

JEWISH AGENCY FOR PALESTINE
Economic Research Institute

Dhananjayrao Gadgil Library



GIPE-PUNE-045343

ASPECTS OF ECONOMIC POLICY IN PALESTINE

by

DAVID HOROWITZ

1936

X. 465.N3
. G6

45343

The aspects of economic policy dealt with in this publication were investigated on the instructions of the Political Department of the Jewish Agency for Palestine. The results of this research were utilised in memoranda, which have been submitted, either to the Government of Palestine or to the League of Nations, by the Jewish Agency and Jewish economic institutions. No essential changes have been made in the original text, apart from certain statistics having been brought up to date.

My acknowledgements are due to Mrs. Rita Hinden for her able co-operation throughout, in the research work, preparation and presentation of this material.

D. H.

C O N T E N T S

	Page
Tariff Policy and Industrial Development in Palestine . . .	7
Japanese Trade and Palestine's Customs Tariff	29
Palestine and Reciprocal Trade Relations	43
Fruit and Vegetable Production in Palestine —	
The Case for Protection against Syrian Imports . . .	55

**TARIFF POLICY AND INDUSTRIAL DEVELOPMENT
IN PALESTINE**

November 1935

PROGRESS OF INDUSTRY IN PALESTINE.

During the last few years, when the economic life of most countries has been caught in the grip of one of the severest depressions in history, Palestine has enjoyed a period of unexpected and unprecedented industrial development. While the world index of industrial production has been falling from 100 in 1929 to 76 in 1934, the index for Palestine has shown, year by year, a persistent increase — from 100 in 1929 to 260 in 1934. The annual output of these young industries, in which seven million pounds have been invested, reached at the end of 1934 a total of £P. 6,500,000, representing a rise of 160% in the course of four years.

Development of Jewish Industry in Palestine

	1930	1934	Increase of 1934 over 1930	Percentage of total in the country
No. of workers	11,000	25,000	127%	27.6%
Wage Roll	£P. 657,000	£P.2,250,000	242%	37.8%
Annual Production	£P.2,500,000	£P.6,500,000	160%	—
Total Investment	£P.2,500,000	£P.7,000,000	180%	—

As a result of this rapid development, industry can now be classed as the most important single factor in the economic life of the country. As far as the Jewish community is concerned, 25,000 workers, forming 27.6% of the total Jewish working class, are employed in industry, which means that over a quarter of the Jewish population is now directly dependent on industry for its livelihood. The annual pay-roll of these workers amounts to £P.2,250,000 which is 37.8% of the total wage-bill of the Jewish population in the country. Today industry is one of the most effective stabilising forces in the Palestine economy.

The unusual industrial growth of the last few years is due to a

number of causes peculiar to Palestine alone. An unceasing stream of capital has poured into the country, seeking new avenues of investment. The rapidly increasing population has swollen the demand for all forms of home products. Among the new immigrants are large numbers of experts and workers, who bring with them technical skill, theoretical training and a wide practical experience — essential assets for the establishment of new industries. It was in this way that the wool industry was transplanted from Belgium to England by the Flemish refugees, and the clothing industry from Russia to the United States by the Jewish immigrants of the 90's.

Palestine has been an exception, not only to the general trend of world development, but also to developments in the neighbouring countries. The unusual course of Palestine's industrial progress is illustrated by the following comparative table :

Import of Industrial Machinery

Year	Palestine	Syria	Egypt
	Population 1,300,000	3,500,000	14,500,000
1933	£P.467,000	£P.90,000	£P.588,000
1934	£P.950,000	£P.60,000	£P.974,000

DIVERGENCE OF PALESTINE'S FOREIGN TRADE FROM WORLD TREND

In foreign trade, as well as in internal progress, Palestine's development diverges from the trend of world economics, as the following figures indicate :

	1929	1934
World Trade	... .. 100	34
Palestinian Trade	... .. 100	212

Every country, almost without exception, has succeeded since 1929 in improving its trade balance either by diminishing imports or increasing exports. Palestine stands out as the one country with a persistently growing adverse trade balance, which is actually larger today than in pre-depression years. Palestine's surplus of imports over exports was £P. 5,600,000 in 1929 and £P. 11,900,000 in 1934, i. e., an increase in the adverse trade balance of over 100%. The following table effectively illustrates this point :

Trade Balances *

in terms of old U. S. gold dollars. (000,000's)

(+) Surplus of exports; (—) Surplus of imports

Country:	1929	1933	1934
Egypt	— 13.9	+ 7.0	+ 7.9
U. S. A.	+ 818.5	+ 160.6	+ 278.1
Czechoslovakia	+ 16.1	+ 1.3	+ 23.0
Roumania	— 2.7	+ 14.6	+ 3.1
Latvia	— 16.9	— 1.9	— 1.9
Turkey	— 49.8	+ 13.3	+ 12.9
United Kingdom	— 1857.6	— 853.1	— 857.4
Palestine	— 27.4	— 28.0	— 35.2

This dissociation, on the part of most countries, from the world market is a result of their natural desire to protect themselves against manipulated export prices. Prices have been reduced to fantastically low levels by a series of ingenious economic and political devices, spelling doom to the development of even the most efficient industries in the importing countries, and compelling many countries to withdraw from world trade. "It is hardly an exaggeration, for example, to say that many Continental European countries have, by their restrictive policies, withdrawn in a large degree from the circulatory process of trade" **. In striking contrast to the rest of the world, Palestine has chosen the opposite course of more intimate association with the world market.

To a certain extent the adversity of Palestine's trade balance is unavoidable. The rapid economic development of the country demands the import of large quantities of capital goods. In the long run, such imports will tend to improve the trade balance by expanding local production, though, of course, a certain time-lag must intervene. As long as the conditions for expansion are, on the whole, favourable, and the imported capital goods are not converted into a dead weight of idle capital, this process should cause no apprehension.

Apart, however, from these justifiably swollen imports of capital goods, Palestine's dependence on the world market may, under present conditions, expose its economic life to serious dangers. With the increasing restrictions hampering export trade, the one way of cutting down the excess of imports, and thus falling in line with general world developments, is increased industrial production within the country.

* League of Nations World Economic Survey 1934-1935, p. 203.

** Ibid. pp. 180-1.

Of £P.15,200,000 of imports in 1934, goods to the value of £P.9,260,000 fell into the class "wholly or mainly manufactured", which illustrates the large proportion industrial goods form of the country's imports and the considerable absorptive capacity of the local market for products of this category. The value of industrial machinery imported during the same period amounted to £P. 950,000 and that of building materials to £P. 1,904,000.

In order to enable an expansion of industry to take place and to consolidate the progress of recent years, the capital goods brought into the country must be put to productive use, first and foremost, for purposes of industrial development. Whether this will prove possible, depends on a number of factors, one of the most important of which is the economic policy of the Government.

NEW CONDITIONS ON WORLD MARKET

Any analysis of Palestine's trade relations and their effect on the country's economic life must take account of the conditions now prevailing on the world market. The price mechanism of the world has been thrown out of gear, and instead of normal competitive conditions, we now have — what in modern economics is called — a "manipulated price structure". A complicated system of bounties, trade restrictions, export premia, state credits, currency regulations, etc., has completely neutralised the influence and effect of competitive conditions. As the League of Nations World Survey aptly observes: "The world in which reliance is placed, even nominally, upon the automatic regulatory and corrective influence of competition has, at least temporarily, greatly shrunk".*

The first result of this new economic policy, directed towards creating a currency surplus and improving trade balances, is a discrepancy between the internal and external prices of goods, which is steadily widening. The decline in export prices has been more intensive than the decline in internal prices. In fact, since 1933 there has been a slight increase in the level of internal prices in most countries, and only a minimal decline in prices in the remainder.

DUMPING

This divergence between home prices and export prices is known as "dumping". The scientific definition of dumping is: "Selling a commodity abroad at a price lower than its selling price for internal

* Op. cit. 1933-1934, p. 74.

consumption in the exporting country".* There can be no doubt today of the extensive use of dumping methods by many industrial countries which are interested in increasing their exports. The following authoritative statement accurately describes the situation: "Though comprehensive evidence as to the prevalence of dumping is difficult to obtain... relevant sources of information convince me that at no previous period has dumping been as prevalent in international trade as it is at the present moment, and that a very substantial fraction of the manufactured and semi-manufactured goods sold in foreign trade are sold at dumping prices. The practice is most prevalent on the part of those industrial countries whose domestic markets are most effectively protected against foreign competition by high import duties, and whose industries have to the greatest degree been organised into trusts or cartels. The extent to which dumping is practised would be even greater than it is, were it not for the fact that a number of important markets for commodities of the type most subject to dumping, notably the United States, Canada, Australia and South Africa, have attained a substantial degree of success in preventing the import of dumped goods by effective administration of anti-dumping laws".**

Various methods are applied in order to secure an artificial increase in the volume of exports:

- (a) Goods are sold at export prices equal to the cost of production so that no profit whatsoever is made. This practice is made possible, and even profitable, by high protective or prohibitive duties, which assure large profits in the home markets, the export serving only to reduce overhead charges through an increased turnover.
- (b) Bounties and export premia paid by their Governments, enable manufacturers in various countries to sell below the cost of production. The paradoxical state of affairs thus arising is illustrated by the following incident: "...Utilising the Italian export bounty, and the special preferential transport rates between Italy and Austria, a merchant was said to have made a profitable sale of wheat at a negative price, paying his customer to accept the wheat so that he might have the documents with which to collect the export premium".***

* Memorandum of the League of Nations on Anti-Dumping Legislation, 1927, p. 3.

** Memorandum on Dumping by Professor J. Viner, p. 6. League of Nations, 1926.

*** League of Nations World Economic Survey 1933-1934, p. 207.

- (c) Deliberate depreciation of currency which gives the exporting country an advantage over countries having a stabilised currency (i. e. "currency-dumping").
- (d) Employment of child labour and the payment of wages below the subsistence level in civilised countries (i. e. "social dumping").
- (e) Credits granted by Governments to enable exporters to advance commercial credits at a very low, if any, rate of interest — thus disturbing the equilibrium of competitive conditions (i. e. "credit-dumping").
- (f) Palestine, in addition, suffers from a special kind of dumping, unknown elsewhere. Jewish immigrants from countries in which restrictions are imposed on the export of capital, cannot export their funds in cash. Some of them are compelled to transfer their property in the form of goods, which they are prepared to dispose of at very low prices.

THE CASE AGAINST DUMPING

The detrimental effects of dumping on the development of the importing country are obvious. Home-production must, in the long run, be ruined, while the drain of capital to pay for the excessive imports must lead to bankruptcy, unless it can be offset by a sufficiency of invisible exports. The case against dumping is put in a nutshell in the following observations: "The possible losses to domestic producers from an influx of temporarily cheap foreign goods are obvious: disorganisation, and even collapse, of the domestic industry may result, with serious losses of invested capital and serious unemployment of labour. Since the gain to the consumer is by hypothesis temporary, and may have ceased long before the expiration of the period required by the capital and labour in the domestic industry to adjust themselves to the abnormal foreign competition, the losses may far exceed the gains".*

Dumping is aggravated in Palestine by the international status of this country as a mandated territory, which prevents it from discriminating between countries competing legitimately and countries undercutting local produce through dumping practices. In defence against dumping most other countries have resorted to bilateral agreements. The League of Nations World Survey states: "The restriction of bilateral clearing agreements and reciprocal trade treaties has diverted trade,

* League of Nations Memorandum on Dumping, p. 9.

particularly in Europe, from economic to 'treaty channels'. Trade is regulated less by price differentials and more by political bargaining".* Palestine is precluded by its constitutional status from participating in this general trend towards "treaty channels". Nor has Palestine adopted any of the other methods of controlling foreign trade — such as high tariffs, taxes, currency controls, etc. This lack of any modification of the manipulated price structure now prevailing in the world market, either by trade agreement or by state regulation, has had the inevitable effect of attracting to Palestine the cheapest articles available in the world market — whatever the methods by which these low prices were brought about. Palestinian industry is alone in having to face such cut-throat competition. It is clearly not to be expected that it can be equal to a task with which no other industry in the world is confronted.

DUMPING IN PALESTINE

There are few categories of goods which are not sold on the Palestinian market at dumping prices. The following table gives some typical examples : **

Examples of Dumping Prices

Commodity	Country of Production	Price in Country of Production (mils)	Export Price cif. Jaffa (mils)	
Wire netting	Germany	1,300	570	per reel
Buckets	Belgium	54.25	33	„ bucket
Nails	Poland	21,400	11,260	„ ton
Barbed wire	Poland	26,200	16,300	„ „
— ditto —	France	29,500	16,850	„ „
Screws & Nuts	Germany	40,400	16,200	„ „
Cast-iron pipes	Germany	2,103	979	per 100 kgs.

It is interesting to note that the Palestine cost of production of wire netting is 770 mils per reel, of buckets 48.04 mils per piece, and of screws and nuts 29.800 mils per ton, all of which are considerably

* League of Nations World Economic Survey, 1934-1935, p. 181.

** Only standardised types of commodities could be quoted, as in the case of the unstandardised no satisfactory basis of comparison could be established. In the case of textile goods, for example, there are so many different qualities and varieties, that invoices with minute specifications as to the exact type of goods are neither obtainable nor conclusive. For this reason the few examples quoted here, which can be supported with evidence, are all of the category of standardised goods.

higher than the export prices of the same goods coming from abroad, and considerably lower than the prices in the country of production. To give some idea of the situation in the clothing and textile industries, the following tentative calculation, showing the relation between the cost of production in Palestine and dumping prices, has been made :

Palestine Costs and Dumping prices (mils)

	Cost of Material	Labour Cost & overhead charges	Factory Production cost in Palestine	Export (cif) Prices			
				Japan	U.S.A.	C.S.R.	Austria
Cotton sports shirts	90	60	150	80	125	—	—
Artificial silk shirts	90	80	170	90	—	—	—
Japanese silk shirts	150	80	230	180	—	—	—
Poplin shirts	210	60	270	120	220	250	250

The following are two further telling examples of dumping prices:— The price of Japanese towels cif. Jaffa, is 310 mils per dozen. The price of the raw material in Palestine alone is reckoned at 381.6 mils. A belt of Japanese khaki is being sold in Palestine at 850 mils. The cost of the material in this belt is 1,742 mils. Of course, raw materials can be bought by Palestine manufacturers only at current world prices.

Dumping has assumed in Palestine a particularly virulent form. It is at times deliberately designed to ruin a new industry. Primus stoves, for example, were being sold in Palestine at 230 mils per piece. Immediately on the establishment of a stove factory locally, the price of the imported articles was reduced to 185 mils. Similarly, in the case of hexagonal wire netting, the price in November 1934 was 750 mils per reel. Today, after the commencement of local production of wire netting, the price per reel of the imported article has slumped to 570 mils. Even the rumour of plans for setting up a new factory in Palestine is sufficient to bring in a torrent of dumped goods, designed to prevent the new factory from starting. The price of spades was 15—20 mils per piece. A local factory was considering the production of spades in the country. The cost of production would have been about 17 mils per piece. No sooner was this known, then the price of the imported spades fell to 15 mils, which effectively prevented the plans of the local factory from materialising.

It must not be imagined that this type of price cutting brings any lasting benefit to the consumer. As soon as the death-blow has been dealt to the local industry, the price of the imported goods rises again. Nothing but a prohibitive tariff would be adequate to put a stop to such practices.

CARTELS AND DUMPING

Competition on the basis of manipulated prices throughout the world is made more effective by the system of cartels. Monopolistic price-fixing by powerful combines of this sort is one of the most typical features of the new economics. The trend towards cartellisation in industry is today an unavoidable fact and is authoritatively described as follows: "The effect of the depression has been a greater measure of control over production. The system of free enterprise had long passed the era when keen competition among small unrelated units of production was general. As the need for greater capital aggregations arose in industry and commerce, the tendency towards monopolistic controls naturally became greater."* Palestine is also affected by these monopolies on the world market. Standardised metal goods are a case in point. The Palestine Foundries & Metal Works suffered by the competition of the I. B. A. until they were admitted to this combine. The Barzelit factory has to contend with cut-throat competition by the Iweco, conducted not only through the reduction of the prices of the finished article, but also through the increase of raw material prices by the Combine, which controls the supply of raw materials and cooperates with the Iweco.

PROTECTION AGAINST DUMPING

One country after another has been compelled to seek protection against these various methods of unfair competition. In 14 countries (including Great Britain and all the Dominions) anti-dumping legislation had been promulgated as early as 1927.** The typical conditions for the enactment of such legislation are defined in the following terms: (in the case of New Zealand).

- "(1) That goods are being sold to an importer in New Zealand at a price below the price which is charged for similar goods for home consumption in the exporting country at the same date.
- (2) That goods of the same kind are also manufactured in New Zealand".***

This formula is repeated with slight variations in practically all anti-dumping legislation. It is true that such restrictive laws were seldom put into practice, but the principle of the equalization of export prices with the internal prices of the producing country has served as a basis for the institution of import duties at a sometimes prohibitive

* League of Nations World Economic Survey 1933-34, p. 69.

** Memorandum on Anti-Dumping Legislation, p. 6.

*** Ibid. p. 16.

rate. Country after country has been forced through the pressure of dumping, which has greatly increased during the depression years, to adopt protective tariffs, and even free-trade England has eventually been compelled to introduce tariff reform.

However paradoxical it may sound, it is none the less true that, under these circumstances, tariffs have the effect of *restoring* fair competitive conditions for industries which would otherwise be destroyed by the manipulated prices which prevail on the world market. Protection today, even to a free-trader, does not mean a departure from principle.

"To the free-trader, cheapness of imports is an advantage... But where the cheapness is temporary and abnormal, the protectionist and the free-trader can logically and in full consistency with their general policies take the same attitude".*

PROTECTION IN PALESTINE

The difference between Palestine and other countries, as regards industrial protection, is given striking illustration by a comparison of customs duties. The following table is representative of various types of countries : the United States are quoted as an industrial high tariff country ; the United Kingdom as a traditionally free-trade industrial country now embarking on a policy of protection ; Czechoslovakia and Poland as semi-agrarian European countries with large scale and efficient industries ; Australia as a predominantly agricultural unit within the British Empire with aspirations towards the development of local industry ; Egypt and Syria as neighbours of Palestine and typical of the Near East.

Index Numbers of Customs Duties in Palestine & Other Countries

Country	Furniture	Woolen suit goods	Woolen men's goods	Cotton under- wear	Linen under- wear	Screws & Nuts	Wire Netting	Iron Nails	Barbed Wire	Buckets
Palestine	100	100	100	100	100	100	100	100	100	100
U. S. A.	267	392	444	273	233	110	65	85	—	333
U. K.	133	133	200	133	133	83	235	100*	278	167
Syria	167	167	167	267	267	104	208	110	208	208
Egypt	133	167	167	167	167	106	176	97	100	190
Czechos.	235	237	211	221	153	713	1547	400	2650	2037
Poland	504	482	1493	704	567	637.5	2941	600	1000	1262
Australia	467	500	500	433	433	270	294	167	400	544

* Memorandum on Dumping, p. 8.

This table shows, that of eight countries representing the chief types of economic systems, Palestine maintains the lowest customs tariff. In the few cases where the Egyptian and Syrian duties are as low as the Palestinian, the articles in question are not produced at all, or only in negligible quantities, in these countries. Even the British tariff which — being the first departure from a free trade tradition of many generations — is the lowest in Europe, is nevertheless higher than the Palestinian tariff in almost all cases, in spite of the fact that British industries rank among the most efficient in the world. In addition, Great Britain has the advantage — not shared by Palestine — of large invisible exports of a permanent nature, as a corrective to excessive imports.

SPECIFIC AND AD VALOREM DUTIES

It is noteworthy that in the countries with an older and more developed tariff policy specific and not ad valorem duties are in force. In most European countries the customs tariff is based entirely on specific duties. In the United States the main body of duties is specific, and in the United Kingdom the tariff is in a process of transition from ad valorem to specific rates. There are four main reasons accounting for a preference of specific duties :

- (a) Ad valorem duties, which are calculated as a fixed proportion of the price, offer scant protection against violent price reductions in the world market. With every fall in price, the duty falls correspondingly, which acts as an actual incentive to dumping. Specific duties, on the other hand, which remain fixed irrespective of price fluctuations, become proportionately heavier with every drop of the import price, thus acting as a deterrent to dumping.
- (b) In the same way, specific duties are better adapted to counteract the reduction of price due to bounties and export premia granted by foreign Governments. Ad valorem duties actually facilitate such unfair competition by reducing the duty in proportion to the reduction of prices.
- (c) Ad valorem duties are bound to lead to abuse and mis-statements. There is always the temptation, particularly in countries which have not yet reached a high standard of commercial morality, to submit false invoices with low fictitious prices, so as to reduce the amount of duty payable. Such practices are almost impossible to eliminate, even with a very efficient machinery of control, and have a detrimental effect both on Government revenue and on the industries they are designed to protect.
- (d) Palestine as a Mandated territory is committed to the principle

of the Open Door. It may not discriminate in its tariff policy against any of the member States of the League of Nations. Other countries can effectively combat dumping prices by discriminatory tariffs, made possible by the system of commercial agreements with particular countries, the application of the most-favoured-nation clause, etc. In Germany, for example, duties on the same iron articles (782 b. of German Tariff) range according to country of origin from 2.50 Mk. to 20 Mk., the intermediate positions being 3.50 Mk., 5 Mk., 10 Mk. and 14 Mk. Duties on certain machines range from 5 to 18 Mks., on iron nails from 1 to 5 Mks., on parts for spinning machines from 15 to 90 Mks., on screws from 5 to 30 Mks., etc. In Czechoslovakia duties on cotton goods range from 600 to 1,600 Czechokronen, on knitted goods from 3,000 to 6,000, on screws from 215 to 430, on aluminium 1,200 to 2,000 per 100 kilograms, etc. Such discrimination is made possible for Palestine only by the imposition of specific duties whose incidence is heaviest on lower priced goods.

PROTECTION AND INDUSTRIAL EFFICIENCY

One important fact emerging from the comparison of the tariffs of various countries made above, is that protection cannot nowadays be looked upon as a pampering of inefficient industries. The United States and Czechoslovakia, two industrial countries of unquestionably high efficiency and possessing rich resources of raw materials, are both protected by a very high tariff wall. Similarly, Poland, with a plethora of raw materials and cheap labour in abundance, has an exceptionally high protective tariff. The level of the United States tariff can be explained by the desire to protect the high standard of living and wage rates. Czechoslovakia and Poland, which export goods at dumping-prices, could not themselves withstand dumping in their home markets. Both these countries, which have, for example, a large export of textiles, impose an almost prohibitive tariff on textile imports. The most efficient, large-scale industries in these countries are all protected in the home market. The connection between protection and inefficiency has ceased to exist.

Protection has, today, entirely different functions. By maintaining high domestic prices, it enables exporters to accept lower prices abroad, thus increasing their competitive powers in the world market. In addition, the opportunities thus created for increased production give the home industries all the advantages of large-scale production, with the resulting heightened efficiency and reduced costs. We again arrive at a paradox. Protection is designed not only to keep out imports, but actually to increase exports.

In view of all this the question arises : how can Palestine compete with the most efficient industries in the world *at prices which they themselves could not face in their own domestic markets* — prices made possible in the Palestine market by a series of artificial manipulations in other countries of which the high protective system is an essential part ?

COST OF PRODUCTION IN PALESTINE

This problem raises the question of the cost of production. The prospects of building up a sound industry in a new country must depend, to a certain extent, on costs of production being maintained at a competitive level. A high cost of labour and expensive raw materials would render industrial enterprise prohibitive unless protected at the expense of the consuming public. In Palestine both labour and raw material costs compare favourably with those in most industrial countries. The following table of wage-rates per hour shows that Palestine wage-rates are either on a level with, or lower than, those of most European countries, with the exception of agrarian countries such as Poland and Hungary.

Wage-Rates per Hour (in mils) *

	Metal Industry		Woodwork
	Skilled	Unskilled	Skilled
Paris	76.4	52.6	81.6
London	67.0	49.5	79.0
Vienna	—	—	50.0
Copenhagen	72.3	57.6	71.9
Rome	53.3	35.8	57.2
Budapest	24.4	17.2	26.4
Amsterdam	98.1	71.9	88.8
Warsaw	46.5	—	41.3
Zurich	115.5	82.0	122.4
Tel-Aviv **	56.0—75.0	43.7	37.5—75.0

Wage costs abroad are, in addition, increased by 8—10% as a result of a large variety of social taxes which are payable by the employers. Neither these nor income tax is levied in Palestine. On the other hand, there was last year an increase in industrial wages in Palestine ranging from 15—20%.

Any attempt to improve industry's competitive powers by lowering

* International Labour Review, May 1934.

** Tel-Aviv rates are the average from October 1933 to spring 1934.

wages would, under the present conditions in Palestine, be foredoomed to failure for the following reasons :

- (a) No wage-reduction could be large enough to allow Palestinian prices to compete with the dumping prices of foreign goods. Through dumping, export prices may be reduced from 40—60%. As wages constitute about 30% of the cost of production in Palestine, a fall of 20% in wages would only mean a reduction of 6% in price. Fluctuations in wages have little effect on prices, when wages account for so small a proportion of total cost.
- (b) The wage-rates quoted in the table are men's rates. Many industries employ women at extremely low wages, which any reduction would reduce below subsistence level.
- (c) 95% of Jewish products are sold in the local market. Any reduction in wages would immediately have an adverse effect on industry by impoverishing its market.

Raw material costs, also, present no obstacle to the development of industry. Proximity to sources of supply has come to be but a secondary factor in industrial development. Freight charges are insignificant as compared with tariffs, markets and wages. Raw materials may — paradoxically enough — be even cheaper abroad than in the country of origin. The producing country protects its raw material products and thus raises its price at home, but is quite prepared to dump it at a ridiculously low cost abroad. The price for sugar, for example, is £P. 6.5—7 per ton, cif Haifa, as compared with £P. 40 per ton in Poland. The cif price of iron bars for the manufacture of screws is £P. 8.8 per ton in Palestine, as compared with a price of £P. 9.6 for the same material in Germany. The success of the stationery and confectionery industries in Palestine was facilitated by the exceptionally low prices of their raw materials. Apart from such blatant contradictions as the prices mentioned above, it is a commonplace of economics that many of the most flourishing industries have developed far from their sources of supply. The cotton industry in England, Germany, Poland and Japan is a classic example ; similar instances can be multiplied indefinitely. At times, even when a source of raw material exists near at hand, it is more economical to import it from abroad — as, for instance, Germany imports graphite from Madagascar in spite of the rich treasures of graphite in Franconia. Even more striking is the fact that Egypt, which supplies cotton to the whole world, for many years actually imported American cotton to supply her own weaving industries !

It is scarcely necessary, under present conditions, to elaborate the point that the cost of production in Palestine is not inflated by unduly large profits. Many factories are, in fact, working at no profit at all,

as the tables comparing dumping prices with local cost of production indicate. Even the most successful branches of industry have to face a severe struggle. It is true to say that industrial profits in Palestine are today at a minimum.

THE PROBLEM OF AGRARIAN COUNTRIES

The objections against the imposition of tariffs in agrarian countries no longer hold good in the face of present world conditions. When agriculture had the whole world as its market, it was obviously uneconomic to plant in an agricultural environment young and struggling industries demanding high protection, which would inevitably result in raising the farmer's cost of living. Today, with the shrinkage of all export markets and the attempt of industrial countries to supply their own foodstuffs, agrarian countries are compelled to seek a new equilibrium by establishing industries of their own. Not only do these new industries reabsorb the labour and capital thrown into idleness by the loss of the export trade, they also compensate to a certain extent for the falling-off of the foreign market by creating a new local market for agricultural produce. An effective local urban market of this sort more than offsets for the farmer the slight rise in his cost of living. It is significant that the tariffs of Australia, Czechoslovakia and Poland — all of them predominantly agricultural countries — are among the highest in the world.

"It is, indeed, a remarkable fact," comments the League of Nations World Survey, "that, of the countries (excluding Japan) whose indices of industrial production at the end of 1934 stood above the 1929 levels, all but the United Kingdom and Sweden were predominantly agricultural in their organisation. Evidence accumulates that agricultural development in the industrial countries has its counterpart in the stimulation of manufacturing industries in the agricultural countries."* The textile industries provide the most striking illustration of this tendency, as the following table indicates:

Index Numbers of Industrial Activity in the Textile Industries**
Average 1925-1929 = 100

<i>Agricultural Countries</i>	1928	1934
Chile	101	329
Roumania	90	182
Denmark	96	168
Hungary	108	136
Canada	110	122

* World Economic Survey, 1934-5 p. 117.

** Ibid. 1934-5, p. 163.

Industrial Countries

United Kingdom	...	...	100	...	92
United States	...	...	99	...	78
France	...	...	106	...	67
Belgium	...	...	112	...	52

This general trend of agricultural countries is reflected in Palestine. The importance of the new industrial population in Palestine as a market for local agricultural products cannot be over-estimated. The extent of the expansion of the industrial community is indicated by the general remarkable growth of population from 757,000 in 1922 to 1,035,000 in 1931 and to 1,247,000 in 1934. It is reckoned that Palestine's agricultural produce (excluding citrus) is £P. 4,000,000 annually. The Jewish industrial population (excluding builders and their dependants) amounts to about 100,000 souls, consuming agricultural produce at a rate of about 620 mils per month,* or a total of £P. 744,000 a year. This forms 18.6% of the country's agricultural output, and is a striking indication of the effectiveness of an industrial population as a market for agriculture. 100,000 Jewish factory workers and their families consume as much as 18.6% of the output, the remaining 81.4% being divided among the rest of the Jewish population and the total Arab population, amounting together to more than a million souls. It should be remembered that a large part of the trading and professional communities is dependent indirectly on industry, and any change in the prosperity of industry for good or for evil would affect their purchasing power for agricultural produce.

PROTECTION AND THE COST OF LIVING

The introduction of a protective tariff raises the question of its repercussion on the cost of living. Economic developments during the last decade have proved that a rise of prices by no means follows automatically and invariably on the introduction of a tariff. The introduction of a protective tariff in England in 1932, for example, had no such effect. The course of the English index numbers of wholesale prices ran as follows : **

* See "Inquiry into the Diets of Various Sections of the Urban and Rural Population of Palestine", published by the Department of Hygiene of the Hebrew University, 1931. This inquiry estimated daily consumption per unit (1 unit = 126/97.26 persons) at 41 mils, making LP. 1.230 per unit per month. As a proportion of the articles of diet are imported, it is fair to reduce this figure to 800 mils per unit or 620 mils per person.

** League of Nations World Economic Survey, 1933-34, p. 139.

March	1930	88.7
"	1931	75.6
"	1932	74.6
"	1933	69.6
"	1934	74.0

The first result of a protective tariff is rather to reduce commercial profits than to raise the cost of living. Merchants' profits are, as a rule, higher on imported articles than on home products. This is one of the reasons why many merchants in Palestine prefer dealing in imported rather than in locally manufactured goods. Sale prices and the margin of profit are easily checked by the manufacturer. The cutting-down of imported goods will tend to result, therefore, in a diminution of these trading profits.

Furthermore, any attempt to misuse the protective tariff by exploiting the consumer by means of high prices and profits would soon be foiled by the development of internal competition. In a country like Palestine, in particular, the availability of imported capital seeking investment would be — and has in fact already been — an effective deterrent to any undue rise in prices.

Even if prices are not raised, protective duties are valuable to local manufacturers for the following important reasons: the duties eliminate the competition of dumped products, enabling the turnover of local factories to increase. Every increase in turnover means a decrease in overhead charges per unit of output, offering a real advantage to local manufacturers, even if the former level of low prices is maintained.

It must, of course, be admitted, that increased duties may produce a tendency towards increased prices. Under present conditions, however, higher prices would be a valuable counteraction to the abnormal reduction of prices below the levels of the world market and of the producing country. Such an equalisation of prices would be admissible and legitimate. There is no reason why dumping prices should prevail in Palestine alone, or why Palestine industry should be subjected to such particularly destructive forces. Prices in Palestine need be neither higher nor lower than in other countries.

CONCLUSIONS

The increase in Palestine's purchasing power during the last few years has had the major effect of creating that technical minimum of demand without which the establishment of a successful industry is

impossible. But a minimum of demand is not in itself sufficient. Without a certain minimum price, production is rendered unprofitable, and the demand would have no other effect than an increased importation of "dumped" goods. If such a minimum price were assured, at least £P. 3,000,000 worth of Palestine's imports of manufactured goods could be reasonably and profitably produced locally.

Free trade — the ideal of the pre-war world — was based on free and fair competition, which implied competition in quality and efficiency. In the new economic structure of the world free competition no longer exists. Artificial advantages are created by price manipulations and political manoeuvring, and today no country, unless it is strong enough to dictate its own terms, can afford to disdain the weapons by which it is attacked. In the discussion on the reform of the British tariff in the House of Commons, the situation of Britain in a world of trade barriers was defined as a regime of "free imports without free trade." This definition applies at the present juncture to Palestine more than to any other country in the world.

For the reasons stated the following measures are deemed to be essential for the protection and promotion of industry in Palestine :

- (1) The introduction of anti-dumping duties on manufactured goods, in cases where the goods are sold on the Palestine market at prices lower than in the countries of origin. These duties should be of a character to counteract the effect of the manipulated price-structure established by means of export bounties, currency depreciation or other methods, and should be such as to raise the price of the imported products concerned to the level current in the country of origin.
- (2) Protection should be afforded to infant industries which have prospects of being able to establish themselves on a competitive basis within a reasonable period of time.
- (3) Since the dumping of Japanese goods is seriously affecting Palestinian industry, and, if continued, is likely to ruin some of its most important branches, advantage should be taken of the fact that Japan has ceased to be a member of the League of Nations, and can accordingly no longer claim the benefits of Clause 18 of the Mandate, to impose special duties at the earliest possible opportunity on the entry into Palestine of Japanese goods.*
- (4) Attention should be given to the necessity, in appropriate cases, of considering applications for tariff modifications in the interests of new industrial enterprises before their actual establishment in Palestine.

* This subject is discussed in detail in the chapter "Japanese Trade and Palestine's Customs Tariff".

APPENDIX

Comparison of Customs Duties in Palestine * and Other Countries

Ad Valorem - %	Specific - mils per kg.							
	Palestine	U.S.A.	U.K.	Syria	Egypt	Czechoslovakia	Poland	Australia
<i>Furniture</i>								
Ad Valorem	15	40	20	25	20	—	—	70
Specific	23	—	—	—	—	54	103-129	—
<i>Woolen Knit-goods</i>								
Ad Valorem	15	45-50% + 195.5 per kg.	20	25	25	—	—	75
Specific	260	—	—	—	—	563+3% a. v.	988-1520	—
<i>Woolen Mens' Clothes</i>								
Ad Valorem	15	45-50% + 178 per kg.	30	25	25	—	—	75
Specific	140	—	—	—	—	214-370	1900-2280	—
<i>Cotton Underwear</i>								
Ad Valorem	15	37½-45	20	40	25	—	—	65
Specific	116	—	—	—	—	153-360	456-1178	—
<i>Linen Underwear</i>								
Ad Valorem	15	35	20	40	25	—	—	65
Specific	144	—	—	—	—	171-270	608-1026	—
<i>Screws and Nuts</i>								
Ad Valorem	18-30	—	20	25	—	—	—	65
Specific	4	44	—	—	2.5-6	17-32 + 6% a. v.	13-44	—
<i>Wire Netting</i>								
Ad Valorem	12	—	—	25	—	—	—	—
Specific	34	2.2	8	—	6	31.5-72 + 3% a. v.	100	10
<i>Iron Nails</i>								
Ad Valorem	27	—	20	—	—	—	—	45
Specific	3	1.8-3.3	3	3.3	1.8-4	12	15-21	—
<i>Barbed Wire</i>								
Ad Valorem	12	—	33.3	25	—	—	17-23	—
Specific	1.9-2.2	—	—	—	2	32-72 + 6% a. v.	—	8
<i>Buckets</i>								
Ad Valorem	12	40	20	25	—	—	—	65
Specific	3.2-5.2	—	—	—	8	85.5	49-57	—

* The Palestine duties are those which were in force before certain changes were effected in January 1956. The general picture has not, however, been invalidated.

The comparison of duties in various countries is fraught with many difficulties. Differences in the classification of articles and differences in the form of duties — whether specific or ad valorem — sometimes form insuperable obstacles to any clear-cut comparison. To compile this table it was necessary at times to convert ad valorem into specific duties, and at times specific into ad valorem, so as to compare the Palestine duties both with those countries adopting the specific method, and those adopting the ad valorem. In the case of standardised goods this was done by calculating the cif price of the imported goods (the type of which most is imported was always taken as the basis) and on the basis of this price converting ad valorem rates into specific or vice-versa. In calculating cif prices, the average value per kilogram was taken, being arrived at by dividing the total value as given in foreign export statistics to Palestine, by the total quantities, and adding the freight to the Palestine harbour. Where the tariff is greatly differentiated as regards weight and quality, a range of duties had to be given. Where the rate of duty varies (according to commercial agreements with various countries) the *lowest* rate was always taken. It is of course obvious, that these calculations lay no claim to mathematical accuracy, and are useful for comparative purposes only.

JAPANESE TRADE AND PALESTINE'S CUSTOMS TARIFF

January 1936

Paragraph 18 of the Mandate commits Palestine to the principle of the Open Door, which means, in effect, that Palestine is precluded from discriminating in its commercial relations against any member state of the League of Nations. In 1935 Japan ceased to be a member of the League and Paragraph 18 of the Mandate ceased, in the case of Japanese trade, to apply. It follows directly, therefore, that as Palestine is entitled to impose special customs duties on imports from non-members of the League, such special tariffs could, ipso facto, be directed against Japanese goods.

In practice, however, an Anglo-Japanese commercial treaty, with binding effect on the Mandated territories, prevents the Palestine Government from applying discriminatory tariffs against Japan. But, in consideration of the fact that Imperial Preference has not been extended to this country, and that for all purposes of preferential treatment within the Empire, Palestine is treated as a foreign country, it seems reasonable that the clause making the treaty binding on Palestine, should be abrogated.

In the interest of Palestine's economic development, it becomes imperative to grant commercial autonomy to Palestine. Such freedom in commercial policy is essential particularly with regard to Japanese imports, which are threatening many of Palestine's more important industries with ruin. The difficulties which Palestinian industries are now encountering spring not from their own shortcomings but from the abnormal position which Japan holds in international production and trade — a position, which has already led to restrictions on Japanese imports in most countries of the world.

JAPANESE POSITION IN INTERNATIONAL TRADE

Japan's effective competitive power is due, inter alia, to the following abnormalities :—

1. Social conditions incompatible with European standards.
2. Currency depreciation.
3. Export premia.

This basic wages paid in Japanese industry are among the lowest in the world as shown by the following table :—

Average daily wages of workers in Tokio *
(in yens ; 1 yen = 69 mills in 1934)

Textile Industry	1931	1932	1933	1934	
	Yearly average			July	December
Cotton spinning (female)	1.01	0.87	0.85	0.78	0.83
Cotton-weaving (female)	0.87	0.81	0.77	0.72	0.73
Silk hand-weaving (female)	1.34	1.32	1.35	1.33	1.34
Knitting (male)	2.26	2.27	2.08	2.00	2.10
Knitting (female)	1.25	1.20	1.15	1.20	1.15

In general, labour conditions, which are fixed by Government legislation, are extremely bad compared with Western standards. "It would be idle to pretend that the enforcement of minimum standards is as efficient in China as in the United Kingdom, or that the minimum standards enforced are as high in Poland or Japan as in the United States".** The actual hours of work in the factories are long and have shown a tendency to increase during the last few years. The average hours of work per day in Japanese factories have increased from 9.63 in 1932 to 9.75 in 1933 and 9.83 in 1934. In 1929 the average daily wage in the Japanese textile industry was 1.13 yens. By 1933, it had been decreased by 28%, making a daily earning of about 0.81 yens! The percentage reductions in hourly earnings in other Japanese industries were as follows :—***

1929—1933

Printing and paper	7% reduction
Metals	8% "
Food	10% "
Chemicals	15% "
Wood	25% "
Clothing	25% "
Textiles	28% "

It is to be noted that the largest reductions were made in just those industries, the clothing and textile, whose competition is most severely felt in Palestine.

* From "Statistisches Jahrbuch des Deutschen Reiches, 1935".

** League of Nations World Economic Survey 1933-34, p. 181.

*** Figures taken from "Industrial Labour in Japan" (League of Nations World Economic Survey, p. 166, 1933-34).

Palestine's industry which depends mainly on the internal market, and thus on the purchasing power of the local population, could not hope to exist on the wage standards current in Japan. Japanese competition, based on labour conditions of this type, is generally considered, not as fair commercial competition, but as "social dumping" against which most countries of the world apply a protective policy.

"Currency dumping" gives Japan a still further advantage. The depreciation of the yen resulted in an unprecedented expansion of Japanese exports. "During 1933, the average depreciation of the yen from its former gold parity was 59.65 per cent, as compared with 43.60 per cent in 1932".* A currency depreciation of this order was of course conducive to a marked increase in export trade. "The principal factor in bringing about the increase in production and trade from the end of 1931 onwards was the depreciation of the currency, with which was associated an unbalanced budget and heavy Government expenditure. Japan, indeed, provides the clearest case of industrial recovery stimulated by an expansionist policy, which in turn was made possible by currency depreciation".** Or again, "The competition of Japanese exports was severely felt in most world markets and in many products... The reasons for this enhanced competition are to be found, not only in the depreciation of the yen, but also in a considerable extension of mass production along the most modern lines, in subsidised freight, and in falling labour costs".***

The cumulative effect of currency depreciation and labour conditions of the lowest type, was enhanced by the actual payment of bounties and export premia to Japanese exporters, enabling them to sell below world market prices. The actual rates and amount of these export bounties are not published by the Japanese Government.

The force of Japanese expansion could be, and was, checked only by stringent self-protective measures on the part of other countries. These measures are, in themselves, proof of the fact that even very efficient and long-established industries could not bear the strain of Japanese competition, and that Japanese competition was nowhere regarded as of a purely economic character. The restrictions were a reaction to cut-throat competition of the most virulent type. "The rapid expansion of Japanese exports, particularly of textiles, after the depreciation of the yen, which was accompanied by

* League of Nations World Economic Survey 1933-34, p. 33.

** Ibid. 1934-35, p. 30.

*** Ibid. 1933-34, p. 33.

price-cutting and keen competition among Japanese manufacturers, led in the early part of 1933 to wide-spread tariff reprisals". * "There was a distinct tendency... for limitation to be imposed upon the entry of Japanese goods into many markets. The Indian agreement setting an upper limit to import of Japanese cotton goods was followed early in 1934 by the breakdown of negotiations with the U. K. and these were by no means the only trade difficulties with which the Japanese exporters were faced". ** In July 1935, one of Japan's most important markets was partially closed when Egypt imposed high duties on Japanese goods.

But despite the increased tariffs and discriminatory quotas in many important, including colonial, markets, Japanese exports continued to expand in 1934. New markets could still be found where restrictive measures had not yet been put in force.

JAPANESE TRADE WITH PALESTINE

The unusual character of the trade relations between Palestine and Japan is illustrated by the following table:—

Palestine's trade with Japan

Year	Imports from Japan LP.	% of total import trade	Exports to Japan LP.
1929	7,050	.1	5
1930	18,707	.29	35
1931	36,027	.6	24
1932	176,187	2.2	3
1933	349,859	3.1	5,568
1934	593,552	3.9	—
1935	645,695	3.5	10,707

The increase in imports from Japan in 1935 represented not merely an intensification of past competition, but an invasion of some entirely new fields of import, such as looking-glasses, wire-netting, and metal goods. The swamping of the Palestine market by cheap Japanese goods, continues, therefore, unabated. Mr. C. Empson, British Com-

* League of Nations World Economic Survey 1933-34, p. 17.

** Ibid. p. 33.

mercial Agent in Haifa, writes of the situation as follows :— “The capitulation of the cotton textile market to Japan is... almost complete so far as concerns ‘Greys’. In ‘Bleached’ Lancashire still holds some ground (chiefly heavy white shirtings). In ‘dyed and printed’ nearly all the gains are going to Japan”.* The situation is aggravated by the fact that there is little likelihood of Palestine’s exports to Japan increasing much beyond their present negligible proportions, as the type of goods produced by Palestine are not absorbed in large quantities in Japan. Palestine is thus being forced into the dangerous position of relying on her present prodigious import of capital to cover gaping trade deficits with a country with which it has no prospect of ever developing reciprocal trading relations. To safeguard Palestine from this danger there remains one solution — a restriction of Japanese imports. Two considerations necessitate this course of action : firstly, the undesirable effect of increased Japanese imports on Palestine’s more normal and reciprocal trade relations ; secondly, the difficulties which abnormally cheap imports place in the way of local industrial production.

THE EFFECT OF JAPANESE IMPORTS ON PALESTINE’S FOREIGN TRADE

The following tables show the development of Japanese imports since 1932 in 8 categories of goods, forming 85% of Japan’s total imports into Palestine in 1934 :—

Percentage Share of Various Countries in Palestine’s Import Trade

Country	Cotton Piece goods printed & dyed		Cotton Piece goods grey		Cotton goods bleached		Cotton, other manufactures	
	1932	1934	1932	1934	1932	1934	1932	1934
U.K.	23.9	20.3	2.2	2.0	62.2	37.7	18.0	18.2
Czechosl.	3.1	4.3	—	—	1.9	2.4	6.6	8.8
Germany	2.9	1.1	—	—	—	—	15.0	11.8
Italy	23.2	18.3	—	—	11.7	15.2	6.1	5.6
Poland	0.3	1.3	—	—	0.3	3.2	4.5	7.3
Russia	—	2.6	—	15.8	—	7.6	—	—
Egypt	10.6	0.5	38.2	—	4.6	—	3.7	0.8
Japan	14.1	41.3	58.2	82.0	11.3	31.2	17.6	23.4
Syria	16.4	3.9	—	—	—	—	15.2	7.1
Other	5.5	6.4	1.4	0.2	8.0	2.7	13.3	15.0
	100%	100%	100%	100%	100%	100%	100%	100%

* Economic Conditions in Palestine, July 1935, p. 19.

Country	Toys and Games		Iron Tubes		Silk Tissues		Wearing Apparel	
	1932	1934	1932	1934	1932	1934	1932	1934
U.K.	23.0	18.2	32.0	10.2	4.3	4.7	24.6	18.7
Czechosl.	1.7	8.1	5.8	20.9	1.4	2.0	5.7	5.9
Germany	33.4	22.7	36.5	38.1	3.9	3.5	14.6	19.6
Italy	—	—	—	—	9.0	6.8	2.5	1.0
Poland	—	—	8.7	11.8	—	—	1.7	1.9
U.S.A.	9.3	4.1	—	—	—	—	2.9	3.0
Egypt	8.9	—	—	—	9.1	—	4.3	0.6
Japan	10.0	34.5	3.1	7.1	32.3	45.6	12.1	15.1
Syria	—	—	—	—	21.6	25.0	20.2	18.8
Other	13.7	12.4	13.9	11.9	18.4	12.4	11.4	15.4
	100%	100%	100%	100%	100%	100%	100%	100%

These tables illustrate clearly the shift of import trade away from non-dumping countries which absorb considerable proportions (in the case of England the major part) of Palestine's exports, and towards Japan. If such a redistribution of trade is continued, Palestine's trading relations with other countries must be seriously affected, and further restrictions imposed on Palestine's exports. It may be questioned whether such lengths of self-sacrifice are advisable for the sole benefit of Japanese industry, or whether Palestine should not grasp all the means afforded it by the Mandate for its own self-protection.

JAPAN IN NEAR EASTERN TRADE

The increase of Japanese imports into other Near Eastern countries further illustrates the pervading force of cheap, dumped imports. It must be clearly realised that the status of Japanese trade in Egypt, Syria and Iraq today will probably be the status of Japanese trade in Palestine tomorrow. From this point of view the following figures are of exceptional interest :—

Japanese imports into Syria

		1930	1934
Japanese imports	... ..	£P. 655,000	£P. 843,000
% of total trade	... ..	4.1%	11.3%

The following tables show the distribution of Syrian imports, among various countries, and the increasingly important share of Japan in this trade :—

Importing Countries in order of Importance *

Year 1929		Year 1931		Year 1932	
No. of Importance	Country of Origin	No. of Importance	Country of Origin	No. of Importance	Country of Origin
1	France	1	France	1	France
2	U.S.A.	2	Gt. Britain	2	Gt. Britain
3	Gt. Britain	3	Italy	3	Iran
4	Italy	4	Turkey	4	Italy
5	Turkey	5	U.S.A.	5	Turkey
6	Roumania	6	Belgium	6	U.S.A.
7	Belgium	7	Iran	7	Belgium
8	Germany	8	Roumania	8	Roumania
9	Iran	9	Germany	9	Japan
10	Egypt	10	Japan	10	Germany

Continued

Year 1933		Year 1934		Year 1935	
No. of Importance	Country of Origin	No. of Importance	Country of Origin	No. of Importance	Country of Origin
1	France	1	France	1	Gt. Britain
2	Gt. Britain	2	Iran	2	France
3	Iran	3	Gt. Britain	3	Japan
4	Japan	4	Turkey	4	Turkey
5	Turkey	5	Japan	5	U.S.A.
6	U.S.A.	6	Italy	6	Germany
7	Italy	7	Germany	7	Italy
8	Roumania	8	U.S.A.	8	Roumania
9	Belgium	9	Belgium	9	Belgium
10	Germany	10	Roumania	10	Iran

A similar trend is discernible in Japan's trade with Egypt:—

Japanese imports into Egypt.

	1930	1934
Japanese import	£P. 1,775,000	£P. 3,530,000
% of total trade	3.6%	11.6%

The relationship between Japanese and British trade in Egypt is given in the following table:—

* Statistiques du Commerce des Etats du Levant, p. 8.

Import of cotton textiles into Egypt *

a) Before commencement of Japanese competition (1921) :		
British share in imports	90.9%	
Japanese share	1.0%	
b) End of September 1934 :		
British share	20.94%	
Japanese share	68.16%	
c) End of September 1935 :		
British share	15.02%	
Japanese share	76.53%	

The increase of the share of Japanese goods in the import trade of Iraq is described as follows by J. P. Summerscale, Secretary to His Majesty's Embassy at Baghdad : **

"The following figures illustrate the rapid growth of Japanese competition in Iraq :—

Imports of Japanese goods into Iraq.

Year	Value (in 1000's of Dinars)	Percentage of total Imports
1930—31	98	1.83
1931—32	210	4.37
1932—33	425	6.81
1933—34	706	11.72
1934—35	1,224	20.04

"Japanese competition has been most severe in textiles in which "by 1935 she had captured about 75 per cent. of the market, but "it has also extended to a variety of other commodities such as "electrical and sanitary equipment, glassware, cement, paints, "hosiery and underwear, canvas and rubber shoes. The fact that "Japan buys practically nothing from Iraq (exports to Japan in "1933—34 were worth ID. 6,377 and in 1934—35, ID. 6,871) "causes considerable dissatisfaction and in the spring of 1935 "discussions were held between a Japanese delegation and repre- "sentatives of the Iraq Government with a view to devising some "means of ensuring a more balanced trading position. These "discussions were unsuccessful, and in August 1935, an amending "law was passed to the Iraq Customs Law of 1933 enabling the "Government to limit, by Ministry of Finance regulation, the "importation of goods from any country or countries if such a "course is deemed desirable in the general economic interest of "Iraq, but so far no action has been taken under this amendment"...

* "L'informatenr", 20.XII.1935.

** "Economic conditions in Iraq 1933—35", p. 7 (Department of Overseas Trade).

"...By 1935 Japan dominated the cotton piece goods' market, "having obtained 70 per cent. of the trade. The United Kingdom "share fell to under 11 per cent. In almost all classes of goods "Japanese prices are at least one third lower than those of similar "United Kingdom products. The quality of the Japanese goods "may in some cases be inferior but in this market the price factor "is decisive in effecting sales."

Special tariffs are being applied by Near Eastern countries in self-protection. For our purpose the most important reaction to Japanese imports is that of Syria, which is also an 'A' Mandate country, and has therefore the same legal status as Palestine. After Japan ceased to be a member of the League of Nations, special high duties were imposed on Japanese goods by the Syrian Government, which duties were utilised as a bargaining weapon in commercial negotiations with Japan.

There is no legal difference between Syria and Palestine as far as autonomy in commercial policy is concerned. Palestine has, in addition, a more adverse trade balance than Syria.

THE EFFECT OF JAPANESE DUMPING ON PALESTINE INDUSTRY

Industry, which constitutes the most important single factor in the economic life of Palestine and provides support for a considerable proportion of the population is now being threatened with virtual destruction by the unbridled import of dumped Japanese goods. The following are among the chief local industries which are affected by Japanese dumping, and are finding grave difficulty in withstanding the strain of competition based on methods, such as have been described in the foregoing chapters of this memorandum.

Industry	Investment L.P.	Number of Workers	Volume of production
Mirrors	16,000	90	30,860
Combs	2,850	23	2,900
Shirts & Pyjamas	8,400	170	27,000
Silk tissues	85,000	90 *	10,000
Cotton piece goods	50,000	60	In the process of establishment
Cotton knit goods	59,200	500	136,500
Hexagonal wirenetting	10,000	25	Unknown
Total	231,450	958	

Figures are available for Jewish industry only. But Japanese dumping also affects the Arab weaving industry in the Gaza District.

The following comparison of prices at which Japanese goods are sold in the market, and local production costs, illustrates the intensive form of dumping to which Palestine industry is exposed. As Japanese competition is continually pervading fresh fields, the number of affected industries is steadily increasing.

1. Data provided by Factory 'A' :—

In Mils

	Cost of material	Labour cost & overhead	Factory production cost in Palestine	Export cif price of Japanese goods
Cotton sports shirts	90	60	150	80
Artificial silk "	90	80	170	90
Japanese " "	150	80	230	180
Poplin shirts	260	10	270	120

2. Data provided by Factory 'B' :—

In Mils

	Cost of material, power etc.	Labour	Overhead	Factory production cost	Japanese wholesale prices
Mens' socks (p. dzn.)	230	99	41	370	220
Cheap mens' socks (p. d.)	75	45	15	135	90
Sleeveless vests (p. dzn.)	190	100	72.5	362.5	150-180
Mens' tricoot cotton shirts (p. dzn.)	480	200	170	850	400-500

3. Data provided by Factory 'C' :—

In LP.

	Cost of raw material etc.	Labour	Overhead & power	Factory production cost	Japanese cif price
Hexagonal wirenetting (per reel)	0.493	0.142	0.134	0.770	0.456 (maxim.)

Two further examples : Japanese towels cif. Jaffa cost 310 mls. per dozen. The price of the raw material alone in Palestine is reckoned at 381.6 mls. A belt of Japanese khaki is sold in Palestine at 850 mls. The cost of the material is 1,742 mls.

The point must be stressed that the high level of local production costs compared with Japanese prices can in no wise be attributed to

inefficiency in local industry. Two considerations prove this : Firstly, the fact that the cost of the raw material alone is often higher than that the price of the finished Japanese article, although raw materials are bought at current world prices. Secondly, as shown above, Japan is succeeding in ousting the products of many old-established European industries, whose efficiency cannot for one moment be called into question.

SUMMARY :

1. Since Japan has ceased to be a member of the League of Nations, Palestine is not prevented by her legal status from applying discriminatory tariffs against Japan.
2. Japan's competition, which is aided and abetted by social dumping, currency dumping and export premia, is abnormal and uneconomic in character.
3. Palestine's trade balance with Japan is becoming increasingly adverse.
4. This is not due to shortcomings in local industry, but to the violent form of Japanese dumping which has led many efficient industrial countries to apply restrictive measures.
5. Japanese dumping in Palestine is endangering Palestine's reciprocal relations with other countries.
6. Palestine is threatened with a similar invasion of her import market by Japanese goods, as has already taken place in the neighbouring markets.
7. Palestine's industries are being ruined by Japanese dumped imports.

PALESTINE AND RECIPROCAL TRADE RELATIONS

January 1936

THE PRINCIPLE OF THE OPEN DOOR

The system of Mandates, which was brought into being immediately after the Great War, was designed with one main aim in view — to secure a more just and equitable administration of colonial territories under the trusteeship of appointed Mandatory Powers. This idea of “trusteeship”, which has played so important a role in the British political theory of colonial administration, was the guiding idea in the framing of the Mandates by the League of Nations. The trustee was to be prevented from utilising his trusteeship for his own economic advantage and from allowing the Mandated territory to become an area of economic expansion monopolised by one country. The Mandated country was, therefore, to be equally accessible to the goods of all member-states of the League. This is the principle of the “Open Door” which has become binding on Palestine as a Mandated country, and was formulated as follows in Article 18 of the Mandate :—

“The Mandatory must see that there is no discrimination in Palestine against the nationals of any of the States, Members of the League of Nations (including companies incorporated under their laws) as compared with those of the Mandatory or of any foreign State in matters concerning taxation, commerce, or navigation, the exercise of industries or professions, or in the treatment of ships or aircrafts. Similarly there shall be no discrimination in Palestine against goods originating in or destined for any of the said States, and there shall be freedom of transit under equitable conditions across the mandated area”.

Thus the “Open Door” provided for equality of treatment of all members of the League of Nations, as a guarantee against the privileged treatment of one country. With this sole end in view the Mandated territories were precluded from an arbitrary discrimination against other countries, for political or other reasons, or from singling out any specific countries as the object of special discrimination and special privileges. It was never intended to use this clause for the imposition of unique restrictions on the Mandated territories, which would hamper their economic development, and deprive them of the commercial autonomy essential for a satisfactory conduct of their trading relations. But any system which is applied to one group of countries, and not to others,

constitutes in itself an inequality. The "Open Door" principle, imposed only on the Mandates, while all other nations were free to surround themselves with well-nigh impenetrable trade barriers, has resulted in an "open door" for the products of countries trading with the Mandates, and a "closed door" in the face of the Mandated country's own products. Without reciprocity there can be no such thing as "economic equality". Economic equality, towards which the "Open Door" clause was directed has meant, it is true, trade equality to the nations of the world, but in securing this equality the interests of the local population have been subordinated. This is in direct contradiction to Article XXII of the Covenant which guarantees the well-being and development of the Mandated territories.

CHANGE IN ECONOMIC CONDITIONS

At the time when the principle of "economic equality" for all nations trading with the Mandated territory was elaborated, international trade was still being conducted on normal lines. The barriers hampering free commercial intercourse were considered as remnants of the War upheaval which would be removed with the speedy return to normality. Triangular trade — which means covering the cost of purchases from one country by the proceeds of sales to another, — was then the order of the day, and goods flowed more or less freely across national frontiers. Today, however, the whole situation has changed. The time-honoured method of triangular trade has been superseded to a large degree by bilateralism — that is, the offsetting of purchases from one country by direct sales to the same country, — and its corollary, a net-work of trade restrictions. The situation is described as follows:— *

"...The free-trade area has narrowed, and not only have trade restrictions been vastly increased and their efficiency strengthened, but they have been associated with bilateral or regional bargaining of a discriminatory character by which trade is split up into a series of controlled and insulated areas. There is no longer the same wide neutral market or series of markets to which trade may be diverted if shut out of one area".

Or again:— **

"The general tendency... was towards concentration on bilateral negotiations arriving at a closer balancing of trade between each pair of countries and utilising the whole armoury of tariff duties and quotas, supplemented in some cases by exchange clearings and even by private commercial arrangements, as instruments of negotiation".

* League of Nations World Economic Survey 1933-34, p. 81.

** Ibid. 1933-34, p. 204.

"Between October 1st, 1934 and April 1st, 1935 there were 67 important bilateral trade agreements, apart from numerous clearing and compensation agreements. During the same period a great variety of decrees was issued, extending import-licence systems, altering quotas, tightening exchange controls, instituting export licensing, establishing State monopolies of certain imports, etc." *

The arguments leading up to the immense development of bilateralism, have been marshalled in telling fashion by Prof. J. G. Smith of Birmingham University. In describing the growth of centralised control over the transfer of funds abroad after the crash of sterling in 1931, he writes :—

"This power to discriminate led easily to the next step — the granting of preference or priority in exchange, on the basis of the country from which the imports were to come. It was argued that favour ought to be shown to those who were good customers and that it was desirable to obtain as near a correspondence as possible in imports and exports with every trading country.

...Such an ideal makes a wide appeal in a period of depression when normal trade outlets are choked ; and it is significant that more than one-third of the commercial agreements concluded by European countries, both among themselves and with countries outside Europe, during the last two years have been dominated by the principle that as far as possible in every case imports should approximately balance exports".**

The particular difficulties in which countries such as Palestine are placed, receive special attention :—

"This tendency is exceedingly serious for countries which have a *highly specialised production* and which, therefore, are dependent on the sale and export of a *small number of commodities*. Chile, Greece, Bolivia and certain agricultural countries are examples. It is only because of triangular or multilateral trade that such nations can effect satisfactory balances on income and outgo account ; for, frequently, they cannot dispose of enough of their products in the countries from which they borrow in order to offset the payments due from them to these creditors for goods imported and for interest on loans. The pressure exerted on them, then, in consequence of the growth of bilateralism, to increase their exports to countries which do not want their products leads to low prices which, in turn, stimulate further production, so that the total of receipts deemed necessary may not be impaired. It is in this way that the contradiction arises of financial distress accompanied by excess supplies of certain categories of goods which is so marked a feature of the present depression".***

* League of Nations World Economic Survey 1934—35, p. 187.

** The Economic Journal, December 1935. pp. 635-6.

*** Ibid., p. 639.

With this transformation in the conditions of world trade the well-intentioned "Open Door" principle has proved a double-edged sword. It has been perverted from a guarantee of equality into a weapon of economic aggression. The Mandated territories have been precluded from imposing any trade restrictions, or entering into any bilateral arrangements on their own account. The "Open Door" has compelled them to remain exposed to trade competition and dumping of the most virulent kind, such as has threatened to submerge their entire economic framework. Nor is any benefit given in return. All markets are closed against the products of the Mandates. The Mandates remain, in fact, the sole islands of free trade in a protectionist world.

STATEMENTS OF THE PERMANENT MANDATES COMMISSION

The anomaly of this situation has been extensively commented upon by the Permanent Mandates Commission. Non-discrimination against Member-States of the League, it has been pointed out, has degenerated into an unjust discrimination against the Mandated territories, themselves. In 1928 M. Van Rees, Vice President of the Commission, stated :—

"It must be remembered that these territories have been placed under the protection of the League, which in the last resort, stands in the position of a trustee to them. It is therefore only fair that the community of States Members of the League should regard itself morally bound to do its utmost to promote the commercial interests of the territories in question and of their inhabitants and should accordingly recognise it as a duty to meet goods originating in these territories exactly as the latter are obliged to treat goods originating in those States".*

In a note to the Permanent Mandates Commission 1928, M. Rappard writes :—

"It is manifestly regrettable that the Mandates System, one of the main objects of which is to ensure the welfare and development of certain communities, should have the effect of depriving the individuals of which they are composed of certain rights they would enjoy by a simple application of the prevailing rules of international law if the Mandate System did not exist... It might be well to ask the Council to consider the expediency... of requesting the State Members of the League of Nations to guarantee without delay to the nationals of the territories under Mandate, at any rate the same treatment in regard to the establishment and the free exercise of industries, professions etc., as is applied to nationals of their Mandatory Powers".**

Reporting on the position again in 1929 M. Rappard laid down :—

* The Minutes of the Permanent Mandates Commission, 1928, p. 153.

** Ibid. p. 154.

"The solution we are seeking must tend to palliate the drawbacks resulting from the absence of any legal basis for claiming from the States Members of the League of Nations the reciprocity, in virtue of the principle of economic equality, enjoyed by those States in their relations with territories under 'A' and 'B' Mandates". *

In 1930 the following resolution was adopted :—

"The Permanent Mandates Commission draws the Council's attention to the advantage of asking all the States Members of the League of Nations, to give favourable consideration to any requests that might be made to them by the Mandatory Powers with a view to granting the territories under 'A' and 'B' Mandate advantages corresponding to those enjoyed by the goods and nationals of the said State-Members in these territories". **

In the same year the Council of the League approved this resolution. The position has, however, remained unaltered.

PALESTINE'S ADVERSE TRADE BALANCE

A direct result of this peculiar status of Palestine in international law, is the abnormally large adverse trade balance of the country, causing a steady and increasing drain on its economic resources. While every country, almost without exception, has succeeded since 1929 in improving its trade balance either by diminishing imports or increasing exports, Palestine stands out as the one country with a persistently growing adverse trade balance, which is actually larger today than in pre-depression times. This is borne out by the following table :—

Trade Balances ***

in terms of old U. S. gold dollars (000,000's)

(+) Surplus of exports ; (—) Surplus of imports.

Country	1929	1933	1934
U. S. A.	+ 818.5	+ 160.6	+ 278.1
Czechoslovakia	+ 16.1	+ 1.3	+ 23.0
Rumania	— 2.7	+ 14.6	+ 3.1
Latvia	— 16.9	— 1.9	— 1.9
Egypt	— 13.9	+ 7.0	+ 7.9
Turkey	— 49.8	+ 13.3	+ 12.9
U. K.	— 1857.6	— 853.1	— 857.4
Palestine	— 27.4	— 28.0	— 35.2

Reckoned per head of the population, Palestine's adverse trade balance is today the largest in the world. The truth of this contention

* The Minutes of the Permanent Mandates Commission 1929.

** Ibid. 1930.

*** League of Nations World Economic Survey 1934—35, p. 208.

is amply illustrated by the comparison given below, between Palestine and those countries with the largest adverse balances :—

Adverse trade balances per capita (old U. S. gold dollars).

Country	Population 1933	Adverse trade balance 1934	Adverse trade balance per capita
Palestine (1934 population estimate)	1,104,605	35,200,000	31.8
Switzerland	4,125,000	113,900,000	27.6
U. K.	40,350,000	857,400,000	21.2
Irish Free State	2,992,000	61,500,000	20.5
France	41,880,000	205,400,000	4.9
Italy	42,011,000	124,800,000	2.9
Spain	24,127,000	48,200,000	2.0

Many of the above countries have a further advantage over Palestine. In addition to labouring under relatively smaller adverse balances, they are able to improve their situation by invisible exports (i. e. income from shipping, tourist traffic, interest on investments abroad, etc.). The following estimate, for example, has been made of the way the United Kingdom's adverse trade balance is covered :— *

	1 9 3 4	£ 000,000
Estimated net national shipping income	...	70
" " income from overseas investments	...	175
" " receipts from commissions etc.	...	30
" " " " other sources	...	10

In the case of Switzerland, the surplus of imports over exports is balanced by tourist traffic. Such regular items of invisible export are of less importance in the Palestine balance of payments, as will be seen from the following figures taken from the Treasurer's Report on Palestine 1934/35 :—**

Estimated funds brought by :

99,996 travellers spending	...	£P. 10 per head	
+ 49,484 returning residents bringing	...	£P. 5 per head	
	...		1,250,000
Zionist funds	...		740,000
Government receipts from abroad (interest, investments, grants, etc.)	...		350,000
Charitable etc. funds	...		1,200,000
Total	...	£P.	3,540,000

* Board of Trade Journal, Feb. 21st 1935, p. 276.

** Report by the Treasurer on the Financial Transactions of the Palestine Governments for the year 1934-35, p. 4.

This £P. 3,540,000 does not go far in covering a deficit of £P. 12,000,000.

For the main part the gap between imports and exports is bridged by an immense import of capital which cannot be considered as a sound foundation for future economic development. In the words of the Treasurer of the Palestine Government :— *

“Palestine must be regarded as a borrowing country and a repository for Jewish capital.”

There can be no assurance that this capital import will continue indefinitely. Palestine's precarious position resulting from the abnormally adverse trade balance is given expression in the fact that the difference between imports and exports amounted in the short period since 1929 to £P. 40,824,000. Nor can the situation be said to be in any way improving. The following table shows the growth in Palestine's adverse trade balance in the last few years :—

Year	Imports	Exports	Adverse trade balance	Increase in Adversity over preceding years
1931	5,940,000	1,572,061	4,367,939	—
1932	7,768,920	2,381,491	5,387,429	23.3%
1933	11,123,489	2,591,617	8,531,872	58.4%
1934	15,152,781	3,217,562	11,935,219	39.9%
1935	17,853,493	4,215,486	13,638,007	14.3%

CITRUS EXPORTS

There are two possible ways in which Palestine's trade balance might be improved by increased exports — an increase in citrus exports and an increase in industrial exports.

In the case of the citrus industry, the problem is not only one of reducing an adverse trade balance, but of finding a solution to the most serious difficulty with which Palestine's economic life is today being faced. Citrus plantations in Palestine have grown, during the last few years, by leaps and bounds. The 30,000 dunams of plantations of 1923 have been multiplied more than eight times, reaching the figure of 264,000 dunams in 1935. Exports have kept pace with the growth in the crop. In the 1932/33 season 4½ million boxes were exported, in 1933/34 5½ million, in 1934/35 7,300,000, and estimates have it that within the next ten years the citrus fruit available for export will have reached 25,000,000 boxes — apart from any additional future planta-

* Op. cit. p. 4.

tions. Palestine's trade in thus being faced with a serious marketing problem, on the solution of which rests, to a large degree, the economic future of the country. If marketing breaks down, as there is every fear of its doing, owing to the gamut of trade restrictions in other countries, Palestine's economic framework will threaten to collapse. Citrus formed 80.6% of Palestine's exports in 1933 and 83.6% in 1934. Already this year there have been periods when the prices obtained fell below production costs — particularly in the case of grapefruit. Palestine growers were compelled to concentrate on the few markets where trade restrictions are less severe — especially England. But these markets are already nearing saturation point, and are finding it difficult to consume, at prices profitable to the grower, the large quantities of fruit descending on them, Palestine is suffering from all the disadvantages inherent in a one-product export trade. History has taught that such conditions usually lead to crisis — Brazil's coffee export, and Egypt's cotton are examples immediately to hand.

INDUSTRIAL EXPORTS

The problem of industrial exports has not yet reached the acute stage, in spite of the fact that industry has undergone a very rapid development during the last few years. Two and a half million pounds worth of industrial machinery was imported into Palestine from 1933-35, greatly exceeding the quantity that was imported during the whole period of the preceding ten years. Industrial production — both Jewish and Arab — increased from £P. 3,900,000 in 1927 to £P. 10,000,000 in 1935 (according to a conservative estimate). The capital invested in Palestine industry is reckoned at approaching £P. 10,000,000. At the moment this expanding output is being consumed for the most part by the increasing demand on the home market. Industrial exports account for only 5—6% of the value of production. But it is unlikely that, at the present rate of growth, such a situation can be prolonged. The development in many factories is such that an export problem might soon arise.

THE NEED FOR RECIPROCITY

There is one practicable solution in the case both of citrus and industrial exports. Those countries to whom Palestine has proved an open and profitable market, must in return extend to Palestine a measure of reciprocity on their own behalf. The present unsatisfactory

state of Palestine's trading relations with many such countries is indicated by the following comparison between imports and exports :—

Country	1 9 3 4		1 9 3 5	
	Palestine Imports	Palestine Exports	Palestine Imports	Palestine Exports
	LP.	LP.	LP.	LP.
Rumania ...	953,343	60,485	1,208,204	92,219
Yugoslavia ...	174,440	2,186	201,285	12,241
Latvia	66,906	1,429	90,425	3,034
Japan	593,552	—	645,695	10,707
Hungary	115,410	920	202,825	2,107
Bulgaria	148,818	4,063	206,382	6,271
Austria	348,907	6,532	356,098	10,426

In order to obtain the reciprocity agreements, without which marketing is becoming increasingly difficult, some bargaining weapon is essential. But the Mandated territories, alone, are weaponless. Their markets are open to all products, regardless of origin. They have been forced into the unenviable state of unilateral economic disarmament.

No attempt is here being made to appraise the desirability of the present tendencies in world trade. Whatever these tendencies may be, Palestine, as an insignificant force in world economics, is powerless to influence them. In order to survive Palestine has no choice in the world of today but to emulate her neighbours and to adopt in self-defence the same measures with which they have thought fit to protect themselves.

NON-RECIPROcity AND THE PALESTINE MARKET

Non-reciprocity is destined, in the long run, to prove disadvantageous not only to Palestine, but even to those countries who are at the moment enjoying large favourable balances of trade in the Palestine market. The gap between Palestine's imports and exports is today being covered by the import of capital but unless this capital can be applied productively within the country, it will be bound to flow out again in payment for imports. As long as Palestine remains exposed to the cut-throat competition at present prevailing, the opportunities for the productive investment of the influx of capital are being continuously narrowed down. Under such conditions the Palestine market cannot long evade ruin. Buying which is not offset by selling is an essentially unstable process, aggravated in Palestine's case by the diminishing prospects of its replacement by home production. The

whole structure of the country, as it is at present developing, must give rise to certain apprehensions.

PROPOSALS

Palestine's desire for a bargaining weapon in the conduct of her trading relations does not imply any intention towards discrimination. The existence of the "Open Door" clause would render any attempt at discrimination impossible. Reciprocity should be organised in the form of an objective automatic test under which all countries, equally, will be eligible for the privileges of the Palestine market in proportion as they themselves are prepared to respond with similar privileges.

It is suggested that these conditions will be met by the establishment of a definite relationship between the sales and purchases that each country, without prejudice, effects with Palestine. This relationship may be ensured by either of the following methods :—

- (a) The Palestine tariff should be divided into maximum and minimum rates, the minimum to apply to those countries showing a certain rate of reciprocity, and the maximum — combined with some form of import restrictions — to those whose purchases fall below the accepted proportion of sales. The rate of reciprocity should be flexible and subject to revision, and regulated by the Palestine Government under the control of the League of Nations. In the first instance a rate of 1 to 2 is proposed.
- (b) The introduction of the quota system would be a valuable instrument in the regulation of Palestine's foreign trade. This system is becoming one of the most important bargaining weapons in international commerce. It is widely applied in many European countries, England included, and is already in use in Palestine in connection with wheat and flour imports as a means of protecting the local wheat-growers. For the purpose of ensuring a greater measure of reciprocity, the quotas could be fixed each year according to the balance of trade with each country in the preceding year.

A trade regulation of this sort independent of Palestine's goodwill towards particular states would not in any way infringe either the letter or the spirit of the Mandate. It should prove a powerful influence in safeguarding Palestine, both as a profitable market for legitimate world trade, and as an inherently stable economic structure, while at the same time maintaining intact the true purpose which prompted the creators of the "Open Door" principle.

**FRUIT AND VEGETABLE PRODUCTION
IN PALESTINE.
THE CASE FOR PROTECTION AGAINST SYRIAN IMPORTS**

March 1936

The cultivation of vegetables is assuming an increasingly important share in Palestine agriculture. The stress which was laid in the past on extensive cereal growing, is gradually being shifted towards a highly intensified market gardening.

In 1935 56,000 tons of vegetables were produced in Palestine. This shift in the relative proportions of cereals and market garden products is illustrated by the following table:—

Production in Palestine (tons)				
Year	Vegetable Production	Cereal Production	Index Numbers	
			Vegetables	Cereals
1929	15,963	169,700	100	100
1930	12,865	187,000	80.6	110.2
1931	15,068	139,000	94.4	81.8
1932	24,371	91,000	152.5	53.6
1933	21,305	87,000	133.5	51.2
1934	36,465	195,000	228.4	114.9
1935	56,000	219,000	350.8	128.8

The fluctuations in cereal-growing during the last few years are due, not to any considerable variations in the area under cultivation, but to the vicissitudes of nature, the crop varying extensively with climatic and other conditions.

THE GROWING VOLUME OF IMPORTS

This growth in vegetable cultivation has gone hand in hand with a marked increase in the import of vegetables. The expansion of Palestine's purchasing power, which has been due to the unusual increase in population coupled with a heightened standard of living, has resulted in a greatly extended demand for vegetable produce. The benefit of this expanding demand goes, in a large measure, to exporting countries, who are finding in Palestine a valuable and profitable market

for their surplus products. The extent to which Palestine's demand is satisfied by local production and by imports is indicated as follows :—

Share of imports and local production in supply of vegetables.

Year	Imports (tons)	Local Production (tons)	import %	Production %
1932	12,082	24,371	33	67
1933	15,395	21,305	42	58
1934	19,991	36,465	35	65
1935	27,295	56,000	33	67

It emerges from this table that about one-third of Palestine's consumption of vegetables is supplied by imported produce. This is an extremely high proportion for perishable foodstuffs, which in most countries are supplied almost entirely by the home producer.

SYRIA'S SHARE IN VEGETABLE IMPORTS

In this developing trade with Palestine, Syrian exports play a predominant part, accounting in 1935 for over one-half of Palestine's vegetable imports :— *

Vegetable imports into Palestine (tons)

Year	Total Imports	Imports from Syria	Syrian % of total
1932	12,082	5,276	43
1933	15,395	5,858	38
1934	19,991	10,269	51.4
1935	27,295	14,035	51.4

Syria's success in capturing so large a part of the Palestine market for these commodities may be attributed to a number of special advantages enjoyed by the Syrian producer.

- (a) Free access to the Palestine market ; according to the Palestine-Syrian Customs agreement, free trade relations were established between the two countries.
- (b) Conditions of production are more advantageous in Syria than in Palestine. Water is cheaper and more abundant and manures available on more reasonable terms.

* These figures refer to the total of onion, garlic, potato and fresh vegetables imports. Onion and garlic imports derive mainly from Egypt, and do not compete with Palestine produce. This fact makes Syria's share in the total vegetable trade smaller than in the case of fresh vegetables only, with the protection of which this memorandum is mainly concerned.

- (c) While it must be admitted that Syria enjoys a very real advantage over Palestine, as regards certain of the technical conditions of production, the fact must not be overlooked that Syria's superiority is in a large measure due to lower labour costs and a primitive standard of living. Syrian labour is cheaper than even the cheapest labour in Palestine. The import of products, based on this reduced standard of living assumes, therefore, the character of "Social dumping" i. e. the ability to sell goods at exceptionally low prices, at the expense of the labourer's conditions of work and remuneration. The competitive power which primitive standards afford to the Syrian product, cannot be withstood by the Palestine producer, without a material reduction in his own and his workers' conditions of livelihood.

A comparison of the cost of production of vegetables in Palestine with the Syrian prices of the same vegetables, bears testimony to this point :—

	Palestine cost of production (Mils per kg)	Syrian prices (Mils per kg)	Palestine prices (Mils per kg)
Carrots	6.8 — 8.9	2.8 — 4.6	5.6 — 9.2
Beets	5.0 — 6.2	2.8 — 4.6	5.6 — 9.2
Cauliflower	6.3 — 7.5	2.8 — 5.6	3.8 — 9.2

It is seen that Syrian prices are in all cases below the Palestine cost of production, and that Palestine prices themselves are reduced at times below costs, thus rendering a portion of the output unprofitable to the grower.

THE INCREASING DANGER OF SYRIAN COMPETITION

It must be understood from the outset that Syrian competition in market-garden products is still in its infancy. As shown above, the total of imports has as yet not risen much above one-third of the local supply, and of this total Syrian products constitute about two-thirds. The important fact to be observed is the distinct upward trend of Syrian imports — not only in their share of the total volume of imports, but in the actual quantity of vegetables which are being exported yearly to Palestine. During the last four years, these imports have multiplied nearly threefold — from 5,276 tons in 1932 to 14,035 in 1935. Except in the case of onions Syria is basing its export trade in vegetables in an overwhelming degree on the Palestine market — as the following table indicates :—

Export from Syria 1935 (tons) *

	Total exports	Exports to Palestine	Palestine's % of total
Onions	17,900	6,531	36.5
Garlic	68	67	98.5
Potatoes	4,780	4,576	95.7
Other vegetables	3,453	3,395	98.3
Cucumbers	637	631	99.0

THE QUESTION OF FRESH VEGETABLES **

This increasing dependence of Syria on the Palestine market, and the danger to Palestine agriculture, which is inherent in such a situation, are being felt particularly in the case of fresh vegetables. Palestine's production of fresh vegetables, chiefly carrots, beets, cauliflower, cabbage, presents the following picture during the last few years:—

1932	16,393 tons ***
1933	13,834 "
1934	25,264 "
1935	39,913 "

The drop in production in 1933 was due to drought conditions, but, in general, production has been on the increase, the 1935 figures having reached a record level.

The development of this line of agriculture is due, not only to the increasing demand of the population, but to the interest and activity of the Palestine Government in fostering the spread of vegetable-growing. Large quantities of vegetable seedlings are being distributed annually by the Government agricultural stations, which have also been instrumental in introducing and demonstrating a number of vegetable varieties unknown locally. A few excerpts from the Agricultural Supplement to the Palestine Gazette**** bear testimony to the Government's activity in this direction :—

* Based on Syrian statistics and classification.

** Fresh vegetables exclude potatoes, onions, garlic, which were taken into account in "Total vegetables" above. In this paragraph tomatoes have also been excluded.

*** These figures are derived from the official statistics of vegetable production minus the tomato crop. Potato production figures which are published separately by the Government are not included. Onion and garlic production is also excluded, their output in Palestine being negligible.

**** 23rd January, 1936, p. 13.

"The vegetable section (at Acre Agricultural Station) enlarged this season to forty dunams, is producing abundant crops of local and imported vegetables, including varieties not usually grown by local market gardeners, such as rhubarb, asparagus and Jerusalem artichokes".

"The Beisan station continues to meet the demands of surrounding market gardeners for vegetable seedlings".

"The vegetable section (at Majdal) has produced about 120,000 seedlings, which are eagerly sought after".

But concurrent with this spread in local market-gardening the imports of fresh vegetables show a very distinct and steep rise during the last few years, involving a more than four-fold increase in volume from 1932 to 1935. Nearly 90% of these imports derive from Syria.

Palestine imports of fresh vegetables (tons)

Year	Total imports	Imports from Syria	Syrian % of Total
1932	923	833	90.2
1933	1,902	1,646	86.6
1934	2,780	2,325	83.6
1935	4,728	4,133	87.4

It is particularly interesting to trace the share taken by imports and by local production in the supply of fresh vegetables to the Palestine market :—

Share of imports and local production in the supply of fresh vegetables

Year	Imports (tons)	Local production (tons)	Imports %	Production %
1932	923	16,393	5.3	94.7
1933	1,902	13,837	12.0	88.0
1934	2,780	25,264	10.0	90.0
1935	4,728	39,913	10.6	89.4

This table illustrates the abnormal situation at present developing in the Palestine vegetable market. Just those fresh vegetables, whose highly perishable character makes it most natural that they should be produced at home, and whose local production is being given every encouragement by the Government, are being imported every year in increasing quantities, and showing a tendency to supply a growing share of the local demand.

The effects of these imports on the newly developing local cultivation cannot but be disastrous. Syria's serious competition in the

Palestine market is as yet too recent to permit an exact assessment of its influence on Palestinian prices. If Syria's imports, which are based on exceptionally low labour costs, continue to increase at the same rate as during the last few years, Palestinian prices must inevitably be depressed below the local cost of production, and a promising branch of agriculture be destroyed.

EXAMPLE OF CARROTS

Carrots provide an instructive example of the present tendency towards a swamping of the market by Syrian produce. The Nantais variety of carrots is not consumed by the native population of Syria, but a keen demand for it exists among the Palestine population of European origin. Until recently this variety of carrots was not grown in Syria. Within the last few years, however, it is known that large areas of Nantais carrots have been cultivated in Syria for the special purpose of export to Palestine. These exports appeared on the Palestine market in serious quantities at the end of the summer 1935. Their immediate effect on Palestine prices is indicated by the following figures :—

Tel-Aviv prices for carrots (mils per rottle) *			
		1934	1935
August	... ..	30—40	20—30
September	... ..	25—50	10—20

THE SITUATION IN POTATO GROWING

Potato growing has also received encouragement from the Government Department of Agriculture, and noteworthy progress has been made in this branch of cultivation, as may be seen from the following growth in the potato crop :—

Yield of Potatoes (tons)			
1931	... ..		821
1932	... ..		1,018
1933	... ..		2,500
1934	... ..		3,000
1935	... ..		6,500 (estimate)

"Potato cultivation is still increasing satisfactorily under the protective customs duty during the main harvesting season, April to the middle of July, and in order to stimulate still further the

* Published by "Bursa" Palestine Fruit and Vegetable Selling Co.

growing of this crop, the Department imported 250 tons of graded seed from the United Kingdom for sale to farmers on pre-payment, such seed having proved more satisfactory than seed from Cyprus. It is expected that the total yield of potatoes sown in the winter of 1935, plus the small sowing under irrigation, will be as much as the total imports in 1930*.

The protective customs duty mentioned, is not imposed on Syrian imports, and, as may be seen from the following table, potato imports from Syria have more than doubled since 1932 and account now for more than a fourth of the total import:—

Potato imports into Palestine

Year	Total imports		Imports from Syria		Syria % of total
	Tons	Index Nos.	Tons	Index Nos.	
1932	7,780	100	1,854	100	23.8
1933	9,753	125	2,023	108	20.7
1934	12,349	158	3,478	187	28.2
1935	15,774	202	4,470	241	28.4

Syrian potato exports to Palestine do not fall far behind the volume of the Palestine potato crop itself. It is becoming obvious that the protective duty on potatoes which was intended to encourage home production, has also gone a long way in encouraging the Syrian export trade, which, it will be remembered, is concentrated almost wholly on the Palestine market (95.7% of Syria's potato exports in 1935 were consumed by Palestine).

FRUIT GROWING

Serious attempts are being made in Palestine to develop fruit-growing, and large new areas of fruit trees are at present being planted. The cultivation of deciduous fruits, for which experiment has proved the hilly areas of Palestine to be suitable, is as yet in its infancy in this country; but the keen interest displayed by the Government of Palestine during the last few years had promised well for an early development in this line of activity. The Government of Palestine undertakes the free distribution of fruit-saplings, and is unable to meet the large demand for shoots from fruit-growers. 77,000 vines and 38,000 fruit-trees are being distributed this year. There are now ten Governmental horticultural stations in the country, maintaining fruit demonstrations plots and propagating budded fruit trees and vines for distribution. Private

* Agricultural Supplement—op. cit. page 3.

nurseries are also being controlled and efforts made to improve the quality of plants.

As in the case of vegetables, however, the growing demand of the country is being met to a large degree by Syrian imports, which have shown a very rapid increase during the last few years.

Fruit imports into Palestine (tons)

Year	Total imports (tons)	Imports from Syria (tons)	Syrian % of total
Apples :			
1932	2,031	225	11.1
1933	2,457	193	7.9
1934	5,348	829	15.5
1935	6,130	232	3.7
Other fresh fruits (excluding apricots and grapes)			
1932	1,077	950	88.2
1933	1,742	1,120	64.2
1934	3,160	2,029	64.2

In the case of apples it is seen that imports from Syria are small and their proportion varies from year to year. Apples do not, however, compete with any considerable home production. As regards other fresh fruits, the major part of Palestine's imports derive from Syria. For apricots and grapes some more detailed data is available :—

	Year	Total imports (tons)	Imports from Syria (tons)	Syrian % of total
Apricots :	1932	182	181	99.4
	1933	259	243	93.8
	1934	526	515	97.9
Grapes :	1932	11	5	45.5
	1933	418	402	96
	1934	904	903	100

These figures once again testify to the part played by Syria in Palestine fruit imports. Grape-imports, it will be noticed, are still small, but their tendency to grow is a fact not to be lightly disregarded.

Bananas :

As regards banana consumption Palestine is at present self-supporting. Under the Plant Protection ordinance all banana imports are prohibited. The annual production amounts to about 5000 tons, which, at an average price of £P. 15 per ton of unripe fruits, is valued

at £P. 75,000. There has, however, been a marked extension of banana plantations in Syria in recent years, which can find no market in Syria itself, and it is feared that any lifting of the present protection on local bananas would immediately result in an influx of cheap fruit into the Palestine market. Bananas are being sold in Syria at £P. 13.— per ton. The chief market for Syria's bananas was, in the past, Egypt. Egypt has now raised her tariff on bananas from £E. 1.600 to £E. 16 per ton. During the four years since this high tariff was imposed, Egypt has changed from a banana-importing to a banana-exporting country.

EFFECT OF PROTECTION ON THE COST OF LIVING

Owing to the recentness of these developments in the fruit and vegetable trade, only meagre data is available, which does not allow of any exact computation of the effect which the shutting out of Syrian imports may have on prices, and subsequently, on the cost of living in Palestine. It must, however, be pointed out that prices do not necessarily rise unduly as a result of protection. An intensive internal competition has an immediate salutary effect on any attempt to inflate prices. This has been illustrated clearly in the case of tomatoes which have been enjoying protection under the Plant Protection Ordinance, since 1923.

"It is well known that even when there were no imports during the past ten years, the summer crop was frequently unprofitable, because owing to the large production, prices were low... It should be borne in mind... that during the past ten years when the most effective form of duty (an embargo on importation) was in force, prices were, nevertheless, low, owing to an overproduction in relation to demand" *.

It is of course not denied that prices may be reduced under the influence of cheap imports. It is certainly arguable, however, that the benefit to the consumer of such exceptionally low prices is more than offset by the harm wrought to the producer. The marginal difference between the already reasonable home-prices and the still lower price of the imported article is, in most cases, sufficient to render home production unprofitable, and to destroy a promising source of livelihood to many hundreds of dependent families.

PALESTINE-SYRIA TRADE BALANCE

Palestine's unsatisfactory trade relations with Syria are illustrated by the large adverse balance under which Palestine is labouring :—

* Agricultural Supplement No. 2 to Palestine Gazette, No 572, pp. 27—28

Palestine's Trade with Syria (£P)

Year	Imports	Exports	Adverse trade balance
1932	813,000	303,000	510,000
1933	943,000	213,000	730,000
1934	1,083,000	227,000	856,000
1935	1,310,000	303,000	1,007,000

These adverse trade relations apply not only to the total volume of trade, but also to the trade in fruit and particularly in vegetable products, as may be seen from the following :—

Trade Balance of Fruit and Vegetables 1934 (£P) *

	Imports from Syria	Exports to Syria	Trade balance
<i>1. Fruit :</i>			
Apples	6,996	—	— 6,996
Apricots	4,725	—	— 4,725
Grapes	6,773	444	— 6,329
Oranges	—	6,244	+ 6,244
Other fresh fruits	20,425	237	— 20,188
Adverse Trade Balance in fruit			£P. 25,994
<i>2. Vegetables :</i>			
Potatoes	20,830	—	— 20,830
Onions	12,294	115	— 12,179
Tomatoes	—	1,264	+ 1,264
Other vegetables	12,300	1,999	— 10,301
Adverse Trade Balance in vegetables			£P. 42,046

COMPARISON OF CUSTOMS DUTIES

The general adversity of Palestine's trading relations is, to a certain extent, due to inadequate protection. In the case of fruit and vegetables, the means of protection afforded the Palestine grower is on a distinctly lower scale than those obtaining in most other countries. The following comparison of customs duties imposed on these products in a number of countries, as compared with the rates of duty prevailing in Palestine, is instructive.

* Full detailed figures for 1935 not yet available.

CHANGING
1930-1935

Customs duties* (mils per kg.)

	Palestine	Egypt	Syria	England	Poland	Czecho- slovakia
<i>1. Fresh vegetables :</i>						
General rate	2	4	—	—	—	—
Cauliflowers	—	—	2.7	4	76	4.7
Carrots	—	—	10.8	10	45.6	14
Lettuce	—	—	4.05	10	—	—
Cabbages	—	—	6.1	—	11.4	5.4
Turnips	—	—	—	8	—	—
<i>2. Fruit :</i>						
General rate	2	—	—	—	—	—
Apples	—	2.4	15.9	4.4	114	7.2
Pears	—	3.5	15.9	4.4	114	7.2
Plums	—	2.0	20.1	9.2	38	6.3
Bananas	—	16.0	11.7	2.5	114	—

THE IMPORTANCE OF MARKET-GARDENING UNDER PRESENT CONDITIONS

In the present stage of Palestine's agricultural development, fruit and vegetable growing is assuming a particular importance. Palestine is to-day being faced with all the problems inherent in monoculture. The citrus industry, which has become the backbone of Palestine's export trade, and the focus of attention in the local farming community, is now grappling with a serious marketing situation. The rapid growth in the crop has been coincident with a contraction in markets, rendering the sale of the fruit at profitable prices increasingly difficult. Under these conditions, not only can the area under citrus give no hope of further expansion, but a certain shrinkage is even being felt, which must induce a state of disequilibrium in local agriculture. This weakening in the citrus industry could be compensated by an intensification and diversification of mixed farming—cereal growing, the other practical alternative being hampered by the scarcity of available and suitable land. Vegetable and fruit growing are among the most promising lines along which mixed farming can at present develop, for the following two reasons : —

- 1) The increase in the demand for vegetables and fruit, following on the growth of population and the rise in the standard of living.

* The rates given refer to imports competing with the home produce. Out of season imports are usually subject to a lower rate of duty.

- 2) The present consumption of vegetables per head is low in comparison with other countries, and susceptible therefore, of a marked increase. A sufficient vegetable diet is particularly important under the climatic conditions prevailing in Palestine.

CONCLUSIONS

The following conclusions emerge from this survey :—

- a) Local fruit and vegetable production is increasing under the stimulus of an increased demand, and with the active encouragement of the Government Department of Agriculture.
- b) A large share of the increased demand is being supplied by imports.
- c) Syria, on whose products no protective duties are imposed, supplies the preponderant part of these imports.
- d) Syrian competition — based largely on cheap labour — is becoming increasingly dangerous to Palestine producers.
- e) Protection against Syrian imports does not necessarily imply any material increase in Palestine's cost of living.

CHECKED

2003-04