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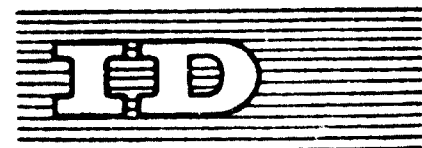
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SMALL-SCALE INDUSTRY
AND THE ARAB COMMON MARKET^{1/}

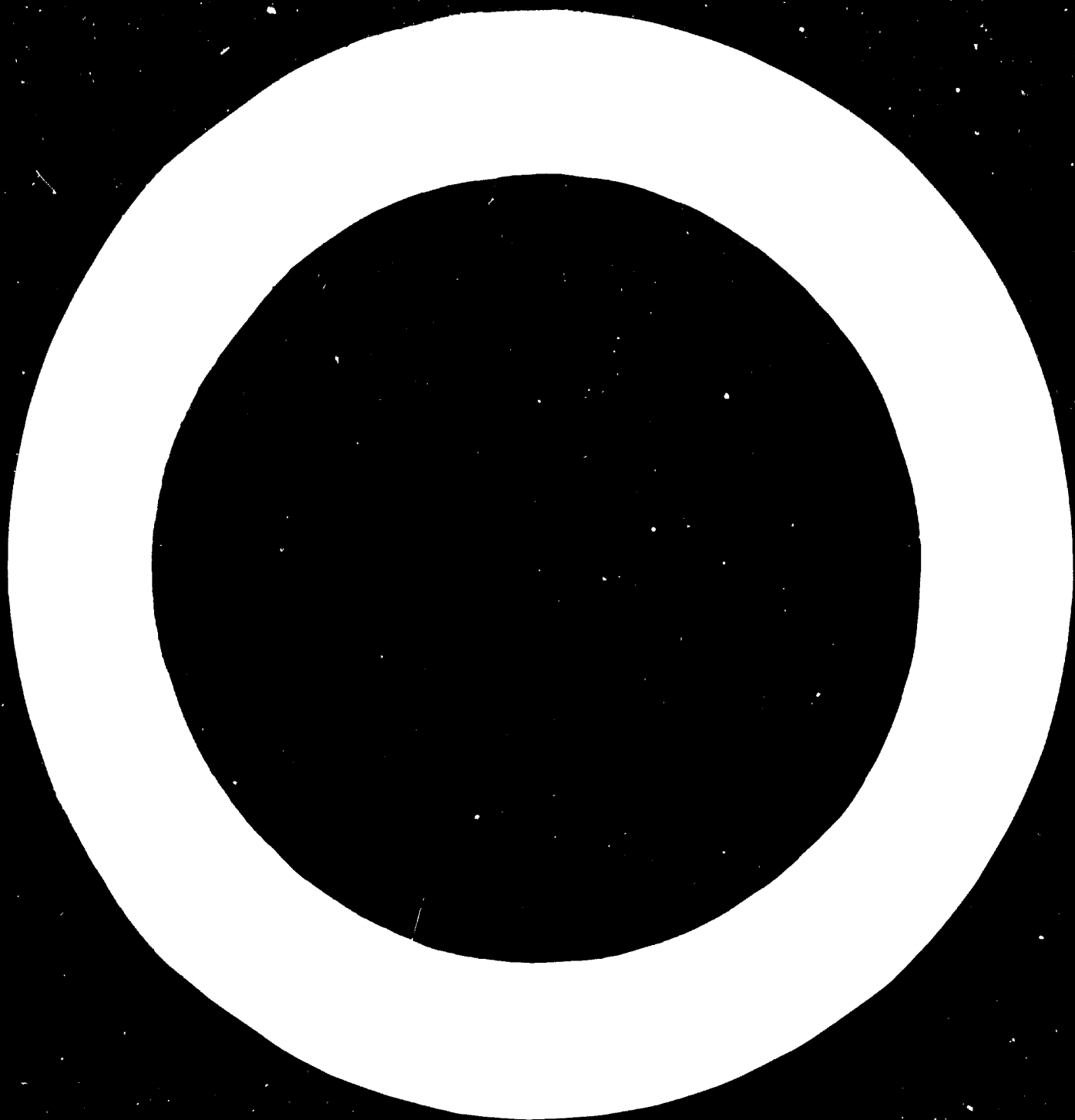
by

Y. Siouffi

^{1/} The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO.

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We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.



SMALL-SCALE INDUSTRY AND THE ARAB COMMON MARKET

Introduction

1. The Arab Common Market was established to promote the economic development of its member countries and to co-ordinate their efforts to building up a balanced industrial sector throughout the Arab region.
2. The Arab Common Market proposes to create appropriate conditions for the optimum use of all production factors so as to enable the industrial sector to perform a dynamic role in the attainment of progress and growth.
3. The purpose of this document is to analyse and demonstrate the effects of the Arab Common Market on the process of growth in small-scale industry. A study of this kind can only be undertaken after scientifically defining the limits of small-scale industry and analysing the provisions governing the Arab Common Market and its effects on industrial activity in general and on the small-scale industry sector in particular.
4. In view of these considerations, the document will be divided into five sections:
 - I. The concept of small-scale industry in the Arab region
 - II. Industrial activity and the Arab Common Market
 - III. Small-scale industry and the Arab Common Market
 - IV. Recommendations
 - V. Conclusions

I. THE CONCEPT OF SMALL-SCALE INDUSTRY IN THE ARAB REGION

5. The developing countries have latterly been attaching increasing importance to the expansion of small-scale industry, in view of its decisive role in the creation of conditions favourable for the development of medium and large-scale industry.

6. The contribution of small-scale industry takes various forms: preparation of skilled and specialized labour, production of various articles and services for large-scale industry, geographical distribution of industries to ensure full utilization of the country's entire resources, wider distribution of overall national income, etc.

7. All these functions, which cause small-scale industry to serve as an economic multiplier, also determine the features which, from our point of view, provide the scientific foundation for a proper definition for small-scale industry and enable it to be distinguished from the handicrafts and cottage industries on the one hand and from medium and large-scale industry on the other.

8. In many countries capital investment is considered the basic criterion for the definition of small-scale industry. Other countries, however, have adopted different criteria such as employment, volume of sales, etc. This disparity in the choice of criteria make it difficult to undertake a comparative study of small-scale industry in the Arab countries.

9. Like all developing countries, the Arab nations have become aware of the importance of small-scale industry and of its role in the process of economic growth without, however, considering the problem of small-scale industry at the regional level. For the purposes of industrial legislation, each Arab country has adopted its own definition of small-scale industry, which differs from that adopted by the others. This has resulted in differences and discrepancies which have made it impossible to undertake any comparative study or any plan for co-ordination. The same industry may be considered a handicrafts industry in one country and a small-scale industry in another.

10. Despite the importance which the Arab countries attach to the development of small-scale industry, no attempt to co-ordinate efforts to that end has been contemplated at the regional level. Small-scale industry continues to be regarded as

a local institution having its own problems which, can only be discussed and dealt with internally. The principle of "localization of small-scale industry" should be replaced by the more dynamic concept of "regionalization of small-scale industry".

11. The principle of "regionalization of small-scale industry" is the best principle to adopt if small-scale industry is to have the necessary prerequisites for development. The need to apply this principle also implies the need to arrive at a common definition of small-scale industry that has the same scope and meaning for all the Arab countries.

12. Criteria such as the amount of capital investment and the number of employees - which are currently applied in the Arab countries for the definition of small-scale industry - are, we feel, too rudimentary. They should be replaced by more scientific criteria, so as to promote co-ordinated complementarity between the different branches of industry at both the national and the regional level.

13. Within the industrial sector as such, small-scale industry falls between the handicraft industry on the one hand and large and medium-scale industry on the other. In our day and age it would be impossible to solve the problem of underdevelopment without taking account of the important role of small-scale industry and of its close ties with other categories of industry. The special features of each category of industry must therefore be taken into consideration when defining the basic principles for balanced growth.

14. In the case of small-scale industry, its special features and dynamic role call for the adoption of definite criteria as a basis for a common definition that can be applied in each Arab country. Such a definition will facilitate comparative studies and help to achieve constructive industrial co-ordination among all the Arab countries.

15. The definition we propose for small-scale industry is as follows:

"A small-scale industry is an industrial establishment in the form of an independent producer of articles for local consumption, or a producer (ancillary industry) of commodities or services for large-scale industry, using machinery as a means of production".

16. Such a definition would make it possible to define the boundaries between the various categories of industry. Indeed, the term "local consumption" implies

that production is intended to meet internal demand, while the term "ancillary industry" implies that the small-scale industry is technologically linked to large-scale industry.

17. The proposed definition of small-scale industry will make it possible to define the limits of this sector and the principles for its development within the framework of the Arab Common Market. The last part of this document is therefore devoted to an analysis of the provisions governing the Arab Common Market and the Market's effects on the industrial development of each Arab country.

II. INDUSTRIAL ACTIVITY AND THE ARAB COMMON MARKET

18. The developing countries are fully convinced that full utilization of their resources can only be achieved by means of balanced industrialization. In order to achieve that aim, the Arab countries are making a sustained effort to prepare the plans and studies necessary for the development of the industrial sector.

19. A study of the economic structure of each Arab country shows that the restricted local market constitutes a considerable obstacle to the achievement of economic growth. To remedy this situation, the developing countries have applied various solutions designed either to increase the purchasing power of consumers or to bring about bilateral or multilateral agreements for the reduction or elimination of restrictions on trade in national industrial products.

20. This awareness of the need to expand the local market in each of the Arab countries resulted in the establishment of the Arab Common Market under resolution No.17, adopted by the Council of Arab Economic Unity at its second session on 3 October 1964.

21. The Arab Common Market proposes to attain the following objectives:

- (a) Freedom of movement for persons and capital;
- (b) Freedom of trade in local and foreign merchandise and products;
- (c) Freedom of residence, work and employment;
- (d) Freedom of transport, transit and use of means of transport and civilian ports.

22. The beginning of 1965 was set as the date for the entry into force of the provisions governing the Arab Common Market, which are aimed chiefly at the liberalization of trade in Arab merchandise and products in the following stages:

- (a) A 20 per cent annual reduction in customs tariffs on vegetable and animal products and on natural resources originating in an Arab country that is a member of the Arab Common Market;
- (b) Exemption from customs duty on the products enumerated in list A annexed to the agreement concerning the encouragement of trade (list A covers the products entirely exempt from customs duty as of 1 January 1965);
- (c) A 10 per cent annual reduction in the customs duty on industrial products;
- (d) An increase in the reduction of customs duty on the products enumerated in lists B and C annexed to the agreement concerning the encouragement of trade (these two lists cover the products subject to a 30 to 50 per cent reduction in customs duty as of 1 January 1965);
- (e) A 10 per cent annual reduction in administrative restrictions with respect to industrial products.

23. The resolution establishing the Arab Common Market provides for a number of transitional provisions designed to pave the way for the liberalization of trade between the member countries.

24. The main transitional provisions are as follows:

- (a) From the beginning of 1965, no new restrictions or charges will be imposed with respect to trade by member countries;
- (b) No local charges on imported Arab industrial products may be higher than the charges imposed on comparable domestic products;
- (c) The duty and charges payable on industrial products originating in one of the member countries will be reduced by 10 per cent a year, from the beginning of 1965, so that complete liberalization can be achieved by the beginning of 1974;

- (d) Trade restrictions will be reduced by 10 per cent a year, from the beginning of 1965, so that imports can be free from all restrictions by the beginning of 1974.

III. SMALL-SCALE INDUSTRY AND THE ARAB COMMON MARKET

25. It should be noted that both the objectives and the transitional provisions of the Arab Common Market apply to all industrial products, no distinction being made between the products of small-scale industry and those of large-scale industry.

26. The application of transitional provisions common to all industrial products, regardless of the category of industry or its special features, could affect small-scale industry more than any other category. In fact small-scale industry is regarded as the weakest group and thus deserving of protection and encouragement in view of the importance of its economic and social function.

27. The liberalization of trade in industrial products, as provided for by the Arab Common Market, could weaken the position of small-scale industry in many member countries. In fact the exporter of the products of small-scale industry will be the member country that is prepared to produce on a large-scale, so that it can lower its production costs and thus compete with small-scale industry in neighbouring countries.

28. These effects will have a restrictive impact on the development of the industrial sector. Since the different categories of industry complement one another technologically, the weakening of small-scale industry will have a direct effect on the other categories of industry, for the following reasons:

- (a) Small-scale industry is, in many cases an ancillary industry to large-scale industry.
- (b) The industrial processing of many raw materials is carried out by small-scale industry.

29. The consequences of the liberalization of trade in industrial products between the member countries of the Arab Common Market will be apparent both nationally and locally. In fact it will no longer be possible to apply the

principle of territorial distribution of industry, or to create conditions favourable to industrial development; underdevelopment will persist in several parts of a particular territory and the many problems connected with this heterogeneity will remain insoluble.

30. The new problems with which small-scale industry will be faced as a result of liberalization of trade between member countries can be avoided if some of the provisions governing the Arab Common Market are amended so as to facilitate the achievement of balanced growth.

IV. RECOMMENDATIONS AND CONCLUSIONS

31. In view of the important role played by small-scale industry in the development and expansion of the industrial sector in every developing country, no plan for balanced growth can be formulated without paying due regard to the principles and rules necessary to encourage and stimulate small-scale industry.

32. Small-scale industry, as we have already noted, has its own characteristic features. Its expansion is subject to special conditions which differ from those that apply to other categories of industry. Accordingly it should be noted that the industrial development which the Arab Common Market aims to achieve calls for a distinction between small-scale and large-scale industry and for a plan to liberalize trade in industrial products, taking account of the special features of each category of industry.

33. There is therefore a need to formulate certain common principles that can be applied uniformly in all the countries that are members of the Arab Common Market. These principles should be as follows:

- (a) There is a need for a classification of different industries, with a definition of small-scale and large-scale industry;
- (b) The provisions governing the Arab Common Market should be amended to take account of the distinction between small-scale and large-scale industry;
- (c) Only the provisions concerning the liberalization of trade in the products of large-scale industry should be applied, such application extending over the first ten years of the existence of the Arab Common Market;

- (d) Trade in the products of small-scale industry should be regulated for the first ten years of the existence of the Arab Common Market, by means of bilateral agreements.

34. We think that it would be advisable for the classification of industries in Arab countries to be based on a distinction between small-scale and large-scale industry, in the light of the following definitions:

(a) Definition of small-scale industry:

"Small-scale industry is an industrial establishment in the form of an independent producer of articles for local consumption, or a producer of commodities or services for large-scale industry, using machinery as a means of production."

(b) Definition of large-scale industry:

Large-scale industry is an industrial establishment in the form of a producer of articles that are functionally more complex and intended for local consumption and export.

35. Being convinced of the necessity for developing small-scale industry in each Arab country, we propose that the provisions governing the Arab Common Market should be amended to take account of the following points:

- (a) A distinction should be made between small and large-scale industry on the basis of the definitions given above;
- (b) A list of large-scale industries in each Arab country should be attached to the provisions of the Arab Common Market;
- (c) The provisions of the Arab Common Market applying exclusively to the products of large-scale industry should be indicated clearly;
- (d) Trade in the products of small-scale industry should be regulated by means of bilateral agreements.

V. CONCLUSION

36. The Arab Common Market is, in actual fact, the most important element in effective and constructive co-operation among all the Arab countries. We feel, however, that if we really wish to attain the goals set by the Arab Common Market, careful study must be given to its effects on the various sectors of the national economies of the Arab countries.

37. The analysis contained in this document is a contribution to the efforts that are being made to achieve the objectives for which the Arab Common Market was established.

38. The growing importance of small-scale industry in the process of economic development prompts us to devote special attention to the creation of conditions that are propitious to its expansion. To this end regional co-operation, in the field of trade liberalization and in the establishment of industrial zones, industrial banks and similar institutions, is bound to have a positive effect on the process of industrial development and on the achievement of economic growth in the member countries of the Arab Common Market.





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