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ON ARAB ECONOMIC PLANNING

By

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Just as each Arab country has a flag and a national anthem, so it has a plan. Even Saudi Arabia, one year before Faisal emancipated the slaves, established the Higher Council for Planning which, three years later (1964) was substituted by the Central Planning Organization and a five-year plan was drawn-up in 1965.

One may wonder, however, whether the net benefits of introducing central planning in the Arab world have exceeded the salaries of the planners, the cost of planning and follow-up departments in the various ministries, the cost of the magnificent buildings occupied by planning ministries and institutes, of computers imported for their use, the generous payments made to foreign planning experts as well as the loss of whatever private productive investment may have taken place in the absence of planning but failed to materialize because of it.

All this may seem a small price to pay for ensuring the most rational allocation of resources. But to suppose that central planning necessarily leads to a more rational use of resources than the uncoordinated decisions of separate enterprises, whether privately or publicly owned, one must be making a large number of assumptions that have largely been unfulfilled.

First : One must be assuming that the country has a sufficient number of qualified personnel at its disposal as well as the necessary macro-economic and social data. An ECAFE study of planning in Asia and the Far East stated that « planning on the basis of inaccurate data may be worse than no planning at all, since such data may not only point to wrong solutions to problems but also create complacency and lead to serious bottlenecks and rigidities (1) ». In most Arab countries both planning expertise and the necessary statistics are seriously deficient. Yet, with their small

(1) Quoted in Waterson, A. : *Development Planning, Lessons of Experience*, Johns Hopkins Press, Baltimore, 1969, p. 183.

numbers and working with such deficient data, and even with some data that certainly exist being withheld from them as belonging to the high secrets of the state, Arab planners often find themselves in the embarrassing situation of being asked to produce a « plan » in a few weeks.

When Syria started the formulation of her five-year plan (1960/61 — 64/5) the number of economists at her disposal did not exceed four or five(1) and when Lebanon's Ministry of Planning was first established it was composed of part-time employees. But even when the country is well equipped with the necessary planning personnel, as is the case with Egypt, planners, particularly the heads of planning agencies are usually also involved in several administrative and political tasks which are often taxing but more remunerative or promise greater rewards for their future careers.

While the lack of personnel can to some extent be met by calling upon foreign expertise, the lack of statistical data cannot. It is indeed difficult to take seriously the task of the Central Planning Organization of Saudi Arabia where the number of population is largely guesswork, with estimates of population made in the early 1960's ranging from 3.2 to over 6 million, to which another estimate made by the World Bank of around 8 million was recently added(2). More rewarding perhaps for the president of the organization is his other function of principal political advisor to the king.

In 1961, two years before Libya's first five-year plan (1963 — 68) the IRBD mission reported that :

« In agriculture, for example, no soil survey has yet been undertaken, records of land ownership are fragmentary and very little is known about the present pattern of land use... Information about production in other sectors of the economy is even more scanty. There is no regular compilation of statistics of industrial production, and very little is known about movements of trade within the country (3) ».

In neither Syria nor Lebanon has there ever been an agricultural census. The first population census of Syria was undertaken as late as 1960 but no population census has been undertaken in Lebanon since 1932 for fear that

(1) Diab, M. : The First Five-Year Plan of Syria : An Appraisal, *Middle East Economic Papers*, 1960, p. 14.

(2) UNESOB : *Studies on Selected Development Problems*, 1968, p. 25 and Economist Intelligence Unit : *Saudi Arabia & Jordan*, No. 2, 1972, p. 4.

(3) IBRD : *Economic Development in Libya*, p. 89.

the results may upset the balance maintained between the various religious sects. In his recent attempt at studying Syria's development prospects, Professor Hansen complained that while in view of the lack of data « the opinions and views of well-informed experienced people... with inside information and a detailed, albeit unsystematic knowledge of the economy... would have been extrremely valuable... the political state of the country has made it increasingly difficult to obtain even this sort of information. Syria is to-day a totalitarian state and the possibilities of communicating with knowledgeable Syrians are severely circumscribed... Syriology is now a scienc almost comparable to Kremlinology (1) ».

Secondly : The country must have an administrative machinery the various organs of which have clearly delineated responsibilities, are allowed to take initiative and are flexible enough to meet unforeseen circumstances which are bound to occur during the implementation of the plan. No Arab country is lucky enough to have such machinery with the result that investment projects which may appear coordinated in the plan are rarely so in their actual execution. Thus school or hospital buildings may stand empty because there are not enough students, teachers or doctors, the wages of labour may have been paid some months before the importation of the necessary machinery is even agreed upon, imported machinery and intermediate goods may reach the country before the factory is built or production may be interrupted because current expenditures are not authorized... etc.

In Iraq, for example, because the construction of factories and the supply of raw materials are handled by different ministries, thus it was possible for two factories, both publicly owned and constructed, one to process locally grown sugar beets and one domestic tobacco, to end up using imported materials. It was discovered, after the factories were built, that the domestic supply of sugar was unavailable and that domestic tobacco was not of the right quality(2).

Thirdly : If a central plan is to be more than a mere expression of wishes the government must have a minimum degree of control over the basic conditions of its fulfilment. This control is obviously weaker the

(1) *Economic Development of Syria* in Cooper & Alexander (eds.), *Economic Development and Population Growth in the Middle East*, Elsevier, N. Y., 1972 p. 331.

(2) Waterson, *op. cit.*, p. 311. For similar examples see, on Iraq, Badre, A. : *Economic Development of Iraq*, in Cooper & Alexander (eds.) *op. cit.*, p. 320; UNESOB : *Studies on Selected Development Problems*, 1969, p. 29 of the Arabic edition; and for Libya, Abu-Saud, M. : *Petroleum Economics and Development in Libya*, in *Petrole et Developpement Economique Au Moyer-Orient*, Publications de la Faculte du Droit et des Sciences Economiques de Grenoble, Editions Monton, Paris, 1968, p. 93.

greater is the country's dependence in financing investment on uncertain foreign aid and the weaker its political position at home. The Egyptian confusion over the « second » five-year plan is a good example of the first difficulty while Iraq provides good examples of the second.

It was apparently the Egyptian government's uncertainty about the continuation of foreign aid that made it unable to publish the second development plan until well after the first had ended in June 1965, or even to decide whether it was going to be a seven, a five or a three year plan. A three year « plan » was finally announced in December 1966 and was called an « accomplishment plan », meaning that during these three years only the projects which had already been started would be completed, a task which should have required no central plan at all. As late as 1971 it was announced that the third plan was being prepared but in fact there has never been a second. The Egyptian experience in planning of over ten years virtually consists, therefore, of the preparation of the first five-year plan (1959/60 — 64/5). During these ten years, however, both the Ministry and the Institute of Planning have expanded and moved to new modern buildings.

In contrast to Egypt there is certainly no shortage of plans in Iraq. During a seven-year period (1951 — 58) Iraq had no less than four plans, 2 five-year and 2 six-year ones, and throughout her planning experience the average life span of a five-year plan was two years. Between 1964 and 1968 Iraq had 6 ministers of planning, 8 ministers of industry and transport, 7 ministers of public works and 6 ministers of land reform (1). Successive Iraqi governments have therefore been powerless to bring the planned targets to fulfilment. Out of 39 major manufacturing projects included in the 1961 — 65 plan only four were completed by the beginning of 1965 while the feasibility of ten was still being studied. Over the whole period 1951 — 65 actual expenditures amounted only to 52.1% of total allocations (2). Projects which had been included in one plan keep reappearing in the following ones. The industrial projects which appeared in the 1965 — 69 plan, for example, were almost the same as those included in the previous plan (1961 — 65). Nevertheless, the current cost of planning administration increased from I.D. 2.2 million in 1957 to 3.6 million in 1963(3).

(1) See Badre, A. : *op. cit.*, p. 288 and UNESOB, *op. cit.*, p. 20.

(2) Jalal, F. : *The Role of Government in the Industrialization of Iraq*, Cass, London, 1972 p. 65 — 74.

(3) *Ibid.*, p. 74.

Despite their limited control over their country's political destiny and over the means of financing their plans, Arab governments, particularly the military ones, tend to set themselves targets which should seem over-ambitious even in the most favourable circumstances. If private investors in Arab countries can be blamed for showing too much caution in their investment decisions and for concentrating on short term profitability, Arab central planners are equally blameworthy for being too optimistic and for neglecting the short-term consequences of their plans in the hope of doubtful successes in the long-run. Just as over-cautionsness may deprive the country of some socially-desirable industries, over-ambitiousness may lead to the establishment of low-priority projects which were only a part of a big development programme that included more important but unrealized projects.

When Egypt embarked on her ambitious industrialization based on import-substitution, too much faith was put in the country's ability to export the new manufactured goods as well as on the continuation of large sums of foreign aid. Factories were therefore built on a scale that could not be justified by the size of the home market alone. Too much was made of the foreign exchange that could be saved by replacing imports by home-made substitutes while little attention was given to the foreign exchange needed to import the necessary intermediate products and raw materials. The value of the latter often turned out to be higher than that of the former partly because home production was now greater than the corresponding imports and partly because of the inevitably lower efficiency in the use of raw materials. Thus, the share of raw materials and semi-finished goods in the total imports of 1965 was much higher than it was in 1952 and import substitution came to be « the substitution of imports by imports(1) ». Total imports far from decreasing as planned, increased at an annual average rate of 11.2% between 1960 and 1965(2). When the export performance proved disappointing and foreign aid became insufficient for making good the shortages of raw materials and spare parts, unused capacity increased until 1965/66 when it was estimated that at least 25% of the productive capacity of nationalized industries was idle (3). In view of the high import content

(1) Mabro, R. and O'Brien, P. : *Structural Changes in the Egyptian Economy, 1937 — 65*, in Cook, M. (ed.) : *Studies in the Economic History of the Middle East*, Oxford University Press, London, 1970, pp. 419 — 20 & 423 — 4.

(2) U.N. : *Survey of Economic Conditions in Africa — 1968*, N.Y., 1972, p. 74.

(3) IMF : *International Financial News Survey*, 9th Feb., 1968, p. 39.

of investment (1), the investment rate had to be reduced.

Arab governments often recognize the ambitious character of their plans but they invariably seem to think that they will succeed where their predecessors have failed. Another explanation might lie in the political advantage of committing their countries to aims not all of which could be achieved since this could continuously supply the government with excuses for taking unpopular measures or postponing popular ones. This may also explain why long-term plans are sometimes preferred, such as the ten-year plan of the Sudan (1960 — 70) or the seven-year plan of Jordan (1964 — 70), when the scarcity of data and the political and military uncertainties should have favoured shorter-term or even partial plans.

It is sometimes argued that, even though a country may not yet be ready for comprehensive planning it should nevertheless exercise it because it provides better education in planning for political leaders than partial planning. This argument is of doubtful significance in countries like Iraq or Syria where top planners are frequently changed. One may also argue that the educational benefit of any activity is most effective when the one being educated is convinced of the practical significance of his exercise. If this is true then the successive failures in fulfilling the targets of comprehensive plans would make such planning of limited educational value. What is more likely to occur is an increase in apathy, at least among the lower ranks of planners. Indeed such factors have been reported as an explanation for the that most of the competent members of the Jordan Development Board left it after 1967(2).

In many cases past economic performances, however recent, are rejected as a guide to possible developments in the future. Take for example Iraq's plan to increase public consumption at the same rate as GNP during 1965/66 — 69/70 when it had been increasing at a rate almost 50% higher during the previous 12 years(3); or Syria's planned rate of growth of value added in agriculture in the 1966 — 70 plan of 7.5% annually compared with an annual average of 1.3% during 1956 — 67(4), or Sudan's planned rate of growth of total output of 7.6% in her new plan (1970/1 — 74/5)(5) compared with a rate of growth of less than 4% during 1960 — 67.

(1) Nearly 50% during 1960 — 65 (Mabro & O'Brien, *op. cit.*, p. 423).

(2) Mazur, in Cooper & Alexander, *op. cit.*, pp. 256 — 7.

(3) UNESOB, *op. cit.*, 1968, p. 5.

(4) Hansen, B. : *Economic Development in Syria*, Rand Corporation, 1970, p. 11.

(5) *Middle East International*, A Special Supplement on the Sudan, May, 1972, p. 9.

Although the planned rate of growth of 5% in Sudan's earlier ten-year plan (1960 — 70) appears more modest, it should also be regarded as too ambitious considering the planned rate of increase in imports of only 2% and the implied rate of growth of industry, building and public utilities of 13.4% per annum. This last rate seems all the more unrealistic if one considers that while public investment was planned to represent 66% of total investment, public investment in industry was planned to contribute only 33% of total investments in this sector. This means that the « realization of the most ambitious target of the plan is largely left to the private sector... (and) that realization of the plan depends on forces which can be influenced and channelled by government action to a very limited extent only(1) ».

Defective implementation of a plan may be due neither to excessive reliance on unreliable foreign aid, nor to political instability, nor to the over-ambitiousness of targets but simply to the fact that the declared targets, or indeed the whole plan, was never intended to be more than window-dressing. This is particularly true of Lebanese planning. In Lebanon it is customary to employ, at great cost, foreign experts whose reports are often sound but rarely used. Very few of the recommendations made ten years ago by the IFRED mission, for example, have been adopted other than those concerning the creation of new administrative departments and organizations. This was in spite of the fact the IFRED mission had been realistic enough to recognize the limitations in the role of government in Lebanon not going beyond advising the government of the means by which it could direct the activities of the private sector and concentrate its own efforts on developing the country's infrastructure(2). Similar reasons may also have been behind the very low percentages of planned development expenditure which were actually achieved by Kuwait and Libya(3), and behind the deviation in the pattern of actual investment expenditure in Iraq from that of planned expenditure so that the share of buildings in the former came to be one third higher than in the latter, at the expense of both agriculture and industry (see table).

(1) Gusten, R. : *Problems of Economic Growth & Planning : The Sudan Example*, Springer-Verlag, Berlin, 1966, pp. 30 — 35.

(2) See Azhari, *op. cit.*, pp. 71 — 2 and 89; U.N. : *1970 Report on the World Social Situation*, p. 77, and Corm, G. : *Politique Economique et Planification au Liban, 1953 - 63*, Librairie de Medicis, Paris, (1965).

(3) In Kuwait, actual development expenditure in the public sector during the first four years of the five-year plan (1967/8 — 71/2) amounted to about 49% of the proposed five-year total. In Libya the corresponding ratios were 58.7% and 66.8% for the first and second years of the 1963 — 68 plan, respectively. (see : Economist Intelligence Unit : *The Arabian Peninsula*, Annual Supplement, 1971, p. 8., and Farley : *Development Planning in Libya*, Praeger, N.Y., 1971, p. 228).

*Iraq : Deviation of the Actual Pattern of Expenditure
From Planned Composition of Investment (1951 - 65)*

(Percentages)

	1951 — 58		1959 — 65	
	Planned	Actual	Planned	Actual
Agriculture	34.3	32.2	18.7	13.5
Industry	14.8	12.6	22.5	17.1
Communication ...	26.0	20.3	25.5	24.9
Buildings	24.9	34.9	33.3	44.5
Total	100.0	100.0	100.0	100.0

Source : Jalal, F. : The Role of Government in the Industrialization of Iraq, Cass, London, 1972, p. 68.

Finally, to suppose that the introduction of central planning necessarily leads to a more rational use of resources one has to assume, above all, that the paramount *objectives* of those who determine the broad plan targets and the means for their implementation are economically superior to those of private investors or managers of public enterprises. Although it is often taken for granted that this is the case, it is far from obvious in the case of top-policy makers in the Arab world who almost always seem ready to sacrifice economic development if it comes in conflict either with their gaining a political advantage or with the economic interest of a politically influential group. Nor is it obvious that even the planned allocation of investments among the various sectors has been governed by criteria that are socially superior to the pursuit of purely private interests.

After the 1958 revolution in Iraq the government declared the aim of its first plan (1959 — 62) as « to change radically the direction of the plan of the previous regime... in a manner which can serve the interests of the Iraqi people ». In this plan, however, first priority was given to public buildings and housing (48.7% of total allocations)(1). In the 1960 — 65 plan out of I.D. 27 million allotted to housing, 10 million were for army officers' houses in Baghdad and the remaining 17 million were allotted to other cities, while nothing was assigned to rural housing. Again in the 1961 — 65 Plan I.D. 11 million were allotted to build a new civil airport in

(1) Jalal, op. cit., pp. 38 — 9.

Baghdad, 9 million for radio and television stations, 33 million for new buildings for Baghdad University, 5 million for Baghdad roads, 6.2 million for providing the post and telephone department with more modern equipment and 2.5 million for prisons, compared, for example, with only half a million for agricultural cooperatives. A new building for the Ministry of Planning itself was allotted I.D. 1.8 million(1). Only political objectives can explain such a pattern of expenditure. In Egypt, such objectives must explain the distribution of profits and bonuses whether the planned targets are fulfilled or not, or the refusal to recognize the right of a manager to dismiss a negligent labourer or the promotion of a minister who has obviously been responsible for a big waste of investments. It is also largely by political factors that one can explain why, in many Arab plans a greater proportion of investment is allocated to services, housing and public utilities than to agriculture or industry(2), and why in some of them, as in Egypt's first five-year plan, a good part of industrial investments was directed to such industries as those producing air conditioners, refrigerators and private motor cars. The Egyptian steel industry as well as the Iraqi agricultural machinery project, both largely financed by foreign aid, may have been politically attractive but in both cases the country possesses neither the required raw materials nor the market that could absorb the products nor any special advantage in producing them(3).

(1) Hasan, M. S. : *Studies in the Iraqi Economy* (Arabic), Dar-El-Taliaa, Beirut, 1966, pp. 258 — 68.

(2) The planned share in total investments of dwellings, public utilities, transport and other services were : 40.3% in Egypt (1960 — 65), 53.6% in Iraq (1959 — 64), 57.4% in Jordan (1964 — 70) and 51.5% in Syria (1960 — 65). In Sudan's ten-year plan « social administration » was allotted 26.5% of total investment compared with 21% for agriculture and 18.9% for industry, mining and public utilities.

(3) See on the Egyptian steel industry, Hansen, B. : *Economic Development in Egypt*, The Rand Corporation, 1969, pp. 19 — 20 and on Iraq's production of agricultural machinery, Jalal, *op. cit.*, p. 57.