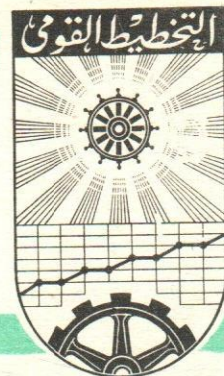


# UNITED ARAB REPUBLIC

## THE INSTITUTE OF NATIONAL PLANNING



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A QUEST FOR ECONOMIC INDEPENDENCE  
CASE STUDY: UNITED ARAB REPUBLIC

BY

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"When we economists, working within this tenacious but variegated and flexible tradition of preconceptions that admittedly are not too badly fitted to our own conditions, suddenly turn our attention to countries with radically different conditions the risk of fundamental error is exceedingly great."

G. Myrdal: Asian Drama,  
Vol. I, p. 17

I. INTRODUCTION

1. It is not our present intention to plunge into the controversy on the actual meaning of economic independence. However, we feel that it is essential for a full understanding of the present paper to clarify at the outset the meaning which we ourselves attach to this oft-disputed concept.

We consider that a country is economically independent when nothing stands in the way of its express determination to promote the rapid and steady economic, social and cultural development of the maximum number of its citizens. Independence is therefore not a state but a positive and dynamic process designed to disengage the country from the manifold entanglements woven around it by another historic process, i.e. the spread of world capitalism and to enable it to develop independently in the interests of its own people which are not incompatible with those of other peoples engaged in the same struggle. It is obvious that this concept of economic independence implies the interpretation of under-development as an integral part of a wider phenomenon: the development of the world capitalist system.

Moreover, this view of a country's economic freedom is more than a purely verbal rejection of foreign intervention and involves more than the taking over by its nationals of the means of production previously in foreign hands. The concept must also include the efficient utilisation of the newly recovered assets if there is to be an overall development of the



2. But a relatively high rate of growth in national per capita income is not always synonymous with development. If the population is not very big the discovery of rich mineral deposits will be quite sufficient to send up the growth rate of G.N.P. and per capita income by leaps and bounds and yet the very fact that the country depends on a sole product is in itself the most characteristic sign of under-development. The social and cultural "backwardness" of certain small countries which are large-scale producers of petroleum is very revealing in this connection. In other cases appreciable improvements in growth rate have been achieved through large-scale investments - often foreign - in the tertiary sector. But only too often the benefits of this high growth rate are eventually reaped by very limited sections of the public. Furthermore, such kinds of growth can never be maintained from the country's natural resources.

We are quite convinced that the only solid basis for a real economic "take-off" is the centralised mobilisation of the national resources to promote rapid industrialisation, develop agriculture and diversify production and exports. This can only be achieved in the time required at the cost of far-reaching changes in the economic social and political structures inherited from the past which are the cause and the reflection of under-development. But under-development is not only a material factor. It also exists in the minds of men. That is why it is essential to achieve a "cultural revolution" which emancipates the masses from the influence of out-dated ways of thought, provides the country - via access to modern scientific and technical knowledge - with the managers it needs, and mobilises the majority of its citizens for development by their own achievements and with no other objective but their happiness.

3. Needless to say our conception of economic independence rules out any idea of autarky. On the contrary, it pre-supposes the steady growth of international co-operation in both aid and trade. No country can develop satisfactorily in a vacuum. But, it is not the developing countries which call the tune, and international society continues to be dominated by its most powerful members. Hence the need for a steady effort to ensure that aid really is aid and that the profits from international trade are equitably shared. Any action we take will have very limited effects if it is dispersed, and that is why we must stand together. In this context, we believe that the economic integration of developing countries is a major step towards their economic independence, provided it is their own work and not merely the reorganisation of a zone of foreign influence.

## II. BRIEF HISTORICAL SURVEY

1. We do not propose to dwell on the 5,000 year-old history of Egypt. But we will select two essential factors whose perennial influence partly accounts for modern Egypt. Our country is part of part of the great Sahara Desert and its people



live exclusively in the area of the delta and the narrow valley of the Nile (its sole source of water) which represent only 3 per cent of the total surface of Egypt's territory. The rest is nothing but desert. This peculiar situation was responsible from the very dawn of history for a type of agriculture based on irrigation. But irrigation can only be organised centrally by an effort of the people as a whole. The inseparable corollary of this economic system was therefore a centralised state which has prevailed since the year 3200 B.C. This situation consolidated national unity at a very early date. However far back one goes in recorded history there is no trace of tribalism or regionalism. The Egyptian farmer who is accustomed to intervention from the Central Authority is always on the watch for any facilities which are likely to help him to increase the yield from the alluvial soil which is so fertile but so scarce. An economy run by the civil service is a very ancient tradition. Its drawback is of course the growth of a deep-rooted bureaucracy.

2. Our modern history reflects a further peculiarity. At the end of the 18th Century Napoleon invaded Egypt. Six years later the French Army was repulsed. In this way our country was brought into contact with modern civilisation but did not have to suffer the disadvantages of a lengthy colonial domination. After the departure of the French the Egyptian middle class, under the aegis of Mohammed Ali undertook the modernisation of the country. This involved winning complete independence from the Ottoman Empire, launching large-scale irrigation projects, promoting industrialisation, training responsible executives both in Egypt and in Europe, etc. But the great powers of Europe formed a coalition to curb the impetus of a movement which threatened to spread through the whole region. Defeated in the field, Mohammed Ali had to accept the terms of the great powers. His pusillanimous successors, shaken by this great man's defeat, put an end to his experiments. Faced with the reaction of the Egyptian people, one of them appealed to Great Britain to save his throne. The British Army occupied the country in 1882.

Under the British occupation (1882-1956) Egypt was doomed to become the producer of a single staple commodity, i.e. cotton. The civil service was rapidly dismantled and replaced by foreign elements. The principle of the private ownership of agricultural land operated for the benefit of the notables whose vast possessions were given up to the cultivation of cotton. To deliver this remarkably high-grade raw material to Lancashire a foreign banking system was introduced, a stock exchange was founded in Alexandria, export firms were established by foreigners and a whole modern marketing network sprang up. The Egyptian treasury financed large-scale irrigation and transport projects to exploit the cotton crop. On the eve of the First World War this commodity accounted for 90 per cent of our exports. In the early 50s it still represented over 80 per cent.



Foreign capital enjoyed considerable privileges. These included total freedom of movement, complete immunity from taxation and special courts for any disputes in which foreign nationals were concerned. However, it was not invested outside the financial sectors (banks, insurance companies and commerce - particularly export-import firms). The result was that the Egyptian economy was singularly stagnant during the whole of this period. Professor Bent Hansen has calculated the growth rate for the period 1913-1955 and established that the overall growth in national income during this period was roughly equivalent to the growth of population although the latter never exceeded 1.7 per cent before 1940. No internal balance-of-payments figures are available. However, the balance-of-trade figures regularly showed a considerable surplus for the whole period 1900-1939 except during the years of world crisis when this surplus was apparently used to pay the dividends and interests on foreign capital.

4. The two world wars created a situation which fostered the birth of a small local industry although the latter often belonged to foreigners (spinning mills, tobacco factories, cement works, etc....). In the 20s the Egyptian middle class made an attempt at national industrial development. The whole enterprise pivoted on the Misr Bank, which was the first entirely Egyptian credit establishment and acted simultaneously as a deposit bank and a commercial bank. It launched out into the textile industry with some success. But the great depression forced it to come to terms with the British and to participate with them in undertakings which were dominated by foreign capital. Later the Misr Bank liquidated several of its industrial firms and devoted most of its efforts to textiles.

### III. STEPS TOWARDS ECONOMIC INDEPENDENCE

#### 1. The development of a new regime 1952-1954

The regime set up as a result of the revolution of 23rd July, 1952 led by Gamal Abdel Nasser gave Egypt a new impetus towards independence. At the outset, however the new regime had no detailed economic programme and no model to imitate. There was simply a great desire for economic progress and social justice. But two points were perfectly clear.

In the first place agriculture could not develop unless more effective use were made of the Nile waters and land ownership was more equitably distributed. On 9th September, 1952 the Land Reform Act was passed. It was the first legislation of its kind in this region of the world. It was also the first of a series of Acts which from 1969 onwards progressively reduced private holdings to a maximum of 20 hectares. But by 1967 over 54 per cent of farm-land belonged to peasants none of whom could own more than 2 hectares. In 1952 work began on the Aswan High Dam project, the completion of which we have just celebrated (15th January, 1971), and which will increase our arable land by 30 per cent.



The second point was that the new teachers were aware that agricultural expansion had its limits, dictated by the shortage of water. They realised the need for industrialisation. The "Permanent Council for the Development of Production", set up in 1953, planned and executed several industrial projects the largest of which were the steelworks at Helwan and the "Kima" chemical complex at Aswan. The State provided most of the necessary capital but preference was given to enterprises combining public and private funds. The new leaders hoped that private capital, both local and foreign, would be a conclusive factor. To encourage private investments a very liberal Act was passed in July 1952 on foreign investments. A further Act granted complete exemption from taxation to any firm which was recognised to be useful to development.

## 2. Interventionism, egyptianisation and industrialisation (1955-1959)

The attitude of private investors was very disappointing. Up to 1955 foreign investments did not exceed the modest sum of £.E.2 million. Local investors were content to reinvest their money in light industry on the strength of Egypt's protective tariffs. The large-scale industrial projects were driven to rely on public funds and contributions from small savers investing for patriotic motives and encouraged by the exceptional guarantees offered by the Government. Furthermore, the bankers were against expansion taking inflation as their pretext. The Government refused to give in and voted a number of Acts which enabled it to intervene in the country's economic life. But the turning point came in 1956.

It is a well-known fact that in July 1956 the United States, Great Britain and subsequently the World Bank withdrew their offer to finance the construction of the Aswan High Dam. Nasser's reply was immediate: the nationalisation of the Suez Canal Company. The counterstroke was the war unleashed by Israel, France and Great Britain in the purest traditions of 19th Century gunboat diplomacy. The failure of the Suez expedition enabled the Egyptian Government to egyptianise British and French interests in January 1957 and take over all the banks, insurance companies and export-import firms. To prevent this measure, designed to emancipate the Egyptian economy from foreign control, from being used to enrich the Egyptian middle-class which was closely linked with foreign interests, the State became the only authority entitled to take over from the expropriated shareholders. This created a public sector which now occupied a dominant place in the national economy.

In the same year the Government, fortified by its new acquisitions, launched its first five-year industrialisation programme which immediately obtained a large Soviet loan. In 1958 a new agreement with the Soviet Union enabled the High Dam to get beyond the blue-print stage. As is known, work began on



3. The beginnings of planning, large scale nationalisation and social transformation (1960-1965)

The swarm of development projects and the magnitude of the investments planned over the next few years rapidly revealed the need to co-ordinate action if resources were to be effectively used. The National Planning Commission set up in 1955 was anxious to obtain rapid results. The first five-year plan came into force by 1960. Its implementation revealed the urgency of far-reaching structural reforms. Indeed, the plan initially gave pride of place to the private sector. The State took responsibility for projects which were particularly costly and involved considerable risk and a long waiting-period before their benefits were likely to be reaped (High Dam, land improvement, petroleum and mineral prospecting, etc.). Nevertheless, private capital refused to make the investments laid down for the first year of the Plan and thus jeopardised its successful conclusion. Furthermore, the capitalists contrived to squeeze considerable funds out of the public sector via government contracts, import operations and public works. A thorough survey showed that even if the objectives of the plan were achieved there would be a drop from 44.4 per cent to 42.3 per cent in the wages and salaries sector of the national income in 1965. And so once more the social issue proved to be the crux of the development problem.

Again the U.A.R. had arrived at a major turning point in its history. Between 1960 and 1964 the whole face of our economy was radically changed as a result of wave after wave of nationalisation measures in July 1961, August 1963 and March 1964. At present the whole of the financial sector is run by the State. Only the public sector is qualified to import goods while the private sector is authorised only to export non-traditional products (about 4 per cent of total exports). The public sector accounts for 85 per cent of industrial production. The wholesale trade and the chain-stores are now in the hands of the State, which also has a wide network of retail food-stores. At the same time the National Charter issued in June 1964 solemnly proclaimed that Egypt had chosen the road to socialism. The workers now elect half the administrative staff in all nationalised undertakings (the other half being chosen by the Government from the management) and receive 25 per cent of the net profits of their labour. They are covered by a complete system of social insurance, including unemployment insurance.

Most crops (cotton, rice, onions, wheat etc....) are marketed by the State, which provides peasants directly with loans and agricultural supplies. Most reclaimed land is farmed by a public body.

During this period a considerable effort was made with education (entirely free at all levels), public health and urban housing.



#### IV. A FEW FIGURES

Overall development is essentially a many-sided qualitative process which operates in depth over a comparatively long period. Any figures we may quote cannot possibly have more than an indicative value. However, concessions must be made to the prevailing cult of statistics and the quantitative aspect of economics.

##### 1. The gross domestic product

Calculated at the market prices of 1959-1960(1) the gross national domestic product amounted to £.E.760.2 million in 1961-1962. It rose to £.E.1,285.2 million in 1959-1960, £.E.1,762.2 million in 1964-1965 and £.E.1,843.4 million in 1965-1966. These figures show an annual growth rate of 6.5 per cent. Admittedly, this rate is not exceptional, but it is a real achievement to have succeeded in maintaining it over a comparatively long period. In view of the low figure for 1952-1954 it is obvious that growth was more pronounced between 1956 and 1966. The initial effects of development are reflected in the death rate (particularly infant mortality) as the birthrate remained roughly the same. As a result the annual increase in the birthrate was around 2.7 per cent between 1952 and 1966. A comparison with the rate of growth of the gross domestic product shows a regular increase in the national income per head of population.

Needless to say the war of June 1967 dealt a blow at expansion over the period 1966-1967 and 1967-1968. Nevertheless the country subsequently succeeded in combining its war effort and its development effort. In 1968-1969 the growth rate rose to 5 per cent.

More revealing in our opinion is the survey of the trend in the composition of the gross domestic product as it emerges from the following table.

It will at once be seen that the share of industry rose from 9.3 per cent in 1951-1952 to 23 per cent in 1965-1966 whereas the share of agriculture fell from 35.4 per cent to 29.2 per cent despite the growth in agricultural production in absolute terms.

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(1) The financial year to which Egyptian statistics refer runs from 1st July to 30th June. See Hansen and Marzouk: Economic Development in the U.A.R.



TABLE 1

Composition of the G.D.P. (£.E. million)

	1951-1952		1959-1960		1964-1965		1965-1966	
	%		%		%		%	
Agriculture	259.0	35.4	405.0	31.5	477.0	27.1	587.5	29.2
Industry (total) of which:	70.4	9.3	266.1	20.7	407.4	23.1	424.6	23.0
Manufacturing Industry	70.4	9.3	256.3	19.9	385.0	21.8	402.5	21.8
Electricity			9.8	0.8	22.4	1.3	22.1	1.2
Construction	25.1	3.3	47.1	3.7	92.6	5.2	86.1	4.7
Services (total) of which:	395.7	52.0	567.0	44.1	785.2	44.6	795.2	43.1
Transport and Communication	53.5	7.0	92.9	7.2	157.6	9.0	177.6	9.6
Trade and Finance	72.1	9.5	129.2	10.0	151.9	8.6	164.4	8.9
Housing			73.0	5.7	80.1	4.6	69.7	3.8
Municipal services	270.1	35.5	6.4	0.5	7.7	0.4	7.5	0.4
Other services			265.5	20.7	378.9	22.0	376.0	20.4
TOTAL	760.2	100.0	1285.2	100.0	1762.2	100.0	1843.4	100.0



## 2. Main industrial products

Figures expressed in money terms may hide widely differing realities. A high growth rate may be due to the tertiary sector. An increase in production itself does not always reflect the real nature of the development it records. It is possible to achieve a high growth rate for a time in the brewing or textile sectors but heavy industry has much longer periods of gestation. It will therefore be useful to give a certain number of figures in terms of physical units the better to illustrate the degree and nature of industrialisation in the U.A.R.

Egypt is very poor in mineral wealth. Mining activities are on a small scale: for example phosphates (397,000 tons in 1950 and 683,000 tons in 1968) and iron ore for our steel industry (from nothing in 1952 to 423,000 tons in 1967). We have practically no coal. Efforts have therefore been concentrated on petroleum and hydro-electric power. Our coal production rose from 2.4 million tons in 1950 to 6.8 million tons in 1960. The occupation of Sinai by Israel has deprived us of about 4 million tons. However, owing to other deposits discovered or developed elsewhere, output last year rose to 18 million tons. Refined petroleum products rose from 2.3 million tons in 1952 to 9.7 in 1966. Power production made more spectacular progress: 992 million kWh in 1952 compared with 6,012 million in 1966. The High Dam alone will produce 10,000 million kWh. The iron and steel industry is the eldest daughter of the Revolution: 195,000 tons in 1966. At the present time great efforts are being made in the vast iron and steel complex to raise our steel production to 1 million and subsequently 1.5 million between now and 1975. In the chemical industries we may quote: the production of sulphuric acid (38,000 tons in 1950, 229,000 in 1967), nitric acid (0 in 1952 and 446,000 in 1967), calcium nitrate fertilizers (111,000 tons in 1952 and 260,000 in 1966) and ammonium nitrate fertilizers (from 0 in 1952 to 427,000 tons with a N2 content of 26 per cent in 1967), phosphatic fertilizers (from 106,000 tons to 265,000 tons), and pharmaceuticals.

Among the new industries the following may be mentioned: electric cables (4,278 tons in 1966), refrigerators (62,000 in 1966), air-conditioning plant (3,402 units in 1966), tyres (749,000), lorries (1,149), tractors (1,024), railway coaches (236), sewing machines (13,900), etc.... The industries which existed before the Revolution have greatly expanded. As an example: in the textile sector the production of cotton yarn rose from 56,000 tons in 1952 to 157,000 tons in 1967 and the production of cotton goods from 40,000 tons to 97,000 tons.

Needless to say, our point is not to make an inventory of Egyptian industry but simply to show its structure and main dimensions.



### 3. Agriculture

Here the development effort was twofold: to improve productivity on land already cultivated and to improve the soil of the new land reclaimed from the desert. In the period from 1952 to 1968 productivity increased at an annual rate of 0.7 per cent in cotton, 1.69 per cent in wheat, 1.75 per cent in rice, 2.82 per cent in millet and 4.3 per cent in maize. It goes without saying that productivity per hectare was high owing to the fertility of the soil and the hard work of the peasants.

During the same period, 810,323 feddans (over 327 hectares) were reclaimed. This represents an increase in arable land of about 14 per cent. For comparison, it may be recalled that the increase in the area of reclaimed land in the first half of the century hardly exceeded 8 per cent and yet it was asserted at the period that Egypt was, in the nature of things, an exclusively agricultural country!

### 4. Foreign trade

The expansion described above affected the pattern and direction of our foreign trade.

It will at once be seen that Egypt no longer has one sole raw material export, i.e. cotton. The proportion of raw cotton fell from 85 per cent of exports in the early 50s to 49.5 per cent in 1966-1967. At the same time, the cultivation and export of other farm products was developed (particularly rice), and this accounts for the rise from 8 to 17 per cent. The most significant fact remains that manufacturers henceforward represent over 30 per cent of our exports.

From the early years of the Revolution, imports have reflected the shift to capital goods and semi-finished products which is characteristic of development. (48 per cent of total imports in 1950 compared with 65 per cent in 1967-1968). Unfortunately, the extreme scarcity of arable land forces us to import large quantities of wheat and this somewhat impairs the trend and partly accounts for the consistent deficit in the balance of trade.

The diversification of exports has proceeded together with a considerable widening of the range of customers and suppliers and a better distribution between the major geopolitical areas of the world.

In the early 50s over half our foreign trade was with Western Europe. Great Britain alone accounted for a good third, reflecting our economic dependence up to that period. A glance at the figures for the financial year 1966-1967 shows that foreign trade was equally divided between three areas:



TABLE 2

Composition of exports (in millions of Egyptian pounds)

	1950-1953		1959-1960		1964-1965		1956-1966		1966-1967	
Cotton	139.5	85.1	134.5	71.5	148.3	56.3	144.5	56.4	122.6	49.5
Other agricultural products	8.8	5.4	13.1	7.0	36.3	13.8	34.5	13.5	44.6	17.3
Mineral products, of which:	2.0	1.2	6.4	3.4	13.4	5.1	7.8	3.1	7.8	3.1
Crude petroleum	-	-	3.2	1.7	10.5	4.0	5.0	2.6	4.6	1.8
Others	2.0	1.2	3.2	1.7	2.9	1.1	2.8	1.1	3.2	1.3
Manufactured products, of which:	13.7	11.9	34.1	18.1	65.4	24.8	69.4	22.0	77.8	30.1
Products of the food industry	1.5	1.0	3.8	2.0	6.4	2.4	6.2	2.4	5.9	2.3
Petroleum products	2.0	1.2	2.9	1.5	10.8	4.1	9.5	3.7	10.3	3.9
Cotton yarn and fabrics	4.0	2.4	18.3	9.7	37.2	14.1	43.7	17.0	50.3	19.5
Others	6.2	3.7	9.1	4.9	11.0	4.2	10.0	3.9	11.3	4.4
TOTAL	164.0	100.0	188.1	100.0	263.4	100.0	256.2	100.0	257.8	100.0



TABLE 3

Geopolitical distribution of external trade  
(as a percentage of value)

	1952-54	1959-60	1964-65	1965-66	1966-67
United States and Canada	13.3	10.9	14.5	10.3	10.7
E.E.C. and EFTA	51.4	28.8	25.9	23.9	20.7
Eastern Europe(1)	9.5	39.0	37.8	35.6	38.2
Other countries	25.8	21.5	21.8	30.2	30.4

(1) Including Yugoslavia.

the West, Eastern Europe and the developing countries. Clearly, the Soviet Union and the COMECON countries take a leading place. This is due to the fact that they supply us with the capital equipment we need on easy terms. The efforts we are making to increase our trade with the developing countries should also be emphasized.

#### 4. Education and public health

As we stressed in the introduction, development must be an overall process and the masses must be its promoters and its beneficiaries at the same time. But if this is to be the case, it is essential that the living standards of the greatest number should be as high as possible. Hence the particular effort devoted to education and public health.

Egyptian education is entirely free at all levels. Furthermore, school supplies and medical care are provided to all school children and university students free of charge. The Government devotes 3.4 per cent of the national income annually to the State educational system. Primary education is compulsory up to the age of twelve. The rate of enrolment has risen to 75 per cent in a country where nearly a million children are born every year. The number of pupils in the primary schools rose from 1.4 million in 1953-1954 to 3.4 in 1966-1967 with an annual average growth rate of 7.3 per cent. The number of children in the secondary schools increased in the same period from 129,000 to 397,000, i.e. at an annual average rate of 9 per cent. In higher education, progress is still more spectacular: from 36,000 students in 1953-1954 to 174,000 in 1966-1967. In the course of 1967, Egypt trained 2,620 engineers, 2,608 agriculturists, 1,117 doctors, etc. ...



In public health, only a few figures need quoting. In 1952, there was one hospital bed per 600 people and one doctor per 5,000. In 1967, the figures were: 461 and 2,136 respectively.

## V. CONCLUSIONS

1. The targets for the third Five Year Plan (1971-1975) are: a growth rate of 6 to 7 per cent, with the share of industry in the national income exceeding that of agriculture for the first time in our history. In the industrial sector, capital equipment and semi-finished goods will account for 46.8 per cent of industrial production (as compared with 38.2 per cent at the present time). The key factors in the Plan are: the iron and steel complex, the chemical complex for treating phosphates, the aluminium production sector, the electrification of the rural areas, petroleum and the petrochemical sector.
2. It is easy to see how much our country needs peace. Since 1967, the U.A.R. has welcomed any scheme to settle the Middle-East conflict peacefully. But no people today can accept an annexation of its territory or a threat to its sovereignty. We are absolutely convinced that independence is the essential condition for development. The price of independence is our willingness to defend it. If we are forced to fight to liberate Sinai (25 per cent of our national territory) we are prepared to pay the price.
3. The successes we have referred to above in no way imply that everything is for the best in the best of possible worlds. The difficulties are immense, the road is very long and mistakes are inevitable. The whole value of the U.A.R. case study is that it shows that progress can be made despite everything. The ways by which the developed countries accomplished their development are not applicable to our continent. We have therefore everything to gain by finding our own solutions. In this respect a better knowledge of what is happening in Africa, the exchange of experience between African countries and the establishment of joint research projects are very valuable. We have much to learn from one another and this is true not only of our successes but also of our failures.