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UNITED NATIONS CONCILIATION COMMISSION FOR PALESTINE
GENERAL SURVEY

OF THE ECONOMIC SITUATION RESULTING FROM THE HOSTILITIES
IN PALESTINE AND THE EXTENSION OF THE ARMISTICE REGIME

(Working paper drafted by the Secretariat of
the Commission at Jerusalem)

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GENERAL SURVEY OF THE SITUATION RESULTING
FROM HOSTILITIES AND THE MAINTENANCE OF
THE ARMISTICE REGIME IN PALESTINE

INTRODUCTION

1. The hostilities that have taken place in Palestine have affected more or less directly all the countries of the Middle East. To take only the States bordering on the theatre of operations, that is to say, Israel, on the one hand, and Iraq, Jordan, Lebanon and Syria on the other, the direct consequences of the war are still being felt. They affect in varying degrees a population amounting to about 12,000,000 human beings living in a territory covering 750,000 square kilometres at a geographical crossroads the importance of which is attested by history and the stability of which is one of the major concerns of international politics.

2. For more than two years, these States, whose independence is so recent (Iraq-1932; Syria, Lebanon, Jordan - 1946; Israel - 1948) ^{that their} governments and administrations have not yet had time to attain to full maturity, have known war, truce and, finally, armistice. They are feeling the real effects, too often unrealized, on the economic level. Whereas Europe, since the end of the war has been able to recover from terrible destruction in a relatively short period of time, this part of the world, which had suffered only minor damage as a result of the hostilities between the Arab and Israeli armies, has not yet succeeded in finding a satisfactory balance. The continuance of this situation is serious, not only for the present, but also from the long-term point of view. The still under-developed economies of the Middle East are now suffering from the situation resulting from the hostilities and are in danger of seeing the delays in the economic exploitation of their territories producing their effects in the future both on the national and on the regional levels.

/I. EFFECTS

I EFFECTS ON THE ECONOMIES OF THE MIDDLE EAST

A. Present consequences

1. At present, the populations of the countries concerned are suffering the effects of a situation which is ill defined and unfavourable to the expansion of all economic life. In the field of production, in that of trade between the countries of the Middle East and in regard to transport and communications, these States are still working under a defective system which retards and prevents the application of all equitable and economically sound solutions for the problem of the refugees.

(a) Change in the Economic Structure of Palestine

2. The economy of Palestine, whose territory was the theatre of the military operations, has been completely overturned. There has been a radical change in the population owing to the exodus of almost 750,000 Palestinian Arabs who were compelled to flee to the Arab part of Palestine and the neighboring States, and to the arrival in Israel of 450,000 immigrants. The Arab economy has practically ceased to exist in Israel. Its human elements have been scattered, while their wealth and instruments of production have been sequestered or exploited by the new arrivals. This situation is very clearly described in the memorandum of 28 July 1949 submitted to the Technical Committee of the Conciliation Commission by the Economic Division of the Israeli Ministry for Foreign Affairs.^{1/}

3. The damage caused by the war itself has not only not been repaired after the cessation of hostilities, as in so many other countries, but, on the contrary, it has been and is every day being aggravated by the maintenance of an essentially temporary condition, the armistice regime. In short, the continuance of that situation is perhaps causing more damage than the direct results of the hostilities.

/4. The steps

4. The steps taken by the parties to safeguard a number of valuable resources cannot be regarded as either sufficient or adequate. Two of the former Palestine's sources of wealth--citrus fruits and potash--which were all the more important because they were a major item on the credit side of the constantly adverse trade balance, may serve as an illustration. The production of citrus fruit has suffered from the hostilities, but even more from subsequent neglect of the orange groves. Of the orange groves belonging to Arabs now refugees outside Israel and which amounted to 50 per cent of total number in Palestine, half are dried up or destroyed, 25 per cent are managed by the "Administrator of Absentee Property" established by the Israeli Government, and, in the opinion of the experts in 1949, 25 per cent could still be saved.¹ The same observation applies, though to a lesser degree, in the case of other abandoned properties, both urban and rural.

5. The extraction of potash has been suspended at the north of the Dead Sea, an area under the control of Jordan. No agreement has been reached to enable work to be resumed by the concessionary company, which is obliged to confine its activities to the more inaccessible southern area. The same applies to electric power and the use of hydraulic power. In these countries whose economic future both in agriculture and industry is closely bound up with the development of hydro-electric power, resources remain unused, and the damage caused to the existing installations is very often left unrepaired.

(b) Prohibition of Regional Trade

6. Commercial relations on the regional level between the States parties to the conflict had always been considerable, since their economies were in many ways complementary. For two years, however, military barriers have prevented the exchange of products, thereby lowering the standard of living of certain population groups. This retrograde development is all the more paradoxical since the Middle East has had in commercial matters a tradition of freedom which has been to a large extent one of the sources of its wealth throughout its history.

¹ Document A/1507, page 61.

7. Under the Ottoman Empire, the territories today under the control of Israel and of Jordan, Egypt, Syria and Lebanon were subject to a single authority, and there was no obstacle to trade between them. The advantage of such a situation to the populations concerned was recognized by the League of Nations. When the League conferred the Mandate for Palestine on the United Kingdom, it was explicitly provided that the Mandatory Power had the right to conclude special agreements with States whose territories in 1914 were parts of Asiatic Turkey or Arabia. Treaties under Article 18 of the Mandate were successively concluded with Syria, Lebanon, Trans-Jordan, Egypt and Iraq (each of these States is now in conflict with Israel). A treaty was concluded with Syria in 1921 and revised in 1929. In 1939 that single instrument was replaced by two trade treaties, one with Syria and the other with Lebanon. In 1928 a treaty was signed with Trans-Jordan. It provided that neither Trans-Jordan nor Palestine would raise customs barriers between their two countries without the previous agreement of both parties; and, in fact, there were no customs barriers between the two countries. In 1949 a treaty was concluded with Egypt to promote the exchange of complementary products. In 1937 a treaty was made with Iraq and a free zone established in the port of Haifa to be the starting point of a route across the desert. Apart from that last treaty, which was declared to have lapsed by common consent in 1941, all the other treaties remained in force until the opening of hostilities. Trade was active up to 1941, Palestine exporting manufactured goods and oil to the Arab States, while the latter exported food products and raw materials to Palestine. Since the war, commercial relations between Syria, Lebanon, Jordan, Egypt and Israel have not been resumed.

8. The same Article 18 of the Mandate imposed upon the Mandatory Power the obligation to grant most-favoured-nation treatment to all the States Members of the League of Nations, that is to say, not to grant preferential treatment to any one of them to the detriment of the others. That article was applied in a liberal manner, since Japan, Italy and Germany profited by it even after their withdrawal from the League of Nations.

9. The hostilities and the armistice regime have not only suspended the application of these agreements, but have stopped all trade between the former Palestine and the Arab countries, the new State of Israel being subjected to an economic blockade by the neighbouring Governments.

/((c) Difficulties

(c) Difficulties of transport and communications

10. The continuance of this situation also hinders facilities for the international goods and passenger traffic which has been one of the characteristic features of this area owing to its geographical position which is particularly suitable for trans-continental trade between Europe and Asia. Transport and communications between the Arab States and Israel are impossible, both legally and in practice. There is no road transport in either direction between Egypt and Syria, Jordan and the Lebanon, because the territory of Israel cannot be crossed, in spite of the excellent existing road networks. The same applies to international railway communication. The air transport companies operate under considerable difficulties, including corridors of access and special time-tables, and the prohibition of flights over certain territories. These prohibitions, annoying in themselves, sometimes give rise to acts resulting in fatalities, loss of goods and considerable delay in the delivery of mail. Sea transport services are obliged to use special routes which necessitate costly and lengthy transshipments of passengers and goods, even when more formal prohibitions are not imposed. Instead of going to Tripoli (Lebanon) or passing through the Suez Canal, tankers supplying the Haifa refineries arrive from the Gulf of Mexico, or are obliged to travel around Africa to bring crude oil from the Persian Gulf -- an operation which is known as "Operation Vasco de Gama". These transport and communications difficulties go beyond the limits of Palestinian territory proper, and affect great international arteries such as the Suez Canal, where freedom of passage is impeded by the discriminatory measures applied to vessels by Egypt in the blockade of Israel by the Arab States. No steps have yet been taken to facilitate the resumption of traffic on the main routes, either for trade or for access to the Holy Places, though specific provision is made for such steps in some of the armistice agreements. Lastly, pilgrimages and tourist traffic to these areas, normally important sources of income and capable of considerable development, as has been noted elsewhere, are not on the scale that might be desired. The difficulties of passing through Arab areas to Israeli areas and vice versa discourage the influx of travellers to a partitioned Holy Land and thus prevent valuable contributions to the balance of trade.

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11. The passage of sources of power through these countries has been interrupted. Oil from Iraq no longer flows to the terminus at Haifa, and the construction of a second pipeline has been stopped at the Israeli frontier. The conclusion of the armistices has brought no change in a situation which adversely affects, on the one hand, Iraq, a producing country which no longer receives royalties from the concessionary company, and on the other hand Israel, which is urgently in need of such power for its agriculture and industry, and lastly the European countries, whose recovery is largely conditional on delivery of a fuel paid for in sterling. Lastly, the large refinery at Haifa has been unable to resume production on a normal basis at a time when the shortage of such installations is one of the bottle-necks in the oil industry.

12. While the armistice agreements put an end to the hostilities on the military level, no agreement has lessened the rigours of an economic war and a blockade that are still maintained. The already difficult economic situation is aggravated by this paralysis in the distribution of wealth. In Israel particularly that paralysis is reflected in difficulties in connexion with the balance of payments, monetary policy, supply and rationing. It also has direct and, in some cases, serious effects on certain Arab States, particularly those which before the hostilities sent a large part of their agricultural produce to Palestine.

13. So far as concerns the Arab States themselves, the effects of their economic blockade of Israel on their own economies, and particularly on their balances of payments, have no doubt been offset, partly and very artificially, by the arrival of a body of new consumers, the Arab refugees. The purchase of goods, for the most part foodstuffs, and the use of services by the relief organizations for refugees (UNRPR, later UNRWA) have enabled those States to find an outlet for part of their production formerly exported to Palestine and paid for in strong currencies (to the value of up to one-and-a-half million dollars a month). Had it not been for these bodies, the balances of payments would sometimes have shown heavy deficits, and there would probably even have been very serious economic crises, particularly in the Gaza area and in Arab Palestine.

14. Israel has no doubt to some extent lightened the difficulties of the blockade by concluding commercial agreements with certain European countries for the supply of foodstuffs, and by obtaining supplies of oil from the Persian Gulf and the Gulf of Mexico.

15. It is nevertheless true that the maintenance of an armistice regime tends to stifle the economies of countries whose products are partly complementary, and that the measures adopted by Governments and external assistance to counteract the effects of this situation are, from the economic point of view, artificial remedies which help to maintain a paradoxical situation.

(a) Natural Reactions of the Populations to These Impediments

16. There have been reactions expressing opposition to the artificial impediments imposed on the free circulation of goods and persons. With regard to goods, there has been an increase in smuggling, an activity which has always existed owing to the length of the frontiers and the nature of these countries.^{1/} It is no secret to anybody that Arabs and Israelis use the villages on the armistice lines and employ a thousand ingenious devices for getting round the obstacles erected by the authorities. In this they are assisted by the fact that there is no effective control.

17. Unfortunate conflicts are often caused by the lively and persistent reaction of the people to restrictions on movement and to the refusal to allow some inhabitants to return to their homes. The infiltration into Israel of Palestinian Arabs attempting to return to their homes is severely resisted by the Israeli authorities. Moreover, the passage of Arabs from the Gaza coastal belt towards Jordan is prohibited, and encounters between these refugees and Israeli patrols are the occasion of repeated incidents. Whereas smuggling operations work out to the benefit of both the parties involved -- although in the long run such activities are harmful to the prestige and authority of the States, and the

^{1/} The magazine The Economist expressed the view that on a conservative estimate the value of foodstuffs smuggled from the Arab to the Israeli part of Jerusalem amounted to 150,000 Palestinian pounds in November, 1949. (The Economist, London, 21 January, 1950)

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volume of goods involved is small in comparison with the possible volume of flow trade. The movements of human beings are the occasion of unfortunate accidents, only too often fatal. Regulations could, however, be devised for regulating such movements and relieving the demographic pressure on the Gaza belt.

(c) Obstacles to the Solution of the Refugee Problem

18. Both the peoples in the countries directly concerned in the conflict and the international community at large are the sufferers from a situation which has lasted only too long; but their sufferings are minor in comparison with those of the Palestinian Arab refugees. Uprooted from their homes and without the means of subsistence, these 750,000 persons have become consumers only, and are like foreign bodies in the economies of the countries which have received them, and which in most cases do not grant them the legal right to work. These refugees form a kind of labour force artificially excluded from the economic circuit and competing with national labour. When they are not, as in some cases (Lebanon) the cause of unemployment, the effect of their presence is to cause a decline in wages (in Jordan and the Gaza area).

The relief distributed to these unfortunates, and the partial and temporary employments which a minority of them have found, keep them in a situation of "reserve" from the economic point of view, a situation which diverts their attention from the need to seek stable employment and a permanent home. This attitude will retard and in many cases make difficult their final integration in the economy of the countries where they settle.

19. These hundreds of thousands of uprooted persons completely dependent on the international community are still awaiting resettlement. As they are kept alive by outside help which has been continued up to the present, the problem of their subsistence and the means of their future existence still remains unsolved. They form a mass, or rather a number of unstable masses maintained in enforced idleness, uncontrollable in their reactions and an increasing burden owing to their high birth-rate. These refugees, a potential source of wealth for the Near East, are at present only a crushing burden, and will remain so if an attempt is not made in one way or another to reintegrate them in the economic circuit of the countries concerned.

/20. In this

20. In this respect, the payment of compensation to those of the Arab refugees who could not return to their homes in Israel (State of origin) would encourage and materially assist them in re-settling in certain Arab states (States of settlement). Until compensation for abandoned property is made in some form or another, the natural desire of the owners of such property will be to recover it, that is to say, to return to Israel.

21. The rehabilitation and resettlement of the refugees is a problem the early solution of which is in the true political and economic interests of each party. The re-establishment of normal economic conditions would facilitate its solution. On the other hand, if the present situation is continued, some extremely large sums provided by the generosity of certain States may be used for purely temporary purposes without finally solving the real problem. The question becomes more difficult as time goes on, for in this case the "time" factor plays a negative part. The return of the Palestinian Arabs raises questions which everyday become more difficult in view of the large influx of immigrants into Israel, an influx which is so large that about 150,000 new arrivals cannot be accommodated in spite of the requisition of houses abandoned by the Arab refugees and have to live in the fields. The estimate of the damage caused to the abandoned properties and the estimate of the compensation to be paid to Arab refugees who choose not to return are becoming more and more complex, and the chances of finding equitable solutions become more remote from day to day.

22. The economic condition of the Middle East, its development since 1948 and its prospects for the future are far from reassuring. The budgets of the States of Israel, Syria, Jordan and Egypt are weighed down by the expenditure on armaments, an unproductive expenditure of capital which might usefully be employed in equipping and exploiting the resources of the countries concerned. The prevailing economic conditions in these areas are not profoundly affected by such operations as the investments of the oil companies at the rate of about \$500,000,000 a year, the loans amounting to \$12,800,000 granted to Iraq in 1949/50 by the International Bank for Reconstruction and Development and the

other loans

loans granted by the Import and Export Bank to Saudi Arabia in the amount of \$15,000,000 and to Israel in the amount of \$100,000,000 (it will be noted that these various loans have been granted to countries which have not had to cope with the problem of the arrival of the Arab refugees). The present situation is uncertain and the future prospects are not reassuring for these countries which one would like to see not only at peace but prosperous. The importance of the resumption of normal relations between the countries of the Middle East cannot be evaluated merely in terms of definite financial and commercial advantages. On the Arab markets, it is true, Israel would encounter Western products with which it would be difficult for her to compete. It is also true that the Arab States would sell more to Israel than they would buy from her (that was true also of Palestine). But one must look beyond these far too limited considerations to see the total benefit, not only at present but in the future of a normalization of inter-State relations. These benefits cannot be expressed in mere accounting terms.* In regard to the future, it is advisable to take into consideration the consequences of a state of peace, and the real contribution it would make to the development of the Middle East.

* In a confidential report published by the Economic Division of the Israeli Ministry of Foreign Affairs under the title "Principles for the Revival of Economic Relations between Israel and the Arab States", the Israeli experts concluded that the Arab States had more to gain from a rapprochement than Israel. They considered that from Egypt, Israel might import annually 5,000,000 pounds' worth of cotton, oil cakes and minerals and chemical products, whereas Israel would only be able to export to that country goods to the value of 350,000 pounds. About 2,300,000 pounds' worth of cereals and fruits might be bought from Lebanon and Syria, but little or nothing could be sold to those countries. About 350,000 pounds' worth of food products might be imported from Jordan, but Israeli exports would not amount to 75,000 pounds. At present, these goods are bought elsewhere, but their price is increased by transport charges.

/B. Future

B. Future Consequences

23. The continuation of such a situation is a serious matter owing to its present effects. It also contains the seeds of difficulties that may appear in their full dimensions at the least convenient time, that is to say when political agreements have at last enabled peace to be re-established.

(a) On national economies.

24. On the national level in particular, the Arab States are in danger of having to endure the results of an economic policy which is too closely connected with considerations arising out of the present conflict. A prolonged period of retardation might have serious results, the more so since it would take place at a time when the whole world is equipping and modernizing its industry and agriculture. The attention of those States should be drawn to the importance of the conclusions and proposals of the United Nations Economic Survey Mission established by the Conciliation Commission for Palestine. The pilot projects have the advantage that they can be carried out immediately, that they have the financial and technical assistance of the United Nations and that they may possibly become a starting-point for larger development plans.

(b) Development on the regional level.

25. The geographical and economic interdependence of the countries of the Near East is a fact which their inhabitants cannot ignore except to their cost. If the present situation were indefinitely prolonged, the economic development of those under-developed countries might come about in a chaotic and unco-ordinated way.

26. Behind barriers more artificial and fragile than protective customs, a closed economy of national industries and agriculture is being created and developing. These national interests, refusing to take any notice of the growing competition in neighbouring countries, and in willful ignorance of competition in general, are using and blocking capital resources only too rare in that part of the world for the purpose of establishing similar enterprises. The effect of such a policy is to leave all the difficulties to the future, when the barriers isolating the economies of these countries have fallen.

27. If, on the other hand, there were some kind of agreement, not only between Israel and the Arab States, but even between the Arab States themselves, the prospects of development would appear in quite a different light. A more satisfactory balance of the economies might be achieved, and natural specialities might emerge and prosper. More perhaps in these areas than in any other, the co-operation of adjacent countries appears to be necessary for the cultivation of new land and the management of rivers, problems that are the key to all development in the Middle East. Rivers crossing several frontiers cannot be managed without the agreement of the riparian States. Moreover the work of development requires investments on such a large scale as to necessitate the agreement of several countries on joint plans and the provision of funds apportioned among the parties concerned. Lastly, it is almost certain that an appeal for external assistance would prove indispensable in view of the lack of local capital, the slowness of its accumulation, and the archaic nature and inflexibility of the fiscal systems, but such assistance could be granted only if adequate conditions of stability existed. Such conditions are necessary to attract private capital and such loans as might be granted by international monetary institutions.

28. While in the rest of the world -- in South America, Europe and the Far East -- constant efforts are being made to facilitate the joint development of natural resources and trade on a regional basis, these under-developed countries of the Middle East are witnessing a partitioning off of the various national economies and a contraction of markets. At a time when national economic units of secondary importance are tending to disappear and combine for the welfare of the peoples, this area of the world is more divided to-day than ever before.

III. CONCLUSION

29. It is of great importance, both for the countries concerned and for the United Nations, to reach a settlement or agreements which would give these countries an opportunity to repair the damage caused by the hostilities and stop an economic war which in the long run is bound to be disastrous to all. Such a settlement or agreements would finally enable the under-developed countries of the Middle East immediately to undertake with adequate resources the exploitation of their territories and raise the standards of living of their populations.

30. Only by returning to more normal conditions will it be possible to lay the foundations for a healthy economy which would restore to the Middle East its position as a centre of international trade and thus enable it to recover a place which belongs to it by its historical destiny and geographical position. When this balance is restored, the Middle East will be able finally to emerge from a period of static economy and gradually to enter a dynamic phase of development.

31. On the other hand, if the present situation persists, not only will there be a danger that the standards of living of the people might never be raised, not only would there be a danger that external financial and technical assistance adequate to the requirements of the situation might not be granted, but the maintenance of living standards at their present level would probably prove difficult. The economic disequilibrium resulting from such a situation would then be the cause of possible conflicts in the social and political fields.

32. On the military level, the armistice agreements have localized the conflict and stopped the bloodshed, destruction and damage. Unfortunately these agreements have not been transformed into peace. On the economic level, no flexibility has been introduced into a system which is essentially temporary. The maintenance of such a situation, contrary to the very spirit of these agreements, tends to raise problems and create a tension that is accentuated by the maintenance of a blockade.

33. It would be dangerous to think that the existence of armistice lines would be sufficient to maintain a state of peace, even when guaranteed by three great Powers. If regional economic disequilibrium should persist, and if, inside the various countries, subversive elements were likely to find material for their propaganda in the poverty of some countries and in the suffocation of others, there would be a danger that desperate solutions might appear to be the simplest. There would be a temptation to resort to direct action in both domestic and foreign affairs.

34. Though the maintenance of a political status quo is apparently easy, it cannot establish real stability or promote economic development and social progress. It would be a mistake to be deceived by the apparent solidity of such a structure if the standards of living are not raised and a more equitable economic and social system established. To entertain such delusions would be to abandon to revolutionary intrigues a sector that had been thought saved. These areas would then be in danger of internal collapse in whole sections without even having been attacked by an external enemy.