacity of 350,000 tons to 1.5 million tons is scheduled for 1954. A contract has been signed with a German firm for construction of the steel mill. A large road building programme has also been launched.

A further measure designed to stimulate development was the amendment in 1952 of the Company Law of 1947 which stipulated that, in all new companies, 51 per cent of capital must be held by Egyptians; in order to encourage foreign investment, this provision has been repealed. Another law, promulgated in 1953, allows the transfer abroad of profits up to 10 per cent of the registered value of foreign capital; the excess of profits above this limit in any one year may be carried over to other years. Foreign capital may be transferred abroad after five years, in five yearly instalments in the currency originally transferred to Egypt and at the rate prevailing at the time of the transfer. In this way repatriation of registered foreign capital may be completed within ten years from the date of investment.<sup>17/</sup>

With the same object in view, the Mining Law of 1948, which had led some petroleum companies operating in Egypt to abandon their concessions, was replaced by Law 66 of 1953. The most important change is the deletion of the provision granting priority for a lease to a prospector only if it is an Egyptian company; licensees for prospecting now have priority rights in exploiting the area under licence. The new law also regulates contracts for the exploitation of petroleum and other minerals.<sup>18/</sup>

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<sup>17/</sup> National Bank of Egypt, Economic Bulletin, vol. VI, No.1, 1953.

<sup>18/</sup> Ibid.

## Chapter 4

### RECENT DEVELOPMENTS IN ISRAEL

Many earlier tendencies characteristic of the economy of Israel were modified during 1952 and 1953, largely as a result of the measures which have been called the "New Economic Policy". Agricultural production and exports expanded, and there was an easing of the strong inflationary pressure which had been in evidence in 1951 and at the beginning of 1952. Prices, however, continued to increase, if more slowly, and the exchange value of the Israeli pound was again reduced in 1953. Thus, while substantial progress has been achieved it is difficult to determine to what extent the basic difficulties facing the economy of Israel have been solved; the most acute of these are inflationary pressure, the deficit in the balance of payments and the lack of the necessary means for development in agricultural and industrial fields.

#### Prices

The years 1950 and 1951 may be characterized briefly as a period of suppressed inflation. Deficit financing by the Government and credit expansion by the banks - largely due to investment needs resulting from the rapid increase in population and the inadequacy of domestic savings - raised purchasing power and the pressure of market demand in an economy where prices were maintained at a low level by rationing and other controls. This resulted in a black market for some commodities, a large discrepancy between official and free exchange rates and an excessive stimulation of imports. In February 1952, the Israeli Government undertook to counteract this condition and since then disinflationary tendencies have appeared; these included some contraction in consumption,<sup>1/</sup> a shift from a seller's to a buyer's market, abatement of speculation and an increase in unemployment. It was also possible to relax many direct controls over commodities and services. These changes were due in the main to certain factors which combined to reduce effective demand - reduction in immigration and government policy regarding prices, the budget and credit - aided by an improvement in the supply situation.

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<sup>1/</sup> Expenditure by an average family on food rose from 35 per cent of the total in 1951 to 42.6 per cent in 1952, and on direct taxation from 9.6 to 12.4 per cent in the same period (Central Office of Statistics, quoted in Government Year Book, 5714 (1953/54) page 274).

The number of immigrants declined from 174,000 in 1951 to 23,400 in 1952, and net migration was negative in the first nine months of 1953. This decline was due partly to the fact that most of those who intended to immigrate had arrived in 1950 and 1951, and partly to the selective immigration policy adopted by Israel authorities in the latter part of 1951. However, full integration of immigrants of previous years into the economy of the country remains a major task; an indication of its difficulty is the fact that at the beginning of 1953, 49,000 families or about 211,000 persons were still living in temporary quarters.<sup>2/</sup>

The chief measures responsible for the change in the economic situation were those adopted under the Government price policy, coupled with a tight credit policy and a determined effort to reduce the budget deficit. The Israeli pound was devalued and three new exchange rates were established in February 1952, giving preferential treatment to such essential imports as food, to foreign investors and to tourists; during the following period, adjustments were made in the categories of transactions to which the different rates applied. The exchange rates were realigned in May 1953. As a result, prices rose continuously during the period under review; however, they rose less rapidly in 1953 than in 1952 (table 20). From 1951 to 1952 the cost of living index<sup>3/</sup> rose by 56 per cent, from 1952 to 1953 by 28 per cent. Domestic prices did not increase in proportion to the fall in the exchange value of the Israeli pound, hence Israeli prices expressed in dollars fell.

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<sup>2/</sup> There were 3,500 families in tents; 16,000 in canvas huts; 7,400 in tin huts; 17,500 in wooden huts; 4,600 in other temporary quarters (C. Tadmor, Israel Economic Survey (Jerusalem), July-December 1952).

<sup>3/</sup> Annual average.

Table 20. Israel: Indices of Cost of Living and Wholesale Prices,  
1950 to 1953

(1948 = 100)

Period	Cost of living	Wholesale prices
1950 . . . . .	95	83
1951 . . . . .	104	91
1952:		
First quarter . . . . .	129	127
Second quarter . . . . .	159	153
Third quarter . . . . .	175	168
Fourth quarter . . . . .	186	177
Average, 1952	162	156
1953:		
First quarter . . . . .	193	198
Second quarter . . . . .	203	220
Third quarter . . . . .	214	247
Fourth quarter . . . . .	221	250
Average, 1953	208	229

Source: Statistical Office of the United Nations.



The advance in domestic prices was not accompanied by a parallel increase either in deficit financing by the Government or in credit advanced by banks, and rising prices progressively absorbed the excess of income in circulation. This was reflected to a certain extent in the fact that the amount of money supply did not increase correspondingly during the period. While the money supply (currency plus deposit money) had increased 24 per cent from December 1950 to December 1951 and the cost of living only 9 per cent, the money supply at the end of 1952 was 7 per cent higher than at the end of 1951; in October 1953 it was 26 per cent higher than at the end of 1951, and the cost of living had increased about 111 per cent. Nor was the advance of prices followed by a corresponding increase in wages. The decline in real income of workers during the years 1952 and 1953 has been estimated at from 14 to 20 per cent.<sup>4/</sup>

The policy of credit restraint was initiated in 1951, when several measures were taken to check credit expansion on the part of banks and credit co-operatives and to restrict new credits to the most productive enterprises. The need for money increased sharply with the steep rise of prices which followed the introduction of new exchange rates in February 1952 and with the rise in taxation imposed by the Government to balance the budget. The amount of credit (gross) supplied by the banks rose from 127.1 million Israeli pounds in February 1952 to £I 172.2 million in February 1953 and £I 190.5 million in July, an increase which was clearly not proportionate to rising needs.<sup>5/</sup>

At the same time the policy of fiscal expansion was generally abandoned. In April 1951, the Government stopped issuing treasury bills and, in August 1951, land bonds, whose inflationary character was obvious, were discontinued.<sup>6/</sup> In the fiscal year 1952/53, the ordinary budget (including expenditures for security) was balanced for the first time, owing to improved methods of tax collection and reduction in expenditures. The development budget was financed partly by the compulsory domestic loan on cash, deposits and property, and only 87 per cent of the estimated development budget was actually spent.<sup>7/</sup> In the budget for

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<sup>4/</sup> A precise figure cannot be obtained for many reasons, among them heterogeneous consumption habits. Apart from hardships implied in such a lowering of the standard of living, the partial linking of wages to the cost of living has contributed towards narrowing the spread of wage rates, which may reduce incentives in the future.

<sup>5/</sup> Israeli Economist, September 1953.

<sup>6/</sup> "The Development Budget, 1953/54", an address by the Minister of Finance to the Second Knesset, 3 August 1953.

<sup>7/</sup> Ibid.

1953/54, expenditures in real terms for housing and national defence and personnel were reduced. Interest on the public debt, on the other hand, increased from £I 6 million to £I 16 million. It was estimated that direct taxes on income and wealth would increase from £I 47.3 million to £I 70.4 million, partly because of the rise in prices which raised the income brackets of many, and because of overdue taxes.

At the end of the period under review, it was not possible to gauge whether these developments in prices, credit and the budget, and the improvement which they had produced in the general situation, would be sufficient to lead to lasting equilibrium in the economy of Israel. In 1952 and 1953, because of the increase in prices, and in order to encourage exports and slow down imports, exchange rates more favourable than official rates were applied in certain cases, for imports as well as exports. This resulted in a rather complex situation, so far as rates of exchange were concerned, which was not yet solved by the third quarter of 1953. The formal rates were revised in May 1953 with a view to bringing official and effective exchange rates closer. Further realignments were unanimously recommended by the Foreign Exchange Committee in July 1953 to achieve a unification of rates. As a consequence of those adjustments, prices continued to rise, though more slowly.<sup>8/</sup>

So far as credit policy is concerned, the shortage of credit at the beginning of 1953 was such that a question arose as to whether it might not impede essential development projects and local purchases of German reparation goods. On the other hand, effective alleviation of this situation, for instance by rediscounting techniques, might have interrupted desirable developments resulting from the credit shortage - for example, by adding incentives to repatriation of capital transferred abroad - and might have contributed to the creation of renewed inflationary pressures. In spite of economies, total expenditures under the combined ordinary and development budgets remained high. It was estimated that the total tax burden for 1952/53 would amount to over 25 per cent of the national income. The problem of balancing budgets by increasing taxation, without reducing the development budget and current subsidies remained pressing. A sharp cut in development expenditure would increase unemployment and would sacrifice future possibilities to present needs, while deficit financing would again make prices soar.

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<sup>8/</sup> A new realignment of exchange rates has taken place since 1 January 1954.

Moreover, any stabilization of prices implies a lasting improvement in production and the balance of payments.

### Production

During the period under review, agricultural production increased significantly, while industrial production met with many difficulties. Production as a whole rose.

Crops in 1952 were considerably larger than those of 1951, which had been affected by drought (table 21). The output of citrus fruit in 1952 and 1953 was about the same as in 1951, while the share of exported items in total production greatly increased, under the stimulus of export facilities. The over-all increase in crops in 1952 has been estimated at 38 per cent as compared with those of 1950.<sup>9/</sup> The establishment of new settlements slackened owing to financial difficulties and shortage of trained personnel; 34 settlements were founded in 1952 as against 51 in 1951 and 119 in 1950.

It was reported that further progress in agricultural production, particularly of cereals, vegetables and fruit, would take place in 1953. Remaining price and rationing controls over the distribution of vegetables and fruit were abolished in June 1953. Production of oil-seeds, sugar and flax was expected to rise; experiments in cotton cultivation were being carried out.

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<sup>9/</sup> Government Year-Book, 1953-4.

Table 21. Israel: Agricultural Production, 1951 to 1953

(Thousands of tons unless otherwise stated)

Item and unit	1951	1952	1953
Wheat . . . . .	13.5	30.8	28.0
Barley . . . . .	27.5	93.2	60.0
Green fodder and silage . . . . .	498.4	555.9	...
Potatoes . . . . .	37.0	50.0	...
Other vegetables . . . . .	142.0	178.7	...
Citrus fruit exports (thousands of cases) . . . . .	4,185	3,270 <sup>a/</sup>	4,716 <sup>a/</sup>
<u>Animals and animal products:</u>			
Cows (heads) . . . . .	25,819 <sup>b/</sup>	31,690 <sup>c/</sup>	35,104 <sup>d/</sup>
Other cattle (heads) . . . . .	21,914 <sup>b/</sup>	28,844 <sup>c/</sup>	29,545 <sup>d/</sup>
Laying hens (thousands of heads) . . . . .	2,912 <sup>b/</sup>	2,643 <sup>c/</sup>	1,970 <sup>d/</sup>
Milk (thousands of kilolitres) . . . . .	118 0	137.7	...
Eggs (millions) . . . . .	391.5	366 5	...
Fish (tons) . . . . .	8.9	7.9	...

Source: Tadmor, Israel Economic Survey, July-December 1952; Central Bureau of Statistics and Economic Research, Statistical Bulletin of Israel (Tel Aviv).

<sup>a/</sup> Nine months.

<sup>b/</sup> December 1950.

<sup>c/</sup> December 1951.

<sup>d/</sup> December 1952.

The increase in agricultural production was largely due to three factors. The estimated area under cultivation was extended during the period; in 1953 it exceeded that of 1952 by about 5 per cent, that of 1951 by 9 per cent and that of 1950 by 48 per cent. The increase in the irrigated area was more rapid - estimated at about 32 per cent from 1951 to 1953. Another factor was the large investment in agriculture during the previous years, reflected in irrigation and the use of agricultural equipment; the percentage increase in the number of tractors was greater than that in cultivated areas. Finally, the weather was favourable. The relaxation of controls on some food products may also have favoured the increase in output.

Industry developed in this period, but at a slower rate than agriculture and less rapidly than in 1951 (table 22). While available data do not allow a quantitative evaluation of industrial production in 1952 and at the beginning of 1953 as compared with 1951, it appears that progress was uneven and that there was some slackening in the rate of growth. Electricity sales, which reflect the level of industrial output to a certain extent, expanded from 464 million kilowatt-hours in 1950 to 558 million in 1951 and 669 million in 1952. On the other hand, the gross value of industrial production at current prices was estimated at £1470 million in 1952, compared with £1279 million in 1951 and £1 193 million in 1950 <sup>10/</sup> the increase from 1951 to 1952 was slightly less than the increase in wholesale prices. The number of man-days worked fell in 1952 as compared with 1951 and was below the average of 1952 during the first months of 1953, as shown in the following indices of man-days worked (December 1951 = 100):<sup>11/</sup>

	1952	<u>First quarter</u> <u>of 1953</u>	<u>Second quarter</u> <u>of 1953</u>
Employees .....	96	91	96
Other workers .....	93	86	92

Source: Central Bureau of Statistics and Economic Research, Statistical Bulletin of Israel (Tel Aviv).

<sup>10/</sup> Ministry of Finance, Data and Plans, (Jerusalem, October 1953).

<sup>11/</sup> This index has many shortcomings, chief among them the fact that it does not take new enterprises fully into account; this is particularly important in the case of an economy which is in process of adjustment and development.

Table 22. Israel: Output of Certain Industries, 1950 to 1953

Product and unit	1950 Full year	1951 Full year	1952 Full year	1952 <sup>a/</sup>		1953 Eight months
				Eight months		
Electricity <sup>a/</sup> (millions of kilowatt-hours)....	464	558	669	439		487
Cement (thousands of tons) .....	380	439	446	296		282
Sulphuric acid (tons) ..	...	...	7,341	5,454		6,720
Superphosphates (tons) .	...	...	24,437	17,426		14,802
Soap (tons) .....	9,200	10,807	8,792	6,049		5,301
Cigarettes (tons).....	1,516	2,027	2,049	1,404		1,333
Matches (thousand gross boxes) .....	292	366	352	208		296
Plate glass (thousands of square metres) ....	...	...	885	639		1,282
Wheat flour (thousand tons) .....	...	157	197	126		153
Citrus squashes and juices (kilolitres) ..	...	15,925	18,139	13,953		9,333
Beer (kilolitres) .....	12,288	14,528	15,399	10,384		9,165
Wine (kilolitres) .....	3,078	7,466	5,455	5,899		3,580

Source: Central Bureau of Statistics and Economic Research, Statistical Bulletin of Israel, (Tel Aviv).

<sup>a/</sup> Sales.

Building activity declined during this period; completed surfaces amounted to 862,000 square metres in the first nine months of 1953 as against 1,490,000 in the corresponding period of 1952, and figures for the whole of 1952 were slightly below those of 1951. However, this drop was partly due to a shift from housing to other needs; while the number of new dwellings declined, that of industrial and public buildings increased. Industries producing luxury goods and building materials suffered from shortage of foreign exchange, contraction of demand and tightening of local credit. The Investment Centre in 1952 approved 176 enterprises financed by foreign capital to the amount of \$42.1 million and by domestic capital to the amount of £123.8 million; the corresponding figures in 1951 were 295 enterprises and \$55.3 million and £127.8 million, respectively.<sup>12/</sup> Unemployment increased from a daily average of 6,340 unemployed in 1951, to 9,410 in 1952 and 17,680 in 1953. In June 1953, the Knesset approved the collection of compulsory advances against future income taxes to raise the sum of £115 million for unemployment relief. The Jewish Agency and local authorities accelerated programmes of activities capable of absorbing the unemployed, such as afforestation and land reclamation; and the number of unemployed declined in August and September. Some of the idle workers in towns left to find work in the country. At the end of 1952, some 4,000 families had registered for transfer to agricultural settlements and 1,000 had been placed.<sup>13/</sup>

This slowing down in industrial development was to a large extent anticipated when the new economic policy was initiated. The chief cause of the slackening has been the shortage of raw materials, prices of which increased sharply. Moreover, the rise in the cost of living which resulted from the new rates of exchange, depressed demand, especially for non-essential products, and stocks of such products accumulated. Credit available to enterprises decreased, and budgetary expenditures for public works and housing were reduced. The effects of these factors were not entirely offset by advantages which the new exchange rates offered to exporters, nor by the time lag and the discrepancy between increases in wages and in the cost of living, but they should help in making the industries

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<sup>12/</sup> Economic Horizons, April 1953.

<sup>13/</sup> Israel Economist, January 1953.

more competitive in the long run. An effort was made to increase productivity.<sup>14/</sup>

Development has been uneven in different sectors of the economy. Progress was made in mining. Processing of raw phosphates was begun and the Dead Sea works were reopened at Sodom. In the industrial field, the share of the products of heavy industry, such as metals, machines and electrical goods, in industrial production increased from 1950 to 1952, while that of textiles, clothing and footwear fell off. About a quarter of the establishments approved by the Investment Centre to the end of May 1953 made commodities not previously produced in Israel, such as steel pipes, tires, electric bulbs, pharmaceuticals, watches and refrigerators. The Investment Centre, however, tended to limit its approval of new enterprises in 1952 to those which made due provision for adequate stocks of raw materials. The Palestine Economic Corporation, which contributed towards the establishment of a number of important industries, announced its intention of increasingly devoting its activities to strengthening existing enterprises. A tendency to consolidate existing enterprises rather than to create new ones was discernible during this period.

Reconsideration of the problems of production which to a large extent govern the economic future of Israel was undertaken during the past two years. A Joint Planning Centre was established in 1952 by the Ministry of Agriculture and the Jewish Agency, and an Economic Advisory Staff was created in May 1953, to draw up long-range programmes and co-ordinate development plans. In June 1953 the Ministry of Development was established to increase the output of electricity, petroleum and other resources, and the Economic Advisory Council, a governmental committee representing central economic groups, recommended the preparation of a seven-year integrated development plan. No final conclusion has been reported on programmes to increase production in agriculture and in industry.

Emphasis on the development of agriculture was noted during the period. For instance, the Banking Advisory Committee recommended that 20 per cent of available credits should be allocated to the agricultural sector in 1953, as against 16 per cent in 1952 and 11 in 1951. The share of agriculture in total

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<sup>14/</sup> It may be noted, however, that the number of workers engaged in productive activities (agriculture, industry, building, public works) was 44.5 per cent of the total of gainfully employed in 1952, compared with 47 per cent in 1951; the percentage of workers employed in services increased correspondingly.



expenditures under the development budget rose from 19.2 per cent in 1950/51 to 30.7 per cent in 1951/52 and 34.8 per cent in 1952/53. The share of industry in these budgets was 10.6 per cent in 1950/51, 15.3 per cent in 1951/52 and 14.3 per cent in 1952/53.<sup>15/</sup> Total public investment in agriculture in 1953/54 was to amount to £174 million, of which £127 million would come from the Jewish Settlement Department and £47.0 million from the development budget.

In spite of progress achieved in recent years the general orientation of agriculture remains under discussion. The idea of creating settlements to place recent immigrants on the land in conformity with certain ideals has lost something of its former urgency in favour of more immediate economic considerations. There seems to be a measure of agreement on the desirability of reducing the relative importance of livestock, since cattle breeding requires imported fodder and uses land which might be devoted to wheat or commercial crops; of increasing considerably the extent of irrigated areas whose output would be less dependent on climatic variations and which would permit intensive farming; of extending wheat crops to diminish the burden of heavy wheat imports on the balance of payments, although wheat farming absorbs little permanent labour; of developing production for export, mainly citrus fruits and high-priced intensively cultivated crops; and of reducing the diet for as long as output does not increase substantially. In the seven-year development plan for the period ending in 1960, which was drafted by the Joint Planning Centre of the Ministry of Agriculture and the Jewish Agency, it was estimated that by such measures the foreign exchange deficit for agricultural products could be reduced from \$80 million to a little less than \$20 million by 1960.<sup>16/</sup>

#### Balance of Payments

There was an improvement in the balance of trade during the period under review, but the situation with respect to the balance of payments remained serious. The balance of trade was improved by several factors. Prices in the world market declined in 1952 as compared with 1951, and this trend continued in 1953. During the first nine months of 1953, compared with the same period in 1952, the terms of trade tended to deteriorate slightly but the favourable influence of the decline of import prices on the balance of payments was significant, since exports from Israel represent only a fraction of imports.

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<sup>15/</sup> "The Development Budget, 1953/54", address by Minister of Finance to the Second Knesset, 3 August 1953.

<sup>16/</sup> Ministry of Finance, Data and Plans.

Requirements for imports were reduced by the effects of the new economic policy, which led to a reduction in consumption, and also directly or indirectly affected the level of public and private investments. The quantum index of imports fell from 131 in the first nine months of 1952 to 112 in the first nine months of 1953 (1949 = 100), mainly because of the sharp decrease in imports of manufactured goods from an index of 131 to 97. The value of imported investment goods fell from £131.2 million to £118.0 million.<sup>17/</sup> The quantum of imports of food, drink and tobacco, which was lower at the beginning of 1952 than in the same period of 1951, was higher during the first nine months of 1953 than in the same period in 1952, partly because of replenishing of stocks. The quantum index for exports increased from 155 in the first nine months of 1952 to 232 in the first nine months of 1953 (1949 = 100) mainly as a result of an increase in exports of citrus fruits, from 3.3 million cases to 4.7 million cases, and of diamonds, cement and motor cars.

The deficit in the trade balance during the first nine months of 1953 was reduced from £187.4 million in the first nine months of 1952 to £159.2 million;<sup>17/</sup> if imports without payment are deducted the deficit was £142.6 million during the first nine months of 1953.<sup>18/</sup> In the absence of figures based on actual exchange rates in 1952, it is difficult to evaluate the impact of such a deficit on the internal price situation. From the standpoint of the balance of payments, this increase expressed in dollars reflects a certain improvement in the position, if it is maintained. The implementation of the German reparations agreement will probably lead to an increase in imports during the coming years without causing an additional drain on the balance of payments.

While these factors have produced improvements which were reflected in the strengthening of the Israeli pound on the free market, they had not, by the middle of 1953, fundamentally changed the over-all situation with respect to the balance of payments. During the period 1949 to 1952, merchandise and export services had not provided more than about one-sixth of the total payments. During the period 1 July 1952 to 31 March 1953, exports and services covered 19.2 per cent of the total foreign exchange expenditure, which amounted to \$185.5 million and

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<sup>17/</sup> On the basis of the exchange rate of one Israeli pound equals US\$2.80.

<sup>18/</sup> It is not possible to compute a corresponding figure for 1952.

the proportion of the estimates for the period 1 July 1953 to 31 March 1954 was about one-fifth (see table 23).

The remainder of the income was derived from capital transfers and credits which were, to a large extent, of unforeseeable amounts. Of the total foreign exchange income of \$966.9 million in the years 1949 to 1951, \$151.5 million (15.7 per cent) was derived from an Export-Import Bank loan and the Independence loan; \$153.7 million (15.9 per cent) from contributions of world Jewry; \$106.7 (11.1 per cent) from the liquidation of sterling balances and foreign securities; \$206.2 million (21.3 per cent) from the import of private capital from abroad, in goods or in cash; and \$204.1 million (21 per cent) from commercial credit loans and other net import capital. Sterling balances, which were of great importance until 1951, have dwindled.<sup>19/</sup> In 1951 and 1952 the Independence loan played a more important part. United States grants amounted to \$63.5 million in 1951/52 and \$70.2 million in 1952/53. Funds received by the Jewish Agency in Israel from the United Jewish Appeal in the United States amounted to \$47.6 million in 1951 and \$44.5 in 1952. There was no longer a sizable foreign exchange reserve, but a favourable factor was the agreement on German reparations, approved in March 1953.

Under this agreement, western Germany is to pay Israel a sum of 3,450 million marks (\$821 million) over a period of twelve years, out of which 450 million marks (\$107 million) is to be reserved for Jewish organizations outside Israel. These payments are to be made mostly in the form of goods and equipment purchased in Germany; 400 million marks (\$95 million) was to be paid by 31 March 1954. Out of the two first payments, Germany agreed to pay 150 million marks in sterling to enable the Israel treasury to cover most of its outlay on fuel. The goods to be purchased are intended primarily for the development of agriculture and industry in Israel, and the reparations will probably be the main source of investment in the coming years. The counterpart fund originating from the delivery of German goods in Israel is expected to cover a substantial part of the development budget expenditure in 1953/54.<sup>20/</sup>

On the expenditure side, the burden of the foreign debt, a consequence of disequilibrium in the balance of payments in previous years, has become significant. Israel's foreign exchange debt (direct government indebtedness and

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<sup>19/</sup> Figures in this paragraph are from Ministry of Finance, Data and Plans.

<sup>20/</sup> Amounting to £154.5 million. The part of the first instalment to be devoted to payment for fuel and reparations to entitled agencies does not come under this figure.

Table 23. Israel: Foreign Exchange Income and Expenditure,  
1952/53 and 1953/54

(Millions of United States dollars)

Item	Actual 1 July 1952 to 31 March 1953	Estimated 1 July 1953 to 31 March 1954
<u>Income:</u>		
Exports .....	31.8	41.7
Services .....	3.9	5.4
Transfers .....	2.1	2.7
National funds .....	39.1	40.6
Grants .....	58.9	50.0
German reparations .....	13.5	57.8
Independence loan .....	29.1	32.0
Miscellaneous .....	3.0	2.8
	<hr/>	<hr/>
Total	181.4	233.0
<u>Expenditure:</u>		
Imports of investment goods...	26.4	36.8
Other imports .....	120.5	123.2
Services .....	38.4	36.0
Debt redemption and reserve...	0.2	37.0
	<hr/>	<hr/>
Total	185.5	233.0

Source: Bank Leumi le Israel, Review of Economic Conditions in Israel,  
(Jerusalem), November 1953.

debts guaranteed by the Government) on 30 June 1953 was \$397.3 million, of which \$72.4 million was on short term, \$55.7 million on medium term and \$269.2 million on long term. The principal foreign liabilities were the unpaid balance owed to the Export-Import Bank, amounting to \$127.6 million and the Independence loan, amounting to \$117.0 million.<sup>21/</sup>

Of the total debt, \$110 million was due between 1 July 1953 and 30 June 1954, and the balance was more evenly distributed over a period of twelve years. From the foreign exchange budget figures, it appeared that the Government at the time that the estimates were made intended to reimburse a maximum of \$37.0 million during the period 1 July 1953 to 31 March 1954 and to renew the balance of the short-term debt.

The balance of payments situation may be summarized as follows: the trade deficit during the first half of 1953, while smaller in terms of dollars than in the corresponding period of 1952, nevertheless remained large, exports covering only a fifth of imports. Such a deficit was, to a large extent, unavoidable, at least in the short run, since irreducible requirements for basic development - either direct or indirect - remain very high, despite the acceptance of a reduced standard of living under the new economic policy. Financing by capital transfers, which has offset this deficit in the past, has depleted foreign exchange reserves, given rise to a foreign debt, mainly short-term, and created financial uncertainty, which has rendered more difficult the task of the Government and contributed towards limiting foreign investment in Israel. German reparations are expected to replace some dwindling assets, but will not entirely solve the problem of the balance of payments. While improvement has resulted from recent price movements, some of it may be of a temporary character, and it would be premature to draw any conclusion as to the long-term influence of the new economic policy on the balance of payments. In considering the country's assets and liabilities, the Foreign Currency Commission stated in July 1953 that: "Economic policy, whatever shape it actually takes, must ... be directed primarily towards improving the balance of payments, reducing the extent of short-term and medium-term indebtedness and towards creating a foreign currency reserve".

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<sup>21/</sup> Ministry of Finance, Data and Plans.

## Chapter 5

### RECENT DEVELOPMENTS IN TURKEY

The year 1952/53 saw considerable economic progress in Turkey, largely because investments made during previous years began to bear fruit. Perhaps for the first time, development appeared to be general, rather than confined to one or two special branches of the economy. The most remarkable advances were made in agriculture, development of which has been particularly stressed by the Government, but industry and other sectors of the economy also progressed, and the rate of investment was maintained. Both government receipts and expenditures have kept pace with the general increase. A noteworthy trend has been the interest in economic matters shown by the general public, which has been manifested in increased financial participation in development projects. Upward trends in development have involved heavy imports; while the quantum and value of exports increased, imports rose more rapidly, owing mainly to the growing demand for capital goods, and the trade deficit increased substantially in 1952.

National income, in current prices, rose rapidly, from 7,952 million Turkish liras in 1948 to LT 8,497 million in 1950 and LT 10,454 million in 1952.<sup>1/</sup> Between 1948 and 1952, agricultural income, in constant prices, rose by 33 per cent, and industrial income by 21 per cent. The increase in agricultural income has been large enough, and sufficiently rapid, to lead to an improvement in the standard of living of farmers, whose per capita income, in constant prices, rose by about one-fifth between 1948 and 1952. The per capita income of town dwellers, on the other hand, showed a much smaller increase, owing to the fact that salaries had risen only very slightly by 1953, and that there was a large influx of unskilled labour from the villages into the towns.

#### Agriculture

Substantial progress took place in agriculture in 1952 and 1953. Cultivated area increased from about 11.3 million hectares in 1950 to 13.4 million in 1952, and the volume of production rose more than commensurately. The index

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<sup>1/</sup> One Turkish lira equals 35.71 United States cents.

of agriculture production reached a level of 166 in 1952/53, compared with 134 in 1950/51 (1934/38 = 100).

Agriculture made more progress than industry in 1952/53, as compared with 1950/51 and 1951/52. This was due to various factors, chief among them being the existence of large marginal areas which, given favourable climatic conditions, can readily be brought under cultivation with the help of mechanization; industrial progress, on the other hand, requires larger investment, and the results are felt more gradually.

The principal advances in agricultural production occurred in cereals and cotton (see table 24). Cereals, by far the most important crop of the country traditionally, showed an extremely rapid rate of increase in the past few years. This was due to the fact that most of the Government's efforts to develop agriculture were concentrated on cereals, which are relatively easy to expand and which provide a promising export item. As compared with 1950, cereal production rose by 37 per cent in 1951, 58 per cent in 1952 and 85 per cent in 1953; and wheat production by 44 per cent, 65 per cent and 104 per cent, respectively. In 1952, cereals took first place among the exports of Turkey, with a value of LT 261.5 million, that is 26 per cent of the total value of exports. Wheat exports amounted to 462,000 tons, with a value of LT 164 million. Turkey ranked fourth among wheat exporters of the world.

Cotton production has also increased considerably in recent years, from 55,000 tons in 1947 and 118,000 in 1950 to 165,000 in 1952, mainly under the stimulus of high export prices and increased demand. These increases occurred principally in the Adana and Aegean regions. Further expansion could be readily achieved by the use of more fertilizers and the irrigation of additional areas. Exports matched the increase in production; and in 1952 69,900 tons were exported. After cereals, cotton was the most valuable export item in 1952. Although exports were still at a high level in 1953, there was a marked decline in cotton acreage, owing to the drop in export prices; cultivated area fell from 642,000 hectares in 1951 and 675,000 hectares in 1952 to 596,000 in 1953.

Production of tobacco has risen. In 1953, output reached the record figure of 118,000 tons as against 88,000 in 1952, and exports in the first half of 1953 amounted to 35,000 tons, compared with 56,000 tons during the whole of 1952 and 56,000 in 1951. The high quality of the 1952 crop facilitated its export, but the disposal of such a large crop is raising problems. Little progress took place in the production of other commercial crops, pulses and fruit.

Table 24. Turkey: Output of Principal Agricultural Products, 1950 to 1953  
(Area in thousands of hectares; production in thousands of metric tons)

Product	Cultivated area				Production			
	1950	1951	1952	1953	1950	1951	1952	1953
Cereals <sup>a/</sup> .....	8,240	8,789	9,858	11,039	7,795	10,707	12,297	14,390
Wheat <sup>b/</sup> .....	4,622	4,925	5,533	6,526	3,982	5,730	6,576	8,134
Barley.....	1,902	2,059	2,312	2,436	2,047	2,700	3,189	3,500
Pulses <sup>c/</sup> .....	428	418	435	...	382	413	478	...
Tobacco.....	108	121	130	...	85	89	88	118
Potatoes.....	75	86	102	...	605	675	870	...
Sugar beets...	51	51	48	53	855	1,363	1,069	1,230
Cotton.....	448	642	675	596	118	155	165	140

Source: United Nations, Statistical Yearbook; Food and Agriculture Organization of the United Nations; Central Statistical Office, Statistical Resumes (Ankara), May 1953.

a/ Including wheat, rye, barley, oats, maize, millets and sorghum, mixed grains and rice.

b/ Including spelt.

c/ Including dried beans, dried peas, broad beans, chick-peas, lentils, vetch.

Livestock numbers showed a tendency to increase during the last two years. Cattle - including buffaloes - increased from 11.0 million in 1950 to 11.7 million in 1952, and sheep from 23.1 million to 24.8 million. Although there are in Turkey some 35 million hectares of pasture, livestock herds are still subject to the vagaries of climate, and breeding methods are little advanced in some areas. In 1952, a government organization called Et-Balik was created by the Government to develop industry and trade in meat and fish. Two large slaughterhouses were being constructed, at Erzurum and at Konya, with United States financial aid.



Progress in agriculture resulted from the combined action of various factors, the most important of which were increased mechanization, and price, credit and fiscal policies. Weather conditions have been distinctly favourable since 1951, in contrast with the year 1949/50.

Mechanization of agriculture expanded. In 1953 there were about 40,000 tractors (out of which 7,000 were bought with United States Mutual Security Agency aid) as against 23,000 in 1951 and 3,300 in 1948; 39 training centres had been established and there were 77 repair shops, 40 mobile repair units and 102 mobile servicing teams at the end of 1952.<sup>2/</sup> The Land Produce Office, the government organization which is the principal buyer of cereals in the country, continued to purchase cereals at higher than export prices.<sup>3/</sup>

The Government maintained fiscal exemption from direct taxes for agricultural producers (which had been continued in the income tax reform of 1949) in spite of substantially increased agricultural incomes. The Agricultural Bank, which makes loans to farmers directly or through agricultural co-operatives, has nearly trebled its operations since 1950. Other factors, in addition to these lending activities, which contributed to the development of agriculture were construction of new roads, increased distribution of selected cereal seeds (about 400,000 tons in 1952), improvements in the organization of trade, better storage facilities for agricultural products, expanded use of chemical fertilizers,<sup>4/</sup> and research and extension activities. The share of new irrigated areas in the increase in production during the period under review was small, but important projects under way are expected to raise it in the future. At the end of 1952, 88,000 hectares were irrigated and in 1953 irrigation of an additional 72,000 hectares was nearing completion. Among the ten large or medium-scale projects to be carried out - covering a total of 360,000 hectares - the most important was the Seyhan River project to irrigate 144,000 hectares in the Adana plain. In addition, 120 small projects, most of them of local importance, were planned.<sup>5/</sup>

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<sup>2/</sup> It was reported that the rate of increase in the number of tractors slackened considerably during 1953.

<sup>3/</sup> For instance, in 1953 the buying price in most of the regions was LT 0.30 per kilogramme, while the average export price was between LT 0.26 and LT 0.27 during the later part of the season.

<sup>4/</sup> In 1952, 66,500 tons of chemical fertilizers were used as against 46,000 in 1951; this quantity is still well below requirements. (United States Department of Commerce, Turkey, Economic Review, 1952 (Washington, D.C.))

<sup>5/</sup> Food and Agriculture Organization of the United Nations, Country Background Information, Turkey (53/4/2684).

At the end of 1953 another large-scale project was announced; this would use the Gediz River in the Manisa and Izmir plains to irrigate some 134,000 hectares and produce 70,000 kilowatts of electric energy. The International Bank for Reconstruction and Development has been asked for a \$25 million loan for this purpose, and it is expected that LT 20 million will be provided by the inhabitants of the region, the balance to be supplied by budgetary credits.<sup>6/</sup>

Another factor which may increasingly influence agricultural development is the implementation of the Agrarian Law of 1945, which has been accelerated in recent years.<sup>7/</sup> Of a total 650,000 hectares distributed from 1945 to November 1953, 177,300 hectares were given to 41,500 families in the first ten months of 1953.<sup>8/</sup>

### Industry

Turkish industrial progress was marked in 1952/1953, and in a number of branches the rate of growth increased, largely owing to the fact that investments in previous years were beginning to yield results (see table 25). Available data indicate that the rate of investment was maintained in 1952/53 and a number of projects were under way. However, several branches of industry were unable to meet current domestic demand, and a wide field remains for manufacture of substitutes for imported items. Hence, the progress registered in 1952/1953 may be expected to continue, if projects under way are completed according to expectation.

Development took place in the private as well as in the public sector, in both of which investment increased.

In 1952/53, private investment was higher than public, excluding public works and utilities. The Government's attempt, initiated in 1950, to denationalize government-owned enterprises met with little success,<sup>9/</sup> because few individuals owned enough capital to buy large plants while the practice of forming corporations

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<sup>6/</sup> Statement by the Ministry of Public Works, reported in Iktisat Gazetesi (Ankara). Work is scheduled to begin in 1954.

<sup>7/</sup> See United Nations, Progress in Land Reform (Sales number: 1954.II.B.3).

<sup>8/</sup> Message delivered by the President of the Republic at the opening session of the Grand National Assembly on 1 November 1953.

<sup>9/</sup> The monopolies for the manufacture and import of matches and for the production of salt for export have, however, been abolished.

Table 25. Turkey: Indices of Industrial Production, 1950 to 1952  
(1948 = 100)

Year	Mining	Manufacturing	Textiles	Processed agricultural products <sup>a/</sup>	Total
1950.....	122	112	116	112	115
1951.....	127	116	109	125	118
1952.....	146	129	128	129	133

Source: United Nations, Statistical Yearbook, 1953

<sup>a/</sup> Sugar, beer, spirits, wine and tobacco only.

was not yet widespread. Government enterprises, however, ceased to extend their activity to new fields and tended to leave increasing scope for private firms in the fields in which they did operate. Thus the large mining concerns belong to the Government, but small and medium-sized private firms are growing in number and account for an increasing share of total output. Similarly, in the textile industry, the private sector has grown markedly, accounting for 56 per cent of woollen yarn in 1952, compared with 40 per cent in 1950; for 37 per cent of woollen fabrics, against 25 per cent; for 47 per cent of cotton yarn against 45 per cent; and for 36 per cent of cotton fabrics against 23 per cent in 1950. In spite of these developments, however, the Government retains a preponderant position in several of the leading Turkish industries. The output of establishments owned by the Sümer Bank is shown in appendix A.

As regards new investment, government enterprises continued to expand along existing lines, the Government having sought to carry out basic development work which could not be undertaken by private enterprise, such as irrigation, electrification and port and road construction. At the same time, private enterprise has been encouraged in various ways. The Industrial Development Bank, which was founded in 1950 for the purpose of promoting private industry, gradually extended its operations; between its foundation and the end of 1952, the bank received 1,091 applications for long-term credit, and extended 139 loans. A law

of 1951, encouraging foreign investment, facilitated the establishment of several factories; this law was liberalized in January 1954. Another noteworthy trend was the interest shown in industrialization by small local investors (see section on "Investment in Agriculture and Industry", below).

In 1952, output rose in almost all branches of industry. Special efforts were made to bring about further increases in some branches.

Mining output rose by nearly 15 per cent in 1952, owing to increased investment. Table 26 shows a particularly high rate of growth in iron ore, copper and manganese, but little progress was made in coal and lignite, where development and improvement undertakings have not yet been completed. The principal project under way is the development of the Zonguldak coal-fields, started in 1948 and scheduled for completion in 1958. The target is a "run of mine" output of 7.1 million tons, against 5 Million in 1953. Construction of the ports of Eregli and Zonguldak has been completed, as have some of the installations. The development of three lignite basins in West Anatolia (at Tunçbilek, Degirmisaz and Soma) is also under way; the target is to double 1948 output by 1954. The total cost of these projects was estimated at LT 550 million, of which LT 505 million was for Zonguldak.

Table 26. Turkey: Manufacturing and Mining Output, 1950 to 1953  
(Thousands of metric tons, unless otherwise stated)

Item	1950	1951	1952	1953 First half
Electric power (millions of kilowatt hours) .....	790	888	1,018	490 <sup>a/</sup>
<u>Manufacturing:</u>				
Pig-iron <sup>b/</sup> .....	113	153	196	104
Steel .....	91	135	153	83
Coke <sup>c/</sup> .....	367	367	468	305
Sulphuric acid <sup>d/</sup> .....	11	14	16	10 <sup>e/</sup>
Superphosphates .....	13	19	21	10
Cement .....	396	396	456	231
Paper and cardboard .....	18	23	27	14
Cotton yarn .....	30	30	35	9 <sup>f/</sup>
Cotton fabrics (millions of metres) .....	130	151	182	57 <sup>f/</sup>
Woollen yarn .....	7	8	10	2 <sup>f/</sup>
Woollen fabrics (millions of metres) .....	6	7	6	2 <sup>f/</sup>
Sugar (refined) .....	137	186	163	13
Beer (millions of litres)....	20	21	23	9
Wines and liquors (thousands of litres) .....	20	21	8 <sup>f/</sup>	8 <sup>f/</sup>
<u>Mining:</u>				
Coal.....	4,361	4,730	4,846	2,757 <sup>g/</sup>
Copper (blister).....	12	14	23	11
Chromite .....	417	602	666	213
Iron ore <sup>h/</sup> .....	234	226	482	270
Lignite .....	1,214	1,255	1,374	740 <sup>i/</sup>
Manganese <sup>h/</sup> .....	32	51	102	31
Salt .....	310	273	300	
Sulphur .....	6	7	8	5

Source: Statistical Office of the United Nations; Central Statistical Office, Quarterly Statistical Bulletin (Ankara), No. 5, September 1953.

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(footnotes: Table 26)

- a/ Production for full year 1953 was 1,091 million kilowatt hours.
- b/ Including direct iron castings.
- c/ Including gas coke and semi-coke.
- d/ 100 per cent  $H_2SO_4$ .
- e/ Partial figures, representing about 85 per cent of total output.
- f/ Government factories only.
- g/ Production for full year 1953 was 5,659,000 tons.
- h/ Quantity of crude ore.
- i/ Production for full year 1953 was 1,312,000 tons.

Other mining projects which were being carried out included the mechanization of the iron mines of Divriki, at an estimated cost of £T10 million. The expansion of the sulphur mines of Keçiborlu, by the installation of flotation and refining equipment, is expected to double the output of the mines. Development of the Murgul mine in north-east Anatolia in 1951 raised the total capacity of Turkish copper mines to 25,000 tons in 1952. Output and export of chromium and manganese increased; production of manganese, which is mined entirely by private enterprise, rose from 22,600 tons in 1949 to 101,800 in 1952.<sup>10/</sup>

Manufacturing also expanded in 1952 (see tables 25 and 26). The Sümer Bank continued to carry out its development plans, including the expansion of a cement plant at Sivas, textile plants at Izmir, Demizli, Erzincan, Diyarbakir and Bakirköy and various new installations in the steelworks of Karabük (see appendix B). It is estimated that completion of current plans of the Sümer Bank will cost £T194 million, of which £T171 million had been spent by the end of 1952.<sup>11/</sup>

Rapid progress was made in the textile industry, especially in the output of cotton fabrics, which rose by one-fifth in 1952. The number of spindles increased from 260,000 in 1950 to 440,000 in 1953 and was scheduled by 1954 to rise to 542,000, out of which 327,000 spindles would belong to private industry.<sup>12/</sup> The number of mechanical looms increased from 4,600 in 1950 to 5,500 in 1952. Imports of cotton fabrics fell from 6,342 tons in 1938 to 2,232 tons in 1952. Output of woollens declined in 1952 owing to a shift to the production of finer quality cloth by government factories.

A special effort was made to raise the output of cement. Needs are rising rapidly, and requests to the Ministry of Commerce totalled about 2 million tons in 1953, or more than four times the 1952 output. Low interest loans, designed to stimulate building, further raised demands. The six cement plants which were in existence in 1951 were enlarged and by 1953 their capacity had been raised to 1,025,000 tons. The Government is planning to build thirty-eight additional plants, which will raise capacity to 3 million tons; contracts for twenty of these had been signed by the end of 1953.<sup>13/</sup>

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<sup>10/</sup> Central Statistical Office, Quarterly Statistical Bulletin (Ankara)

<sup>11/</sup> Sümer Bank, Annual Report of the Board of Directors, 1952 (Ankara, 1953).

<sup>12/</sup> Statement by Minister of State Enterprises, reported in Iktisat Gazetesi.

<sup>13/</sup> Statements by Prime Minister and Minister of State Enterprises, reported in Iktisat Gazetesi.

The capacity of the sugar industry was increased by the construction of a fifth refinery, and 1953 output was estimated at 210,000 tons. Ten additional refineries are expected to raise capacity to 375,000 tons. Other important developments in 1952 included the opening of a margarine and vegetable oil factory and two pharmaceutical plants in Istanbul, and a glycerine factory in Izmir.

A vigorous effort was made to develop energy resources in order to meet increasing consumption and to substitute hydro-electric power for thermal power, thus freeing a larger portion of the coal output for export. Electricity capacity and output have increased threefold since the pre-war period, and in 1952 output rose by 20 per cent. Both large-scale and small-scale projects are under way. The small-scale projects included sixteen hydro-electric plants, with an aggregate capacity of 57,000 kilowatts; their estimated cost of about £T77 million is to be borne by the municipalities. The large-scale projects aggregated 411,000 kilowatts and costs were estimated at £T800 million. The Gediz project near Izmir, which also provides irrigation, includes a dam and electric turbines with a capacity of 70,000 kilowatts, at an aggregate cost of about £T220 million. The thermal generators of Tunçbilek, in lignite fields near Kütahya, will have a capacity of 90,000 kilowatts at a cost of £T48 million. The thermic station of Catalagzi will be raised to 120,000 kilowatts, at a cost of £T32 million. The Sariyar project was scheduled for completion in 1954; its capacity will subsequently be raised from 80,000 to 160,000 kilowatts. Work has continued on the Seyhan project, which will be completed in 1956; a joint-stock company with a capital of £T30 million was constituted in 1953 to operate the electric plant; it includes among its shareholders local farmers and industrialists as well as the Eti Bank. By 1956, the date scheduled for completion of all these projects, output is expected to reach 3 billion kilowatt-hours. A contract has been signed for the installation of two high-tension transmission lines, of 510 and 570 kilometres, and with a combined capacity of 2,165 million kilowatt hours, to carry power to north-western Anatolia. These projects are to be completed in three years, at a cost of £T60 million.

In the field of transport, progress was made in the construction of ports and airports. Work is proceeding on the ports of Zonguldak, Ereğli, Trabzon and Samsun on the Black Sea, Salıpazarı and Haydarpaşa on the Sea of Marmara, and Mersin and Iskenderun on the Mediterranean. A second airport is under



construction at Ankara, and that of Istanbul is being enlarged; other airports under construction include Eskişehir, Konya and Diyarbakir. Railway construction includes the following lines: Elazığ-Van, Erzurum-Sarikamış, Narlı-Gaziantep and Eregli-Kozlu, a total of about 500 kilometres. Between 1949 and 1953, the length of asphalt roads increased from 1,175 to 1,900 kilometres and that of all-weather macadamized roads from 2,630 to 9,800 kilometres; this forms part of a long-term programme with a goal of 24,000 kilometres of all-weather road.

#### Investment in Agriculture and Industry

While it is not possible to give an over-all figure for amounts invested, available information shows that during the period under review investment was maintained or increased in most sectors of the economy.

The Agricultural Bank, which lends to farmers directly or through the channel of agricultural co-operatives, greatly increased its operations. In March 1953, its outstanding loans amounted to £T1,127.4 million<sup>14/</sup> as against £T646.5 at the end of 1951 and £T412.2 at the end of 1950. There were 1,200 agricultural credit co-operatives, with 673,000 members, in 1952; their outstanding loans amounted to £T414 million at the end of 1952. The government-owned Agricultural Equipment Organization received a total of £T73 million from the Agricultural Bank during 1952 to make loans to farmers for equipment.<sup>15/</sup> Among other credits extended to agricultural producers those granted by the Sugar Refining Company may be mentioned: there was £T30 million outstanding in advances to 100,000 sugar beet producers in 1952.

During this period, investments in agriculture by the Government made through the State budget were increasing steadily. They reached £T54.5 million in 1951, £T126.4 million in 1952 and £T164.7 in 1953. These funds were mainly devoted to model farms, forests, stud farms and various other types of help to farmers.

Direct aid in the agricultural field, under the United States Economic Co-operation Administration and Mutual Security Agency Programmes, including both financial and technical assistance, amounted to \$54 million (£T151 million) at the end of 1952; of this £T109 million, of which £T10.8 million was in the form of grants, was used for the agricultural machinery programme. Under a new

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<sup>14/</sup> Of this amount £T586.4 million was in loans for cultivation of land, £T227.1 million was advanced to marketing co-operatives and £T268.4 million was for the purchase of equipment. Bulletin of the Agricultural Bank (Ankara).

<sup>15/</sup> Ministry of Economics and Commerce, Konjonktur (Ankara).

agricultural development plan, half of the estimated £T48.3 million expenditure is to be financed by counterpart funds. Moreover, a project for storing and preserving cereals and improving their quality, involving the expenditure of the equivalent of \$8 million, was to be undertaken in 1953.<sup>16/</sup>

Industrial investment also continued to increase in 1952. Planned contraction in investment in government manufacturing enterprises was more than offset by increased investment in other sectors. The financing of government industrial investment continued to be carried out by the Sumer Bank, Eti Bank and other government enterprises, while private industrial investment was financed mainly by the Industrial Development Bank.

By the end of 1951, the Sümer Bank had a total cumulative investment of £T579.4 million. Provision for new investments in its current financial plan amounted to £T26.7 million in 1952, compared with £T132.4 million in 1951.<sup>17/</sup> These investments were placed principally in the textile, iron and steel, and cement industries. The decline noted in 1952 is accounted for by the completion of certain factories and the decrease provided for in the investment plan. The Eti Bank, by the end of 1951, had a total cumulative investment of £T501 million. In 1953, its capital was raised from £T150 million to £T500 million. Its financial plan provided for new investment totalling £T107.9 million in 1952 (of which £T18.2 million was to be in foreign exchange), compared with £T222.4 million in 1951. Of the 1952 total, £T45 million was earmarked for expansion in coal output, £T14 million for expansion in lignite production, and £T35.8 million for the Sariyar dam project. The plan provides for an investment of £T147.8 million in 1953, of which £T50.2 million is to be in foreign exchange.<sup>18/</sup>

The total fixed and working capital of government economic enterprises amounted, by the end of 1951, to £T3.519 million.<sup>19/</sup> This figure does not include capital of enterprises which the Government owns only in part, for example, the Sugar Refining Company; nor does it include monopolies and such government enterprises as the railways, the Maritime Bank and the airlines.

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<sup>16/</sup> United States Department of Commerce, Economic Review, Turkey (Washington, D.C.), June 1953.

<sup>17/</sup> Unpublished reports of the Sümer Bank.

<sup>18/</sup> Unpublished reports of the Eti Bank.

<sup>19/</sup> Reports of the auditors attached to the Prime Minister's Office, Iktisadi devlet tesekkulleri raporu (Ankara, 1953).

Investments in the government enterprises came to a large extent from self-financing; part has been financed by foreign aid. The Government also allocated funds through the budget, and has until 1953/54 also assisted Government economic enterprises by guaranteeing bills discounted at the Central Bank. Such treasury-guaranteed bills had a maturity of ninety-one days and carried an extremely low rate of interest. Government-owned economic enterprises, such as Sumer Bank and Eti Bank, were authorized to discount with the Central Bank bills equal to half their nominal capital. The treasury continuously renewed its guarantee of such bills, which were sometimes used by these enterprises to finance long-term investment. The sums thus granted by the Central Bank to the Sumer Bank and Eti Bank amounted at the end of 1952 to £T95.1 million and £T69.2 million, respectively. At the end of 1952, the Government, fearing the inflationary effects of this system, decided to discontinue it; consequently the amount granted to the two banks remained the same in 1953.

In the private investment field, the Industrial Development Bank, founded in 1950 by a group of private banks and investors, extended its operations. By the end of 1952, it had granted loans totalling £T80.7 million to 139 firms, which supplemented this amount from their own resources, investing a total of £T182.6 million. About half the bank's loans were to textile firms, one-quarter to building material firms and the remainder to food processing, pharmaceutical and other industries (see table 27). In 1953 the bank's loans rose to over £T100 million. The funds advanced by the Bank for Industrial Development to the end of 1952 came from the following sources: its own capital, £T19.19 million; loans by the International Bank for Reconstruction and Development, £T25.02 million; counterpart funds (authorized jointly by the Government of Turkey and the Mutual Security Agency) £T36.5 million. In September 1953, the bank received an additional loan of \$9 million from the International Bank for Reconstruction and Development.

Following the adoption in August 1951 of a law for the encouragement of foreign investments, fifteen firms belonging to nationals of seven countries invested a total of £T15 million from 1951 to 1953. This investment included a cement plant with a capacity of 150,000 tons in Izmir, and factories for anti-biotics, sulphuric acid and superphosphates, thread, electric bulbs and vegetable oils. With a view towards further stimulating the inflow of foreign funds, the law was considerably liberalized on 18 January 1954. A new petroleum law was passed in 1954 (see chapter 2).

Table 27. Turkey: Loans of the Industrial Development Bank  
1950 to 1952

(Millions of Turkish liras)

Branch of industry	Number of firms	Amount
Textiles .....	32	40.95
Building materials .....	17	20.06
Food processing.....	21	7.00
Chemical and pharmaceutical products .....	10	4.35
Navigation .....	7	3.71
Repair shops .....	32	1.23
Metal products .....	5	1.17
Other industries .....	<u>15</u>	<u>2.24</u>
Total	139	80.71

Source: Industrial Development Bank, Report of the Board of Directors, 1952, (Istanbul, 1953).

Increasing interest in industrialization was shown by small investors. In various parts of the country, farmers expressed their desire to participate in the establishment of local sugar refineries or cement plants; such operations are being carried out under the aegis of the Government, which provides technical help. The Sümer, Real Estate and İş banks, together with two industrial firms, have set up a cement corporation with a capital of LT 50 million. The corporation will take the first steps to establish thirty-eight plants, to which it is anticipated the public will initially subscribe some LT 35 to LT 40 million. Similar methods were adopted in the sugar industry, where it was anticipated that the beet growers' co-operatives would supply more than three-quarters of the required capital. It may be noted that total deposits in Turkish banks rose from LT 989 million at the end of 1949 to LT 1,723 million at the end of 1951 and LT 2,428 million at the end of June 1953; corresponding figures for savings deposits were LT 465 million, LT 738 million and LT 982 million, respectively.<sup>20/</sup>

A new credit organization, the Industrial and Electrical Energy Organization of Turkey, was founded in 1953 to finance both private and public enterprises, particularly hydroelectric works. Capital of LT 50 million was supplied by the principal Turkish banks; it was also authorized to issue bonds and to contract for foreign loans.

Some investments were made from the Government regular or special budgets, to promote research work or encourage new activities, such as petroleum refining. These investments in the industrial field amounted to LT 35.5 million in 1952 and LT 47.6 million in 1953.

Part of the investment in industry was financed by United States aid. Moreover, some of the commodity shipments, which were not actually investments, made it possible to devote funds to investment which would otherwise have been needed to pay for the commodities and, thus, they indirectly facilitated investment. United States aid totalled \$277.5 million between 3 April 1948 and 30 June 1953, of which \$176.2 million was in grants, \$84 million in long-term loans and \$17.3 million in conditional aid; in 1952/53, United States aid amounted to \$55 million.<sup>21/</sup> In addition, \$173.1 million was made available from 1948 to 1953 as counterpart funds, of which \$44.7 million was granted from 1 July 1952

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<sup>20/</sup> Explanatory note to 1954 budget estimates (Ankara, 1954).

<sup>21/</sup> United States Foreign Operations Administration, Monthly Operations (Washington, D.C.), December 1953.

to 30 June 1953. Tables 28 and 29 show the allocation of counterpart funds and procurement authorizations among the various sectors of the economy.<sup>22/</sup>

Total industrial projects which had been approved by the Mutual Security Agency by 30 June 1953 amounted to \$335.9 million, of which \$65.5 million was for raw material extraction, and \$257.6 million for transportation, communications and utilities. The Mutual Security Agency's contribution to these projects is to be \$68.3 million; paid shipments by the agency to 30 June 1953 amounted to \$45.2 million.

Table 28. Turkey: Status of Counterpart Funds Withdrawn,  
1948 to 1953 and 1952/53

(Millions of United States dollars)

Purpose	3 April 1948 to 30 June 1953	1 July 1952 to 30 June 1953
Military production, construction and materials.....	96.1	35.7
Agriculture.....	17.2	1.7
Extractive industries.....	15.1	0.4
Manufacturing.....	11.3	-
Transportation, communications and utilities.....	21.8	6.9
Loans to industry and commerce.....	0.5	-
Other purposes.....	11.1	-
Total approved for withdrawal	173.1	44.7

Source: United States Foreign Operations Administration, Local Currency Counterpart Funds (Washington, D.C.), 30 June 1953.

<sup>22/</sup> These figures do not include the greater part of military aid received by Turkey.

Table 29. Turkey: Procurement Authorizations,  
1948 to 1953 and 1952/53

(Millions of United States dollars)

Item	3 April 1948 to 30 June 1953	1 July 1952 to 30 June 1953
Food.....	13.0	-0.2
Fuel.....	4.5	0.1
Raw materials and semi-finished products.....	25.7	-0.2
Machinery and vehicles.....	127.4	33.2
Miscellaneous commodities.....	10.1	1.2
All commodities.....	180.6	34.1
Technical services.....	13.2	0.8
Assistance via European Payments Union.....	69.5	22.0
Ocean freight.....	14.3	-0.5
Total	277.5	56.4

Source: Foreign Operations Administration, Monthly Operations,  
30 June 1953.

In addition to direct investments in agriculture and industry, the economy as a whole has benefited from large investments in transportation and public works which have been made in recent years and which absorbed the greater part of budgetary appropriations for investment (see table 30). Total investment in transportation was of the order of £T 200 million in 1951, £T 275 million in 1952 and £T 300 million in 1953. More than half of these investments went into roads. Large investments were also made in water control and use, not only for extension of the irrigated area, but for flood control, drainage of swamps and the provision, since 1950, of drinking water for 13,000 villages.

Building activity also rose considerably during the period under review. No over-all figures are available, but an indication of the increase is given by the mortgage loans granted by Emlak Kredi (Real Estate Credit) Bank, which rose from 1,373 loans, aggregating £T 74 million, on 31 December 1949 to 18,000 loans, aggregating £T 209 million, on 30 June 1953. Most of this construction took place in Ankara and Istanbul, but other towns also benefited.

#### Foreign Trade

In 1952, the foreign trade of Turkey exceeded all previous records, both in quantum and in value. The rapid development of the last few years has raised the demand for imports of capital goods, fuels and raw materials while the increase in output has made it possible to expand exports of agricultural and mineral products. The aggregate value of imports and exports in 1952 was 28 per cent above the level of 1951 and 67 per cent above that of 1950. In 1953, there was a small decline in imports, but this was accompanied by a larger increase in exports, and the total value was above that of the previous year.

The quantum of Turkish imports increased by 37 per cent in 1952 as compared with 1951; it declined at the beginning of 1953. The increase in value in 1952 was 38 per cent as compared with 1951 and 95 per cent as compared with 1950. Imports in 1952 consisted mainly of capital goods, which accounted for 57 per cent of total imports; the share of production goods in total imports rose, while that of consumer goods diminished at almost the same rate (see table 31). An increase of nearly 100 per cent in building material imports took place between 1951 and 1952 owing to great construction activity, which included factories, dams, mines, ports and roads.



Table 30. Turkey: Economic Development Expenditures in Ordinary and Special Budgets, 1951 to 1953

Branch	1951	1952	1953
<u>Industry, mines and energy:</u>			
Current expenses .....	13.6	14.1	15.0
Investments .....	45.3	35.5	47.6
Total .....	58.9	49.6	62.6
<u>Agriculture:</u>			
Current expenses .....	55.3	53.4	62.4
Investments .....	54.5	73.0	102.3
Total .....	109.8	126.4	164.7
<u>Transport and communications:</u>			
Current expenses .....	15.8	16.1	19.6
Investments .....	133.4	191.0	241.2
Total .....	149.2	207.1	260.8
<u>Public works:</u>			
Current expenses .....	6.9	6.9	7.9
Investments .....	36.8	33.5	72.1
Total .....	43.7	40.4	80.0
Grand total	361.7	423.7	468.2

Source: Explanatory note to 1954 budget estimates (Ankara, 1954).

The quantum of Turkish exports increased by 20 per cent in 1952 as compared with 1951 and continued to increase during the first half of 1953, while that of imports began to decline. The increase in 1952 resulted mainly from large exports of cereals and, to a lesser extent, of cotton. Substantial stocks of wheat could not be sold in 1952 because the export price had been fixed at a high level.<sup>23/</sup> During the first half of 1953 export prices of wheat were adjusted to world prices, and 347,000 tons of wheat were exported. Cotton exports were also at a high level during the first six months of 1953, when 55,000 tons were exported.

The value of Turkish exports in 1952 increased by 16 per cent as compared with 1951. The increase was smaller than the increase in quantum as average export prices declined by about 4 per cent. In 1952 and 1953 wheat and cotton were the major exports, their share in total exports being 25 and 19 per cent, respectively, in 1952, compared with one per cent and 25 per cent in 1951. The principal buyers of cereals were western Germany and France, with 215,000 and 163,000 tons, respectively, in 1952. The chief buyers of Turkish cotton in 1952 were western Germany (27,000 tons), France (18,000 tons) and Italy (8,000 tons). The United States continued to be the principal customer for Turkish tobacco, buying between one-third and one-half of the total exported.

In order to provide larger markets for Turkish exports, the Government took further steps to increase output and to stabilize the quality of such products as cereals, cotton, dried fruits, hides and mohair by establishing standards of quality and imposing controls on exports; moreover it took measures to lower the production costs of these commodities by encouraging more efficient methods of production. The development of mining, and a rise in foreign demand since 1950, permitted an increase of such mineral exports as chrome, copper and manganese.

Terms of trade deteriorated in 1952; the index was 117 as against 123 in 1951 (1938 = 100). Import prices remained more or less stable while export prices declined by approximately 4 per cent. The drop in export prices in 1952 was due mainly to the decline in cotton prices in the world market and to decreases in tobacco, dried fruit and copper prices; the effect of these declines on the terms of trade was lessened by the increase in prices of cereals and chrome, (see table 32). During the first half of 1953 cotton prices continued

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<sup>23/</sup> Turkey has not signed the International Wheat Agreement.

Table 31. Turkey: Principal Categories of Imports, 1938 and 1950 to 1952  
(Millions of Turkish liras)

Item	1938		1950		1951		1952	
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total
Production goods...	75.4	50.3	408.4	51.0	550.4	49.0	885.1	56.8
Raw materials.....	28.7	19.1	162.6	20.3	265.2	23.5	328.8	21.1
Consumer goods.....	45.7	30.5	228.8	28.6	310.3	27.5	342.7	22.0
Total	149.8	100.0	799.8	100.0	1,125.8	100.0	1,556.6	100.0

Source: Central Statistical Office, Statistical Resumés.

Table 32. Turkey: Unit Values of Exports, 1948 to 1953

(Kuruş per kilogramme)<sup>a/</sup>

	1948	1951	1952	March 1953
Wheat.....	<u>b/</u>	33.4	36.2	29.5
Barley.....	35.4	24.8	26.4	21.9
Raisins.....	83.9	87.1	73.5	67.2
Figs, dried.....	49.4	52.3	51.4	21.3
Nuts.....	159.6	285.3	201.9	218.2
Tobacco.....	362.7	349.0	293.9	307.2
Cotton.....	208.5	387.9	281.5	205.7
Wool.....	178.7	437.4	259.9	268.2
Mohair.....	225.7	726.1	511.3	571.9
Copper.....	139.5	286.8	267.0	<u>c/</u>
Chrome.....	8.3	9.1	10.1	11.9

Source: Ministry of Economics and Commerce, Konjonktür.a/ One Turkish lira equals 100 kuruş.b/ No wheat was exported in 1948.c/ No copper was exported in March 1953.

to decline and cereal prices also decreased; as a consequence the index of export prices fell from 494 to 459 in spite of a rise in tobacco and chrome prices. The index of import prices declined, but only to a slight extent, during the same period and the index of the terms of trade fell six points.

The balance of trade has shown a deficit since 1947. In 1952 the deficit was more than double that of 1951; it amounted to LT 540 million, in spite of greater exports, because of a substantial increase in imports. In 1952 Turkish trade with the United Kingdom resulted in a net deficit of LT 210 million, that is, 40 per cent of the total deficit, and trade with western Germany showed a deficit of LT 148 million, while trade with France and the United States showed a surplus of LT 71 million and LT 31 million, respectively. The trade balance improved at the beginning of 1953; imports of agricultural machinery declined while exports of cereals, cotton and tobacco rose.

The steady increase in the commercial deficit, mainly with the countries in the European Payments Union, caused the Turkish Government to suspend the liberalization measures and to introduce the following changes in September 1953: (a) liberalization was applied to products accounting for 28 per cent of the total value of imports in 1948, compared with the previous figure of 63 per cent; (b) export subsidies might be granted in exceptional cases, or to offset similar subsidies by competing countries and countries which manipulate their currencies; and (c) import articles were classified according to their importance for the national economy; luxury imports are subject to a system of allocations. Moreover, the Government has introduced a bill replacing present specific customs duties by ad valorem duties.

From 1 July 1952 to 30 June 1953 there was a deficit of LT 471 million in the balance of payments, of which the negative balance of trade accounted for LT 412 million, or 88 per cent. This deficit was largely covered by United States aid, estimated at LT 209 million, and by short-term credits, to the amount of LT 105 million, granted to Turkish importers by exporters from members of the European Payments Union, for articles excluded from the list of liberalized imports. The net deficit of Turkey in the European Payments Union in 1952/53 was financed by special resources amounting to LT 18 million and payments in gold amounting to \$32 million drawn from its own resources.<sup>24/</sup> Since

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<sup>24/</sup> Organization for European Economic Co-operation, European Payments Union, Third Annual Report of the Managing Board, 30 June 1953.

transactions with the rest of the world, however, including United States aid and other foreign loans, showed a large surplus, the net gold and foreign assets of the Central Bank, which had dropped to \$180 million in August 1952 as against \$200 million in August 1951, increased to \$213 million in December 1953.

# APPENDIX A

## Output of the Sixteen Sümer Bank Establishments, 1950 to 1952

(Thousands of tons, unless otherwise stated)

Product	1950	1951	1952
Bricks, refractory.....	7.3	7.9	7.8
Cement.....	86.2	81.5	171.7
Coke.....	314.7	314.3	413.5
Cotton yarn.....	16.6	17.7	18.7
Cotton fabrics (millions of metres).....	101.0	107.4	116.1
Paper and cardboard.....	18.5	23.2	27.5
Pig-iron.....	113.5	153.4	196.0
Pipes, iron.....	8.6	8.9	7.1
Rayon.....	0.3	0.4	0.4
Shoes (thousands of pairs).....	682.0	820.0	894.0
Steel.....	90.8	135.4	153.5
Steel, rolled products.....	78.5	105.4	115.9
Sulphuric acid.....	13.5	17.8	20.1
Superphosphates.....	13.1	18.8	21.2
Woollen yarn.....	4.5	4.4	4.2
Woollen fabrics (millions of metres).....	4.4	4.2	3.8

Source: Sümer Bank, Report of the Board of Directors (Izmit, 1953).

# APPENDIX B

## Major Süm Bank Projects Recently Completed or Under Way

<u>Project</u>	<u>Estimated increase in annual production</u>	<u>Time of completion</u>
Expansion of Bakirköy cotton mill.....	7.4 million metres of cloth and 890 tons of marketable yarn	1951
Izmir print cloth mill....	25 million metres of print cloth	Early in 1954
Eregli sewing thread mill.....	200 tons of sewing thread	Completed and is about to go into production
Denizli spinning mill.....	1,600 tons of cotton yarn	1953
Erzincan spinning mill....	1,600 tons of cotton yarn	1953
Diyarbakir woollen cloth mill.....	1,000 tons of scoured wool, 1 million metres of woollen cloth	1954
Expansion of Bursa merino mill.....	1,722,000 metres of cloth, 505 tons of woollen yarn	Early in 1954
Expansion of Taşköprü hemp, twine and hessian mill.....	400 tons of twine, 4,355,000 tons of hessian	Completed and put into trial operation in the middle of 1952
Expansion of second paper mill at Izmir.....	5,000 tons of fine packing paper	Completed and put into trial operation in the middle of 1952
Expansion of third paper mill at Izmir.....	8,000 tons of yellow straw paper, 12,000 tons of cardboard and corrugated cardboard	1953
Expansion of Sivas cement factory.....	100,000 tons of cement	Partly completed; output increased 60 per cent; completion scheduled for 1953



<u>Project</u>	<u>Estimated increase in annual production</u>	<u>Time of completion</u>
Reconstruction of rolling mill at Karabük.....	90,000 tons of rolled products	End of 1955
Addition to coke plant at Karabük.....	300,000 tons of coke	1952
Sintering plant, Karabük.....	225,000 tons of sintered ore	Mid-1953
Spun pipe plant, Karabük.....	18,000 tons of pipe	1954

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Source: Sümer Bank (Ankara, 1953).