Economic Impact of Suez Crisis on Middle East

A 135 page document under the unprepossessing title Economic Developments in the Middle East 1955 has just been released at the United Nations. Chock-full of statistics, it might well have been called "the economic consequences of John Bull's folly" in the Middle Eastern countries. For here in these pages one gets for the first time the plain, unvarnished facts of how the Suez Canal crisis affected the Arab world.

The facts do not make pleasant reading; besides it is difficult to isolate clearly the repercussions of the Suez crisis from those of current economic forces in the countries of the area. Nevertheless there are a number of economic changes that have occurred since the crisis.

But first let us have the background to Suez trade.

IN 1955 traffic through the Suez Canal accounted for about 13 per cent, in volume, of world seaborne trade. Tanker cargo alone accounted for approximately 8 per cent of the total volume of International trade and 19 per cent of all cargo carried by tankers. It is estimated that it costs probably $600 million more per year to carry the same cargo around the Cape of Good Hope and that about half of that extra cost would be needed to transport crude oil from the Middle East to Western Europe and North America with the present facilities.

Apart from oil, the main northbound goods that utilise the canal are raw materials including metals, cereals, vegetable oils and seeds, spices, sugar and textile fibres. Southbound traffic carries mainly cement, fertilisers' paper, sugar, machinery and a variety of other manufactured goods from Europe to Asia, Australia, and Eastern Africa.

To the countries of the Middle East themselves, the Suez Canal as a sea route has been of minor importance except as a passage for the exports of the oil-producing countries. By far the largest part of the region's international trade in commodities other than oil is carried on with countries west of the Suez Canal or within the area itself.

Middle East countries which have no direct access to the eastern Mediterranean seaboard—Jordan, Iraq, Iran, the Sudan and the Arabian peninsula—find it convenient to transport part of their commodities destined, for Western Europe and America across Lebanon and Syria by rail truck or air.

The total value of Middle East trade that passed through the Canal in 1955 is estimated at $2 billion. This compares with an estimated value of $11 billion for all goods that passed through the canal during that year. Of the Middle East trade using the canal, approximately $900 million 47 per cent represented exports of crude oil and oil products. In volume of cargo, however, the Middle East figures much more prominently, owing to the relative bulk of oil exports. Out of the total traffic through the Suez Canal, estimated at 107.5 million metric tons in 1955, the Middle East accounted for 66 per cent, while 60.4 per cent represented oil exports of the region.

In the Economy of Egypt

The economic benefits to Egypt of the Suez Canal are derived from two sources which directly add to the national income of the country. The first is that part of transit dues which is transferred to Egypt or is spent by the Suez Canal Company (Compagnie Universelle du Canal Maritime de Suez) in the country. The second source is the expenditure of passengers on goods and services during their short stops in canal ports.

The latter factor is difficult to estimate except where the supplying of such goods and services is handled by the authority in charge of the canal. The total direct addition to national income of Egypt arising from these sources has been estimated at approximately £E 11 million in 1955 and at around £E 9 million in each of the four previous years. For 1955 this was less than 1.5 per cent of Egypt's national income and about 5.7 per cent of the budget revenue. The amount for 1955 was considerably larger than in the period before 1947, when transit dues did not exceed one fifth of the 1955 level.

An important part of the expenditure of the Suez Canal Company in Egypt was on wages and salaries of employees. In July 1956 it employed over 5,100 workers in Egypt of whom the majority in the labourer group were Egyptian. About 42 per cent of those in the administrative and technical groups were Egyptian too.

Income created by sources other than the Suez Canal Company, but dependent indirectly on the operation of the canal, includes the income of workshops in Port Said employing about 1,400 workers and doing business other than for the company; the income of trades and services supplying tourists and the income of industry and services supplying fuel, water and power to ships directly or to the Suez Canal Company as intermediary. It is impossible, says the report, to estimate with any precision, the total amount of this indirect income.

Foreign Exchange

Practically all receipts from traffic and tourists passing through the Suez Canal are in foreign exchange; these receipts have risen considerably in the post-war period. Of these receipts a large part was transferred abroad by the Suez Canal Company for distribution of dividends, additions to reserves and to its pension fund. The balance, which remained in Egypt, was significant as a source of foreign exchange.

Nationalisation of the Suez Canal Company which took place on July 26, 1956 did not have any significant direct effect on the flow of traffic. However, it led to the blocking of Egyptian Government assets in France, the United Kingdom and the United States. Traffic through the canal ceased completely, however, with the outbreak of hostilities at the end of October.

Following nationalisation and up to the closing of the canal at the
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end of October, Egypt received only a part of the transit dues paid by canal traffic, the rest being paid into the accounts of the Suez Canal Company abroad. Total dues during the period were of the order of £E 10 million, of which around £E 4 million accrued to Egypt. The cost of maintains and running the canal for an equal period in 1955 was Jus under £E 3 million. Thus Egypt’s receipts from transit dues between July and October did not greatly exceed current expenditure on the canal during the period. Such expenditure was largely made, however, in local currency and the dues which were received in foreign exchange were thus at a rate comparable to that which prevailed before nationalisation. -

Change in Direction of Trade

The direction of Egypt’s foreign trade adapted itself to the change in Egypt’s international payment position following the freezing of its assets abroad. Imports from the Sterling area were substantially reduced and those from Eastern Europe increased correspondingly. Imports from the latter area included in particular, wheat and crude oil. Clearing accounts in favour of Egypt that had been accumulated with Eastern European countries amounted to £E 9.6 million net by the end of July; these were utilised to pay for imports from Eastern Europe or to settle payments for imports from Western European countries. Credits opened by India, Indonesia and Japan, countries which accepted payments in Egyptian pounds or deferred payments for their exports to Egypt and credits in Swiss francs advanced by the People’s Republic of China supplemented available foreign exchange.

Withdrawal from IMF

In addition, Egypt withdrew $15 million from the International Monetary Fund in September 1956 and obtained a credit of $15 million from Saudi Arabia. These measures enabled the Government to purchase essential imports and at the same time to maintain the level of its short-term balances. They also enabled Egypt to add £E 5 million in gold to its currency cover in October and December and thus to increase its total holdings of gold and foreign exchange by the end of 1956 to about their level in July of that year.

Consequence of Military Operations

Military operations late in October and in early November 1956 were almost completely limited to Egyptian territory and involved, directly, only the two Middle Eastern countries, Egypt and Israel. The direct material losses were incurred wholly in Egypt. No estimate of these losses is available. Damage fell particularly in the field of transport and included airports, airplances, roads, military vehicles, railways and floating equipment used in operation of the Suez Canal.

Indirect losses to Egypt resulting from military operations were also quite substantial. With the blocking of the canal, Egypt ceased to receive that part of the transit dues which it had been receiving. Suez Canal workers, numbering over 5,100 and workers supplying them services were unemployed. Loss of income from these sources was at an annual rate of £E 11 million. Loss of secondary income was also substantial.

Almost to counteract these losses as it were, in November the Egyptian Government appropriated vehicles and military materials in the stores of the Suez Canal military base which had been evacuated by the British. It also placed under sequestration, or public custody, a considerable number of British, French and other establishments located in Egypt, a large proportion of which were released by mid-February.

The largest concerns which were put under custody included oil producing and distributing companies, particularly the Anglo-Egyptian Oil Company which owned an oil refinery and five oilfields, three of which are located in the Sinai peninsula. Eleven banks with a total capital of £E 2.2 million, a large number of branches of insurance companies and several import agencies were also sequestrated. In January 1957 ownership of six sequestrated banks and of the insurance companies was transferred to a public corporation. This body was created to invest funds in public projects with a view to transferring them finally to private Egyptian hands. According to an official statement, compensation for the banks and insurance companies that were taken over would be paid to the public custodian pending final settlement of claims.

Impact on the Oil Industry

Blocking of the Suez Canal and interruption of the oil flow through pipelines via Syria resulted in a widespread change, in the last two months of 1956 and early months of 1957, in patterns of oil production, transport, supply and refining in the Middle East as also of the revenue drawn from oil.

Production of crude oil during 1956 as a whole was 5.7 per cent higher than in 1955 but during November and December production fell by about 38 per cent below the rate of the preceding months of 1956. This was essentially due to the reduction in effective means of transport. The quantity of oil shipped by tanker was substantially reduced as a result of rerouting of tankers to West Africa; the amount of oil transported through pipelines to the Mediterranean seaboard also fell, by 64 per cent.

The country most affected by the reduced production of crude oil was Iraq which previously exported three quarters of its oil through pipelines which ran through Syria.

The blocking of the Suez Canal also substantially reduced exports and production of oil in both Saudi Arabia and Kuwait which depended heavily on the canal. Iran was only slightly affected by the shortage of tankers, partly because of shipments of crude petroleum to Bahrain to replace the latter’s imports from Saudi Arabia. But interesting enough, for the area as a whole, income from petroleum showed an increase for the whole of 1956 as compared with 1955, despite the considerable fall in exports during the last two months of the year. In Syria, for example, receipts from off companies in 1956 totalled approximately is 115 million compared with about $5 50 million in 1955 and £E 6 million in 1954.

General Economic Effects

What are the general economic effects of the Suez crisis on the Middle East? The direct economic impact says the report, of events in October and November 1950 was shortlived and quickly diffused. However, the effects of the events apparently were felt beyond the area of the immediate conflict. The heightened political tension created by the attack stimulated additional military expenditure in several countries not directly involved in...
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The conflict, Speculation and hoarding in several of them were followed by shortages in supply and a rise in prices of various essential consumer goods besides oil products. At the end of October and early in November, there were heavy withdrawals of bank deposits for a short period in countries surrounding the area of conflict—for example in Lebanon, Syria and Jordan—as well as in Israel. These developments, together with the more direct financial burdens of the conflict itself, produced a general rise in the supply of money and credit in Egypt, Israel, Lebanon and Syria and a strain on the foreign exchange resources of Egypt, Israel, Saudi Arabia and Syria. Iraq and the Persian Gulf states were less affected owing to their large accumulated revenues of foreign exchange.

Turkey, Iran, the Sudan and Cyprus lay largely outside the orbit of the conflict.

The report, incidentally, has some pertinent remarks to make on the petroleum industry itself. Thus, it says that the petroleum industry continued its rapid advance in this part of the world, despite the setback caused by the Suez Canal crisis. Direct revenues received by the Middle Eastern Governments increased correspondingly, from about $500 million in 1933 and $650 million in 1934 to about $850 million in 1935 and $940 million in 1936. The profits to foreign-owned companies can well be imagined. Neither should the political implications of these profits be under-estimated. Considering that the United States oil companies have a high stake in Middle Eastern oil, the necessity of American intervention to halt the Anglo-French invasion becomes apparent. The question now being seriously asked among some diplomats at least is: Why should not the United Nations take over all the assets of foreign-owned or operated oil companies, so that the profits, instead of going to private firms, is utilised for the development of all undervpational countries and the Middle East ceases to be a political powder-keg.

The idea, though it may sound preposterous at the moment, may well have to be considered by the United Nations some time in the future. The foot of all evil, certainly in the Middle East is concerned. It will continue to be so, so long as it is prospected, drilled, processed and its marketing is controlled by western companies, even if it be in conjunction with domesic Governments. The day when the United Nations decides to make world resources available to these people may well see the end of power politics in the Middle East. If the United Nations report has a moral, it is this: That political maturity is not catching up with man’s economic necessities and that man has to blunder grievously through wars and economic upsets to understand that world resources are for world consumption directly and not through a middleman.

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