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REPORT ON MISSION TO EGYPT^{1/}

12-13 November 1976

by

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TABLE OF CONTENTS

	<u>Page</u>
A. Purpose of Mission	1
B. Findings	1
C. Conclusions	3
 Appendix	 5
"Report on the Expert Group Meeting held in IDCAS, Cairo, 23-25 October 1976, to discuss Issues prepared for the Fourth Arab Industrial Development Conference to be held in Baghdad, 12-19 December, 1976."	

REPORT ON MISSION TO EGYPT

12 - 13 November 1976

A. Purpose of Mission

(1) In light of the forthcoming Fourth Arab Industrial Development Conference to be held in Baghdad 12-19 December 1976, to inform the Industrial Development Centre for Arab States (IDCAS) of the progress made by UNIDO in establishing a system of consultations as stipulated by the various legislative resolutions of the General Assembly, the present mandate for the operation of the system, and to advise IDCAS of the approach adopted by UNIDO in preparing and organizing the Sectoral Consultations on Fertilizers and Iron and Steel, and the issues which UNIDO is proposing for discussion at the Preparatory Meeting for the Consultations on Fertilizers.

(2) To review with IDCAS the regional strategy for Arab industrial development to be adopted at the Conference, and how the system of consultations (in particular the regional implications) can best be suited to meeting regional priority requirements for industrial development.

B. Findings

(1) A meeting was arranged at IDCAS Headquarters with Messrs:

Mohammad Hillal - Director, Industrial Policies and
Programming Division

Ali Arafa - Division of Industrial Co-operation

Sayed Mouwafi - Deputy Director, Division of Technology

Ahmed Hassan Abdel-Rahman - External Relations Section.

(2) I informed the IDCAS staff of the latest developments in the system of consultations, the preparations and arrangements for the

Sectoral Consultations in Fertilizers and Iron and Steel, the latest decision of the Industrial Development Board at its resumed session in September concerning the assistance which UNIDO should render to regional bodies in their meetings on industrialization and that preparatory activities at the regional level should be undertaken in connexion with the sectoral consultations. The methodology behind UNIDO's preparations for the sectoral consultations was explained, and copies of background material and documents on the system of consultations and the Fertilizer Preparatory Meeting were given to IDCAS. This was considered most useful inasmuch that IDCAS was apparently unaware that UNIDO had proceeded so far in the preparation of arrangements for consultation meetings.

(3) The role that IDCAS was to play in future consultations at the regional level was reviewed, in particular as regards the functional links with ECA, ECWA, and UNIDO. To avoid unnecessary duplication of activities in the industrial sector, it was suggested that IDCAS could be regarded as serving a sub-region co-operating with both ECWA and ECA in promoting and furthering industrial development in the Arab sub-region. In view of possible political implications, IDCAS felt that a final decision on the matter will have to be taken by the Fourth Arab Industrial Development Conference.

(4) I was informed that the draft agenda for the Conference had already been drawn up by an expert group, and that it will be discussed at a preparatory meeting now taking place in Baghdad (from 20 November). Although no copies were available of the draft agenda, it appeared that the system of consultations and the role which the Follow-up Committee (established under paragraph 16 of the Tripoli Recommendations, at the Meeting of the Arab Ministers of Industry, 7-14 April 1974) is to play in mobilizing the Arab region's position on the system of consultations, in monitoring the progress in achieving the Lima targets, and in defining the priority sectors, had been excluded from the draft agenda.

(5) In view of the interest attached to the system of consultations as a novel instrument for achieving the objectives of the Lima Declaration and Plan of Action for furthering the industrial development of developing

countries by the year 2000, it was agreed to include the system of consultations as an item on the draft agenda for the Conference. A background paper on the system of consultations is being submitted by UNIDO for presentation at the Conference.

(6) The Follow-up Committee established at the Tripoli Meeting, and consisting of Libya, Algeria, and Iraq has yet to be convened. It is thought that there may be a consensus to calling a meeting of the Follow-up Committee in February 1977.

(7) Concerning the Arab region's strategy towards the development of priority industries, it appears that three basic concepts are emerging:

- (a) a strategy for self-reliance making maximum use of all internal (domestic) resources; hence intensive agriculture development to make the region less dependent on external food supplies, implies maximum development and promotion of agro-industrial complexes in particular: intensive use of agro-machinery, fertilizer production;
- (b) a strategy calling for bolstering the infrastructural and construction sectors;
- (c) a strategy calling for the development of basic industries such as iron and steel, petrochemicals (including petroleum refining).

C. Conclusions

It was agreed that:

(1) UNIDO should keep IDCAS continually informed and a dialogue should be maintained on developments in the system of consultations, in particular as regards the choice of priority regional sectors planned for the forthcoming years, and the assistance to be rendered by the former to preparatory regional meetings on industrialization.

(2) IDCAS will include an item on the system of consultations to be added to the draft agenda for the Conference.

(3) UNIDO will submit a background paper on the System of Consultations.

Finally, I queried the IDCAS officials whether IDCAS contemplates the possibility of creating a section or unit which will deal with the preparation for and organization of the Arab regions' position in sectoral or regional consultations, and future negotiation of agreements in the field of industry. IDCAS advised that for the present no such plans are afoot, but that the Industrial Promotion Activities Department may be the proper department to handle all questions related to consultations and negotiations. This, however, has still to be confirmed.

* * * * *

SALAH F. JOWHARI
8 November 1976

Report on the Expert Group Meeting held in IDCAS, Cairo, 23 - 25 October, 1976, to discuss Issues prepared for the Fourth Arab Industrial Development Conference to be held in Baghdad, 12-19 December, 1976.

The Meeting was attended by Messrs. Sobhi Sameraai and Abdelwahab Najjar of Iraq, Ajamieh, Kamel Maksoud and Usama Al-Khouly of the Arab Republic of Egypt, Ayyad Al-Azzabi, Khaled Abdelnoue and other staff members of IDCAS and myself. Messrs. Ibrahim Sabri Abdalla and Fouad Morsi sent their written comments, and few other experts invited to participate in the Meeting were unable to attend.

A paper entitled "A New Approach to an Arab Strategy for Industrial Development" which had been prepared by IDCAS as the only working document to be put before the Fourth Arab Conference was discussed in the Meeting and a number of comments were made. These are now being incorporated into the background document on strategy. The paper containing concepts for a new approach to an Arab strategy for industrial development was divided into four parts: the present state of industrial development in the Arab countries, past development strategies, a proposed strategy based on internal development and Arab industrial cooperation.

A condensed summary of the concepts and issues covered in the four parts of the paper is given below:

I. Present state of industrial development in the Arab countries

Industry remains to play a small part, not exceeding 10 per cent of GDP in most Arab economies. Agricultural and extraction industries, on the other hand, are still the two most dominant sectors, both in

terms of output, employment and export. Consequently, the Arab countries depend on the outside world for the importation of most of their requirements of industrial consumption and intermediate goods. The development strategy which has so far been adopted was responsible for the slow rate of development of industry in the Arab countries.

II. Past development strategies in the Arab world

(a) Import substitution strategy, which was the first to be adopted in the Arab countries, was unable to contribute effectively to the development of Arab production structures, to the eradication of backwardness and to the minimization of dependence on the external world.

(b) Some of the Arab countries began establishing in recent years export-oriented industries with a view to constructing industrial structures, to overcoming balance of payments difficulties, and to avoiding dependence on the exportation of primary goods and on a single source of income. Such industries which were established on the basis of joint partnership with foreign companies included petroleum refining, petrochemicals, iron and steel, fertilizers and aluminum. Joint partnership with foreign companies was necessary in order to obtain technical know-how and to secure marketing of their products in the advanced countries which are dominated by these companies.

The adoption of such a strategy is likely to deepen dependence on the outside world, not only in so far as the construction, operation and maintenance of projects are concerned but also in producing goods designed for the external markets. This means that the marketing of such products would be governed (a) by fluctuations in the international market which would reflect themselves directly on Arab projects producing for exports, and by conditions set by the advanced countries. Furthermore, Arab technological dependence would be deepened, since foreign companies would be the ones to determine the type of technology to be used to their best advantage without taking into consideration the particular needs of host countries.

Despite the defects to be found in such a strategy, exports of Arab industrial products is necessary and vital for development and must not be halted or hampered. The problem, however, can be dealt with if two basic questions could be answered, namely, what to produce and for whom exports are designed. The answer to these two questions is closely related to the proposed strategy for industrial development.

III. Proposed strategy based on internal development

The proposed strategy calls for production of basic needs, namely, food, clothing and shelter, to be undertaken basically for Arab domestic markets. Such a strategy calls for self-dependence and for making full use of all domestic resources. Self-dependence does not, of course, imply isolation from the external world, since it would not be possible for the Arab countries to provide all their requirements of intermediate, capital and even consumer goods, and, consequently, exports of industrial products must be undertaken by the Arab countries in order for them to balance their imports. But in this case, relations with the external world would be determined on the basis of the Arab countries' needs and interests, conditions prevailing in their local markets, their actual requirements and the structural changes needed for the development process.

A strategy based on internal development must be based on the following three groups of conditions:

The first group

- a) Identification of Arab resources and effective control and management of production, marketing and financing of industrial projects;
- b) Securing the needs of Arab masses for food, since at present the Arab countries depend on the external world to the extent of one-

half of their food requirements, a situation which cannot be accepted to continue. The achievement of this goal would necessarily imply the emergence of linkages between agriculture and industry, particularly the intensive use of appropriate agricultural machinery and other scientific methods of food production, including fuller utilization of fertilizers, insecticides and other chemicals.

c) Construction of a technological base within the framework of existing development strategy. Such a base implies, i) the drawing up of a technological plan which would determine directions and choices in the selection of technology in the various industries and which would become part of the general development plan, ii) reexamination of educational curricula with a view to linking them to the technological objective, and the construction of research centres for the development of local technology and the adaptation of imported technology.

The second group

Continued vertical and horizontal expansion of the market through a) mobilization of savings, represented by the difference between output and consumption in each of the Arab countries. The significance of this step becomes obvious when we remember that studies undertaken show that countries which are presently enjoying surpluses in financial resources are likely to be faced with shortages after 1979; b) changing the pattern of income distribution so as to bring into the monetary and commodity sectors the highest possible proportion of the population. This would raise effective demand which would ensure continued progress of industrial development and elimination of idle capacities; c) expansion of the market by the elimination of geographical differences within the Arab countries, particularly the difference which exist between urban and rural areas, to be accomplished through the adoption of new policies related to location of industries and the erection of agro-industrial units in the rural areas; d) horizontal expansion of the market through Arab industrial co-operation.

The third group

Raising production and productivity through expansion of the labour force and improving the quality of manpower, particularly technical skills. This would require basic re-orientation in the educational systems through concentration on technical and vocational training and the linking of educational plans to production plans and taking of measures necessary for halting drainage of skilled manpower to the outside world.

The fourth group

The achievement of complementary growth since industrial development is only one part of the comprehensive process of economic and social development. Reference has already been made to the importance of linkages which exist between agriculture and industry. The importance of two other sectors may be cited, namely, the infrastructural and construction sectors. Iron and steel, petroleum refining and petrochemicals are industries that have been identified and recommended as basic industries whose development is called for under the new strategy on the basis of their importance for the advancement of technology and of their forward and backward linkages.

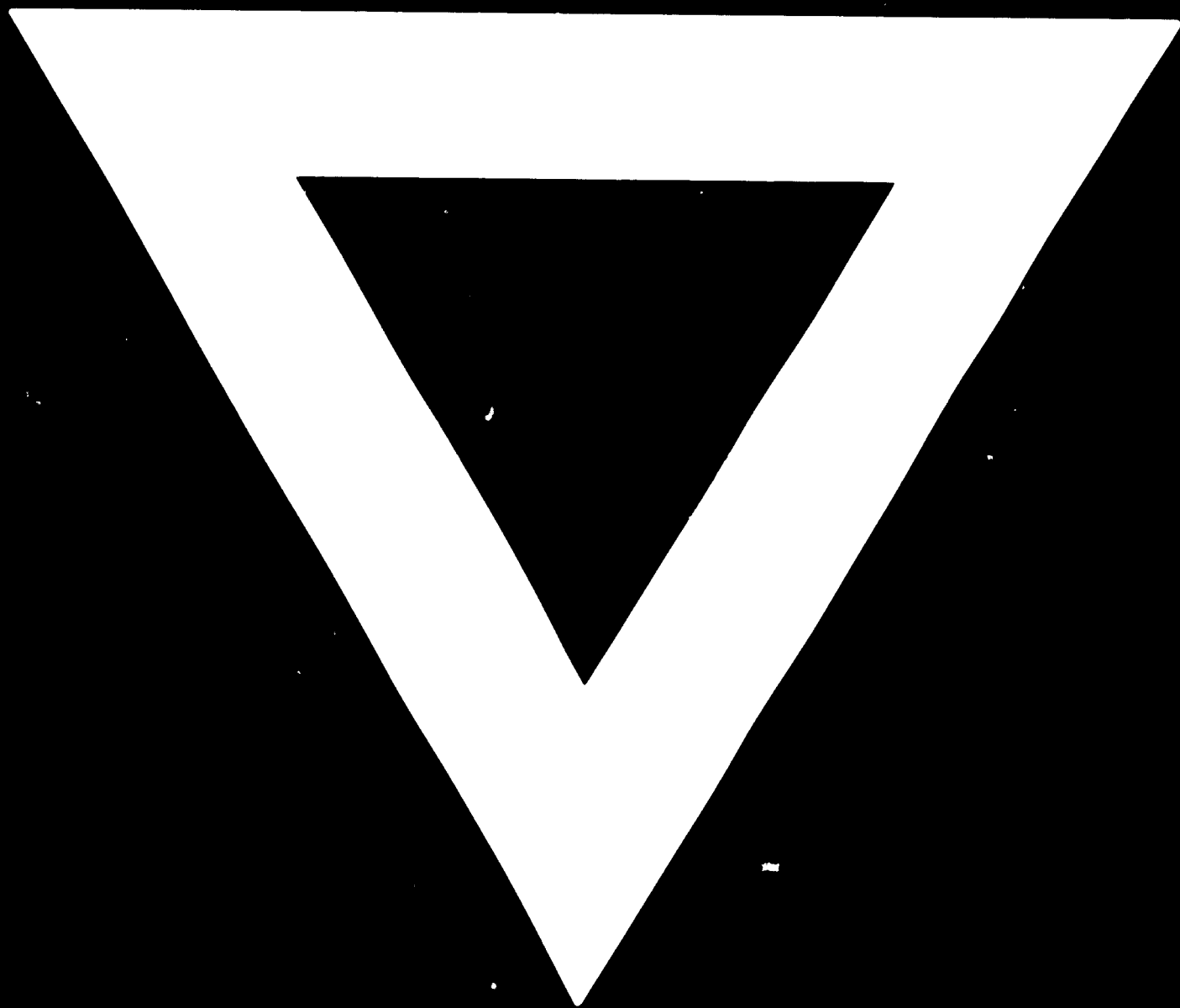
IV. Arab industrial co-operation

Arab industrial co-operation is seen as vital for effective development and for the achievement of structural changes advocated in the proposed strategy. The agreements on Arab economic co-operation which have been concluded in the past lacked comprehensiveness in terms of the setting down of general objectives and the determination of the means and practical methods for their implementation. In other words, the pattern which has been adopted was characterized by attempts at achieving constitutional and institutional arrangements for economic unification without effective economic preparation which takes into account the economic, social and political differences of the various Arab countries and, consequently, the ambitions at unification remained divorced from the reality of existing situations.

Since specialization and the division of labour present the cornerstone of the process of complementarity, it becomes necessary to determine the principles which govern the location of industries among the various participating countries in such a way that each country benefits from continued participation in the process of co-operation. In other words, the principle involved should be governed by concepts of efficiency and fairness in the distribution of industries. The method suggested for future co-operation should be flexible and should be based on three phases, namely, studies, consultations and planning. Since economic complementarity must be consistent with the national interests of each participant, studies on the long-run aspects of industrial development must be undertaken. Such studies would serve as a basis for the initiation of consultations between the specialized agency and the individual country concerned with the objective of discussing the results obtained from these studies. The third phase entails the adoption by individual countries of industrial planning which would be consistent with the common objectives, namely directing investment in such a manner as to enable countries to take advantage of economies of scale, on the one hand, and prevent concentration of industries in the more advanced countries, on the other. This latter phase would require for its implementation a machinery capable of taking initiatives concerned with the location of industries in member countries. It is only logical that IDCAS, which has already accumulated experience in this field, should be entrusted with this task in order to avoid the creation of a new machinery. In the meantime, IDCAS plans to reorient its work with a view to satisfying the first two phases, namely, the preparation of studies and the initiation of consultations as a pre-requisite for the future fulfillment of the third phase.



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