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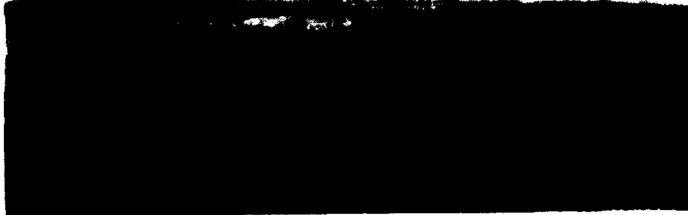

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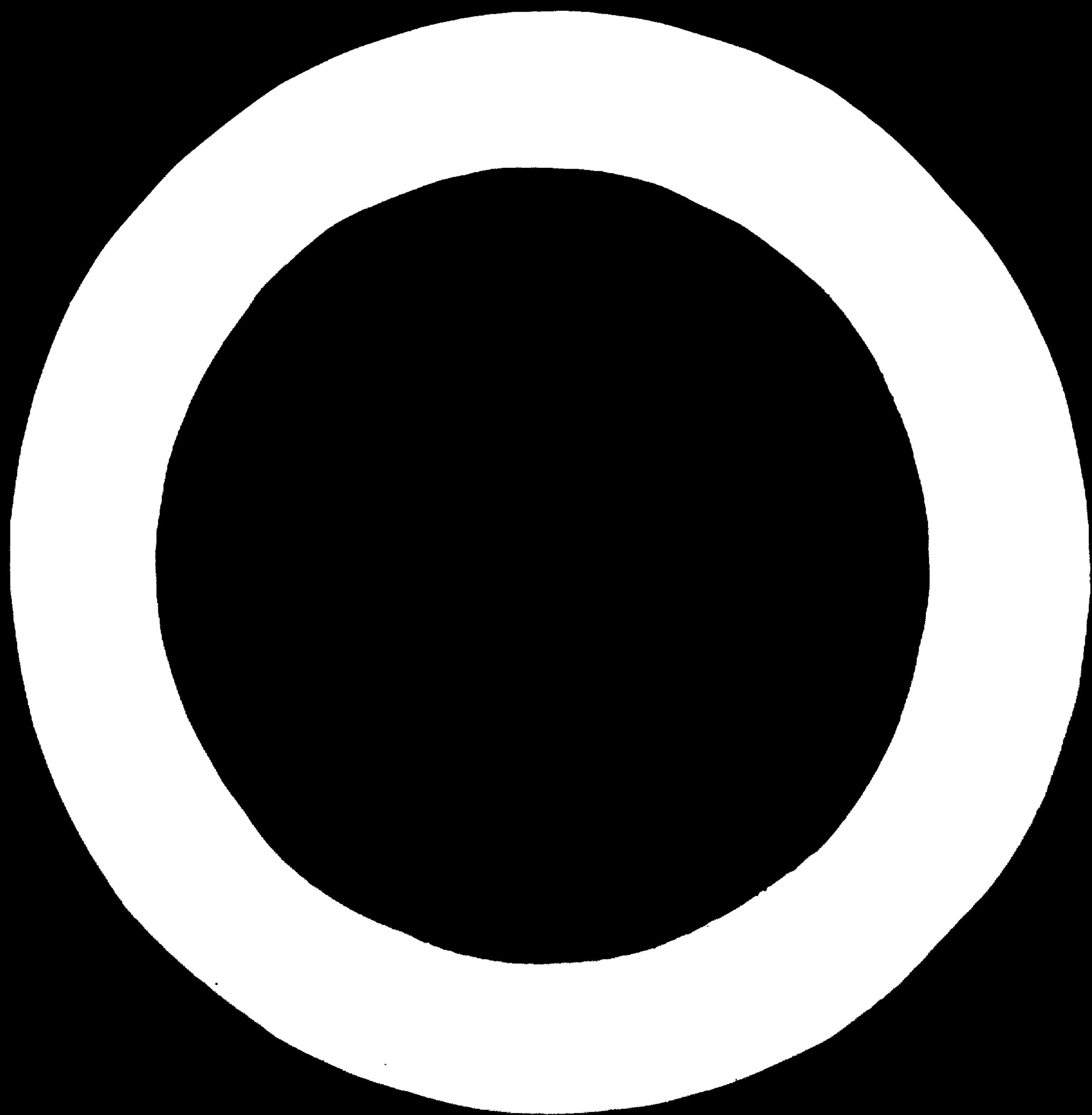

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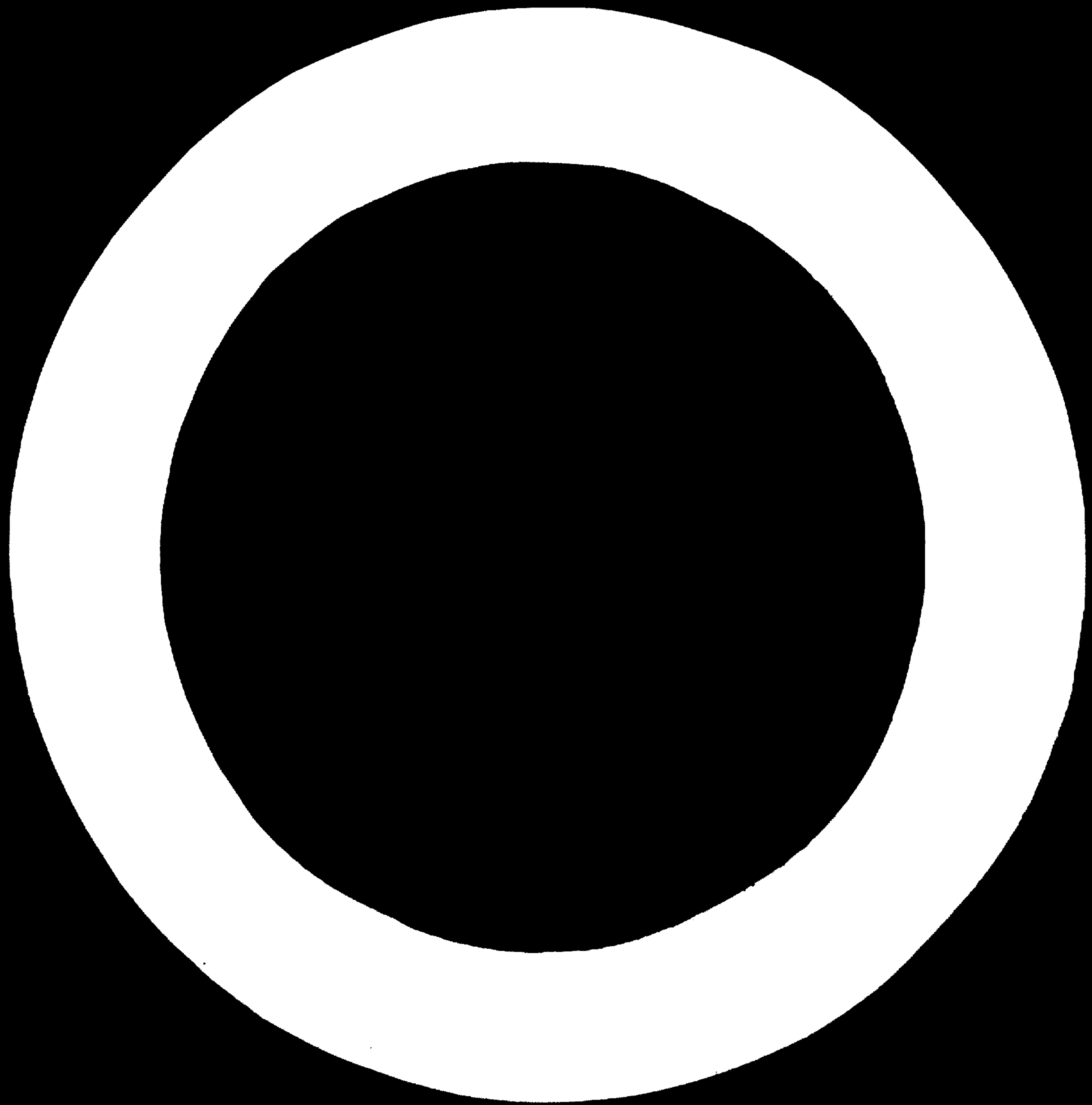

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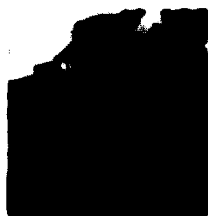

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Cover illustrations: Cities of the regional symposia held in Manila, Cairo and Santiago and the meeting of representatives of the Arab countries held in Kuwait.

United Nations Industrial Development Organization

INDUSTRIALIZATION AND PRODUCTIVITY

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Preface

THE INTERNATIONAL SYMPOSIUM on Industrial Development to be held in Athens, 29 November through 20 December 1967, will be the first international meeting of Governments concentrating on the problems and prospects of industrial development in the developing countries.

At the Athens meeting discussions of industrialization techniques will be held in a world setting. Countries at various stages of industrial development with various economic systems will be able to exchange views and reach agreement on industrialization strategy.

To establish the groundwork for this international meeting, in the latter part of 1965 and early 1966 regional symposia were held in Manila, Cairo and Santiago, and a meeting of representatives of the Arab countries was held in Kuwait. Preparations for the regional symposia enabled each participating country to examine its own achievements in carrying out its industrialization programme and also to identify regional factors inhibiting its programme. The symposia considered these restricting factors from a national and multi-national standpoint and recommended stronger country and regional efforts to resolve them.

A wide range of technical material relating to many aspects of industrialization in the developing countries was prepared for the regional meetings. Many of the papers had multi-regional application; others dealt with particular phases of industrialization or problems relating to industrialization in a single area. The papers chosen for this issue of *Industrialization and Productivity* indicate the wide range of subject material considered by the symposia and also demonstrate the complexity of a developing country's task in stimulating accelerated industrialization.

General view of the opening meeting of the Latin American Industrial Symposium on Industrial Development in Latin America, Santiago, Chile, March 1966

*The Regional Symposia on Industrial Development**

IN DECEMBER OF 1965 and the first months of 1966 a series of regional symposia was held in four areas of the world in order to focus attention on the condition of industrialization in the developing nations of these areas and to point out ways in which their industrial development could be accelerated. These symposia were an important part of the United Nations efforts to stimulate the growth of industrialization in the developing countries during 1961–1970, a period designated by the General Assembly as the United Nations Development Decade.

The regional symposia were a prelude to an International Symposium on Industrial Development to be held in Athens 29 November–20 December 1967. The Symposium in Athens will be the first assembly of Governments on a world-wide scale meeting expressly to concentrate on the problems and prospects of industrial development in the developing countries. The Symposium will be open to all Member States of the United Nations and members of its specialized agencies and of the International Atomic Energy Agency. It will be organized by the United Nations Industrial Development Organization (UNIDO) with the co-operation of the specialized agencies and regional economic commissions.

Its purpose is to take stock of the industrial situation—both current and recently past—and of the problems encountered in industrialization; to appraise the potential of developing countries and the measures required to spur their industrial growth; and, finally, to lead to national, regional and international action for promotion of such development. The Symposium will deal with four main topics:

(*a*) General survey of world industry with special reference to developing countries;

(*b*) The situation, problems and prospects of main industrial sectors;

(*c*) Policies and measures for accelerating industrialization in developing countries;

(*d*) International aspects of industrial development.

The series of regional symposia which were carried out by the regional economic commissions in co-operation with the United Nations Centre for Industrial Development provided an opportunity for the developing countries to examine and compare their own industrial experiences and problems with those of other developing regions. It helped the developing countries to formulate national policies and measures for regional co-operation, and it provided an opportunity to consider lines of action at the international level to accelerate industrial development. The conclusions and recommendations as well as the major studies emanating from the regional symposia will provide working material for the 1967 international meeting.

The regional symposia began with an Asian Conference on Industrialization held in Manila from 6 to 20 December 1965. This Conference was followed by a Symposium on Industrial Development in Africa, held in Cairo from 27 January to 10 February 1966, and by the Latin American Symposium on Industrial Development in Santiago held from 14 to 25 March. A parallel meeting of representatives of Arab countries was held from 1 to 10 March in Kuwait at the invitation of the Government of Kuwait, with the technical co-operation of the United Nations Centre for Industrial Development and the United Nations Economic and Social Office in Beirut.

Over 400 representatives and delegates from more than ninety countries and some 150 representatives and observers from various organizations, both governmental and non-governmental, attended the four regional meetings. Preparations for the symposia resulted in the accumulation of much new material on various aspects of the industrial situation and on specific industrialization problems and policies of the countries and regions concerned. These data will be of lasting value both to the countries themselves as well as to economists and technical advisers and others who are directly or indirectly concerned with programmes of technical assistance.

The agenda of the symposia followed a similar pattern with variations in emphasis and scope from region to region. They covered the following: (*a*) over-all evaluation of industrial progress and the principal problems confronting the industrialization of the region; (*b*) review of the current industrial situation, recent trends and projected

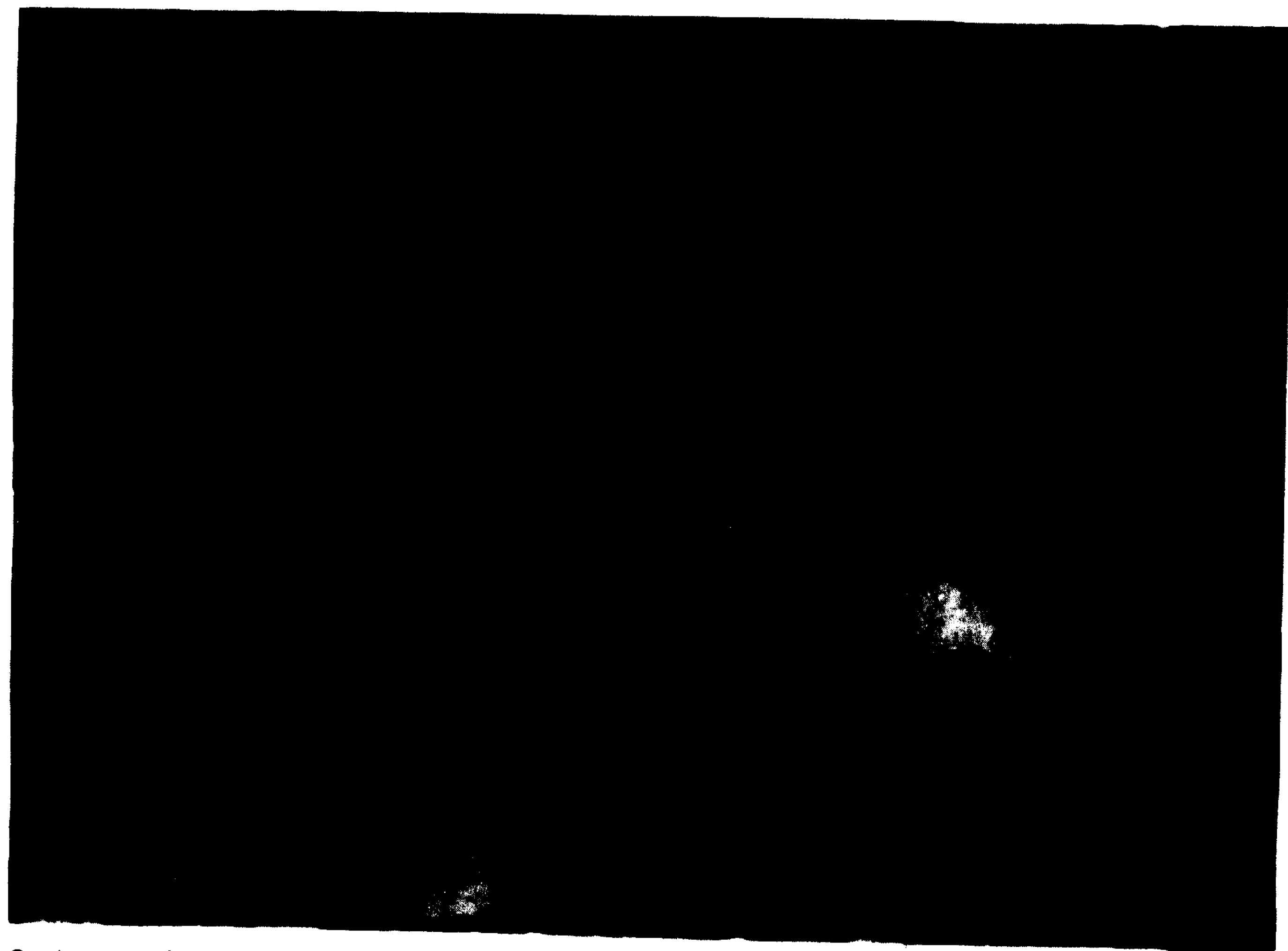
*This summary paper of the issues and problems discussed at the regional symposia is based on the final reports of these meetings.

development of selected industries; (c) review and prospects for regional and sub-regional integration in the industrial sector; (d) institutional requirements and specific policies for the promotion of industry; (e) the machinery required for implementing an accelerated industrialization programme and the external aspects of industrial development; (f) recommendations for the agenda and organization of the International Symposium on Industrial Development.

The main emphasis was placed on items of an action-oriented or policy-oriented nature, that is, on the examination of industrial policies and measures currently being applied in developing countries, and on the operation of international policies involving co-operation between industrialized countries and developing countries and measures to improve these policies. Attention was also focused on the main impediments to national and regional industrial development and on ways and means to overcome them.

Among the documents submitted were general surveys of the current industrial situation in the specific developing countries; studies of industrialization policies; examination of possible measures for accelerating the industrial process; studies of specific industries and their development possibilities; examination of factors affecting industrialization, including financing, trnansferace of technical know-how, project formulation, evaluation and implementation, industrial location, and availability of raw materials; and many studies of specific industrial sectors.

The symposia stressed the importance of considering industrial development in terms of regional and international markets rather than narrow domestic markets. Recommendations were made for greater co-operation by the countries of the regions concerned; for more regional and sub-regional co-operation in industrial programming, research and training; and for consideration of other industrial developments which could be served better through a joint or multilateral approach. One of the principal achievements of the symposia was to give encouragement to the developing countries to move ahead in their industrialization programmes with a better understanding of the problems they face and their prospects for solving them. Finally, the discussions afforded an opportunity to review the character and adequacy of the international technical assistance presently available and to project what kind of assistance would be most advantageous in the period ahead. Evidence that these meetings were useful and productive is seen in the reports which were prepared by each region on completion of the symposia; brief report summaries are presented below.



Opening meeting of the Asian Conference on Industrialization held in Manila, December 1965 under the auspices of the United Nations Economic Commission for Asia and the Far East (ECAFE)

The Asian Conference on Industrialization

The Asian Conference devoted an important part of its efforts to an over-all assessment of the progress and problems of industrialization in the countries of the region and the action that could be taken to stimulate further industrial growth. It expressed concern over the fact that while the developing countries which are members of the Economic Commission for Asia and the Far East (ECAFE) contain almost one third of the world's population, their share of the world's industrial output is less than 2 per cent, and the *per capita* industrial output in the ECAFE area is the lowest in the world. Many of the countries are confronted with a rapid demographic growth of explosive proportions which is impeding capital formation. However, despite the large quantity of surplus labour a lack of skilled manpower is a significant factor contributing to the slow industrial growth of most countries of the region. In addition to the labour problem, industrial development is inhibited in many of the smaller countries by the size of the domestic market.

It was agreed by the participants that certain measures should be given priority: namely, intensified development efforts by the countries themselves and increased economic co-operation among neighbouring countries, including industrial investment and production. It was recommended that the ECAFE secretariat should intensify its regional economic activities and render technical assistance as a "catalyst" by focusing attention on specific and promising projects and by promoting an interest in their implementation. The secretariat was encouraged to undertake an intensified study and field investigation of the feasibility of various joint industrial undertakings, priority to be given to the six following industries: (1) iron and steel, (2) fertilizers, (3) aluminium, (4) pulp and paper, (5) machinery and transport equipment, and (6) petrochemicals.

Ways and means of developing twelve key industries of major importance to the region were also discussed and recommendations were made regarding the measures that should be adopted to achieve their accelerated development. Attention was directed to the urgency of building up the necessary infrastructure; to establishing training programmes for developing skilled manpower; to the importance of obtaining technical assistance for programmes of standardization and research; to establishing efficient management and providing technical "know-how" and to securing appropriate technologies for existing industries and new ones.

The participating countries were asked by the Conference to increase their efforts to explore and prospect for critical raw materials; to give adequate priority to the adoption of appropriate administrative and legislative measures for the development of specific industries, including ancillary industries, particularly on the basis of regional co-operation; and to avail themselves of the broad range of technical assistance available from the United Nations Development Programme, the Centre for Industrial Development and other programmes which offer such advantages as training, pre-investment surveys, industrial programming, and small-scale industry development.

The Conference discussed at length, ways of mobilizing additional financial resources for industrial development. It recommended that countries of the region should continue to improve their investment climate in order to encourage the inflow of external capital; and to strengthen their institutional structure further so as to attract more domestic savings into industry.

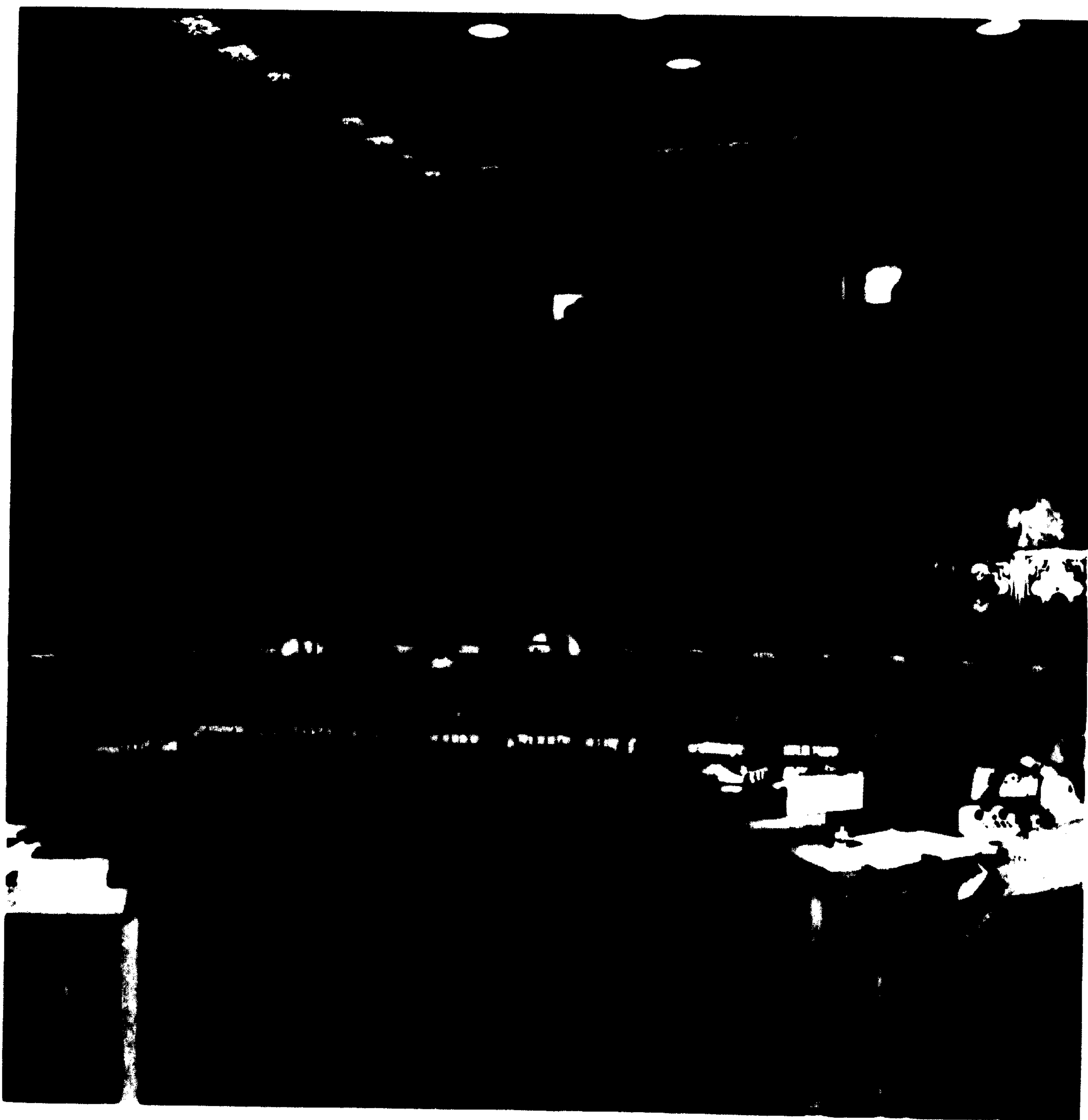
It was recognized that scientific and technological research and development are prime generators of industrial productivity and that industrialization of the ECAFE region could not attain its fullest potential without greater advancement of science and technology in each country. It was accordingly recommended that the teaching of science be extended, that national scientific and industrial research institutes be developed and strengthened, and that an Asian Council for Industrial Research and Technology be established.

The Conference stressed the role played by financial organizations in assisting industrial development and recommended measures for training industrial and fiscal economists, economic planners and other specialists, and for improvement in the methods of collecting and disseminating economic and engineering data without which the planning and implementing of industrial programmes are seriously handicapped.

In reviewing, at its final sessions, the findings and recommendations that had been made, the Conference decided that the existing machinery in the region was not adequate for the tasks which must be done. It was therefore resolved that ECAFE be requested to make the Asian Conference on Industrialization a permanent organ of the Commission which would meet at three-year intervals to review and advise on the problems and progress of industrialization in the region. ECAFE was also requested to establish an Asian Industrial Development Council whose responsibility would be to keep the various industrial development plans, programmes and policies of the Asian countries under continuous review in order to achieve progressive harmony among them.

The African Symposium on Industrial Development

The African Symposium on Industrial Development drew particular attention to the important role that agriculture plays in the economies of the member countries and urged that in the process of industrialization and in the solution of related problems special consideration should be given to maintaining a balanced growth between agriculture and industry. The importance of broad industrial planning at the national level was emphasized as a means of achieving a rapid, harmonious and balanced economic development programme. While preparing or expanding



Cairo, United Arab Republic, 27 January 1966, opening session of the African Symposium on Industrial Development. Organized by the Economic Commission for Africa (ECA) in co-operation with the United Nations Centre for Industrial Development, the regional Symposium was attended by 29 African countries; 10 international organizations; France and Spain, which are associate members of ECA; and many individual experts from non-African countries

development plans, the Symposium noted, countries must first take stock of their natural and human resources and then determine the order in which they should develop various sectors of their economy.

The importance to the African nations of sub-regional and regional economic and industrial co-operation was stressed as a means of broadening the markets for manufactured articles produced in the area. A limiting factor to such co-operation at the present time, which must be overcome, is the lack of a developed infrastructure in the regions, particularly the lack of transport and communications between neighbouring countries. As matters stand the inadequate transport system has favoured the procurement and distribution of imported products, and thus actually discouraged domestic industrial development.

In connexion with the need for infrastructure—which requires greater expenditures in developing countries than in developed ones—the Symposium recommended that the conditions of external financing should be improved and adapted more to the requirements of the developing countries. These adaptations should include the extension of such loans to additional infrastructure sectors. There

should also be an increase in the volume of loans for infrastructure purposes, lowering of the rate of interest and extension of the time limits for repayments.

Attention was also focused on the problem of project financing: ways in which Governments could increase the availability of domestic sources of financing were stressed. These would include: (*a*) increased exports, which would provide additional foreign exchange earnings; (*b*) increased revenue resulting from reorganization of the tax structure; (*c*) establishment of development banks and other financial institutions to facilitate the financing of industries.

The Symposium recommended that in view of the high cost of external loans, individual countries should attempt to finance projects as far as possible from domestic savings. It was agreed, however, that domestic savings should be built up and used preferably to finance internal economic infrastructure; while external financing should continue to play the principal role in the development of industries.

The Symposium stressed the importance of establishing key industries and, because national markets are small, the planning of such industries on a sub-regional basis. The need for substantial structural reforms affecting administrative institutions and for changes in the systems of production and distribution was noted; these reforms were urged as prerequisites of fruitful industrialization policies. The importance of small-scale industries in Africa and of their rapid development was recognized in view of the role small-scale industries play in generating employment, in developing entrepreneurship and skills in business management, and in instigating production with a relatively small volume of capital. The delegates commented favourably upon the steps being taken by the Governments to encourage small-scale industries, such as providing loans and establishing industrial estates and service institutions.

An industrial project, the Symposium felt, should be evaluated within the framework of the country's general plan for economic development and its industrial programme. The overriding need in Africa, the conference noted, is for more industrial projects for which feasibility studies can be undertaken; furthermore, a continuous reappraisal should be made of approved projects in the course of implementation.

The United Nations was called upon to accelerate the organization of training workshops, at national and multinational levels, in which local personnel may acquire training in practices and procedures for evaluating industrial projects. The Symposium suggested that a special seminar be organized to discuss the principles and factors involved in industry location. To offset the present shortage of trained personnel, African countries were asked to pool technical knowledge and practical experience presently available. The United Nations was also requested to prepare a manual on industrial project evaluation for use by evaluating agencies and by educational and training institutes.

The conference suggested that an institute for industrial promotion be established to aid the United Nations efforts in the African area. It welcomed the scheduled holding of the International Symposium which it considered to be a further determined effort to solve the many problems that have arisen.

The Latin American Symposium on Industrial Development

In analysing the industrial development of the Latin American countries, the Symposium noted that industrialization was taking place against a background of rapid population growth, swift urbanization, marked inequality of income distribution, slow growth in the agricultural sector and violent fluctuations in foreign trade.

Although the rate of industrial growth in Latin America varied considerably from country to country as a result of special conditions or historical circumstances, it appeared in every case to be greatly influenced by considerations of import substitution. In recent years, however, import substitution had shown signs of weakening in the traditional industries sector, and, in some countries, also in those industries producing intermediate and capital goods. The stimulating effect provided by import substitution in earlier decades appeared to be disappearing. The Symposium considered that despite this trend, the import substitution process should be continued for items from outside the region which could be replaced by local items at scales of production that would take into account the market of Latin American countries as a whole. As a consequence, a fresh stimulus to industrial development would be introduced. There was general agreement on the need for redirecting and strengthening the industrialization effort in the region as a means of accelerating economic development and improving living conditions of Latin American peoples.

The measures protecting industry against competition from abroad had, for some decades, played a vital part in encouraging established industries to expand and had been an important factor in the creation of new industries. In many instances, however, these protective measures have led to the creation of private monopolies and to a failure to establish incentives to increase production efficiency. For these reasons the protectionist machinery should be overhauled so that it could be made to serve as an effective instrument for the promotion of industry.

The Symposium commented on the high costs and prices of the region's manufactured products, due largely to problems of scale of production, the use of technologies that were not always suitable, defects in infrastructure, inefficiency in the use of industrial capital, the small size of the domestic markets, the excessive and continuing customs tariff protection and, as a result, the development of monopolistic tendencies in certain sectors.

The conference noted that the process of industrialization had not been supported by a co-ordinated and continuous policy, and that in many instances it lacked proper planning. Although industrial development plans of the Latin American countries shared certain essential features in common, the nature and even the significance of their

institutional and administrative aspects differed from one country to another. While in some, substantial progress had been made in the establishment of a planning system, in others only piecemeal action was being taken in that field. The industrial policy measures based on tax exemptions had generally been ineffective owing to their varying nature. Policy with respect to foreign industrial enterprises had not been clearly nor specifically oriented.

The Symposium summarized the reasons for Latin America's special interest in developing or expanding the volume of exports of manufactured goods, and referred to the studies being prepared on five Latin American countries (Argentina, Brazil, Chile, Colombia and Venezuela) for the purpose of singling out products which have potential competitive advantages on the world market.

Stress was laid on the need to accelerate the industrial integration of Latin America and, in the process, to ensure a satisfactory distribution of the benefits of integration to all participating countries as well as to forestall the creation in the region of a relationship between the major countries and the medium-sized and small countries such as that which still exists between the developed countries and the Latin American countries in general. It was further maintained that measures should be adopted to prevent integration benefits from being enjoyed outside the region.

Industrial development, the Symposium noted, had been limited by insufficient capital formation in the industrial sector. It believed that this was due to the failure to reinvest an adequate share of the funds generated by the industrial enterprises and to weakness of the stock markets and the credit machinery. Medium-term and long-term credit was difficult to secure. In several countries commercial banks were not empowered to grant medium-term and long-term credit. Such credits were offered instead by private specialized bodies which in most cases were associated with commercial banks but were operated under a different set of rules that resulted in more expensive operations. It was deemed advisable to reform the banking systems to remedy this situation and create a system geared to the requirements of an accelerated industrial development process.

Particular attention was focused on the subject of credit for financing the capital goods industry, which in certain Latin American countries operates with the same technology and costs as exist in industry in the developed countries, but, nevertheless, is unable to compete with the latter, even in the former's home market, because of the lack of specialized credit systems for financing medium-term operations at reasonable rates of interest.

The representatives of the various countries were unanimous in attributing a dynamic role to small industry in the industrialization process, and noted that because of the way its characteristics had evolved it had been able to adapt itself to an integrated industrial system, in which it occupied an important place.

In the past the concern of the Governments for small industry has generally taken the form of isolated actions and haphazard approaches. The participants described the different systems of extending aid to small industry that exists in their respective countries and stressed the inadequacies of these systems; there was general agreement that high priority should be given to increase technical and financial assistance through internal efforts and through co-operation with the international agencies operating in that field.

The growing importance accorded to technical assistance was clearly evident from the fact that Latin America absorbed only about 18 per cent of the total economic assistance to the developing countries provided by members of the Organization for Economic Co-operation and Development (OECD). The United States, France and the Federal Republic of Germany, among the members of OECD and the Soviet Union, among the countries with centrally-planned economies, were the principal suppliers of aid to Latin America. Even so, the Symposium pointed out, the share falling to the region was not commensurate with its requirements.

Lastly, it was considered desirable by the Symposium to explore the possibility of determining or defining a common stand by the Latin American countries in relation to the items to be dealt with at the International Symposium. The view taken was that if such a common stand could be worked out, it would be extremely useful in helping the International Symposium to reach effective conclusions concerning international co-operation, and thus accelerate Latin America's industrial development. It was recommended that the Economic Commission for Latin America (ECLA) should undertake to draft a document that would analyse the various obstacles to the acceleration of industrial development in Latin America and to define the measures of international co-operation that should be taken to deal with such problems. The report in provisional form could be analysed at the twelfth session of ECLA, to be held in May 1967 in Caracas and if agreement is reached, it could be considered in connexion with the International Symposium.

Conference on Industrial Development in the Arab Countries

The Kuwait meeting focused attention on the existing state of industrialization in the Arab countries and pointed out that it was essential for the progress of the area that industrial development be greatly accelerated. It noted that manufacturing industries play only a modest role as a source of national income and employ only a small portion—ranging between 3 per cent and 11 per cent—of the available labour force. The *per capita* income from industry in the majority of the countries was reported to be approximately $US25 in 1963 as compared with about $US480 for the developed countries in 1960. The Symposium reviewed various factors which were holding back industrialization efforts of the region and discussed methods and resources which could be used to increase industrial growth. It identified eight fields in which increased co-operation is essential within the region, as well as between

the Arab countries on the one hand and the industrialized countries and international organizations on the other:

(*a*) Industrial planning and evaluation of programmes and projects included in the general economic and social plans of each Arab country, and requirements necessary for setting up and reinforcing planning, evaluation and follow-up machinery;

(*b*) Selection of branches of industry and types of industrial projects which offer the best opportunities for successful implementation, linking these projects and determining their priorities;

(*c*) Compilation of technical information and statistical data on potential industrial resources and exchange of this information between the area's countries on a regular basis;

(*d*) Overcoming the scarcity of vocational skills, technical specialization and administrative ability which are essential to rapid industrial development; and planning for not only the projects themselves but for the education planning, training, and stimulation of those working in industry;

(*e*) Solving problems of industrial production, specifications, markets and prices;

(*f*) Financing industrial development from domestic and foreign financial resources and tying together the economic feasibility studies of industrial projects and their possible sources of financing;

(*g*) Promoting industrial research and organizing and mobilizing available Arab resources in this field;

(*h*) Providing for the relationship of Arab countries with industrialized nations: for example, with regard to obtaining patents and manufacturing rights for industrial goods; drawing on other nations' experiences, profiting from advisory services and from the exchange of views regarding present industries and the development of others for which an abundant supply of local raw materials exists.

The conference stated that there has been no planning in the Arab countries for a co-ordinated industrialization programme, nor any attempts to complement the industrial efforts of one country with another; neither has there been any co-ordination of effort to take advantage of the opportunities offered by a regional Arab market. Real opportunities exist for strengthening the Arab economy as a whole through the unification of the human, financial and technical resources available—using them for the best advantage of all concerned in the development of industry on the basis of available raw materials, experience and local capabilities.

Approximate figures available for the past few years indicate that the food, beverage, tobacco, textile and wearing apparel industries, all taken together, account for more than 50 per cent to 70 per cent of total production of the manufacturing industries in the majority of Arab countries, while the furniture, wood, paper, printing and publication industries account for about 6 per cent to 8 per cent of total production in the same countries. This means that heavy industries such as the basic metals industry, mineral production, rubber production, and the various chemical and engineering industries, still play a very small role in the national output.

Technical papers presented to the symposium suggested a number of ways to develop key regional industries, especially basic chemicals, petrochemicals and fertilizers, food processing, textiles, iron and steel, and the engineering and construction materials industries. The importance of small-scale mechanized industries was also brought to the attention of the delegates and the part they could play in producing spare parts and accessories, in assembly production of engineering products, in consumer industries such as clothing, shoes, and furniture, and in repair and maintenance shops.

The symposium emphasized the need for increasing basic and applied research programmes in the area and drew attention to the importance of planning and programming for sound economic development. It recommended that the Arab countries strive to strengthen their national planning organizations, broaden their project evaluation techniques and their expertise and improve the compilation of statistical data. It asked the participating countries to take advantage of technical assistance available from the United Nations Development Programme, from the newly created Special Industrial Services, and from the Centre for Industrial Development. Recognizing also the opportunities for regional industrial growth and the existence of advisory commissions elsewhere, the symposium recommended that the United Nations consider the establishment of a regional commission to serve the Arab countries.[1]

Finally, the importance of the projected International Symposium was recognized and strongly supported. Each country was invited to assist in the preparations for the Symposium and to participate actively in Symposium discussions.

DOCUMENTATION FOR THE REGIONAL SYMPOSIA

A wide range of technical material relating to the many aspects of industrialization in the developing countries, including country studies by many of the participating countries, was prepared for the regional meetings. Many of these papers had multiregional application whereas others dealt with particular phases of industrialization or problems relating to industrialization in a single area. Some of them are included in this issue of the *Bulletin*. Those which have been chosen for this issue are intended to serve not only as an indication of the wide range of subject material considered by the symposia, but also as a demonstration of the complexity of a developing country's task in stimulating accelerated industrialization.

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[1] A listing by subject of the papers prepared for the Symposia has been compiled by the Reference and Documentation Unit of UNIDO and single copies are available upon request.

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Experiences of the Central American Economic Integration Programme as applied to East Africa

By M. S. WIONCZEK

EACH OF THE *Symposia meetings clearly recognized the advantages of regional co-operation in the development of the industrial potential of the respective participating countries and, in turn, made recommendations for the achievement of stronger regional relationships. The present study reviews the working relations of members of two formally established regional economic areas and attempts to identify the considerations which have contributed to the successes and failures of each. By pin-pointing the weaknesses in each regional relationship, the author hopes to focus attention on the problems inherent in such arrangements in order that they may be met realistically from the start.*

IN PRESENT-DAY, largely decolonized Africa, there is general agreement regarding the urgent need for industrialization as one of the basic means for accelerating economic development of the continent. At the same time, there is a growing awareness that, because of the size of markets, the absence of managerial and entrepreneurial skills and the high cost of modern technology, the great majority of independent African States are not in a position to undertake industrialization efforts on a national scale. Consequently, in various African subregions numerous organizations or plans are attempting to bring about some measure of trade and co-operation and industrial integration. Among these, in addition to the East African Common Market, are the Naghreb institutions for economic co-operation, the Central African Customs and Economic Union, the projected Free Trade Area in West Africa and the most recent proposals for a larger Eastern African Common Market.

The experiences of other developing regions, preceding the recent movement towards economic integration in Africa, strongly suggest that one of the most difficult problems in achieving economic integration is that of equitable multinational distribution of the benefits and burdens of such integration, especially in the industrial sector. Consequently, this paper analyses in some detail two concrete subregional industrial policy mechanisms: the Central American Régime for Integration Industries and the East African Kampala Agreement on allocation of industries on a regional basis. In the light of the failure of these two schemes the final part of the paper offers some preliminary proposals, which it is hoped will help to establish mechanisms which can surmount the African conditions.

THE CENTRAL AMERICAN RÉGIME FOR INTEGRATION INDUSTRIES

The Central American Régime for Integration Industries, an important part of the economic integration mechanism, was set up in 1958 through the Multilateral Treaty on Free Trade and Central American Economic Integration. The Régime was accepted by four Central American republics (El Salvador, Guatemala, Honduras and Nicaragua) at the time of the signature of the Multilateral Treaty, and later by Costa Rica. The Multilateral Treaty itself, while creating a free trade zone for a defined list of commodities of domestic origin, considered trade liberalization and regional industrialization as two key aspects of the integration process, and consequently contained a specific commitment of the member countries to the effect that:

> With a view to promoting industrial development consistent with the purpose of this Treaty, the Contracting Parties shall adopt, by mutual agreement, measures designed to further the establishment or expansion

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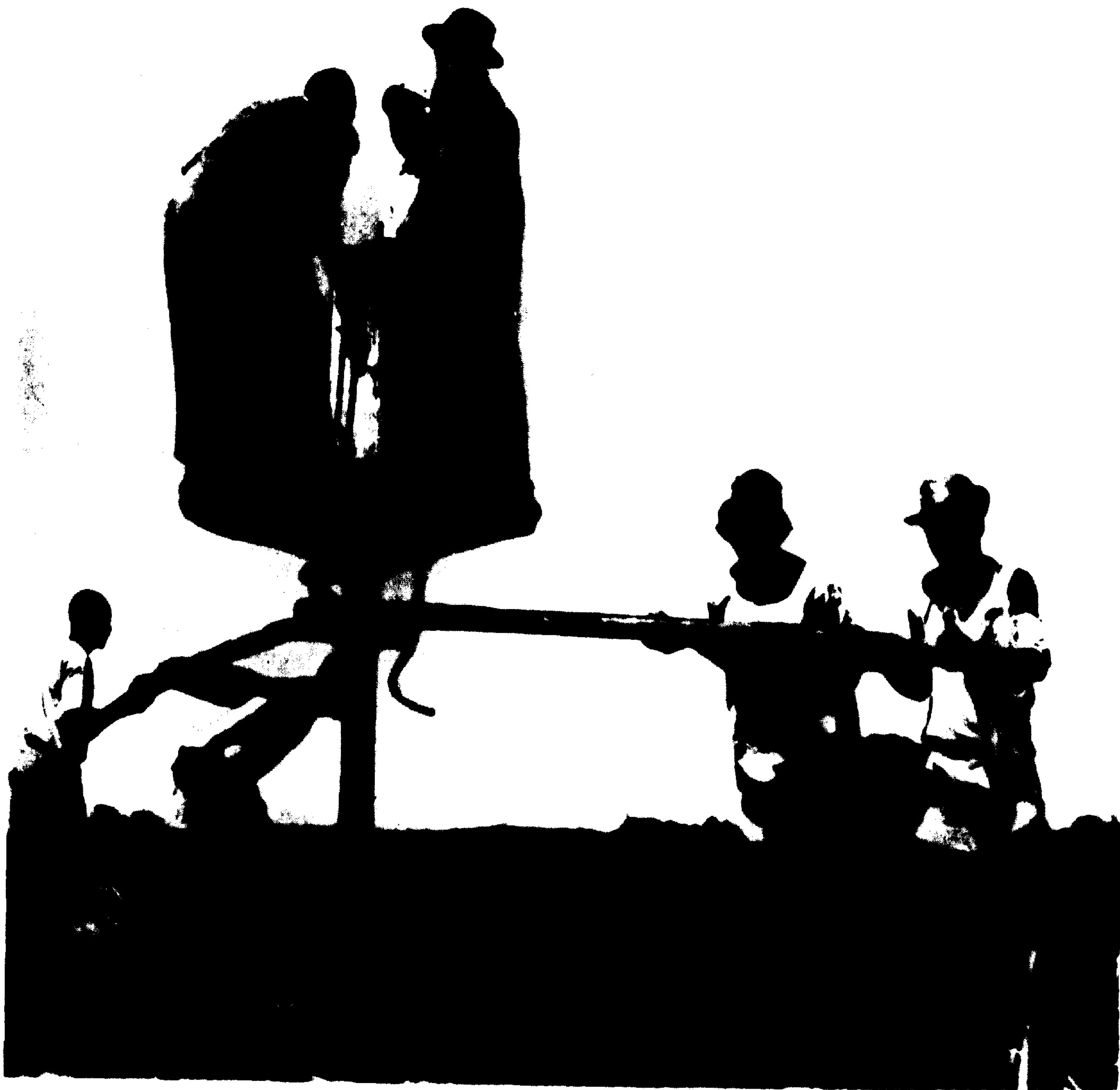

Old-fashioned "Bonha" drill being used to search for minerals in western Kenya near Migori, South Nyanza

of *regional industries* (italics added) directed towards a Central American common market and of particular interest to the economic integration of Central America.[1]

The subsequent General Treaty on Central American Economic Integration, signed in 1960 and also adhered to later by Costa Rica, transformed a limited free trade zone into a Central American common market. It endorsed the Agreement on the Régime for Central American Integration Industries; called for the establishment of a Central American Bank for Economic Integration (CABEI) "as an instrument for the financing and promotion of a regionally balanced, integrated economic growth" providing that the CABEI members may not use its credit facilities unless they ratify the 1958 Régime for Integration Industries; and committed also the member countries "with a view to establishing uniform tax incentives to industrial development . . . to ensure as soon as possible a reasonable equalization of the relevant laws and regulations in force". The Charter of the Central American Bank for Economic Integration declares that the purpose of the institution "shall be to promote the economic integration and balanced economic development of the member countries" and that its activities will be primarily designed to promote and finance, *inter alia:*

[1] *Multilateral Treaty on Free Trade and Central American Economic Integration* (Tegucigalpa, June 10, 1958), article XXI, reproduced in *Multilateral Economic Co-operation in Latin America*, vol. 1 (United Nations publication, Sales No.: 62.II.G.3), pages 17-23.

"projects for long-term investment industries of a regional character or of importance for the Central American market which will help to increase the supply of goods available for intra-Central American trade or for such trade and the export sector. The Bank's activities shall not include investment in essentially local industries."[2]

Thus, within several years after the start of the regional integration programme, five Central American republics had agreed, through a series of interrelated legal instruments and regional institutions, to take specific actions aimed at expanding zonal trade, financing new regional infrastructure and industrial projects, promoting the inflow of external capital resources and co-ordinating other activities essential to the acceleration of the regional industrialization process. In addition to the 1960 General Treaty, the Régime for Integration Industries and the regional development bank, the most important elements of the integration scheme are the equalization of import duties and charges (1959), uniform tax incentives for industrial development (1962) and a regional industrial research institute (ICAITI), the last one dating from the mid-1950's.

Most of these regional integration instruments and institutions have been working satisfactorily. During the seven years following the signature of the first multilateral treaty, intra-Central American trade (imports c.i.f.) increased more than fivefold, from $US20 million in 1958 to some $US105 million in 1964. Participation in foreign trade also increased. By the fall of 1965 a five-country custom union was in existence for all practical purposes and an external uniform customs tariff covered 97 per cent of all foreign trade items. The structure of intrazonal commercial transactions underwent considerable diversification—in 1964 manufactures accounted for 40 per cent of the regional interchange. Trade fluctuations, characteristic of the past decade and reflecting marginal and seasonal changes in intraregional trade, largely disappeared. With the establishment in 1961 of a multilateral payments clearing house, a further measure of co-operation among monetary authorities and private banking systems was achieved. The integration bank, well endowed with zonal and external resources and backed financially by the Inter-American Development Bank (IDB) and the United States aid agencies, extended during its first four years of existence credits totalling $US34 million to public and private projects "of interest to the integration programme". The trade liberalization process resulted in an increase both of domestic and foreign investment in the area. It is tentatively estimated that the inflow of foreign capital, induced by the emergence of the Central American common market, amounted in 1961–1964 to a not negligible total of $US100 million. All this contrasts sharply with the extremely slow changes occurring in the industrial structure of the area, still mainly limited as in the mid-1950's to light consumer goods, the absence of new dynamic industrial projects serving the whole zone and the unimpressive preformance of the Régime for Integration Industries. Thus, a series of questions arises: is the issue of equitable distribution of industries in an integrating multinational area of paramount or secondary importance; was the idea of the distributive mechanisms as conceived in Central America well thought out; did the failure of the Régime for Integration Industries have any negative effect upon the economic development of the area, and, finally, can other developing areas preparing their own regional integration schemes benefit in any way from the Central American experiences?

The concept of the Agreement on the Régime for Integration Industries originated in the early 1950's with the United Nations Economic Commission for Latin America (ECLA), whose experts had several objectives in mind: (*a*) to encourage or induce the establishment or expansion of industries which might require immediate free access to the entire regional market in order to operate under reasonable economic and competitive conditions; (*b*) to promote the utilization—more rational than in the past—of available capital, technical skills and natural resources; and (*c*) to ensure that industrial development is distributed with relative equity throughout the region. ECLA technicians, without whose assistance the Central American integration programme would never have started, were well aware of the historical record of the intra-area political and economic frictions after the break-up of the Spanish colonial empire in the early nineteenth century, and of the failure of numerous previous attempts to bring about some degree of political and economic unification into an area which almost 150 years ago was a political unit—the Central American Republic.[3] They were also aware of the lack of economic viability of the five minuscule and underdeveloped countries, in terms of modern economic development; of the considerable differences in *per capita* income and resources endowment; the foreign-oriented character of the five agricultural economies, strongly linked to the economy of the United States, the major market for their primary products and the major supplier of their consumer and capital goods; the lack of economic complementarity; and the absence of commercial and financial links within the area. Finally, they were afraid that with the growth of trade in response to the progressive disappearance of intrazonal custom barriers, serious frictions would arise among the member countries because of three possible effects of the trade liberalization programme: (*a*) losses of government revenues as increasing volume of goods would enter each country from the others duty free; (*b*) the negative impact upon existing

[2] *Agreement Establishing the Central American Bank for Economic Integration* (Managua, 13 December 1960), article 2 b, reproduced in United Nations, op. cit., pages 26–32.

[3] For details *see* T. L. Karnes, *The Failure of Union-Central America, 1824–1960* (Chapel Hill, The University of North Carolina Press 1961).

Four-colour cloth printing machine and a calender in a modern factory at San Salvador. Great strides are being made in the textile industry of this country

light consumer goods industries as they would begin to face competition from the same industries in other member countries, and (c) concentration of the activities, induced by a free trade régime, in a few existing industrial centres in the more developed republics. In the minds of ECLA technicians the viability of the regional integration scheme would depend to a very considerable extent upon the adequate solution of one complicated but crucial problem: finding the way to distribute with relative equity the benefits and burdens of economic integration among the members of the Central American common market.

Since the economies of the area are by and large free enterprise economies and the local political outlook has been rather conservative, any attempt in the late 1950's to introduce national or regional level planning would have amounted to an exercise in futility. Thus, a scheme was conceived leaving existing productive facilities to their more or less spontaneous growth under the influence of market forces, but opening a way to a "rational allocation of resources" in a new field of heavier and intermediate industries. Because of the limitations of individual national markets, such manufacturing enterprises were not feasible

in Central America a decade ago. However, the 1958 Régime defined as "integration industries" those which would "comprise one or more plants which require access to the Central American market in order to operate under reasonably economic and competitive conditions even at minimum capacity". This definition would apply to such industrial branches as fertilizers, insecticides and fungicides; pharmaceutical products; tires and tubes; paints, varnishes and dyes; glass, plastic and metal containers; pulp and paper products; rolled steel; petroleum refining; and artificial fibres, among others.

The Régime offered a number of benefits and certain protection to firms which would be designated to operate these "integration industries". The first and foremost was immediate free access to the whole Central American market. Similar products of other firms, production of which was initiated in the area after the integration industry was established, would receive the same treatment only after ten years through successive gradual reduction of "integration industry" benefits by 10 per cent a year during the period. Besides, enterprises designated as "integration industries" would enjoy ample fiscal incentives in the countries where they might decide to establish themselves; they would obtain sufficient external tariff protection to make their products competitive with imported goods and receive priority as suppliers to Governments and other state agencies in the area.

The designation of an "integration industry" would take the form of a protocol signed and ratified by *all* member countries. Such a protocol would specify the location of the industry, the minimum capacity of the plant, the conditions under which additional plants would be distributed in case of a growing zonal demand, the quality standards of the products, the measures "deemed convenient for the protection of consumers", the regulations in regard to the participation of Central American capital, and the level of the common external tariff necessary to protect each "integration industry". For the purpose of equitable distribution of these industries in the area, it was agreed that "the Contracting States shall not award a second plant to any country until all the five Central American countries have been assigned a plant in conformity with the protocol".

The initiative for establishing "integration industries" was to come from individuals or corporations and not from the Governments or regional integration authorities. Their applications were to be presented—with all pertinent information—to the Secretariat of the Central American Industrial Integration Commission, to be created under the Central American Economic Council, the top regional integration agency. Applications would be approved only after a favourable technical opinion was received either from the Central American Research Institute for Industry (ICAITI) or "from any other person or body that the Commission considers competent". Such counsel would have to cover all major technological and economic aspects of each project and, in particular, its longer term market prospects.

The outline of the integration industries plan makes it clear that, upon the suggestion of ECLA advisers, the five Central American republics considered it advisable to reserve the regional market for *single* enterprises in certain industries in order to avoid mushrooming of small-scale and high-cost plants which would be competing with each other in a small regional market, putting a heavy drain on the resources in short supply (such as capital, skilled labour, managerial talents and technology) and perpetuating the industrialization pattern existing in the light consumer goods fields. Furthermore, it was expected that by opening the way towards both a horizontal and vertical combination of new heavier industrial activities, to be declared "integration industries" and which might be composed of one or more plants, the Régime would foster both product specialization and relatively large-sized plant structures. It was hoped, assuming parallel development of infrastructure facilities, that such firms might become within a reasonable time the area's development poles, which in turn would attract ancillary industries and new tertiary activities to each member country. Thus, it was believed that given reasonably good economic location with regard to natural resources endowment, availability of labour and technology, and unhampered distribution, the danger of industrial agglomeration and concentration in some areas, ever present under conditions of complete freedom of location, could be avoided. The clause of the Régime agreement providing for distribution of "integration industries" by rounds of negotiations took into account not only their potential effect upon employment and income of each of the member countries and future intrazonal trade flows, but also the high political prestige attached to the industrialization process in any underdeveloped society. In a way, the agreement represented an attempt to introduce into the area a *multilateral industrial licensing mechanism* responding to both economic and political considerations. Its final aim was to avoid political frictions which might develop if one or two countries were to become centres of regional industrial growth, leaving the traditional primary activities to the least developed members of the group.

The Régime Agreement reflects a viewpoint believed to be held by the majority of Latin American economists and by ECLA that a free play of market forces in the industrialization of developing countries cannot be expected to promote industrial development at a quick enough pace. Moreover, by increasing the existing gaps in the industrial development levels, uncontrolled development can bring about serious political complications. Without dismissing the effects of free market forces, ECLA experts believed it desirable to subject them to a series of corrective measures in the form of regulations, special concessions, exceptions from the traditional free trade rules, etc. In Central America a very detailed industry distribution scheme had been

devised for new industrial activities within the area by ECLA staff before the Multilateral Treaty was signed in 1958. This scheme did not achieve its objectives, however, because of the inability of the Central American Governments at the time to reach agreement concerning it. As a consequence, the 1958 Agreement on the Régime for Integration Industries was drafted in general terms and in somewhat obscure language, and immediately became subject to conflicting interpretation.

In late 1961 when informal negotiations on the implementation of the Régime were initiated at the first meeting of the *ad hoc* Working Group on Industrial Development, held in Managua, Nicaragua, the political considerations of the distribution of the intergration industries and not its economic aspects became the main issue. The purpose of the meeting was to select the first round of integration industries and draw up necessary protocols. With official delegations from four of the five Central American republics present (Guatemala, Honduras, El Salvador and Nicaragua) and no practical experience to draw on, the meeting was very much a trial and error affair. A big step forward was the amicable preliminary selection by each country of one integration industry. Guatemala chose the already existing tire and tube plant; El Salvador, copper wire extrusion; Nicaragua, caustic soda and insecticides; and Honduras, a small chemical industry project based on imported petrochemicals with an option to substitute it within six months with a glass container plant. In the opinion of some observers, the 1961 meeting of the *ad hoc* Working Group was held with almost complete disregard for the economic considerations of industrialization. The general attitude seemed to be that if a Government chose a particular integration industry by virtue of the prodding of prospective or actual local and foreign investors, there should be no discussion of the wisdom of the decision but only of the details of the protocol to be signed jointly at a later date. Virtually no use was made of the ECLA industrial studies examining individual projects in relation to the needs of the region, except in the sense that each project obviously required access to the whole regional market. Little attention was given to the economic problems of location, and only one participating country pressed in vain for a general discussion of the aims and objectives of the Régime for Integration Industries.

The meeting showed, on the other hand, the preoccupation of the member countries with the issue of the role of foreign capital in the "integration industries" and with the principle of their equitable distribution throughout the area. It became evident—and it was confirmed in the following years—that the Central American countries would insist on having majority participation by capital originating in the area in all new major manufacturing enterprises, and that the least developed countries of the group would insist on the principle of negotiation by "rounds", whereby each country would receive a similar number of projects. The discussion disclosed also that the less developed republics viewed equitable distribution in terms of the size of the investment involved in each project, a criterion difficult to defend on the basis of economic analysis. In addition, it had become evident that "integration industries" would be given a high level of protection as a result of such demands from the interested investor groups. To anyone cognizant of these first discussions on the implementation of the Régime of Integration Industries, it is quite obvious that the economics of industrial integration were closely intertwined with the politics of economic co-operation and that any attempt to divorce them might put heavy strain on the orderly functioning of the Central American common market scheme.

The Régime did not, however, make spectacular headway in the following years. Although the first protocol signed by five Governments in 1963 declared a tire and tube plant in Guatemala and a caustic soda and insecticide plant in Nicaragua as the first Central American "integration industries", two years later, in the fall of 1965, the protocol still had to be ratified by one of the five member countries—Honduras. Some progress towards its entry into force has been made by the recent assignment of the flat glass industry project to that country and the signature of the corresponding protocol at the fifth meeting of the Central American Economic Council, held in November 1965 in San Salvador. The decision to assign to Costa Rica another tire and tube plant continues to be a matter of controversy and El Salvador gave up its insignificant metallurgical industry project.

On the other hand, in 1963 the signatories of the Régime for Integration Industries created another regional industrial promotion mechanism, which is partly contradictory to the Régime itself. It is called a special system for promotion of new productive activities and it provides for periodical joint elaboration of a list of new Central American manufactures which are to be granted special tariff protection in the area from the moment they begin to supply at least 50 per cent of the regional demand. The two lists approved between 1963 and 1965 include, among others, certain glass products, electric light bulbs, sanitary paper and sulphuric acid. The new mechanism was conceived to eliminate the monopolistic implications of the 1958 industrial agreement, but its performance is hardly more impressive than that of the 1958 Régime.

The failure so far of the Régime for Integration Industries to act as a dynamic factor in the Central American economic integration process has been generally admitted by ECLA experts, who nevertheless defend a thesis that the achievement of balanced regional industrial growth through a joint development policy represents the basic precondition of the success of the Central American common market. According to Carlos Castillo, a leading ECLA economist, various instruments incorporated in a series of regional integration mechanisms, including the "integration industries" régime,

> fit well into the process of balance and development. They are indispensable rather than incompatible components in this process. The need for uniform tax in-

centives to industrial development and the equilibrating action of a selective policy with respect to investment on the part of CABEI are generally accepted. *As for the industries régime so far it has not been possible to arrive at a working consensus for its application* (italics added).[4]

The absence of a working consensus in the area in respect to the Régime for Integration Industries reflects in some way the inability of the Central American countries to change the industrial structure in the area and to pass from the stage of light consumer commodities to that of industrial complexes producing certain heavier manufactures. This phenomenon, in turn, can hardly be attributed to the size of the newly emerged market and to the unavailability of factors of production, except technology. Thus, the persistence of the traditional industrial structure is probably due not only to strictly economic factors, but to the socio-political conditions within and outside the area as well.

The Central American Régime for Integration Industries has been the subject of considerable study by many economists and economic bodies including the United States aid agencies operating in the area. The main counter-arguments centre around its alleged contribution of uncertainty to the situation, which inhibits industrial investment in the area and thus retards economic growth; the arbitary process of designating "integration industries" involving a clear danger of political favouritism; the monopolistic implications of the scheme; its superfluousness in view of the parallel existence of the Central American Bank for Economic Integration and of uniform tax incentives, supposedly easier to administer than the industrial régime itself, and, finally, its interference with the "decision of the market place".[5]

At a somewhat higher level of sophistication, the Régime for Integration Industries has been criticized because of its basic assumption that economies of scale are decisive for the industrialization of the developing countries in view of the shortage of capital and of the effect of these economies of scale on unit costs and prices. It was alleged that under monopolistic or oligopolistic conditions, fomented by the Régime, prices would be fixed in relation to available tariff protection and not on the basis of costs and consequently no consumer benefits could be expected. Contrariwise, an alternative policy of the free entry of any industrial firm into the Central American Market, together with a joint effort to build up a regional infrastructure, would give—it was sustained—much better developmental and consumer results. Such a policy would eliminate the danger of "administered prices" and permit new productive facilities to take full advantage of external economies created by an expanded transportation network, a regional electric power grid, free flow of skilled labour, more advanced financial services, etc.[6]

In view of the extremely limited progress of the Régime for Integration Industries, a discussion of the relative advantages of economies of scale and external economies in a Central American integration programme remains a purely academic exercise. There is no evidence available to show that the Régime discouraged potential investors or that it did not permit actual industrial investors to take advantage of external economies emerging from the public investment in infrastructure in each member country and on the regional level. The fact remains that the industrialization patterns hardly changed in Central America between 1958 and 1965.

As far as the Régime itself is concerned, available information intimates that the attitude of the United States towards it may be partly responsible for its failure to take off. It is known, for example, that the United States Government, which in 1960 committed considerable aid resources to the Central American economic integration programme—both directly through the Agency for International Development and by loans to the CABEI—did not limit itself to disapproval of the scheme. According to a good authority, well acquainted with United States foreign aid programmes,

> both the Inter-American Development Bank (partly financed with United States money) and the Agency for International Development have refused the use of their funds loaned to the Central American Bank for Economic Integration for loans to firms designated as 'integration industries' and, therefore, given preferential treatment within the Central American Common Market.[7]

Such strong United States opposition to the Régime is explained by the rejection by the United States Department of Justice of its monopoly clauses; by the attitudes of United States corporations operating in the region or considering setting up new industrial ventures in the area; and the fear of the United States Department of State of difficulties with the foreign aid programme in the United States Congress in case United States public funds were used to finance a scheme clearly interfering with the free enterprise philosophy.[8] It would be too simple, however, to

[4] C. M. Castillo, *Growth and Integration in Central America* (Mexico, 1965), page 151 (unpublished manuscript).

[5] Agency for International Development, "Comments on the Régime of Integration Industries of the Central American Common Market" (Washington, D.C., August 1963), memorandum.

[6] J. Pincus, "Algunos efectos de la integracion economica centroamericana en los precios de consumo" ("Some Effects of the Central American Integration on Consumer Prices"), July 1962 (mimeographed).

[7] R. F. Mikesell, "External Financing and Latin American Integration" in M. S. Wionczek, ed., *Latin American Economic Integration* (New York, Frederick A. Praeger, Inc., 1966).

[8] J. D. Cochrane, "US Attitudes Towards Central American Economic Integration". *Inter-American Economic Affairs*, vol. 18, No. 2 (Washington, D.C., 1964). In respect to the second point Cochrane wrote that "Although there is no evidence that US investors have expressed any disapproval of 'integrated industries' to government officials, it is quite possible that this has been privately expressed. The fact that 'integrated industries' has several features which might be objectionable to US investors may, even in the absence of over pressures, have influenced the position taken by the US Government". Op. cit., page 85.

blame the failure of the Régime on the United States policy of denial of financial resources for its implementation.

In view of the political and economic weight carried by the United States in Central America, one might have expected, in the light of the United States attitude, the Régime's complete disappearance from the scene. But the Régime did not wither away. An explanation that it was kept alive but dormant by the Central American republics to please its authors, ECLA experts, on the one hand, and to demonstrate independence from external pressures, on the other, sounds very ingenious but far from convincing.[9] It is more probable that some kind of silent agreement was reached between Central American countries and ECLA experts that, however badly designed and wrongly timed the Régime for Integration Industries might have been in 1958, it could become in the future a useful industrialization instrument. With the increase of regional co-operation in non-industrial fields, it appears that there is a growing acceptance of the ECLA position that balanced growth and equitable distribution of industrialization benefits would in the long run represent the best guarantee against a disruption of the integration process by coalitions of domestic and foreign vested economic interests in each country, which propound a strongly "nationalistic" line and seek for themselves the lion's share of the common market benefits.

In retrospect it would seem for reasons beyond the control of its authors that the Régime was not properly designed and its creation poorly timed. Since no other similar structure existed elsewhere, the Régime was an experimental exercise. The main weaknesses of the scheme consisted of the passive role it ascribed to the common market authorities in designating "integration industries", its cumbersome procedures and its limitation of the concept of integration industries to single enterprises unrelated to the global industrialization needs of the area. Actually, however, these weaknesses reflected the stage of Central American Industrialization at the time of the 1958 Multilateral Treaty's signature.[10] They also reflected the absence of basic data regarding the long-term demand and supply trends outside of the agricultural and light consumer goods sectors; the non-existence of industrial planning both on a national and regional scale; the extreme shortage of domestic entrepreneurial skills; and, finally, the lack of experience in the integration-supporting institutions, such as the regional industrial research centre (ICAITI), which in the late 1950's still led a very precarious life. Nor did the interested Governments, as the 1961 meeting of the *ad hoc* Working Group on Industrial Development clearly demonstrated, understand clearly what the General Treaty and the Régime for Integration Industries tried to achieve in the industrial field and how the productive structure of the region would be affected by trade liberalization. This explains the random selection by the common market members of four unrelated industrial projects for the first round of negotiations. Additional multilateral negotiations would consequently never be of more than marginal importance for the regional industrialization process. However, the actual meagre performance of the Régime did not invalidate its basic promise that the unnecessary duplication of high-cost small industrial plants, and the agglomeration of new manufacturing activities in some member countries would be harmful to the integration process taking place within a political framework which assumes the continued existence of five separate and sovereign state units for a long time to come.

Some new economic and non-economic factors are appearing on the Central American scene which suggest that the revised and expanded scheme may yet be a useful means of assuring the balanced development of intermediate and capital goods industries capable of supplying the regional market with inputs; whose imports from the outside world are limited by Central America's slowly growing import capacity. It may well be that the Régime, containing a specific clause in respect to the participation of domestic and regional capital in the "integration industries", is the only mechanism able to dispel growing preoccupation—both in the public and private sectors of Central America—about the undue share of benefits from the integration falling into the hands of foreign industrial enterprises. Paradoxically, this preoccupation is the result of the Central American economic growth registered after 1958 and of the emergence of the new domestic *entrepreneur* groups in response to the socio-political changes sparked by the integration movement.

These groups with access to capital resources previously transferred abroad or invested in real estate cannot, however, match the financial and technological resources available to the large international corporations entering the Central American market.[11] Although during the first stage of integration, the "forces of the market place" worked largely in favour of foreign manufacturing enter-

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[9] This explanation is offered by James D. Cochrane in another essay "Central American Economic Integration: The 'Integrated Industries' Scheme", *Inter-American Economic Affairs*, vol. 19, No. 2 (Washington, D.C., 1965), page 70.

[10] The substitution of the 1958 Multilateral Treaty by the 1960 General Treaty creating a common market complicated the legal aspects of the Régime. Under the earlier treaty it was easy to offer exclusive tariff protection for the new industries, since the free trade covered selected commodities only. Under the General Treaty, when the signatory countries committed themselves to free trade in practically all products and to establish a common external tariff by mid 1966, the offer of special tariff treatment for plants designated as "integration industries" might be considered as a step backwards from the global commitment of the Central American countries, at least on the traditional basis that a common tariff in a customs union should not be higher than that previously in existence. This is clearly not the case in respect to the needs of integration schemes in the developing regions, where *new* industries emerging after the establishment of a customs union have the right to be considered "regional infant industries" eligible for protection.

[11] For the analysis of problems arising from the clash between Latin American economic nationalism emerging within the framework of economic integration schemes and foreign private capital, *see* M. S. Wionczek, "A Latin American Point of View" in Raymond Vernon, ed., *How Latin America Views the U.S. Investor* (New York, Frederick A. Praeger, Inc., 1966).

prises, causing the appearance of Central American economic nationalism, they had a considerable impact upon Central American *entrepreneurs*. Now, when the process of regional import substitution in light consumer industries is nearing an end, both domestic and foreign capital compete for the industrial opportunities which clearly fall under the Régime for "integration industries". If the scheme, on the other hand, were adjusted to new conditions, and received technical support from the regional industrial research institute in the form of well-elaborated, concrete projects linked to national industrialization plants, and if it were made attractive in each particular case to groups of investors from various Central American countries, the Governments of the region might reconsider their earlier attitudes and start to negotiate distribution of such projects throughout the common market. In such cases, negotiations would cover not individual plants of marginal importance for regional industrialization as in the past, but larger industrial projects jointly financed by Central American *entrepreneurs* and regional and extrazonal capital; and, at the same time, they would distribute these major projects among all member countries. The fact that ICAITI, together with CABEI, organized in mid 1965 the first regional meeting on investment opportunities and drew attention in this meeting to some seventy new industrial projects, suggests that the Régime for Integration Industries may, if adequately revised, still have a most important role to play in the industrialization of the Central American region.

THE EAST AFRICA KAMPALA-MBALE AGREEMENT

The second case considered in this paper relates to the difficulties deriving from the multilateral arrangements for a regional economic integration scheme under the Kampala-Mbale Agreement, negotiated by the three members of the East African Common Market (Kenya, Uganda and the United Republic of Tanzania) between April 1964 and January 1965. Although the agreement never came into force and only its principal points were made public by the Tanzanian Minister of Finance in mid 1964,[12] enough is known about it and its subsequent developments to warrant a detailed discussion of the reasons for its failure.

It is not accidentally that negotiations leading to the Kampala-Mbale Agreement started almost immediately after Kenya, the last British territory in East Africa, ob-

[12] Press release of the Tanganyika High Commission in London, 16 June 1964 "Extract from the budget speech of the Hon. Paul Bomani, Minister of Finance, delivered to the National Constituent Assembly in Dar-es-Salaam on the 16th of June, 1964 (mimeo)".

Tanganyika can be cited as an example of the current increase in African productivity. Workers in this photograph are combing dried sisal at Amboni estate

tained its independence in December 1963. As the voluminous literature on the trials and tribulations of the East African Common Market reveals, the East African élite, the British civil servants in the East African Common Service Organization (EASCO), and international experts and missions visiting the region in the postwar period had been in agreement for some time on two major points: (*a*) that differences between the development levels of the three former territories were not only considerable but were steadily increasing; and (*b*) that the distribution of gains from the common market arrangement was heavily weighted in favour of the most developed member—Kenya. Here the consensus among experts within and without the East African Common Market countries ended, because no generally acceptable measure of the distribution of gains in an economic integration scheme has been elaborated as yet, and the traditional way of measuring benefits or losses from integration exclusively by the trade flows has serious theoretical short-comings. Three alternative and divergent opinions in respect to the achievements of the East African Common Market can be discerned: Kenya has been the greatest net beneficiary of the union; the other two countries also shared in the benefits, although on a much smaller and perhaps marginal basis. These benefits derived mainly from the spreading effects of the Kenya industrialization programme to its less developed neighbours. On the plus side was Kenya's growing market for certain primary goods from Uganda and the United Republic of Tanzania, and easier access to it under the common market agreement.[13] Kenya nevertheless has been the greatest beneficiary; Uganda has on balance gained rather than lost, and Tanganyika has suffered a slight *net loss*.[14] Although there is no available factual evidence in support of the contention that Kenya's gains were made at the expense of its partners, this view has wide and uncritical acceptance in political circles in what is today the United Republic of Tanzania and, in part, explains to a considerable degree the United Republic of Tanzania's policy towards the East African Common Market in the most recent past.

The distribution of benefits under the East African economic integration programme has definitely favoured Kenya in regard to the location of new industrial activities, an advantage gained because of British economic policies in East Africa in the colonial period. A paper written in 1963 by a Ugandan economist, unaware of the problems confronting ECLA economists at about the same time in attempting to build a viable common market in Central America, contains a paragraph describing succinctly the nature of the difficulties arising in both areas:

> "The location of industry is determined by a complex of historical and economic factors. In a *laisser-faire* economy where market forces govern economic activity, industries will gravitate towards areas which possess certain economic advantages: These include, *inter alia*, proximity to markets for the products, availability and cost of new materials, and efficient and developed systems of transport, availability of cheap and skilled labour and of other economic overheads—electric power, banking, commercial and financial services. In general, areas which are relatively more developed tend to possess these economic advantages. This tendency for new industries to be concentrated in relatively developed areas *gathers momentum as development proceeds* (italics added) with the result that large areas of the economy will fail to feel the impact of the growth generated by the existence of the customs union. This is especially true of underdeveloped areas which are characterized by the existence of a few pockets of development surrounded by vast areas scarcely touched by market forces."[15]

In the light of failure to restore intraregional balanced development through fiscal compensatory measures, suggested prior to East Africa's independence by the Raisman Commission (officially known as the United Kingdom Colonial Office Economic and Fiscal Commission for East Africa),[16] the three Governments, immediately after the British withdrawal, made a serious attempt to establish a new framework to narrow the political and economic frictions inherited from the colonial past. The Kampala scheme, as subsequently revised and approved in Mbale in

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[13] B. F. Massell in his *East African Economic Union: An Evaluation and Some Implication for Policy* (Santa Monica, Calif. The Rand Corporation, December 1963) seems to lean towards this school of thought, although he states also that "It is not possible to determine whether Uganda and Tanganyika are made better or worse off as a result of the economic union" (page 96).

[14] Dharam Ghai, "Territorial Distribution of Benefits and Costs of the East African Customs Union", *East African Economic Review*, 1964, reproduced in *Federation in East Africa Opportunities and Problems*, C. Leys and P. Robson, eds., Nairobi (Oxford University Press, 1965), pages 72–82. Ghai's findings are questioned by A. Hazzlewood in "The East African Common Market: Importance and Effects", *Institute of Economics and Statistics Bulletin*, vol. 28, No. 1 (Oxford University, February 1966), on the grounds that Ghai bases his analysis on the flows of interterritorial trade as allegedly directly related to the existence of the East African common market. In Hazzlewood's opinion, it is "entirely invalid to judge the importance of the common market and its disequalizing effects from the figure of total interterritorial trade and the nominal protection accorded by the customs tariff". But Hazzlewood's statement to the effect that Kenya's preponderant role in the East African common market is due to geography, historical accident and deliberate British policies before independence brings us back to the roots of the dissatisfaction in Uganda and the United Republic of Tanzania with the regional co-operation arrangements inherited from the colonial past.

[15] Ghai, op. cit., page 3 (mimeographed version).

[16] One might still defend the suggested redistribution mechanism by arguing that the Raisman Commission proposals did not delve deep enough. But the problem still does not disappear on two grounds: (1) fiscal revenue compensation proposals address themselves mainly to the issue of net gains and losses from the customs proceeds from the foreign trade of the area under conditions of intra-trade liberalization; (2) assuming that a formula were found to measure correctly all gains and losses from an integration scheme, it would be difficult to envisage as politically palatable a net transfer of aid for development from one underdeveloped country to another, even though each is in a different stage of development, for the sake of probable, but not certain, future gains from integration for all parties concerned.

January 1965 by the Heads of State of the three nations—after nine months of difficult negotiations—provided for dealing with the inequitable distribution of gains from the common market, as reflected in *intraterritorial trade imbalances*, through an early implementation of five measures:

(*a*) Immediate action with respect to certain interterritorially connected enterprises aimed at shifting their productive activities in such a way as to increase production in a deficit country and thereby reduce imports from a surplus country;

(*b*) Agreement as to the immediate allocation of certain major industrial projects;

(*c*) Application of a system of quotas and suspended quotas whereby exports from surplus countries would be reduced progressively and local production increased in the deficit countries, according to the building up of the productive capacity of the deficit country;

(*d*) Increased sales from a country in deficit to a country in surplus;

(*e*) Early agreement within the East African Common Market on a system of incentives and equitable allocation of future industrial activities among the three countries.

Although the Kampala-Mbale Agreement established an immediate link between regulation of regional trade flows and distribution of new industrial enterprises throughout the region, it seems, understandably, that it gave first priority to the problem of allocation, because of the political prestige attached to industrial projects by each member country and general expectations of a rapid inflow of foreign investment into the common market area. Thus, in respect to the immediate channelling to the rest of the area of certain firms having productive facilities in more than one country (cigarettes, foot-wear, beer and cement), Kenya and the United Republic of Tanzania agreed to promote the shifting of some of their production lines to the latter because of that country's large trade deficit with Kenya. Similar joint persuasive action was expected to be followed by Kenya and Uganda. Immediate allocation of certain major industries covered aluminium, bicycle manufacture, electric light bulbs, radio assembly and manufacture, nitrogenous fertilizers and motor vehicle tires and tubes. It was agreed that these industries would be distributed under the territorial Industrial Licensing Ordinance[17] on the basis of an exclusive licence to a firm operating in the agreed territory. The manufacture of aluminium sheets and foil, tires and tubes, and radio assembly and parts production was allocated to the United Republic of Tanzania. Uganda received the sole rights for the production of bicycles and fertilizers, and Kenya was left with the manufacture of electric light bulbs and possibly neon and fluorescent tubes. Finally, it was agreed that the problem of future allocation of industry and differential incentives for new industrial activities would be studied by a regional committee of industrial experts. This committee would draw up lists of "East African industries" according to one or two alternative definitions of their economic feasibility: (*a*) only if a given industry would have had access to the entire regional market or (*b*) only if it would have needed access to a market larger than that of any one country in East Africa. In examining a possible distribution of these regional industries, particular regard was expected to be given also to the need for an equitable distribution of industries within the region and to the industrial location of new projects.

In the fall of 1965, less than a year after the revised version of the Kampala Agreement had been approved in Mbale, the scheme was already considered inoperative. Events in each of the three countries have overtaken the interested parties in this particular issue; in fact, the whole future of the East African Common Market has become highly doubtful in spite of a series of joint efforts to save at least its backbone—EASCO.[18]

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[17] The Industrial Licensing Ordinance was introduced in the three East African territories in 1948 for the purpose of encouraging "the orderly establishment and setting up of new industries to the best advantage of East Africa as a whole while providing protection to consumers and workers" (part II, Sect. 3(2)). According to one source ". . . the industrial licensing system rapidly became a means for preventing competition (from Uganda and Tanganyika) with plants already established in Kenya" and "not unnaturally, the latter two countries became unwilling to agree to the addition of any new industries to the licensing schedule under such conditions" (S. Dell, *Trade Blocs and Common Markets*, New York, Alfred A. Knopf, 1963, page 238). The Raisman Commission concluded that by 1960 the system served very little useful purpose in relation to industrial development of East Africa as a whole.

[18] In the early fall of 1965 the EASCO Authority decided to establish a commission comprised of three high officials from each country and an independent chairman, Prof. Kjeld Philip of Denmark, to inquire into ways and means of salvaging the common market and preserving regional common services. The commission reported to the three Governments on 15 May 1966, and according to information available from the East African and British Press, its report, known as "Report of the Commission on East African Co-operation", was discussed at two ministerial meetings in Nairobi in June, and in Dar-es-Salaam in late July of 1966. Although the contents of the Philip Commission have not been made public, it was reported that it covered much more ground than the Kampala-Mbale Agreement. The Commission was requested to suggest ways in which the East African Common Market could be maintained and strengthened; how the common services could be maintained and developed, and how they could be shared equitably by the three countries. According to at least one source (an article on the East African Common Market difficulties, "The Search for a Fair Equilibrium", published in *The Financial Times* of London on 26 July 1966), in addition to the dissatisfaction of Uganda and the United Republic of Tanzania regarding intraregional trade, one of the complaints against existing common services is that the largest facilities are centered in Nairobi. Kenya benefits from the prestige point of view, as well as from the receipt of the income tax paid by the employees of the common services who are stationed in its territory. To counteract this, a distributable pool of revenue is operated between the three countries, with Kenya paying the largest share to maintain those common services which are not self-supporting. Kenya has been objecting to this particular burden contending that, as a result of quantitative restrictions against her exports to the region, she is no longer in a favoured position. It is understood that the Philip Commission recommended that this problem be dealt with by more equitable distribution of the various common services headquarters throughout East Africa; the problem of interterritorial trade imbalances and concomitant fiscal revenue losses by deficit countries should be solved through the mechanism of surcharges instead of quantitative restrictions; the licensing of industrial activities should be abandoned and the common market strengthened by the early establishment of an East African development

Implementation of the Kampala Agreement was faced with difficulties from the day of its signature which reflect the interplay of many internal and external factors. The agreement represented a considerable sacrifice on the part of Kenya; it was signed by that country with the understanding that not only the East African Common Market and EASCO would continue, but, in particular, that a common single currency in the area would be maintained. The East African Currency Board, which was to be converted into a single central bank for the three countries at an early date, actually disappeared from the scene in the spring of 1965 as a result of the unilateral action of the United Republic of Tanzania to establish its own state bank. In turn, this led to a decision by the two remaining countries to terminate the common currency arrangements in the area in 1966. Under these conditions, Kenya, at least, is no longer legally bound by the Kampala Agreement. But the decision of the United Republic of Tanzania to have its own monetary policies is only one of many developments which has led to the progressive deterioration in the area of regional economic co-operation. Shortly after the Kampala scheme had been set up and before its ratification (which actually never took place) Kenya unilaterally withdrew its original approval of the allocation to the United Republic of Tanzania of an automobile assembly plant, as a consequence of an offer from a group of local and foreign investors to build such a plant in its own territory. This incident forced prolonged multilateral negotiations of a revised list of allocated industries, injected a large measure of bitterness into relations between the two countries and was largely responsible for the United Republic of Tanzania's putting into effect in mid 1965 the second part of the Kampala agreement, providing for the imposition of quota restrictions in cases of persistent trade imbalance with other member countries of the East African Common Market. Such trade imbalance was supposed to be resolved by the switch of some productive activities by enterprises with plants in various East African countries and by the orderly implementation of the agreement on allocation of major industries. Since neither of these two schemes started to work immediately, the patterns of trade have hardly changed in the past two years, increasing the grievances of the United Republic of Tanzania and Uganda. The seriousness of the situation from the viewpoint of the whole future of the East African Common Market could hardly be described better than in the following brief report from Dar-es-Salaam by an outside observer written in early August 1965.

President Nyerere explained why Tanzania had found it necessary to impose trade restrictions on Kenya. Speaking at the opening session of the Central Legislative Assembly he said that Tanzania had waited, following the Kampala Agreement last year, for ratification by the three East African Governments.

As the months went by without ratification, Tanzania felt she had no option but to take action on her own, though in accordance with the principles agreed in Kampala. It therefore decided to impose temporary quotas on certain Kenya imports with the sole object of promoting their production in Tanzania. This was an indication that Tanzania was taking only the very minimum action and then only when it became imperative for her own development. President Nyerere said that it was important to realize that even if the quotas cut imports from Kenya by as much as two million pounds sterling annually, which was unlikely, Tanzania would still be the largest importer of Kenya goods.[19]

Although many reasons can be cited in explanation of the United Republic of Tanzania's action, there is no doubt that when one member of a regional economic integration programme finds it necessary to make trade reprisals on another member country participating in the same scheme, the situation is hardly propitious—politically and otherwise—for an orderly and continuous expansion of co-operation in commerce, industry and other fields. The future of the East African Common Market seems to be further complicated by the absence of any progress in achieving regional uniform treatment of foreign investment, which—given the over-all economic under-development of East Africa—would have to provide a major share of the required financial resources for industrialization. In this respect, East Africa witnesses today a race among three countries to attract foreign industrial investment under almost any conditions and to find, outside of the region, new markets for their respective manufacturing output. In early 1965, the Kenya Parliament passed a very generous foreign investment protection law, which aims to attract foreign capital both from sterling areas and other hard currency areas for the development of tourism, transportation, mining, an agricultural machinery industry etc.[20] A national licensing system for foreign-owned ventures has been set up by Kenya, implying that any regional agreement on uniform tax incentives is presently farther away than at any time in the past. Uganda for its part "amid the growing deterioration of the East African Common Market . . . has begun to look elsewhere in Africa for people to do business with",[21] and its Government was reported to have ordered the Ministry of Commerce and Industry to organize trade missions to Rwanda, Burundi,

bank, the harmonization of commercial legislation and the joint examination of national development plans. At the July 1966 ministerial meeting in Dar-es-Salaam, difficulty was reported to have arisen in respect to the operation of the proposed development bank, specifically a formula for distribution of future bank credits to the member countries. (For details, see "Rift at East African Trade Talks Casts Shadow on Bloc's Future", a cable from Dar-es-Salaam in *The New York Times*, 30 July 1966.)

[19] "Tanzania Trade Curbs on Kenya", a cable from Dar-es-Salaam published in *The Financial Times* (London), 11 August 1965.

[20] F. Gillett, "Kenya Offers Incentives to Lure New Investment", *The Journal of Commerce* (New York), 22 January 1965.

[21] L. Fellows, "Uganda Looking for New Markets", a cable datelined from Kampala, *The New York Times*, 31 July 1965.

the Congo and the Sudan to find new outlets for Uganda's growing industries, in view of trade restrictions being progressively imposed by the United Republic of Tanzania. Thus, instead of a growing regional co-ordination of economic policies and a strengthening of institutional links, one witnesses the progressive disintegration of the only regional effort in Africa in some forty years.

The fate of the Kampala Agreement demonstrates that a failure to agree on a regional industrial policy became, within an extremely short time, the most important contribution to economic tensions within the region, and that it may lead to a disruption of the East African Common Market. In its wake would be three "beggar-your-neighbour" import substitution policies, which will in the long run only increase the unviability of the three economies involved. Judging from the experiences of the smaller Latin American republics with a level of over-all development similar to that of each of the three East African republics, these have about five years' time, if they decide to "go it alone", to reach the stage in which no additional substitution of imports will be feasible. This applies not only to the United Republic of Tanzania and Uganda, but to Kenya as well, despite the fact that because of the common market arrangements it has moved ahead of the two other countries. Kenya accounted in 1962 for some 45 per cent of manufacturing employment in the region, 60 per cent of the gross product derived from industrial activities and over 75 per cent of the interterritorial exports of non-food manufactures. Whereas it is obvious that Kenya was the biggest gainer from the regional arrangement, the break-up of the common market will inexorably make all three countries *net* losers in their new situation and will retard their national economic development.

One is forced to conclude that, despite the political difficulties among the three members of the East African Common Market after independence, which have, in part, their roots in the three distinct political and economic policies followed in the area by the colonial authorities in the pre-independence days, the major reason for the failure of the Kampala Agreement was the fact that it established a close link between the distribution of industrial projects and the problem of persistent imbalances in visible intraterritorial trade. Although the institution of quotas applicable to imports into the deficit countries was probably considered by the United Republic of Tanzania, the largest deficit country, as the only weapon at its disposal to force Kenya (principally) to abide by the terms of the Agreement, the link was based on the wrong assumption that the distribution of new industrial activities would immediately result in a radical change in the patterns and flow of trade. The obvious and usual lag between the decision to allocate the majority of new plants or branches of existing enterprises to the less developed members of the common market and the appearance of new trade flows was obviously not considered; consequently, at the first sign of stress in mutual economic relations, the restrictive part of the mechanism was put into motion. Thus, the signatories of the Kampala Agreement reaped the worst of the Agreement's transitory aspects—interterritorial trade imbalances diminished somewhat, but at the cost of its over-all decline, while ample time was not allowed for events to bring about the benefits to the region resulting from accelerated regional industrialization. Whatever immediate gains accrued to the United Kingdom of Tanzania and Uganda as a result of the fact that some industries were forced to establish themselves in their respective territories related primarily to local import substitution instead of fostering regional substitution of imports from the rest of the world, a primary objective of any economic integration scheme.

Additional reasons for the failure of the Kampala Agreement were the inability of the interested parties to incorporate into it any instruments for establishing regional industrialization policies other than licensing arrangements. Such potential instruments could include: (*a*) close co-operation in the field of building up the infrastructure conducive to economic and industrial integration; (*b*) strengthening the already available mechanism for consultations among the finance ministers in respect to industrial tax incentives; (*c*) formal agreement on uniform customs protection for new enterprises considered as "regional industries"; and (*d*) agreement on the role of the national state-owned development corporations in respect to regional industrial projects. In these matters at least, in spite of its forty years of existence, the East African Common Market seems to be much behind the Central American integration scheme set up less than a decade ago.

The final weakness of the Kampala Agreement originates not from the national economic policies of the signatory Governments, but from international conditions under which the under-developed countries—jointly or individually—attempted to implement their industrialization policies and programmes. Since exporters from the industrial countries are covered by their own Governments against many risks involving the sale of export goods, a growing competition for external markets has developed with very little regard for the viability of the developing economies. In the face of greater barriers to imports of traditional consumer goods, reflecting industrialization growth in the newly independent countries of Africa, the manufacturing and commercial interests of the advanced countries are willing and ready to overcome these barriers in one of two ways: either by setting up productive facilities whenever enough protection is offered by the developing countries or by selling production equipment to local manufacturers or to the national development corporations whenever risks of direct investment are too large or the size of the market is too small to warrant direct involvement. In both cases, these external interests become the allies of the domestic groups who are unaware of the lack of viability of the particular industry arrangement and of the high price paid for that type of self-defeating industrialization. The willingness of a small under-developed

country to offer almost any protection requested to attract a foreign industrial firm, and the willingness of the advanced countries to make available unilateral industrial credits, so long as they are tied to exports of specific goods, represent probably the major external obstacles to sound economic integration schemes in the poor regions. Any future work on subregional economic co-operation in Africa will necessarily have to take these political and economic facts of life into full account.

The lessons of the Central American and East African experiences

The failures of the Central American Régime for Integration Industries and of the Kampala Agreement on regional licensing of industries clearly reveal the practical difficulties facing the establishment and implementation of a politically acceptable and economically viable distribution of industrial activities among the under-developed participants of a regional integration scheme. The principle lesson of the Central American and the East African experiences is twofold: (*a*) the distribution of benefits of the integration scheme, whether in the form of a free trade zone, a customs union or a common market, cannot be left to the free play of market forces because these forces do not operate efficiently in an under-developed environment; (*b*) the equitable distribution of new industries cannot be attempted in isolation from other aspects of the integration process. On the other hand, taking into consideration institutional weaknesses which are present in the under-developed areas and the persistent shortage of skilled administrative and entrepreneurial resources, one can hardly build up too much confidence in the possible success of full-scale regional economic planning or in the harmonization of national industrial policies in under-developed countries. In most cases, whether in Africa, Asia or Latin America, national development plans exist only on paper, and national industrial policies amount to a series of improvisations imposed upon the Governments by domestic difficulties and external economic problems.

This diagnosis should not be construed, however, as the flat denial of a possibility to foster regional industrialization in the developing areas. It attempts rather to defend a proposition that the achievement of some measure of multinational co-operation in this field calls for a prior creation of minimum conditions for limited co-operation and co-ordination among a limited number of neighbouring countries, and not for grandiose plans for integrating them on the hopeful but unrealistic assumption that a large number of countries without any previous integration experience will somehow harmonize their divergent economic policies and pool their natural and capital resources. This last position greatly underestimates the force of economic nationalism and the power of vested interests. As demonstrated in Latin America, both within LAFTA and in the much smaller Central American Common Market, economic integration is a slow, complicated and painstaking process of building up step by step regional institutions and co-operation mechanisms and of creating political support both in the public and private sectors in the area to assure the functioning of such multinational economic arrangements.

The success of industrial integration would thus depend to a considerable extent upon the previous emergence of an over-all institutional framework, preferably in the form of a customs union, providing for the gradual freeing of all trade—with possible special treatment for agricultural products—but not equating the benefits of integration with balance of trade flows. The introduction of such a concept would tend to equalize commercial interchange at the lowest rather than the highest potential level and thus eliminate the dynamic long-run effect of regional trade on development prospects of the area. Assuming—what is doubtful—that the regional trade balance and not the over-all trade position of each country vis-à-vis the rest of the world is the objective to pursue, the correction of possible regional trade disequilibria should be left to non-trade factors, and the success in this field will obviously also depend on a regional investment policy. Such a regional investment policy is possible when the economic integration process is fairly advanced, which is not the case of the emerging free trade zones or common markets in the developing countries, or when the capital-exporting rich countries show a readiness to support fully and on a multilateral basis a given integration experiment. The second condition has not been fulfilled as yet any place. Under those circumstances, it is left to the participating under-developed countries to work out a limited regional investment policy through the following steps:

(*a*) Identifying productive sectors which could take advantage of available external economies and potential economies of scale offered by the multinational market;

(*b*) Elaborating a series of concrete projects within these sectors;

(*c*) Agreeing upon a regional uniform system for customs protection and tax incentives so as to avoid cutthroat competition for scarce production factors among prospective domestic and foreign investors;

(*d*) Putting jointly at the disposal of potential investors certain development finance facilities; and

(*e*) Setting up a permanent regional negotiation mechanism empowered to distribute periodically throughout the area new projects of regional interest.

Such a limited regional investment policy implies the early establishment, in addition to a free trade or common market general treaty, of the important legal instruments mentioned above under point (*c*); and, furthermore, a regional development bank or corporation and a regional industrial research institute. This last institution is probably decisive, since any attempt to allocate regionally not yet existing industries in expectation of a favourable response from potential investors, or to distribute projects one by one when they are submitted by private parties, is bound to end in failure and increase political frictions. The negotia-

tions on equitable distribution of new industrial projects in a multinational set-up represent the last step in achieving a limited regional investment policy, and their success or failure will depend upon the number and the quality of projects to be negotiated. It is here that the importance of a regional industrial research organization and its ability to elaborate concrete feasibility studies is demonstrated. If a group of countries embarking on an economic integration venture cannot assure the effective functioning of such a regional body, then any discussion about regional industrial planning or harmonization of national development plans, which involve a much bigger organizational and operational effort, are bound to be only a futile exercise in oratory.

It is sometimes held that the allocation of new productive activities among a group of developing countries is an extremely difficult economic exercise because of the problems involved in effecting external economies. But anyone acquainted with the present conditions in respect to infrastructure and natural resources endowment in Central America and East Africa and having some idea of modern technology can hardly accept such a pessimistic proposition. As one of the experts working on economic integration problems puts it:

"... except in industries tied closely to highly specific natural resources that are expensive to ship, the advance of modern technology has greatly reduced the natural advantages of putting manufacturing activities in one place rather than another. By now, the advantages of one site over another are largely man-made rather than nature-made. And if advantages are made by man, they can also be changed by man in accordance with rational and deliberate planning criteria."[22]

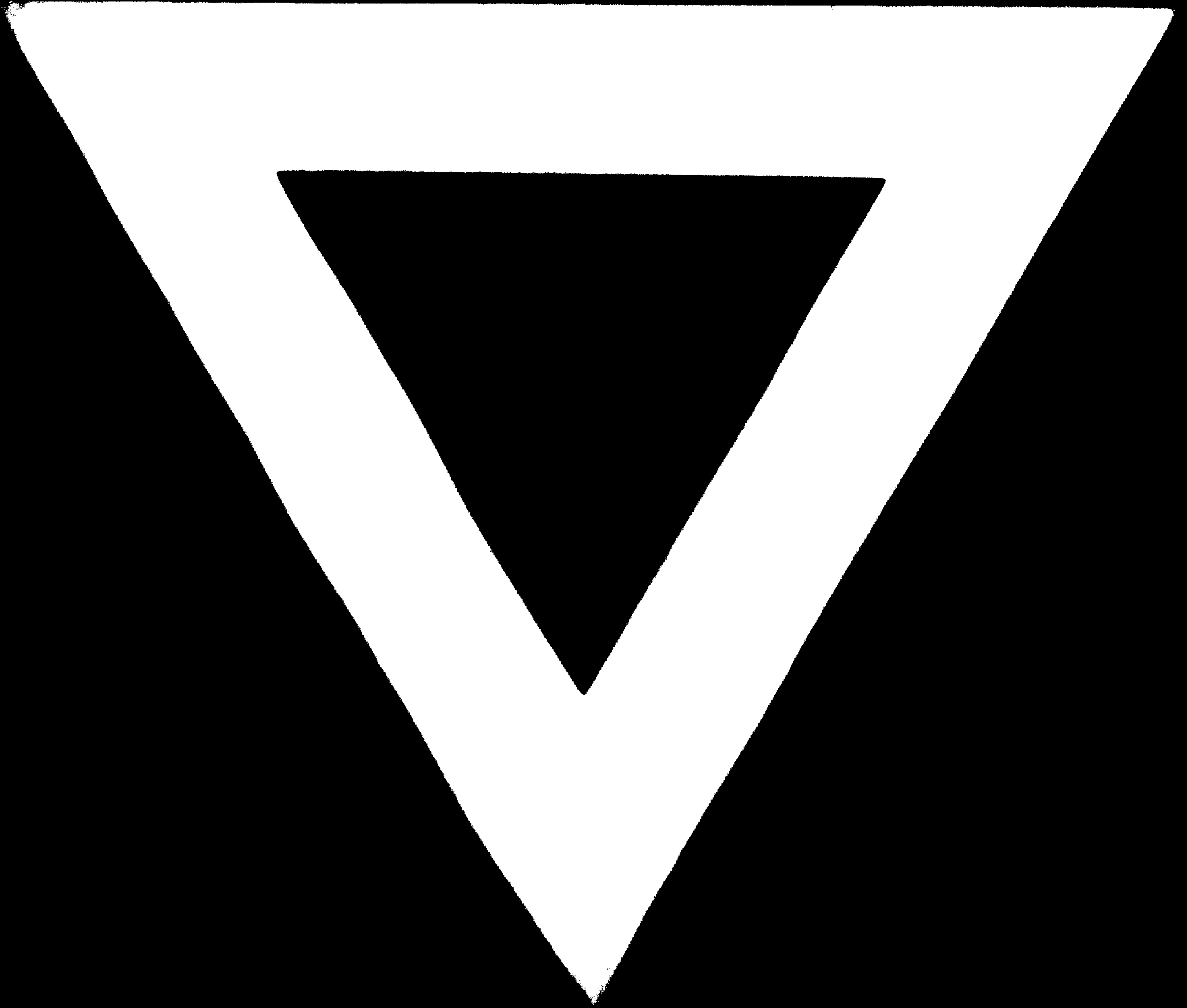
Apart from aluminium smelting, the iron and steel industry, and a few others, there are scores of possible industrial projects in the field of consumer durables and intermediate manufactures which could be located alternatively in many places, both in Central America and in East Africa. If this is the case, in the final analysis the success of industrial distributive mechanisms must depend on the broad availability of projects, and the failure of past mechanisms cannot be ascribed to the limitations of possible locations, but exactly to the shortage of well-prepared projects and the scarcity of financial and entrepreneurial skills. When basic conditions are fulfilled, such as a broad range of feasibility studies and well-elaborated projects whose preparation could be financed with funds forthcoming from the United Nations Development Programme (UNDP), the International Bank for Reconstruction and Development (IBRD) or the regional development institutions, e.g., African Development Bank, the field would be cleared for putting into motion the multinational negotiation mechanisms in each integrating area.

The rules of those negotiations would have to take into consideration two important facts: (*a*) although there must exist a number of alternative locations which are acceptable on economic analysis grounds for any given project in a multinational region, it should be recognized that, in general, the least developed countries have lesser possibility in that respect than the more developed member nations; and (*b*) even given the high quality of projects, there is no assurance that all of them would attract potential investors, whether from within or without the area. Consequently, negotiations about the distribution of a sizable "bunch" of projects would have to provide for the right of first refusal to the least developed members of the group under the assumption that practically any regional industrial project can be fitted into the structure of the most developed partner. Secondly, once the allocation is agreed upon, the members of the integration scheme acting as a group would invite tenders from potential investors for approved individual projects. Only if within previously agreed-upon terms no interested private investors appeared on the regional scene, would the regional development corporation undertake the establishment of the project with capital participation of the member countries and under management of nationals of the country to which the project had been allocated. Even in this last case, provision would have to be made for the regional corporation to divest itself of the enterprise once the prospective buyer was found. The purpose of this provision is to avoid the tying up in industrial projects of scarce capital resources badly needed in any under-developed area for social overhead investment.[23]

It may well be that some variant of the scheme outlined above should be tried on an experimental basis in one of the proposed common market arrangements in Africa. In the opinion of this writer, the future of these integration programmes will depend to a considerable degree upon the successful introduction of a scheme which would guarantee to all the members some kind of participation in the industrialization process. As of now, no such mechanisms are available, and prospects for ambitious regional industrialization programmes, or the so-called harmonization of national industrial policies, starting from the top and not from the project level, seem, frankly speaking, to be exceedingly dim.

[22] S. Dell, *A Latin American Common Market* (London, Oxford University Press, 1966), page 69.

[23] As mentioned earlier, it is understood that the Philip Commission recommended, and the three Governments agreed in principle, to establish at an early date an East African development bank. The Central American experience suggests very strongly, however, that unless such a bank is itself able to formulate regional investment projects or count on the technical assistance of a specialized *regional* institution, the more developed members will always have more projects suitable for financing than the less developed ones. This is why this writer shares the position taken by P. Ndegwa in his *The Common Market and Development in East Africa* (Nairobi, East African Publishing House, 1965), that the East African common market needs a regional industrial development corporation rather than a development bank.



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